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PETROCHINA CO LTD  
Form 6-K  
August 24, 2007

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16 OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the month of August 2007

PETROCHINA COMPANY LIMITED

16 ANDELU, DONGCHENG DISTRICT  
BEIJING, THE PEOPLE'S REPUBLIC OF CHINA, 100011  
(Address of Principal Executive Offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F  Form 40-F

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes  No

(If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-\_\_\_\_\_)

PetroChina Company Limited (the "Registrant") is furnishing under the cover of Form 6-K the Registrant's announcement of its interim results for the six months ended June 30, 2007.

This press release contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- the Registrant's plan to strengthen its oil and gas operation and development;
- the Registrant's plan to optimize the structure of refining operations; and
- the Registrant's other future plans and prospects.

These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in these forward-looking statements as a result of a number of factors, including, without limitation:

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- fluctuations in crude oil and natural gas prices;
- failure to achieve continued exploration success;
- failure or delay in achieving production from development projects;
- failure to complete the proposed acquisition of certain overseas assets as planned;
- change in demand for competing fuels in the target market;
- continued availability of capital and financing;
- general economic, market and business conditions;
- changes in policies, laws or regulations of the PRC and other jurisdictions in which the Registrant and its subsidiaries conduct business; and
- other factors beyond the Registrant's control.

We do not intend to update or otherwise revise the forward-looking statements in this press release, whether as a result of new information, future events or otherwise. Because of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this press release might not occur in the way we expect, or at all.

You should not place undue reliance on any of these forward-looking statements.

(LOGO)  
(CHINESE CHARACTER)

PETROCHINA COMPANY LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 857)

Announcement of the interim results for the six months ended June 30, 2007

##FINANCIAL AND OPERATING SUMMARY##

Output of crude oil for the first half of 2007 was 419.7 million barrels, representing an increase of 0.1% from the first half of 2006.

Output of marketable natural gas for the first half of 2007 was 798.0 billion cubic feet, representing an increase of 16.5% from the first half of 2006.

Total output of crude oil and natural gas for the first half of 2007 was 552.7 million barrels of oil equivalent, representing an increase of 3.7% from the first half of 2006.

Consolidated turnover for the first half of 2007 was RMB392,726 million, representing an increase of 20.3% from the first half of 2006.

Consolidated net profit\* for the first half of 2007 was RMB81,830 million, representing an increase of 1.4% from the first half of 2006.

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Basic and diluted earnings per share attributable to equity holders of the Company for the first half of 2007 were RMB0.46, representing an increase of RMB0.01 from the first half of 2006.

The Board of Directors has proposed an interim dividend attributable to equity holders of the Company for the first half of 2007 of RMB0.205690 per share.

\* Consolidated net profit is profit attributable to the Company's equity holders.

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The Board of Directors (the 'Board ') of PetroChina Company Limited (the 'Company ') is pleased to announce that the unaudited consolidated interim results of the Company and its subsidiaries (the "Group ") for the six months ended June 30, 2007 and the Group's consolidated financial position as of June 30, 2007 are as follows:

### CONSOLIDATED PROFIT AND LOSS ACCOUNT

|  | Notes | Six months ended June 30 |             |
|--|-------|--------------------------|-------------|
|  |       | 2007                     | 2006        |
|  |       | (unaudited)              | (unaudited) |
|  |       | RMB million              | RMB million |
|  |       | -----                    | -----       |
| TURNOVER   | 3     | 392,726                  | 326,545     |
|  |       | -----                    | -----       |
| OPERATING EXPENSES   |       |                          |             |
| Purchases, services and other                                    |       | (166,995)                | (112,758)   |
| Employee compensation costs                                      |       | (22,426)                 | (16,993)    |
| Exploration expenses, including<br>exploratory dry holes         |       | (10,607)                 | (8,750)     |
| Depreciation, depletion and<br>amortisation                      |       | (31,228)                 | (29,910)    |
| Selling, general and administrative<br>expenses                  |       | (23,901)                 | (19,104)    |
| Taxes other than income taxes                                    | 5     | (28,784)                 | (24,259)    |
| Other income, net  |       | 345                      | 522         |
|  |       | -----                    | -----       |
| TOTAL OPERATING EXPENSES   |       | (283,596)                | (211,252)   |
|  |       | -----                    | -----       |
| PROFIT FROM OPERATIONS   |       | 109,130                  | 115,293     |
|  |       | -----                    | -----       |
| FINANCE COSTS  |       |                          |             |
| Exchange gain  |       | 581                      | 830         |
| Exchange loss  |       | (923)                    | (798)       |
| Interest income  |       | 819                      | 959         |
| Interest expense   |       | (2,050)                  | (1,848)     |
|  |       | -----                    | -----       |
| TOTAL NET FINANCE COSTS  |       | (1,573)                  | (857)       |
|  |       | -----                    | -----       |
| SHARE OF PROFIT OF ASSOCIATES AND<br>JOINTLY CONTROLLED ENTITIES |       | 2,785                    | 1,482       |

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|  |   |          |          |
|--|---|----------|----------|
| PROFIT BEFORE TAXATION   | 4 | 110,342  | 115,918  |
| TAXATION   | 6 | (24,026) | (30,675) |
| PROFIT FOR THE PERIOD  |   | 86,316   | 85,243   |
| ATTRIBUTABLE TO:   |   |          |          |
| Equity holders of the Company  |   | 81,830   | 80,681   |
| Minority interest  |   | 4,486    | 4,562    |
|  |   | 86,316   | 85,243   |
| BASIC AND DILUTED EARNINGS PER SHARE<br>FOR PROFIT ATTRIBUTABLE TO EQUITY<br>HOLDERS OF THE COMPANY DURING THE<br>PERIOD (RMB) | 7 | 0.46     | 0.45     |
| DIVIDENDS ATTRIBUTABLE TO EQUITY<br>HOLDERS OF THE COMPANY:  |   |          |          |
| Interim dividends proposed after the<br>balance sheet date   | 9 | 36,823   | 36,307   |

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CONSOLIDATED BALANCE SHEET

|  | Notes | June 30, 2007 | December 31, 2006 |
|--|-------|---------------|-------------------|
|  |       | (unaudited)   | (audited)         |
|  |       | RMB million   | RMB million       |
| NON CURRENT ASSETS   |       |               |                   |
| Property, plant and equipment  |       | 657,041       | 645,337           |
| Investments in associates and jointly<br>controlled entities           |       | 32,447        | 32,956            |
| Available-for-sale investments   |       | 2,508         | 2,054             |
| Advance operating lease payments                                       |       | 21,195        | 20,468            |
| Intangible and other assets  |       | 6,705         | 6,627             |
| Time deposits with maturities over one<br>year                         |       | 2,013         | 2,499             |
|  |       | 721,909       | 709,941           |
| CURRENT ASSETS   |       |               |                   |
| Inventories  |       | 84,327        | 76,038            |
| Accounts receivable  | 10    | 16,399        | 8,488             |
| Prepaid expenses and other current<br>assets                           |       | 39,618        | 23,281            |
| Notes receivable   |       | 4,606         | 2,844             |
| Time deposits with maturities over three<br>months but within one year |       | 3,407         | 3,012             |
| Cash and cash equivalents  |       | 71,771        | 48,559            |

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|   |    |         |          |
|---|----|---------|----------|
| TOTAL CURRENT ASSETS  |    | 220,128 | 162,222  |
|   |    | -----   | -----    |
| CURRENT LIABILITIES   |    |         |          |
| Accounts payable and accrued liabilities                              | 11 | 136,581 | 120,182  |
| Income tax payable  |    | 10,345  | 17,744   |
| Other taxes payable   |    | 12,325  | 6,190    |
| Short-term borrowings   |    | 27,733  | 35,763   |
|   |    | -----   | -----    |
|   |    | 186,984 | 179,879  |
|   |    | -----   | -----    |
| NET CURRENT ASSETS/(LIABILITIES)                                      |    | 33,144  | (17,657) |
|   |    | -----   | -----    |
| TOTAL ASSETS LESS CURRENT LIABILITIES                                 |    | 755,053 | 692,284  |
|   |    | =====   | =====    |
| EQUITY  |    |         |          |
| Equity attributable to equity holders of<br>the Company Share capital |    |         |          |
| - State-owned shares of RMB1.00 each                                  |    | 157,922 | 157,922  |
| - H shares of RMB1.00 each  |    | 21,099  | 21,099   |
|   |    | -----   | -----    |
|   |    | 179,021 | 179,021  |
| Retained earnings   |    | 318,228 | 264,092  |
| Reserves  |    | 143,242 | 143,564  |
|   |    | -----   | -----    |
|   |    | 640,491 | 586,677  |
| Minority interest   |    | 33,596  | 30,914   |
|   |    | -----   | -----    |
| TOTAL EQUITY  |    | 674,087 | 617,591  |
|   |    | -----   | -----    |
| NON CURRENT LIABILITIES   |    |         |          |
| Long-term borrowings  |    | 42,667  | 35,634   |
| Other long-term obligations   |    | 874     | 995      |
| Asset retirement obligations  |    | 19,186  | 18,481   |
| Deferred taxation   |    | 18,239  | 19,583   |
|   |    | -----   | -----    |
|   |    | 80,966  | 74,693   |
|   |    | -----   | -----    |
|   |    | 755,053 | 692,284  |
|   |    | =====   | =====    |

Notes

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The consolidated interim condensed financial statements ("financial statements ") have been prepared in accordance with International Accounting Standard ("IAS ") 34 "Interim Financial Reporting ". The accounting policies and methods of computation used in the preparation of the consolidated interim condensed financial statements are consistent with those used in the preparation of the consolidated financial statements for the year ended December 31, 2006 except for the ones modified by the Group as a result of the adoption of the new or revised International Financial Reporting Standards ("IFRS").

In 2007, the Group adopted the following new standard and interpretation which are relevant to its operations and mandatory for financial year ending December 31, 2007. The adoption of the new standard and

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interpretation did not result in substantial changes to the Group's accounting policies. In summary:

- IFRS 7, Financial Instruments: Disclosure, and the complementary Amendment to IAS 1, Presentation of Financial Statements
- Capital Disclosure.
- International Financial Reporting Interpretations Committee ("IFRIC ') Interpretation 10, Interim Financial Reporting and Impairment.

The following interpretations are mandatory for financial year ending December 31, 2007 but are not relevant to the Group's operations.

- IFRIC Interpretation 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies.
- IFRIC Interpretation 9, Reassessment of Embedded Derivatives.

The consolidated interim condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the annual report of the Group for the year ended December 31, 2006. The consolidated interim condensed financial statements as of June 30, 2007 and for the six month periods ended June 30, 2007 and June 30, 2006 are unaudited but reflect, in the opinion of the Board, all adjustments (which include only normal recurring adjustments) necessary to properly prepare the consolidated interim condensed financial statements, in all material respects, in accordance with IAS 34. The results of operations for the six months ended June 30, 2007 are not necessarily indicative of the results of operations expected for the year ending December 31, 2007.

Costs that incur unevenly during the financial year are anticipated or deferred in the interim financial statements only if it would be also appropriate to anticipate or defer such costs at the end of the financial year.

### 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The matters described below are considered to be the most critical in understanding the judgements that are involved in preparing the Group's consolidated financial statements.

#### (a) Estimation of oil and natural gas reserves

Oil and natural gas reserves are key elements in the Group's investment decision-making process. They are also an important element in testing for impairment. Changes in proved oil and natural gas reserves, particularly proved developed reserves, will affect unit-of-production depreciation, depletion and amortisation charges to the consolidated profit and loss account. Proved reserve estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. In general, changes in the technical maturity of oil and natural gas reserves resulting from new information becoming available from development and production activities have tended to be the most significant cause of annual revisions. Changes to the Group's estimates of proved reserves,

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particularly proved developed reserves, affect the amount of depreciation, depletion and amortisation recorded in the Group's consolidated financial statements for property, plant and equipment related to oil and gas production activities. A reduction in proved developed reserves will increase depreciation, depletion and amortisation charges (assuming constant production) and reduce net profit.

### (b) Estimated impairment of property, plant and equipment

Property, plant and equipment, including oil and gas properties, are reviewed for possible impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determination as to whether and how much an asset is impaired involves management estimates and judgements such as future prices of crude oil, refined products and chemical products and production profile. However, the impairment reviews and calculations are based on assumptions that are consistent with the Group's business plan. These assumptions also include those relative to the pricing regulations by the regulatory agencies in China that the pricing regulations will not restrict the profit margins of refined products to levels that will be insufficient to recover the carrying cost of the related production assets. Favourable changes to some assumptions may allow the Group to avoid the need to impair any assets in these years, whereas unfavourable changes may cause the assets to become impaired.

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### (c) Estimation of asset retirement obligations

Provisions are recognised for the future decommissioning and restoration of oil and gas properties. The amounts of the provisions recognised are the present values of the estimated future expenditures. The estimation of the future expenditures is based on current local conditions and requirements, including legal requirements, technology, price level, etc. In addition to these factors, the present values of these estimated future expenditures are also impacted by the estimation of the economic life of oil and gas properties. Changes in any of these estimates will impact the operating results and the financial position of the Group over the remaining economic life of oil and gas properties.

## 3. TURNOVER

Turnover represents revenues from the sale of crude oil, natural gas, refined products and petrochemical products and from the transportation of crude oil and natural gas. Analysis of turnover by segment is shown in Note 12.

## 4. PROFIT BEFORE TAXATION

Six

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2

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RMB m

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Profit before taxation is arrived at after crediting and charging of the following items:

Crediting:

Dividend income from available-for-sale investments  
 Reversal of provision for impairment of receivables  
 Reversal of impairment of available-for-sale investments  
 Reversal of write down in inventories

Charging:

Amortisation on intangible and other assets  
 Cost of inventories (approximates cost of goods sold) recognised as expense  
 Depreciation on property, plant and equipment, including impairment provision  
     - owned assets  
     - assets under finances leases  
 Impairment of available-for-sale investments  
 Impairment of investments in associates and jointly controlled entities  
 Provision for impairment of receivables  
 Interest expense (Note (i))  
 Loss on disposal of property, plant and equipment  
 Operating lease expenses  
 Repair and maintenance  
 Research and development expenses  
 Write down in inventories  
 Note (i): Interest expense  
     Interest expense  
     Less: Amounts capitalised

5. TAXES OTHER THAN INCOME TAXES

Taxes other than income taxes include RMB14,942 million for the six months ended June 30, 2007 (six months ended June 30, 2006 : RMB10,289 million) of special levy which is paid or payable on the portion of income realised by petroleum exploration enterprises from the sales of domestic crude oil at prices higher than a specific level. This levy was imposed by the government of the People's Republic of China ('PRC ') and became effective from March 26, 2006.

6. TAXATION

|              | Six months ended June 30 |             |
|--------------|--------------------------|-------------|
|              | 2007                     | 2006        |
|              | RMB million              | RMB million |
| Income tax   | 25,415                   | 28,682      |
| Deferred tax | (1,389)                  | 1,993       |
|              | 24,026                   | 30,675      |
|              | =====                    | =====       |



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In accordance with the relevant PRC income tax rules and regulations, the PRC income tax rate applicable to the Group is principally 33% (2006 : 33%). Operations of the Group in certain regions in China have qualified for certain tax incentives in the form of reduced income tax rate to 15% through the year 2010 and accelerated depreciation of certain property, plant and equipment.

The tax on the Group's profit before taxation differs from the theoretical amount that would arise using the statutory tax rate in the PRC applicable to the Group as follows:

|   | Six months ended Ju |        |
|---|---------------------|--------|
|   | 2007                | 20     |
|   | RMB million         | RMB mi |
| Profit before taxation  | 110,342             | 115,   |
| Tax calculated at a tax rate of 33%   | 36,413              | 38,    |
| Prior year tax return adjustment  | 451                 |        |
| Effect of income taxes from international operations in excess of taxes at the PRC statutory rate | 389                 |        |
| Effect of preferential tax rate   | (8,256)             | (7,    |
| Effect of enacted changes in PRC Corporate Income Tax Law (Note (i))                              | (4,482)             |        |
| Tax effect of income not subject to tax   | (1,226)             | (      |
| Tax effect of expenses not deductible for tax purposes  | 737                 |        |
|   | -----               | -----  |
| Tax charge  | 24,026              | 30,    |

Note (i) On March 16, 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the "new CIT Law"), which is effective from January 1, 2008. Under the new CIT Law, the corporate income tax rate applicable to the Group from January 1, 2008 will be 25%, replacing the previously applicable tax rate of 33%.

The management of the Group had reassessed its taxation position as of June 30, 2007 by reference to the enacted new CIT Law and accordingly a net decrease in tax charge for the six months ended June 30, 2007 of RMB4,482 million was recorded.

### 7. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the six months ended June 30, 2007 and June 30, 2006 respectively have been computed by dividing the profit attributable to equity holders of the Company by the number of 179,021 million shares issued and outstanding for the relevant periods.

There are no potential dilutive ordinary shares.

### 8. CHANGES IN EQUITY

|  |  |              |
|--|--|--------------|
|  | Attributable to equity holders of the<br>Company | Mino<br>Inte |
|--|--|--------------|

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|   | Share<br>Capital | Retained<br>Earnings | Reserves       | Subtotal       |          |
|---|------------------|----------------------|----------------|----------------|----------|
|   | RMB<br>million   | RMB<br>million       | RMB<br>million | RMB<br>million | R<br>mil |
| Balance at January 1, 2006  | 179,021          | 203,812              | 132,556        | 515,389        | 28,      |
| Currency translation differences  | --               | --                   | 439            | 439            |          |
| Net income recognised directly in equity                                | --               | --                   | 439            | 439            |          |
| Profit from January 1, 2006 to<br>June 30, 2006                         | --               | 80,681               | --             | 80,681         | 4,       |
| Total recognised income from January 1, 2006 to<br>June 30, 2006        | --               | 80,681               | 439            | 81,120         | 5,       |
| Final dividends for 2005 (Note 9)                                       | --               | (32,282)             | --             | (32,282)       |          |
| Dividends to minority interest  | --               | --                   | --             | --             | (1,      |
| Purchase of minority interest in subsidiaries                           | --               | --                   | (2,178)        | (2,178)        | (2,      |
| Other movement in minority interest                                     | --               | --                   | --             | --             |          |
| Balance at June 30, 2006  | 179,021          | 252,211              | 130,817        | 562,049        | 30,      |
| Balance at January 1, 2007  | 179,021          | 264,092              | 143,564        | 586,677        | 30,      |
| Currency translation differences  | --               | --                   | (258)          | (258)          | (        |
| Net loss recognised directly in equity                                  | --               | --                   | (258)          | (258)          | (        |
| Profit from January 1, 2007 to<br>June 30, 2007                         | --               | 81,830               | --             | 81,830         | 4,       |
| Total recognised income/(loss) from January 1,<br>2007 to June 30, 2007 | --               | 81,830               | (258)          | 81,572         | 4,       |
| Final dividends for 2006 (Note 9)                                       | --               | (27,694)             | --             | (27,694)       |          |
| Dividends to minority interest  | --               | --                   | --             | --             | (1,      |
| Purchase of minority interest in subsidiaries                           | --               | --                   | (64)           | (64)           |          |
| Other movement in minority interest                                     | --               | --                   | --             | --             |          |
| Minority interest paid-in capital                                       | --               | --                   | --             | --             |          |
| Balance at June 30, 2007  | 179,021          | 318,228              | 143,242        | 640,491        | 33,      |

9. DIVIDENDS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Six months

2007

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RMB million

|  |        |
|--|--------|
| Final dividends attributable to equity holders of the Company for 2005 (Note (i))  | --     |
| Final dividends attributable to equity holders of the Company for 2006 (Note (ii)) | 27,694 |
|  | -----  |
|  | 27,694 |
|  | =====  |

Notes:

- (i) Final dividends attributable to equity holders of the Company in respect of 2005 of RMB0.180325 per share amounting to a total of RMB32,282 million were approved by the shareholders in the annual general meeting of the Company on May 26, 2006, and accounted for in equity as an appropriation of retained earnings in the six months ended June 30, 2006. These dividends were paid on June 9, 2006.
- (ii) Final dividends attributable to equity holders of the Company in respect of 2006 of RMB0.154699 per share amounting to a total of RMB27,694 million were approved by the shareholders in the annual general meeting of the Company on May 16, 2007, and accounted for in equity as an appropriation of retained earnings in the six months ended June 30, 2007. These dividends were paid on June 1, 2007.
- (iii) As authorised by shareholders in the annual general meeting of the Company on May 16, 2007, the Board, in a meeting held on August 23, 2007, resolved to distribute interim dividends attributable to equity holders of the Company in respect of 2007 of RMB0.205690 per share amounting to a total of RMB36,823 million. These financial statements do not reflect this dividend payable, as it was not authorised until after the balance sheet date.

10. ACCOUNTS RECEIVABLE

|   | June 30, 2007 | December 31, 2006 |
|---|---------------|-------------------|
|   | -----         | -----             |
|   | RMB million   | RMB million       |
|   | -----         | -----             |
| Accounts receivable due from third parties    | 9,646         | 9,498             |
| Accounts receivable due from related parties  | 9,979         | 2,247             |
| Less: Provision for impairment of receivables | (3,226)       | (3,257)           |
|   | -----         | -----             |
|   | 16,399        | 8,488             |
|   | =====         | =====             |

Amounts due from related parties are interest free and unsecured.

The aging analysis of accounts receivable at June 30, 2007 and December 31, 2006 is as follows:

|  | June 30, 2007 | December 31, 2006 |
|--|---------------|-------------------|
|  | -----         | -----             |
|  | RMB million   | RMB million       |
|  | -----         | -----             |

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|                      |        |        |
|----------------------|--------|--------|
| Within 1 year        | 16,165 | 8,299  |
| Between 1 to 2 years | 120    | 33     |
| Between 2 to 3 years | 32     | 59     |
| Over 3 years         | 3,308  | 3,354  |
|                      | -----  | -----  |
|                      | 19,625 | 11,745 |
|                      | =====  | =====  |

The Group offers its customers credit terms up to 180 days, except for certain selected customers.

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11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

|  | June 30, 2007 | December 31, 2006 |
|--|---------------|-------------------|
|  | -----         | -----             |
|  | RMB million   | RMB million       |
|  | -----         | -----             |
| Trade payables   | 27,027        | 22,490            |
| Advances from customers                                    | 7,520         | 9,310             |
| Salaries and welfare payable                               | 12,594        | 8,844             |
| Accrued expenses   | 7,242         | 10                |
| Dividends payable by subsidiaries to minority shareholders | 56            | 60                |
| Interest payable   | 207           | 3                 |
| Construction fee and equipment cost payables               | 19,528        | 28,349            |
| One-time employee housing remedial payment payable         | 1,412         | 933               |
| Amounts due to related parties                             | 47,981        | 35,273            |
| Others   | 13,014        | 14,910            |
|  | -----         | -----             |
|  | 136,581       | 120,182           |
|  | =====         | =====             |

Amounts due to related parties are interest free, unsecured and with no fixed terms of repayment.

The aging analysis of trade payables at June 30, 2007 and December 31, 2006 is as follows:

|                      | June 30, 2007 | December 31, 2006 |
|----------------------|---------------|-------------------|
|                      | -----         | -----             |
|                      | RMB million   | RMB million       |
|                      | -----         | -----             |
| Within 1 year        | 23,683        | 19,994            |
| Between 1 to 2 years | 2,934         | 1,966             |
| Between 2 to 3 years | 78            | 196               |
| Over 3 years         | 332           | 334               |
|                      | -----         | -----             |
|                      | 27,027        | 22,490            |
|                      | =====         | =====             |

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### 12. SEGMENT INFORMATION

The Group is engaged in a broad range of petroleum related activities through its four major business segments: Exploration and Production, Refining and Marketing, Chemicals and Marketing and Natural Gas and Pipeline.

The Exploration and Production segment is engaged in the exploration, development, production and sales of crude oil and natural gas. The Refining and Marketing segment is engaged in the refining, transportation, storage and marketing of crude oil and petroleum products.

The Chemicals and Marketing segment is engaged in the production and sale of basic petrochemical products, derivative petrochemical products, and other chemical products.

The Natural Gas and Pipeline segment is engaged in the sale of natural gas and the transmission of natural gas, crude oil and refined products.

In addition to these four major business segments, the Other segment includes the assets, liabilities, income and expenses relating to cash management, financing activities, research and development, and other business services to the operating business segments of the Group.

Most assets and operations of the Group are located in the PRC, which is considered as one geographic location in an economic environment with similar risks and returns. In addition to its operations in the PRC, the Group also has overseas operations through subsidiaries engaging in the exploration and production of crude oil and natural gas.

The accounting policies of the operating segments are the same as those described in Note 1 "Basis of Preparation and Accounting Policies".

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Operating segment information for the six months ended June 30, 2007 and 2006 is presented below:

Primary reporting format -- business segments

| Six months ended<br>June 30, 2007        | Exploration and<br>Production | Refining and<br>Marketing | Chemicals and<br>Marketing | Natu<br>Gas<br>Pipel |
|--|-------------------------------|---------------------------|----------------------------|----------------------|
| -----                                    | -----                         | -----                     | -----                      | -----                |
|  | RMB million                   | RMB million               | RMB million                | RM<br>mill           |
| -----                                    | -----                         | -----                     | -----                      | -----                |
| Turnover (including intersegment)        | 205,390                       | 314,863                   | 49,860                     | 23,2                 |
| Less: Intersegment sales                 | (165,789)                     | (26,842)                  | (5,036)                    | (3,1                 |
|  | -----                         | -----                     | -----                      | -----                |
| Turnover from external customers         | 39,601                        | 288,021                   | 44,824                     | 20,0                 |
|  | -----                         | -----                     | -----                      | -----                |
| Depreciation, depletion and amortisation | (20,249)                      | (4,961)                   | (2,828)                    | (2,8                 |
| Segment result                           | 101,388                       | 18,562                    | 7,586                      | 6,3                  |
| Other costs                              | (4,952)                       | (14,637)                  | (2,188)                    | (2                   |
|  | -----                         | -----                     | -----                      | -----                |

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| Profit/(loss) from operations            | 96,436<br>=====               | 3,925<br>=====            | 5,398<br>=====             | 6,1<br>=====         |
|--|-------------------------------|---------------------------|----------------------------|----------------------|
| Six months ended June 30, 2006           | Exploration and<br>Production | Refining and<br>Marketing | Chemicals and<br>Marketing | Natu<br>Gas<br>Pipel |
| -----                                    | -----                         | -----                     | -----                      | -----                |
|  | RMB million                   | RMB million               | RMB million                | RM<br>mill           |
| -----                                    | -----                         | -----                     | -----                      | -----                |
| Turnover (including intersegment)        | 211,012                       | 255,106                   | 39,565                     | 18,2                 |
| Less: Intersegment sales                 | (170,761)                     | (21,142)                  | (3,072)                    | (2,5                 |
| -----                                    | -----                         | -----                     | -----                      | -----                |
| Turnover from external customers         | 40,251                        | 233,964                   | 36,493                     | 15,6                 |
| -----                                    | -----                         | -----                     | -----                      | -----                |
| Depreciation, depletion and amortisation | (17,748)                      | (6,614)                   | (2,732)                    | (2,5                 |
| Segment result                           | 128,906                       | (3,001)                   | 4,266                      | 4,6                  |
| Other costs                              | (4,454)                       | (10,888)                  | (1,358)                    | (                    |
| -----                                    | -----                         | -----                     | -----                      | -----                |
| Profit/(loss) from operations            | 124,452<br>=====              | (13,889)<br>=====         | 2,908<br>=====             | 4,5<br>=====         |

Secondary reporting format -- geographical segments

| Six months ended<br>June 30        | Turnover         |                  | Total assets     |                  | Capital<br>expenditures |                 |
|------------------------------------|------------------|------------------|------------------|------------------|-------------------------|-----------------|
|                                    | 2007             | 2006             | 2007             | 2006             | 2007                    | 2006            |
| -----                              | -----            | -----            | -----            | -----            | -----                   | -----           |
|                                    | RMB<br>million   | RMB<br>million   | RMB<br>million   | RMB<br>million   | RMB<br>million          | RMB<br>million  |
| -----                              | -----            | -----            | -----            | -----            | -----                   | -----           |
| PRC                                | 380,444          | 313,927          | 878,198          | 783,842          | 46,955                  | 44,990          |
| Other (Exploration and Production) | 12,282           | 12,618           | 63,839           | 59,384           | 4,066                   | 2,262           |
| -----                              | -----            | -----            | -----            | -----            | -----                   | -----           |
|                                    | 392,726<br>===== | 326,545<br>===== | 942,037<br>===== | 843,226<br>===== | 51,021<br>=====         | 47,252<br>===== |

13. SIGNIFICANT DIFFERENCES BETWEEN IFRS AND US GAAP

The consolidated interim condensed financial statements have been prepared in accordance with IFRS, which differ in certain material respects from the accounting principles generally accepted in the United States of America ('US GAAP'). Such differences involve methods for measuring the amounts shown in the financial statements, as well as additional disclosures required by US GAAP.

Effect on net income of significant differences between IFRS and US GAAP is

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as follows:

|  | Six months ended June 30 |             |
|--|--------------------------|-------------|
|  | 2007                     | 2006        |
|  | RMB million              | RMB million |
| Profit for the period under IFRS   | 86,316                   | 85,243      |
| US GAAP adjustments:   |                          |             |
| Share of profit of jointly controlled entities   | (32)                     | 1,220       |
| Depreciation charges on property, plant and equipment revaluation gain   | 2,128                    | 2,340       |
| Loss on disposal of revalued property, plant and equipment   | 26                       | 21          |
| Tax effect   | (2,275)                  | (779)       |
| Minority interest  | (4,530)                  | (5,202)     |
| One-time remedial payments for staff housing   | (1,234)                  | --          |
| Depreciation charges on property, plant and equipment arising from purchase of minority interest in subsidiaries | (110)                    | (42)        |
| Net income under US GAAP   | 80,289                   | 82,801      |
| Basic and diluted net income per share under US GAAP (RMB)   | 0.45                     | 0.46        |

Effect on equity of significant differences between IFRS and US GAAP is as follows:

|   | June 30, 2007 | December 31, 2006 |
|---|---------------|-------------------|
|   | RMB million   | RMB million       |
| Equity under IFRS   | 674,087       | 617,591           |
| US GAAP adjustments:  |               |                   |
| Acquisition of PetroKazakhstan Inc.   | 22,129        | 22,129            |
| Share of profit of jointly controlled entities  | 2,705         | 2,737             |
| Deemed distribution to CNPC International Limited   | (3,044)       | (3,044)           |
| Payment for the acquisition of PetroKazakhstan Inc.   | (21,376)      | (21,376)          |
| Reversal of property, plant and equipment revaluation gain  | (80,555)      | (80,555)          |
| Depreciation charges on property, plant and equipment revaluation gain  | 57,927        | 55,799            |
| Reversal of property, plant and equipment revaluation loss  | 1,513         | 1,513             |
| Depreciation charges on property, plant and equipment revaluation loss  | (1,459)       | (1,459)           |
| Loss on disposal of revalued property, plant and equipment  | 2,059         | 2,033             |
| Tax effect  | 5,210         | 7,485             |
| Minority interest   | (33,679)      | (30,953)          |
| Effect on the retained earnings from the one-time remedial payments for staff housing borne by the state shareholder of the Company | (3,787)       | (2,553)           |
| Effect on the other reserves of the shareholders' equity from the one-time remedial   |               |                   |

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|  |         |         |
|--|---------|---------|
| payments for staff housing borne by the state shareholder of the Company   | 3,787   | 2,553   |
| Purchase of minority interest in subsidiaries  | 3,658   | 3,594   |
| Depreciation charges on property, plant and equipment arising from purchase of minority interest in subsidiaries | (312)   | (202)   |
| Currency translation differences   | (830)   | (822)   |
|  | -----   | -----   |
| Shareholders' equity under US GAAP   | 628,033 | 574,470 |
|  | =====   | =====   |

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Changes in shareholders' equity under US GAAP for each of the periods ended June 30, 2007 and June 30, 2006 are as follows:

|  | Six months ended June 30 |             |
|--|--------------------------|-------------|
|  | 2007                     | 2006        |
|  | -----                    | -----       |
|  | RMB million              | RMB million |
|  | -----                    | -----       |
| Beginning of the period                      | 574,470                  | 510,141     |
| Net income for the period                    | 80,289                   | 82,801      |
| Final dividends for year 2005                | --                       | (32,282)    |
| Final dividends for year 2006                | (27,694)                 | --          |
| Purchase of minority interest in subsidiary  | --                       | 382         |
| One-time remedial payments for staff housing | 1,234                    | --          |
| Currency translation differences             | (266)                    | 230         |
|  | -----                    | -----       |
| End of the period                            | 628,033                  | 561,272     |
|  | =====                    | =====       |

In preparing the summary of differences between IFRS and US GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the estimates of revenues and expenses. Accounting estimates have been employed in these financial statements to determine reported amounts, including realisability, useful lives of tangible and intangible assets, income taxes and other factors. Actual results may differ from those estimates.

A summary of the principal differences and additional disclosures applicable to the Group is set out below:

(a) Acquisition of PetroKazakhstan Inc.

The Group acquired a 67% equity interest in PetroKazakhstan Inc. from CNPC International Limited ("CNPCI"), a subsidiary of CNPC, effective on December 28, 2006 for RMB21,376 million. As both CNPCI and the Group are under common control by CPNC, the acquisition of the 67% equity interest in PetroKazakhstan Inc. has been accounted for in a manner similar to pooling of interest under US GAAP accounting and the US GAAP financial data reflects the acquisition of the 67% equity



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interest in PetroKazakhstan Inc. since PetroKazakhstan Inc. was first acquired by CNPCI on October 26, 2005.

On December 15, 2006, PetroKazakhstan Inc. paid to CNPCI a dividend amount to RMB3,044 million and this was recorded as a deemed distribution to CNPCI.

The purchase consideration for the acquisition of the 67% equity interest in PetroKazakhstan Inc. was paid by the Group to CNPCI on December 28, 2006.

### (b) Revaluation of property, plant and equipment

The property, plant and equipment, excluding oil and gas reserves, transferred to the Company by CNPC were appraised during 1999 by a firm of independent valuers on a depreciated replacement cost basis. The 1999 revaluation resulted in RMB80,549 million in excess of the carrying value immediately prior to the revaluation and a revaluation loss of RMB1,122 million on certain property, plant and equipment.

As at September 30, 2003, a revaluation of the Group's refining and chemical production equipment was undertaken by a firm of independent valuers registered in the PRC, China United Assets Appraiser Co., Ltd, on a depreciated replacement cost basis. The September 2003 revaluation resulted in RMB872 million in excess of the carrying value immediately prior to the revaluation and a revaluation loss of RMB1,257 million on certain property, plant and equipment.

As at March 31, 2006, a revaluation of the Group's oil and gas properties was undertaken by independent valuers, China United Assets Appraiser Co., Ltd and China Enterprise Appraisals, on a depreciated replacement cost basis. The revaluation did not result in significant difference from their carrying value.

The depreciation charge, which includes impairment charge, on the revaluation surplus from January 1, 2007 to June 30, 2007 was RMB2,128 million and from January 1, 2006 to June 30, 2006 was RMB2,340 million respectively.

The loss on disposal of revalued property, plant and equipment from January 1, 2007 to June 30, 2007 was RMB26 million, and from January 1, 2006 to June 30, 2006 was RMB21 million.

For purposes of reconciling to the US GAAP financial data, the effect of the revaluation, the related depreciation charges and loss on disposal was reversed. A deferred tax asset relating to the reversal of the effect of revaluation in 1999 was established, together with a corresponding increase in the equity. Under a special approval granted by the Ministry of Finance, the effect of the revaluation in 1999 is available as additional depreciation base for purposes of determining taxable income.

### (c) One-time remedial payments for staff housing

The Ministry of Finance of the PRC issued several public notices and regulations during the years ended December 31, 2000 and 2001 with respect to the one-time remedial payments for staff housing payable to certain employees who joined the workforce prior to December 31, 1998 and have housing conditions below local standards as determined in accordance with government regulations and guidelines. These Ministry of Finance notices and regulations also provided that the portion of remedial payments attributable to the periods prior to a restructuring

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of the employer enterprise from a wholly state-owned status to a less than wholly state-owned status is to be borne by the state shareholder of the enterprise.

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The restructuring that resulted in the formation of the Group took place in November 1999. As such, the one-time remedial housing payments payable to the eligible employees of the Group are to be borne by the state shareholder of the Group.

Under IFRS, such direct payments to employees or reimbursements will not be recorded through the consolidated profit and loss account of the Group. US GAAP contains no such exemption but requires this principal shareholder's action on behalf of the Company to be recorded in the consolidated profit and loss account. In the last quarter of year 2002, the Group and CNPC estimated the amount payable to qualified employees of the Group and accordingly, an amount of RMB2,553 million was reflected in determining net income of the Group for the year ended December 31, 2002 under US GAAP. Since this amount is borne by CNPC, a corresponding amount has been included as an addition to the other reserves in the shareholders' equity of the Group. During the period ended June 30, 2007, there is a RMB1,234 million increase in the estimate amount. CNPC funded this estimate payment through a portion of the 2006 final dividend paid by the Company.

(d) Minority interest

In accordance with the revised IAS 1 "Presentation of Financial Statements" and IAS 27 "Consolidated and Separate Financial Statements", minority interest becomes part of the profit for the year and total equity of the Group, respectively, whereas under US GAAP, it is respectively excluded from the net income and equity of the Group.

This reconciling item includes the impact of minority interest's share of the revaluation gain and loss, on the property, plant and equipment of non-wholly owned subsidiaries and the impact of minority interest arising from the acquisition of the 67% equity interest in PetroKazakhstan Inc. by a non-wholly owned subsidiary of the Group to net income and equity under US GAAP.

(e) Purchase of minority interest in listed subsidiaries

The Company acquired certain outstanding A shares from the minority interest of Jinzhou Petrochemical Company Limited ("JPCL") and Liaohe Jinma Oilfield Company Limited ("LJOCL"), A shares and H shares (including ADS) from minority interest of Jilin Chemical Industrial Company Limited ("JCIC"). Under IFRS, the Company applies a policy of treating transactions with minority interest as transactions with equity participants of the Group. Therefore, the assets and liabilities of JPCL, LJOCL and JCIC additionally acquired by the Company from minority interest were recorded by the Company at cost. The difference between the Company's purchase cost and the book value of the interests in JPCL, LJOCL and JCIC acquired by the Company from minority interest was recorded in equity. Under US GAAP, the acquisition of additional minority interest is accounted for under purchase method. Assets and liabilities additionally acquired were restated to fair value and the difference of purchase cost over fair value of the minority interest acquired and identified intangible

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assets was recorded as goodwill. Additional depreciation charges were provided for the assets which were restated to fair value.

### (f) Recent US accounting pronouncements

In February 2007, the Financial Accounting Standards Board ("FASB ") issued Financial Accounting Standards No. 159, 'The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115' ("FAS 159"). This Statement permits an entity to choose to measure financial instruments and certain other items similar to financial instruments at fair value, with all subsequent changes in fair value for the financial instrument reported in earnings. By electing the fair value option in conjunction with a derivative, an entity can achieve an accounting result similar to a fair-value hedge without having to comply with complex hedge accounting rules. The Group is currently evaluating the impact of adopting FAS 159 but does not expect to have a material effect on the Group's consolidated financial position and results of operations.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated interim condensed financial statements of the Group and the notes thereto, proposed to be submitted by the Company to The Stock Exchange of Hong Kong Limited (the 'HKSE ') and published on the website of the HKSE, which contains information required under paragraphs 46(1) to 46(9) in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the 'Listing Rules").

#### Overview

For the six months ended June 30, 2007, profit before taxation of the Group was RMB110,342 million, representing a decrease of 4.8% compared with the same period of the previous year. Net profit was RMB81,830 million, representing an increase of 1.4% compared with the same period of the previous year. The increase in net profit was primarily resulted from the Group's reassessment of its taxation position pursuant to the requirements of the 'Corporate Income Tax Law of the People's Republic of China' (the "new CIT Law ") approved by the National People's Congress on March 16, 2007. As a result, the tax charge for the reporting period was reduced, increasing the Group's net profit.

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The Group actively implemented three main strategies in the areas of resources, marketing and internationalisation of operations and strengthened efforts in exploration and exploitation to maximise its upstream advantage, optimised the downstream product mix, coordinated resources allocation, expedited major pipelines construction and pipeline network, steadily expanded its international operations, strengthened operation and management, emphasised safety operation, environmental protection, energy saving. With the concerted efforts made by all staff, the Group's production and operation remained steady and profitability continued to remain at a high level.

For the six months ended June 30, 2007, the basic and diluted earnings per share attributable to the equity holders of the Company were RMB0.46 (the six months ended June 30, 2006 : RMB0.45).

Comparison between the six months ended June 30, 2007 and the six months ended

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June 30, 2006

### Consolidated Operating Results

**Turnover** Turnover increased 20.3% from RMB326,545 million for the six months ended June 30, 2006 to RMB392,726 million for the six months ended June 30, 2007. This was primarily due to the increases in the realised selling prices and sales volume of refined products and certain petrochemical products and increases in the sales volume of crude oil and natural gas.

**Operating Expenses** Operating expenses increased 34.2% from RMB211,252 million for the six months ended June 30, 2006 to RMB283,596 million for the six months ended June 30, 2007. This was primarily due to an increase in the purchase costs of crude oil, feedstock oil and refined products from external suppliers and an increase in employee compensation costs and taxes other than income taxes, of which:

**Purchases, Services and Others** Purchases, services and other expenses increased 48.1% from RMB112,758 million for the six months ended June 30, 2006 to RMB166,995 million for the six months ended June 30, 2007. This was primarily due to an increase in the purchase prices and purchase volumes of refined products and feedstock oil from external suppliers that resulted in the increase in the purchase expenses. The increase in purchase expenses also resulted from the increase in the refined products supply operations during the reporting period.

**Employee Compensation Costs** Employee compensation costs rose 32.0% from RMB16,993 million for the six months ended June 30, 2006 to RMB22,426 million for the six months ended June 30, 2007. This was primarily due to (1) an increase in the employees' salaries commensurate with the performance of the Company and the evaluation system as well as increases in commodity prices; (2) an increase in employees' salaries due to the increase in the number of employees resulting from the expansion of the operation scale of the Group; and (3) a sequential increase in the welfare expenses as a result of the increase in the employees' salaries and change of government policies.

**Exploration Expenses** Exploration expenses increased 21.2% from RMB8,750 million for the six months ended June 30, 2006 to RMB10,607 million for the six months ended June 30, 2007. To further boost crude oil and natural gas resources, the Group undertook more exploration activities for crude oil and natural gas.

**Depreciation, Depletion and Amortisation** Depreciation, depletion and amortisation increased 4.4% from RMB29,910 million for the six months ended June 30, 2006 to RMB31,228 million for the six months ended June 30, 2007. This was primarily due to an increase in the provision for depreciation, depletion and amortisation that resulted from an increase in the average amount of property, plant and equipment and the average net value of oil and gas properties for the reporting period.

**Selling, General and Administrative Expenses** Selling, general and administrative expenses increased 25.1% from RMB19,104 million for the six months ended June 30, 2006 to RMB23,901 million for the six months ended June 30, 2007. This was primarily due to an increase in safety expenses incurred by the

Company to strengthen the management of potential operational risks in accordance with regulatory requirements. In addition, the Company actively expanded its sales, which resulted in an increase of transportation costs,

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leasing costs and etc.

Taxes other than Income Taxes Taxes other than income taxes increased 18.7% from RMB24,259 million for the six months ended June 30, 2006 to RMB28,784 million for the six months ended June 30, 2007. The increase was primarily due to the imposition by the PRC government of a special levy on petroleum exploration enterprises since March 26, 2006 which is payable on the portion of the income realised from the sale of domestic crude oil with prices exceeding a certain level. Therefore, the special levy borne by the Group for the first half of 2007 was higher than that for the same period of last year of RMB4,653 million.

Profit from Operations As a result of factors including the decrease in crude oil prices, the increase in operating expenses and the increase in the special levy for the reporting period, the Group's profit from operations was RMB109,130 million for the six months ended June 30, 2007, representing a decrease of 5.3% compared to the same period of last year.

Net Exchange Loss Compared to the net exchange gain of RMB32 million for the six months ended June 30, 2006, a net exchange loss of RMB342 million was recorded for the six months ended June 30, 2007 as the exchange gain for the six months ended June 30, 2007 was lesser than that for the same period of last year due to the changes in the exchange rate.

Net Interest Expenses Net interest expenses increased 38.5% from RMB889 million for the six months ended June 30, 2006 to RMB1,231 million for the six months ended June 30, 2007. This increase reflected an increase in interest expenses recognised as a result of the accretion expense in relation to asset retirement obligations. In addition, the increase in basic interest rate for Renminbi loans by the People's Bank of China in the first half of this year also resulted in an increase in the interest expenses of the Group.

Profit Before Taxation As a result of the above factors, profit before taxation of the Group was RMB110,342 million for the six months ended June 30, 2007, representing a decrease of 4.8% compared to the same period of last year.

Taxation Taxation decreased 21.7% from RMB30,675 million for the six months ended June 30, 2006 to RMB24,026 million for the six months ended June 30, 2007. The decrease was due to (1) the decrease in taxable income for the reporting period; and (2) the Group's reassessment of its taxation position pursuant to the requirements of the new CIT Law and accordingly reducing the income tax for the reporting period.

Net Profit As a result of the factors discussed above, net profit increased 1.4% from RMB80,681 million for the six months ended June 30, 2006 to RMB81,830 million for the six months ended June 30, 2007.

### Segment Information

#### Exploration and Production

Turnover Turnover decreased 2.7% from RMB211,012 million for the six months ended June 30, 2006 to RMB205,390 million for the six months ended June 30, 2007. The decrease was primarily due to the revenue arising from the increase in the sales volume of crude oil and natural gas being insufficient to offset the lessened revenue resulting from the decrease in crude oil price. The average realised crude oil price of the Group in the first half of 2007 was US\$57.69 per barrel, representing a decrease of 1.8% from US\$58.75 per barrel compared with the first half of 2006.

Intersegment sales revenue decreased 2.9% from RMB170,761 million for the six months ended June 30, 2006 to RMB165,789 million for the six months ended June 30, 2007. The decrease was mainly due to a decrease in the crude oil price.

Operating Expenses Operating expenses increased 25.9% from RMB86,560 million for the six months ended June 30, 2006 to RMB108,954 million for the six months ended June 30, 2007. The increase was primarily due to increases in purchase expenses, taxes other than income taxes, personnel costs and depreciation, depletion and amortisation.

Profit from Operations Due to the above factors, profit from operations realised in this segment was RMB96,436 million for the six months ended June 30, 2007, representing a decrease of 22.5% compared to the same period of last year.

#### Refining and Marketing

Turnover Turnover increased 23.4% from RMB255,106 million for the six months ended June 30, 2006 to RMB314,863 million for the six months ended June 30, 2007. The increase was primarily due to an increase in the realised selling price and sales volume of key refined products of which:

Sales revenue from gasoline increased 16.7% from RMB57,985 million for the six months ended June 30, 2006 to RMB67,680 million for the six months ended June 30, 2007. The increase was primarily due to an increase in the realised selling prices and sales volume of gasoline. The average realised selling price of gasoline surged 5.1% from RMB4,785 per ton for the six months ended June 30, 2006 to RMB5,030 per ton for the six months ended June 30, 2007. The sales volume of gasoline increased 11.0% from 12.12 million tons for the six months ended June 30, 2006 to 13.45 million tons for the six months ended June 30, 2007.

Sales revenue from diesel increased 19.1% from RMB101,637 million for the six months ended June 30, 2006 to RMB121,061 million for the six months ended June 30, 2007. The increase was primarily due to an increase in the realised selling price and sales volume of diesel. The average realised selling price of diesel increased 8.9% from RMB4,191 per ton for the six months ended June 30, 2006 to RMB4,563 per ton for the six months ended June 30, 2007. The sales volume of diesel increased 9.4% from 24.25 million tons for the six months ended June 30, 2006 to 26.53 million tons for the six months ended June 30, 2007.

Sales revenue from kerosene increased 4.5% from RMB4,211 million for the six months ended June 30, 2006 to RMB4,401 million for the six months ended June 30, 2007. The increase was primarily due to an increase in the selling prices of kerosene.

Intersegment sales revenue increased 27.0% from RMB21,142 million for the six months ended June 30, 2006 to RMB26,842 million for the six months ended June 30, 2007. The increase was due to an increase in the selling prices and sales volume of key refined products.

Operating Expenses Operating expenses increased 15.6% from RMB268,995 million for the six months ended June 30, 2006 to RMB310,938 million for the six months ended June 30, 2007. The increase was primarily due to an increase in the purchase costs of crude oil, feedstock oil and refined products from external suppliers, and an increase in selling, general and administrative expenses. In addition, the increase in operating expenses was also resulted from an increase in the level of refined product supply operations in this period.

Profit from Operations Profit from operations realised in this segment amounted to RMB3,925 million for the six months ended June 30, 2007, compared to a loss

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from operations amounting to RMB13,889 million for the six months ended June 30, 2006. The change from loss to profit was primarily due to higher realised prices of refined products in the domestic market in the first half of 2007 compared to those of the same period in last year and a decrease in the purchase costs of crude oil.

### Chemicals and Marketing

Turnover Turnover increased 26.0% from RMB39,565 million for the six months ended June 30, 2006 to RMB49,860 million for the six months ended June 30, 2007. The growth in turnover was primarily due to an increase in the sales volume and selling prices of certain petrochemical products.

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Operating Expenses Operating expenses increased 21.3% from RMB36,657 million for the six months ended June 30, 2006 to RMB44,462 million for the six months ended June 30, 2007. The increase was primarily due to increases in the purchase prices for raw materials and selling, general and administrative expenses.

Profit from Operations Due to the above factors, this segment realised profit from operations of RMB5,398 million for the six months ended June 30, 2007, representing an increase of 85.6% from that for the six months ended June 30, 2006.

### Natural Gas and Pipeline

Turnover Turnover increased 27.3% from RMB18,233 million for the six months ended June 30, 2006 to RMB23,216 million for the six months ended June 30, 2007. The increase was primarily due to (1) an increase in the sales volume of natural gas; and (2) an increase in the volume of natural gas from pipeline transmission and the average price for pipeline transmission of natural gas.

Operating Expenses Operating expenses increased 25.2% from RMB13,646 million for the six months ended June 30, 2006 to RMB17,088 million for the six months ended June 30, 2007. The increase was primarily due to an increase in the purchase costs of natural gas and an increase in depreciation charges.

Profit from Operations Due to the above factors, this segment realised profit from operations of RMB6,128 million for the six months ended June 30, 2007, representing an increase of 33.6% from that for the six months ended June 30, 2006.

### LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2007, the Group's primary sources of funds were cash generated from operating activities, and short-term and long-term borrowings. The Group's funds were primarily used for operating activities, capital expenditures, repayment of short-term and long-term borrowings and distribution of dividends to equity holders of the Company.

As at June 30, 2007, short-term borrowings made up approximately 3.7% of the Group's capital employed as compared with approximately 5.2% as at December 31, 2006. The Group's ability to obtain adequate financing may be affected by our financial position, the operating results and the conditions of the domestic and foreign capital markets. The Group must seek approvals from the relevant PRC government authorities before raising capital in the domestic and foreign capital markets. In general, the Group must obtain the PRC government's approvals for any project involving significant capital investments in the

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Refining and Marketing segment, the Chemicals and Marketing segment and the Natural Gas and Pipeline segment.

The Group plans to fund its capital expenditures and related investments principally from cash flows generated from operating activities and short-term and long-term borrowings. For the six months ended June 30, 2007, net cash flows generated from operating activities was RMB109,838 million. As at June 30, 2007, the Group had RMB71,771 million in cash and cash equivalents. Cash and cash equivalents were primarily denominated in Renminbi (with Renminbi and United States Dollar accounting for approximately 92.1% and 7.9% respectively).

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The table below sets forth the cash flows of the Group for the six months ended June 30, 2007 and June 30, 2006 respectively and the amounts of cash and cash equivalents as at the end of each year:

|  | Six months ended June 30 |             |
|--|--------------------------|-------------|
|  | 2007                     | 2006        |
|  | RMB million              | RMB million |
| Net cash flows generated from operating activities | 109,838                  | 100,825     |
| Net cash Amount used for investing activities      | (56,836)                 | (51,974)    |
| Net cash Amount used for financing activities      | (30,192)                 | (37,291)    |
| Currency translation differences                   | 402                      | 165         |
| Cash and cash equivalents as at the end of year    | 71,771                   | 92,630      |

### Net Cash Flows from Operating Activities

The net cash flows of the Group generated from operating activities for the six months ended June 30, 2007 was RMB109,838 million, representing an increase of 8.9% compared with RMB100,825 million generated for the six months ended June 30, 2006. This increase was primarily due to the changes in cash related to the operating activities of the Group during the reporting period.

As at June 30, 2007, the Group had working capital of RMB33,144 million while the Group had net current liabilities in excess of the current assets in the amount of RMB17,657 million as at December 31, 2006. The increase in working capital was primarily due to increases in accounts receivable, advanced payments, inventory, cash and cash equivalents.

### Net Cash Flows Used for Financing Activities

The net cash flows used by the Group for its financing activities during the six months ended June 30, 2007 decreased by 19.0% compared with that for the six months ended June 30, 2006. This was mainly due to the increase in short-term and long-term loans in the first half of 2007 and a lower level of dividends payment made to shareholders of the Company when compared with the same period last year.

The net borrowings of the Group as at June 30, 2007 and December 31, 2006, respectively, are as follows:



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|  | As at<br>June 30,<br>2007     | As at<br>December 31,<br>2006 |
|--|-------------------------------|-------------------------------|
|  | -----<br>RMB million<br>----- | -----<br>RMB million<br>----- |
| Short-term borrowings (including current portion<br>of long-term borrowings) | 27,733                        | 35,763                        |
| Long-term borrowings   | 42,667                        | 35,634                        |
|  | -----                         | -----                         |
| Total borrowings   | 70,400                        | 71,397                        |
|  | =====                         | =====                         |
| Less: Cash and cash equivalents  | (71,771)                      | (48,559)                      |
|  | -----                         | -----                         |
| Net borrowings   | (1,371)                       | 22,838                        |
|  | =====                         | =====                         |

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Maturities of long-term borrowings of the Group, including those maturing within one year, are as follows:

|                                       | As at June 30,<br>2007        | As at December 31,<br>2006    |
|---------------------------------------|-------------------------------|-------------------------------|
|                                       | -----<br>RMB million<br>----- | -----<br>RMB million<br>----- |
| To be repaid within one year          | 11,900                        | 20,607                        |
| To be repaid within one to two years  | 12,372                        | 11,797                        |
| To be repaid within two to five years | 15,938                        | 10,449                        |
| To be repaid after five years         | 14,357                        | 13,388                        |
|                                       | -----                         | -----                         |
|                                       | 54,567                        | 56,241                        |
|                                       | =====                         | =====                         |

Of the total borrowings of the Group as at June 30, 2007, approximately 31.6% were fixed-rate loans and approximately 68.4% were floating-rate loans. Of the borrowings as at June 30, 2007, approximately 74.1% were denominated in Renminbi, approximately 25.5% were denominated in United States Dollar, approximately 0.3% were denominated in Euro and approximately 0.1% were denominated in Japanese Yen.

As at June 30, 2007, the amount of borrowings obtained by the Group from China Petroleum Finance Company Limited ('CP Finance') was RMB27,044 million, the amount of borrowings obtained from state-owned banks and other state-owned non-banking financial institutions was RMB31,340 million and the amount of borrowings obtained from other related parties was RMB5 million.

As at June 30, 2007, the amounts of short-term and long-term borrowings owed by the Group to CP Finance were RMB321 million and RMB26,723 million, respectively.

As at June 30, 2007, borrowings of the Group included secured debts totaling

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RMB315 million (RMB359 million as at December 31, 2006). These secured debts are secured mostly over certain of the Group's assets and time deposits with maturities over one year.

As at June 30, 2007, the gearing ratio of the Group (gearing ratio = interest-bearing debts/(interest-bearing debts + total equity)) was 9.5% (10.4% as at December 31, 2006).

### Capital Expenditures

The table below sets out our capital expenditures by business segment for the six months ended June 30, 2007 and June 30, 2006 respectively and the estimates for the whole year of 2007 respectively. For the six months ended June 30, 2007, capital expenditures of the Group increased 8.0% to RMB51,021 million from RMB47,252 million for the six months ended June 30, 2006. The increase in capital expenditures was primarily due to an increase in expenditures relating to crude oil and natural gas exploration and exploitation, implementation of safety and environmental protection and strategic adjustment. In addition, the increases in commodity prices also resulted in increase in the capital expenditures.

|                            | Six months ended June 30, |              |               |              |                    |              |
|----------------------------|---------------------------|--------------|---------------|--------------|--------------------|--------------|
|                            | 2007                      |              | 2006          |              | Estimates for 2007 |              |
|                            | RMB million               | %            | RMB million   | %            | RMB million        | %            |
| Exploration and Production | 42,196*                   | 82.7         | 32,933*       | 69.7         | 115,200*           | 62.0         |
| Refining and Marketing     | 4,841                     | 9.5          | 6,169         | 13.1         | 28,000             | 15.1         |
| Chemicals and Marketing    | 1,163                     | 2.3          | 3,938         | 8.3          | 16,000             | 8.6          |
| Natural Gas and Pipeline   | 2,471                     | 4.8          | 3,840         | 8.1          | 18,000             | 9.7          |
| Others                     | 350                       | 0.7          | 372           | 0.8          | 8,500              | 4.6          |
| <b>Total</b>               | <b>51,021</b>             | <b>100.0</b> | <b>47,252</b> | <b>100.0</b> | <b>185,700</b>     | <b>100.0</b> |

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\* If investments related to geological and geophysical exploration costs were included, the capital expenditures and investments for the Exploration and Production segment for the first half of 2006, the first half of 2007 and the estimates for 2007 would be RMB37,253 million, RMB46,680 million and RMB127,200 million, respectively.

### Exploration and Production

The majority of the Group's capital expenditures were related to the Exploration and Production segment. For the six months ended June 30, 2007, capital expenditures in relation to the Exploration and Production segment amounted to RMB42,196 million, including RMB8,542 million for exploration activities and RMB25,726 million for development activities. For the six months ended June 30, 2006, capital expenditures in relation to this segment totaled RMB32,933 million, including RMB4,251 million for exploration activities and RMB26,061 million for development activities. The increase in capital expenditures was primarily due to an increase in expenditures relating to oil and gas exploration

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to secure oil and gas resources.

The Group anticipates that capital expenditures for the Exploration and Production segment for the twelve months ending December 31, 2007 will amount to RMB115,200 million, of which approximately RMB20,000 million will be used for oil and gas exploration, and approximately RMB95,200 million will be used for oil and gas exploitation. Exploration and exploitation activities will be mainly carried out in basins including the Erdos, Junggar, Tarim, Songliao, Sichuan, Bohai Bay and Chaidamu basins.

### Refining and Marketing

Capital expenditures for the Group's Refining and Marketing segment for the six months ended June 30, 2007 amounted to RMB4,841 million, of which RMB2,696 million was used in the construction and expansion of refining facilities and RMB1,031 million in the expansion of the retail sales network for refined products and storage infrastructure facilities for oil products. The total capital expenditures of this segment for the six months ended June 30, 2006 were RMB6,169 million. The decrease in these capital expenditures was primarily due to certain projects which were under development in previous years being completed in 2006. Construction works of projects scheduled for 2007 will commence in the second half of the year.

The Group anticipates that capital expenditures for the Refining and Marketing segment for the twelve months ending December 31, 2007 will amount to RMB28,000 million, of which approximately RMB20,000 million for construction and expansion of refining facilities and approximately RMB8,000 million for investments in the expansion of the sales network for refined products and upgrading of the product quality.

### Chemicals and Marketing

Capital expenditures for the Chemicals and Marketing segment for the six months ended June 30, 2007 and 2006 amounted to RMB1,163 million and RMB3,938 million, respectively. The decrease was primarily due to certain projects that were still under development in the previous years including key projects such as the ethylene rebuilding and expansion project of Lanzhou Petrochemical having commenced production after their completion in 2006 while other projects such as Fushun Petrochemical are still in their early stages of development.

The Group anticipates that capital expenditures for the Chemicals and Marketing segment for the twelve months ending December 31, 2007 will amount to RMB16,000 million, which are expected to be used primarily for the construction of the ethylene facilities in Dushanzi Petrochemical and Fushun Petrochemical.

### Natural Gas and Pipeline

Capital expenditures in the Natural Gas and Pipeline segment for the six months ended June 30, 2007 amounted to RMB2,471 million. The Group incurred RMB2,323 million of these expenditures on the construction of long distance pipelines. For the six months ended June 30, 2006, capital expenditures in

this segment was RMB3,840 million. The decrease in capital expenditures incurred during the reporting period was primarily due to certain key pipeline scheduled for construction in 2007 will commence construction in the second half of the year.

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The Group anticipates that capital expenditures for the Natural Gas and Pipeline segment for the twelve months ending December 31, 2007 will amount to RMB18,000 million, which are expected to be used primarily for construction of key pipelines and underground natural gas storage facilities.

### Others

Capital expenditures for Other segment (including research and development activities) for the six months ended June 30, 2007 and for the six months ended June 30, 2006 were RMB350 million and RMB372 million, respectively.

The Group anticipates that capital expenditures for Other segment for the twelve months ending December 31, 2007 will amount to approximately RMB8,500 million, which are expected to be used primarily for research and development activities and for implementation of ERP and other information systems.

### Material Investment

The Group did not hold any material investment for the six months ended June 30, 2007.

### Material Acquisitions or Disposals

On March 18, 2007, the Company entered into a conditional equity transfer agreement with CNPC to dispose its entire equity interest in China United Oil Corporation ("China United Oil "), representing 70% of the entire registered capital of China United Oil, a company incorporated under the laws of the PRC, which is 70% owned by the Company and 30% owned by Sinochem Corporation, at a consideration of approximately RMB1.01 billion.

Although the Company holds 70% of the equity interests in China United Oil, China United Oil is equity accounted for by the Company as the Company does not have unilateral control over China United Oil. Following the disposal, the Company will cease to hold any equity interest in China United Oil.

### Post-Balance Sheet Date Events

At the extraordinary general meeting of the Company held on August 10, 2007, the special resolution in relation to the initial public offering of A Shares of the Company was passed, approving the allotment and issue of new A Shares by the Company and authorising the Board and a special Board committee be fully authorised to determine and deal with matters relating to the issue of the A Shares.

The Company has decided to allot and issue of not more than 4 billion A Shares (including the A Shares to be issued under the over-allotment option). The final number of A Shares to be issued shall be determined by the Board or the special Board committee pursuant to the authorisation granted under the shareholders' resolution after taking into account the PRC's securities market conditions and the Company's business development needs and shall be subject to approvals by the China Securities Regulatory Commission and other relevant regulatory authorities. The timetable for the A Share issue will also depend on the capital market conditions, the progress in obtaining all the relevant approvals and such other circumstances. Upon completion of the A Share issue, the Company will apply for the listing of and permission to deal in the A Shares on the Shanghai Stock Exchange. The net proceeds from the A Share issue, after deducting related expenses, is proposed to be used mainly for the exploration and development of the Company's domestic petroleum and gas resources; the construction of the Company's large-scale refinery, petroleum and gas pipeline projects; and the acquisition of overseas petroleum and gas resources. Details of the A Share issue were set out in the circular to the shareholders of the Company dated June 25, 2007.

#### Foreign Exchange Rate Risk

From July 21, 2005, the PRC government reformed the Renminbi exchange rate regime and implemented a regulated floating exchange rate regime based on market supply and demand with reference to a basket of currencies. However, Renminbi capital items are still subject to foreign exchange control. The exchange rates of Renminbi are affected by domestic and international economic developments and political changes, and supply and demand for currencies. Future exchange rates of Renminbi against other currencies could vary significantly from the current exchange rates. As Renminbi is the functional currency of the Company and most of its consolidated subsidiaries, the fluctuation of the exchange rate of Renminbi may have positive or negative impacts on the results of operations of the Group. An appreciation of Renminbi against United States Dollar may decrease the Group's turnover, but the cost for acquiring imported materials and equipment may be reduced. A devaluation of Renminbi against United States Dollar may not have a negative impact on the Group's turnover but may increase the cost for acquiring imported materials and equipment as well as the debt obligations denominated in foreign currencies of the Group.

#### Commodity Price Risk

The Group is engaged in a wide range of petroleum-related activities. The oil and gas markets are affected by global and regional demands and supplies. Prices of onshore crude oil are determined with reference to the prices of crude oil on the international markets. A decline in the prices of crude oil and refined products could adversely affect the Group's financial position. The Group historically has not used commodity derivative instruments to hedge against potential price fluctuations of crude oil and refined products. Therefore, the Group is exposed to general price fluctuations of oil and gas commodities in 2007 and thereafter.

#### Industry Risk

Like other oil and gas companies in China, the Group's operating activities are subject to regulation and control by the PRC government in many aspects. This regulation and control, such as by the granting of exploration and production licences, the imposition of industry-specific taxes and levies and the implementation of environmental and safety standards etc., is expected to have an impact on the Group's operating activities. As a result, the Group may be subject to fairly significant restrictions when implementing its business strategy, developing and expanding its business or maximising its profitability. Any future changes in the PRC governmental policies on the oil and gas industry may also affect the Group's business operations.

#### Employees and Employee Compensation

##### Number of employees

As at June 30, 2007 and June 30, 2006, the Group had 463,670 and 438,127 employees, respectively (excluding temporary staff). The table below sets out the number of employees by major business segments as at June 30, 2007:

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|                            | Number of<br>Employees | Percentage<br>of total (%) |
|----------------------------|------------------------|----------------------------|
|                            | -----                  | -----                      |
| Exploration and Production | 259,912                | 56.1                       |
| Refining and Marketing     | 121,851                | 26.3                       |
| Chemicals and Marketing    | 62,057                 | 13.4                       |
| Natural Gas and Pipeline   | 15,416                 | 3.3                        |
| Other*                     | 4,434                  | 0.9                        |
|                            | -----                  | -----                      |
| Total                      | 463,670                | 100.0                      |
|                            | =====                  | =====                      |

\* "Other" includes staff of the Company's headquarters, business segments, Exploration & Development Research Institute, Planning & Engineering Institute, Petrochemical Research Institute and other units.

Employee Compensation

The total employee compensation payable by the Group for the six months ended June 30, 2007 was RMB13,472 million, being the total salaries of employees during the period. Compensation of employees is determined according to industry practice and actual conditions of the Group, and is based on the principles of attracting and retaining high-calibre personnel, and motivating all staff for the realisation of best results.

The Company's senior management remuneration system links senior management financial interests (including those of executive directors and supervisors) with the Group's results of operations and the market performance of its shares. All members of the senior management have entered into performance contracts with the Company. Under this system, the senior management members' compensation has three components, namely, fixed salaries, performance bonuses and stock appreciation rights. The variable components in their compensation account for approximately 70% to 75% of the senior management officers' total potential compensation, including approximately 0% to 25% forming the performance bonus component and approximately 50% to 70% forming the stock appreciation rights component. Variable compensation rewards are linked to the attainment of specific performance targets, such as net profit, return on capital and cost reduction targets. The chart below sets forth the components of the total potential compensation for key officers:

|                             | Basic<br>salary<br>(%) | Stock<br>appreciation<br>rights (%) | Performance<br>bonus (%) |
|-----------------------------|------------------------|-------------------------------------|--------------------------|
|                             | -----                  | -----                               | -----                    |
| Chairman                    | 30                     | 70                                  | 0                        |
| President                   | 25                     | 60                                  | 15                       |
| Vice Presidents             | 25                     | 60                                  | 15                       |
| Department General Managers | 25                     | 50                                  | 25                       |

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Details of the directors' and supervisors' emoluments for the six months ended June 30, 2007 and June 30, 2006 were as follows:

|  | For the six months ended June 30 |         |
|--|----------------------------------|---------|
|  | 2007                             | 2006    |
|  | -----                            | -----   |
|  | RMB'000                          | RMB'000 |
|  | -----                            | -----   |
| Subsidies for directors and supervisors    | 458                              | 816     |
| Salaries, allowances and other benefits    | 1,450                            | 985     |
| Contributions to retirement benefit scheme | 72                               | 28      |
|  | -----                            | -----   |
|  | 1,980                            | 1,829   |
|  | =====                            | =====   |

The number of directors and supervisors whose emoluments fall within the following band (including directors and supervisors whose term expired during the reporting period):

|                      | As at June 30,<br>2007 | As at June 30,<br>2006 |
|----------------------|------------------------|------------------------|
|                      | -----                  | -----                  |
|                      | Number                 | Number                 |
|                      | -----                  | -----                  |
| RMB Nil-RMB1,000,000 | 20                     | 20                     |
|                      | ===                    | ===                    |

Upon exercise of their stock options, members of the senior management will not receive any shares in the Company, but will, by way of stock appreciation rights, receive a monetary sum which is calculated on the basis of the share price of the H shares listed on the HKSE.

### Training Programmes

The training programmes of the Company for 2007 have been geared towards achieving the development strategy and operating objectives of the Company to improve the calibre of its corporate management, technical and marketing teams. The programmes are focused on reinforcing corporate management ability, technical innovation ability and operational skills. The training system has been further improved, with the training mechanism upgraded, resources optimised and methods improved, in order that a scientific, disciplined, orderly and efficient system will be gradually established with a view to continuously improving training quality, upgrading of the overall manpower quality and constant supply of talents required for the continuous, stable and co-ordinated rapid development of the Company.

### CONTINGENT LIABILITIES

Information on the Group's contingent liabilities as at June 30, 2007 is as follows:

Bank and other guarantees

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At June 30, 2007, due to certain guarantees provided by the Group, the Group had contingent liabilities to CP Finance, a subsidiary of CNPC. It is anticipated that no material liabilities will arise therefrom.

|  | June 30, 2007 | December 31, 2006 |
|--|---------------|-------------------|
|  | RMB million   | RMB million       |
| Guarantee provided to CP Finance in respect of borrowings of associates            | 162           | 162               |
| Guarantee provided to a State-owned bank in respect of borrowings of third parties | --            | 41                |
|  | ---           | ---               |
|  | 162           | 203               |
|  | ===           | ===               |

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### Environmental liabilities

CNPC and the Group have operated in China for many years. China has adopted extensive environmental laws and regulations that affect the operation of the oil and gas industry. The outcome of environmental liabilities under proposed or future environmental legislation cannot reasonably be estimated at present, and could be material. Under existing legislation, however, the management of the Group believes that there are no probable environmental liabilities, except for the amounts which have already been reflected in the financial statements, that will have a material adverse effect on the financial position of the Group.

### Legal contingencies

The Group is the named defendant in certain insignificant lawsuits as well as the named party in other proceedings arising in the ordinary course of business. While the outcome of such contingencies, lawsuits or other proceedings cannot be determined at present, the management of the Group believes that any resulting liabilities will not have a material adverse effect on the financial position of the Group.

### Leasing of roads, land and buildings

According to the Restructuring Agreement entered into between the Company and CNPC in 1999 upon the formation of the Company:

- CNPC will use its best endeavours to obtain formal land use right certificates to replace the entitlement certificates in relation to the 28,649 parcels of land which were leased or transferred to the Company from CNPC, within one year from August, September and October 1999 when the relevant entitlement certificates were issued;
- CNPC will complete, within one year from November 5, 1999, the necessary governmental procedures for the requisition of collective-owned land on which 116 service stations owned by the Company are located; and
- CNPC will obtain individual building ownership certificates in the name of the Company for all of the 57,482 buildings transferred to the Company by



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CNPC, before November 5, 2000.

As at June 30, 2007, CNPC had obtained formal land use right certificates in relation to 27,494 out of the above-mentioned 28,649 parcels of land and some building ownership certificates for the above-mentioned buildings, but has not fully completed the necessary governmental procedures for the above-mentioned service stations located on collectively owned land. The management of the Group confirmed that the use of and the conduct of the relevant activities at the above-mentioned parcels of land, service stations and buildings are not affected by the fact that the relevant land use right certificates or individual building ownership certificates have not been obtained or the fact that the relevant governmental procedures have not been completed. The management of the Group is of the opinion that the outcome of the above events will not have a material adverse effect on the operating results or the financial position of the Group.

### Group insurance

Except for limited insurance coverage for vehicles and certain assets subject to significant operating risks, the Group does not carry any other insurance for property, facilities or equipment with respect to its business operations. In addition, the Group does not carry any third-party liability insurance against claims relating to personal injury, property and environmental damages or business interruption insurance since such insurance coverage is not customary in China. While the effect of under-insurance on future incidents cannot be reasonably assessed at present, the management of the Group believes that it may have a material impact on the operating results but will not have a material adverse effect on the financial position of the Group.

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## MARKET REVIEW

### Crude Oil Market Review

In the first half of 2007, oil prices on the international market dropped at the beginning of the year but picked up in the subsequent months. At the beginning of the year, international oil prices dropped sharply as a result of a decrease in the demand for heating oil due to the warmer weather in the northern hemisphere and an increase in the oil stocks in the United States. Subsequently, international oil prices rose in a volatile manner and reached a fairly high level when there were frequent refinery accidents, a reduction in oil production by OPEC member states and political instability of oil-producing countries. In the first half of the year, the average prices for WTI, Brent and Minas crude oil were US\$61.53, US\$63.21 and US\$63.67 per barrel respectively, representing a decrease of 7.9%, 3.7% and 3.3% compared to the average prices during the same period in the previous year respectively. Affected by the international oil prices, the average realised price for domestic crude oil in the first half of 2007 was lower than that in the first half of 2006.

Domestic crude oil imports continued to increase in the first half of 2007. The net amount of imports was 79.72 million tons, representing an increase of 13.4% as compared to that in the first half of the previous year. Domestic crude oil output and the amount of crude oil processed reached 93.02 million tons and 150 million tons respectively.

### Refined Products Market Review

In the first half of 2007, international oil prices fell at the beginning of the year but then rose with fairly significant volatility. Domestic refined product

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prices, however, were not fully in line with the prices in the international market. Therefore, refineries incurred losses in processing since June 2007. There was a drastic reduction in supply of refined products by local refineries as they were totally or partly out of operation as a result of running at a loss. Overall, the demand and supply of refined products were in a balanced position in the first half of 2007. In the first quarter, the supply exceeded the demand due to the low season coupled with the lower international oil prices. In the second quarter, the supply became tighter due to the high season coupled with the higher oil prices and drop of supply from local refineries. Under these circumstances, it was rather difficult to maintain stable supply on the market. Nominal consumption of refined products was 89.42 million tons in the first half of the year, representing a 4.2% increase over the amount in the same period in previous year.

### Chemical Products Market Review

The PRC economy experienced vigorous growth in the first half of 2007. While there was a substantial rise in the production capacity for chemical products, the demand also grew quite strongly and the domestic supply and demand were basically in balance. When crude oil prices continued to move upwards, the market prices of chemical products also remained high.

### Natural Gas Market Review

At the end of 2005, the PRC government introduced a new pricing regulation for natural gas and increased the ex-factory price of natural gas. To certain extent, this measure tempered the rapid growth in the demand for natural gas. In the first half of 2007, domestic supply of natural gas did not meet demand.

### BUSINESS REVIEW

In the first half of 2007, despite the continuing strategic adjustment of the crude oil output in the Daqing Oilfield and exceptional natural disasters including snowstorms and windstorms occurred in the North-eastern China and the Bohai Bay regions, production and operations of the Group proceeded steadily. By

strategically deploying resources and organising workstreams, significant milestones were achieved in respect of oil and natural gas exploration: the discovery of the Jidong Nanpu Oilfield in Jidong shallow water areas of Bohai Bay which contains oil reserves of up to one billion tons. The relevant PRC government authorities assessed the reserves at the Jidong Nanpu Oilfield in August 2007 confirming the proved reserves of original oil in place of 445 million tons and the three-level geological reserves of oil and gas (or oil and gas equivalent) of up to 1.18 billion tons; important achievement was also made in Erdos Basin, Songliao Basin, Gunggar Basin and Sichuan Basin, the growth in the oil and natural gas reserves of the Group remained satisfactory, providing more stable supply of resources required for strengthening the development bases of the Company. The Group made fairly fast progress in its refining and marketing business, showing continuous optimisation in the restructuring of refinery operations, steady growth in production, improvements in major technical and economic indicators for petrochemicals production and further expansion of the marketing and sales networks for refined products. Meanwhile, the construction of certain key pipeline of the Group has commenced and is proceeding in an orderly manner, enhancing the assurance of steady oil and gas supply. In adherence to the principle of gaining mutual benefits and achieving a win-win situation with business partners, the Group actively participated in international oil cooperations, resulting in the expansion of its business in

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terms of scope and scale.

For the six months ended June 30, 2007, total crude oil and natural gas output of the Group was 552.7 million barrels of oil equivalent, including 419.7 million barrels of crude oil and 798.0 billion cubic feet of marketable natural gas, representing an average daily output of 2.32 million barrels of crude oil and 4,409 million cubic feet of marketable natural gas. For the six months ended June 30, 2007, a total of 425.5 million barrels of crude oil and 787.7 billion cubic feet of natural gas were sold. The Group sold approximately 84.1% of the crude oil to its refineries. In the first half of 2007, the lifting cost for the oil and gas operations of the Group was US\$7.10 per barrel, up from US\$5.91 per barrel in the first half of 2006.

For the six months ended June 30, 2007, the Group's refineries processed 407.7 million barrels of crude oil, representing an average of 2.25 million barrels per day. Approximately 80.0% of the crude oil processed in the Group's refineries was supplied by the Exploration and Production segment. The Group produced approximately 35.55 million tons of gasoline, diesel and kerosene and sold approximately 40.93 million tons of these products. The Group actively expanded its sales and distribution networks, in particular the retail sales network, by capitalising on the synergy achieved from the integration of refining and marketing. As at June 30, 2007, there were 18,630 service stations either owned, controlled or franchised by the Group or owned by CNPC but to which the Group provided supervisory support. The cash processing cost of the Group's refineries decreased from RMB151 per ton during the first half of 2006 to RMB136 per ton during the first half of 2007.

For the six months ended June 30, 2007, the Group produced 1.305 million tons of ethylene, 1.997 million tons of synthetic resin, 0.701 million tons of synthetic fiber raw materials and polymers, 0.158 million tons of synthetic rubber and 1.897 million tons of urea.

The Natural Gas and Pipeline segment is a business segment of the Group that has been given priority in expansion. For the six months ended June 30, 2007, the Group sold 711.6 billion cubic feet of marketable natural gas through the Natural Gas and Pipeline segment.

### THE SECOND HALF OF 2007 AND BEYOND

During the second half of 2007, the Company will continue to adopt solid measures to implement various working plans formulated at the beginning of the year. In due observance of the working guidelines, which is "steady, balanced, efficient, regulated and coordinated", the Company will organise production and operation in a scientific manner, taking active steps to change the economic growth model and promote technological and management innovations. It will also strive to enhance harmony throughout the Company and push forward its effective and rapid development.

In the Exploration and Production area, the Company will keep on increasing exploration efforts and capitalise on exploration results to further reinforce and enhance the resource base. As regards development in oil and gas exploitation, the Company has extensively initiated works targeted for the secondary recovery of old oilfields that have been exploited for relatively longer years and which have high water content, with an aim to enhance the recovery rate. Through the deployment of comprehensive measures, the Company endeavours to raise the recovery rate by around 10%. We also endeavour to maintain the Company's domestic oil and gas output, which currently represents

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approximately 60% and above 75% of the total crude oil and natural gas output respectively in China, in the foreseeable future, thus further reinforcing the leading position of the Company among the oil and gas suppliers in the country.

In the Refining and Marketing area, the Company will continue to optimise the structure of its refining operations and will organise refinery production in a scientific manner with a view to raise operation efficiency. In the forthcoming years, construction of certain large refining facilities will gradually be completed and commence operations, that enables the Company to maintain its domestic market share in crude oil processing as well as output and sales volume of refined products, which is currently above 40%, and to gradually increase its ethylene output to one-third of the total ethylene output in China.

In the Natural Gas and Pipeline area, the Company will continue to maintain the continuous fast growth in the sales of natural gas. In the near future, the Company plans to construct the Second West-East Gas Pipeline, which connects the Central Asia Gas Pipeline, thereby creating another channel for the West-East Gas Pipeline. We will also construct certain key oil and gas pipelines including the Northeastern China natural gas pipeline network, Lanzhou-Zhengzhou-Changsha refined oil pipeline and Jinzhou-Zhengzhou refined oil pipeline. With these pipeline projects, the Company will further enhance its oil and gas supply capacity and will also have an even stronger basis for future development.

In terms of international businesses, the Company will continue to expedite the development and strive to enhance its scale and competitiveness. It will continue to organise the operation of existing projects and make greater efforts in developing new projects. It will tap on new exploration and exploitation opportunities and will actively seek opportunities of restructuring, merger and acquisition and formation of strategic alliances. Meanwhile, the Company plans to develop larger and stronger international trade operations and make efforts to raise its level of internationalisation and the quality of its international operations.

Looking ahead, it is expected that the world economy will maintain stable growth and the Chinese economy will maintain rapid growth. The persistently high and fast growing demand for oil and gas will provide great opportunities for the business development of the Company. Implementation of the Chinese Government's strategic initiatives to promote the development of the Western China and to re-invigorate old industrial bases in particular those in the Northeastern China, together with the stepping up of the pace in building a market-oriented pricing mechanism for oil and gas, have provided more favourable government policy conditions and market environment for the development of the Company. The further deepening of the economic globalisation process facilitates the Company in taking part in the worldwide market and its sharing of global oil and gas resources. Adhering to the corporate objective of "contributing energy and creating harmony", the Company will endeavour to operate steadily, healthily and with integrity at all times and will continue to enhance its corporate value, actively fulfill its economic, environmental and social responsibilities and seek returns for its shareholders, the society and its employees with satisfactory operating results.

### INTERIM DIVIDENDS AND TEMPORARY CLOSURES OF REGISTER OF MEMBERS

At the general meeting held on May 16, 2007, the Board was authorised by shareholders of the Company to decide matters relating to the interim dividends for year 2007. The Board has decided to pay interim dividends of RMB0.205690 per share (inclusive of applicable taxes) from 45% of the net profit for the six

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months ended June 30, 2007 to shareholders whose names appear on the register of members of the Company at the close of business on September 13, 2007. The register of members will be closed from September 7, 2007 to September 13, 2007 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the interim dividends, all transfer documents must be lodged, together with the relevant share certificates, at the Computershare Hong Kong Investor Services Limited no later than 4:30 p.m. on September 6, 2007.

In accordance with Article 149 of the Company's Articles of Association, dividends payable to the Company's shareholders shall be declared in Renminbi. Dividends payable to the holders of state-owned shares shall be paid in Renminbi while dividends payable to the holders of H shares shall be paid in Hong Kong Dollars. The amount of Hong Kong Dollars payable shall be calculated at the rate RMB0.9718 equals to HK\$1.00 which was the average of the closing exchange rates for Renminbi to Hong Kong Dollar as announced by the People's Bank of China for the week prior to the declaration of the dividends by the Board. Therefore, the interim dividends per H share payable will be HK\$0.211659.

Interim dividends will be paid on or around September 28, 2007.

### REPURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company or any of its subsidiaries did not sell any securities of the Company or repurchase or redeem any of the securities of the Company during the six months ended June 30, 2007.

### OTHER DISCLOSURES

Apart from the above, there have been no material changes from the information disclosed in the Annual Report of the Group for the year ended December 31, 2006 regarding other matters specified in paragraph 46(3) of Appendix 16 of the Listing Rules.

### COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions for Directors of Listed Issuers contained in Appendix 10 of the Listing Rules (the 'Model Code ') to regulate trading of shares in the Company by the Directors. The Directors and Supervisors have confirmed to the Company that each of them has complied with the requirements set out in the Model Code.

### COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules throughout the six months ended June 30, 2007, except that since May 20, 2007, the roles of the chairman and the president were held by the same person. Following the retirement of Mr. Chen Geng, Mr. Jiang Jiemin, who was the president and vice chairman of the Company, has since May 20, 2007 been appointed as the chairman of the Board concurrently with his role as the president of the Company. With his extensive experience in China's oil and gas industry and substantial knowledge of the operations and management of the Company, the Board believes that Mr. Jiang will continue to provide strong leadership to the Board and facilitate the Company to implement its plans and strategies smoothly and effectively. The Board believes that such change in the management structure will not affect the operations and business development and corporate governance of the Company. In view of the importance of the role as the president, should there be a candidate with the suitable credentials, the Board will consider appointing a new president to comply with the relevant requirement under the Code on Corporate Governance Practices.

AUDIT COMMITTEE

The members of the audit committee of the Company formed pursuant to the Listing Rules include Mr. Franco Bernabe', Mr. Tung Chee-Chen, Mr. Liu Hongru and Mr. Gong Huazhang. The main responsibilities of the audit committee are the review and monitoring of the form of financial submissions and the internal control mechanism of the Group and giving advice to the Board of Directors. The audit committee of the Company has reviewed and confirmed the interim results announcement and report for the six months ended June 30, 2007.

PUBLICATION OF RESULTS ON THE WEBSITE OF THE HKSE AND OF THE COMPANY

All information about the announcement of results for the six months ended June 30, 2007 will be posted on the website of the HKSE (website: <http://www.hkex.com.hk>). This information will also be published on the website of the Company (website: <http://www.petrochina.com.cn>).

By Order of the Board of Directors  
PetroChina Company Limited  
Jiang Jiemin  
Chairman

Beijing, the PRC  
August 23, 2007

As at the date of this announcement, the Board comprises Mr. Jiang Jiemin as the Chairman; Mr. Duan Wende as executive director; Mr. Zheng Hu, Mr. Zhou Jiping, Mr Wang Yilin, Mr. Zeng Yukang, Mr. Gong Huazhang and Mr. Jiang Fan as non-executive directors; and Mr. Chee-Chen Tung, Mr. Liu Hongru and Mr. Franco Bernabe' as independent non-executive directors.

This interim results announcement contains certain forward-looking statements with respect to the financial position, financial results and business of the Group. These forward-looking statements are, by their nature, subject to significant risks and uncertainties because they relate to events and depend on circumstances that may occur in the future and are beyond our control. The forward-looking statements reflect the Group's current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements.

Please also refer to the published version of this announcement in South China Morning Post.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PetroChina Company Limited

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Dated: August 24, 2007

By: /s/ Li Huaiqi

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Name: Li Huaiqi

Title: Company Secretary