

(E) SUPPLEMENTAL INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED)

In accordance with the United States Statement of Financial Accounting Standards No. 69, "Disclosures about Oil and Gas Producing Activities" ("SFAS No. 69"), this section provides supplemental information on oil and gas exploration and producing activities of the Group at 31 December 2004 and 2003, and for the years then ended in the following six separate tables. Tables I through III provide historical cost information under US GAAP pertaining to capitalised costs related to oil and gas producing activities; costs incurred in exploration and development; and results of operations related to oil and gas producing activities. Tables IV through VI present information on the Group's estimated net proved reserve quantities; standardised measure of discounted future net cash flows; and changes in the standardised measure of discounted future net cash flows.

Table I: Capitalised costs related to oil and gas producing activities

	2004	2003
	RMB millions	RMB millions
Property cost	—	—
Wells and related equipment and facilities	158,422	143,492
Supporting equipment and facilities	12,324	13,140
Uncompleted wells, equipment and facilities	9,262	5,535
Total capitalised costs	180,008	162,167
Accumulated depreciation, depletion, amortisation and impairment allowances	(79,541)	(70,726)
Net capitalised costs	100,467	91,441

Table II: Cost incurred in exploration and development

	2004	2003
	RMB millions	RMB millions
Exploration	8,272	8,109
Development	20,681	19,852
Total cost incurred	28,953	27,961

Table III: Results of operations for oil and gas producing activities

	2004	2003
	RMB millions	RMB millions
Revenues		
Sales	11,833	11,850
Transfers	60,053	47,287
	71,886	59,137
Production costs excluding taxes	(17,182)	(16,187)
Exploration expenses	(6,396)	(6,133)
Depreciation, depletion, amortisation and impairment provisions	(11,457)	(8,684)
Taxes other than income tax	(1,144)	(970)
Income before income tax	35,707	27,163
Income tax expense	(11,783)	(8,964)
Results of operations from producing activities	23,924	18,199

The results of operations for producing activities for the years ended 31 December 2004 and 2003 are shown above. Revenues include sales to unaffiliated parties and transfers (essentially at third-party sales prices) to other segments of the Group. All revenues reported in this table do not include royalties to others as there were none. In accordance with SFAS No. 69, income taxes are based on statutory tax rates, reflecting allowable deductions and tax credits. General corporate overhead and interest income and expense are excluded from the results of operations.

Table IV: Reserve quantities information

The Group's estimated net proved underground oil and gas reserves and changes thereto for the years ended 31 December 2004 and 2003 are shown in the following table.

Proved oil and gas reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change as additional information becomes available.

Proved reserves do not include additional quantities recoverable beyond the term of the relevant production licenses, or that may result from extensions of currently proved areas, or from application of improved recovery processes not yet tested and determined to be economical. The Group's estimated proved reserves do not include any quantities that are recoverable through application of tertiary recovery techniques.

Table IV: Reserve quantities information (continued)

Proved developed reserves are the quantities expected to be recovered through existing wells with existing equipment and operating methods.

“Net” reserves exclude royalties and interests owned by others and reflect contractual arrangements in effect at the time of the estimate.

	2004	2003
Proved developed and undeveloped reserves (oil) (million barrels)		
Beginning of year	3,257	3,320
Revisions of previous estimates	23	(81)
Improved recovery	127	143
Extensions and discoveries	134	146
Production	(274)	(271)
End of year	3,267	3,257
Proved developed reserves		
Beginning of year	2,786	2,732
End of year	2,808	2,786
Proved developed and undeveloped reserves (gas) (billion cubic feet)		
Beginning of year	2,888	3,329
Revisions of previous estimates	(95)	(649)
Extensions and discoveries	447	396
Production	(207)	(188)
End of year	3,033	2,888
Proved developed reserves		
Beginning of year	1,249	1,056
End of year	1,398	1,249

Table V: Standardised measure of discounted future net cash flows

The standardised measure of discounted future net cash flows, related to the above proved oil and gas reserves, is calculated in accordance with the requirements of SFAS No. 69. Estimated future cash inflows from production are computed by applying year-end prices for oil and gas to year-end quantities of estimated net proved reserves. Future price changes are limited to those provided by contractual arrangements in existence at the end of each reporting year. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end estimated proved reserves based on year-end cost indices, assuming continuation of year-end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates to estimated future pre-tax net cash flows, less the tax basis of related assets. Discounted future net cash flows are calculated using 10% midperiod discount factors. This discounting requires a year-by-year estimate of when the future expenditure will be incurred and when the reserves will be produced.

The information provided does not represent management's estimate of the Group's expected future cash flows or value of proved oil and gas reserves. Estimates of proved reserve quantities are imprecise and change over time as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. The arbitrary valuation prescribed under SFAS No. 69 requires assumptions as to the timing and amount of future development and production costs. The calculations are made for the years ended 31 December 2004 and 2003 and should not be relied upon as an indication of the Group's future cash flows or value of its oil and gas reserves.

	2004	2003
	RMB millions	RMB millions
Future cash flows	1,003,511	799,658
Future production costs	(350,012)	(311,568)
Future development costs	(25,577)	(23,838)
Future income tax expenses	(174,060)	(130,224)
Undiscounted future net cash flows	453,862	334,028
10% annual discount for estimated timing of cash flows	(204,183)	(146,726)
Standardised measure of discounted future net cash flows	249,679	187,302

Table VI: Changes in the standardised measure of discounted future net cash flows

	2004	2003
	RMB millions	RMB millions
Sales and transfers of oil and gas produced, net of production costs	(46,145)	(41,802)
Net changes in prices and production costs	69,305	11,923
Net change due to extensions, discoveries and improved recoveries	36,209	27,721
Revisions of previous quantity estimates	2,204	(5,951)
Previously estimated development costs incurred during the year	7,148	6,865
Accretion of discount	16,176	15,242
Net change in income taxes	(22,733)	(2,992)
Others	213	(543)
Net change for the year	62,377	10,463