

PETROCHINA CO LTD  
Form 20-F  
May 10, 2011

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 20-F**

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g)  
OF THE SECURITIES EXCHANGE ACT OF 1934**  
**or**
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2010.**  
**or**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**  
**or**
- SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**  
**Date of event requiring this shell company report \_\_\_\_\_**  
**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 1-15006**

*(Exact name of Registrant as specified in its charter)*

**PetroChina Company Limited**

*(Translation of Registrant's name into English)*

**The People's Republic of China**

*(Jurisdiction of incorporation or organization)*

**9 Dongzhimen North Street  
Dongcheng District, Beijing 100007  
The People's Republic of China,**

*(Address of principal executive offices)*

**Li Hualin**

**Telephone number: 8610 59986223**

**Facsimile number: 8610 62099557**

**Email address: [suxinliang@petrochina.com.cn](mailto:suxinliang@petrochina.com.cn)**

**Address: 9 Dongzhimen North Street, Dongcheng District, Beijing 100007 The People's Republic of China**

*(Name, telephone, e-mail and/or facsimile number and address of registrant's contact person)*

**Securities registered or to be registered pursuant to Section 12(b) of the Act.**

| <b>Title of Each Class</b>   | <b>Name of Each Exchange on Which Registered</b> |
|--|--|
| American Depositary Shares, each representing 100 H Shares, par value RMB1.00 per share* | New York Stock Exchange, Inc.                    |
| H Shares, par value RMB1.00 per share  | New York Stock Exchange, Inc.**                  |

**Securities registered or to be registered pursuant to Section 12(g) of the Act.**

None  
(Title of Class)

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.**

None  
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

|  |                                |
|--|--------------------------------|
| A Shares, par value RMB1.00 per share*** | 161,922,077,818 <sup>(1)</sup> |
| H Shares, par value RMB1.00 per share    | 21,098,900,000****             |

(1): Includes 157,764,597,259 A Shares held by CNPC and 4,157,480,559 A Shares held by the public shareholders.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes  No

\* PetroChina's H Shares are listed and traded on The Stock Exchange of Hong Kong Limited.

\*\* Not for trading, but only in connection with the registration of American Depositary Shares.

\*\*\* PetroChina's A Shares became listed on the Shanghai Stock Exchange on November 5, 2007.

\*\*\*\* Includes 1,862,364,900 H Shares represented by American Depositary Shares.

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**CERTAIN TERMS AND CONVENTIONS**

**Conventions Which Apply to this Annual Report**

Unless the context otherwise requires, references in this annual report to:

CNPC or CNPC group are to our parent, China National Petroleum Corporation and its affiliates and subsidiaries, excluding PetroChina, its subsidiaries and its interests in long-term investments, and where the context refers to any time prior to the establishment of CNPC, those entities and businesses which were contributed to CNPC upon its establishment.

PetroChina, we, our, our company, the company and us are to PetroChina Company Limited, a joint stock company incorporated in the People's Republic of China with limited liability and its subsidiaries and branch companies.

PRC or China is to the People's Republic of China, but does not apply to Hong Kong, Macau or Taiwan for purposes of this annual report.

We publish our consolidated financial statements in Renminbi or RMB. In this annual report, IFRS refers to International Financial Reporting Standards as issued by the International Accounting Standards Board.

In December 2008, the United States Securities and Exchange Commission (the SEC or the Commission) announced that it had approved revisions designed to modernize the oil and gas company reserves reporting requirements. The revisions became effective on January 1, 2010. For purposes of this annual report, the oil and gas reserve disclosure rules prior to the effectiveness of the revisions are referred to herein as the old SEC reserve rules. The new oil and gas reserve disclosure rules that became effective on January 1, 2010 are referred to herein as the new SEC reserve rules. Our reserve-related disclosure as of and for the year ended December 31, 2008 complies with the old SEC reserve rules. Our reserve-related disclosure as of and for the years ended December 31, 2009 and 2010 complies with the new SEC reserve rules.

**Conversion Table**

|                            |                             |   |
|----------------------------|-----------------------------|---|
| 1 barrel-of-oil equivalent | = 1 barrel of crude oil     | = 6,000 cubic feet of natural gas                                       |
| 1 cubic meter              | = 35.315 cubic feet         |   |
| 1 ton of crude oil         | = 1 metric ton of crude oil | = 7.389 barrels of crude oil<br>(assuming an API gravity of 34 degrees) |

**Certain Oil and Gas Terms**

Unless the context indicates otherwise, the following terms have the meanings shown below:

|         |  |
|---------|--|
| acreage | The total area, expressed in acres, over which an entity has interests in exploration or production. Net acreage is the entity's interest, expressed in acres, in the relevant exploration or production area. |
|---------|--|



|                    |  |
|--------------------|--|
| condensate         | Light hydrocarbon substances produced with natural gas that condense into liquid at normal temperatures and pressures associated with surface production equipment.  |
| crude oil          | Crude oil, including condensate and natural gas liquids.   |
| developed reserves | <p>Under the new SEC reserve rules, developed reserves are reserves of any category that can be expected to be recovered:</p> <p>(i) through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and</p> |

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|                               |   |
|-------------------------------|---|
|                               | (ii) through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.   |
| development cost              | For a given period, costs incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas.   |
| finding cost                  | For a given period, costs incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects of containing oil and gas reserves, including costs of drilling exploratory wells and exploratory-type test wells. Finding cost is also known as exploration cost.   |
| lifting cost                  | For a given period, costs incurred to operate and maintain wells and related equipment and facilities, including applicable operating costs of support equipment and facilities and other costs of operating and maintaining those wells and related equipment and facilities. Lifting cost is also known as production cost.   |
| natural gas liquids           | Hydrocarbons that can be extracted in liquid form together with natural gas production. Ethane and pentanes are the predominant components, with other heavier hydrocarbons also present in limited quantities.   |
| offshore                      | Areas under water with a depth of five meters or greater.   |
| onshore                       | Areas of land and areas under water with a depth of less than five meters.  |
| primary distillation capacity | At a given point in time, the maximum volume of crude oil a refinery is able to process in its basic distilling units.  |
| proved developed reserves     | Under the old SEC reserve rules, proved developed reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery are included as proved developed reserves only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved. |
| proved reserves               | Under the new SEC reserve rules, proved reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of   |

whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

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(i) The area of the reservoir considered as proved includes:

(A) The area identified by drilling and limited by fluid contacts, if any, and (B) Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.

(ii) In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons (LKH) as seen in a well penetration unless geoscience, engineering, or performance data and reliable technology establishes a lower contact with reasonable certainty.

(iii) Where direct observation from well penetrations has defined a highest known oil (HKO) elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering, or performance data and reliable technology establish the higher contact with reasonable certainty.

(iv) Reserves which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when:

(A) Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and (B) The project has been approved for development by all necessary parties and entities, including governmental entities.

(v) Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

Under the old SEC reserve rules, proved reserves are estimated quantities of crude oil and natural gas 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 of escalations based upon future conditions.

proved undeveloped reserves

Under the old SEC reserve rules, proved undeveloped reserves are reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage shall be

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limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Under no circumstances should estimates for proved undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir.

reserve-to-production ratio For any given well, field or country, the ratio of proved reserves to annual production of crude oil or, with respect to natural gas, to wellhead production excluding flared gas.

sales gas Marketable production of gas on an as sold basis, excluding flared gas, injected gas and gas consumed in operations.

undeveloped reserves Under the new SEC reserve rules, undeveloped reserves are reserves of any category that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

(i) Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.

(ii) Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances, justify a longer time.

(iii) Under no circumstances shall estimates for undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir, or by other evidence using reliable technology establishing reasonable certainty.

water cut For a given oil region, the percentage that water constitutes of all fluids extracted from all wells in that region.

References to:

BOE is to barrels-of-oil equivalent;

Mcf is to thousand cubic feet; and

Bcf is to billion cubic feet.

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**FORWARD-LOOKING STATEMENTS**

This annual report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and 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 amounts and nature of future exploration, development and other capital expenditures;
- future prices and demand for crude oil, natural gas, refined products and chemical products;
- development projects;
- exploration prospects;
- reserves potential;
- production of oil and gas and refined and chemical products;
- development and drilling potential;
- expansion and other development trends of the oil and gas industry;
- the planned development of our natural gas operations;
- the planned expansion of our refined product marketing network;
- the planned expansion of our natural gas infrastructure;
- the anticipated benefit from the acquisition of certain overseas assets from CNPC, our parent company;
- the plan to continue to pursue attractive business opportunities outside China;
- our future overall business development and economic performance;
- our anticipated financial and operating information regarding, and the future development and economic performance of our business;
- our anticipated market risk exposure arising from future changes in interest rates, foreign exchange rates and commodity prices; and
- other prospects of our business and operations.

The words anticipate , believe , could , estimate , expect , intend , may , plan , seek , will and would expressions, as they related to us, are intended to identify a number of these forward-looking statements.



By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will occur in the future and are beyond our control. The 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 the forward-looking statements as a result of a number of factors, including, without limitation, the risk factors set forth in this annual report and the following:

fluctuations in crude oil and natural gas prices;

failure to achieve continued exploration success;

failures or delays in achieving production from development projects;

continued availability of capital and financing;

acquisitions and other business opportunities that we may pursue;

general economic, market and business conditions, including volatility in interest rates, changes in foreign exchange rates and volatility in commodity markets;

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liability for remedial actions under environmental regulations;

the actions of competitors;

wars and acts of terrorism or sabotage;

changes in policies, laws or regulations of the PRC, including changes in applicable tax rates;

the other changes in global economic and political conditions affecting the production, supply and demand and pricing of crude oil, refined products, petrochemical products and natural gas; and

the other risk factors discussed in this annual report and other factors beyond our control.

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

**PART I**

**ITEM 1 *IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS***

Not applicable. However, see Item 6 Directors, Senior Management and Employees Directors, Senior Management and Supervisors and Item 16C Principal Accountant Fees and Services .

**ITEM 2 *OFFER STATISTICS AND EXPECTED TIMETABLE***

Not applicable.

**ITEM 3 *KEY INFORMATION***

**Exchange Rates**

The following table sets forth the high and low noon buying rates between Renminbi and U.S. dollars for each month during the previous six months and the most recent practicable date:

|                                     | <b>Noon Buying Rate<sup>(1)</sup></b> |            |
|-------------------------------------|---------------------------------------|------------|
|                                     | <b>High</b>                           | <b>Low</b> |
|                                     | <b>(RMB per US\$)</b>                 |            |
| November 2010                       | 6.6892                                | 6.6330     |
| December 2010                       | 6.6745                                | 6.6000     |
| January 2011                        | 6.6364                                | 6.5809     |
| February 2011                       | 6.5965                                | 6.5520     |
| March 2011                          | 6.5743                                | 6.5483     |
| April 2011                          | 6.5477                                | 6.4900     |
| May 2011 (ending as of May 6, 2011) | 6.4955                                | 6.4920     |

(1)

The exchange rates reflect the noon buying rates as set forth in the H.10 statistical release of the Federal Reserve Board.

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The following table sets forth the average noon buying rates between Renminbi and U.S. dollars for each of 2006, 2007, 2008, 2009 and 2010, calculated by averaging the noon buying rates on the last day of each month during the relevant year:

|      | <b>Average Noon<br/>Buying Rate<br/>(RMB per US\$)</b> |
|------|--|
| 2006 | 7.9579   |
| 2007 | 7.5806   |
| 2008 | 6.9193   |
| 2009 | 6.8295   |
| 2010 | 6.7603   |

(1) For periods prior to January 1, 2009, the exchange rates reflect the noon buying rates as reported by the Federal Reserve Bank of New York. For periods after January 1, 2009, the exchange rates reflect the noon buying rates as set forth in the H.10 statistical release of the Federal Reserve Board.

**Selected Financial Data****Historical Financial Information**

You should read the selected historical financial data set forth below in conjunction with the consolidated financial statements of PetroChina and their notes and Item 5 Operating and Financial Review and Prospects included elsewhere in this annual report. The selected historical income statement and cash flow data for the years ended December 31, 2008, 2009 and 2010 and the selected historical statement of financial position data as of December 31, 2009 and 2010 set forth below are derived from our audited consolidated financial statements included elsewhere in this annual report. The selected historical income statement data and cash flow data for the years ended December 31, 2006 and 2007 and the selected statement of financial position data as of December 31, 2006, 2007 and 2008 set forth below are derived from our audited financial statements not included in this annual report. Our consolidated financial statements were prepared in accordance with IFRS as issued by the International Accounting Standards Board. The financial information included in this section may not necessarily reflect our results of operations, financial position and cash flows in the future.

|                                  | <b>As at or For the Year Ended December 31,<sup>(1)</sup></b> |             |             |             |             |
|----------------------------------|---|-------------|-------------|-------------|-------------|
|                                  | <b>2006</b>   | <b>2007</b> | <b>2008</b> | <b>2009</b> | <b>2010</b> |
|                                  | <b>RMB</b>  | <b>RMB</b>  | <b>RMB</b>  | <b>RMB</b>  | <b>RMB</b>  |
|                                  | <b>(In millions, except for per share and per ADS data)</b>   |             |             |             |             |
| Turnover                         | 691,448   | 837,542     | 1,072,604   | 1,019,275   | 1,465,415   |
| Total operating expenses         | (491,424)   | (636,525)   | (913,033)   | (875,831)   | (1,277,638) |
| Profit from operations           | 200,024   | 201,017     | 159,571     | 143,444     | 187,777     |
| Profit before income tax expense | 200,802   | 205,139     | 162,013     | 140,032     | 189,305     |

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|   |          |           |           |           |           |
|---|----------|-----------|-----------|-----------|-----------|
| Income tax expense  | (50,615) | (49,802)  | (35,211)  | (33,473)  | (38,513)  |
| Profit for the year   | 150,187  | 155,337   | 126,802   | 106,559   | 150,792   |
| Profit for the year attributable to owners of the parent company  | 143,498  | 146,796   | 114,453   | 103,387   | 139,992   |
| Non-controlling interest  | 6,689    | 8,541     | 12,349    | 3,172     | 10,800    |
| Basic and diluted earnings per share for profit attributable to owners of the parent company <sup>(2)</sup> | 0.80     | 0.82      | 0.63      | 0.56      | 0.76      |
| Basic and diluted net earnings per ADS <sup>(5)</sup>   | 80.16    | 81.69     | 62.54     | 56.49     | 76.49     |
| Total current assets  | 165,778  | 235,902   | 224,946   | 294,383   | 286,392   |
| Total non-current assets  | 714,509  | 833,709   | 971,289   | 1,155,905 | 1,370,095 |
| Total assets  | 880,287  | 1,069,611 | 1,196,235 | 1,450,288 | 1,656,487 |
| Total current liabilities   | 181,993  | 200,150   | 265,651   | 388,553   | 429,736   |

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|  | As at or For the Year Ended December 31, <sup>(1)</sup> |             |             |             |             |
|--|---|-------------|-------------|-------------|-------------|
|  | 2006<br>RMB   | 2007<br>RMB | 2008<br>RMB | 2009<br>RMB | 2010<br>RMB |
| (In millions, except for per share and per ADS data)                                   |   |             |             |             |             |
| Total non-current liabilities  | 75,675  | 86,742      | 82,744      | 154,034     | 216,622     |
| Total liabilities  | 257,668   | 286,892     | 348,395     | 542,587     | 646,358     |
| Equity attributable to owners of the parent company                                    | 590,414   | 738,246     | 790,910     | 847,223     | 938,926     |
| Non-controlling interest   | 32,205  | 44,473      | 56,930      | 60,478      | 71,203      |
| Total equity   | 622,619   | 782,719     | 847,840     | 907,701     | 1,010,129   |
| <b>Other Financial Data</b>  |   |             |             |             |             |
| Dividend per share   | 0.36  | 0.36        | 0.28        | 0.25        | 0.34        |
| Dividend per ADS   | 35.75   | 36.25       | 28.14       | 25.42       | 34.42       |
| Capital expenditures   | 149,493   | 182,678     | 232,377     | 266,836     | 276,212     |
| Net cash flows from operating activities   | 202,701   | 207,633     | 172,465     | 261,972     | 310,686     |
| Net cash flows used for investing activities   | (159,065)   | (183,656)   | (211,797)   | (261,453)   | (291,192)   |
| Net cash flows from/used in financing activities                                       | (75,385)  | (5,838)     | 3,777       | 53,077      | (60,944)    |
| Net cash flows from operating activities per share (RMB) <sup>(3)</sup>                | 1.13  | 1.16        | 0.94        | 1.43        | 1.70        |
| Net cash flows from operating activities per ADS (RMB) <sup>(5)</sup>                  | 113.23  | 115.56      | 94.23       | 143.14      | 169.75      |
| Net assets per share attributable to owners of the parent company (RMB) <sup>(4)</sup> | 3.30  | 4.03        | 4.32        | 4.63        | 5.13        |
| Net assets per ADS attributable to owners of the parent company (RMB) <sup>(5)</sup>   | 329.80  | 403.37      | 432.14      | 462.91      | 513.02      |
| Return on net assets(%)  | 24.3  | 19.9        | 14.5        | 12.2        | 14.9        |

- (1) Due to business combinations under common control completed in 2008 and 2009, the relevant financial statements of the company have been restated in a manner identical to a pooling of interests to reflect the acquisitions.
- (2) As at December 31, 2006, basic and diluted earnings per share were calculated by dividing the net profit with the number of shares issued for this financial year of 179.021 billion. As at December 31, 2007, basic and diluted earnings per share were calculated by dividing the net profit with the weighted average number of shares issued for this financial year of 179.700 billion. As at December 31, 2008, 2009 and 2010 respectively, basic and diluted earnings per share were calculated by dividing the net profit with the number of shares issued for each of these financial years of 183.021 billion.
- (3) As at December 31, 2006, cash flows from operating activities per share were calculated by dividing the cash flows from operating activities with the number of shares issued for this financial year of 179.021 billion. As at December 31, 2007, cash flows from operating activities per share were calculated by dividing the cash flows

from operating activities with the weighted average number of shares issued for this financial year of 179.700 billion. As at December 31, 2008, 2009 and 2010 respectively, cash flows from operating activities per share were calculated by dividing the cash flows from operating activities with the number of shares issued for each of these financial years of 183.021 billion.

- (4) As at December 31, 2006, net asset per share were calculated by dividing the shareholders' equity with the number of shares issued for each of these financial years of 179.021 billion. As at December 31, 2007, 2008, 2009 and 2010 respectively, net asset per share was calculated by dividing the shareholders' equity with the number of shares issued for each of these financial years of 183.021 billion.
- (5) Each ADS represents 100 H Shares. The basic and diluted earnings per ADS were calculated with the same method as that used for the calculation of the basic and diluted earnings per share. The cash flows from operating activities per ADS were calculated with the same method as that used for the calculation of the basic and diluted earnings per share. Net assets per ADS attributable to owners of the parent company per ADS were calculated with the same method as that used for the calculation of the net assets per share attributable to owners of the parent company.

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**Risk Factors**

Our business is primarily subject to various changing competitive, economic and social conditions in the PRC. Such changing conditions entail certain risks, which are described below.

**Risks Related to Macro-economic Conditions**

The global financial crisis and economic downturn have adversely affected economies and businesses around the world, including in China. Due to the global economical downturn and a decrease in consumer demand, the economic situation in China was severe in the second half of 2008 and in 2009. This change in the macro-economic conditions had an adverse impact on our business and operations. In 2010, China's economy improved significantly, but the risk of inflation became more prominent. The uncertainties in the global financial and economic environment still exist and oil and gas prices can be very volatile, influenced by changes in supply and demand. These uncertainties may impact China's macro-economic environment, which in turn may affect our results of operations, financial condition and business prospect.

**Risks Related to Competition**

The oil, gas and petrochemicals industries are highly competitive. There is strong competition, both within the oil and gas industry and with other industries, in supplying the fuel needs of commercial, industrial and residential markets. Competition puts pressure on product prices, affects oil products marketing and requires continuous management focus on reducing unit costs and improving efficiency. The implementation of our growth strategy requires continued technological advances and innovation, including advances in exploration, production, refining, petrochemicals manufacturing technology and advances in technology related to energy usage. Our performance could be impeded if competitors developed or acquired intellectual property rights to technology that we required or if our innovation lagged the industry.

The eastern and southern regions of China have a higher demand for refined products and chemical products than the western and northern regions. Most of our refineries and chemical plants are located in the western and northern regions of China. We incur relatively higher transportation costs for delivery of our refined products and chemical products to certain areas of the eastern and southern regions from our refineries and chemical plants in western and northern China. While we continue to expand the sales of these products in the eastern and southern regions of China, we face strong competition from China Petroleum and Chemical Corporation, or Sinopec, and China National Offshore Oil Corporation, or CNOOC. As a result, we expect that we will continue to encounter difficulty in increasing our sales of refined products and chemical products in these regions.

**Risks Related to Governmental, Legal and Political Factors**

We are subject to various political, legal and regulatory environments in foreign countries where we operate, some of which are known to be unstable and differ in certain significant respects from those prevailing in developed countries. In addition, CNPC, our controlling shareholder, may choose to undertake, without our involvement, overseas investments and operations in the oil and gas industry, including exploration and production of oil and gas, refining and Liquefied Natural Gas (LNG) projects. CNPC's overseas asset portfolio includes oil and gas development projects in Iran, Sudan, Cuba and Syria, which are on the sanction list published and administrated by the Office of Foreign Assets Control, or OFAC, of the U.S. Department of Treasury. Certain U.S.-based investors may not wish to invest, and have proposed or adopted divestment or similar initiatives regarding investments, in companies that do business with countries on OFAC's sanction list. These investors may not wish to invest, and may divest their investment, in us



because of our relationship with CNPC and its investments and activities in those OFAC sanctioned countries. As a result, the trading prices of our ADSs may be materially and adversely affected.

Our operations, like those of other PRC oil and gas companies, are subject to extensive regulations and control by the PRC government. These regulations and control affect many material aspects of our operations, such as exploration and production licensing, industry-specific and product-specific taxes and fees and environmental and safety standards. As a result, we may face significant constraints on our ability to implement our business strategies, to develop or expand our business operations or to maximize our profitability. Our business may also be adversely affected by future changes in certain policies of the PRC government with respect to the oil and gas industry. For

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example, since March 26, 2006, we have been subject to a crude oil special gain levy imposed by the PRC government. On June 1, 2010, the Ministry of Finance and the State Administration of Taxation jointly promulgated a new resource tax regulation for the extraction of crude oil and natural gas. Pursuant to this regulation, effective from June 1, 2010, the resource tax payable by the resource tax payers in connection with their extraction of crude oil and natural gas in Xinjiang shall be collected based on value instead of volume. As of December 1, 2010, such new resource tax regulation applied to 12 provinces and regions in western China. In the future, if the Ministry of Finance and the State Administration of Taxation promulgate similar regulations applicable to any other provinces or regions in China, our results of operations may be adversely affected.

Currently, the PRC government must approve the construction and major renovation of significant refining and petrochemical facilities as well as the construction of significant crude oil, natural gas and refined product pipelines and storage facilities. We presently have several significant projects pending approval from the relevant government authorities and will need approvals from the relevant government authorities in connection with many other significant projects. We do not have control over the timing and outcome of the final project approvals.

Because PRC laws, regulations and legal requirements dealing with economic matters are relatively new and continue to evolve, and because of the limited volume of published judicial interpretations and the non-binding nature of prior court decisions, the interpretation and enforcement of these laws, regulations and legal requirements involve some uncertainty. Because the PRC Company Law is different in certain important aspects from company laws in the United States, Hong Kong and other common law jurisdictions, and because the PRC securities laws and regulations are still at an early stage of development, you may not enjoy shareholders' protections that you may be entitled to in other jurisdictions.

## **Risks Related to Controlling Shareholder**

As of December 31, 2010, CNPC beneficially owned approximately 86.292% of our share capital. This ownership percentage enables CNPC to elect our entire board of directors without the concurrence of any of our other shareholders. Accordingly, CNPC is in a position to:

- control our policies, management and affairs;

- subject to applicable PRC laws and regulations and provisions of our articles of association, affect the timing and amount of dividend payments and adopt amendments to certain of the provisions of our articles of association; and

- otherwise determine the outcome of most corporate actions and, subject to the regulatory requirements of the jurisdictions in which our shares are listed, cause our company to effect corporate transactions without the approval of minority shareholders.

CNPC's interests may sometimes conflict with those of some or all of our minority shareholders. We cannot assure you that CNPC, as our controlling shareholder, will always vote its shares in a way that benefits our minority shareholders.

In addition to its relationship with us as our controlling shareholder, CNPC by itself or through its affiliates also provides us with certain services and products necessary for our business activities, such as construction and technical services, production services and supply of material services. The interests of CNPC and its affiliates as providers of these services and products to us may conflict with our interests.

## **Risks Related to Pricing and Exchange Rate**

Our operations are affected by the volatility of prices for crude oil, refined products and natural gas. We and Sinopec set our crude oil median prices monthly based on the Singapore trading prices for crude oil. On December 18, 2008, the PRC government further modified this mechanism by linking the domestic prices of refined oil products to a number of factors, including international market prices, average domestic processing cost, tax, selling expenses and appropriate profit margin. Historically, international prices for crude oil and refined products have fluctuated widely in response to changes in many factors, such as global and regional economic and political developments, and global and regional supply and demand for crude oil and refined products. We do not

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have, and will not have, control over the factors affecting international prices for crude oil and refined products. A decline in crude oil prices will reduce our crude oil revenues derived from external customers. If crude oil prices remain at a low level for a prolonged period, our company has to determine and estimate whether our oil and gas assets may suffer impairment losses and, if so, the amount of the impairment losses. An increase in crude oil prices may, however, increase the production costs of refined products. In addition, a decline in refined products prices will reduce our revenue derived from refining operations. An increase in the refined products prices, however, will increase the production costs of chemical products which use refined products as raw materials.

In addition to the adverse effect on our revenues, margins and profitability from any future fall in oil and natural gas prices, a prolonged period of low prices or other indicators would lead to a review for impairment of our oil and gas assets and refining and chemicals assets. Such impairment could have a significant effect on our results of operations in the period in which it occurs.

We receive most of our revenues in Renminbi. A portion of our Renminbi revenues must be converted into other currencies to meet our foreign currency obligations. The existing foreign exchange limitations under the PRC laws and regulations could affect our ability to obtain foreign exchange through debt financing, or to obtain foreign exchange for capital expenditures. The exchange rate of Renminbi against U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. On July 21, 2005, the PRC government introduced a floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of foreign currencies. From July 21, 2005 to December 31, 2010, the value of the Renminbi has appreciated significantly against the U.S. dollar. The appreciation of Renminbi against U.S. dollar may cause a decrease in our exportation of our products.

## **Risks Related to Environmental Protection and Hazards**

Compliance with changes in laws, regulations and obligations relating to climate change or environmental protection could result in substantial capital expenditure and reduced profitability from changes in operating costs.

A number of provinces and regions in which our oil and gas exploration and production activities are located have promulgated environment protection regulations, which set forth specific abandonment and disposal processes for oil and gas exploration and production activities. We have established standard abandonment procedures, including plugging all retired wells, dismantling all retired metering stations and other related facilities and performing site restoration, in response to the issuance of these provincial and regional regulations. As to the oil and gas properties that were retired prior to the issuance of such regulations, we believe that the activities required to retire these assets need not to be performed to the level that would be in compliance with the regulations and our internal policy. The costs associated with these activities have not been included in the asset retirement obligations accrued since the issuance of these regulations. However, the governments of these provinces and regions could enact new regulations, amend the current regulations or retroactively apply the relevant requirements. If any of these regulations is determined to be applicable to assets other than those that were retired subsequent to the dates that these regulations were issued, we could be required to incur substantial costs associated with such asset retirement obligations. In addition, there may be additional provincial governments to enact new regulations that may require our company to perform additional asset retirement activities related to the assets retired before the establishment of our company's internal policy and areas in which these assets were or continue to be located. Such potential new regulations could increase our asset retirement costs.

Exploring for, producing and transporting crude oil and natural gas and producing and transporting refined products and chemical products involve many hazards. These hazards may result in:

fires;

explosions;

spills;

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blow-outs; and

other unexpected or dangerous conditions causing personal injuries or death, property damage, environmental damage and interruption of operations.

Some of our oil and natural gas fields are surrounded by residential areas or located in areas where natural disasters, such as earthquakes, floods and sandstorms, tend to occur more frequently than in other areas. As with many other companies around the world that conduct similar businesses, we have experienced accidents that have caused property damage and personal injuries and death.

Significant operating hazards and natural disasters such as earthquake, tsunami and health epidemics may cause partial interruptions to our operations and property and environmental damage that could have an adverse impact on our financial condition.

We maintain insurance coverage against some, but not all, potential losses. We may suffer material losses resulting from uninsurable or uninsured risks or insufficient insurance coverage.

### **Risks Related to Oil and Gas Reserves**

The crude oil and natural gas reserve data in this annual report are only estimates. The reliability of reserve estimates depends on a number of factors, assumptions and variables, such as the quality and quantity of our technical and economic data and the prevailing oil and gas prices applicable to our production, some of which are beyond our control and may prove to be incorrect over time. Results of drilling, testing and production after the date of the estimates may require substantial upward or downward revisions in our reserve data. Our actual production, revenues and expenditures with respect to our reserves may differ materially from these estimates because of these revisions.

We are actively pursuing business opportunities outside China to supplement our domestic resources. For instance, we acquired certain overseas crude oil and natural gas assets from CNPC. We cannot assure you, however, that we can successfully locate sufficient alternative sources of crude oil supply or at all due to the complexity of the international political, economic and other conditions. If we fail to obtain sufficient alternative sources of crude oil supply, our results of operations and financial condition may be materially and adversely affected.

### **Risks Related to New Construction or Expansion**

We are currently constructing new, and expanding some existing, refinery and petrochemical facilities and constructing several natural gas and oil pipelines, which could require substantial capital expenditures and investments. We cannot assure you that the cash generated by our operations will be sufficient to fund these development plans or that our actual future capital expenditures and investments will not significantly exceed our current planned amounts. If either of these conditions arise, we may have to seek external financing to satisfy our capital needs. Our inability to obtain sufficient funding for our development plans could adversely affect our business, financial condition and results of operations.

### **Risks Related to Effectiveness of Internal Control Over Financial Reporting**

SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring every public company in the United States to include a management report on such company's internal control over financial reporting in its annual report, which contains management's assessment of the effectiveness of the company's internal control over financial reporting. Although our management concluded that our internal control over our financial reporting for the

fiscal year ended December 31, 2010 was effective, we may discover other deficiencies in the course of our future evaluation of our internal control over our financial reporting and may be unable to remediate such deficiencies in a timely manner. If we fail to maintain the adequacy of our internal control over financial reporting, we may not be able to conclude that we have effective internal control over financial reporting on an ongoing basis, in accordance with the Sarbanes-Oxley Act. Moreover, effective internal control is necessary for us to produce reliable financial reports and is important to prevent fraud. As a result, our failure to achieve and maintain effective internal control over financial reporting could result in the loss of investor confidence in the

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reliability of our financial statements, which in turn could harm our business and negatively impact the trading prices of our ADSs, H Shares or A Shares.

See also Item 4 Information on the Company Regulatory Matters , Item 5 Operating and Financial Review and Prospects , Item 8 Financial Information and Item 11 Quantitative and Qualitative Disclosures About Market Risk .

**ITEM 4 INFORMATION ON THE COMPANY**

**Introduction**

**History and Development of Our Company**

Our legal name is and its English translation is PetroChina Company Limited.

We are the largest oil and gas producer and seller occupying a leading position in the oil and gas industry in the PRC and one of the largest companies in the world. We are engaged in a broad range of petroleum and natural gas related activities, including the exploration, development, production and sale of crude oil and natural gas; the refining of crude oil and petroleum products, as well as the production and marketing of basic petrochemical products, derivative chemical products and other chemical products; the marketing and trading of refined oil products; and the transmission of natural gas, crude oil and refined oil products as well as the sale of natural gas.

Currently, substantially all of our crude oil and natural gas reserves and production-related assets are located in China. Our exploration, development and production activities commenced in the early 1950s. Over more than five decades, we have conducted crude oil and natural gas exploration activities in many regions of China. We commenced limited refining activities in the mid-1950s. Our chemicals operations commenced in the early 1950s. In the early 1960s, we began producing ethylene. Our natural gas transmission and marketing activities commenced in Sichuan in southwestern China in the 1950s.

We have increased our efforts to pursue attractive business opportunities outside China as part of our business growth strategy to utilize both domestic and international resources to strengthen our competitiveness. Since 2005, we have acquired interests in various oil and natural gas assets in several countries, which significantly expanded our overseas operations and effectively increased our oil and gas reserves and production volumes. We are currently assessing the feasibility of making further investments in international oil and gas markets. At the same time, we have been gradually increasing the proportion of the imported crude oil. In the year ended December 31, 2010, we imported approximately 359.1 million barrels of crude oil, as compared to 326.5 million barrels and 281.1 million barrels of crude oil in the years ended December 31, 2009 and 2008, respectively.

We were established as a joint stock company with limited liability under the Company Law of the PRC on November 5, 1999 as part of a restructuring in which CNPC transferred to us most of the assets and liabilities of CNPC relating to its exploration and production, refining and marketing, chemicals and natural gas businesses.

On April 7, 2000, we completed a global offering of H Shares and ADSs. In September 2005, we completed a follow-on offering of over 3 billion H Shares at the price of HK\$6.00 per share. In October 2007, we issued 4 billion A Shares at an issue price of RMB 16.7 per share. The A Shares were listed on the Shanghai Stock Exchange on November 5, 2007. As of December 31, 2010, CNPC beneficially owned 157,932,289,259 shares, which include 167,692,000 H Shares indirectly held by CNPC through Fairy King Investments Limited, an overseas wholly owned subsidiary of CNPC, representing approximately 86.292% of the share capital of PetroChina.

For a description of our principal subsidiaries, see Note 19 to our consolidated financial statements.



Our headquarters are located at 9 Dongzhimen North Street, Dongcheng District, Beijing, China, 100007, and our telephone number at this address is (86-10) 5998-6223. Our website address is [www.petrochina.com.cn](http://www.petrochina.com.cn). The information on our website is not part of this annual report.

Our agent for service of process in the United States is CT Corporation System, located at 111 Eighth Avenue, New York, New York 10011.

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***Our Corporate Organization Structure***

The following chart illustrates our corporate organization structure as of December 31, 2010.

- (1) Indicates approximate shareholding.
- (2) Indicates approximate shareholding, including the 167,692,000 H Shares indirectly held by CNPC as of December 31, 2010 through Fairy King Investments Limited, a wholly owned overseas subsidiary of CNPC.
- (3) Includes PetroChina Planning & Engineering Institute, PetroChina Exploration & Development Research Institute, IT Service Center, PetroChina Petrochemical Research Institute and several other companies.

***Acquisitions***

On November 25, 2010, we entered into an acquisition agreement with China National United Oil Corporation, a subsidiary of CNPC, for the acquisition from China National United Oil Corporation of the 4.356% equity interest in PetroChina Fuel Oil Company Limited for a cash consideration of approximately RMB390 million. As at the end of the reporting period, the transaction has not been completed.

In addition, we have launched a series of overseas acquisitions, for example:

In January 2010, we, together with other partners, won the bidding in a tender for the Halfaya Oilfield project. In accordance with the requirements, the partners formed a joint operating company, and entered into a contract for the development and production in Iraq's Halfaya Oilfield with a term of 20 years. Pursuant to the contract, we will own 37.5% participating interest in the Halfaya Oilfield and will act as one of the operators for the development of the Halfaya Oilfield.

In February 2010, PetroChina International Investment Company Limited, a subsidiary of our company, and Canada's Athabasca Oil Sands Corp. ( AOSC ) entered into a share purchase agreement, a joint venture agreement, a shareholder agreement, a loan agreement and a put/call option agreement for the acquisition of the oil sand asset projects of AOSC.

In 2010, CS CSG (Australia) Pty Ltd. (the Joint Venture Company ) was formed as a joint venture company by PetroChina International Investment Company Limited (a wholly owned subsidiary of the company) and Shell Energy Holdings Australia Ltd. PetroChina International Investment Company Limited holds 50% equity interest in the Joint Venture Company. On August 23, 2010, the Joint Venture Company acquired 100% equity interest in Arrow Energy Limited for a total consideration of approximately 3.5 billion Australian Dollars ( AUD ) (approximately RMB 21,120 million), representing AUD4.70 per share of Arrow Energy in cash. The Joint Venture Company has now been renamed as Arrow Energy Holdings Pty Ltd .

On January 31, 2011, PetroChina International (London) Company Limited ( PCI ), a wholly owned subsidiary of the company, has submitted a conditional binding and irrevocable offer to INEOS European Holdings Limited and INEOS Investments International Limited (together, the Sellers ), two wholly owned subsidiaries of British petrochemical conglomerate INEOS Group Holdings plc, for the establishment of joint ventures in Europe

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engaged in trading and refining activities. After the above offer was made, PCI and the Sellers have entered into a number of documents, including the acquisition agreement and the reorganization agreement which were concluded on April 8, 2011. Pursuant to the acquisition agreement, PCI will acquire 50.1% of all the issued and outstanding shares in the capital of INEOS Refining Limited and 49.9% of all the issued and outstanding shares in the capital of INEOS Refining II Limited. The total cash consideration payable by PCI is US\$1,015 million. The proposed transaction is subject to a number of closing conditions.

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**Table of Contents****Exploration and Production**

We engage in crude oil and natural gas exploration, development and production. Substantially all of our total estimated proved crude oil and natural gas reserves are located in China, principally in northeastern, northern, southwestern and northwestern China. In the year ended December 31, 2010, the crude oil and natural gas produced by us at overseas regions accounted for 10.3% and 3.8% of our total production of crude oil and natural gas, respectively.

We currently hold exploration and exploitation licenses for oil and gas (including coal seam gas) covering a total area of approximately 458.4 million acres, consisting of the exploration licenses covering a total area of approximately 436.4 million acres and the exploitation licenses covering a total area of approximately 22.0 million acres. To further develop our crude oil and natural gas businesses, we have obtained oil and gas exploration licenses covering an area of 41.82 million acres in South China Sea. The crude oil and natural gas exploration in that area is currently under way.

The following table sets forth the financial and operating data of our exploration and production segment for each of the years ended December 31, 2008, 2009 and 2010:

|   | <b>Year Ended December 31,</b> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <b>2008</b>                    | <b>2009</b> | <b>2010</b> |
| Revenue (RMB in millions)                 | 626,367                        | 405,326     | 544,884     |
| Income from operations (RMB in millions)  | 240,470                        | 105,019     | 153,703     |
| Proved developed and undeveloped reserves |                                |             |             |
| Crude oil (million barrels)               | 11,221.3                       | 11,262.6    | 11,277.7    |
| Natural gas (Bcf)                         | 61,189.2                       | 63,243.8    | 65,502.7    |
| Production                                |                                |             |             |
| Crude oil (million barrels)               | 870.7                          | 843.5       | 857.7       |
| Natural gas for sale (Bcf)                | 1,864.2                        | 2,112.2     | 2,221.2     |

**Reserves**

Our estimated proved reserves as of December 31, 2010 totaled approximately 11,277.7 million barrels of crude oil and approximately 65,502.7 billion cubic feet of natural gas. As of December 31, 2010, proved developed reserves for crude oil and natural gas accounted for 67.4% and 47.5% of our total proved crude oil and natural gas reserves, respectively. Total proved hydrocarbon reserves on a barrels-of-oil equivalent basis increased by 1.8% from approximately 21,803.2 million barrels-of-oil equivalent as of December 31, 2009 to approximately 22,194.8 million barrels-of-oil equivalent as of December 31, 2010, taking account of our overseas crude oil reserves of 788.6 million barrels and overseas natural gas reserves of 947.4 billion cubic feet, totaling 946.5 million barrels-of-oil equivalent. Natural gas as a percentage of total proved hydrocarbon reserves increased from 48.3% as of December 31, 2009 to 49.2% as of December 31, 2010.

We prepared our reserve estimates as of December 31, 2008, 2009 and 2010 on the basis of reports prepared by two independent engineering consultants, DeGolyer and MacNaughton and Gaffney, Cline & Associates (Consultants) Pte Ltd. Our reserve estimates include only crude oil and natural gas which we believe can be reasonably produced within the current terms of our production licenses. See Regulatory Matters Exploration Licenses and Production Licenses for a discussion of our production licenses. Also see Item 3 Key Information Risk Factors for a discussion of the

uncertainty inherent in the estimation of proved reserves.

Our reserve data for 2009 and 2010 were prepared in accordance with the SEC's final rules on Modernization of Oil and Gas Reporting, which became effective on January 1, 2010 and for annual reports for accounting periods ending on or after December 31, 2009. The comparative information for 2008 is not restated.

***Internal Controls Over Reserves Estimates***

We have appointed a Reserve Assessment Directing Team (the RAD Team). The leader of the RAD Team is our Vice President in charge of our upstream business. We have established a special reserve management

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department in our exploration and production segment. Each of the officers and employees of that department has over 20 years' experience in oil industry and over 10 years' experience in SEC-guided reserve assessment. Many members of that department have national-level registered qualifications in reserve expertise. Each regional company has established a reserve management committee and a multi-disciplinary reserve study office. Mr. Wang Yongxiang, one of our technical experts, is in charge of the reserve estimation of the company. Mr. Wang is the head of the reserve estimate department under the company's exploration and production segment. Mr. Wang holds a master's degree in petroleum geology. He has over 25 years of working experience in oil and gas exploration and development. He has been working in reserve study and management for many years and is a state-certified reserve valuer. Mr. Wang has been the technical person primarily responsible for overseeing the preparation of the reserves estimates, oil and gas reserve estimation technology and management since 1999. The reserve study offices of the regional companies are responsible for the calculation of the newly discovered reserves and updating of the assessment of the existing reserves. The results of our oil and gas reserve assessment are subject to a two-level review by both the regional companies and our exploration and production company and the final examination and approval of the RAD Team.

In addition, we commissioned independent assessment firms to independently reassess our annually assessed proved reserves in accordance with relevant SEC rules. We disclose the proved reserves so assessed by the independent assessment firms pursuant to relevant SEC requirements.

### ***Third-Party Reserve Report***

We commissioned DeGolyer and MacNaughton, an independent petroleum engineering consulting firm based in the United States, to carry out an independent assessment of our reserves in China and certain other countries as of December 31, 2008, 2009 and 2010. DeGolyer and MacNaughton does not have any financial interest, including stock ownership, in our company. The fees of DeGolyer and MacNaughton are not contingent on the results of its evaluation.

Mr. Thomas C. Pence, a Vice President of DeGolyer and MacNaughton, is primarily responsible for the preparation of our reserve report. Mr. Thomas C. Pence is a petroleum engineer and a Registered Professional Engineer in the State of Texas. Mr. Thomas C. Pence is also a member of the International Society of Petroleum Engineers and has over 28 years of experience in oil and gas reservoir studies and evaluations.

We also commissioned Gaffney, Cline & Associates (Consultants) Pte Ltd, as independent reserve auditors, to carry out an independent assessment of our reserves estimation and valuation in certain countries such as Algeria, Chad and Kazakhstan as of December 31, 2008, 2009 and 2010. Gaffney, Cline & Associates (Consultants) Pte Ltd's senior partners, officers, and employees have no direct or indirect financial interest in either our company or our affiliated companies. Gaffney, Cline & Associates (Consultants) Pte Ltd's remuneration was not in any way contingent upon reported reserve estimates.

The reserve report of Gaffney, Cline & Associates (Consultants) Pte Ltd has been compiled under the supervision of Mr. David S. Ahye. Mr. Ahye is Gaffney, Cline & Associates (Consultants) Pte Ltd's regional director for the Asia Pacific region. He has over 30 years' experience in the petroleum industry and has managed numerous reserves certification audits. Mr. Ahye holds a Bachelor's Degree (Honors) in Chemical Engineering.

For detailed information about our net proved reserves estimates, please refer to the summary of the reports of DeGolyer and MacNaughton and Gaffney, Cline & Associates (Consultants) Pte Ltd filed hereto as exhibit 15.1 and exhibit 15.2 of this annual report.





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The following table sets forth our estimated proved reserves (including proved developed reserves and proved undeveloped reserves), proved developed reserves and proved undeveloped reserves of crude oil and natural gas as of December 31, 2008, 2009 and 2010.

|  | <b>Crude Oil</b><br><b>(Millions of barrels)</b> | <b>Natural Gas<sup>(1)</sup></b><br><b>(Bcf)</b> | <b>Combined<sup>(1)</sup></b><br><b>(BOE, in millions)</b> |
|--|--|--|--|
| <b>Proved developed and undeveloped reserves</b> |  |  |  |
| Reserves as of December 31, 2008                 | 11,221.3   | 61,189.2   | 21,419.5   |
| Revisions of previous estimates                  | (192.6)  | (1,272.8)  | (404.6)  |
| Extensions and discoveries                       | 1,004.5  | 5,439.6  | 1,911.1  |
| Improved recovery                                | 72.9   | 0  | 72.9   |
| Production for the year                          | (843.5)  | (2,112.2)  | (1,195.7)  |
| Reserves as of December 31, 2009                 | 11,262.6   | 63,243.8   | 21,803.2   |
| Revisions of previous estimates                  | (77.8)   | (1,455.8)  | (320.3)  |
| Extensions and discoveries                       | 876.9  | 5,935.9  | 1,866.2  |
| Improved recovery                                | 73.7   | 0  | 73.7   |
| Production for the year                          | (857.7)  | (2,221.2)  | (1,228.0)  |
| Reserves as of December 31, 2010                 | 11,277.7   | 65,502.7   | 22,194.8   |
| <b>Proved developed reserves</b>                 |  |  |  |
| As of December 31, 2008                          | 8,324.1  | 26,666.8   | 12,768.6   |
| As of December 31, 2009                          | 7,870.8  | 30,948.8   | 13,028.9   |
| As of December 31, 2010                          | 7,605.4  | 31,102.4   | 12,789.1   |
| <b>Proved undeveloped reserves</b>               |  |  |  |
| As of December 31, 2008                          | 2,897.2  | 34,522.4   | 8,650.9  |
| As of December 31, 2009                          | 3,391.8  | 32,295.0   | 8,774.3  |
| As of December 31, 2010                          | 3,672.3  | 34,400.3   | 9,405.7  |

(1) Represents natural gas remaining after field separation for condensate removal and reduction for flared gas.

Our proved undeveloped reserves were 9,405.7 million BOE in 2010, representing an increase of 631.4 million BOE comparing with 2009. The main changes in our proved undeveloped reserves in 2010 include (i) an increase of 1,811.8 million BOE to proved undeveloped reserves through extensions and discoveries as well as improved discoveries; and (ii) the conversion of 1,180.4 million BOE of proved undeveloped reserves into proved developed reserves. In 2010, we spent more than RMB 90,000 million on developing proved undeveloped reserves. The overwhelming majority of our proved undeveloped reserves are situated around the oil fields that are currently producing. A majority of our proved undeveloped reserves are already scheduled to be developed within the next five years. A portion of our natural gas proved undeveloped reserves are anticipated to take more than five years to be fully developed due to characteristics of the development projects and contractual or pipeline capacity restrictions.

The following tables set forth our crude oil and natural gas proved reserves and proved developed reserves by region as of December 31, 2008, 2009 and 2010.

|  | <b>2008</b>   | <b>As of December 31,<br/>2009</b> | <b>2010</b>   |
|--|---------------|------------------------------------|---------------|
|  | <b>Proved</b> | <b>Proved</b>                      | <b>Proved</b> |

|                           | <b>Developed<br/>and<br/>Undeveloped</b> | <b>Proved<br/>Developed</b> | <b>Developed<br/>and<br/>Undeveloped<br/>(Millions of barrels)</b> | <b>Proved<br/>Developed</b> | <b>Developed<br/>and<br/>Undeveloped</b> | <b>Proved<br/>Developed</b> |
|---------------------------|--|-----------------------------|--|-----------------------------|--|-----------------------------|
| <b>Crude oil reserves</b> |  |                             |  |                             |  |                             |
| Daqing                    | 3,548.0                                  | 2,912.0                     | 3,463.4  | 2,740.8                     | 3,178.1                                  | 2,533.4                     |
| Changqing                 | 1,624.5                                  | 1,256.7                     | 1,783.8  | 1,298.8                     | 1,946.8                                  | 1,310.5                     |
| Xinjiang                  | 1,302.6                                  | 1,106.6                     | 1,395.1  | 1,117.6                     | 1,418.6                                  | 1,109.6                     |

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|                              | 2008                                      |                     | As of December 31,<br>2009   |                     | 2010                                      |                     |
|------------------------------|---|---------------------|--|---------------------|---|---------------------|
|                              | Proved<br>Developed<br>and<br>Undeveloped | Proved<br>Developed | Proved<br>Developed<br>and<br>Undeveloped<br>(Millions of barrels) | Proved<br>Developed | Proved<br>Developed<br>and<br>Undeveloped | Proved<br>Developed |
| Other regions <sup>(1)</sup> | 4,746.2                                   | 3,048.8             | 4,620.3  | 2,713.6             | 4,734.2                                   | 2,651.9             |
| Total                        | 11,221.3                                  | 8,324.1             | 11,262.6   | 7,870.8             | 11,277.7                                  | 7,605.4             |

|   | 2008                                      |                     | As of December 31,<br>2009                         |                     | 2010                                      |                     |
|---|---|---------------------|--|---------------------|---|---------------------|
|   | Proved<br>Developed<br>and<br>Undeveloped | Proved<br>Developed | Proved<br>Developed<br>and<br>Undeveloped<br>(Bcf) | Proved<br>Developed | Proved<br>Developed<br>and<br>Undeveloped | Proved<br>Developed |
| <b>Natural gas<br/>reserves<sup>(2)</sup></b> |   |                     |  |                     |   |                     |
| Changqing                                     | 19,261.7                                  | 6,901.6             | 20,363.2   | 9,884.4             | 21,244.4                                  | 10,853.4            |
| Tarim   | 15,516.4                                  | 7,722.7             | 16,892.1   | 7,758.3             | 19,147.7                                  | 7,822.9             |
| Sichuan                                       | 11,285.4                                  | 4,030.4             | 11,177.3   | 4,219.0             | 10,512.5                                  | 2,814.8             |
| Other regions <sup>(1)</sup>                  | 15,125.7                                  | 8,012.1             | 14,811.2   | 9,087.1             | 14,598.1                                  | 9,611.3             |
| Total   | 61,189.2                                  | 26,666.8            | 63,243.8   | 30,948.8            | 65,502.7                                  | 31,102.4            |

(1) Represents other oil regions in China and our overseas oil and gas fields as a result of our acquisition of overseas assets.

(2) Represents natural gas remaining after field separation for condensate removal and reduction for flared gas.

**Exploration and Development**

We are currently conducting exploration and development efforts in 12 provinces, two municipalities under the direct administration of the central government and three autonomous regions in China as well as in certain regions of other countries. We believe that we have more extensive experience in the exploration and development of crude oil and natural gas than any of our principal competitors in China.

The following table sets forth the number of wells we drilled, or in which we participated, and the results thereof, for the periods indicated.

| Year |  | Daqing | Xinjiang | Changqing | Others <sup>(1)</sup> | Total  |
|------|--|--------|----------|-----------|-----------------------|--------|
| 2008 | <b>Net exploratory wells drilled<sup>(2)</sup></b> | 234    | 162      | 583       | 669                   | 1,648  |
|      | Crude oil  | 71     | 72       | 207       | 287                   | 637    |
|      | Natural gas  | 1      | 15       | 26        | 50                    | 92     |
|      | Dry <sup>(3)</sup>                                 | 162    | 75       | 350       | 332                   | 919    |
|      | <b>Net development wells drilled<sup>(2)</sup></b> | 4,238  | 1,887    | 5,079     | 3,996                 | 15,200 |
|      | Crude oil  | 4,223  | 1,868    | 4,469     | 3,487                 | 14,047 |
|      | Natural gas  | 4      | 18       | 528       | 456                   | 1,006  |
|      | Dry <sup>(3)</sup>                                 | 11     | 1        | 82        | 53                    | 147    |
| 2009 | <b>Net exploratory wells drilled<sup>(2)</sup></b> | 533    | 218      | 1,019     | 1,065                 | 2,835  |
|      | Crude oil  | 297    | 140      | 540       | 481                   | 1,458  |
|      | Natural gas  | 9      | 9        | 148       | 170                   | 336    |
|      | Dry <sup>(3)</sup>                                 | 227    | 69       | 331       | 414                   | 1,041  |
|      | <b>Net development wells drilled<sup>(2)</sup></b> | 4,934  | 681      | 7,421     | 2,238                 | 15,274 |
|      | Crude oil  | 4,923  | 674      | 6,808     | 1,626                 | 14,031 |
|      | Natural gas  | 1      | 7        | 480       | 584                   | 1,072  |
|      | Dry <sup>(3)</sup>                                 | 10     | 0        | 133       | 28                    | 171    |
| 2010 | <b>Net exploratory wells drilled<sup>(2)</sup></b> | 157    | 169      | 680       | 634                   | 1,640  |
|      | Crude oil  | 146    | 131      | 431       | 342                   | 1,050  |
|      | Natural gas  | 1      | 1        | 100       | 61                    | 163    |
|      |  | 23     |          |           |                       |        |

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| Year   | Daqing       | Xinjiang     | Changqing    | Others <sup>(1)</sup> | Total         |
|--|--------------|--------------|--------------|-----------------------|---------------|
| Dry <sup>(3)</sup>                                 | 10           | 37           | 149          | 231                   | 427           |
| <b>Net development wells drilled<sup>(2)</sup></b> | <b>5,073</b> | <b>1,323</b> | <b>7,754</b> | <b>3,477</b>          | <b>17,627</b> |
| Crude oil  | 5,024        | 1,312        | 7,106        | 3,083                 | 16,525        |
| Natural gas  | 27           | 11           | 542          | 348                   | 928           |
| Dry <sup>(3)</sup>                                 | 22           | 0            | 106          | 46                    | 174           |

(1) Represents the Liaohe, Jilin, Huabei, Dagang, Sichuan, Tarim, Tuha, Qinghai, Jidong, Yumen and other oil regions.

(2) Net wells refer to the wells after deducting interests of others. No third parties own any interests in any of our wells.

(3) Dry wells are wells with insufficient reserves to sustain commercial production.

We had 627 wells in the process of being drilled and 4,919 wells with multiple completions as of December 31, 2010.

**Oil-and-Gas Properties**

The following table sets forth our interests in developed and undeveloped acreage by oil region and in productive crude oil and natural gas wells as of December 31, 2010.

| Oil Region                   | Productive Wells <sup>(1)</sup> |             | Acreage <sup>(1)</sup> |             |             |             |
|------------------------------|---------------------------------|-------------|------------------------|-------------|-------------|-------------|
|                              | Crude Oil                       | Natural Gas | Developed              |             | Undeveloped |             |
|                              |                                 |             | Crude Oil              | Natural Gas | Crude Oil   | Natural Gas |
| (Thousands of acres)         |                                 |             |                        |             |             |             |
| Daqing                       | 56,819                          | 212         | 907.6                  | 86.4        | 779.7       | 111.5       |
| Changqing                    | 32,923                          | 4,722       | 636.0                  | 2,428.7     | 434.0       | 2,558.4     |
| Xinjiang                     | 22,940                          | 139         | 309.4                  | 57.7        | 158.7       | 21.5        |
| Other regions <sup>(2)</sup> | 59,585                          | 3,832       | 1,350.0                | 763.6       | 750.0       | 908.8       |
| Total                        | 172,267                         | 8,905       | 3,203.0                | 3,336.4     | 2,122.4     | 3,600.2     |

(1) Includes all wells and acreage in which we have an interest. No third parties own any interests in any of our wells or acreage.

(2) Represents the Liaohe, Jilin, Huabei, Dagang, Sichuan, Tarim, Tuha, Qinghai, Jidong and Yumen and other oil regions.

**Production**

The following table sets forth our historical average net daily crude oil and natural gas production by region and our average sales price for the periods ended December 31, 2008, 2009 and 2010.

|   | For the Year Ended<br>December 31, |         |         | % of<br>2010<br>Total |
|---|------------------------------------|---------|---------|-----------------------|
|   | 2008                               | 2009    | 2010    |                       |
| <b>Crude oil production<sup>(1)</sup></b>                                 |                                    |         |         |                       |
| (thousands of barrels per day, except percentages or otherwise indicated) |                                    |         |         |                       |
| Daqing  | 813.2                              | 806.2   | 805.6   | 34.3                  |
| Changqing   | 279.8                              | 318.1   | 369.3   | 15.7                  |
| Xinjiang  | 246.9                              | 220.5   | 220.5   | 9.4                   |
| Other <sup>(2)</sup>  | 1,039.1                            | 966.2   | 954.3   | 40.6                  |
| Total   | 2,379.0                            | 2,311.0 | 2,349.7 | 100                   |
| Annual production (million barrels)                                       | 870.7                              | 843.5   | 857.7   |                       |
| Average sales price (US\$ per barrel)                                     | 87.55                              | 53.90   | 72.93   |                       |
|   | 24                                 |         |         |                       |

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|   | <b>For the Year Ended<br/>December 31,</b> |             |             | <b>% of<br/>2010<br/>Total</b> |
|---|--|-------------|-------------|--------------------------------|
|   | <b>2008</b>                                | <b>2009</b> | <b>2010</b> |                                |
| <b>Natural gas production<sup>(1)(3)</sup></b>                              |  |             |             |                                |
| (millions of cubic feet per day, except percentages or otherwise indicated) |  |             |             |                                |
| Tarim   | 1,564.1                                    | 1,650.3     | 1,674.2     | 27.5                           |
| Changqing   | 1,024.5                                    | 1,434.1     | 1,579.8     | 26.0                           |
| Sichuan   | 1,364.6                                    | 1,381.4     | 1,387.2     | 22.8                           |
| Other <sup>(4)</sup>  | 1,140.1                                    | 1,320.9     | 1,444.2     | 23.7                           |
| Total   | 5,093.3                                    | 5,786.7     | 6,085.4     | 100                            |
| Annual production (Bcf)   | 1,864.2                                    | 2,112.2     | 2,221.2     |                                |
| Average sales price (US\$ per Mcf)  | 4.72                                       | 4.78        | 5.54        |                                |

- (1) Production volumes for each region include our share of the production from all of our cooperative projects with foreign companies in that region.
- (2) Represents production from the Liaohe, Jilin, Huabei, Dagang, Tarim, Tuha, Qinghai, Jidong, Yumen and other oil regions and our share of overseas production as a result of our acquisition of overseas assets.
- (3) Represents production of natural gas for sale.
- (4) Represents production from the Daqing, Qinghai, Tuha, Xinjiang, Liaohe, Huabei, Dagang, Jilin, Jidong, Yumen and other oil and gas regions and our share of overseas production as a result of our acquisition of overseas assets.

In 2010, we supplied a substantial majority of our total crude oil sales to our refineries. We entered into a crude oil mutual supply framework agreement with Sinopec on January 12, 2011 for the supply of crude oil to each other's refineries in 2011. Under this agreement, we agreed in principle to supply 5.63 million tons of crude oil to Sinopec. For the years ended December 31, 2008, 2009 and 2010, the average lifting costs of our crude oil and natural gas production were US\$9.48 per BOE, US\$9.12 per BOE and US\$9.97 per BOE, respectively.

**Principal Oil and Gas Regions*****Daqing Oil Region***

The Daqing oil region, our largest oil and gas producing property, is located in the Songliao basin and covers an area of approximately one million acres. In 2008, 2009 and 2010, our crude oil production volume in the Daqing oil region was 813.2 thousand barrels per day, 806.2 thousand barrels per day and 805.6 thousand barrels per day, respectively. As of December 31, 2010, we produced crude oil from 20 fields in the Daqing oil region.

As of December 31, 2010, our proved crude oil reserves in the Daqing oil region were 3,178.1 million barrels, representing 28.2% of our total proved crude oil reserves. As of December 31, 2008 and 2009, the proved crude oil

reserves in our Daqing oil region were 3,548.0 million barrels and 3,463.4 million barrels, respectively. In 2010, the crude oil reserve-to-production ratio of the Daqing oil region was 10.8 years.

Because our oil fields in the Daqing oil region are relatively mature, the difficulty of extracting crude oil from these fields has increased in recent years and is likely to continue to increase gradually in the future. As a result, our lifting costs at these fields increased by 15.73% from US\$10.11 per barrel for the year ended December 31, 2009 to US\$11.70 per barrel for the year ended December 31, 2010. However, we have adopted a number of measures to control the increase in our lifting costs at these fields.

Daqing's crude oil has a low sulfur and high paraffin content. As many refineries in China, particularly those in northeastern China, are configured to refine Daqing crude oil, we have a stable market for the crude oil we produce in the Daqing oil region.



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***Xinjiang Oil Region***

The Xinjiang oil region is one of our four largest crude oil producing properties and is located in the Junggar basin in northwestern China. We commenced our operations in the Xinjiang oil region in 1951. The Xinjiang oil region covers a total area of approximately 900,000 acres.

As of December 31, 2010, our proved crude oil reserves in the Xinjiang oil region were 1,418.6 million barrels, representing 12.6% of our total proved crude oil reserves. In 2010, our oil fields in the Xinjiang oil region produced an average of 220.5 thousand barrels of crude oil per day, representing approximately 9.4% of our total daily crude oil production. In 2010, the crude oil reserve-to-production ratio at the Xinjiang oil region was 17.6 years.

***Sichuan Gas Region***

We began natural gas exploration and production in Sichuan in the 1950s. The Sichuan gas region covers a total area of approximately 2.3 million acres. The natural gas reserve-to-production ratio in the Sichuan gas region was approximately 20.8 years in 2010. As of December 31, 2010, we had 105 natural gas fields under development in the Sichuan gas region.

As of December 31, 2010, our proved natural gas reserves in the Sichuan gas region were 10,512.5 billion cubic feet, representing 16.0% of our total proved natural gas reserves and a decrease of 5.9% from 11,177.3 billion cubic feet as of December 31, 2009. In 2010, our natural gas production for sale in the Sichuan gas region reached 506.3 billion cubic feet, representing 22.8% of our total natural gas production for sale.

In 2007, we discovered significant natural gas reserves in the Guang'an field in the Sichuan gas region in our border expansion in that region. As of December 31, 2010, the Guang'an gas field had a proved natural gas reserve of 1,544.4 billion cubic feet. We have developed a broad range of technologies relating to natural gas exploration, production, pipeline systems and marketing activities tailored to local conditions in Sichuan.

***Changqing Oil and Gas Region***

The Changqing oil and gas region covers parts of Shaanxi Province and Gansu Province and the Ningxia and Inner Mongolia Autonomous Regions. As of December 31, 2010, our proved crude oil reserves in the Changqing oil region were 1,946.8 million barrels, representing 17.3% of our total proved crude oil reserves. In 2010, our crude oil production in the Changqing oil region were an average of 369.3 thousand barrels per day, representing approximately 15.7% of our total daily crude oil production. In 2010, the crude oil reserve-to-production ratio at the Changqing oil region was 14.4 years.

In the early 1990s, we discovered the Changqing gas region, which had total estimated proved natural gas reserves of 21,244.4 billion cubic feet as of December 31, 2010, representing 32.4% of our total proved natural gas reserves. In January 2001, we discovered the Sulige gas field in Changqing gas region, which had total estimated proved natural gas reserves of 9,315.7 billion cubic feet as of December 31, 2010. Sulige gas field is currently the largest gas field in China. In 2010, we produced 576.6 billion cubic feet of natural gas for sale in the Changqing oil and gas region, representing an increase of 10.2% from 523.4 billion cubic feet in 2009.

***Tarim Oil and Gas Region***

The Tarim oil and gas region is located in the Tarim basin in northwestern China with a total area of approximately 590,000 acres. The Kela 2 natural gas field, which we discovered in 1998 in the Tarim oil and gas region, had proved natural gas reserves of approximately 5,096.8 billion cubic feet as of December 31, 2010. As of December 31, 2010,

the proved natural gas reserves in the Tarim oil and gas region reached 19,147.7 billion cubic feet, representing 29.2% of our total proved natural gas reserves.

In 2010, we produced 611.1 billion cubic feet of natural gas for sale in the Tarim oil and gas region. We have completed the construction of the pipelines to deliver natural gas in the Tarim oil and gas region to the central and eastern regions of China where there is strong demand for natural gas transmitted through our West-East Gas Pipeline. See [Natural Gas and Pipeline Nature Gas Transmission Infrastructure](#) for a discussion of our West-East Gas Pipeline.

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We now operate 30 enterprises located in nine provinces, four autonomous regions and three municipalities to engage in refining of crude oil and petroleum products, as well as the production and marketing of basic petrochemical products, derivative chemical products and other chemical products.

The following table sets forth the financial and operating data of our refining and chemicals segment for each of the years ended December 31, 2008, 2009 and 2010:

|  | <b>Year Ended December 31,</b> |             |             |
|--|--------------------------------|-------------|-------------|
|  | <b>2008</b>                    | <b>2009</b> | <b>2010</b> |
| Revenue (RMB in millions)                                      | 560,729                        | 501,300     | 664,773     |
| Income/(loss) from operations (RMB in millions)                | (93,830)                       | 17,308      | 7,847       |
| Crude oil processed (million barrels)                          | 849.8                          | 828.6       | 903.9       |
| Crude oil primary distillation capacity (million barrels/year) | 941.7                          | 975         | 1,082.9     |
| Production of refined oil products (thousand tons)             | 73,968                         | 73,195      | 79,448      |

**Refining*****Refined Products***

We produce a wide range of refined products at our refineries. Some of the refined products are for our internal consumption and used as raw materials in our petrochemical operation. The table below sets forth production volumes for our principal refined products for each of the years ended December 31, 2008, 2009 and 2010.

| <b>Principal Product</b> | <b>Year Ended December 31,</b> |             |             |
|--------------------------|--------------------------------|-------------|-------------|
|                          | <b>2008</b>                    | <b>2009</b> | <b>2010</b> |
|                          | <b>(Thousand tons)</b>         |             |             |
| Diesel                   | 48,294                         | 48,828      | 53,745      |
| Gasoline                 | 23,465                         | 22,114      | 23,308      |
| Kerosene                 | 2,209                          | 2,253       | 2,395       |
| Lubricants               | 1,768                          | 1,401       | 1,607       |
| Fuel oil                 | 4,077                          | 3,057       | 4,131       |
| Naphtha                  | 7,226                          | 8,041       | 10,016      |

***Our Refineries***

Most of our refineries are strategically located close to our crude oil production and storage bases, along our crude oil and refined product transmission pipelines and/or railways, which provide our refineries with secure supplies of crude oil and facilitate our distribution of refined products to the domestic markets. In each of the years ended December 31, 2008, 2009 and 2010, our exploration and production operations supplied approximately 77%, 75.4% and 69.1%, respectively, of the crude oil processed in our refineries.



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The table below sets forth certain operating statistics regarding our refineries as of December 31, 2008, 2009 and 2010.

|   | As of December 31, |         |         |
|---|--------------------|---------|---------|
|   | 2008               | 2009    | 2010    |
| <b>Primary distillation capacity<sup>(1)</sup> (thousand barrels per day)</b> |                    |         |         |
| Lanzhou Petrochemical   | 212.6              | 212.6   | 212.6   |
| Dalian Petrochemical  | 415.0              | 415.0   | 415.0   |
| Fushun Petrochemical  | 186.2              | 236.9   | 236.9   |
| Dushanzi Petrochemical  | 121.5              | 202.4   | 202.4   |
| Other refineries  | 1,644.8            | 1,604.3 | 1,899.8 |
| Total   | 2,580.1            | 2,671.2 | 2,966.7 |
| <b>Refining throughput (thousand barrels per day)</b>                         |                    |         |         |
| Lanzhou Petrochemical   | 202.3              | 211.6   | 209.3   |
| Dalian Petrochemical  | 267.2              | 281.5   | 331.1   |
| Fushun Petrochemical  | 193.1              | 187.9   | 181.9   |
| Dushanzi Petrochemical  | 90.0               | 120.9   | 176.8   |
| Other refineries  | 1,569.4            | 1,468.3 | 1,577.3 |
| Total   | 2,322.0            | 2,270.2 | 2,476.4 |

(1) Represents the primary distillation capacity of crude oil and condensate.

In each of the years ended December 31, 2008, 2009 and 2010, the average utilization rate of the primary distillation capacity at our refineries was 94.9%, 87.7% and 91.3%, respectively. The average yield for our four principal refined products (gasoline, kerosene, diesel and lubricants) at our refineries was 65.8%, 65.4% and 66.3%, respectively, in the same periods. Yield represents the number of tons of a refined product expressed as a percentage of the number of tons of crude oil from which that product is processed. In each of the years ended December 31, 2008, 2009 and 2010, the yield for all refined products at our refineries was 92.7%, 93.1% and 93.5%, respectively.

Dalian Petrochemical, Fushun Petrochemical, Lanzhou Petrochemical and Dushanzi Petrochemical were our leading refineries in terms of both primary distillation capacity and refining throughput in 2010.

To maintain effective operations of our facilities and lower production costs, we have endeavored to achieve the most cost-efficient proportions of various types of crude oil in our refining process. We purchase a portion of our crude oil requirements from third-party international suppliers located in different countries and regions. As a result, in 2010, we purchased a small amount of crude oil, through independent suppliers, from Sudan, a country that is on the U.S. sanction list. The Sudanese crude oil we purchased was mingled with crude oil from other sources during the refining process.

**Chemicals**

Most of our chemical plants are near to our refineries and are also connected with the refineries by pipelines, providing additional production flexibility and opportunities for cost competitiveness. Our exploration and production and natural gas and pipeline operations supply substantially all of the hydrocarbon feedstock requirements for our chemicals operations.

**Table of Contents*****Our Chemical Products***

The table below sets forth the production volumes of our principal chemical products for each of the years ended December 31, 2008, 2009 and 2010.

|   | <b>Year Ended December 31,</b> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <b>2008</b>                    | <b>2009</b> | <b>2010</b> |
|   | <b>(Thousand tons)</b>         |             |             |
| <b>Basic petrochemicals</b>                     |                                |             |             |
| Propylene                                       | 3,152                          | 3,278       | 3,491       |
| Ethylene  | 2,676                          | 2,989       | 3,615       |
| Benzene   | 944                            | 1,022       | 1,247       |
| <b>Derivative petrochemicals</b>                |                                |             |             |
| Synthetic resin                                 | 4,100                          | 4,480       | 5,550       |
| Other synthetic fiber raw materials and polymer | 1,637                          | 1,471       | 1,985       |
| Synthetic rubber                                | 344                            | 420         | 619         |
| <b>Other chemicals</b>                          |                                |             |             |
| Urea  | 3,824                          | 3,973       | 3,764       |

We are one of the major producers of ethylene in China. We use the bulk of the ethylene we produce as a principal feedstock for the production of many chemical products, such as polyethylene. As of December 31, 2010, our annual ethylene production capacity was 3,710 thousand tons. Our production volume of ethylene increased by 20.9% from 2,989 thousand tons in 2009 to 3,615 thousand tons in 2010. The petrochemical ethylene projects at Fushun Petrochemical, Sichuan Petrochemical and Daqing Petrochemical have been approved by the National Development and Reform Commission and we are currently in the process of implementing these projects.

We produce a number of synthetic resin products, including polyethylene, polypropylene and ABS. As of December 31, 2010, our production capacities for polyethylene, polypropylene and ABS were 3,112 thousand tons, 2,899 thousand tons and 330 thousand tons, respectively. Currently, China imports significant volumes of these products to meet the domestic demand due to an inadequate supply of domestically produced polyethylene and polypropylene. We intend to increase the production, and improve the quality, of these products. We are building new production facilities with new technology for the production of these products in Daqing Petrochemical, Daqing Refining and Chemical, Fushun Petrochemical, Sichuan Petrochemical and other branch companies to meet this target.

***Marketing of Chemicals***

Our chemical products are distributed to a number of industries that manufacture components used in a wide range of applications, including automotive, construction, electronics, medical manufacturing, printing, electrical appliances, household products, insulation, packaging, paper, textile, paint, footwear, agriculture and furniture industries.



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The following table sets forth the sales volumes of our chemical products by principal product category for each of the years ended December 31, 2008, 2009 and 2010.

| Product                          | Year Ended December 31, |         |         |
|----------------------------------|-------------------------|---------|---------|
|                                  | 2008                    | 2009    | 2010    |
|                                  | (Thousand tons)         |         |         |
| <b>Derivative petrochemicals</b> |                         |         |         |
| Synthetic resin                  | 4,114.7                 | 4,458.3 | 5,431.4 |
| Synthetic fiber                  | 118.4                   | 135.2   | 140.5   |
| Synthetic rubber                 | 371.4                   | 492.0   | 628.6   |
| Intermediates                    | 6,154.6                 | 4,933.6 | 5,109.7 |
| <b>Other chemicals</b>           |                         |         |         |
| Urea                             | 4,393.2                 | 4,054.1 | 3,445.0 |

In each of the years ended December 31, 2008, 2009 and 2010, our capital expenditures for our refining and chemicals segment were RMB30,619 million, RMB42,558 million and RMB44,242 million, respectively. These capital expenditures were incurred primarily in connection with the expansion of our refining facilities, the upgrading of our product quality and the construction of large ethylene projects. In addition, we have also focused on enhancing our processing technologies and methods. These efforts have enabled us to improve the quality of refined products at our refineries, particularly that of gasoline and diesel. We believe that our refined products are capable of meeting product specification and environmental protection requirements as set by the PRC government.

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**Table of Contents****Marketing**

We engage in the marketing of refined products through 32 regional sales branch companies, three distribution branch companies, one lubricants branch company and one fuel oil company. These operations include the transportation and storage of the refined products, and the wholesale, retail and export of gasoline, diesel, kerosene, lubricant, paraffin, asphalt and other refined products. In addition, we have been actively developing international trade to enhance our influence in international oil market.

The following table sets forth the financial and operating data of our marketing segment for each of the years ended December 31, 2008, 2009 and 2010:

|   | <b>Year Ended December 31,</b> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <b>2008</b>                    | <b>2009</b> | <b>2010</b> |
| Revenue (RMB in millions)                                     | 778,141                        | 768,295     | 1,134,534   |
| Income from operations (RMB in millions)                      | 7,982                          | 13,265      | 15,956      |
| External sales volume of refined oil products (thousand tons) | 90,278                         | 101,253     | 120,833     |

We market a wide range of refined products, including gasoline, diesel, kerosene and lubricants, through an extensive network of sales personnel and independent distributors and a broad wholesale and retail distribution system across China. As of December 31, 2010, our marketing network consisted of:

Approximately 837 regional wholesale distribution outlets nationwide. Substantially all of these outlets are located in high demand areas such as economic centers across China, particularly in the coastal areas, along major railways and along the Yangtze River; and

17,996 service stations, consisting of 17,394 service stations owned and operated by us and 602 franchise service stations owned and operated by third parties.

The PRC government and other institutional customers, including railway, transportation and fishery operators, are our long-term purchasers of the gasoline and diesel that we produce. We sell gasoline and diesel to these customers at the supply prices for special customers published by the PRC government. See [Regulatory Matters Pricing Refined Products](#) for a discussion of refined product pricing.

The following table sets forth our refined product sales volumes for each of the years ended December 31, 2008, 2009 and 2010.

| <b>Product</b> | <b>Year Ended December 31,</b> |             |             |
|----------------|--------------------------------|-------------|-------------|
|                | <b>2008</b>                    | <b>2009</b> | <b>2010</b> |
|                | <b>(Thousand tons)</b>         |             |             |
| Diesel         | 56,081                         | 64,659      | 77,789      |
| Gasoline       | 29,399                         | 30,777      | 36,328      |
| Kerosene       | 4,798                          | 5,817       | 6,716       |
| Lubricants     | 2,003                          | 1,796       | 1,703       |

***Wholesale Marketing***

We sell refined products both directly and through independent distributors into various wholesale markets, as well as to utility, commercial, petrochemical, aviation, agricultural, fishery and transportation companies in China. Our gasoline and diesel sales also include the amount we transferred to our retail operations.

***Retail Marketing***

The weighted average sales volume of gasoline and diesel per business day at our service station network was 9.6 tons per service station in 2008, 10.1 tons per service station in 2009 and 11.0 tons per service station in 2010.

Capital expenditures for the marketing segment for the year ended December 31, 2010 amounted to RMB15,793 million, which were used mainly for the construction of sales network facilities including service stations and oil storage tanks.

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**Table of Contents****Natural Gas and Pipeline**

We are China's largest natural gas transporter and seller in terms of sales volume. We sell natural gas primarily to fertilizer and chemical companies, commercial users and municipal utilities owned by local governments. In addition, we also conduct the operation of crude oil and refined product transmission in the natural gas and pipeline segment.

The following table sets forth the financial and operating data of our natural gas and pipeline segment for each of the years ended December 31, 2008, 2009 and 2010:

|   | <b>As of December 31 or Year<br/>Ended December 31,</b> |             |             |
|---|---|-------------|-------------|
|   | <b>2008</b>   | <b>2009</b> | <b>2010</b> |
| Revenue (RMB in millions)                             | 63,315  | 77,658      | 117,043     |
| Income from operations (RMB in millions)              | 16,057  | 19,046      | 20,415      |
| Total length of natural gas pipelines (km)            | 24,037  | 28,595      | 32,801      |
| Total length of crude oil pipeline (km)               | 11,028  | 13,164      | 14,782      |
| Total length of refined oil products pipeline (km)    | 2,656   | 8,868       | 9,257       |
| Total volume of natural gas sold <sup>(1)</sup> (Bcf) | 1,802.8   | 2,105.1     | 2,225.2     |

(1) Represents the natural gas sold to third parties

**Our Principal Markets for Natural Gas**

In 2010, in addition to satisfying the demand of the northwestern, southwestern and northeastern regions of China where our gas fields are located, we sold our natural gas mainly to the northern, eastern and central regions of the PRC.

Sichuan Province and Chongqing Municipality are two of our principal markets for natural gas in southwest China. We supply natural gas to Sichuan Province and Chongqing Municipality from our exploration and production operations in the Sichuan oil and gas region. Beijing Municipality, Tianjin Municipality, Hebei Province and Shandong Province in northern China have a relatively high energy consumption levels. These areas are important markets for our natural gas transmission and marketing business. We supply natural gas to these areas primarily from the Changqing oil region through the Shaanxi to Beijing natural gas pipeline.

Shanghai Municipality, Jiangsu Province, Zhejiang Province and Anhui Province located in Yangtze River Delta of eastern China have become our significant natural gas markets. We supply natural gas to these areas primarily from the Tarim gas region.

We have entered into contracts to provide approximately 1,447.9 Bcf of natural gas to certain users in 2011. However, the committed quantity of supply may be adjusted by us and the users in the course of the performance of the contracts in light of the actual situation.

Each year, we must supply natural gas to customers subject to the government-formulated guidance supply plan first as required by the PRC government. We enter into natural gas supply contracts with those customers on the basis of

the amount of natural gas to be supplied according to the guidance supply plan for the following year's supply. Driven by environmental and efficiency concerns, the PRC government is increasingly encouraging industrial and residential use of natural gas to meet primary energy and environmental protection needs. The PRC government has adopted a number of laws and regulations to require municipal governments to increase the use of clean energy, such as natural gas and liquefied petroleum gas, to replace the use of raw coal. Several municipal governments, including that of Beijing, have adopted policies to facilitate an increase in natural gas consumption in order to reduce the air pollution level. The PRC government has also adopted a preferential value-added tax rate of 13% for natural gas production as compared to a 17% value-added tax rate for crude oil production.

We believe that these policies have had a positive effect on the development and consumption of natural gas in many municipalities that are our existing or potential markets for natural gas. We believe that these favorable policies will continue to benefit our natural gas business.

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### **Natural Gas Transmission Infrastructure**

As of December 31, 2010, we owned and operated approximately 32,801 kilometers of natural gas pipelines in China. Our natural gas pipelines represent the vast majority of China's onshore natural gas pipelines. Our existing natural gas pipelines form regional natural gas supply networks in northwestern, southwestern, northern and central China as well as the Yangtze River Delta.

#### ***The First West-East Gas Pipeline***

The construction of the First West-East Gas Pipeline commenced officially in July 2002 and was entirely completed and put into operation on October 1, 2004. The main line of our West-East Gas Pipeline links our natural gas fields in Xinjiang and Changqing with Henan Province, Anhui Province, Jiangsu Province, Shanghai Municipality and other areas in the Yangtze River Delta. It is designed to mainly transmit the natural gas produced at Tarim oil region to Henan, Anhui, Jiangsu, Zhejiang and Shanghai. The First West-East Gas Pipeline includes one main line, three branch lines and three underground storage facilities, with a total length of 6,426 kilometers, of which the main line has a total length of 3,839 kilometers. The First West-East Gas Pipeline has a designed annual throughput capacity of 600.4 billion cubic feet. As of December 31, 2010, we entered into long-term take-or-pay contracts with 111 subscribers and distributors to supply them with natural gas through the first West-East Gas Pipeline.

#### ***The Second West-East Gas Pipeline***

In February 2008, we commenced the construction of the Second West-East Gas Pipeline. The west section of the Second West-East Gas Pipeline was put into operation in December 2009. In December 2010, the east section (Zhongwei to Huangpi) was put into operation. The Second West-East Gas Pipeline includes one main line, eight branch lines and three underground storage facilities, with a total length of 8,686 kilometers. The main line of the Second West-East Gas Pipeline has a length of 4,978 kilometers. The western section of the main line extends from Horgos to Zhongwei with a length of 2,461 kilometers and a designed annual throughput capacity of 1,059.5 billion cubic feet. The eastern section of the main line extends from Zhongwei to Guangzhou with a length of 2,517 kilometers and a designed annual throughput capacity of 988.8 billion cubic feet.

In addition, we also operate other natural gas pipelines, such as the Zhong County to Wuhan natural gas pipeline, and the first, the second and the third Shaanxi to Beijing natural gas pipelines.

### **Crude Oil Transportation and Storage Infrastructure**

We have an extensive network for the transportation, storage and distribution of both crude oil, which covers many regions of China.

As of December 31, 2010, our crude oil transportation and storage infrastructure consisted of:

14,782 kilometers of crude oil pipelines; and

crude oil storage facilities with an aggregate storage capacity of approximately 28.3 million cubic meters.

#### ***Russia to China Crude Oil Pipeline***

In May 2009, we commenced the construction of the Russia to China crude oil transmission pipeline (the Mohe to Daqing section) upon the approval of the National Development and Reform Commission. We are the constructor and operator of the section crossing the Heilongjiang River and the section lies in China. This pipeline extends from the



Skovorodino off-take station of Russia's Far East Pipeline, through Galinda at the Russian border, Heilongjiang Province and Inner Mongolia, to Daqing terminal station. With a designed transmission capacity of 15 million tons, this pipeline is 935 kilometers long. This pipeline was entirely completed on September 27, 2010 and was put into commercial operation on January 1, 2011.

In addition, we also operate other crude oil pipelines, including the crude oil pipeline for western regions.

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### **Refined Product Transportation and Storage Infrastructure**

As of December 31, 2010, our refined product transportation and storage infrastructure includes:

9,257 kilometers of refined product pipelines; and

refined product storage facilities with a total storage capacity of approximately 29.1 million cubic meters.

#### ***The Lanzhou to Zhengzhou to Changsha Pipeline***

We commenced the construction of the Lanzhou to Zhengzhou to Changsha refined oil pipeline on August 18, 2007. The pipeline starts from Lanzhou of Gansu Province and terminates at Changsha of Hunan Province, with a total length of 3,114 kilometers, including the length of all the main lines and branch lines. We finished the construction and commenced the operation of the section from Lanzhou to Zhengzhou in April 2009 and the section from Zhengzhou to Wuhan in August 2009. We expect that we will finish the construction and commence the operation of the whole Lanzhou to Zhengzhou to Changsha pipeline in 2011.

In addition, we also operate other refined product pipelines, such as Lanzhou to Chengdu to Chongqing refined product pipeline.

During the past three years, we have not experienced any delays in delivering natural gas, crude oil and refined products due to pipeline capacity constraints.

### **Competition**

As an oil and gas company operating in a competitive industry, we compete in each of our business segments in both China and international markets for desirable business prospects and for customers. Our principal competitors in China are Sinopec, including its subsidiary China National Star Petroleum Corporation, or CNSPC, and CNOOC.

### **Exploration and Production Operations**

We are the largest onshore oil and gas company in China in terms of proved crude oil and natural gas reserves as well as crude oil and natural gas production and sales. However, we compete with Sinopec for the acquisition of desirable crude oil and natural gas prospects. Similarly, we face some competition in the development of offshore oil and gas resources. We believe that our experience in crude oil and natural gas exploration and production and our advanced exploration and development technologies that are suitable for diverse geological conditions in China will enable us to maintain our dominant position in discovering and developing crude oil and natural gas reserves in China.

### **Refining and Chemicals Operations and Marketing Operations**

We compete with Sinopec in our refining and chemicals operations and marketing operations on the basis of price, quality and customer service. Most of our refineries and chemical plants are located in the northeastern and northwestern regions of China where we have the dominant market share for refined products and chemical products. We sell the remainder of our refined products and chemical products to the eastern, southern, southwestern and central-southern regions of China, where our products have a considerable market share. The eastern and southern regions of China, where refined products and chemical products are in higher demand, are important markets for our refined products and chemical products. Sinopec has a strong presence in the eastern and southern regions of China in competition with us, and most of Sinopec's refineries, chemical plants and distribution networks are located in these regions in close proximity to these markets. Moreover, as the newly constructed facilities of CNOOC commenced

operation in the same region, large quantity of chemical products have been marketed into that area. As a result, the competition has further intensified. We expect that we will continue to face competition from, among other competitors, Sinopec and CNOOC in our refined products and chemical products sales in these regions. See Item 3 Key Information Risk Factors .

We also face competition from imported refined products and chemical products on the basis of price and quality. As a result of China's entry into the WTO and the continuous expansion of China's free trade zones,

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competition from foreign producers of refined products and chemical products has increased and the retail and wholesale markets in China for refined products and chemical products will be gradually opened to foreign competition as tariff and non-tariff barriers for imported refined products and chemical products are being lifted over time. For example, sales of chemical products imported from the Middle East have increased rapidly in China in recent years. We will face more and more challenges in the competition of refined and chemical products. All these force us to reduce our production costs, improve the quality of our products and optimize our product mix. See Item 3 Key Information Risk Factors .

## **Natural Gas and Pipeline Operations**

We are the largest natural gas supplier in the PRC. Currently, we face competition with Sinopec, CNOOC and coal-based natural gas producers in the supply of natural gas in Beijing Municipality, Tianjin Municipality, Hebei Province, Shanghai Municipality, Jiangsu Province, Anhui Province, Henan Province, Hubei Province, Hunan Province and the northwestern regions of China, our existing principal markets for natural gas. Currently, Sinopec has natural gas fields in Sichuan Province and Chongqing Municipality and sells natural gas to users in places such as Sichuan, Chongqing, Hunan, Jiangsu, Zhejiang and Shanghai. Further, we intend to expand our markets for natural gas into the coastal regions in southeastern China where we may face competition from CNOOC and Sinopec. We believe that our dominant natural gas resources base, our relatively advanced technologies and skills in managing long distance pipelines will enable us to continue to be a dominant player in the natural gas markets in China.

## **Environmental Matters**

Together with other companies in the industries in which we operate, we are subject to numerous national, regional and local environmental laws and regulations and environmental regulations promulgated by the governments in whose jurisdictions we have operations. These laws and regulations concern our oil and gas exploration and production operations, petroleum and petrochemical products and other activities. In particular, some of these laws and regulations:

require an environmental evaluation report to be submitted and approved prior to the commencement of exploration, production, refining and chemical projects;

restrict the type, quantities, and concentration of various substances that can be released into the environment in connection with drilling and production activities;

limit or prohibit drilling activities within protected areas and certain other areas; and

impose penalties for pollution resulting from oil, natural gas and petrochemical operations, including criminal and civil liabilities for serious pollution.

These laws and regulations may also restrict air emissions and discharges to surface and subsurface water resulting from the operation of natural gas processing plants, chemical plants, refineries, pipeline systems and other facilities that we own. In addition, our operations are subject to laws and regulations relating to the generation, handling, storage, transportation, disposal and treatment of solid waste materials.

We anticipate that the environmental laws and regulations to which we are subject will become increasingly strict and are therefore likely to have an increasing impact on our operations. It is difficult, however, to predict accurately the effect of future developments in such laws and regulations on our future earnings and operations. Some risk of environmental costs and liabilities is inherent in certain of our operations and products, as it is with other companies engaged in similar businesses. We cannot assure you that material costs and liabilities will not be incurred. However,

we do not currently expect any material adverse effect on our financial condition or results of operations as a result of compliance with such laws and regulations. We paid pollutant discharge fees of approximately RMB200 million, RMB301 million and RMB305 million in 2008, 2009 and 2010, respectively.

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To meet future environmental obligations, we are engaged in a continuous program to develop effective environmental protection measures. This program includes research on:

building environment-friendly projects;

reducing sulphur levels in gasoline and diesel fuel;

reducing paraffin and benzene content in gasoline, and continuously reducing the quantity of emissions and effluents from our refineries and petrochemical plants; and

developing and installing monitoring systems at our pollutant discharge openings and developing environmental impact assessments for construction projects.

Our capital expenditures on environmental programs in 2008, 2009 and 2010 were approximately RMB1,366 million, RMB1,336 million and RMB1,277 million, respectively.

Because a number of our production facilities are located in populated areas, we have established a series of preventative measures to improve the safety of our employees and surrounding residents and minimize disruptions or other adverse effects on our business. These measures include:

providing each household in areas surrounding our production facilities with printed materials to explain and illustrate safety and protection knowledge and skills; and

enhancing the implementation of various effective safety production measures we have adopted previously.

We believe that these preventative measures have helped minimize the possibility of incidents that may result in serious casualties and environmental consequences. In addition, the adoption of these preventative measures has not required significant capital expenditures to date, and therefore, will not have a material adverse effect on our results of operations and financial condition.

## **Legal Proceedings**

We are involved in several legal proceedings concerning matters arising in the ordinary course of our business. We believe, based on currently available information, that these proceedings, individually or in the aggregate, will not have a material adverse effect on our results of operations or financial condition.

## **Properties**

Under a restructuring agreement we entered into with CNPC on March 10, 2000, CNPC undertook to us the following:

CNPC would use its best endeavors to obtain formal land use right licenses to replace the entitlement certificates in relation to the 28,649 parcels of land, which were leased or transferred to us from CNPC, within one year from August, September and October 1999 when the relevant entitlement certificates were issued;

CNPC would complete, within one year from November 5, 1999, the necessary governmental procedures for the requisition of the collectively owned land on which 116 service stations owned by us are located; and

CNPC would obtain individual building ownership certificates in our name for all of the 57,482 buildings transferred to us by CNPC, before November 5, 2000.

As of December 31, 2010, CNPC obtained formal land use right certificates for 27,765 of the 28,649 parcels of land and ownership certificates for some buildings. The governmental procedures for the above-mentioned service stations located on collectively owned land have not been completed to date. We believe that the use of and the conduct of 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 building ownership certificates have not been obtained or the fact that the relevant governmental procedures have not been completed. We believe that this will not have any material adverse effect on our results of operations and financial condition.

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We hold exploration and production licenses covering all of our interests in developed and undeveloped acreage, oil and natural gas wells and relevant facilities.

### **Intellectual Property**

Our company logo is jointly owned by us and CNPC and has been used since December 26, 2004. Together with CNPC, we have applied for trademark registrations of the logo with the State Trademark Bureau of the PRC. To date, several of our applications have been approved and others are either in the process of review or public announcement phase. In addition, together with CNPC, we have applied for international trademark registration for our logo in other jurisdictions. We have received 119 International Trademark Registration Certificates for our logo covering more than 50 jurisdictions.

As of December 31, 2010, we owned approximately 5,447 patents in China and other jurisdictions. We were granted 1,018 patents in China in 2010.

### **Regulatory Matters**

#### **Overview**

China's oil and gas industry is subject to extensive regulation by the PRC government with respect to a number of aspects of exploration, production, transmission and marketing of crude oil and natural gas as well as production, transportation and marketing of refined products and chemical products. The following central government authorities exercise control over various aspects of China's oil and gas industry:

The Ministry of Land and Resources has the authority for granting, examining and approving oil and gas exploration and production licenses, the administration of registration and transfer of exploration and production licenses.

The Ministry of Commerce:

grants the import and export volume quotas for crude oil and refined products in accordance with the market supply and demand in China as well as the WTO requirements for China;

issues import and export licenses for crude oil and refined products to oil and gas companies that have obtained import and export quotas; and

examines and approves production sharing contracts and Sino-foreign equity and cooperative joint venture contracts.

The National Development and Reform Commission:

has the authority for industry administration, industry policy and policy coordination over China's oil and gas industry;

determines mandatory minimum volumes and applicable prices of natural gas to be supplied to certain fertilizer producers;

publishes guidance prices for natural gas and retail highest guidance prices for certain refined products, including gasoline and diesel;



formulates the plan for aggregate import and export volume of crude oil and refined products in accordance with the market supply and demand in China;

approves significant petroleum, natural gas, oil refinery and chemical projects set forth under the Catalogues of Investment Projects Approved by the Central Government; and

approves Sino-foreign equity and cooperative projects exceeding certain capital amounts.

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### **Exploration Licenses and Production Licenses**

The Mineral Resources Law authorizes the Ministry of Land and Resources to exercise administrative authority over the exploration and production of mineral resources within the PRC. The Mineral Resources Law and its supplementary regulations provide the basic legal framework under which exploration licenses and production licenses are granted. The Ministry of Land and Resources has the authority to issue exploration licenses and production licenses. Applicants must be companies approved by the State Council to engage in oil and gas exploration and production activities.

Applicants for exploration licenses must first register with the Ministry of Land and Resources blocks in which they intend to engage in exploration activities. The holder of an exploration license is obligated to make a progressively increasing annual minimum exploration investment relating to the exploration blocks in respect of which the license is issued. Investments range from RMB2,000 per square kilometer for the initial year to RMB5,000 per square kilometer for the second year, and to RMB10,000 per square kilometer for the third and subsequent years. Additionally, the holder has to pay an annual exploration license fee that starts at RMB100 per square kilometer for each of the first three years and increases by an additional RMB100 per square kilometer per year for subsequent years up to a maximum of RMB500 per square kilometer. The maximum term of an oil and natural gas exploration license is seven years, subject to twice renewal upon expiration of the original term, with each renewal being up to two years. At the exploration stage, an applicant can also apply for a progressive exploration and production license that allows the holder to test and develop reserves not yet fully proven. Upon the detection and confirmation of the quantity of reserves in a certain block, the holder must apply for a production license based on economic evaluation, market conditions and development planning in order to shift into the production phase in a timely fashion. In addition, the holder needs to obtain the right to use that block of land. Generally, the holder of a full production license must obtain a land use rights certificate for industrial land use covering that block of land.

The Ministry of Land and Resources issues production licenses to applicants on the basis of the reserve reports approved by the relevant authorities. Production license holders are required to pay an annual production right usage fee of RMB1,000 per square kilometer. Administrative rules issued by the State Council provide that the maximum term of a production license is 30 years. In accordance with a special approval from the State Council, the Ministry of Land and Resources has issued production licenses with terms coextensive with the projected productive life of the assessed proven reserves as discussed above. Each of our production licenses is renewable upon our application 30 days prior to expiration. If oil and gas prices increase, the productive life of our crude oil and natural gas reservoirs may be extended beyond the current terms of the relevant production licenses.

Among the major PRC oil and gas companies, the exploration licenses and production licenses held by PetroChina, Sinopec and CNOOC account for the majority of mining rights in China. Among those companies, PetroChina and Sinopec primarily engage in onshore exploration and production, while CNOOC primarily engages in offshore exploration and production.

### **Pricing**

#### ***Crude Oil***

PetroChina and Sinopec set their crude oil median prices each month based on the average Singapore market FOB prices for crude oil of different grades in the previous month. In addition, PetroChina and Sinopec negotiate a premium or discount to reflect transportation costs, the differences in oil quality and market supply and demand. The National Development and Reform Commission will mediate if PetroChina and Sinopec cannot agree on the amount of premium or discount.

***Refined Products***

Since October 2001, PetroChina has set its retail prices within an 8% floating range of the published retail median guidance prices of gasoline and diesel published by the National Development and Reform Commission (but after March 26, 2006, the price of diesel for fishing vessels has been set in line with the published retail base price, with no upward adjustment for the time being). These retail median guidance prices of gasoline and diesel

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vary in each provincial level distribution region. From October 2001 to early 2006, the National Development and Reform Commission published the retail median guidance prices of gasoline and diesel from time to time based on the weighted average FOB Singapore, Rotterdam and New York trading prices for diesel and gasoline plus transportation costs and taxes. Generally, adjustments were made only if the weighted average prices fluctuate beyond 8% of the previously published retail median guidance price. In 2006, the PRC government, under its macro economic controls, introduced a mechanism for determining the prices of refined products.

On December 18, 2008, the PRC government further improved the pricing mechanism and the domestic prices of refined oil products continue to be indirectly linked to the international market. Under the improved mechanism, the domestic ex-works price of the refined oil products are determined on the basis of the corresponding international crude oil prices and by taking consideration of the average domestic processing cost, tax and appropriate profit margin. The prices of diesel and gasoline continue to follow the government set prices and the government guiding prices. The retail prices of gasoline and diesel are subject to highest retail prices set by the government. The highest retail price is determined on the basis of the ex-works price and the profit margin for retailing activities.

On May 7, 2009, the National Development and Reform Commission promulgated and implemented the *Measures for Administration of Petroleum Price* (on trial) (the Oil Price Measures ). The Oil Price Measures officially specifies the relevant conditions and mechanisms for the adjustment of the prices of China's domestic refined oil products. Under the Oil Price Measures, when the change in the average price of crude oil on the international market for 22 consecutive days exceeds 4%, prices of domestic refined oil products may be adjusted accordingly. When the price of crude oil on the international market becomes lower than US\$80 per barrel, the prices of domestic refined oil products shall be computed on the basis of normal profit margin for processing. On the contrary, when the price of crude oil on the international market becomes higher than US\$80 per barrel, the profit margin for processing shall be reduced until being reduced to zero. When the price of crude oil becomes higher than US\$130 per barrel, appropriate financial and tax policies shall be adopted to ensure the production and supply of refined oil products and the stability of the domestic gasoline and diesel prices. Retailers of refined oil products may set the retail prices freely as long as their retail prices are not higher than the highest retail prices of gasoline and diesel set by the government.

***Chemical Products***

PetroChina determines the prices of all of its chemical products.

***Natural Gas***

The price of natural gas has two components: ex-works price and pipeline transportation tariff.

Prior to December 26, 2005, ex-works prices varied depending on whether or not the natural gas sold was within the government-formulated natural gas supply plan. For natural gas sold within the government-formulated supply plan, the National Development and Reform Commission fixed ex-works prices according to the nature of the customers. Most of these customers were fertilizer producers. For natural gas sold to customers not subject to the government-formulated supply plan, the National Development and Reform Commission published median guidance ex-works prices, and allowed natural gas producers to adjust prices upward or downward by up to 10%.

On December 26, 2005, the National Development and Reform Commission reformed the mechanism for setting the ex-works prices of domestic natural gas by changing the ex-works prices to governmental guidance prices, and categorizing domestic natural gas into two categories. On the basis of the ex-works price set by the government, subject to the negotiations between the seller and the buyer, the actual ex-works price of the first category may float upward or downward up to 10%; while the actual ex-works price of the second category may float upward up to 10% and downward to any level. The price of the first category will be adjusted to the same level as the second category

within three to five years. The National Development and Reform Commission does not allow PetroChina and Sinopec to charge different prices towards internal and external enterprises. On November 10, 2007, the National Development and Reform Commission increased the ex-works price of the industrial use natural gas by RMB400/thousand cubic meters. On June 1, 2010, the National Development and Reform Commission raised the median ex-works prices of the domestic onshore natural gas and as a result of that, the median ex-works

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price of all the oil and gas fields in China increased by RMB0.23/cubic meter. At the same time, the National Development and Reform Commission combined the first category and the second category median ex-works prices of the natural gas from Dagang Oil Field, Liaohe Oil Field and Zhongyuan Oil Field, thus ending the dual-track natural gas pricing system as described above. In addition, the National Development and Reform Commission expanded the floating range of the median ex-works price by allowing the median ex-works price to float upward to 10% and downward to any level.

PetroChina negotiates the actual ex-works price with natural gas users within the benchmark price and the adjustment range set by the government.

The National Development and Reform Commission sets the pipeline transportation tariff for the natural gas transported by pipelines constructed prior to 1991. For natural gas transported by pipelines constructed after 1991, PetroChina submits to the National Development and Reform Commission for examination and approval proposed pipeline transmission tariffs based on the capital investment made in the pipeline, the depreciation period for the pipeline, the ability of end users to pay and PetroChina's profit margin.

On April 25, 2010, the National Development and Reform Commission adjusted the originally government-set flat pipeline transportation tariff for the natural gas transported by pipelines. As a result of such adjustment, our average pipeline transportation tariff for the natural gas transported by pipelines increased from RMB0.06 per cubic meter to RMB0.14 per cubic meter.

## **Production and Marketing**

### ***Crude Oil***

Each year, the National Development and Reform Commission publishes the projected target for the production and process of crude oil in China based on the domestic consumption estimates submitted by domestic producers, including PetroChina, Sinopec and CNOOC, the production of these companies as well as the forecast of international crude oil prices. The actual production levels are determined by the producers themselves and may vary from the submitted estimates. Since January 1, 2007, when the Measures on the Administration of the Refined Products Market promulgated by the Ministry of Commerce became effective, qualified domestic producers are permitted to engage in the sale and storage of crude oil. Foreign companies are also allowed to establish and invest in enterprises to conduct crude oil business.

### ***Refined Products***

Previously, only PetroChina, Sinopec and joint ventures established by the two companies had the right to conduct gasoline and diesel wholesale business. Other companies, including foreign invested companies, were not allowed to engage in wholesale of gasoline and diesel in China's domestic market. In general, only domestic companies, including Sino-foreign joint venture companies, were permitted to engage in retail of gasoline and diesel. Since December 11, 2004, wholly foreign-owned enterprises are permitted to conduct refined oil retail business. Since January 1, 2007, when the Measures on the Administration of the Refined Products Market became effective, all entities meeting certain requirements are allowed to submit applications to the Ministry of Commerce to conduct refined oil products wholesale, retail and storage businesses.

### ***Natural Gas***

The National Development and Reform Commission publishes each year the production targets for natural gas producers based on the annual production target prepared on the basis of consumption estimates submitted by all

natural gas producers such as PetroChina. The National Development and Reform Commission also formulates the annual natural gas guidance supply plan, which requires natural gas producers to distribute a specified amount of natural gas to specified fertilizer producers, municipal governments and enterprises. The actual production levels of natural gas, except the amount supplied to the fertilizer producers, are determined by the natural gas producers.

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### **Foreign Investments**

#### ***Cooperation in Exploration and Production with Foreign Companies***

Currently, only CNPC and Sinopec have the right to cooperate with foreign companies in onshore crude oil and natural gas exploration and production in China. CNOOC has the right to cooperate with foreign companies in offshore crude oil and natural gas exploration and production in China.

Sino-foreign cooperation projects and foreign parties in onshore oil and gas exploration and production in China are generally selected through open bids and bilateral negotiations. Those projects are generally conducted through production sharing contracts. The Ministry of Commerce must approve those contracts.

As authorized by the Regulations of the PRC on Exploration of Onshore Petroleum Resources in Cooperation with Foreign Enterprises, CNPC has the right to enter into joint cooperation arrangements with foreign oil and gas companies for onshore crude oil and natural gas exploration and production. PetroChina does not have the capacity to enter into production sharing contracts directly with foreign oil and gas companies under existing PRC law. Accordingly, CNPC will continue to enter into production sharing contracts. After signing a production sharing contract, CNPC will, subject to approval of the Ministry of Commerce, assign to PetroChina most of its commercial and operational rights and obligations under the production sharing contract as required by the Non-competition Agreement between CNPC and PetroChina.

#### ***Transportation and Refining***

Since December 1, 2007, PRC regulations encourage foreign investment in the construction and operation of oil and gas pipelines and storage facilities but restrict foreign investment in refineries with an annual capacity of eight million tons or lower. The ethylene production projects with an annual production capacity exceeding 800 thousand tons must be majority owned by Chinese parties. Furthermore, when appropriate, projects must receive necessary approvals from relevant PRC government agencies. See Item 3 Key Information Risk Factors .

### **Import and Export**

Since January 1, 2002, state-owned trading companies have been allowed to import crude oil under an automatic licensing system. Non-state-owned trading companies have been allowed to import crude oil and refine products subject to quotas. The export of crude oil and refined oil products by both state-owned trading companies and non-state-owned trading companies is subject to quota control. The Ministry of Commerce has granted PetroChina the right to conduct crude oil and refined product import and export business.

### **Capital Investment and Financing**

Capital investments in exploration and production of crude oil and natural gas made by Chinese oil and gas companies are subject to approval by or filing with relevant government authorities. The following projects are subject to approval by the National Development and Reform Commission:

- (1) new oil field development projects with an annual capacity of one million tons or above and new gas field development projects with an annual capacity of two billion cubic meters or above;
- (2) facilities for taking delivery of, storing or transporting imported liquefied natural gas, and cross-province (region or municipality) major oil transmission pipeline facilities;



(3) cross-province (region or municipality) gas transmission facilities, or gas transmission facilities with an annual capacity of 500 million cubic meters or above;

(4) new refineries, first expansion of existing refineries, new ethylene projects, and transformation or expansion of existing ethylene projects which will result in an additional annual capacity of 200 thousand tons;

(5) new Purified Terephthalic Acid (PTA), P-Xylene (PX), diphenylmethane diisocyanate (MDI) and toluene diisocyanate (TDI) projects, and transformation of existing PTA and PX projects which will result in an additional capacity of 100 thousand tons;

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- (6) potassium mineral fertilizer projects with an annual capacity of 500 thousand tons or more; and
- (7) national crude oil reserve facilities.

**Taxation, Fees and Royalty**

PetroChina is subject to a variety of taxation, fees and royalty. The table below sets forth the various taxation, fees and royalty payable by PetroChina or by Sino-foreign oil and gas exploration and development cooperative projects. As approved by the State Taxation Bureau, PetroChina's subsidiaries which have the legal person status should report and pay enterprise income tax to the relevant tax authorities based on the applicable laws and regulations.

| <b>Tax Item</b>              | <b>Tax Base</b>  | <b>Tax Rate</b>   |
|------------------------------|--|---|
| <i>Enterprise income tax</i> | Taxable income   | Effective January 1, 2008, charged at the legal rate of 25%. However, certain of our qualified operations in west regions of the PRC were still entitled to a rate of 15% up to December 31, 2010.  |
| <i>Value-added tax</i>       | Turnover   | 13% for liquified natural gas, natural gas, liquified petroleum gas, agricultural film and fertilizers and 17% for other items.   |
| <i>Business tax</i>          | Income from transportation services                          | 3%  |
| <i>Consumption tax</i>       | Aggregate volume sold or self-consumed                       | Effective January 1, 2009, the unit tax amount of the consumption tax for refined oil products was increased as follows:<br><br>RMB1.0 per liter for unleaded gasoline.<br><br>RMB0.8 per liter for diesel.<br><br>RMB1.0 per liter for naphtha, solvent naphtha and lubricants.<br><br>RMB0.8 per liter for fuel oil.  |
| <i>Resource tax</i>          | Aggregate volume sold or self-consumed/Aggregated value sold | Effective July 1, 2005, resource tax applicable to crude oil of our company was adjusted upward from the original RMB8 to 30 per ton to RMB14 to 30 per ton, and the resource tax for natural gas was adjusted from the original RMB2 to 15 per thousand cubic meter to RMB7 to 15 per thousand cubic meter.<br><br>Effective June 1, 2010, the resource tax payable by the resource tax payers in connection with their extraction of crude oil and natural gas in Xinjiang shall be |

collected based on value at the rate of 5%. Taxpayers shall be eligible for a reduced resource tax rate in connection with their extraction of viscous oil, high pour-point oil, and high sour natural gas as well as enhanced oil recovery. As of December 1, 2010, twelve provinces and regions in western China began to implement these new resource tax provisions.

The actual applicable rate for each oil field may differ, depending on the resource differences, volume of the exploration and production activities and costs required for the production at the particular oil field.

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| <b>Tax Item</b>                               | <b>Tax Base</b>                       | <b>Tax Rate</b>   |
|---|---------------------------------------|---|
|   |                                       | The actual applicable rate for each oil field may differ, depending on the resource differences, volume of the exploration and production activities and costs required for the production at the particular oil field. |
| <i>Compensatory fee for mineral resources</i> | Turnover                              | 1% for crude oil and natural gas  |
| <i>Crude oil special gain levy</i>            | Sales amount above specific threshold | Effective March 26, 2006, levied on the domestic crude oil sold at or above US\$40/barrel, with a five-level progressive tax rates, varying from 20% to 40%   |
| <i>Exploration license fee</i>                | Area                                  | RMB100 to 500 per square kilometer per year   |
| <i>Production license fee</i>                 | Area                                  | RMB1,000 per square kilometer per year  |
| <i>Royalty fee<sup>(1)</sup></i>              | Production volume                     | Progressive rate of 0-12.5% for crude oil and 0-3% for natural gas  |

(1) Payable only by Sino-foreign oil and gas exploration and development cooperative projects. The project entity of those cooperative projects is not subject to any other resource tax or fee.

The PRC Highway Law, as amended on October 31, 1999, provides that the PRC government will collect funds for highway maintenance by imposing fuel taxes. On December 18, 2008, the State Council promulgated the *Circular on Implementing the Reform of Refined Oil Product Pricing and Relevant Tax and Charge Collection*. According to the Circular, effective January 1, 2009, the PRC government ceased to impose the fuel oil tax. Instead, as part of the reform of the refined oil product pricing, the government used the existing system of taxation, methods of tax collection and means of taxation administration to further improve the refined oil product pricing mechanism. As a result, the unit tax amount of the consumption tax for refined oil products was increased.

**Environmental Regulations**

We are subject to various PRC national environmental laws and regulations and also environmental regulations promulgated by the local governments in whose jurisdictions we have operations. China has adopted extensive environmental laws and regulations that affect the operation of the oil and gas industry. There are national and local standards applicable to emissions control, discharges to surface and subsurface water and disposal, and the generation, handling, storage, transportation, treatment and disposal of solid waste materials.

The environmental regulations require a company, such as us, to register or file an environmental impact report with the relevant environmental bureau for approval before it undertakes any construction of a new production facility or any major expansion or renovation of an existing production facility. The new facility or the expanded or renovated facility will not be permitted to operate unless the relevant environmental bureau has inspected to its satisfaction that environmental equipment that satisfies the environmental protection requirements has been installed for the facility. A company that wishes to discharge pollutants, whether it is in the form of emission, water or materials, must submit a pollutant discharge declaration statement detailing the amount, type, location and method of treatment. After

reviewing the pollutant discharge declaration, the relevant environmental bureau will determine the amount of discharge allowable under the law and will issue a pollutant discharge license for that amount of discharge subject to the payment of discharge fees. If a company discharges more than is permitted in the pollutant discharge license, the relevant environmental bureau can fine the company up to several times the discharge fees payable by the offending company for its allowable discharge, or require the offending company to close its operation to remedy the problem.

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**ITEM 4A UNRESOLVED STAFF COMMENTS**

We do not have any unresolved Staff comments that are required to be disclosed under this item.

**ITEM 5 OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

**General**

You should read the following discussion together with our consolidated financial statements and their notes included elsewhere in this annual report. Our consolidated financial statements have been prepared in accordance with IFRS.

**Overview**

We are engaged in a broad range of petroleum and natural gas related activities, including:

the exploration, development, production and sale of crude oil and natural gas;

the refining of crude oil and petroleum products, and the production and marketing of basic petrochemical products, derivative chemical products and other chemical products;

marketing and trading of refined oil products; and

the transmission of natural gas, crude oil and refined oil products as well as the sale of natural gas.

We are China's largest producer of crude oil and natural gas and are one of the largest companies in China in terms of sales. In 2010, we produced approximately 857.7 million barrels of crude oil and approximately 2,221.2 billion cubic feet of natural gas for sale. Our refineries also processed approximately 903.9 million barrels of crude oil in 2010. In 2010, we had turnover of RMB1,465,415 million and profit attributable to the owners of our company of RMB139,992 million.

**Factors Affecting Results of Operations**

Our results of operations and the period-to-period comparability of our financial results are affected by a number of external factors, including changes in the prices, production and sales volume of our principal products and the regulatory environment.

**Prices of Principal Products**

The fluctuations in the prices of crude oil, refined products, chemical products and natural gas have a significant impact on our turnover. See Item 4 Information on the Company Regulatory Matters Pricing for a more detailed discussion of current PRC crude oil pricing regulations.

The table below sets forth the average realized prices of our principal products in 2008, 2009 and 2010.

|  | <b>2008</b> | <b>2009</b> | <b>2010</b> |
|--|-------------|-------------|-------------|
| Crude oil (US\$/barrel)                | 87.55       | 53.90       | 72.93       |
| Natural gas (US\$/thousand cubic feet) | 4.72        | 4.78        | 5.54        |

|                        |        |       |        |
|------------------------|--------|-------|--------|
| Gasoline (US\$/barrel) | 99.62  | 99.25 | 115.17 |
| Kerosene (US\$/barrel) | 115.83 | 72.20 | 91.14  |
| Diesel (US\$/barrel)   | 106.09 | 96.91 | 116.41 |

***Production and Sales Volume for Oil and Gas Products***

Our results of operations are also affected by production and sales volumes. Our crude oil and natural gas production volumes depend primarily on the level of the proved developed reserves in the fields in which we have an interest, as well as other factors such as general economic environment and market supply and demand conditions.

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### ***Regulatory Environment***

Our operating activities are subject to extensive regulations and controls by the PRC government, including the issuance of exploration and production licenses, the imposition of industry-specific taxes and levies and the implementation of environmental policies and safety standards. Our results of operations will be affected by any future changes of such regulatory environment.

### **Critical Accounting Policies**

The preparation of our consolidated financial statements requires our management to select and apply significant accounting policies, the application of which may require management to make judgments and estimates that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the date of our financial statements, and the reported amounts of turnover and expenses during the reporting period. Notwithstanding the presentation of our principal accounting policies in Note 3 to our consolidated financial statements included elsewhere in this annual report, we have identified the accounting policies below as most critical to our business operations and the understanding of our financial condition and results of operations presented in accordance with IFRS. Although these estimates are based on our management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

### ***Accounting for Oil and Gas Exploration and Production Activities***

We use the successful efforts method of accounting, with specialized accounting rules that are unique to the oil and gas industry, for oil and gas exploration and production activities. Under this method, geological and geophysical costs incurred are expensed prior to the discovery of proved reserves. However, all costs for developmental wells, support equipment and facilities, and mineral interests in oil and gas properties are capitalized. Costs of exploratory wells are capitalized as construction in progress pending determination of whether the wells find proved reserves. For exploratory wells located in regions that do not require substantial capital expenditures before the commencement of production, the evaluation of the economic benefits of the reserves in such wells will be completed within one year following the completion of the exploration drilling. Where such evaluation indicates that no economic benefits can be obtained, the relevant costs of exploratory wells will be converted to dry hole exploration expenses. The relevant costs will be capitalized if the evaluation indicates that economic benefits can be obtained. For wells that found economically viable reserves in areas where a major capital expenditure would be required before production can begin, the related well costs remain capitalized only if additional drilling is under way or firmly planned. Otherwise the well costs are expensed as dry holes. We have no costs of unproved properties capitalized in oil and gas properties.

### ***Oil and Gas Reserves***

The estimation of the quantities of recoverable oil and gas reserves in oil and gas fields is integral to effective management of our exploration and production operations. Because of the subjective judgments involved in developing and assessing such information, engineering estimates of the quantities of recoverable oil and gas reserves in oil and gas fields are inherently imprecise and represent only approximate amounts.

Before estimated oil and gas reserves are designated as proved, certain engineering criteria must be met in accordance with industry standards and the regulations of the SEC. Proved oil and gas reserves are the estimated quantities of crude oil and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Therefore, these estimates do not include probable or possible reserves. Our proved reserve estimates are updated annually by independent, qualified and experienced oil and gas reserve engineering firms in the United States. Our oil and gas reserve engineering department has policies and procedures in place to ensure that these estimates are consistent with



these authoritative guidelines. Among other factors as required by authoritative guidelines, this estimation takes into account recent information about each field, including production and seismic information, estimated recoverable reserves of each well, and oil and gas prices and operating 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. Therefore, as prices and cost levels change from year to year, the

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estimate of proved reserves also changes. We have no costs of unproved properties capitalized in oil and gas properties.

Despite the inherent imprecision in these engineering estimates, estimated proved oil and gas reserve quantity has a direct impact on certain amounts reported in the financials statements. In addition to the capitalization of costs related to oil and gas properties on the balance sheet discussed earlier, estimated proved reserves also impact the calculation of depreciation, depletion and amortization expenses of oil and gas properties. The cost of oil and gas properties is amortized at the field level on the unit of production method. Unit of production rates are based on the total oil and gas reserves estimated to be recoverable from existing facilities based on the current terms of our production licenses. Our reserve estimates include only crude oil and natural gas which management believes can be reasonably produced within the current terms of the production licenses that are granted by the Ministry of Land and Resources, ranging from 30 years to 55 years from the effective date of issuance in March 2000, renewable upon application 30 days prior to expiration. Consequently, the impact of changes in estimated proved reserves is reflected prospectively by amortizing the remaining book value of the oil and gas property assets over the expected future production. If proved reserve estimates are revised downward, earnings could be affected by higher depreciation expense or an immediate write-down of the property's book value had the downward revisions been significant. See *Property, Plant and Equipment* below. Given our large number of producing properties in our portfolio, and the estimated proved reserves, it is unlikely that any changes in reserve estimates will have a significant effect on prospective charges for depreciation, depletion and amortization expenses.

In addition, due to the importance of these estimates to better understanding the perceived value and future cash flows of a company's oil and gas operations, we have also provided supplemental disclosures of proved oil and gas reserve estimates prepared in accordance with authoritative guidelines elsewhere in this annual report.

***Property, Plant and Equipment***

Property, plant and equipment, including oil and gas properties, are initially recorded in the consolidated statement of financial position at cost where it is probable that they will generate future economic benefits. Cost represents the purchase price of the asset and other costs incurred to bring the asset into existing use. Subsequent to their initial recognition, property, plant and equipment are carried at cost less accumulated depreciation, depletion and amortization (including any impairment).

Depreciation, to write off the cost of each asset, other than oil and gas properties, to their residual values over their estimated useful lives is calculated using the straight-line method.

The company uses the following useful lives for depreciation purposes:

|                         |            |
|-------------------------|------------|
| Buildings and plant     | 8-40 years |
| Equipment and machinery | 4-30 years |
| Motor vehicles          | 4-14 years |
| Other                   | 5-12 years |

No depreciation is provided on construction in progress until the assets are completed and ready for use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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. An impairment loss is recognized for the amount by which the carrying amount of a cash generating unit exceeds the higher of its fair value less costs to sell and its value in use, which is the estimated net present value of future cash flows to be derived from the cash generating unit.

Gains and losses on disposals of property, plant and equipment are determined by reference to their carrying amounts and are recorded in the consolidated profit or loss.

Interest and other costs on borrowings to finance the construction of property, plant and equipment are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Costs for

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repairs and maintenance activities are expensed as incurred except for costs of components that result in improvements or betterments which are capitalised as part of property, plant and equipment and depreciated over their useful lives.

***Provision for Asset Decommissioning***

Provision is recognized for the future decommissioning and restoration of oil and gas properties. The amounts of the provision recognized 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 lives of oil and gas properties. Changes in any of these estimates will impact the operating results and the financial position of the company over the remaining economic lives of the oil and gas properties.

**Operating Results**

The following discussion is based on our historical results of operations. As a result of the factors discussed above, such results of operations may not be indicative of our future operating performance.

Our income statement for each of the years ended December 31, 2008, 2009 and 2010 is summarized in the table below.

|   | <b>Year Ended December 31,</b> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <b>2008</b>                    | <b>2009</b> | <b>2010</b> |
|   | <b>(RMB in millions)</b>       |             |             |
| Turnover  | 1,072,604                      | 1,019,275   | 1,465,415   |
| Operating expenses  | (913,033)                      | (875,831)   | (1,277,638) |
| Profit from operations  | 159,571                        | 143,444     | 187,777     |
| Exchange gain (loss), net                                     | (1,081)                        | (783)       | (1,172)     |
| Interest expense, net   | (767)                          | (3,813)     | (4,338)     |
| Share of profit of affiliates and jointly controlled entities | 4,290                          | 1,184       | 7,038       |
| Profit before income tax expense                              | 162,013                        | 140,032     | 189,305     |
| Income tax expense  | (35,211)                       | (33,473)    | (38,513)    |
| Profit for the year attributable to non-controlling interest  | (12,349)                       | (3,172)     | (10,800)    |
| Profit for the year attributable to owners of the company     | 114,453                        | 103,387     | 139,992     |

The table below sets forth our turnover by business segment for each of the years ended December 31, 2008, 2009 and 2010 as well as the percentage changes in turnover for the periods shown.

|  | <b>2008</b>                                  | <b>2009</b> | <b>2009</b> |             | <b>2010</b> |
|--|--|-------------|-------------|-------------|-------------|
|  |  |             | <b>vs.</b>  | <b>2008</b> | <b>2010</b> |
|  | <b>(RMB in millions, except percentages)</b> |             |             |             |             |
|  |  |             |             |             |             |

**Turnover**

|  |           |           |         |           |       |
|--|-----------|-----------|---------|-----------|-------|
| Exploration and production             | 626,367   | 405,326   | (35.3%) | 544,884   | 34.4% |
| Refining and chemicals                 | 560,729   | 501,300   | (10.6%) | 664,773   | 32.6% |
| Marketing                              | 778,141   | 768,295   | (1.3%)  | 1,134,534 | 47.7% |
| Natural gas and pipeline               | 63,315    | 77,658    | 22.7%   | 117,043   | 50.7% |
| Other                                  | 1,418     | 1,372     | (3.2%)  | 1,606     | 17.1% |
| Total                                  | 2,029,970 | 1,753,951 | (13.6%) | 2,462,840 | 40.4% |
| Less intersegment sales                | (957,366) | (734,676) | (23.3%) | (997,425) | 35.8% |
| Consolidated net sales from operations | 1,072,604 | 1,019,275 | (5.0%)  | 1,465,415 | 43.8% |

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The table below sets forth our operating income by business segment for each of the years ended December 31, 2008, 2009 and 2010, as well as the percentage changes in operating income for the periods shown. Other profit from operations shown below consists of research and development, business services and infrastructure support to our operating business segments.

|                                      | <b>2008</b>                                  | <b>2009</b>    | <b>2009<br/>vs.<br/>2008</b> | <b>2010</b>    | <b>2010<br/>vs.<br/>2009</b> |
|--------------------------------------|--|----------------|------------------------------|----------------|------------------------------|
|                                      | <b>(RMB in millions, except percentages)</b> |                |                              |                |                              |
| <b>Profit (loss) from operations</b> |  |                |                              |                |                              |
| Exploration and production           | 240,470                                      | 105,019        | (56.3%)                      | 153,703        | 46.4%                        |
| Refining and chemicals               | (93,830)                                     | 17,308         |                              | 7,847          | (54.7%)                      |
| Marketing                            | 7,982  | 13,265         | 66.2%                        | 15,956         | 20.3%                        |
| Natural gas and pipeline             | 16,057                                       | 19,046         | 18.6%                        | 20,415         | 7.2%                         |
| Other                                | (11,108)                                     | (11,194)       |                              | (10,144)       |                              |
| <b>Total</b>                         | <b>159,571</b>                               | <b>143,444</b> | <b>(10.1%)</b>               | <b>187,777</b> | <b>30.9%</b>                 |

**Year Ended December 31, 2010 Compared to Year Ended December 31, 2009****Consolidated Results of Operations****Overview**

Our profit before taxation was RMB189,305 million for the year ended December 31, 2010, representing an increase of 35.2% compared with the previous period. Profit attributable to the owners of the company for the year ended December 31, 2010 was RMB139,992 million, representing an increase of 35.4% compared with the previous period. For the year ended December 31, 2010, the basic and diluted earnings per share attributable to the owners of the company were RMB0.76 while the same for 2009 was RMB0.56.

**Turnover.** Turnover increased 43.8% from RMB1,019,275 million for the year ended December 31, 2009 to RMB1,465,415 million for the year ended December 31, 2010. This was primarily due to increases in the selling prices and in the sales volume of major products including crude oil, natural gas, gasoline and diesel. The table below sets out the external sales volume and average realized prices for major products sold by the company in 2010 and 2009 and percentage of changes in the sales volume and average realized prices during these two years.

|            | <b>Sales Volume (thousand tons)</b> |             |   | <b>Average Realized Price (RMB per ton)</b> |             |   |
|------------|-------------------------------------|-------------|---|---|-------------|---|
|            | <b>2010</b>                         | <b>2009</b> | <b>Percentage<br/>of<br/>Change (%)</b> | <b>2010</b>                                 | <b>2009</b> | <b>Percentage<br/>of<br/>Change (%)</b> |
| Crude oil* | 61,629                              | 53,768      | 14.6                                    | 3,623                                       | 2,750       | 31.7                                    |
|            | 63,011                              | 59,614      | 5.7                                     | 955   | 814         | 17.3                                    |

|   |        |        |       |       |       |      |
|---|--------|--------|-------|-------|-------|------|
| Natural gas (million cubic meter, RMB/ 000 cubic meter) |        |        |       |       |       |      |
| Gasoline  | 36,328 | 30,777 | 18.0  | 6,627 | 5,763 | 15.0 |
| Diesel  | 77,789 | 64,659 | 20.3  | 5,910 | 4,965 | 19.0 |
| Kerosene  | 6,716  | 5,817  | 15.5  | 4,874 | 3,896 | 25.1 |
| Heavy oil   | 9,603  | 8,472  | 13.3  | 3,800 | 2,903 | 30.9 |
| Polyethylene  | 3,012  | 2,349  | 28.2  | 8,958 | 8,430 | 6.3  |
| Lubricant   | 1,703  | 1,796  | (5.2) | 8,215 | 7,204 | 14.0 |

\* represents all the external sales volume of crude oil of the company.

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***Operating Expenses.*** Operating expenses increased 45.9% from RMB875,831 million for the year ended December 31, 2009 to RMB1,277,638 million for the year ended December 31, 2010, of which:

***Purchases, Services and Others.*** Purchases, services and others increased 61.5% from RMB492,472 million for the year ended December 31, 2009 to RMB795,525 million for the year ended December 31, 2010. This was primarily due to an increase in both the purchase prices and volume of crude oil, refined products and feedstock oil from external suppliers that resulted in an increase in purchase costs.

***Employee Compensation Costs.*** Employee compensation costs of the company were RMB83,304 million for the year ended December 31, 2010, representing an increase of RMB17,327 million, or 12.1% compared with that of last year at RMB65,977 million. The increase mainly attributable to the lower level of employee compensation maintained by the company in 2009 due to the financial crisis, and that wage levels were adjusted in 2010 in line with changes in the prevailing domestic price levels.

***Exploration Expenses.*** Exploration expenses increased 18.4% from RMB19,398 million for the year ended December 31, 2009 to RMB22,963 million for the year ended December 31, 2010. This was primarily due to the fact that the company continued to put more efforts into oil and gas exploration to further strengthen its foundation in terms of oil and gas resources.

***Depreciation, Depletion and Amortization.*** Depreciation, depletion and amortization increased 22.7% from RMB92,259 million for the year ended December 31, 2009 to RMB113,209 million for the year ended December 31, 2010. This was primarily due to the fact that (i) both the average carrying amount of fixed assets and the average net value of oil and gas properties increased as a result of ongoing increase in capital expenditure, causing an increase in depreciation and depletion provisions; (ii) acquisition of refinery assets in late 2009 resulted in an increase in depreciation during the reporting period; and (iii) a higher amount of impairment charges were recorded by the company against its oil and gas properties and refinery equipment during the reporting period.

***Selling, General and Administrative Expenses.*** Selling, general and administrative expenses increased 13.5% from RMB65,423 million for the year ended December 31, 2009 to RMB74,239 million for the year ended December 31, 2010. This was primarily due to the fact that (i) increases in both the freight volume of products and the unit freight cost resulted in an increase in freight expenses; (ii) completion of the company's acquisitions of refinery equipment during the second half of 2009 resulted in an increase in maintenance expenses; and (iii) storage and leasing costs increased as a result of business expansion.

***Taxes other than Income Taxes.*** Taxes other than income taxes increased 36.0% from RMB135,465 million for the year ended December 31, 2009 to RMB184,209 million for the year ended December 31, 2010. The increase was primarily due to (i) a significant increase in the payment of the special levies on domestic sales of crude oil by the company during 2010 when the international oil prices increased, from RMB20,020 million for the year ended December 31, 2009 to RMB52,172 million for the year ended December 31, 2010; (ii) an increase in consumption tax borne by the company amidst an increase in the sales volume of refined products during the reporting period, from RMB82,429 million for the year ended December 31, 2009 to RMB89,670 million for the year ended December 31, 2010; and (iii) an increase in resources tax payment compared with that of last year, as a result of the reform towards resource tax policy; and (iv) an increase in the city maintenance and construction tax and educational surcharge compared with that of last year.

***Other Expenses, net.*** Other expenses, net, decreased by RMB648 million, from RMB4,837 million for the year ended December 31, 2009 to RMB4,189 million for the year ended December 31, 2010.



***Profit from Operations.*** The profit from operations of the company for the year ended December 31, 2010 was RMB187,777 million, representing an increase of 30.9% from RMB143,444 million for the preceding year.

***Net Exchange Loss.*** Net exchange loss increased from RMB783 million for the year ended December 31, 2009 to RMB1,172 million for the year ended December 31, 2010. The increase in the net exchange loss was primarily due to the appreciation of the Canadian Dollar against the United States Dollar in 2010, which led to an exchange loss with respect to loans of certain subsidiaries which are denominated in foreign currencies.

***Net Interest Expenses.*** Net interest expenses increased by RMB525 million, from RMB3,813 million for the year ended December 31, 2009 to RMB4,338 million for the year ended December 31, 2010. The increase in net

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interest expenses was primarily attributable to an increase in interest expenses compared with the previous year, due to an increase in the monthly average balance of interest-bearing debts prompted by the need to secure required funding for production, operation and capital investment.

***Profit Before Taxation.*** Profit before taxation increased 35.2% from RMB140,032 million for the year ended December 31, 2009 to RMB189,305 million for the year ended December 31, 2010.

***Income Tax Expenses.*** Income tax expenses increased 15.1% from RMB33,473 million for the year ended December 31, 2009 to RMB38,513 million for the year ended December 31, 2010. The increase was primarily due to an increase in the taxable income for the year.

***Profit for the year.*** Profit for the year increased 41.5% from RMB106,559 million for the year ended December 31, 2009 to RMB150,792 million for the year ended December 31, 2010.

***Profit attributable to non-controlling interest of the company.*** As international oil prices in 2010 increased significantly compared with that of last year, certain subsidiaries of the company recorded material increases in profits. This resulted in an increase in the profit attributable to minority interest, from RMB3,172 million for the year ended December 31, 2009 to RMB10,800 million for the year ended December 31, 2010.

***Net profit attributable to owners of the company.*** Due to the combined effect of the factors described above, net profit attributable to the owners of the company increased 35.4% from RMB103,387 million for the year ended December 31, 2009 to RMB139,992 million for the year ended December 31, 2010.

***Exploration and Production***

***Turnover.*** Turnover increased 34.4% from RMB405,326 million for the year ended December 31, 2009 to RMB544,884 million for the year ended December 31, 2010. The increase was primarily due to an increase in crude oil and natural gas prices and their sales volumes. The average realized crude oil price of the company in 2010 was US\$72.93 per barrel, representing an increase of 35.3% from US\$53.90 per barrel in 2009.

***Operating Expenses.*** Operating expenses increased 30.3% from RMB300,307 million for the year ended December 31, 2009 to RMB391,181 million for the year ended December 31, 2010. The increase was primarily due to (i) an increase in the expenses on crude oil imports during the year; and (ii) a sharp increase in the payment of special levies on domestic sales of crude oil during the year.

***Profit from Operations.*** The profit from operations for the year ended December 31, 2010 was RMB153,703 million, representing an increase of 46.4% from RMB105,019 million for the preceding year. The exploration and production segment remains the most important contributor to the profit of the company.

***Refining and Chemicals***

***Turnover.*** Turnover increased 32.6% from RMB501,300 million for the year ended December 31, 2009 to RMB664,773 million for the year ended December 31, 2010. The increase was primarily due to an increase in both the selling prices and sales volumes of key refined products.

***Operating Expenses.*** Operating expenses increased 35.7% from RMB483,992 million for the year ended December 31, 2009 to RMB656,926 million for the year ended December 31, 2010. The increase was primarily due to an increase in the purchase costs of crude oil and feedstock oil from external suppliers.

***Profit/loss from Operations.*** The profit margin of refining and chemicals operations narrowed as a result of the rising crude oil prices and the fact that such rise was not fully reflected in the prices of refined products. The profit from operations amounted to RMB7,847 million for the year ended December 31, 2010, representing a decrease of 54.7% from the profit of RMB17,308 million for the year ended December 31, 2009.

***Marketing***

***Turnover.*** Turnover increased 47.7% from RMB768,295 million for the year ended December 31, 2009 to RMB1,134,534 million for the year ended December 31, 2010. The increase was primarily due to an increase in

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both the selling prices and the sales volumes of refined products and an increase in revenue from the oil products trading business.

**Operating Expenses.** Operating expenses increased 48.2% from RMB755,030 million for the year ended December 31, 2009 to RMB1,118,578 million for the year ended December 31, 2010. The increase was primarily due to an increase in the purchase costs of refined products from external suppliers, together with an increase in expenses relating to the oil products trading business.

**Profit from Operations.** Profit from operations was RMB15,956 million for the year ended December 31, 2010, representing an increase of 20.3% from RMB13,265 million for the last year. The marketing segment is an important contributor to the company's improvements on competitiveness and overall efficiency.

### ***Natural Gas and Pipeline***

**Turnover.** Turnover increased 50.7% from RMB77,658 million for the year ended December 31, 2009 to RMB117,043 million for the year ended December 31, 2010. The increase was primarily due to (i) an increase in the selling price of natural gas, and the increase in sales volume of domestic natural gas and natural gas imported from Central Asia; and (ii) our persistent efforts to promote the company's city gas and LPG businesses, which led to an increase in sales revenue during the year.

**Operating Expenses.** Operating expenses increased 64.9% from RMB58,612 million for the year ended December 31, 2009 to RMB96,628 million for the year ended December 31, 2010. The increase was primarily due to an increase in the costs of natural gas imports from Central Asia and LPG imports, and costs on the purchase of domestic natural gas.

**Profit from Operations.** Profit from operations was RMB20,415 million for the year ended December 31, 2010, representing an increase of 7.2% from RMB19,046 million of the same period in 2009. The natural gas and pipeline segment is an important contributor to the company's profits.

## **Year Ended December 31, 2009 Compared to Year Ended December 31, 2008**

### ***Consolidated Results of Operations***

#### ***Overview***

Our profit before taxation was RMB140,032 million for the year ended December 31, 2009, representing a decrease of 13.6% compared with the previous period. Profit attributable to the owners of the company for the year ended December 31, 2009 was RMB103,387 million, representing a decrease of 9.7% compared with the previous period. For the year ended December 31, 2009, the basic and diluted earnings per share attributable to the owners of the company were RMB0.56 while the same for 2008 was RMB0.63.

**Turnover.** Turnover decreased 5.0% from RMB1,072,604 million for the year ended December 31, 2008 to RMB1,019,275 million for the year ended December 31, 2009. This was primarily due to decreases in the selling prices and changes in the sales volume of major products including crude oil, gasoline, diesel and kerosene.

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The table below sets out the external sales volume and average realized prices for major products sold by us for 2008 and 2009 and percentages of change in the sales volume and average realized prices during these two years.

|   | Sales Volume (thousand tons) |        |                          | Average Realized Price (RMB/ton) |        |                          |
|---|------------------------------|--------|--------------------------|----------------------------------|--------|--------------------------|
|   | 2009                         | 2008   | Percentage of Change (%) | 2009                             | 2008   | Percentage of Change (%) |
| Crude oil*  | 53,768                       | 38,603 | 39.3                     | 2,750                            | 4,348  | (36.8)                   |
| Natural gas (million cubic metre, RMB/ 000 cubic metre) | 59,614                       | 51,054 | 16.8                     | 814                              | 813    | 0.1                      |
| Gasoline  | 30,777                       | 29,399 | 4.7                      | 5,763                            | 5,881  | (2.0)                    |
| Diesel  | 64,659                       | 56,081 | 15.3                     | 4,965                            | 5,526  | (10.2)                   |
| Kerosene  | 5,817                        | 4,798  | 21.2                     | 3,896                            | 6,355  | (38.7)                   |
| Heavy oil   | 8,472                        | 7,061  | 20.0                     | 2,903                            | 3,541  | (18.0)                   |
| Polyethylene  | 2,349                        | 2,195  | 7.0                      | 8,430                            | 10,219 | (17.5)                   |
| Lubricant   | 1,796                        | 2,003  | (10.3)                   | 7,204                            | 7,515  | (4.1)                    |

\* The crude oil listed above represents all the external sales volume of crude oil of the company.

**Operating Expenses.** Operating expenses decreased 4.1% from RMB913,033 million for the year ended December 31, 2008 to RMB875,831 million for the year ended December 31, 2009, of which:

**Purchases, Services and Other Expenses.** Purchases, services and other expenses decreased 12.5% from RMB562,851 million for the year ended December 31, 2008 to RMB492,472 million for the year ended December 31, 2009. This was primarily due to (i) a decrease in the purchase prices of crude oil and feedstock oil from external suppliers that resulted in a decrease in purchase costs; and (ii) a decrease in the prices of raw materials, fuel, energy and other production materials as well as changes in inventories that resulted in a decrease in purchase costs.

**Employee Compensation Costs.** Employee compensation costs of the company were RMB65,977 million for the year ended December 31, 2009, representing an increase of 6.1% compared with that of last year. Taking into account factors including the expansion of business of the company, the level of employee compensation was basically the same as that of last year, which demonstrated that the company has maintained effective control on labor cost.

**Exploration Expenses.** Exploration expenses decreased 11.3% from RMB21,879 million for the year ended December 31, 2008 to RMB19,398 million for the year ended December 31, 2009. This was primarily due to adjustments made by the company to optimize the structure and workload of exploration and to further strengthen the management of oil and gas exploration as well as control over the process of exploration.

**Depreciation, Depletion and Amortization.** Depreciation, depletion and amortization decreased 2.6% from RMB94,759 million for the year ended December 31, 2008 to RMB92,259 million for the year ended December 31, 2009. This was primarily due to the impairment charges recorded by the company against its refining assets and oil and gas properties in 2008.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses increased 9.7% from RMB59,617 million for the year ended December 31, 2008 to RMB65,423 million for the year ended December 31, 2009. This was primarily due to higher production safety expenses in 2009 as required by the relevant PRC

regulations.

***Taxes Other than Income Taxes.*** Taxes other than income taxes increased 9.1% from RMB124,132 million for the year ended December 31, 2008 to RMB135,465 million for the year ended December 31, 2009. The change was primarily due to (i) a significant decrease in the payment of the special levy on the sale of domestic crude oil by the company compared with that of last year, from RMB85,291 million for the year ended December 31, 2008 to RMB20,020 million for the year ended December 31, 2009; (ii) a sharp increase in consumption tax expenses borne by the company as a result of the implementation of a new policy on fuel consumption tax in 2009, from RMB13,570 million for the year ended December 31, 2008 to RMB82,429 million for the year ended December 31,

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2009; and (iii) an increase of RMB5,368 million in urban maintenance and construction tax and educational surcharge as a result of the increase in tax payments including fuel consumption tax.

***Other (Expenses)/Incomes, net.*** Other expenses, net was RMB4,837 million for the year ended December 31, 2009, while other incomes, net was RMB12,372 million for the year ended December 31, 2008. This was primarily due to the recognition by the company of government grants for the supply of crude oil and refined products in 2008.

***Profit from Operations.*** Profit from operations of the company for the year ended December 31, 2009 was RMB143,444 million, representing a decrease of 10.1% from RMB159,571 million for the preceding year.

***Net Exchange Loss.*** Net exchange loss decreased from RMB1,081 million for the year ended December 31, 2008 to RMB783 million for the year ended December 31, 2009. The decrease in the net exchange loss was primarily due to the appreciation of the Renminbi against the U.S. dollar and other currencies in 2008 being more significant than the changes in exchange rates in 2009.

***Net Interest Expenses.*** Net interest expenses increased 397.1% from RMB767 million for the year ended December 31, 2008 to RMB3,813 million for the year ended December 31, 2009. The increase in net interest expenses was primarily due to the combined effect of a substantial increase in the outstanding balance of interest-bearing debts and a decrease in interest income resulting from a decrease in the average outstanding balance of deposits.

***Profit before Income Tax Expense.*** Profit before income tax expense decreased 13.6% from RMB162,013 million for the year months ended December 31, 2008 to RMB140,032 million for the year ended December 31, 2009.

***Income Tax Expense.*** Income tax expense decreased 4.9% from RMB35,211 million for the year ended December 31, 2008 to RMB33,473 million for the year ended December 31, 2009. The decrease was primarily due to a reduction in the taxable income for the year and taxation adjustments.

***Profit for the Year.*** Profit for the year decreased 16.0% from RMB126,802 million for the year ended December 31, 2008 to RMB106,559 million for the year ended December 31, 2009.

***Profit Attributable to Non-controlling Interest of the Company.*** As international crude oil prices in 2009 were lower than that during 2008, certain subsidiaries of the company recorded material decreases in profits. This resulted in a significant decrease in the profit attributable to non-controlling interest, from RMB12,349 million for the year ended December 31, 2008 to RMB3,172 million for the year ended December 31, 2009.

***Profit Attributable to Owners of the Company.*** Profit attributable to the owners of the company decreased 9.7% from RMB114,453 million for the year ended December 31, 2008 to RMB103,387 million for the year ended December 31, 2009.

***Exploration and Production***

***Turnover.*** Turnover decreased 35.3% from RMB626,367 million for the year ended December 31, 2008 to RMB405,326 million for the year ended December 31, 2009. The decrease was primarily due to a significant decrease in crude oil prices.

***Operating Expenses.*** Operating expenses decreased 22.2% from RMB385,897 million for the year ended December 31, 2008 to RMB300,307 million for the year ended December 31, 2009. The decrease was primarily due to a decrease in the purchase costs of imported crude oil as international crude oil prices remained low throughout 2009 and a sharp decrease in the payment of special levy on the sale of domestic crude oil by the company.

***Profit from Operations.*** Impacted by factors such as the sharp decrease in crude oil prices, the profit from operations for the year ended December 31, 2009 was RMB105,019 million, representing a decrease of 56.3% from RMB240,470 million for the preceding year. However, the exploration and production segment remains the most important contributor to the profit of the company.



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### ***Refining and Chemicals***

**Turnover.** Turnover decreased 10.6% from RMB560,729 million for the year ended December 31, 2008 to RMB501,300 million for the year ended December 31, 2009. The decrease was primarily due to decrease in the selling prices of key refining and chemical products.

**Operating Expenses.** Operating expenses decreased 26.1% from RMB654,559 million for the year ended December 31, 2008 to RMB483,992 million for the year ended December 31, 2009. The decrease was primarily due to the international crude oil price being lower than last year, which resulted in a decrease in the purchase costs of crude oil and feedstock oil from external suppliers.

**Profit/Loss from Operations.** The profit from operations amounted to RMB17,308 million for the year ended December 31, 2009, compared with a loss of RMB93,830 million for the year ended December 31, 2008.

### ***Marketing***

**Turnover.** Turnover decreased 1.3% from RMB778,141 million for the year ended December 31, 2008 to RMB768,295 million for the year ended December 31, 2009. The decrease in turnover was primarily due to a decrease in the selling prices of refined products and reductions in sales revenues from the oil products trading business.

**Operating Expenses.** Operating expenses decreased 2.0% from RMB770,159 million for the year ended December 31, 2008 to RMB755,030 million for the year ended December 31, 2009. The decrease was primarily due to a decrease in the purchase costs of refined products from external suppliers, together with a decrease in expenses relating to the oil products trading business.

**Profit from Operations.** Profit from operations was RMB13,265 million for the year ended December 31, 2009, representing an increase of 66.2% from RMB7,982 million for the proceeding year.

### ***Natural Gas and Pipeline***

**Turnover.** Turnover increased 22.7% from RMB63,315 million for the year ended December 31, 2008 to RMB77,658 million for the year ended December 31, 2009. The increase was primarily due to an increase in the natural gas sales volume and the volume of natural gas from pipeline transmission.

**Operating Expenses.** Operating expenses increased 24.0% from RMB47,258 million for the year ended December 31, 2008 to RMB58,612 million for the year ended December 31, 2009. The increase was primarily due to an increase in the purchase costs of natural gas.

**Profit from Operations.** Profit from the natural gas and pipeline segment to the company continue to grow. Profit from operations of the natural gas and pipeline segment was RMB19,046 million for the year ended December 31, 2009, representing an increase of 18.6% from RMB16,057 million for the year ended December 31, 2008.

## **Liquidity and Capital Resources**

Our primary sources of funding include cash generated by operating activities and short-term and long-term borrowings. Our primary uses of funds were for operating activities, acquisitions, capital expenditures, repayment of short-term and long-term borrowings and distributions of dividends to shareholders. Our payments to CNPC are limited to dividends and payments for services provided to us by CNPC. In the year ended December 31, 2010, we distributed as dividends 45% of our reported income for the year attributable to our shareholders. See Item 8

Financial Information Dividend Policy for a discussion of factors which may affect the determination by our board of directors of the appropriate level of dividends.

Our financing ability may be limited by our financial condition, our results of operations and the international and domestic capital markets. Prior to accessing the international and domestic capital markets, we must obtain approval from the relevant PRC government authorities. In general, we must obtain PRC government approval for any project involving significant capital investment for our refining and chemicals, marketing and natural gas and

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pipeline segments. For a more detailed discussion of factors which may affect our ability to satisfy our financing requirements, see Item 3 Key Information Risk Factors .

We plan to fund the capital and related expenditures described in this annual report principally through cash from operating activities, short-term and long-term borrowings and cash and cash equivalents. Net cash flows from operating activities in the year ended December 31, 2010 was RMB310,686 million. As of December 31, 2010, we had cash and cash equivalents of RMB45,709 million. While each of the projects described in this annual report for which significant capital expenditures will be required is important to our future development, we do not believe that failure to implement any one of these projects would have a material adverse effect on our financial condition or results of operations. If the price of crude oil undergoes a steep decline in the future, it is likely that we would delay or reduce the scale of the capital expenditures for our exploration and production segment.

In October 2007, we issued 4 billion A Shares, which have been listed and traded on the Shanghai Stock Exchange since November 5, 2007. The total proceeds and net proceeds from such issuance were RMB66,800 million and RMB66,243 million, respectively. Of the net proceeds, approximately RMB6,840 million were used for the project to increase the crude oil production capacity of Changqing Oilfield; approximately RMB5,930 million were used for the project to increase the crude oil production capacity of Daqing Oilfield; approximately RMB1,500 million were used for the project to increase the crude oil production capacity of Jidong Oilfield; approximately RMB17,500 million were used for the project to process and refine sulphur-bearing crude oil imported from Kazakhstan and the ethylene technology development project of Dushanzi Petrochemical, and approximately RMB6,000 million were used for the 1.2 million tons/year ethylene redevelopment and expansion project of Daqing Petrochemical. The balance of the net proceeds will be used as additional working capital and for general commercial purpose. A total of RMB63,988 million were used by the end of 2010, and the unused amount currently is deposited a special bank account of our company.

We currently do not have any outstanding options, warrants or other rights for any persons to require us to issue any common stock at a price below its market value. We do not currently intend to issue any such rights or to otherwise issue any common stock for a price below its market value.

In addition, we did not have for the year ended December 31, 2010, and do not currently have, any transactions, arrangements or other relationships with unconsolidated entities or other persons that are reasonably likely to materially affect the liquidity or availability of or requirements for our capital resources.

The table below sets forth our cash flows for each of the years ended December 31, 2008, 2009 and 2010 and our cash equivalents at the end of each period.

|   | <b>Year Ended December 31,</b> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <b>2008</b>                    | <b>2009</b> | <b>2010</b> |
|   | <b>(RMB in millions)</b>       |             |             |
| Net cash flows from operating activities        | 172,465                        | 261,972     | 310,686     |
| Net cash flows used for investing activities    | (211,797)                      | (261,453)   | (291,192)   |
| Net cash flows from/(used) financing activities | 3,777                          | 53,077      | (60,944)    |
| Currency translation difference                 | (112)                          | 179         | 234         |
| Cash and cash equivalents at year end           | 33,150                         | 86,925      | 45,709      |

Our cash and cash equivalents decreased by 47.4% from RMB86,925 million as of December 31, 2009 to RMB45,709 million as of December 31, 2010.

### **Net Cash Flows from Operating Activities**

Our net cash flows from operating activities for the year ended December 31, 2010 was RMB310,686 million, representing an increase of 18.6% compared with RMB261,972 million generated for the year ended December 31, 2009. This was mainly due to the increase in net profit in 2010 compared with that of last year. As at December 31, 2010, the company had cash and cash equivalents of RMB45,709 million. The cash and cash equivalents were mainly denominated in Renminbi (approximately 75.2% were denominated in Renminbi, approximately 17.8% were denominated in US Dollars, approximately 0.8% were denominated in HK Dollars and approximately 6.2% were denominated in other currencies).

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Our net cash flows from operating activities for the year ended December 31, 2009 was RMB261,972 million, representing an increase of 51.9% compared with RMB172,465 million generated for the year ended December 31, 2008. This was mainly due to the decrease in cash outflow arising from the strengthened working capital management by the company in response to the global financial crisis, and the reduction of value-added taxes as a result of the new pricing mechanism for refined products implemented by the PRC government. As at December 31, 2009, the company had cash and cash equivalents of RMB86,925 million. The cash and cash equivalents were mainly denominated in Renminbi (approximately 77.2% were denominated in Renminbi, approximately 17.2% were denominated in U.S. dollar, approximately 4.5% were denominated in HK dollar and approximately 1.1% were denominated in other currencies).

**Net Cash Flows Used for Investing Activities**

Our net cash flows used for investing activities for the year ended December 31, 2010 was RMB291,192 million, representing an increase of 11.4% compared with RMB261,453 million used for investing activities for the year ended December 31, 2009. The net increase was primarily due to an increase in expenditures for the acquisition of associated companies and joint venture companies.

Our net cash flows used for investing activities for the year ended December 31, 2009 was RMB261,453 million, representing an increase of 23.4% compared with RMB211,797 million used for investing activities for the year ended December 31, 2008. The net increase was primarily due to an increase in capital expenditures paid in cash during the year as a result of the construction of the strategic projects (including the Second West-East Gas Pipeline) and major programs by the company.

**Net Cash Flows From/(Used) Financing Activities**

Our net cash outflow used for financing activities for the year ended December 31, 2010 was RMB60,944 million, while our net cash inflow from financing activities for the year ended December 31, 2009 was RMB53,077 million. This was primarily due to the amount of repayment of borrowings exceeding new loans borrowed during 2010.

Our net cash flows from financing activities for year ended December 31, 2009 was RMB53,077 million, while our net cash flows from financing activities for the year ended December 31, 2008 was RMB3,777 million. This increase was primarily because we increased our financing activities in response to the financial crisis.

Our net borrowings as of December 31, 2008, 2009 and 2010 were as follows:

|   | <b>2008</b>              | <b>December 31,<br/>2009</b> | <b>2010</b> |
|---|--------------------------|------------------------------|-------------|
|   | <b>(RMB in millions)</b> |                              |             |
| Short-term debt (including current portion of long-term debt) | 93,670                   | 148,851                      | 102,268     |
| Long-term debt  | 32,852                   | 85,471                       | 131,352     |
| Total debt  | 126,522                  | 234,322                      | 233,620     |
| Less:   |                          |                              |             |
| Cash and cash equivalents                                     | 33,150                   | 86,925                       | 45,709      |
| Net debt  | 93,372                   | 147,397                      | 187,911     |

Of our total borrowings as at December 31, 2010, approximately 79.9% were fixed-rate loans and approximately 20.1% were floating-rate loans. Of our borrowings as at December 31, 2010, approximately 86.2% were denominated in Renminbi, approximately 12.1% were denominated in United States Dollars, approximately 1.3% were denominated in Canadian Dollars and approximately 0.4% were denominated in other currencies.

Of our total borrowings as at December 31, 2009, approximately 69.7% were fixed-rate loans and approximately 30.3% were floating-rate loans. Of our borrowings as at December 31, 2009, approximately 83.2% were denominated in Renminbi, approximately 16.7% were denominated in U.S. dollar, and approximately 0.1% were denominated in other currencies.

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Our debt to capital ratio (calculated by dividing interest-bearing debts by the aggregate of interest-bearing debts and shareholder's equity) as of December 31, 2010 was 18.8%, as compared to 20.5% as of December 31, 2009.

**Capital Expenditures and Investments**

For the year ended December 31, 2010, our capital expenditures increased 3.5% to RMB276,212 million from RMB266,836 million for the year ended December 31, 2009. The increase in capital expenditures was primarily due to an increase in input for constructions in sizeable oil and gas zones in China and overseas, as part of our strategy to continue focusing on oil and gas exploration and development. On the other hand, we reasonably timed our investment decisions and focused more on strengthening control of the process of projects. This served to reduce costs and control the growth in capital expenditures.

The table below sets forth our capital expenditures and investments by business segment for each of the years ended December 31, 2008, 2009 and 2010 as well as those anticipated for the year ending December 31, 2011. Actual capital expenditures and investments for periods after January 1, 2011 may differ from the amounts indicated below.

|   | 2008              |       | 2009                   |       | 2010              |       | 2011<br>Anticipated |       |
|---|-------------------|-------|------------------------|-------|-------------------|-------|---------------------|-------|
|   | (RMB in millions) | %     | (RMB in millions)      | %     | (RMB in millions) | %     | (RMB in millions)   | %     |
| Exploration and production <sup>(1)</sup> | 157,194           | 67.6  | 129,017                | 48.4  | 160,893           | 58.3  | 171,800             | 53.7  |
| Refining and chemicals                    | 30,619            | 13.2  | 42,558                 | 15.9  | 44,242            | 16.0  | 48,000              | 15.0  |
| Marketing                                 | 4,974             | 2.1   | 18,174                 | 6.8   | 15,793            | 5.7   | 19,900              | 6.2   |
| Natural gas and pipeline                  | 36,848            | 15.9  | 74,754                 | 28.0  | 53,648            | 19.4  | 77,300              | 24.2  |
| Others                                    | 2,742             | 1.2   | 2,333                  | 0.9   | 1,636             | 0.6   | 3,000               | 0.9   |
| Total                                     | 232,377           | 100.0 | 266,836 <sup>(2)</sup> | 100.0 | 276,212           | 100.0 | 320,000             | 100.0 |

(1) If investments related to geological and geophysical exploration costs are included, the capital expenditures and investments for the exploration and production segment for 2009 and 2010, and the estimates for the same in 2011 would be RMB138,396 million, RMB173,142 million and RMB184,800 million, respectively.

(2) The capital expenditure for 2009 has excluded the consideration for the acquisition of Singapore Petroleum Company Limited in the amount of Singapore dollars ( S\$ )3,239 million (approximately RMB15,296 million).

As of December 31, 2010, the capital expenditures contracted for at the balance sheet date but not recognized in our consolidated financial statements were approximately RMB49,495 million.

**Exploration and Production**

A majority of our capital expenditures and investments relate to our exploration and production segment. For each of the three years ended December 31, 2008, 2009 and 2010 capital expenditures in relation to the exploration and

production segment amounted to 157,194 million, 129,017 million and RMB160,893 million, respectively. In 2010, the capital expenditures and investments in the exploration and production segment were primarily used for large oil and gas exploration projects and for the construction of key production capacities for various oil and gas fields such as in the oil and gas fields located in Changqing, Daqing, Tarim and Southwestern oil and gas fields in China and for the development of large-sized overseas oil and gas fields such as Aktyubinsk and Rumaila oil and gas fields.

We anticipate that capital expenditures for the exploration and production segment for the year ended December 31, 2011 will amount to approximately RMB171,800 million, of which approximately RMB30,000 million will be mainly used for oil and gas exploration activities, and approximately RMB141,800 million will be used for the oil and gas development activities. Domestic exploration activities will be mainly focused on the overall development of regions in Songliao Basin, Bohai Basin, Erdos Basin, Sichuan Basin, Tarim Basin and other key oil and gas regions.



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Development activities will be focused on the construction of new proved oil and gas fields, while the steady and increasing production of Daqing, Changqing, Liaohe, Tarim and Southwestern oil and gas fields will also be emphasized; oil and gas exploration and development in Central Asia, the Middle East, America, and Asia Pacific regions will be the focus of our overseas development efforts.

### ***Refining and Chemicals***

Our capital expenditures for our refining and chemicals segment for each of the years ended December 31, 2008, 2009 and 2010 were RMB30,619 million, RMB42,558 million, RMB44,242 million, respectively. Among the capital expenditure made in 2010, RMB15,452 million was used on the construction of refinery facilities and RMB28,790 million was used on the construction of chemicals facilities. Capital expenditures for the Refining and Chemicals segment were mainly used for the construction of refining facilities with refining capacities of over 10 million tons of crude oil per year and large scale ethylene projects, such as the Guangxi Petrochemical, Sichuan Petrochemical, Fushun Petrochemical and Daqing Petrochemical projects.

We anticipate that our capital expenditures for our refining and chemicals segment for 2011 will amount to RMB48,000 million, approximately RMB28,000 million of which will be used for the construction and expansion of refinery facilities, mainly for large scale refining projects at Sichuan Petrochemical, Huhhot Petrochemical and Ningxia Petrochemical, and approximately RMB20,000 million will be used for the construction and expansion of chemicals facilities, mainly the large scale ethylene projects at Sichuan Petrochemical, Fushun Petrochemical and Daqing Petrochemical.

### ***Marketing***

Our capital expenditures for our marketing segment for each of the years ended December 31, 2008, 2009 and 2010 were RMB4,974 million, RMB18,174 million and RMB15,793 million, respectively. Our capital expenditures for the marketing segment in 2010 were mainly used for the construction of service stations, storage facilities and other facilities for our sales network.

Our anticipated capital expenditures for our marketing segment for the year ending December 31, 2011 amount to RMB19,900 million, which are expected to be used primarily for the construction and expansion of high-efficiency sales networks.

### ***Natural Gas and Pipeline***

Our capital expenditures for the natural gas and pipeline segment for each of the three years ended December 31, 2008, 2009 and 2010 were RMB36,848 million, RMB74,754 and RMB53,648 million, respectively. Our capital expenditures for the natural gas and pipeline segment in 2010 were mainly used for the construction of the Second West-East Gas Pipeline, the Russia to China crude oil transmission pipeline and the Lanzhou-Zhengzhou-Changsha Refined Products Pipeline.

Our anticipated capital expenditures for our natural gas and pipeline segment for the year ending December 31, 2011 amount to approximately RMB77,300 million, which are expected to be used primarily for the construction of major oil and gas transmission projects such as the Second West-East Gas Pipeline, Zhongwei to Guiyang Natural Gas Pipeline and the Lanzhou to Chengdu Crude Oil Pipeline and associated liquefied natural gas and city gas facilities.

### ***Others***

Our non-segment-specific capital expenditures and investments for each of the years ended December 31, 2008, 2009 and 2010 were RMB2,742 million, RMB2,333 million and RMB1,636 million, respectively.

Our anticipated non-segment-specific capital expenditures for the year ending December 31, 2011 amount to RMB3,000 million. These planned capital expenditures and investments mainly include capital expenditures for scientific research activities and the construction of the information system.

**Table of Contents****Off-Balance Sheet Arrangements**

There are no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

**Long-Term Contractual Obligations and Other Commercial Commitments and Payment Obligations**

All information that is not historical in nature disclosed under Item 5 Operating and Financial Review and Prospects Long-Term Contractual Obligations and Other Commercial Commitments and Payment Obligations is deemed to be a forward looking statement. See Forward-Looking Statements for additional information.

The tables below set forth our long-term contractual obligations outstanding as of December 31, 2010.

| <b>Contractual Obligations</b>     | <b>Total</b> | <b>Payment Due by Period</b> |                  |                  | <b>After<br/>5 Years</b> |
|------------------------------------|--------------|------------------------------|------------------|------------------|--------------------------|
|                                    |              | <b>Less Than<br/>1 Year</b>  | <b>1-3 Years</b> | <b>3-5 Years</b> |                          |
|                                    |              | <b>(RMB in millions)</b>     |                  |                  |                          |
| Long-term debt                     | 136,445      | 5,093                        | 48,084           | 62,644           | 20,624                   |
| Capital lease obligations          |              |                              |                  |                  |                          |
| Operating leases                   | 94,842       | 4,118                        | 6,765            | 6,407            | 77,552                   |
| Capital commitments                | 49,495       | 42,774                       | 6,721            |                  |                          |
| Unconditional purchase obligations | 2,631        | 1,328                        | 1,212            | 42               | 49                       |
| Other long-term obligations        |              |                              |                  |                  |                          |
| Debt-related interest              | 24,068       | 4,605                        | 7,924            | 5,521            | 6,018                    |
| Total contractual cash obligations | 307,481      | 57,918                       | 70,706           | 74,614           | 104,243                  |

We are obligated to make annual payment with respect to our exploration and production licenses to the Ministry of Land and Resources. The table below sets forth the estimated amount of the annual payments in the next five years:

| <b>Year</b> | <b>Annual Payment<br/>(RMB in millions)</b> |
|-------------|---|
| 2011        | 1,000                                       |
| 2012        | 1,000                                       |
| 2013        | 1,000                                       |
| 2014        | 1,000                                       |
| 2015        | 1,000                                       |

***Assets Retirement Obligation***

A number of provinces and regions in which our oil and gas exploration and production activities are located have promulgated environment protection regulations, which set forth specific abandonment and disposal processes for oil

and gas exploration and production activities. We have established standard abandonment procedures, including plugging all retired wells, dismantling all retired metering stations and other related facilities and performing site restoration, in response to the issuance of these provincial and regional regulations. An additional obligation of RMB13,736 million was recorded in 2010.

### **Research and Development**

We have a research and development management department, directly under which there are three research institutions. Except for our branch companies which are engaged in marketing activities, each of our branch companies has its own research and development management department. Most of our branch companies have their own research institutions. Our research and development management departments are mainly responsible for

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managing and coordinating the research and development activities conducted by each of the research institutions. As of December 31, 2010, we had 26,512 employees engaged in research and development functions.

In each of the years ended December 31, 2008, 2009 and 2010, our total expenditures for research and development were approximately RMB7,760 million, RMB9,887 million and RMB11,840 million, respectively.

## **Exploration and Production**

Most of China's major oil and gas fields are characterized by a broad range of geological conditions, and a majority of China's oil and gas fields are in continental sedimentary basins with complex structures. Our research and development efforts with respect to our exploration and production business focus on:

- theories and technologies of crude oil and natural gas exploration;
- oil and gas development and surface engineering technology;
- oil and gas production and pipeline transportation; and
- security, energy conservation and environment protection.

## **Refining and Chemicals**

Currently, our research and development efforts in the refining and chemicals segment are focusing on the following areas:

- technology for clean refined oil products;
- core technology for heavy oil processing;
- technology for developing high quality and high value synthetic resin products;
- high performance synthetic rubber products;
- production technology for low cost chemical raw materials; and
- integration of the informationization technology and refinery business.

## **Trend Information**

The world economic situation and energy industry are developing and changing rapidly. China may encounter unexpected challenges and obstacles in maintaining a stable economic development. The increase in China's domestic demand for refined oil products is still subject to many uncertainties. The competition on China's domestic petroleum and petrochemical market will be more intense.

Other than as disclosed above and elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the periods from January 1, 2008 to December 31, 2010 that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that would cause the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

**Other Information**

**Inflation**

Inflation or deflation has not had a significant impact on our results of operations for the year ended December 31, 2010.

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**Related Party Transactions**

For a discussion of related party transactions, see Item 7 Major Shareholders and Related Party Transactions Related Party Transactions and Note 37 to our consolidated financial statements included elsewhere in this annual report.

**Recent Developments in IFRS**

For a detailed discussion of recent developments in IFRS, see Note 3 to our consolidated financial statements.

**ITEM 6 *DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES***

**Directors, Senior Management and Supervisors**

As of the end of the current reporting period, our board of directors consisted of fourteen directors, five of whom were independent non-executive directors. The directors are elected at a meeting of our shareholders for a term of three years. The directors may be re-elected and re-appointed upon the expiration of his/her term of office. The functions and duties conferred on the board of directors include:

convening shareholders meetings and reporting its work to the shareholders meetings;

implementing the resolutions of the shareholders meetings;

determining our business plans and investment plans;

formulating our annual budget and final accounts;

formulating our profit distribution proposal and loss recovery proposals;

formulating proposals for the increase or reduction of our registered capital and the issuance of our debentures or other securities and listings;

formulating proposals for any amendment of our articles of association;

deciding on our internal management structure and formulate our basic management system;

Managing the information disclosures of our company and other matters relating to communications with the shareholders; and

exercising any other powers and duties conferred by the shareholders at general meetings and set forth in our articles of association.

Eight of the directors are affiliated with CNPC or an affiliate of CNPC.

The PRC Company Law requires a joint stock company with limited liability to establish a supervisory board. This requirement is reflected in our articles of association. The supervisory board is responsible for monitoring our financial matters and overseeing the corporate actions of our board of directors and our management personnel. The supervisory board consists of nine supervisors, six of whom are elected, including four shareholders representatives and two independent supervisors, and may be removed, by the shareholders in a general meeting and three of whom are employees representatives who are elected by our staff, and may be removed, by our staff. Four of our supervisors

are affiliated with CNPC. The term of office of our supervisors is three years. The supervisors may be re-elected and re-appointed upon the expiration of his/her term of office. An elected supervisor cannot concurrently hold the position of a director, manager or financial controller.

The supervisory board shall be responsible to the shareholders meeting and shall exercise the following functions and powers in accordance with law:

to review the periodic reports prepared by the board of directors and issue written opinions in connection with such review;

to review the company's financial position;



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to oversee the performance of duties by the directors, the president, senior vice presidents, vice presidents, the chief financial officer and other senior officers of the company and to propose the removal of any of the foregoing persons who acts in contravention of any law, regulation, the company's articles of association or any resolutions of the shareholders' meeting;

to demand any director, the president, senior vice president, vice president, the chief financial officer or any other senior officer who acts in a manner which is harmful to the company's interest to rectify such behavior;

to check the financial information such as the financial report, business report and plans for distribution of profits to be submitted by the board of directors to the shareholders' meetings and to authorize, in the company's name, publicly certified and practicing auditors to assist in the re-examination of such information should any doubt arise in respect thereof;

to propose the convening of an extraordinary shareholders' meeting, and convene and preside over a shareholders' meeting when the board fails to perform its duties to do so as set forth in the PRC Company Law;

to submit proposals to the shareholders' meetings;

to confer with any director, or initiate legal proceedings on behalf of the company against any director, the president, senior vice president, vice president, the chief financial officer or any other senior officer in accordance with Article 152 of the PRC Company Law

to initiate investigations upon being aware of any extraordinary development in the operational conditions of the company;

together with the audit committee of the board, reviewing and supervising the engagement and work of external auditors, including evaluating the performance of external auditors annually and raising proposals to the shareholders' meetings with respect to the engagement, re-engagement and dismissal of external auditors and the compensation of such external auditors;

to supervise the legal compliance of the related-party transactions; and

other functions and powers as set forth in the articles of association of the company.

Supervisors shall attend meetings of the board of directors as observers.

In the event that any action of our directors adversely affects our interests, supervisors shall confer with or initiate legal proceedings against such directors on our behalf. A resolution proposed at any meeting of the supervisory board shall be adopted only if it is approved by two-thirds or more of our supervisors.

Our senior management is appointed by and serves at the supervision of our board of directors. The board of directors will review, evaluate and supervise the performance of the executive team and reward or punish the members of the executive team in accordance with relevant rules and regulations.

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The following table sets forth certain information concerning our directors, supervisors and executive officers as of December 31, 2010.

| <b>Name</b>               | <b>Age</b> | <b>Position</b>  | <b>Date of Election<sup>(1)</sup></b> |
|---------------------------|------------|--|---------------------------------------|
| Jiang Jiemin              | 55         | Chairman of the board of directors                     | May 15, 2008                          |
| Zhou Jiping               | 58         | Vice Chairman of the board of directors and president  | May 15, 2008                          |
| Wang Yilin <sup>(2)</sup> | 54         | Director   | May 15, 2008                          |
| Zeng Yukang               | 60         | Director   | May 15, 2008                          |
| Wang Fucheng              | 60         | Director   | May 15, 2008                          |
| Li Xinhua                 | 57         | Director   | May 15, 2008                          |
| Liao Yongyuan             | 48         | Director and vice president                            | May 15, 2008                          |
| Wang Guoliang             | 58         | Director   | May 15, 2008                          |
| Jiang Fan                 | 47         | Director   | May 15, 2008                          |
| Chee-Chen Tung            | 68         | Independent non-executive director                     | May 15, 2008                          |
| Liu Hongru                | 80         | Independent non-executive director                     | May 15, 2008                          |
| Franco Bernabè            | 62         | Independent non-executive director                     | May 15, 2008                          |
| Li Yongwu                 | 66         | Independent non-executive director                     | May 15, 2008                          |
| Cui Junhui                | 64         | Independent non-executive director                     | May 15, 2008                          |
| Li Hualin                 | 48         | Vice President and Secretary to the board of directors |                                       |
| Sun Longde                | 48         | Vice president   |                                       |
| Shen Diancheng            | 51         | Vice president   |                                       |
| Liu Hongbin               | 47         | Vice president   |                                       |
| Zhou Mingchun             | 43         | Chief financial officer                                |                                       |
| Zhao Zhengzhang           | 54         | Vice president   |                                       |
| Bo Qiliang                | 48         | Vice president   |                                       |
| Sun Bo                    | 50         | Vice president   |                                       |
| Lin Aiguo                 | 52         | Chief engineer   |                                       |
| Wang Daofu                | 55         | Chief geologist  |                                       |
| Huang Weihe               | 53         | Chief engineer   |                                       |
| Chen Ming                 | 60         | Chairman of the supervisory board                      |                                       |
| Wen Qingshan              | 52         | Supervisor   |                                       |
| Sun Xianfeng              | 58         | Supervisor   |                                       |
| Yu Yibo                   | 47         | Supervisor   |                                       |
| Wang Yawei                | 56         | Supervisor   |                                       |
| Qin Gang                  | 57         | Supervisor   |                                       |
| Wang Shali                | 56         | Supervisor   |                                       |
| Li Yuan                   | 63         | Independent supervisor                                 |                                       |
| Wang Daocheng             | 70         | Independent supervisor                                 |                                       |

(1) For directors only; and

(2) On April 15, 2011, Mr. Wang Yilin resigned as a director of our company with immediate effect.

**Directors**

***Jiang Jiemín***, aged 55, is the Chairman of our company and the General Manager of CNPC. Mr. Jiang is a senior economist and has been awarded with post-graduate qualification. Mr. Jiang has nearly 40 years of working experience in China's oil and gas industry. He was made Deputy Director of the Shengli Petroleum Administration Bureau in March 1993, Senior Executive of the Qinghai Petroleum Administration Bureau in June 1994 and

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Director of Qinghai Petroleum Administration Bureau in November 1994, and Assistant to the General Manager and Team Leader for the Restructuring and Listing Preparatory Team of CNPC in February 1999, and a Director and Vice President of our company in November 1999. Mr. Jiang was appointed Deputy Provincial Governor of the Qinghai Province in June 2000, was made a member of the provincial party committee of the Qinghai Province and Deputy Provincial Governor of Qinghai in November 2000, and the deputy secretary of the provincial party committee of Qinghai Province and Deputy Provincial Governor of Qinghai in June 2003. Mr. Jiang became the Deputy General Manager of CNPC in April 2004, and Vice Chairman and President of our company in May 2004. Mr. Jiang has been the General Manager of CNPC since November 2006, and the Chairman of our company since May 2007. Mr. Jiang stepped down as the President of our company in May 2008.

**Zhou Jiping**, aged 58, is the Vice Chairman and President of our company and a Deputy General Manager of CNPC. Mr. Zhou is a professor-level senior engineer and holds a master's degree. He has nearly 40 years of working experience in China's oil and gas industry. In November 1996, he was appointed Deputy Director of the International Exploration and Development Cooperation Bureau of China National Petroleum Corporation and Deputy General Manager of China National Oil & Gas Exploration and Development Corporation. In December 1997, he was appointed General Manager of China National Oil & Gas Exploration and Development Corporation and Deputy Director of the International Exploration and Development Cooperation Bureau of China National Petroleum Corporation, and in August 2001, he was appointed Assistant to the General Manager of CNPC and General Manager of China National Oil & Gas Exploration and Development Corporation. Mr. Zhou has been a Deputy General Manager of CNPC since December 2003, and a Director of our company since May 2004. In May 2008, Mr. Zhou was appointed the Vice Chairman and President of our company.

**Wang Yilin**, aged 54, was a Director of our company from November 2005 to April 15, 2011. Mr. Wang is a professor-level senior engineer and holds a doctoral degree. He has nearly 30 years of working experience in China's oil and gas industry. Mr. Wang was appointed the Deputy Director and Chief Exploration Geologist of Xinjiang Petroleum Administration Bureau in June 1996, and the General Manager of our Xinjiang Oilfield Company in September 1999. He was appointed a senior executive of Xinjiang Petroleum Administration Bureau and the General Manager of Xinjiang Oilfield Company in June 2001. He worked as the Assistant General Manager of CNPC, concurrently as a senior executive of Xinjiang Petroleum Administration Bureau and the General Manager of Xinjiang Oilfield Company since July 2003. Mr. Wang was appointed a Deputy General Manager of CNPC in December 2003 while concurrently acting as a senior executive of Xinjiang Petroleum Administration Bureau and the General Manager of Xinjiang Oilfield Company. From May 2004, he ceased to work as a senior executive Xinjiang Petroleum Administration Bureau and the General Manager of Xinjiang Oilfield Company. He had been a Director of our company since November 2005. Mr. Wang resigned as a Director of our company on April 15, 2011 with immediate effect. Mr. Wang Yilin ceased to be the Deputy General Manager of CNPC after the approval of the State-owned Assets Supervision and Administration Commission of the State Council.

**Zeng Yukang**, aged 60, is a Director of our company and a Deputy General Manager of CNPC. Mr. Zeng is a professor-level senior economist and holds a college degree. He has over 40 years of working experience in China's oil and gas industry. Mr. Zeng had been the Senior Executive of the Exploration and Development Institute of Daqing Petroleum Administration Bureau since December 1996. From February 2000, he was appointed the Standing Deputy Director of Daqing Petroleum Administration Bureau. From March 2001 to February 2008 he was acting as the Director of Daqing Petroleum Administration Bureau, and in November 2002, he was appointed the Assistant to the General Manager of CNPC. He has been a Deputy General Manager of CNPC since September 2005, and a Director of our company since November 2005.

**Wang Fucheng**, aged 60, is a Director of our company and concurrently a Deputy General Manager of CNPC. Mr. Wang is a professor-level senior economist and holds a bachelor's degree. Mr. Wang has nearly 45 years of working experience in China's oil and gas industry. From August 1986, Mr. Wang worked as Senior Executive of the

Shengli Petroleum Administration Bureau. Since December 1992, Mr. Wang had worked as Senior Executive of the Liaohe Petroleum Exploration Administration Bureau. Since November 1997, Mr. Wang had worked as Director of the Liaohe Petroleum Exploration Administration Bureau. Since October 1999, Mr. Wang had been the General Manager of the Liaohe Oilfield Branch of our company. Mr. Wang had been a Director of our company from June 2000. Mr. Wang was appointed a Vice President of our company in July 2000. After stepping down from his position as a Director of our company, from November 2005 to May 2008, Mr. Wang worked as the Chairman of

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the Supervisory Board of our company. Mr. Wang has been a Deputy General Manager of CNPC since September 2007. In May 2008, Mr. Wang was appointed a Director of our company after stepping down from his position as the Chairman of the Supervisory Board of our company.

**Li Xinhua**, aged 57, is a Director of our company and a Deputy General Manager of CNPC. Mr. Li is a senior engineer and holds a college degree. Mr. Li has over 35 years of working experience in China's petrochemical industry. In June 1985 Mr. Li was appointed the Vice Director of Yunnan Province Natural Gas Chemical Plant, in February 1992 the Director of Yunnan Province Natural Gas Chemical Plant, in March 1997 the Chairman and General Manager of Yunnan Province Yuntianhua Group, in March 2002 the Assistant Governor of Yunnan Province, In January 2003 the Deputy Governor of Yunnan Province, and in April 2007 a Deputy General Manager of CNPC. Since May 2008, Mr. Li has been acting as a Director of our company.

**Liao Yongyuan**, aged 48, is a Director and Vice President of our company and concurrently serves as the Deputy General Manager and Safety Director of CNPC. Mr. Liao holds a master's degree and is a professor-level senior engineer. He has nearly 30 years of working experience in China's oil and gas industry. He was Deputy Director of the New Zone Exploration and Development Department of China National Petroleum Corporation from June 1996, the Standing Deputy Commander and then Commander of Tarim Petroleum Exploration and Development Headquarters from November 1996. He was the General Manager of Tarim Oilfield Branch Company from September 1999, and also Deputy Director of Gansu Provincial Economic and Trade Committee from October 2001. He has worked as the Assistant to the General Manager of CNPC since January 2004 and has been concurrently the Head of Coordination Team for Oil Enterprises in Sichuan and Chongqing and Director of Sichuan Petroleum Administration since April 2004. He has been a Vice President of our company since November 2005. He was appointed a Deputy General Manager of CNPC in February 2007, and Safety Director of CNPC in July 2007. He has been a Director of our company since May 2008.

**Wang Guoliang**, aged 58, is a Director of our company and the General Accountant of CNPC. Mr. Wang is a professor-level senior accountant and holds a master's degree. Mr. Wang has nearly 30 years of working experience in China's oil and gas industry. Mr. Wang had worked as the Vice President of China Petroleum Finance Company Limited from October 1995. In November 1997, he was appointed a Deputy General Manager and the General Accountant of China National Oil & Gas Exploration and Exploitation Corporation. Mr. Wang had been the Chief Financial Officer of our company from November 1999. He was appointed General Accountant of CNPC in February 2007, and Director of our company in May 2008.

**Jiang Fan**, aged 47, is a Director of our company and the General Manager of Dalian Petrochemical Company. Mr. Jiang is a professor-level senior engineer and holds a master's degree. He has over 25 years of working experience in China's oil and gas industry. Mr. Jiang was appointed the Deputy Manager of Dalian Petrochemical Company in December 1996 and the Deputy General Manager of Dalian Petrochemical Company in September 1999. He has been the General Manager of PetroChina Dalian Petrochemical Company since February 2002, and a Director of our company since November 2005.

**Independent Non-executive Directors**

**Chee-Chen Tung**, aged 68, is an independent non-executive Director of our company. Mr. Tung is the Chairman and Chief Executive Officer of Orient Overseas (International) Limited. He was educated at the University of Liverpool, England, where he received his Bachelor of Science degree. He later acquired a Master's degree in Mechanical Engineering at the Massachusetts Institute of Technology in the United States. He served as Chairman of the Hong Kong Shipowners' Association between 1993 and 1995. From 1999 to 2001, he was the Chairman of the Hong Kong General Chamber of Commerce. He is an independent non-executive director of Zhejiang Expressway Co., Ltd., BOC Hong Kong (Holdings) Limited, Wing Hang Bank Limited, Sing Tao News Corporation Limited, Cathay Pacific

Airways Limited and U-Ming Marine Transport Corporation, and a member of the Hong Kong Port Development Board. Mr. Tung is also the Chairman of the Institute for Shipboard Education Foundation, the Chairman of the Advisory Council and a member of the Board of Trustees of the Hong Kong Polytechnic University and a member of the Board of Trustees of the International Academic Center of the University of Pittsburgh and the School of Foreign Service of Georgetown University. Mr. Tung has been an independent non-executive Director of our company since November 1999.

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**Liu Hongru**, aged 80, is an independent non-executive Director of our company. Mr. Liu is a professor and holds a doctoral degree. He graduated from the Faculty of Economics of the University of Moscow in 1959 with an associate Doctoral degree. Mr. Liu worked as Vice Governor of the Agricultural Bank of China, Vice-Governor of the People's Bank of China, Deputy Director of the State Economic Restructuring Committee, and the Chairman of the China Securities Regulatory Commission. Mr. Liu is also a professor at the Peking University, the Postgraduate School of the People's Bank of China and the City University of Hong Kong. Mr. Liu also serves as a non-executive director of OP Financial Investments Limited and possesses the accounting or financial management qualification required under the Rules Governing the Listing of Securities on the Stock Exchange Hong Kong Limited. Mr. Liu was appointed an independent Supervisor of our company in December 1999. After his resignation from this position as independent supervisor, Mr. Liu was appointed an independent non-executive Director of our company in November 2002.

**Franco Bernabè**, aged 62, is an independent non-executive Director of our company. He holds a doctoral degree in political economics. He is currently the Chief Executive Officer of Telecom Italia (serving a second time). Prior to that, he held the responsibilities of the chairman of the Franco Bernabè Group, the Vice Chairman of H3G, the Vice Chairman of Rothschild Europe, a non-executive director of Pininfarina Spa and an independent non-executive director of Areoportidi Bologna. Mr. Bernabè joined ENI in 1983 to become an assistant to the chairman; in 1986 he became director for development, planning and control; and between 1992 and 1998 he was the Chief Executive Officer of ENI. Mr. Bernabè led the restructuring program of the ENI Group, making it one of the world's most profitable oil companies. Between 1998 and 1999, Mr. Bernabè was the Chief Executive Officer of Telecom Italia. Between 1999 and 2000, he has also served as a special representative of the Italian government for the reconstruction of the Balkan region. He was the Chairman of La Biennale di Venezia from 2001 to 2003 and has been the Chairman of the Modern Arts Museum of Trento and Rovereto since 2005. Prior to his joining ENI, Mr. Bernabè was the head of economic studies at FIAT. Mr. Bernabè was a senior economist at the OECD Department of Economics and Statistics in Paris. Earlier he was a professor of economic politics at the School of Industrial Administration, Turin University. He had also served on the Advisory Board of the Council of Foreign Relations and is currently an International Governor of the Peres Center for Peace. Mr. Bernabè has been an independent non-executive Director of our company since June 2000.

**Li Yongwu**, aged 66, is an independent non-executive Director of our company. Mr. Li is a senior engineer and holds a bachelor's degree. In June 1991, Mr. Li was appointed as the Director of Tianjin Chemicals Bureau. In July 1993, he was appointed as the Director of Tianjin Economic Committee. He was elected as the Vice Minister of the PRC Ministry of Chemical Industry in April 1995. He became Director of the State's Petroleum and Chemical Industry Bureau in March 1998. In April 2001, he was appointed a Deputy Director of the Liaison Office of the Central Government at the Special Administrative Region of Macau. In December 2004, he was appointed the Vice President of China Petroleum and Petrochemical Industry Association. In May 2005, he became the Chairman of China Petroleum and Petrochemical Industry Association and in November 2005, he became an Independent Supervisor of our company. In 2003, he was elected as a standing member of the Tenth Chinese People's Consultative Conference. In May 2008, Mr. Li was appointed an independent non-executive Director of our company.

**Cui Junhui**, aged 64, is an independent non-executive Director of our company. Mr. Cui is a representative of the 11th National People's Congress of the PRC and a Committee Member of the Financial and Economic Affairs Committee of the National People's Congress of the PRC. He is holder of a postgraduate degree (part-time study). The positions he held include Deputy Director of the Tax Bureau of Shandong Province and the Director of State Tax Bureau of Shandong Province. From January 2000 to January 2007, he served as a Deputy Director of the State Administration of Taxation. In December 2006, he was made a Vice President of China Society of Taxation and a Vice President of China Charity Federation. Mr. Cui was elected as a representative of the 11th National People's Congress and a member of the Financial and Economic Affairs Committee of the National People's Congress in March 2008. In April 2008, Mr Cui was elected as the President of the sixth term of the Chinese Taxation Institute. Mr. Cui has served as a non-executive Director of our company since May 2008.





**Table of Contents****Secretary to the Board of Directors**

**Li Hualin**, aged 48, is the Secretary to the Board of Directors and Vice President of our company, and an Executive Director and General Manager of China Petroleum Hongkong (Holding) Limited. Mr. Li holds a master's degree and is a professor-level senior economist. Mr. Li has over 25 years of experience in the oil and gas industry in China. In December 1997, Mr. Li became the Deputy General Manager of the China National Oil and Gas Exploration Development Corporation and the Chairman and General Manager of CNPC International (Canada) Ltd. In September 1999, Mr. Li became the General Manager of CNPC International (Kazakhstan) Ltd. whilst remaining as the Deputy General Manager of the China National Oil and Gas Exploration and Development Corporation. In January 2001, Mr. Li became the Deputy General Manager of China Petroleum Hongkong (Holding) Limited. In December 2001, he was appointed as the Chairman of Shenzhen Petroleum Industrial Co., Ltd. From July 2006, Mr. Li became the Vice-Chairman and General Manager of China Petroleum Hongkong (Holding) Limited, whilst remaining as the Chairman of Shenzhen Petroleum Industrial Co., Ltd. Mr. Li has been a Vice President of our company since November 2007. Mr. Li was appointed as the Secretary to the Board of Directors of our company in May 2009.

**Other Senior Management Personnel**

**Sun Longde**, aged 48, is a Vice President of our company. Mr. Sun is a professor-level senior engineer and holds a doctoral degree. He has over 25 years of working experience in China's oil and geological industry. Mr. Sun was appointed the Deputy Chief Geologist of Xianhe Oil Extraction Plant and Deputy Manager of Dongxin Oil Extraction Plant of Shengli Petroleum Administration Bureau in January 1994, Chief Deputy Director-General of Exploration Business Department of Shengli Petroleum Administration Bureau in April 1997, the Manager of Exploration & Development Company of Shengli Petroleum Administration Bureau in September 1997, Chief Geologist of Tarim Petroleum Exploration & Development Headquarters in November 1997, Deputy General Manager of PetroChina Tarim Oilfield Company in September 1999 and the General Manager of PetroChina Tarim Oilfield Company in July 2002. Mr. Sun has been a Vice President of our company since June 2007.

**Shen Diancheng**, aged 51, is a Vice President of our company and concurrently the General Manager of the Refining & Chemicals Company of our company. Mr. Shen is a professor-level senior engineer and holds a college degree. He has over 25 years of working experience in China's oil and gas industry. Mr. Shen was appointed the Deputy Manager of the Chemical Agent Plant of Daqing Oilfield in June 1994, the Deputy Manager, Standing Deputy Director and acting Manager of the General Chemical Plant of Daqing Oilfield in January 1997, the Standing Deputy General Manager of PetroChina Daqing Refining & Chemical Company in October 2000, the General Manager of PetroChina Liaoyang Petrochemical Company in April 2002, and the General Manager of PetroChina Jilin Petrochemical Company in November 2005. Mr. Shen has been a Vice President of our company and General Manager of Chemical & Marketing Company since June 2007. Mr. Shen has served as a Vice President of our company and concurrently as the General Manager of the Refining and Chemicals Company since November 2007.

**Liu Hongbin**, aged 47, is a Vice President of our company and concurrently the General Manager of the Marketing Company of our company. Mr. Liu is a senior engineer and holds a college degree. He has over 25 years of working experience in China's oil and gas industry. Mr. Liu was appointed the Vice President of Exploration & Development Research Institute of Yumen Petroleum Administration Bureau in May 1991, the Director of the Development Division of Tuha Petroleum Exploration & Development Headquarters in October 1994, the Chief Engineer of Tuha Petroleum Exploration & Development Headquarters in June 1995, the Deputy General Manager of PetroChina Tuha Oilfield Company in July 1999, the Commander of Tuha Petroleum Exploration & Development Headquarters in July 2000, the General Manager of the Planning Department of our company in March 2002 and the Director of the Planning Department of CNPC in September 2005. Mr. Liu has become a Vice President of our company since June 2007. Mr. Liu has served as a Vice President of our company and concurrently as the General Manager of the Marketing Company since November 2007.

**Zhou Mingchun**, aged 43, is the Chief Financial Officer of our company and currently the General Manager of the Finance Department of our company. Mr. Zhou is a professor-level senior accountant and holds a master's degree. He has over 20 years of working experience in China's oil and gas industry. Mr. Zhou was appointed the

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Director of the Finance Division and the Director-General of Financial Settlement Centre of Daqing Petroleum Administration Bureau in October 1998, the principal officer of the Finance & Assets Division of Daqing Oilfield Company in September 1999, the director and Deputy Chief Accountant of Daqing Oilfield Company Limited in January 2000, the director and Chief Accountant of Daqing Oilfield Company Limited in October 2000, and the General Manager of the Finance Department of our company in March 2002. Mr. Zhou serves as the Chief Financial Officer of our company from June 2007.

**Zhao Zhengzhang**, aged 54, is a Vice President of our company and concurrently the General Manager of Exploration and Production Company of our company. Mr. Zhao holds a master's degree. He is a professor-level senior engineer and has over 25 years of working experience in China's oil and industry. In June 1996, Mr. Zhao was appointed as the Deputy Director of the New District Exploration Department of China National Petroleum Company. In November 1996, he was appointed as Deputy Director of the Exploration Bureau of China National Petroleum Company and Director of the New District Exploration Department. In October 1998, Mr. Zhao was appointed as Deputy Director of the Exploration Department of China National Petroleum Company. In September 1999, he was appointed as a member of the Preparatory Group of CNPC Exploration and Production Company. In December 1999, Mr. Zhao was appointed as Deputy General Manager of CNPC Exploration and Production Company. In January 2005, he was appointed as Senior Executive and Deputy General Manager of CNPC Exploration and Production Company. In January 2006, he was appointed as the General Manager of CNPC Exploration and Production Company. In May 2008, Mr. Zhao was appointed as a Vice President of the company and the General Manager of the Exploration and Production Company.

**Bo Qiliang**, aged 48, is a Vice President of our company and concurrently the General Manager of PetroChina International Ltd. Mr. Bo holds a doctor's degree and is a professor-level senior engineer. He has nearly 25 years of working experience in China's oil and gas industry. Mr. Bo became the Vice President of the Scientific Research Institute of Petroleum Exploration and Development in February 1997, key leader of CNPC International (E&D) Ltd. in December 2001, Senior Deputy General Manager of China National Oil and Gas Exploration and Development Corporation in October 2004, President of PetroKazakhstan Inc. and was concurrently leader of the Kazakhstan Coordination and Steering Team since November 2005, General Manager of China National Oil and Gas Exploration and Development Corporation since September 2008. Mr. Bo began to act as the General Manager of PetroChina International Ltd. while concurrently acting as the General Manager of China National Oil and Gas Exploration and Developing Corporation from November 2009. Mr. Bo has been acting as a Vice President of our company and concurrently as the General Manager at PetroChina International Ltd. since January 2010.

**Sun Bo**, aged 50, is a Vice President of our company and concurrently the general manager of Central-Asia China Gas Pipeline Company Limited and the General Manager of the Kazakhstan branch of our company. Mr. Sun is a professor-level senior engineer and has over 25 years of working experience in China's oil and gas industry. He was appointed the Deputy General Manager of Al Waha Oil Company Ltd. in June 1996; Vice President of CNPC International (Venezuela) Ltd. in October 1998; Chief Engineer and Deputy General Manager of China National Oil and Gas Exploration and Development Corporation and concurrently President of CNPC International (Venezuela) Ltd. in September 1999; General Manager of China Petroleum Engineering & Construction Corporation in January 2004; Vice Chairman and President of CNPC Services & Engineering Ltd. and concurrently General Manager of China Petroleum Engineering & Construction Corporation in June 2006. Mr. Sun was appointed as the General Manager of Trans-Asia Gas Pipeline Company Limited in September 2007. Mr. Sun has been acting as a Vice President of our company and concurrently the General Manager of Central-Asia China Gas Pipeline Company Limited and the General Manager of the Kazakhstan branch of our company since January 2010.

**Lin Aiguo**, aged 52, is the Chief Engineer of our company. Mr. Lin is a professor-level senior engineer and holds a college degree. He has over 30 years of working experience in China's oil and petrochemical industry. Mr. Lin was appointed the Deputy Manager and the Standing Deputy Manager of Shengli Refinery of Qilu Petrochemical

Company in July 1993, the Deputy General Manager of Dalian West Pacific Petrochemical Co. Ltd. in May 1996, and the General Manager of Dalian West Pacific Petrochemical Co. Ltd. in August 1998, and the General Manager of Refining & Marketing Company of our company in December 2002. Mr. Lin serves as the Chief Engineer of our company from June 2007.

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**Wang Daofu**, aged 55, is the General Geologist of our company and Director of the Exploration and Development Institute. Mr. Wang is a professor-level senior engineer and holder of a doctorate degree. He has nearly 30 years of working experience in China's oil and gas industry. He was appointed Deputy General Manager of PetroChina Changqing Oilfield Company in September 1999 and General Manager of PetroChina Changqing Oilfield Company in January 2003. He was elected as a representative of the 11th National People's Congress of the PRC in 2008. Mr. Wang has become the General Geologist of our company since May 2008. Mr. Wang has been concurrently acting as the Director of the Exploration and Development Institute since September 2008.

**Huang Weihe**, aged 53, is the Chief Engineer of our company and the General Manager of PetroChina Natural Gas and Pipelines Company. Mr. Huang is a professor-level senior engineer and holds a doctorate degree. He has nearly 30 years of working experience in China's oil and gas industry. In December 1998, he was appointed as Deputy Director of the Petroleum and Pipelines Bureau. In November 1999, he was appointed Deputy Director of the Petroleum and Pipelines Bureau while concurrently acting as Chief Engineer. In October 2000, Mr. Huang was appointed as the General Manager of PetroChina Pipelines Company and in May 2002, concurrently as the General Manager of PetroChina West-to-East Natural Gas Transmission Pipelines Company. In November 2002, Mr. Huang was appointed as the General Manager of PetroChina West-to-East Natural Gas Transmission Pipelines Company. In December 2002, he was appointed as the General Manager of PetroChina Natural Gas and Pipelines Company under the company and the General Manager of PetroChina West-to-East Natural Gas Transmission Pipelines Company. In February 2006, Mr. Huang ceased to be the General Manager of PetroChina Natural Gas Transmission Pipelines Company. In May 2008, Mr. Huang was appointed as the Chief Engineer of the company and the General Manager of PetroChina Natural Gas and Pipelines Company.

**Supervisors**

**Chen Ming**, aged 60, is the Chairman of the Supervisory Board of our company. Mr. Chen is a professor-level senior economist and holds a bachelor's degree. He has over 35 years of working experience in China's oil and gas industry. Mr. Chen was appointed Deputy Commissioner of CNPC in November 1996, Deputy Director of the Supervisory Department of CNPC in October 1998, Deputy General Manager of Human Resource Department of our company and concurrently Director of the Supervisory Department of our company in September 1999, General Manager of the Supervisory Department of our company in September 2001, Assistant to the General Manager of CNPC in January 2007, and Team Leader of the Discipline Team of CNPC in September 2007. He has been acting as the Chairman of our Supervisory Board since May 2008.

**Wen Qingshan**, aged 52, is a Supervisor of our company and the Deputy Chief Accountant of CNPC and the Director of the Finance and Assets Department of CNPC. Mr. Wen is a professor-level senior accountant and holds a master's degree in economics. Mr. Wen has nearly 30 years of working experience in China's petrochemical industry. He had acted as the Deputy Director of the Finance and Assets Department of CNPC from May 1999 and Director of the Finance and Assets Department of CNPC from May 2002. He has been a Supervisor of our company since November 2002. He has been acting as the Deputy Chief Accountant and the Director of the Finance and Assets Department of CNPC since November 2007.

**Sun Xianfeng**, aged 58, is a Supervisor and the General Manager of the Audit Department of our company. Mr. Sun is a senior economist and holds a master's degree in business administration. Mr. Sun has nearly 40 years of working experience in China's oil and gas industry. Mr. Sun worked as Deputy Director of the Supervisory Bureau of China National Petroleum Corporation from November 1996, and was transferred to the Eighth Office of the State Council Compliance Inspectors' General Office (Supervisory Committee of Central Enterprises Working Commission) as its temporary head in June 1998. He was appointed the Deputy Director of the Audit Department of CNPC in October 2000. He was appointed as the Vice Director of the Audit Department and the concurrently the Director of the Audit Institute in December 2000. Mr. Sun has been the Director of the Audit Department of CNPC and the Director of the

Audit Service Centre since April 2004. Mr. Sun has been a Supervisor of our company since May 2004. In October 2005, Mr. Sun was appointed as a concurrent State-owned Company Supervisor from State-owned Assets Supervision and Administration Commission to CNPC. Mr. Sun has been acting as the General Manager of the Audit Department of our company since July 2007.

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**Yu Yibo**, aged 47, is a Supervisor and the General Manager of the Capital Operation Department of our company. Mr. Yu is a professor-level senior accountant and holds a doctoral degree. Mr. Yu has over 10 years of working experience in China's oil and gas industry. In February 1999, Mr. Yu was appointed as a member of the Restructuring and Listing Preparatory Team of CNPC. In September 1999, Mr. Yu was appointed as the Deputy General Manager of the Finance Department of our company. Mr. Yu had been acting as the Deputy General Manager of PetroChina Dagang Oilfield Branch Company from March 2002 to October 2002. In April 2003, Mr. Yu was appointed as the General Manager of the Capital Operation Department of our company. Mr. Yu has been acting as a Supervisor of our company since May 2008.

**Wang Yawei**, aged 56, is an employee representative of the Supervisory Committee of our company and a Senior Executive of the Daqing Refining & Chemicals Company of our company. Mr. Wang is a professor-level senior engineer and holds a master's degree. He has over 25 years of working experience in China's oil and gas industry. Mr. Wang was acting as the Deputy Director of Daqing Petroleum Administration Bureau since November 1997 and as the Chairman of the Labour Union of Daqing Petroleum Administration Bureau since March 2001. He was appointed as the Chairman of the Labour Union of Daqing Oilfield Company Limited in February 2008. Since May 2008, Mr. Wang has been acting as a Supervisor of our company. Mr. Wang has served as the principal officer of Daqing Refining and Chemical since August 2009.

**Qin Gang**, aged 57, is an employee representative of the Supervisory Board of our company and a Senior Executive and Chairman of the Labor Union of PetroChina West-East Gas Pipeline Company. Mr. Qin is a senior engineer and has nearly 40 years of experience in China's oil and gas industry. Mr. Qin had acted as a Deputy Commander of Tarim Petroleum Exploration and Development Headquarters since November 1997 and a Deputy General Manager of Tarim Oilfield Company since September 1999. In July 2002, Mr. Qin was appointed as the Chairman of Labour Union of PetroChina Tarim Oilfield Company. Mr. Qin has been the Senior Executive and the Chairman of the Labor Union of PetroChina West-East Gas Pipeline Company since June 2007. Since November 2005, Mr. Qin has become a member of our Supervisory Board.

**Wang Shali**, female, aged 56, is an employee representative of Supervisory Board of our company and a Senior Executive of PetroChina International Ltd. Ms. Wang is a professor-level senior economist and holder of a master's degree. She has over 40 years of working experience in China's oil and gas industry. She was appointed as the General Economist of China National Oil and Gas Exploration and Development Corporation in November 1996 and Deputy General Manager and General Economist of China National Oil and Gas Exploration and Development Corporation in December 1997. Ms. Wang began to act concurrently as the Executive Deputy General Manager of the CNPC International (Nile) Company in April 1998. She was appointed as the Deputy General Manager of China National Oil and Gas Exploration and Development Corporation and the leader of the Project Coordination Group in August 2004, and the Senior Deputy General Manager of the CNPC Exploration and Development Company in June 2006. She has been acting as a Supervisor of our company since May 2008. In September 2008, Ms. Wang was appointed as Senior Executive, Senior Deputy General Manager and General Legal Counsel of CNPC Exploration and Development Company Limited. Ms. Wang ceased to act as the General Legal Counsel of CNPC Exploration and Development Company Limited in April 2009. Ms. Wang has acted concurrently as a Senior Executive of PetroChina International Ltd. since November 2009.

**Li Yuan**, aged 63, is an independent Supervisor of our company. Mr. Li was graduated from Renmin University of China with a bachelor's degree in Economics. Mr. Li's past positions include Deputy Director of the Foreign Affairs Department of Ministry of Petroleum Industry, Team Leader of the Business Team of the CPC Central Committee's General Office, Director of the Administrative Reform Bureau of the Political System Reform Studies Office of the CPC Central Committee, Director of the Distribution Department of the National Economic System Reform Committee, Deputy Director of the State Administration of Land, and Deputy Minister and concurrently the Deputy Chief Land Inspector of the Ministry of Land and Resources. Mr. Li is now a Deputy Director of the Committee of



Population, Resources and Environment of the 11th National Committee of the Chinese People's Political Consultative Conference, and has been acting as an independent Supervisor of our company since May 2008.

**Wang Daocheng**, aged 70, is an independent supervisor of our company. Mr. Wang is currently the President of the China Institute of Internal Audit. He is a senior auditor and holds a bachelor's degree. He has over 40 years of

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experience in finance and auditing. From 1981 to 1984, he led the preparatory committee within the audit department of the Ministry of Finance and headed the science and technology training centre of the National Audit Office as well as the financial and monetary authority. From August 1984, Mr. Wang held a number of positions, including Deputy Director of Xicheng District Audit Bureau of Beijing, Deputy Director of the Research Department of the National Audit Office, and successively, the Deputy Director of the General Affairs Bureau, Deputy Director of the Foreign Investment Bureau, Director of the Foreign Investment Department, Director of the Financial Audit Department and Director of the General Office of the National Audit Office. From March 1999 to March 2005, Mr. Wang headed the discipline inspection panel of the Central Commission for Discipline Inspection in the National Audit Office. In June 2005, he became the President of the China Institute of Internal Audit. Mr. Wang has been an independent supervisor of our company since May 2009.

## **Compensation**

### **Senior Management Compensation System**

The senior management members' compensation has two components, namely, fixed salaries and variable compensation. The variable component, which accounts for approximately 75% of the total compensation package, is linked to the attainment of specific performance targets, such as our income for the year, return on capital and the individual performance evaluation results.

### **Directors and Supervisors Compensation**

Our directors and supervisors, who hold senior management positions or are otherwise employed by us, receive compensation in the form of salaries, housing allowances, other allowances and benefits in kind, including our contribution to the pension plans for these directors and supervisors.

The aggregate amount of salaries, housing allowances, other allowances and benefits in kind paid by us to the five highest paid individuals of PetroChina during the year ended December 31, 2010 was RMB4,187,451.48. We paid RMB180,112.8 as our contribution to the pension plans in respect of those individuals in the year ended December 31, 2010.

The aggregate amount of salaries or other compensation, housing allowances, other allowances and benefits in kind paid by us to our directors, who hold senior management positions or are otherwise employed by us, during the year ended December 31, 2010 was RMB2,479,369.32.

Save as disclosed, no other payments have been paid or are payable, in respect of the year ended December 31, 2010, by us or any of our subsidiaries to our directors. In addition, we have no service contracts with our directors that provide for benefits to our directors upon the termination of their employment with us.

In 2010, we paid RMB167,419.92 as our contribution to the pension plans in respect of our directors and supervisors, who hold senior management positions or are otherwise employed by us. The aggregate amount of salaries or other compensation, housing allowances, other allowances and benefits in kind paid by us to our supervisors, who hold senior management positions or are otherwise employed by us, during the year ended December 31, 2010 was RMB1,314,242.44.

For discussions about the compensations of our individual directors and supervisors, please see Note 11 to our consolidated financial statements included elsewhere in this annual report.

## **Board Practices**

Our board of directors has four principal committees: an audit committee, an investment and development committee, an evaluation and remuneration committee and a health, safety and environment committee.

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### **Audit Committee**

Our audit committee is currently composed of three non-executive independent directors, Mr. Franco Bernabè, Mr. Chee-Chen Tung and Mr. Cui Junhui, and one non-executive director, Mr. Wang Guoliang. Mr. Franco Bernabè serves as the chairman of the committee. Under our audit committee charter, the chairman of the committee must be an independent director and all resolutions of the committee must be approved by independent directors. The audit committee's major responsibilities include:

reviewing and supervising the engagement of external auditors and their performance;

reviewing and ensuring the completeness of annual reports, interim reports and quarterly reports, if any, and related financial statements and accounts, and reviewing any material opinion contained in the aforesaid statements and reports in respect of financial reporting;

reporting to the board of directors in writing on the financial reports of the company and related information, having considered the issues raised by external auditors;

reviewing and scrutinizing the work conducted by the internal audit department in accordance with the applicable PRC and international rules;

monitoring the financial reporting system and internal control procedures of the company, as well as checking and assessing matters relating to, among others, the financial operations, internal control and risk management of the company;

receiving, keeping and dealing with complaints or anonymous reports regarding accounting, internal accounting control or audit matters and ensuring the confidentiality of such complaints or reports;

reporting regularly to the board of directors in respect of any significant matters which may affect the financial position of the company and its operations and in respect of the self-evaluation of the committee on the performance of their duties; and

performing other responsibilities as may be required under relevant laws, regulations and the listing rules of the stock exchanges where the shares of the company are listed (as amended from time to time).

### **Investment and Development Committee**

As of the end of the current reporting period, the members of our investment and development committee for the year ended December 31, 2010 were Mr. Li Yongwu, as chairman of the committee and Mr. Wang Yilin and Mr. Li Xinhua, as members of the committee. Mr. Wang ceased to serve as a member of the investment and development committee from April 15, 2011. The investment and development committee's major responsibilities include:

studying the strategies of the company as proposed by our president and making recommendations to the board of directors;

studying the annual investment budget and the adjustment proposal regarding the investment plan as proposed by our president and making recommendations to the board of directors; and

reviewing feasibility studies and preliminary feasibility studies for material investment projects subject to the approval of the board of directors and making recommendations to the board of directors.

### **Evaluation and Remuneration Committee**

The current members of our evaluation and remuneration committee are Mr. Liu Hongru, as chairman of the committee, Mr. Chee-Chen Tung and Mr. Wang Fucheng, as members of the committee. The evaluation and remuneration committee's major responsibilities include:

organizing the evaluation of the performance of our president and reporting the evaluation result to the board of directors, supervising the evaluation of the performance of our senior vice presidents, vice presidents,

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chief financial officer and other senior management members conducted under the leadership of the president;

studying our incentive plan, compensation plan and stock appreciation rights plan, supervising and evaluating the implementation of these plans and making recommendations for improvements to and perfection of such plans; and

performing other responsibilities as may be required under relevant laws, regulations and the listing rules of the stock exchanges where the shares of the company are listed (as amended from time to time).

**Health, Safety and Environment Committee**

The current members of our health, safety and environment committee are Mr. Liao Yongyuan, as chairman of the committee, Mr. Zeng Yukang and Mr. Jiang Fan, as member of the committee. The health, safety and environment committee's major responsibilities include:

supervising the effective implementation of our Health, Safety and Environmental Protection Plan (HSE Plan);

making recommendations to the board of directors and our president for major decisions with respect of health, safety and environmental protection; and

inquiring the occurrence of and responsibilities for material accidents of the company, and examining and supervising the treatment of such accidents.

**Employees**

As of December 31, 2008, 2009 and 2010, we had 477,780, 539,168 and 552,698 employees, respectively (excluding temporary staff). The table below sets forth the number of our employees by business segment as of December 31, 2010.

|                            | <b>Employees</b> | <b>% of Total</b> |
|----------------------------|------------------|-------------------|
| Exploration and production | 288,142          | 52.13             |
| Refining and chemicals     | 174,273          | 31.53             |
| Marketing                  | 65,871           | 11.92             |
| Natural gas and pipeline   | 19,095           | 3.46              |
| Other <sup>(1)</sup>       | 5,317            | 0.96              |
| Total                      | 552,698          | 100.00            |

(1) Including the numbers of employees of the management of our headquarters, specialized companies, PetroChina Exploration & Development Research Institute, PetroChina Planning & Engineering Institute, Petrochemical Research Institute and other units.

Our employees participate in various basic social insurance plans organized by municipal and provincial governments whereby we are required to make monthly contributions to these plans at certain rates of the employees' salary as stipulated by relevant local regulations. Expenses incurred by us in connection with the retirement benefit plans were

approximately RMB6,997 million, RMB8,437 million and RMB9,600 million, respectively, for the years ended December 31, 2008, 2009 and 2010, respectively.

In 2010, we did not experience any strikes, work stoppages, labor disputes or actions that affected the operation of any of our businesses. Our company maintains good relationship with our employees.

**Table of Contents****Share Ownership**

Other than two supervisors, our directors, senior officers and supervisors do not have share ownership in PetroChina or any of PetroChina's affiliates. As at December 31, 2010, Mr. Yu Yibo, one of our supervisors, held 66,500 A shares of our company, including shares acquired on the secondary market and Ms. Wang Shali, one of our supervisors, held 7,000 A shares and 18,000 H shares of our company.

**ITEM 7 MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****Major Shareholders**

PetroChina was established on November 5, 1999 with CNPC as its sole promoter. As of March 31, 2011, CNPC beneficially owned 157,914,489,259 shares, which include 149,892,000 H shares indirectly held by CNPC through Fairy King Investments Limited, an overseas wholly owned subsidiary of CNPC, representing approximately 86.282% of the share capital of PetroChina, and, accordingly, CNPC is our controlling shareholder.

The following table sets forth the major shareholders of our A shares as of March 31, 2011:

| <b>Name of Shareholders</b> | <b>Class of Shares</b> | <b>Number of Shares Held</b> | <b>Percentage of the Issued Share Capital of the Same Class of Shares (%)</b> | <b>Percentage of the Total Share Capital (%)</b> |
|-----------------------------|------------------------|------------------------------|---|--|
| CNPC                        | A shares               | 157,764,597,259              | 97.432  | 86.200   |

The following table sets forth the major shareholders of our H shares as of March 31, 2011:

| <b>Name of Shareholders</b>   | <b>Class of Shares</b> | <b>Number of Shares Held</b> | <b>Percentage of Such Share in That Class of the Issued Shares Capital (%)</b> | <b>Percentage of the Total Share Capital (%)</b> |
|---|------------------------|------------------------------|--|--|
| CNPC  | H shares               | 149,892,000 <sup>(1)</sup>   | 0.710  | 0.082  |
| Aberdeen Asset Management Plc and its associates (together the Aberdeen Group ) on behalf of accounts managed by the Aberdeen Group | H shares               | 1,266,618,163                | 6.003  | 0.692  |
| Templeton Asset Management Ltd.   | H shares               | 1,270,171,357                | 6.020  | 0.694  |



(1) Held by Fairy King Investments Limited, an overseas wholly owned subsidiary of CNPC.

### **Related Party Transactions**

CNPC is a controlling shareholder of our company. We enter into extensive transactions with CNPC and other members of the CNPC group, all of which constitute related party transactions for us. We also continue to carry out existing continuing transactions with other related parties in the reporting period.

#### **One-off Related Party Transactions**

##### ***Subscription for New Share Capital of China Petroleum Finance Co., Ltd ( CPF )***

On March 25, 2010, our company entered into a Subscription Agreement with CPF and CNPC, pursuant to which we have agreed to unilaterally contribute a total capital of approximately RMB9.6 billion to (a) subscribe for a total of RMB2.4 billion new registered capital of CPF and (b) account the remaining approximately RMB7.2 billion into the capital reserves of CPF. Following the completion of this subscription, we will hold 49% and CNPC

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will hold 51% of the enlarged total registered capital of CPF. As at the end of the reporting period, the transaction has been completed.

### ***Disposal of Equity Interest in PetroChina Guangxi Oil Storage Limited***

On December 31, 2010, PetroChina Guangxi International Enterprises Limited ( Guangxi International ), a wholly owned subsidiary of the company, entered into an equity transfer agreement with CNPC in respect of disposal by Guangxi International of equity interests in PetroChina Guangxi Oil Storage Limited (the Oil Storage Company ). Under the equity transfer agreement, Guangxi International will transfer 100% equity interests in the Oil Storage Company to CNPC. At completion of the equity transfer, CNPC will pay approximately RMB2,100 million to Guangxi International as consideration, which represents the net asset value of the Oil Storage Company as at the valuation date. As at the end of the reporting period, the transaction has not been completed.

For other one-off related party transactions including our acquisition from China National United Oil Corporation of the 4.356% equity interest in PetroChina Fuel Oil Company Limited, see Item 4 Information on the Company Acquisitions .

### **Continuing Related Party Transactions**

During the reporting period, our company continued to engage in a variety of continuing related party transactions with CNPC, which provide a number of services to us. These transactions are governed by several agreements between CNPC and us, including the comprehensive products and services agreement and its supplemental agreements, product and service implementation agreements, land use rights leasing contract, buildings leasing contract and buildings supplementary leasing agreement, intellectual property licensing contracts, contract for the transfer of rights under production sharing contracts and guarantee of debts contract. A detailed discussion of these agreements is set forth in Note 37 to our consolidated financial statements included elsewhere in this annual report and under the heading Item 7 Major Shareholders and Related Party Transactions Related Party Transactions in our annual report on Form 20-F filed with the SEC on May 27, 2008.

Our comprehensive products and services agreement and its supplemental agreements expired on December 31, 2008. On August 27, 2008, we and CNPC entered into a new comprehensive products and services agreement that incorporates the provisions from the previous agreements and became effective on January 1, 2009 for a period of three years. As of December 31, 2010, the balance of the amount of our debts guaranteed by CNPC and its affiliates was RMB 986 million.

During the reporting period, we continue to carry out a number of continuing related party transactions with certain companies including CNPC Exploration and Development Company Limited. A detailed discussion of our relationships and transactions with these parties is set forth in Item 7 Major Shareholders and Related Party Transactions Related Party Transactions in our annual report on Form 20-F filed with the SEC on May 27, 2008.

### **Loans from Related Parties**

As of December 31, 2010, we had unsecured short-term and long-term loans from CNPC and its affiliates in an aggregate amount of RMB73,125 million with an average annual interest rate of 3.46%.

### **Interests of Experts and Counsel**

Not applicable.



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**ITEM 8 FINANCIAL INFORMATION**

**Financial Statements**

See pages F-1 to F-50 following Item 19.

**Dividend Policy**

Our board of directors will declare dividends, if any, in Renminbi on a per share basis and will pay such dividends in Renminbi with respect to A Shares and HK dollars with respect to H Shares. Any final dividend for a financial year shall be subject to shareholders' approval. The Bank of New York will convert the HK dollar dividend payments and distribute them to holders of ADSs in U.S. dollars, less expenses of conversion. The holders of the A Shares and H Shares will share proportionately on a per share basis in all dividends and other distributions declared by our board of directors.

The declaration of dividends is subject to the discretion of our board of directors. Our board of directors will take into account factors including the following:

- general business conditions;
- our financial results;
- capital requirements;
- contractual restrictions on the payment of dividends by us to our shareholders or by our subsidiaries to us;
- our shareholders' interests;
- the effect on our debt ratings; and
- other factors our board of directors may deem relevant.

We may only distribute dividends after we have made allowance for:

- recovery of losses, if any;
- allocations to the statutory common reserve fund; and
- allocations to a discretionary common reserve fund if approved by our shareholders.

The allocation to the statutory funds is 10% of our income for the year attributable to our shareholders determined in accordance with PRC accounting rules. Under PRC law, our distributable earnings will be equal to our income for the year attributable to our shareholders determined in accordance with PRC accounting rules or IFRS, whichever is lower, less allocations to the statutory and discretionary funds.

We believe that our dividend policy strikes a balance between two important goals:

- providing our shareholders with a competitive return on investment; and

assuring sufficient reinvestment of profits to enable us to achieve our strategic objectives.

A dividend of RMB0.16063 per share (inclusive of applicable tax) for the six months ended June 30, 2010 was paid to our shareholders on October 15, 2010. The board of directors proposed to distribute the final dividend of RMB0.18357 per share (inclusive of applicable tax) which was calculated on the basis of the balance between 45% of our income for the year attributable to our shareholders under IFRS for the year ended December 31, 2010 and the interim dividend for 2010 which was paid on October 15, 2010. The final dividend to be paid for the year ended December 31, 2010 is subject to the approval by the annual shareholders meeting to be held on May 18, 2011. The payment will be made to shareholders whose names appear on the register of the company at close of business on May 31, 2011.

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**Significant Changes**

**Operating and Financial Results in the First Quarter of 2011**

In the first quarter of 2011, net profit attributable to our company's shareholders was RMB37,003 million, and the basic earnings per share was RMB0.20, up 13.9% year-on-year. In the first quarter of 2011, we produced 219.1 million barrels of crude oil, representing an increase of 4.3% as compared with the same period last year, and produced 639.3 billion cubic feet of marketable natural gas, representing an increase of 7.1% as compared with the same period last year. In the first quarter of 2011, we processed 250.1 million barrels of crude oil, representing an increase of 16.1% compared with the same period last year; produced 22,000 thousand tons of gasoline, diesel and kerosene, representing an increase of 16.9% as compared with the same period last year; and produced 921 thousand tons of ethylene, representing an increase of 1.4% as compared with the same period last year. In the first quarter of 2011, we sold 31,607 thousand tons of gasoline, diesel and kerosene, representing an increase of 16.9% as compared with the same period last year.

**Table of Contents****ITEM 9 THE OFFER AND LISTING****Nature of the Trading Market and Market Price Information**

Our ADSs, each representing 100 H Shares, par value RMB1.00 per H Share, have been listed and traded on the New York Stock Exchange since April 6, 2000 under the symbol PTR . Our H Shares have been listed and traded on the Hong Kong Stock Exchange since April 7, 2000. In September 2005, our company issued an additional 3,196,801,818 H Shares. CNPC also sold 319,680,182 state-owned shares it held concurrently with our company's issuance of new H Shares in September 2005. In October 2007, PetroChina issued 4 billion A Shares and these shares were listed on the Shanghai Stock Exchange on November 5, 2007. Following the issuance of A Shares, all the domestic shares of our company existing prior to the issuance of A Shares, i.e. the shares held by CNPC (our controlling shareholder) in our company, have been registered with China Securities Depository and Clearing Corporation Limited as tradable A Shares. The New York Stock Exchange, the Hong Kong Stock Exchange and Shanghai Stock Exchange are the principal trading markets for our ADSs, H Shares and A Shares, respectively.

As of December 31, 2010, there were 21,098,900,000 H Shares and 161,922,077,818 A Shares issued and outstanding. As of December 31, 2010, there were 308 registered holders of American depository receipts evidencing 18,623,649 ADSs. The depository of the ADSs is the Bank of New York.

The high and low closing sale prices of our A Shares on the Shanghai Stock Exchange, of H Shares on the Hong Kong Stock Exchange and of the ADSs on the New York Stock Exchange for each year from 2006 through 2010 for each quarter from 2009 to 2011 (up to the end of the first quarter of 2011), and for each month from December 2010 to May 2011 (through May 6, 2011) are set forth below.

|                       | Price Per H Share<br>HK\$ |       | Price Per ADS<br>US\$ |        | Price Per A Share<br>RMB |       |
|-----------------------|---------------------------|-------|-----------------------|--------|--------------------------|-------|
|                       | High                      | Low   | High                  | Low    | High                     | Low   |
| <b>Annual Data</b>    |                           |       |                       |        |                          |       |
| 2006                  | 11.12                     | 6.35  | 142.12                | 83.50  |                          |       |
| 2007                  | 19.90                     | 8.57  | 263.70                | 109.55 | 43.96                    | 29.24 |
| 2008                  | 14.24                     | 4.25  | 182.12                | 57.25  | 31.31                    | 9.95  |
| 2009                  | 10.48                     | 5.10  | 133.65                | 64.09  | 16.38                    | 10.02 |
| 2010                  | 10.50                     | 7.97  | 136.45                | 101.92 | 14.28                    | 9.94  |
| <b>Quarterly Data</b> |                           |       |                       |        |                          |       |
| <b>2009</b>           |                           |       |                       |        |                          |       |
| First quarter         | 7.82                      | 5.10  | 101.25                | 64.09  | 12.16                    | 10.02 |
| Second quarter        | 9.41                      | 6.11  | 122.78                | 80.98  | 14.48                    | 11.22 |
| Third quarter         | 9.49                      | 7.66  | 122.34                | 101.31 | 16.38                    | 12.57 |
| Fourth quarter        | 10.48                     | 8.52  | 133.65                | 109.67 | 14.16                    | 12.98 |
| <b>2010</b>           |                           |       |                       |        |                          |       |
| First quarter         | 10.18                     | 8.25  | 130.51                | 106.30 | 14.28                    | 12.65 |
| Second quarter        | 9.55                      | 7.97  | 122.67                | 101.92 | 13.23                    | 10.25 |
| Third quarter         | 9.12                      | 8.44  | 117.73                | 108.22 | 10.76                    | 9.94  |
| Fourth quarter        | 10.50                     | 9.39  | 136.45                | 120.44 | 12.74                    | 10.47 |
| <b>2011</b>           |                           |       |                       |        |                          |       |
| First quarter         | 11.78                     | 10.14 | 152.25                | 130.41 | 12.10                    | 11.02 |

**Monthly Data**  
**2010**

|          |       |      |        |        |       |       |
|----------|-------|------|--------|--------|-------|-------|
| December | 10.16 | 9.64 | 131.49 | 123.64 | 11.95 | 10.97 |
|----------|-------|------|--------|--------|-------|-------|

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|                          | Price Per H Share<br>HK\$ |       | Price Per ADS<br>US\$ |        | Price Per A Share<br>RMB |       |
|--------------------------|---------------------------|-------|-----------------------|--------|--------------------------|-------|
|                          | High                      | Low   | High                  | Low    | High                     | Low   |
| <b>2011</b>              |                           |       |                       |        |                          |       |
| January                  | 10.98                     | 10.14 | 139.27                | 130.41 | 11.42                    | 11.02 |
| February                 | 11.16                     | 10.22 | 143.53                | 132.23 | 11.71                    | 11.41 |
| March                    | 11.78                     | 10.32 | 152.25                | 133.30 | 12.10                    | 11.45 |
| April                    | 12.34                     | 11.16 | 156.44                | 145.58 | 12.18                    | 11.68 |
| May (through May 6 2011) | 11.00                     | 10.48 | 144.65                | 133.38 | 11.72                    | 11.15 |

The closing prices per A Share, per H Share and per ADS on May 6, 2011 were RMB11.15, HK\$10.48 and US\$134.89, respectively.

**ITEM 10 ADDITIONAL INFORMATION****Memorandum and Articles of Association****Our Articles of Association Currently in Effect**

The summary based on the significant provisions of our articles of association currently in effect has been filed with the Commission as an exhibit to our annual report on Form 20-F for the year ended December 31, 2007. Please see our annual report on Form 20-F for the year ended December 31, 2007 for summary of our articles of association currently in effect.

**Material Contracts**

We have not entered into any material contracts other than in the ordinary course of business and other than those described under Item 4 Information on the Company, Item 7 Major Shareholders and Related Party Transactions or elsewhere in this Form annual report.

**Foreign Exchange Controls**

The Renminbi currently is not a freely convertible currency. We receive most of our revenues in Renminbi. A portion of our Renminbi revenues must be converted into other currencies to meet our foreign currency obligations, including:

- debt service on foreign currency-denominated debt;
- purchases of imported equipment and materials; and
- payment of any dividends declared in respect of the H Shares.

Under the existing foreign exchange regulations in China, we may undertake current account foreign exchange transactions, including the payment of dividends, without prior approval from the State Administration of Foreign Exchange by producing commercial documents evidencing such transactions, provided that they are processed through Chinese banks licensed to engage in foreign exchange transactions.

Foreign exchange transactions under the capital account, including principal payments with respect to foreign currency-denominated obligations, continue to be subject to limitations and require the prior approval of the State Administration of Foreign Exchange. These limitations could affect our ability to obtain foreign exchange through debt financing, or to obtain foreign exchange for capital expenditures.

We have been, and will continue to be, affected by changes in exchange rates in connection with our ability to meet our foreign currency obligations and will be affected by such changes in connection with our ability to pay dividends on the H Shares in Hong Kong dollars and on ADSs in U.S. dollars. We believe that we have or will be

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able to obtain sufficient foreign exchange to continue to satisfy these obligations. We do not engage in any financial contract or other arrangement to hedge our currency exposure.

We are not aware of any other PRC laws, decrees or regulations that restrict the export or import of capital or that affect the remittance of dividends, interest or other payments to non-resident holders.

## **Taxation**

The following discussion addresses the main PRC and United States tax consequences of the ownership of H Shares or ADSs purchased held by the investor as capital assets.

### **PRC Taxation**

#### ***Dividends and Individual Investors***

Pursuant to the *Individual Income Tax Law of the PRC*, all foreign individuals are subject to the 20% withholding tax on dividends paid by a PRC company on its shares listed overseas ( Overseas Shares ) unless specifically exempted by the financial authority of the State Council of the PRC. However, pursuant to the *Letter Concerning the Taxation Issues Relating to the Dividends Received by Foreign Individual Holders of Shares in Companies Listed in the PRC* dated July 26, 1994 issued by the PRC State Administration of Taxation to the former State Commission for Restructuring the Economic System, the former State Council Securities Committee and the China Securities Regulatory Commission, dividends (profits) paid by a PRC issuer of H Shares to foreign individual holders of its H Shares were provisionally exempted from PRC withholding tax for the time being. In the event that the letter is withdrawn, a 20% tax may be withheld on dividends paid to you, subject to reduction by an applicable tax treaty between China and the country where you reside. To date, the company has not received any request from any relevant tax authority for the withholding and payment of the income tax from dividend payments on such H Shares exempted under the letter.

#### ***Dividends and Foreign Enterprises***

Pursuant to the *Enterprise Income Tax Law of the PRC* and the implementing rules thereunder, and the *Circular on Issues Concerning the Withholding of Corporate Income Tax by PRC Resident Enterprises from Dividends Payable to H Share Non-resident Corporate Shareholders*, or the Circular, each PRC resident enterprise, when paying any of its H share non-resident corporate shareholders any dividends for 2008 and the years thereafter, is required to withhold the corporate income tax from such dividends at a uniform rate of 10%. After its receipt of any dividends on its H shares, an H share non-resident corporate shareholder may by itself or through an agent or the withholding agent, apply to the competent taxation authority for the treatment under the applicable tax treaty and present the documents evidencing that such shareholder is qualified to be a beneficial owner as defined under the applicable tax treaty. The competent tax authority, after having verified the correctness of such documents, shall refund the difference between the amount of the tax actually paid by such shareholder and the amount of the tax payable by such shareholder as calculated on the basis of the rate stipulated in the applicable tax treaty.

#### ***Tax Treaties***

If you are a tax resident or citizen of a country that has entered into a double-taxation treaty with the PRC, you may be entitled to a reduction in the amount of tax withheld, if any, imposed on the payment of dividends. The PRC currently has such treaties with a number of countries, including but not limited to:

the United States;

Australia;

Canada;

France;

Germany;

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Japan;

Malaysia;

Singapore;

the United Kingdom; and

the Netherlands.

Under certain treaties, the rate of withholding tax imposed by China's taxation authorities may be reduced. Pursuant to the *Measures for the Administration of the Enjoyment by Non-residents of the Treatments under the Tax Treaties* (Trial) promulgated by the State Administration of Taxation on August 24, 2009, non-PRC resident are required to apply for approval or filing in order to claim any benefit under tax treaties.

***Capital Gains***

The fifth amendment to the *Individual Income Tax Law of the PRC*, which became effective on March 1, 2008, provides for a capital gain tax of 20% on individuals. The *Provisions for Implementing the Individual Income Tax Law of the PRC* as amended on February 18, 2008, provides that the measures to levy individual income tax on the gains realized on the sale of shares will be made in the future by the Ministry of Finance and subject to the approval of the State Council. On March 30, 1998, the Ministry of Finance and the State Administration of Taxation issued the *Notice Concerning the Continued Provisional Exemption of Individual Income Tax on the Transfer of Shares by Individuals*. The notice provided that temporarily no capital gains tax will be imposed on gains received by individuals from the transfer of shares in listed companies. However, it is uncertain whether the above exemption for foreign individuals will continue to apply or be renewed in the future. If such exemption does not apply or is not renewed, an individual holder of H Shares or ADSs may be subject to a 20% tax on capital gains, unless reduced by an applicable double taxation treaty.

Under the *Enterprise Income Tax Law of the PRC*, capital gains realized by foreign enterprises which are non-resident enterprises in the PRC upon the sale of Overseas Shares by PRC companies are generally subject to a PRC withholding tax levied at a rate of 10%, unless exempted or reduced pursuant to an applicable double-taxation treaty or other exemptions. Currently pursuant to the *Circular of the State Administration of Taxation on Printing and Issuing the Interim Measures for Administration of Withholding at Source of Income Tax of Non-resident Enterprises* promulgated on January 9, 2009, where both parties to the transaction of equity transfer are non-resident enterprises and such transaction is conducted outside the territory of PRC, the non-resident enterprise that receives incomes shall, by itself or through its agent, declare and pay tax to the competent tax authority in the place where the Chinese enterprise whose equities have been transferred is located.

***Additional PRC Tax Considerations***

Under the Provisional Regulations of the People's Republic of China Concerning the Stamp Duty, a stamp duty is not imposed by the PRC on the transfer of shares, such as the H Shares or ADSs, of PRC publicly traded companies that take place outside of China.

**United States Federal Income Taxation**

The following is a general discussion of the material United States federal income tax consequences of purchasing, owning and disposing of the H Shares or ADSs if you are a U.S. holder, as defined below, and hold the H Shares or ADSs as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended, or the Code. This discussion does not address all of the tax consequences relating to the purchase, ownership and disposition of the H Shares or ADSs, and does not take into account U.S. holders who may be subject to special rules including:

tax-exempt entities;

certain insurance companies;

broker-dealers;

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traders in securities that elect to mark to market;

U.S. holders liable for alternative minimum tax;

U.S. holders that own 10% or more of our voting stock;

U.S. holders that hold the H Shares or ADSs as part of a straddle or a hedging or conversion transaction; or

U.S. holders whose functional currency is not the U.S. dollar.

This discussion is based on the Code, its legislative history, final, temporary and proposed United States Treasury regulations promulgated thereunder, published rulings and court decisions as in effect on the date hereof, all of which are subject to change, or changes in interpretation, possibly with retroactive effect. In addition, this discussion is based in part upon representations of the depositary and the assumption that each obligation in the deposit agreement and any related agreements will be performed according to its terms.

You are a U.S. holder if you are:

a citizen or resident of the United States for United States federal income tax purposes;

a corporation, or other entity treated as a corporation for United States federal income tax purposes, created or organized under the laws of the United States or any political subdivision thereof;

an estate the income of which is subject to United States federal income tax without regard to its source; or

a trust:

subject to the primary supervision of a United States court and the control of one or more United States persons; or

that has elected to be treated as a United States person under applicable United States Treasury regulations.

If a partnership holds the H Shares or ADSs, the tax treatment of a partner generally will depend on the status of the partner and the activities of the partnership. If you are a partner of a partnership that holds the H Shares or ADSs, we urge you to consult your tax advisors regarding the consequences of the purchase, ownership and disposition of the H Shares or ADSs.

This discussion does not address any aspects of United States taxation other than federal income taxation.

**We urge you to consult your tax advisors regarding the United States federal, state, local and non-United States tax consequences of the purchase, ownership and disposition of the H Shares or ADSs.**

In general, if you hold American depositary receipts evidencing ADSs, you will be treated as the owner of the H Shares represented by the ADSs. The following discussion assumes that we are not a passive foreign investment company, or PFIC, as discussed under *PFIC Rules* below.

***Distributions on the H Shares or ADSs***

The gross amount of any distribution (without reduction for any PRC tax withheld) we make on the H Shares or ADSs out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) will be includible in your gross income as dividend income when the distribution is actually or constructively received by you, in the case of the H Shares, or by the depositary in the case of ADSs. Subject to certain limitations, dividends paid for taxable years beginning prior to January 1, 2013 to non-corporate U.S. holders, including individuals, may be eligible for a reduced rate of taxation if we are deemed to be a qualified foreign corporation for United States federal income tax purposes. A qualified foreign corporation includes:

a foreign corporation that is eligible for the benefits of a comprehensive income tax treaty with the United States that includes an exchange of information program; or

a foreign corporation if its stock with respect to which a dividend is paid (or ADSs backed by such stock) is readily tradable on an established securities market within the United States,



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but does not include an otherwise qualified foreign corporation that is a PFIC in the taxable year that the dividend is paid or in the prior taxable year. We believe that we will be a qualified foreign corporation so long as we are not a PFIC and we are considered eligible for the benefits of the Agreement between the Government of the United States of America and the Government of the People's Republic of China for the Avoidance of Double Taxation and the Prevention of Tax Evasion with Respect to Taxes on Income, or the Treaty. Our status as a qualified foreign corporation, however, may change.

Distributions that exceed our current and accumulated earnings and profits will be treated as a return of capital to you to the extent of your basis in the H Shares or ADSs and thereafter as capital gain. Any dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from United States corporations. The amount of any distribution of property other than cash will be the fair market value of such property on the date of such distribution.

If we make a distribution paid in HK dollars, you will be considered to receive the U.S. dollar value of the distribution determined at the spot HK dollar/ U.S. dollar rate on the date such distribution is received by you or by the depository, regardless of whether you or the depository convert the distribution into U.S. dollars. Any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is includible in your income to the date you or the depository convert the distribution into U.S. dollars will be treated as United States source ordinary income or loss for foreign tax credit limitation purposes.

Subject to various limitations, any PRC tax withheld from distributions in accordance with PRC law, as limited by the Treaty, will be deductible or creditable against your United States federal income tax liability. For foreign tax credit limitation purposes, dividends paid on the H Shares or ADSs will be foreign source income, and will be treated as *passive category income* or, in the case of some U.S. holders, *general category income*. You may not be able to claim a foreign tax credit (and instead may claim a deduction) for non-United States taxes imposed on dividends paid on the H Shares or ADSs if you (i) have held the H Shares or ADSs for less than a specified minimum period during which you are not protected from risk of loss with respect to such Shares, or (ii) are obligated to make payments related to the dividends (for example, pursuant to a short sale).

***Sale, Exchange or Other Disposition***

Upon a sale, exchange or other disposition of the H Shares or ADSs, you will recognize a capital gain or loss for United States federal income tax purposes in an amount equal to the difference between the U.S. dollar value of the amount realized and your tax basis, determined in U.S. dollars, in such H Shares or ADSs. Any gain or loss will generally be United States source gain or loss for foreign tax credit limitation purposes. Capital gain of certain non-corporate U.S. holders, including individuals, is generally taxed at a reduced rate where the property has been held more than one year. Your ability to deduct capital losses is subject to limitations. If any PRC tax is withheld from your gain on a disposition of H Shares or ADSs, such tax would only be creditable against your United States federal income tax liability to the extent that you have foreign source income. However, in the event that such PRC tax is withheld, a U.S. holder that is eligible for the benefits of the Treaty may be able to treat the gain as foreign source income for foreign tax credit satisfaction purposes. You are urged to consult your tax advisors regarding the United States federal income tax consequences if PRC tax is withheld from your gain on the sale or other disposition of H Shares or ADSs, including the availability of a foreign tax credit under your particular circumstances.

If you are paid in a currency other than U.S. dollars, any gain or loss resulting from currency exchange fluctuations during the period from the date of the payment resulting from sale, exchange or other disposition to the date you convert the payment into U.S. dollars will be treated as United States source ordinary income or loss for foreign tax credit limitation purposes.

***PFIC Rules***

In general, a foreign corporation is a PFIC for any taxable year in which, after applying relevant look-through rules with respect to the income and assets of subsidiaries:

75% or more of its gross income consists of passive income, such as dividends, interest, rents and royalties; or

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50% or more of the average quarterly value of its assets consists of assets that produce, or are held for the production of, passive income.

We believe that we did not meet either of the PFIC tests in the taxable year that ended December 31, 2010 and believe that we will not meet either of the PFIC tests in current or subsequent taxable years and therefore will not be treated as a PFIC for such periods. However, there can be no assurance that we will not be a PFIC in the current or subsequent taxable years.

If we were a PFIC in any taxable year that you held the H Shares or ADSs, you generally would be subject to special rules with respect to excess distributions made by us on the H Shares or ADSs and with respect to gain from your disposition of the H Shares or ADSs. An excess distribution generally is defined as the excess of the distributions you receive with respect to the H Shares or ADSs in any taxable year over 125% of the average annual distributions you have received from us during the shorter of the three preceding years or your holding period for the H Shares or ADSs. Generally, you would be required to allocate any excess distribution or gain from the disposition of the H Shares or ADSs ratably over your holding period for the H Shares or ADSs. The portion of the excess distribution or gain allocated to a prior taxable year, other than a year prior to the first year in which we became a PFIC, would be taxed at the highest United States federal income tax rate on ordinary income in effect for such taxable year, and you would be subject to an interest charge on the resulting tax liability, determined as if the tax liability had been due with respect to such particular taxable years. The portion of the excess distribution or gain that is not allocated to prior taxable years, together with the portion allocated to the years prior to the first year in which we became a PFIC, would be included in your gross income for the taxable year of the excess distribution or disposition and taxed as ordinary income.

The foregoing rules with respect to excess distributions and dispositions may be avoided or reduced if you are eligible for and timely make a valid mark-to-market election. If your H Shares or ADSs were treated as shares regularly traded on a qualified exchange for United States federal income tax purposes and a valid mark-to-market election was made, in calculating your taxable income for each taxable year you generally would be required to take into account as ordinary income or loss the difference, if any, between the fair market value and the adjusted tax basis of your H Shares or ADSs at the end of your taxable year. However, the amount of loss you would be allowed is limited to the extent of the net amount of previously included income as a result of the mark-to-market election. The New York Stock Exchange on which the ADSs are traded is a qualified exchange for United States federal income tax purposes.

Alternatively, a timely election to treat us as a qualified electing fund under Section 1295 of the Code could be made to avoid the foregoing rules with respect to excess distributions and dispositions. You should be aware, however, that if we become a PFIC, we do not intend to satisfy record keeping requirements that would permit you to make a qualified electing fund election.

If you own the H Shares or ADSs during any year that we are a PFIC, you must file Internal Revenue Service, or IRS, Form 8621 for each taxable year in which you recognize gain, receive distributions, or make a reportable election with respect to such H Shares or ADSs, and file any such other form as is required by the United States Treasury Department. We encourage you to consult your own tax advisor concerning the United States federal income tax consequences of holding the H Shares or ADSs that would arise if we were considered a PFIC.

***Backup Withholding and Information Reporting***

In general, information reporting requirements will apply to dividends in respect of the H Shares or ADSs or the proceeds of the sale, exchange, or redemption of the H Shares or ADSs paid within the United States, and in some cases, outside of the United States, other than to various exempt recipients, including corporations. In addition, you

may, under some circumstances, be subject to backup withholding with respect to dividends paid on the H Shares or ADSs or the proceeds of any sale, exchange or transfer of the H Shares or ADSs, unless you

are a corporation or fall within various other exempt categories, and, when required, demonstrate this fact; or

provide a correct taxpayer identification number on a properly completed IRS Form W-9 or a substitute form, certify that you are exempt from backup withholding and otherwise comply with applicable requirements of the backup withholding rules.

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Any amount withheld under the backup withholding rules generally will be creditable against your United States federal income tax liability provided that you furnish the required information to the IRS in a timely manner. If you do not provide a correct taxpayer identification number you may be subject to penalties imposed by the IRS.

Certain U.S. holders who are individuals that hold certain foreign financial assets (which may include the H Shares or ADSs) may be required to report information relating to such assets, subject to certain exceptions. You should consult your own tax advisors regarding the effect, if any, of this requirement on your ownership and disposition of the H Shares or ADSs.

### **Documents on Display**

You may read and copy documents referred to in this annual report on Form 20-F that have been filed with the U.S. Securities and Exchange Commission at the Commission's public reference room located at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the Commission at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges.

The Commission allows us to incorporate by reference the information we file with the Commission. This means that we can disclose important information to you by referring you to another document filed separately with the Commission. The information incorporated by reference is considered to be part of this annual report on Form 20-F.

### **ITEM 11 *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

In the normal course of business, we hold or issue various financial instruments which expose us to interest rate and foreign exchange rate risks. Additionally, our operations are affected by certain commodity price movements. We historically have not used derivative instruments for hedging or trading purposes. Such activities are subject to policies approved by our senior management. Substantially all of the financial instruments we hold are for purposes other than trading. We regard an effective market risk management system as an important element of our treasury function and are currently enhancing our systems. A primary objective of our market risk management is to implement certain methodologies to better measure and monitor risk exposures.

The following discussions and tables, which constitute forward-looking statements that involve risks and uncertainties, summarize our market-sensitive financial instruments including fair value, maturity and contract terms. Such discussions address market risk only and do not present other risks which we face in the normal course of business.

#### **Interest Rate Risk**

Our interest risk exposure arises from changing interest rates. The tables below provide information about our financial instruments including various debt obligations that are sensitive to changes in interest rates. The tables present principal cash flows and related weighted-average interest rates at expected maturity dates. Weighted-average variable rates are based on effective rates as of December 31, 2008, 2009 and 2010. The information is presented in Renminbi equivalents, our reporting currency.

#### **Foreign Exchange Rate Risk**

We conduct our business primarily in Renminbi. However, a portion of our RMB revenues are converted into other currencies to meet foreign currency financial instrument obligations and to pay for imported equipment, crude oil and other materials. Foreign currency payments for imported equipment represented 5.8%, 5.0% and 7.3% of our total

payments for equipment in 2008, 2009 and 2010 respectively. Foreign currency payments for imported crude oil and other materials represented 2.8%, 1.4% and 1.0% of our total payments for materials in 2008, 2009 and 2010 respectively.

The Renminbi is not a freely convertible currency. Limitation in foreign exchange transactions imposed by the PRC government could cause future exchange rates to vary significantly from current or historical exchange rates.

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The tables below provide information about our financial instruments including foreign currency denominated debt instruments that are sensitive to foreign currency exchange rates. The tables below summarize such information by presenting principal cash flows and related weighted-average interest rates at expected maturity dates in RMB equivalents, using the exchange rates in effect as of December 31, 2008, 2009 and 2010, respectively.

**December 31, 2010**

|                                | 2011  | 2012  | Expected Maturity Date<br>(RMB equivalent in millions, except percentages) |       |       |            | Total  | Percentage<br>to Total<br>Long-Term<br>Debt | Fair<br>Value |
|--------------------------------|-------|-------|--|-------|-------|------------|--------|---|---------------|
|                                |       |       | 2013   | 2014  | 2015  | Thereafter |        |   |               |
| <b>Long term debt</b>          |       |       |  |       |       |            |        |   |               |
| Loans in RMB                   |       |       |  |       |       |            |        |   |               |
| Fixed Rate Loan                |       |       |  |       |       |            |        |   |               |
| Amount                         | 8     | 5,555 | 771  | 6     | 6     | 84         | 6,430  | 4.71%                                       |               |
| Average interest rate          | 3.54% | 4.32% | 4.37%  | 2.55% | 4.04% | 2.55%      |        |   |               |
| Variable Rate Loan             |       |       |  |       |       |            |        |   |               |
| Amount                         | 101   | 204   | 5,155  | 11    | 7     | 6,054      | 11,532 | 8.45%                                       |               |
| Average interest rate          | 5.42% | 4.69% | 4.32%  | 5.06% | 2.55% | 4.75%      |        |   |               |
| Loans in Euros                 |       |       |  |       |       |            |        |   |               |
| Fixed Rate Loan                |       |       |  |       |       |            |        |   |               |
| Amount                         | 42    | 38    | 29   | 25    | 25    | 128        | 287    | 0.21%                                       |               |
| Average interest rate          | 1.33% | 1.17% | 1.19%  | 1.36% | 1.34% | 1.42%      |        |   |               |
| Variable Rate Loan             |       |       |  |       |       |            |        |   |               |
| Amount                         |       |       |  |       |       |            |        |   |               |
| Average interest rate          |       |       |  |       |       |            |        |   |               |
| Loans in United States Dollars |       |       |  |       |       |            |        |   |               |
| Fixed Rate Loan                |       |       |  |       |       |            |        |   |               |
| Amount                         | 35    | 36    | 36   | 36    | 857   | 333        | 1,333  | 0.98%                                       |               |
| Average interest rate          | 1.48% | 1.43% | 1.43%  | 1.43% | 4.20% | 1.36%      |        |   |               |

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|                                  |       |        |       |        |        |        |        |        |        |
|----------------------------------|-------|--------|-------|--------|--------|--------|--------|--------|--------|
| Variable Rate Loan               |       |        |       |        |        |        |        |        |        |
| Amount                           | 2,719 | 1,201  | 539   | 6,626  |        | 2,646  | 13,731 | 10.06% | 13,730 |
| Average interest rate            | 1.10% | 2.73%  | 1.65% | 1.31%  |        | 1.01%  |        |        |        |
| Loans in Japanese Yen            |       |        |       |        |        |        |        |        |        |
| Fixed Rate Loan                  |       |        |       |        |        |        |        |        |        |
| Amount                           | 22    | 22     | 22    | 22     | 22     | 105    | 215    | 0.16%  |        |
| Average interest rate            | 2.46% | 2.46%  | 2.46% | 2.46%  | 2.46%  | 2.43%  |        |        |        |
| Variable Rate Loan               |       |        |       |        |        |        |        |        |        |
| Amount                           |       |        |       |        |        |        |        |        |        |
| Average interest rate            |       |        |       |        |        |        |        |        |        |
| Debtures in Canadian Dollar      |       |        |       |        |        |        |        |        |        |
| Fixed Rate Loan                  |       |        |       |        |        |        |        |        |        |
| Amount                           |       |        |       |        |        |        |        |        |        |
| Average interest rate            |       |        |       |        |        |        |        |        |        |
| Variable Rate Loan               |       |        |       |        |        |        |        |        |        |
| Amount                           |       |        | 2,977 |        |        |        | 2,977  | 2.18%  | 2,977  |
| Average interest rate            |       |        | 2.08% |        |        |        |        |        |        |
| Debtures in United States Dollar |       |        |       |        |        |        |        |        |        |
| Fixed Rate Loan                  |       |        |       |        |        |        |        |        |        |
| Amount                           | 166   |        |       |        |        | 274    | 440    | 0.32%  | 426    |
| Average interest rate            | 9.50% |        |       |        |        | 3.00%  |        |        |        |
| Debtures in RMB                  |       |        |       |        |        |        |        |        |        |
| Fixed Rate Loan                  |       |        |       |        |        |        |        |        |        |
| Amount                           | 2,000 |        | 1,500 |        |        |        | 3,500  | 2.57%  | 3,516  |
| Average interest rate            | 3.76% |        | 4.11% |        |        |        |        |        |        |
| Medium term note in RMB          |       |        |       |        |        |        |        |        |        |
|                                  |       | 30,000 |       | 15,000 | 40,000 | 11,000 | 96,000 | 70.36% | 94,237 |



|  |       |        |        |        |        |        |         |         |         |
|--|-------|--------|--------|--------|--------|--------|---------|---------|---------|
| Fixed Rate<br>Loan<br>Amount<br>Average<br>interest rate |       | 2.49%  |        | 3.35%  | 3.97%  | 4.60%  |         |         |         |
| Total  | 5,093 | 37,056 | 11,029 | 21,726 | 40,917 | 20,624 | 136,445 | 100.00% | 133,942 |

**Table of Contents****December 31, 2009**

|                                | 2010   | 2011  | Expected Maturity Date |       |       |            | Total  | Percentage to Total Long-Term Debt | Fair Value |
|--------------------------------|--------|-------|------------------------|-------|-------|------------|--------|------------------------------------|------------|
|                                |        |       | 2012                   | 2013  | 2014  | Thereafter |        |                                    |            |
| <b>Long term debt</b>          |        |       |                        |       |       |            |        |                                    |            |
| Loans in RMB                   |        |       |                        |       |       |            |        |                                    |            |
| Fixed Rate Loan                |        |       |                        |       |       |            |        |                                    |            |
| Amount                         | 233    | 221   | 5560                   |       |       | 26         | 6,040  | 6.06%                              | 5,824      |
| Average interest rate          | 4.64%  | 4.78% | 4.32%                  |       |       | 2.91%      |        |                                    |            |
| Variable Rate Loan             |        |       |                        |       |       |            |        |                                    |            |
| Amount                         | 11,306 | 135   | 68                     | 33    | 552   | 6,045      | 18,139 | 18.19%                             | 18,139     |
| Average interest rate          | 4.90%  | 5.38% | 5.33%                  | 5.40% | 6.03% | 3.70%      |        |                                    |            |
| Loans in Euros                 |        |       |                        |       |       |            |        |                                    |            |
| Fixed Rate Loan                |        |       |                        |       |       |            |        |                                    |            |
| Amount                         | 16     | 16    | 16                     | 16    | 15    | 113        | 192    | 0.19%                              | 65         |
| Average interest rate          | 2.12%  | 2.12% | 2.12%                  | 2.12% | 2.12% | 2.11%      |        |                                    |            |
| Variable Rate Loan             |        |       |                        |       |       |            |        |                                    |            |
| Amount                         |        |       |                        |       |       |            |        |                                    |            |
| Average interest rate          |        |       |                        |       |       |            |        |                                    |            |
| Loans in United States Dollars |        |       |                        |       |       |            |        |                                    |            |
| Fixed Rate Loan                |        |       |                        |       |       |            |        |                                    |            |
| Amount                         | 37     | 37    | 37                     | 37    | 37    | 1,225      | 1,410  | 1.41%                              | 1,517      |
| Average interest rate          | 1.43%  | 1.43% | 1.43%                  | 1.43% | 1.43% | 5.95%      |        |                                    |            |
| Variable Rate Loan             |        |       |                        |       |       |            |        |                                    |            |
| Amount                         | 2,456  | 9,632 | 1,580                  | 83    | 8,287 | 2,735      | 24,733 | 24.85%                             | 24,733     |
| Average interest rate          | 1.00%  | 1.95% | 2.54%                  | 1.91% | 1.80% | 1.72%      |        |                                    |            |

|                                  |        |        |        |       |        |        |        |         |        |
|----------------------------------|--------|--------|--------|-------|--------|--------|--------|---------|--------|
| Loans in Japanese Yen            |        |        |        |       |        |        |        |         |        |
| Fixed Rate Loan                  |        |        |        |       |        |        |        |         |        |
| Amount                           | 10     |        |        |       |        |        | 10     | 0.01%   | 10     |
| Average interest rate            | 2.42%  |        |        |       |        |        |        |         |        |
| Variable Rate Loan               |        |        |        |       |        |        |        |         |        |
| Amount                           |        |        |        |       |        |        |        |         |        |
| Average interest rate            |        |        |        |       |        |        |        |         |        |
| Debtures in United States Dollar |        |        |        |       |        |        |        |         |        |
| Fixed Rate Loan                  |        |        |        |       |        |        |        |         |        |
| Amount                           | 171    | 171    |        |       | 294    | 636    |        | 0.64%   | 630    |
| Average interest rate            | 9.50%  | 9.50%  |        |       | 3.00%  |        |        |         |        |
| Debtures in RMB                  |        |        |        |       |        |        |        |         |        |
| Fixed Rate Loan                  |        |        |        |       |        |        |        |         |        |
| Amount                           |        | 2,000  |        | 1,500 |        | 3,500  |        | 3.51%   | 3,516  |
| Average interest rate            |        | 3.76%  |        | 4.11% |        |        |        |         |        |
| Medium term note in RMB          |        |        |        |       |        |        |        |         |        |
| Fixed Rate Loan                  |        |        |        |       |        |        |        |         |        |
| Amount                           |        |        | 30,000 |       | 15,000 |        | 45,000 | 45.14%  | 43,587 |
| Average interest rate            |        |        | 2.49%  |       | 3.35%  |        |        |         |        |
| Total                            | 14,229 | 12,212 | 37,261 | 1,669 | 23,891 | 10,438 | 99,700 | 100.00% | 98,061 |

**Table of Contents****December 31, 2008**

|                                | 2009  | 2010   | Expected Maturity Date |       |       |            | Total  | Percentage to Total Long-Term Debt | Fair Value |
|--------------------------------|-------|--------|------------------------|-------|-------|------------|--------|------------------------------------|------------|
|                                |       |        | 2011                   | 2012  | 2013  | Thereafter |        |                                    |            |
| <b>Long term debt</b>          |       |        |                        |       |       |            |        |                                    |            |
| Loans in RMB                   |       |        |                        |       |       |            |        |                                    |            |
| Fixed Rate Loan                |       |        |                        |       |       |            |        |                                    |            |
| Amount                         | 2     | 2      |                        |       |       | 3          | 7      | 0.02%                              | 5          |
| Average interest rate          | 0     | 7.47%  |                        |       |       | 0          |        |                                    |            |
| Variable Rate Loan             |       |        |                        |       |       |            |        |                                    |            |
| Amount                         | 5,220 | 11,351 | 274                    | 20    |       | 6,000      | 22,865 | 59.59%                             | 22,865     |
| Average interest rate          | 6.07% | 5.51%  | 5.84%                  | 6.20% |       | 6.26%      |        |                                    |            |
| Loans in Euros                 |       |        |                        |       |       |            |        |                                    |            |
| Fixed Rate Loan                |       |        |                        |       |       |            |        |                                    |            |
| Amount                         | 15    | 17     | 17                     | 16    | 16    | 126        | 207    | 0.54%                              | 147        |
| Average interest rate          | 2.11% | 2.12%  | 2.12%                  | 2.12% | 2.12% | 2.10%      |        |                                    |            |
| Variable Rate Loan             |       |        |                        |       |       |            |        |                                    |            |
| Amount                         |       |        |                        |       |       |            |        |                                    |            |
| Average interest rate          |       |        |                        |       |       |            |        |                                    |            |
| Loans in United States Dollars |       |        |                        |       |       |            |        |                                    |            |
| Fixed Rate Loan                |       |        |                        |       |       |            |        |                                    |            |
| Amount                         | 66    | 37     | 37                     | 37    | 37    | 416        | 630    | 1.64%                              | 367        |
| Average interest rate          | 3.88% | 1.43%  | 1.43%                  | 1.43% | 1.43% | 1.38%      |        |                                    |            |
| Variable Rate Loan             |       |        |                        |       |       |            |        |                                    |            |
| Amount                         | 63    | 3,826  | 2,805                  | 248   | 254   | 3,132      | 10,328 | 26.92%                             | 10,328     |
| Average interest rate          | 2.36% | 2.80%  | 2.88%                  | 6.23% | 6.15% | 2.94%      |        |                                    |            |

|   |       |        |       |     |       |       |        |         |        |
|---|-------|--------|-------|-----|-------|-------|--------|---------|--------|
| Loans in Japanese Yen Fixed Rate Loan               |       |        |       |     |       |       |        |         |        |
| Amount  | 7     | 13     |       |     |       | 20    |        | 0.05%   | 19     |
| Average interest rate                               | 2.42% | 2.42%  |       |     |       |       |        |         |        |
| Variable Rate Loan                                  |       |        |       |     |       |       |        |         |        |
| Amount  |       |        |       |     |       |       |        |         |        |
| Average interest rate                               |       |        |       |     |       |       |        |         |        |
| Debentures in United States Dollars Fixed Rate Loan |       |        |       |     |       |       |        |         |        |
| Amount  | 171   | 171    | 171   |     |       | 301   | 814    | 2.12%   | 758    |
| Average interest rate                               | 9.50% | 9.50%  | 9.50% |     |       | 3.00% |        |         |        |
| Debentures in RMB Fixed Rate Loan                   |       |        |       |     |       |       |        |         |        |
| Amount  |       |        | 2,000 |     | 1,500 |       | 3,500  | 9.12%   | 3,262  |
| Average interest rate                               |       |        | 3.76% |     | 4.11% |       |        |         |        |
| Total   | 5,544 | 15,417 | 5,304 | 321 | 1,807 | 9,978 | 38,371 | 100.00% | 37,751 |

### Commodity Price Risk

We are engaged in a wide range of petroleum-related activities and purchase certain quantity of oil from the international market to meet our demands. The prices of crude oil and refined products in the international market are affected by various factors such as changes in global and regional politics and economy, the demand and supply of crude oil and refined products, as well as unexpected events and disputes with international repercussions. The domestic crude oil price is determined with reference to the international price of crude oil whereby the prices of domestic refined products were allowed to adjust more in line with the prices in the international crude oil market. Other than certain subsidiaries of our company, we generally do not use any derivative instruments to evade such price risks.

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**ITEM 12 DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

**Fees paid by our ADS holders**

The Bank of New York Mellon, the depository of our ADS program, collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depository collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depository may generally refuse to provide fee-attracting services until its fees for those services are paid.

**Persons Depositing or Withdrawing Shares Must Pay:**

**For:**

\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)

Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property

Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates

\$0.02 (or less) per ADS

Any cash distribution to ADS registered holders

A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs  
Registration or transfer fees

Distribution of securities distributed to holders of deposited securities which are distributed by the depository to ADS registered holders  
Transfer and registration of shares on our share register to or from the name of the depository or its agent when you deposit or withdraw shares

Expenses of the depository

Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)  
Converting foreign currency to U.S. dollars

Taxes and other governmental charges the depository or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes

As necessary

Any charges incurred by the depository or its agents for servicing the deposited securities

As necessary

**Fees and Payments from the Depository to Us**

From January 1, 2010 to December 31, 2010, we received from the depository a reimbursement of US\$113,248.00, net of withholding tax, for our continuing annual stock exchange listing fees and our expenses incurred in connection with investor relationship programs. In addition, the depository has agreed to reimburse us certain amount per year of the facility, including but not limited to, investor relations expenses or any other American depository receipts program related expenses. The amount of such reimbursements is subject to certain limits.

**PART II**

**ITEM 13 DEFAULTS, DIVIDENDS ARREARAGES AND DELINQUENCIES**

None.

**ITEM 14** ***MATERIAL MODIFICATIONS TO THE RIGHTS TO SECURITY HOLDERS AND USE OF PROCEEDS***

None.

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**ITEM 15 CONTROLS AND PROCEDURES**

**Evaluation of the Management on Disclosure Controls and Procedures**

Our Chairman, who performs the functions of Chief Executive Officer, and our Chief Financial Officer, after evaluating the effectiveness of PetroChina's disclosure controls and procedures (as defined in the United States Exchange Act Rules 13a-15(e) and 15d(e)) as of the end of the period covered by this annual report, have concluded that, as of such date, our company's disclosure controls and procedures were effective to ensure that material information required to be disclosed in the reports that we file and furnish under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and regulations and that such information is accumulated and communicated to our company's management, including our principal executive and financial officers, as appropriate, to allow timely decisions regarding required disclosure.

**Management's Report on Internal Control over Financial Reporting**

Our company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our company's management, including our principal executive officer and principal financial officer, our company evaluated the effectiveness of its internal control over financial reporting based on criteria established in the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our company's management has concluded that its internal control over financial reporting was effective as of December 31, 2010.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The effectiveness of our company's internal control over financial reporting as of December 31, 2010 has been audited by PricewaterhouseCoopers (Certified Public Accountants, Hong Kong), our company's independent registered public accountants, as stated in its report attached hereto.

***Changes in Internal Control over Financial Reporting***

During the year ended December 31, 2010, there were no changes in the company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our company's internal control over financial reporting.

**ITEM 16A AUDIT COMMITTEE FINANCIAL EXPERT**

Our audit committee is composed of three non-executive independent directors, Messrs. Franco Bernabè, Chee-Chen Tung and Cui Junhui, and one non-executive director, Wang Guoliang. See Item 6 Directors, Senior Management and Employees Board Practices Audit Committee. Cui Junhui, our non-executive independent director has been confirmed as a financial expert, as defined in Item 16A of Form 20-F.

**ITEM 16B CODE OF ETHICS**



We have adopted a Code of Ethics that applies to our Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, other executives and senior officers and a separate Code of Ethics that applies to all of our employees.

These two Codes of Ethics are also posted on our website, [www.petrochina.com.cn](http://www.petrochina.com.cn), and may be accessed as follows:

1. From our main web page, first click on [Investor Relations](#) .
2. Next, click on [Corporate Governance Structure](#) .
3. Finally, click on [Code of Ethics for Senior Management](#) or [Code of Ethics for Employees of PetroChina Company Limited](#) .

**Table of Contents****ITEM 16C *PRINCIPAL ACCOUNTANT FEES AND SERVICES***

PricewaterhouseCoopers (Certified Public Accountants, Hong Kong) has served as PetroChina's independent registered public accountants for each of the fiscal years in the three-year period ended December 31, 2010, for which audited financial statements appear in this annual report on Form 20-F. The auditors are elected annually at the annual general meeting of PetroChina.

The offices of PricewaterhouseCoopers (Certified Public Accountants, Hong Kong) are located at Prince's Building, 22nd Floor, Central, Hong Kong.

The following table presents the aggregate fees for professional audit services and other services rendered by PricewaterhouseCoopers (Certified Public Accountants, Hong Kong) to PetroChina for each of the years ended December 31, 2009 and 2010.

|                    | <b>December 31,</b>  |             |
|--------------------|----------------------|-------------|
|                    | <b>2009</b>          | <b>2010</b> |
|                    | <b>RMB</b>           | <b>RMB</b>  |
|                    | <b>(In millions)</b> |             |
| Audit fees         | 80                   | 74          |
| Audit-related fees |                      |             |
| Tax fees           |                      |             |
| All other fees     |                      |             |
| <b>Total</b>       | <b>80</b>            | <b>74</b>   |

Audit fees consist of fees billed for the annual audit services and other audit services, which are those services that only the external auditor reasonably can provide, and include the group audit, statutory audits, and assistance with and review of documents filed with SEC.

Tax fees include fees billed for tax compliance services and the aggregate fees are less than RMB1 million for each of years ended December 31, 2009 and 2010.

***Audit Committee Pre-approved Policies and Procedures***

Currently, all audit services to be provided by our independent registered public accountants, PricewaterhouseCoopers (Certified Public Accountants, Hong Kong), must be approved by our audit committee.

During 2010, services relating to all non-audit-related fees provided to us by PricewaterhouseCoopers (Certified Public Accountants, Hong Kong) were approved by our audit committee in accordance with the *de minimis* exception to the pre-approval requirement provided by paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

**ITEM 16D *EXEMPTIONS FROM LISTING STANDARDS FOR AUDIT COMMITTEES***

We rely on an exemption contained in paragraph (b)(1)(iv)(D) of Rule 10A-3 under the Securities and Exchange Act of 1934, as amended, from the New York Stock Exchange listing requirement that each member of the audit

committee of a listed issuer must be independent. Our single non-independent audit committee member, who is a representative of CNPC, has only observer status on the audit committee of our board of directors and is not an executive officer of our company, which qualifies us for the exemption from the independence requirements available under paragraph (b)(1)(iv)(D) of Rule 10A-3. See Item 6 Directors, Senior Management and Employees Board Practice Audit Committee. We believe our reliance on this exemption does not have any adverse effect on the ability of our audit committee to act independently.

**ITEM 16E PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

Not applicable.

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**ITEM 16F *CHANGE IN REGISTRANT S CERTIFYING ACCOUNTANT***

None.

**ITEM 16G *CORPORATE GOVERNANCE***

We are incorporated under the laws of the People's Republic of China, or the PRC, with A Shares publicly traded on the Shanghai Stock Exchange, or the SSE, and H Shares publicly traded on the Hong Kong Stock Exchange, or the HKSE, and American Deposit Shares representing H Shares on the NYSE. As a result, our corporate governance framework is subject to the mandatory provisions of the PRC Company Law and the Corporate Governance Rules as well as the securities laws, regulations and the listing rules of Hong Kong and the United States.

The following discussion summarizes the significant differences between our corporate governance practices and those that would apply to a U.S. domestic issuer under the NYSE corporate governance rules.

**Director Independence**

Under the NYSE corporate governance rule 303A.01, a listed company must have a majority of independent directors on its board of directors. A company of which more than 50% of the voting power is held by an individual, a group or another company, or a controlled company, is not required to comply with this requirement. We are not required under the PRC Company Law and the HKSE Listing Rules to have a majority of independent directors on our board of directors. As of December 31, 2010, five of our fourteen directors were independent non-executive directors.

Under the NYSE corporate governance rule 303A.03, the non-management directors of a listed company must meet at regularly scheduled executive sessions without management. There are no mandatory requirements under the PRC Company Law and the HKSE Listing Rules that a listed company should hold, and we currently do not hold, such executive sessions.

**Nominating/Corporate Governance Committee**

Under the NYSE corporate governance rule 303A.04, a listed company must have a nominating/corporate governance committee composed entirely of independent directors, with a written charter that covers certain minimum specified duties, but a controlled company is not required to comply with this requirement. We are not required under the PRC Company Law and the HKSE Listing Rules to have, and we do not currently have, a nominating/corporate governance committee.

**Compensation Committee**

Under the NYSE corporate governance rule 303A.05, a listed company must have a compensation committee composed entirely of independent directors, with a written charter that covers certain minimum specified duties. A controlled company is not required to comply with this requirement. We are not required under the PRC Company Law to have a compensation committee. Under the Corporate Governance Code of the HKSE Listing Rules, a listed company must have a remuneration committee composed of a majority of independent non-executive directors, with a written terms of references that covers certain minimum specified duties.

We currently do not have a compensation committee composed entirely of independent directors. However, we have an evaluation and remuneration committee including a majority of independent non-executive directors.

**Corporate Governance Guidelines**

Under the NYSE corporate governance rule 303A.09, a listed company must adopt and disclose corporate governance guidelines that cover certain minimum specified subjects. We are not required under the PRC Company Law and the HKSE Listing Rules to have, and we do not currently have, formal corporate governance guidelines.

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However, we have the Articles of Association, the Rules and Procedures of Board of Directors and the Trial Implementation Rules for Compensation of Senior Management that address the following subjects:

director qualification standards and responsibilities;

key board committee responsibilities;

director compensation; and

director orientation and continuing education.

In addition, under the HKSE Listing Rules, we are expected to comply with, but may choose to deviate from, certain code provisions in the Corporate Governance Code of the Listing Rules which sets forth the principles and standards of corporate governance for listed companies. Pursuant to the HKSE Listing Rules, if we choose to deviate from any code provisions of the Corporate Governance Code, we must disclose such deviations in our annual report.

In 2009, we formulated the Administrative Measures on Independent Directors, the Administrative Rules on Holding of Company Shares by Directors, Supervisors and Senior Management, the Administrative Measures on Investor's Relationship and the rules and procedures of the Audit Committee, the Performance Review and Compensation Committee, the Investment and Development Committee, and the Safety and Environmental Protection Committee. All these policies have further enhanced our corporate governance system and can ensure the better performance of duties of directors, supervisors, senior managers and committee members.

In 2010, we adopted the revised Regulations of PetroChina Company Limited on Disclosure of Information and formulated the Rules and Regulations of PetroChina Company Limited on the Registration of Holders of Insider Information.

## **Code of Business Conduct and Ethics**

Under the NYSE corporate governance rule 303A.10, a listed company must adopt and disclose its code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. We adopted our code of business conduct and ethics for senior management on March 23, 2004 and have disclosed the content of this code on our website and in the annual report on Form 20-F for the fiscal year ended December 31, 2003. In addition, we adopted our code of business conduct and ethics for employees on March 2, 2005 and have disclosed the content of this code on our website. We are not required under the PRC Company Law and the HKSE Listing Rules to have, and we do not currently have, a code of business conduct and ethics for directors. However, pursuant to the HKSE Listing Rules, all of our directors must comply with the Model Code for Securities Transactions by Directors of Listed Companies (the Model Code) as set out in the Listing Rules. The Model Code sets forth required standards with which the directors of a listed company must comply in securities transactions of the listed company.

## **Certification Requirements**

Under the NYSE corporate governance rule 303A.12(a), each listed company CEO must certify to the NYSE each year that he or she is not aware of any violation by the company of NYSE corporate governance listing standards. Our CEO is not required under the PRC Company Law and the HKSE Listing Rules to submit, and our CEO does not currently submit, such certification.

## **PART III**

**ITEM 17** *FINANCIAL STATEMENTS*

We have elected to provide the financial statements and related information specified in Item 18 in lieu of Item 17.

**Table of Contents****ITEM 18 FINANCIAL STATEMENTS**

See page F-1 to F-50 following Item 19.

**ITEM 19 EXHIBITS**

(a) See Item 18 for a list of the financial statements as part of this annual report.

(b) Exhibits to this annual report.

| <b>Exhibit<br/>Number</b> | <b>Description of Exhibits</b>  |
|---------------------------|---|
| 1.1                       | Articles of Association (as amended) (English translation) <sup>(4)</sup>   |
| 1.2                       | Articles of Association (as amended on May 15, 2008) (English translation) <sup>(4)</sup>   |
| 4.1                       | 2011 Management Performance Contract (English Translation)  |
| 4.2                       | Risk Operation Service Business Assets Transfer Agreement, dated August 23, 2007, between CNPC and PetroChina (English Translation) <sup>(4)</sup>  |
| 4.3                       | Capital Injection Agreement Concerning CNPC Exploration and Development Company Limited, dated December 27, 2007, among CNODC, CNPC E&D and PetroChina (English Translation) <sup>(4)</sup>   |
| 4.4                       | Annual Crude Oil Mutual Supply Framework Agreement, dated January 12, 2011, between China Petroleum and Chemical Corporation and PetroChina (English translation)   |
| 4.5                       | Second Supplemental Agreement to Comprehensive products and Services Agreement, dated September 1, 2005, between CNPC and PetroChina (English translation) <sup>(1)</sup>   |
| 4.6                       | Supplementary Agreement to Comprehensive Products and Services Agreement, dated June 9, 2005, between CNPC and PetroChina (English Translation) <sup>(2)</sup>  |
| 4.7                       | Form of Non-competition Agreement between CNPC and PetroChina (together with English translation) <sup>(3)</sup>  |
| 4.8                       | Form of Comprehensive Products and Services Agreement between CNPC and PetroChina (together with English translation) <sup>(3)</sup>  |
| 4.9                       | Form of Land Use Rights Leasing Contract between CNPC and PetroChina (together with English translation) <sup>(3)</sup>   |
| 4.10                      | Form of Buildings Leasing Contract between CNPC and PetroChina (together with English translation) <sup>(3)</sup>   |
| 4.11                      | Form of Trademark Licensing Contract between CNPC and PetroChina (together with English translation) <sup>(3)</sup>   |
| 4.12                      | Form of Patent and Know-how Licensing Contract between CNPC and PetroChina (together with English translation) <sup>(3)</sup>   |
| 4.13                      | Form of Computer Software Licensing Contract between CNPC and PetroChina (together with English translation) <sup>(3)</sup>   |
| 4.14                      | Form of Contract for Transfer of Rights under Production Sharing Contracts between CNPC and PetroChina (together with English translation) <sup>(3)</sup>   |
| 4.15                      | Form of Guarantee of Debts Contract between CNPC and PetroChina (together with English translation) <sup>(3)</sup>  |
| 4.16                      | Form of Contract for the Supervision of Certain Sales Enterprises between CNPC and PetroChina (together with English translation) <sup>(3)</sup>  |
| 4.17                      | Form of Agreement for Transfer of Rights and Interests under the Crude Oil Premium and Discount Calculation Agreement between China Petrochemical Corporation, CNPC and PetroChina (together with English translation) <sup>(3)</sup> |
| 4.18                      |   |



Form of Agreement for the Transfer of Rights and Interests under the Retainer Contracts relating to Oil Exploration and Exploitation in Lengjiapu Area, Liaohe Oil Region and No. 9.1-9.5 Areas, Karamay Oil Field (together with English translation)<sup>(3)</sup>

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| <b>Exhibit<br/>Number</b> | <b>Description of Exhibits</b>  |
|---------------------------|---|
| 4.19                      | Equity Interests Transfer Agreement, dated May 15, 2009, between PetroChina Kunlun Gas Limited and China Petroleum Pipeline Bureau; Form of Equity Interests Transfer Agreements, dated May 15, 2009, between PetroChina Kunlun Gas Limited and China Huayou Group Corporation; Assets Transfer Agreement, dated May 15, 2009, between PetroChina Kunlun Gas Limited and China Petroleum Pipeline Bureau (English translation) <sup>(5)</sup> |
| 4.20                      | Asset Transfer Agreement, dated June 18, 2009, between PetroChina West Pipeline Company and CNPC West Pipeline Company Limited (English translation) <sup>(6)</sup>   |
| 4.21                      | Equity Transfer Agreement, dated August 28, 2009, among CNPC E&D, CNPC Central Asia and PetroChina (English translation) <sup>(6)</sup>   |
| 4.22                      | Asset Transfer Agreement, dated August 28, 2009, between ten branch companies of PetroChina and ten subordinated entities of CNPC including CNPC Daqing Petrochemical Factory (English translation) <sup>(6)</sup>  |
| 4.23                      | Equity Transfer Agreement, dated December 30, 2009, between PetroChina Kunlun Gas Limited and Daqing Petroleum Administrative Bureau (English translation) <sup>(6)</sup>   |
| 4.24                      | Subscription Agreement, Dated March 25, 2010 among PetroChina, CNPC and CPF (English translation) <sup>(6)</sup>  |
| 4.25                      | Acquisition Agreement, Dated November 25, 2010 between PetroChina and China National United Oil Corporation (English translation)   |
| 4.26                      | Equity Transfer Agreement, Dated December 31, 2010 between PetroChina Guangxi International Enterprises Limited and CNPC (English translation)  |
| 8.1                       | List of major subsidiaries  |
| 11.1                      | Code of Ethics for Senior Management <sup>(2)</sup>   |
| 11.2                      | Code of Ethics for Employees <sup>(2)</sup>   |
| 12.1                      | Certification of Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002  |
| 12.2                      | Certification of Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002  |
| 13.1                      | Certification of Chief Executive Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002   |
| 13.2                      | Certification of Chief Financial Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002   |
| 15.1                      | Reserve Report for the year ended on December 31, 2010 prepared by DeGolyer and MacNaughton   |
| 15.2                      | Reserve Report for the year ended on December 31, 2010 prepared by Gaffney, Cline & Associates (Consultants) Pte Ltd  |

(1) Incorporated by reference to our annual report on Form 20-F for the fiscal year ended December 31, 2005 (File No. 1-15006) filed with the Commission.

(2) Incorporated by reference to our annual report on Form 20-F for the fiscal year ended December 31, 2004 (File No. 1-15006) filed with the Commission.

(3) Incorporated by reference to our Registration Statement on Form F-1 (File No. 333-11566) filed with the Commission, as declared effective on March 29, 2000.

(4) Incorporated by reference to our annual report on Form 20-F for the fiscal year ended December 31, 2007 (File No. 1-15006) filed with the Commission.

- (5) Incorporated by reference to our annual report on Form 20-F for the fiscal year ended December 31, 2008 (File No. 1-15006) filed with the Commission.
- (6) Incorporated by reference to our annual report on Form 20-F for the fiscal year ended December 31, 2009 (File No. 1-15006) filed with the Commission.

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**SIGNATURE**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

PETROCHINA COMPANY LIMITED

/s/ Li Hualin

Name: Li Hualin

Title: Secretary to Board of Directors

Date: May 10, 2011

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders of PetroChina Company Limited:

In our opinion, the accompanying consolidated statement of financial position and the related consolidated statement of comprehensive income, of changes in equity and of cash flows ( consolidated financial statements ) present fairly, in all material respects, the financial position of PetroChina Company Limited (the Company ) and its subsidiaries (collectively referred to as the Group ) at December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organisations of the Treadway Commission ( COSO ). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers  
Hong Kong, May 10, 2011



Table of Contents**PETROCHINA COMPANY LIMITED****CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME****For the year ended December 31, 2010, 2009 and 2008**

|  | Notes | 2010<br>RMB           | 2009<br>RMB | 2008<br>RMB |
|--|-------|-----------------------|-------------|-------------|
|  |       | (Amounts in millions) |             |             |
| <b>TURNOVER</b>  | 6     | 1,465,415             | 1,019,275   | 1,072,604   |
| <b>OPERATING EXPENSES</b>  |       |                       |             |             |
| Purchases, services and other  |       | (795,525)             | (492,472)   | (562,851)   |
| Employee compensation costs  | 8     | (83,304)              | (65,977)    | (62,167)    |
| Exploration expenses, including exploratory dry holes                  |       | (22,963)              | (19,398)    | (21,879)    |
| Depreciation, depletion and amortisation                               |       | (113,209)             | (92,259)    | (94,759)    |
| Selling, general and administrative expenses                           |       | (74,239)              | (65,423)    | (59,617)    |
| Taxes other than income taxes  | 9     | (184,209)             | (135,465)   | (124,132)   |
| Other (expenses)/income, net   |       | (4,189)               | (4,837)     | 12,372      |
| <b>TOTAL OPERATING EXPENSES</b>  |       | (1,277,638)           | (875,831)   | (913,033)   |
| <b>PROFIT FROM OPERATIONS</b>  |       | 187,777               | 143,444     | 159,571     |
| <b>FINANCE COSTS</b>   |       |                       |             |             |
| Exchange gain  |       | 1,685                 | 552         | 1,774       |
| Exchange loss  |       | (2,857)               | (1,335)     | (2,855)     |
| Interest income  |       | 1,983                 | 1,459       | 2,277       |
| Interest expense   | 10    | (6,321)               | (5,272)     | (3,044)     |
| <b>TOTAL NET FINANCE COSTS</b>   |       | (5,510)               | (4,596)     | (1,848)     |
| <b>SHARE OF PROFIT OF ASSOCIATES AND JOINTLY CONTROLLED ENTITIES</b>   | 17    | 7,038                 | 1,184       | 4,290       |
| <b>PROFIT BEFORE INCOME TAX EXPENSE</b>                                | 7     | 189,305               | 140,032     | 162,013     |
| <b>INCOME TAX EXPENSE</b>  | 12    | (38,513)              | (33,473)    | (35,211)    |
| <b>PROFIT FOR THE YEAR</b>   |       | 150,792               | 106,559     | 126,802     |
| <b>OTHER COMPREHENSIVE INCOME</b>                                      |       |                       |             |             |
| Currency translation differences                                       |       | 2,687                 | (3,500)     | (2,676)     |
| Fair value gain/(loss) from available-for-sale financial assets        |       | 114                   | 191         | (340)       |
| Income tax relating to components of other comprehensive income/(loss) |       | (5)                   | (38)        | 67          |



|  |    |         |         |         |
|--|----|---------|---------|---------|
| <b>OTHER COMPREHENSIVE INCOME/(LOSS),<br/>NET OF TAX</b>   |    | 2,796   | (3,347) | (2,949) |
| <b>TOTAL COMPREHENSIVE INCOME FOR<br/>THE YEAR</b>   |    | 153,588 | 103,212 | 123,853 |
| <b>PROFIT FOR THE YEAR ATTRIBUTABLE<br/>TO:</b>  |    |         |         |         |
| Owners of the Company  |    | 139,992 | 103,387 | 114,453 |
| Non-controlling interest   |    | 10,800  | 3,172   | 12,349  |
|  |    | 150,792 | 106,559 | 126,802 |
| <b>TOTAL COMPREHENSIVE INCOME FOR<br/>THE YEAR ATTRIBUTABLE TO:</b>  |    |         |         |         |
| Owners of the Company  |    | 143,186 | 102,067 | 113,044 |
| Non-controlling interest   |    | 10,402  | 1,145   | 10,809  |
|  |    | 153,588 | 103,212 | 123,853 |
| <b>BASIC AND DILUTED EARNINGS PER<br/>SHARE FOR PROFIT ATTRIBUTABLE TO<br/>OWNERS OF THE COMPANY (RMB)</b> | 14 | 0.76    | 0.56    | 0.63    |

The accompanying notes are an integral part of these financial statements.

Table of Contents**PETROCHINA COMPANY LIMITED****CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As of December 31, 2010 and 2009

|   | Notes | 2010<br>RMB      | 2009<br>RMB      |
|---|-------|------------------|------------------|
| (Amounts in millions)   |       |                  |                  |
| <b>NON-CURRENT ASSETS</b>   |       |                  |                  |
| Property, plant and equipment                                       | 16    | 1,238,599        | 1,075,467        |
| Investments in associates and jointly controlled entities           | 17    | 64,137           | 28,223           |
| Available-for-sale financial assets                                 | 18    | 1,979            | 2,343            |
| Advance operating lease payments                                    | 20    | 36,155           | 30,236           |
| Intangible and other assets   | 21    | 25,453           | 18,017           |
| Deferred tax assets   | 31    | 284              | 289              |
| Time deposits with maturities over one year                         |       | 3,488            | 1,330            |
| <b>TOTAL NON-CURRENT ASSETS</b>                                     |       | <b>1,370,095</b> | <b>1,155,905</b> |
| <b>CURRENT ASSETS</b>   |       |                  |                  |
| Inventories   | 22    | 134,888          | 114,781          |
| Accounts receivable   | 23    | 45,005           | 28,785           |
| Prepaid expenses and other current assets                           | 24    | 51,822           | 59,595           |
| Notes receivable  | 25    | 5,955            | 4,268            |
| Time deposits with maturities over three months but within one year |       | 3,013            | 29               |
| Cash and cash equivalents   | 26    | 45,709           | 86,925           |
| <b>TOTAL CURRENT ASSETS</b>   |       | <b>286,392</b>   | <b>294,383</b>   |
| <b>CURRENT LIABILITIES</b>  |       |                  |                  |
| Accounts payable and accrued liabilities                            | 27    | 270,191          | 204,739          |
| Income taxes payable  |       | 22,169           | 9,721            |
| Other taxes payable   |       | 35,108           | 25,242           |
| Short-term borrowings   | 28    | 102,268          | 148,851          |
| <b>TOTAL CURRENT LIABILITIES</b>                                    |       | <b>429,736</b>   | <b>388,553</b>   |
| <b>NET CURRENT LIABILITIES</b>                                      |       | <b>(143,344)</b> | <b>(94,170)</b>  |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>                        |       | <b>1,226,751</b> | <b>1,061,735</b> |
| <b>EQUITY</b>   |       |                  |                  |
| <b>Equity attributable to owners of the Company:</b>                |       |                  |                  |
| Share capital   | 29    | 183,021          | 183,021          |
| Retained earnings   |       | 499,288          | 424,067          |
| Reserves  | 30    | 256,617          | 240,135          |

|   |    |           |           |
|---|----|-----------|-----------|
| <b>Total Equity attributable to owners of the Company</b> |    | 938,926   | 847,223   |
| <b>Non-controlling interest</b>                           |    | 71,203    | 60,478    |
| <b>TOTAL EQUITY</b>                                       |    | 1,010,129 | 907,701   |
| <b>NON-CURRENT LIABILITIES</b>                            |    |           |           |
| Long-term borrowings                                      | 28 | 131,352   | 85,471    |
| Asset retirement obligations                              | 32 | 60,364    | 44,747    |
| Deferred tax liabilities                                  | 31 | 21,515    | 21,449    |
| Other long-term obligations                               |    | 3,391     | 2,367     |
| <b>TOTAL NON-CURRENT LIABILITIES</b>                      |    | 216,622   | 154,034   |
| <b>TOTAL EQUITY AND NON-CURRENT LIABILITIES</b>           |    | 1,226,751 | 1,061,735 |

Chairman  
Jiang Jiemin

Vice Chairman and President  
Zhou Jiping

Chief Financial Officer  
Zhou Mingchun

The accompanying notes are an integral part of these financial statements.

**Table of Contents****PETROCHINA COMPANY LIMITED****CONSOLIDATED STATEMENT OF CASH FLOWS  
For the Year Ended December 31, 2010, 2009 and 2008**

|  | <b>2010</b>                  | <b>2009</b>    | <b>2008</b>    |
|--|------------------------------|----------------|----------------|
|  | <b>RMB</b>                   | <b>RMB</b>     | <b>RMB</b>     |
|  | <b>(Amounts in millions)</b> |                |                |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                              |                |                |
| <b>Profit for the year</b>   | 150,792                      | 106,559        | 126,802        |
| Adjustments for:   |                              |                |                |
| Income tax expense   | 38,513                       | 33,473         | 35,211         |
| Depreciation, depletion and amortisation   | 113,209                      | 92,259         | 94,759         |
| Capitalised exploratory costs charged to expense                                     | 10,714                       | 10,019         | 10,341         |
| Share of profit of associates and jointly controlled entities                        | (7,038)                      | (1,184)        | (4,290)        |
| (Reversal) of provision / provision for impairment of receivables, net               | (174)                        | (123)          | 4              |
| Write down in inventories, net   | 197                          | 354            | 8,593          |
| Impairment of available-for-sale financial assets, net                               | 4                            | 2              | 45             |
| Impairment of investments in associates and jointly controlled entities              |                              | 8              | 29             |
| Loss on disposal of property, plant and equipment                                    | 2,822                        | 1,642          | 2,602          |
| (Gain)/loss on disposal of intangible and other assets                               | (6)                          | 10             | 19             |
| Loss/(gain) on disposal of investments in associates and jointly controlled entities | 3                            | (33)           | 3              |
| Gain on disposal of available-for-sale financial assets                              | (8)                          | (4)            | (5)            |
| Loss/(gain) on disposal of subsidiaries  | 23                           | (22)           | (259)          |
| Dividend income  | (165)                        | (177)          | (252)          |
| Interest income  | (1,983)                      | (1,459)        | (2,277)        |
| Interest expense   | 6,321                        | 5,272          | 3,044          |
| Advance payments on long-term operating leases                                       | (8,110)                      | (6,045)        | (4,675)        |
| Changes in working capital:  |                              |                |                |
| Accounts receivable and prepaid expenses and other current assets                    | (10,105)                     | 16,240         | (26,815)       |
| Inventories  | (20,004)                     | (20,044)       | (10,775)       |
| Accounts payable and accrued liabilities   | 61,850                       | 41,637         | (5,715)        |
| <b>CASH FLOWS GENERATED FROM OPERATIONS</b>  | <b>336,855</b>               | <b>278,384</b> | <b>226,389</b> |
| Income taxes paid  | (26,169)                     | (16,412)       | (53,924)       |
| <b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>                                      | <b>310,686</b>               | <b>261,972</b> | <b>172,465</b> |

The accompanying notes are an integral part of these financial statements.

**Table of Contents****PETROCHINA COMPANY LIMITED****CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)****For the Year Ended December 31, 2010, 2009 and 2008**

|   | <b>2010</b>                  | <b>2009</b>      | <b>2008</b>      |
|---|------------------------------|------------------|------------------|
|   | <b>RMB</b>                   | <b>RMB</b>       | <b>RMB</b>       |
|   | <b>(Amounts in millions)</b> |                  |                  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                              |                  |                  |
| Capital expenditures  | (259,120)                    | (257,562)        | (215,610)        |
| Acquisition of investments in associates and jointly controlled entities            | (32,052)                     | (1,487)          | (3,641)          |
| Acquisition of available-for-sale financial assets                                  | (73)                         | (111)            | (23)             |
| Acquisition of intangible assets and other non-current assets                       | (5,062)                      | (3,505)          | (3,909)          |
| Purchase of non-controlling interest  | (411)                        | (533)            | (177)            |
| Acquisition of subsidiaries   | (1,389)                      | (16,451)         | (6,693)          |
| Proceeds from disposal of property, plant and equipment                             | 722                          | 4,053            | 436              |
| Proceeds from disposal of investments in associates and jointly controlled entities | 136                          | 139              | 67               |
| Proceeds from disposal of subsidiaries  | 2,082                        | 60               | 535              |
| Proceeds from disposal of available-for-sale financial assets                       | 76                           | 136              | 52               |
| Proceeds from disposal of intangible and other non-current assets                   | 127                          | 26               | 37               |
| Interest received   | 1,938                        | 1,425            | 2,365            |
| Dividends received  | 7,065                        | 783              | 4,095            |
| (Increase)/decrease in time deposits with maturities over three months              | (5,231)                      | 11,574           | 10,669           |
| <b>NET CASH FLOWS USED FOR INVESTING ACTIVITIES</b>                                 | <b>(291,192)</b>             | <b>(261,453)</b> | <b>(211,797)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                              |                  |                  |
| Repayments of short-term borrowings   | (227,677)                    | (113,212)        | (84,471)         |
| Repayments of long-term borrowings  | (43,855)                     | (7,947)          | (14,196)         |
| Interest paid   | (6,746)                      | (5,238)          | (4,065)          |
| Dividends paid to non-controlling interest  | (2,955)                      | (2,425)          | (2,805)          |
| Dividends paid to owners of the Company   | (53,198)                     | (50,092)         | (52,835)         |
| Dividends paid to owners from business combinations pre-acquisition                 |                              |                  | (801)            |
| Increase in short-term borrowings   | 190,194                      | 157,576          | 153,444          |
| Increase in long-term borrowings  | 80,828                       | 67,880           | 4,472            |
| Capital contribution from non-controlling interest                                  | 5,118                        | 7,098            | 8,788            |
| Capital reduction of subsidiaries   | (2,368)                      | (671)            | (3,754)          |
| (Decrease)/increase in other long-term obligations                                  | (285)                        | 108              |                  |
| <b>NET CASH FLOWS (USED FOR)/FROM FINANCING ACTIVITIES</b>                          | <b>(60,944)</b>              | <b>53,077</b>    | <b>3,777</b>     |

|  |          |        |          |
|--|----------|--------|----------|
| <b>TRANSLATION OF FOREIGN CURRENCY</b>             | 234      | 179    | (112)    |
| (Decrease)/increase in cash and cash equivalents   | (41,216) | 53,775 | (35,667) |
| Cash and cash equivalents at beginning of the year | 86,925   | 33,150 | 68,817   |
| Cash and cash equivalents at end of the year       | 45,709   | 86,925 | 33,150   |

The accompanying notes are an integral part of these financial statements.

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**Table of Contents****PETROCHINA COMPANY LIMITED****CONSOLIDATED STATEMENT OF CHANGES IN EQUITY****For the Year Ended December 31, 2010, 2009 and 2008**

|  | Attributable to Owners of the Company |                          |                 |                 | Non-Controlling Interest<br>RMB | Total Equity<br>RMB |
|--|---------------------------------------|--------------------------|-----------------|-----------------|---------------------------------|---------------------|
|  | Share Capital<br>RMB                  | Retained Earnings<br>RMB | Reserves<br>RMB | Subtotal<br>RMB |                                 |                     |
| Balance at December 31, 2007   | 183,021                               | 333,779                  | 221,404         | 738,204         | 43,896                          | 782,100             |
| Business combination under common control                              |                                       | (139)                    | 181             | 42              | 577                             | 619                 |
| Balance at January 1, 2008   | 183,021                               | 333,640                  | 221,585         | 738,246         | 44,473                          | 782,719             |
| Total comprehensive income/(loss) for the year ended December 31, 2008 |                                       | 114,453                  | (1,409)         | 113,044         | 10,809                          | 123,853             |
| Special Reserve-Safety Fund Reserve                                    |                                       | (3,214)                  | 3,214           |                 |                                 |                     |
| Transfer to reserves   |                                       | (12,770)                 | 12,770          |                 |                                 |                     |
| Dividends  |                                       | (52,835)                 |                 | (52,835)        | (2,842)                         | (55,677)            |
| Purchase of non-controlling interest in subsidiaries                   |                                       |                          | (17)            | (17)            | (160)                           | (177)               |
| Capital contribution from non-controlling interest                     |                                       |                          |                 |                 | 8,788                           | 8,788               |
| Capital reduction of subsidiaries                                      |                                       |                          | (61)            | (61)            | (3,693)                         | (3,754)             |
| Dividends to owners from business combinations pre-acquisition         |                                       | (801)                    |                 | (801)           |                                 | (801)               |
| Disposal of subsidiaries   |                                       |                          |                 |                 | (429)                           | (429)               |
| Acquisition of a subsidiary  |                                       |                          | (6,693)         | (6,693)         |                                 | (6,693)             |
| Other  |                                       |                          | 27              | 27              | (16)                            | 11                  |
| Balance at December 31, 2008   | 183,021                               | 378,473                  | 229,416         | 790,910         | 56,930                          | 847,840             |
| Total comprehensive income/(loss) for the year ended December 31, 2009 |                                       | 103,387                  | (1,320)         | 102,067         | 1,145                           | 103,212             |
| Special Reserve-Safety Fund Reserve                                    |                                       | 2,280                    | 1,325           | 3,605           | 3                               | 3,608               |
| Transfer to reserves   |                                       | (9,981)                  | 9,981           |                 |                                 |                     |
| Dividends  |                                       | (50,092)                 |                 | (50,092)        | (2,358)                         | (52,450)            |
| Acquisition of subsidiaries  |                                       |                          | (248)           | (248)           | 590                             | 342                 |
|  |                                       |                          | (179)           | (179)           | (354)                           | (533)               |

|   |         |          |         |          |         |           |
|---|---------|----------|---------|----------|---------|-----------|
| Purchase of non-controlling interest in subsidiaries            |         |          |         |          |         |           |
| Capital contribution from non-controlling interest              |         |          | 1,158   | 1,158    | 5,940   | 7,098     |
| Capital reduction of a subsidiary                               |         |          |         |          | (1,354) | (1,354)   |
| Other   |         |          | 2       | 2        | (64)    | (62)      |
| Balance at December 31, 2009                                    | 183,021 | 424,067  | 240,135 | 847,223  | 60,478  | 907,701   |
| Total comprehensive income for the year ended December 31, 2010 |         | 139,992  | 3,194   | 143,186  | 10,402  | 153,588   |
| Special Reserve-Safety Fund Reserve                             |         | 1,016    | 416     | 1,432    | 17      | 1,449     |
| Transfer to reserves  |         | (13,190) | 13,190  |          |         |           |
| Dividends   |         | (53,198) |         | (53,198) | (2,995) | (56,193)  |
| Acquisition of subsidiaries                                     |         |          | (572)   | (572)    | 967     | 395       |
| Purchase of non-controlling interest in subsidiaries            |         |          | (87)    | (87)     | (324)   | (411)     |
| Capital contribution from non-controlling interest              |         |          | 3       | 3        | 5,115   | 5,118     |
| Capital reduction of a subsidiary                               |         |          |         |          | (2,368) | (2,368)   |
| Disposal of subsidiaries  |         |          |         |          | (47)    | (47)      |
| Other   |         | 601      | 338     | 939      | (42)    | 897       |
| Balance at December 31, 2010                                    | 183,021 | 499,288  | 256,617 | 938,926  | 71,203  | 1,010,129 |

The accompanying notes are an integral part of these financial statements.



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**PETROCHINA COMPANY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(Amounts in millions unless otherwise stated)**

**1 ORGANISATION AND PRINCIPAL ACTIVITIES**

PetroChina Company Limited (the Company) was established as a joint stock company with limited liability on November 5, 1999 by China National Petroleum Corporation (CNPC) as the sole proprietor in accordance with the approval Guo Jing Mao Qi Gai [1999] No. 1024 Reply on the approval of the establishment of PetroChina Company Limited from the former State Economic and Trade Commission of the People's Republic of China (China or PRC). CNPC restructured (the Restructuring) and injected its core business and the related assets and liabilities into the Company. CNPC is a wholly state-owned company registered in China. The Company and its subsidiaries are collectively referred to as the Group.

The Group is principally engaged in (i) the exploration, development and production and marketing of crude oil and natural gas; (ii) the refining of crude oil and petroleum products, production and marketing of primary petrochemical products, derivative petrochemical products and other chemical products; (iii) the marketing of refined products and trading business; and (iv) the transmission of natural gas, crude oil and refined products and the sale of natural gas (Note 38).

**2 BASIS OF PREPARATION**

The consolidated financial statements and the statement of financial position of the Company have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). The consolidated financial statements and the statement of financial position of the Company have been prepared under the historical cost convention except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of financial position and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

**3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES**

**(a) Basis of consolidation**

Subsidiaries are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has the power to govern the financial and operating policies.

A subsidiary is consolidated from the date on which control is transferred to the Group and is no longer consolidated from the date that control ceases. The acquisition method of accounting is used to account for the acquisition of subsidiaries except for business combinations under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and

liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of

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**PETROCHINA COMPANY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

An acquisition of a business which is a business combination under common control is accounted for in a manner similar to a uniting of interests whereby the assets and liabilities acquired are accounted for at carryover predecessor values to the other party to the business combination with all periods presented as if the operations of the Group and the business acquired have always been combined. The difference between the consideration paid by the Group and the net assets or liabilities of the business acquired is adjusted against equity.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

For purpose of the presentation of the Company's statement of financial position, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

A listing of the Group's principal subsidiaries is set out in Note 19.

***(b) Investments in associates***

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting in the consolidated financial statements of the Group and are initially recognised at cost.

Under this method of accounting the Group's share of the post-acquisition profits or losses of associates is recognised in the consolidated profit or loss and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amounts of the investments. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated loss and is tested for impairment as part of the overall balance. Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired associate at the date of acquisition. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

A listing of the Group's principal associates is shown in Note 17.

***(c) Investments in jointly controlled entities***

Jointly controlled entities are those over which the Group has contractual arrangements to jointly share control with one or more parties. The Group's interest in jointly controlled entities is accounted for by the equity method of accounting (Note 3(b)) in the consolidated financial statements.

A listing of the Group's principal jointly controlled entities is shown in Note 17.

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**PETROCHINA COMPANY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***(d) Transactions with non-controlling interest***

Transactions with non-controlling interests are treated as transactions with owners in their capacity as owners of the Group. Gains and losses resulting from disposals to non-controlling interests are recorded in equity. The differences between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired resulting from the purchase from non-controlling interests, are recorded in equity.

When the group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

***(e) Foreign currencies***

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ( the functional currency ). Most assets and operations of the Group are located in the PRC (Note 38), and the functional currency of the Company and most of the consolidated subsidiaries is the Renminbi ( RMB ). The consolidated financial statements are presented in the presentation currency of RMB.

Foreign currency transactions of the Group are accounted for at the exchange rates prevailing at the respective dates of the transactions; monetary assets and liabilities denominated in foreign currencies are translated at exchange rates at the date of the statement of financial position; gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities are recognised in the consolidated profit or loss.

For the Group entities that have a functional currency different from the Group's presentation currency, assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the statement of financial position. Income and expenses for each statement of comprehensive income presented are translated at the average exchange rates for each period and the resulting exchange differences are recognised in other comprehensive income.

***(f) Property, plant and equipment***

Property, plant and equipment, including oil and gas properties (Note 3(g)), are initially recorded in the consolidated statement of financial position at cost where it is probable that they will generate future economic benefits. Cost represents the purchase price of the asset and other costs incurred to bring the asset into existing use. Subsequent to their initial recognition, property, plant and equipment are carried at cost less accumulated depreciation, depletion and amortisation (including any impairment).

Depreciation, to write off the cost of each asset, other than oil and gas properties (Note 3(g)), to their residual values over their estimated useful lives is calculated using the straight-line method.

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The Group uses the following useful lives for depreciation purposes:

|                         |              |
|-------------------------|--------------|
| Buildings               | 8 - 40 years |
| Equipment and Machinery | 4 - 30 years |
| Motor vehicles          | 4 - 14 years |
| Other                   | 5 - 12 years |

No depreciation is provided on construction in progress until the assets are completed and ready for use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Property, plant and equipment, including oil and gas properties (Note 3(g)), are reviewed for possible impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of a cash generating unit exceeds the higher of its fair value less costs to sell and its value in use, which is the estimated net present value of future cash flows to be derived from the cash generating unit.

Gains and losses on disposals of property, plant and equipment are determined by reference to their carrying amounts and are recorded in the consolidated profit or loss.

Interest and other costs on borrowings to finance the construction of property, plant and equipment are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Costs for repairs and maintenance activities are expensed as incurred except for costs of components that result in improvements or betterments which are capitalised as part of property, plant and equipment and depreciated over their useful lives.

*Changes in accounting policy*

The Group has changed its accounting policy for property, plant and equipment upon the adoption of IFRS 1 (amendment), First-time Adoption of International Financial Reporting Standards (IFRS 1 (amendment)) (Note 3 (u)).

Pursuant to the Company's global initial public offering in 1999, a valuation of all of the Group's property, plant and equipment, excluding oil and gas reserves, was carried out then by independent valuers on a depreciated replacement cost basis and resulted in a revaluation gain. Upon the adoption of IFRS 1 (amendment), the valuation of the Group's property, plant and equipment has been used as deemed cost at the date of measurement in June 1999. The net revaluation loss on the Group's refining and chemical production equipment from a revaluation in September 2003 has also been adjusted in addition to a reclassification of the Group's revaluation reserve of RMB 79,946 to capital reserve.

*(g) Oil and gas properties*

The successful efforts method of accounting is used for oil and gas exploration and production activities. Under this method, all costs for development wells, support equipment and facilities, and proved mineral interests in oil and gas properties are capitalised. Geological and geophysical costs are expensed when incurred. Costs of exploratory wells are capitalised as construction in progress pending determination of whether the wells find proved oil and gas

reserves. Proved oil and gas reserves are the estimated quantities of crude oil and natural gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulation before the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether the estimate is a deterministic estimate or probabilistic estimate. Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period before the ending date



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**PETROCHINA COMPANY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period unless prices are defined by contractual arrangements, excluding escalations based upon future conditions. The costs shall be that prevailing at the end of the period.

Exploratory wells in areas not requiring major capital expenditures are evaluated for economic viability within one year of completion of drilling. The related well costs are expensed as dry holes if it is determined that such economic viability is not attained. Otherwise, the related well costs are reclassified to oil and gas properties and are subject to impairment review (Note 3(f)). For exploratory wells that are found to have economically viable reserves in areas where major capital expenditure will be required before production can commence, the related well costs remain capitalised only if additional drilling is underway or firmly planned. Otherwise the related well costs are expensed as dry holes. The Group does not have any significant costs of unproved properties capitalised in oil and gas properties.

The Ministry of Land and Resources in China issues production licenses to applicants on the basis of the reserve reports approved by relevant authorities.

The cost of oil and gas properties is amortised at the field level based on the units of production method. Units of production rates are based on oil and gas reserves estimated to be recoverable from existing facilities based on the current terms of the Group's production licenses.

**(h) Intangible assets**

Expenditures on acquired patents, trademarks, technical know-how and licenses are capitalised at historical cost and amortised using the straight-line method over their estimated useful lives. Intangible assets are not subsequently revalued. The carrying amount of each intangible asset is reviewed annually and adjusted for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount and is recognised in the consolidated profit or loss. The recoverable amount is measured as the higher of fair value less costs to sell and value in use which is the estimated net present value of future cash flows to be derived from the asset.

**(i) Financial assets**

Financial assets are classified into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. The Group has principally loans and receivables and available-for-sale financial assets and limited financial assets at fair value through profit or loss. The detailed accounting policies for loans and receivables, available-for-sale financial assets and financial assets at fair value through profit or loss held by the Group are set out below.

**(i) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the date of the statement of financial position, which are classified as non-current assets. The Group's loans and receivables comprise accounts receivable, notes receivable, other receivables, time deposits and cash and cash

equivalents. The recognition methods for loans and receivables are disclosed in the respective policy notes.

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**PETROCHINA COMPANY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*(ii) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories; these are included in non-current assets unless management intends to dispose of the investment within 12 months of the date of the statement of financial position. The Group's available-for-sale financial assets primarily comprise unquoted equity instruments.

Regular purchases and sales of available-for-sale financial assets are recognised on settlement date, the date that the asset is delivered to or by the Group (the effective acquisition or sale date). Available-for-sale financial assets are initially recognised at fair value plus transaction costs. Available-for-sale financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership in the investment. Available-for-sale financial assets are measured at fair value except where there are no quoted market prices in active markets and the fair values cannot be reliably measured using valuation techniques. Available-for-sale financial assets that do not have quoted market prices in active markets and whose fair value cannot be reliably measured are carried at cost. The Group assesses at each date of the statement of financial position whether there is objective evidence that an available-for-sale financial asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the available-for-sale financial asset and the present value of the estimated cash flows.

*(iii) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges. The Group's financial assets at fair value through profit and loss comprise primarily currency derivatives (Note 4.1 (a)(i)).

*(j) Leases*

Leases of property, plant and equipment where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases. The Group has no significant finance leases.

Leases of assets under which a significant portion of the risks and benefits of ownership are effectively retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are expensed on a straight-line basis over the lease terms. Payments made to the PRC's land authorities to secure land use rights are treated as operating leases. Land use rights are generally obtained through advance lump-sum payments and the terms of use range up to 50 years.

*(k) Inventories*

Inventories include oil products, chemical products and materials and supplies which are stated at the lower of cost and net realisable value. Cost is primarily determined by the weighted average cost method. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads, but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

*(l) Accounts receivable*

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision made for impairment of these receivables. Such provision for impairment is established if there is objective evidence that the Group will not be able to collect amounts due according to the original terms of the receivables. The factors the Group considers when assessing whether an account receivable is impaired include but are not limited to significant financial difficulties of the customer,

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**PETROCHINA COMPANY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

***(m) Cash and cash equivalents***

Cash and cash equivalents comprise cash in hand, deposits held with banks and highly liquid investments with original maturities of three months or less from the time of purchase.

***(n) Accounts payable***

Accounts payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

***(o) Borrowings***

Borrowings are recognised initially at fair value, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in the consolidated profit or loss over the period of the borrowings.

Borrowing costs are recognised as an expense in the period in which they are incurred except for the portion eligible for capitalisation as part of qualifying property, plant and equipment.

Borrowings are classified as current liabilities unless the Group has unconditional rights to defer settlements of the liabilities for at least 12 months after the reporting period.

***(p) Taxation***

Deferred tax is provided in full, using the liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the date of the statement of financial position and are expected to apply to the period when the related deferred tax asset is realised or deferred tax liability is settled.

The principal temporary differences arise from depreciation on oil and gas properties and equipment and provision for impairment of receivables, inventories, investments and property, plant and equipment. Deferred tax assets relating to the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised.

The Group also incurs various other taxes and levies that are not income taxes. Taxes other than income taxes, which form part of operating expenses, primarily comprise a special levy on domestic sales of crude oil (Note 9), consumption tax (Note 9), resource tax, urban construction tax, education surcharges and business tax.

***(q) Revenue recognition***

Sales are recognised upon delivery of products and customer acceptance or performance of services, net of sales taxes and discounts. Revenues are recognised only when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods in the ordinary course of the Group's activities, and when the amount of revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably and collectability of the related receivables is reasonably assured.

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**PETROCHINA COMPANY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Group markets a portion of its natural gas under take-or-pay contracts. Customers under the take-or-pay contracts are required to take or pay for the minimum natural gas deliveries specified in the contract clauses. Revenue recognition for natural gas sales and transmission tariff under the take-or-pay contracts follows the accounting policies described in this note. Payments received from customers for natural gas not yet taken are recorded as deferred revenues until actual deliveries take place.

***(r) Provisions***

Provisions are recognised when the Group has present legal or constructive obligations as a result of past events, it is probable that an outflow of resources will be required to settle the obligations, and reliable estimates of the amounts can be made.

Provision for future decommissioning and restoration is recognised in full on the installation of oil and gas properties. The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding addition to the related oil and gas properties of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the costs of the oil and gas properties. Any change in the present value of the estimated expenditure other than due to passage of time which is regarded as interest expense, is reflected as an adjustment to the provision and oil and gas properties.

***(s) Research and development***

Research expenditure incurred is recognised as an expense. Costs incurred on development projects are recognised as intangible assets to the extent that such expenditure is expected to generate future economic benefits.

***(t) Retirement benefit plans***

The Group contributes to various employee retirement benefit plans organised by PRC municipal and provincial governments under which it is required to make monthly contributions to these plans at prescribed rates for its employees in China. The relevant PRC municipal and provincial governments undertake to assume the retirement benefit obligations of existing and future retired employees of the Group in China. The Group has similar retirement benefit plans for its employees in its overseas operations. Contributions to these PRC and overseas plans are charged to expense as incurred. In addition, the Group joined the corporate annuity plan approved by relevant PRC authorities. Contribution to the annuity plan is charged to expense as incurred.

The Group currently has no additional material obligations outstanding for the payment of retirement and other post-retirement benefits of employees in the PRC or overseas other than what described above.

***(u) New accounting developments***

(i) New and amended standards adopted by the Group

*The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010:*

IFRS 3 (revised), Business combinations , and consequential amendments to IAS 27, Consolidated and separate financial statements , IAS 28, Investments in associates , and IAS 31, Interests in joint ventures , are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. IAS 27 (revised) did not have any significant impact on the consolidated financial statements.

IAS 1 (amendment), Presentation of financial statements. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The amendment did not have any significant impact on the consolidated financial statements.

IAS 36 (amendment), Impairment of assets, effective 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, Operating segments (that is, before the aggregation of segments with similar economic characteristics). The amendment did not have any significant impact on the consolidated financial statements.

*The following applicable amendment is mandatory for the first time for year beginning January 1, 2011:*

IFRS 1 (amendment), First-time Adoption of International Financial Reporting Standards. The amendment is part of the IASB's annual improvements to International Financial Reporting Standards 2010 issued on May 6, 2010 and allows a first-time IFRS adopter and those that adopted IFRSs in the periods before the effective date of IFRS 1 that has conducted a fair valuation of its assets and liabilities in connection with its initial public offering to use such fair value amounts as deemed cost retrospectively. The resulting adjustments will be recognised directly in retained earnings (or if appropriate, another category of equity) at the measurement date. The Group has elected to early adopt IFRS 1 (amendment) from June 30, 2010 (Note 3(f)).

IAS 24 (Revised), Related Party Disclosures. The revised standard exempts disclosures in relation to related party transactions and outstanding balances, including commitments, with a government that has control, joint control or significant influence over the reporting entity and another entity that is related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The Group has early adopted the partial exemption in paragraphs 25 -27 of the revised standard for government-related entities from January 1, 2009.

(ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following relevant IFRSs, amendments to existing IFRSs and interpretation of IFRS have been published and are mandatory for accounting periods beginning on or after January 1, 2011 or later periods and have not been early adopted by the Group:

IFRS 9, Financial instruments, issued in November 2009. This standard is the first step in the process to replace IAS 39, Financial instruments: recognition and measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is currently evaluating the impact of the amendment on the consolidated financial statements but it is not expected to have any significant impact.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Classification of rights issues (amendment to IAS 32), issued in October 2009. The amendment applies to annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 Accounting policies, changes in accounting estimates and errors. The Group is currently evaluating the impact of the amendment on the consolidated financial statements but it is not expected to have any significant impact.

IFRIC 19, Extinguishing financial liabilities with equity instruments, effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The group will apply the interpretation from 1 January 2011. The Group is currently evaluating the impact of the amendment on the consolidated financial statements but it is not expected to have any significant impact.

**4 FINANCIAL RISK AND CAPITAL MANAGEMENT**

***4.1 Financial risk factors***

The Group's activities expose it to a variety of financial risks, including market risk, credit risk and liquidity risk.

***(a) Market risk***

Market risk is the possibility that changes in foreign exchange rates, interest rates and the prices of oil and gas products will adversely affect the value of assets, liabilities and expected future cash flows.

***(i) Foreign exchange risk***

The Group conducts its business primarily in RMB, but maintains a portion of its assets in other currencies to pay for imported crude oil, imported equipment and other materials and to meet foreign currency financial liabilities. The Group is exposed to currency risks arising from fluctuations in various foreign currency exchange rates against the RMB. The RMB is not a freely convertible currency and is regulated by the PRC government. Limitations on foreign exchange transactions imposed by the PRC government could cause future exchange rates to vary significantly from current or historical exchange rates.

The Group operates internationally and foreign exchange risk arises when future acquisitions or recognised assets or liabilities are denominated in a currency other than the functional currency in which they are measured. Certain entities in the Group use currency derivatives to manage such foreign exchange risk.

***(ii) Interest rate risk***

The Group has no significant interest rate risk on interest-bearing assets. The Group's exposure to interest rate risk arises from its borrowings. The Group's borrowings at floating rates expose the Group to cash flow interest rate risk and its borrowings at fixed rates expose the Group to fair value interest rate risk. However, the exposure to interest rate risk is not material to the Group. A detailed analysis of the Group's borrowings, together with their respective interest rates and maturity dates, is included in Note 28.

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**PETROCHINA COMPANY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***(iii) Price risk***

The Group is engaged in a wide range of oil and gas products-related activities. Prices of oil and gas products are affected by a wide range of global and domestic factors which are beyond the control of the Group. The fluctuations in such prices may have favourable or unfavourable impacts on the Group. The Group did not enter into any material hedging of its price risk during the year.

***(b) Credit risk***

Credit risk arises from cash and cash equivalents, time deposits with banks and credit exposure to customers with outstanding receivable balances.

A substantial portion of the Group's cash at bank and time deposits are placed with the major state-owned banks and financial institutions in China and management believes that the credit risk is low.

The Group performs ongoing assessment of the credit quality of its customers and sets appropriate credit limits taking into account the financial position and past history of defaults of customers. The Group's accounts receivable balances over 3 years has been substantially provided for and accounts receivable balances within one year are generally neither past due nor impaired. The aging analysis of accounts receivable (net of impairment of accounts receivable) is presented in Note 23. The Group's accounts receivable balances that are neither past due nor impaired are with customers with no recent history of default.

The carrying amounts of cash and cash equivalents, time deposits placed with banks, accounts receivable, other receivables and notes receivable included in the consolidated statement of financial position represent the Group's maximum exposure to credit risk. No other financial assets carry a significant exposure to credit risk.

The Group has no significant concentration of credit risk.

***(c) Liquidity risk***

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities.

In managing its liquidity risk, the Group has access to funding at market rates through equity and debt markets, including using undrawn committed borrowing facilities to meet foreseeable borrowing requirements.

Given the low level of gearing and continued access to funding, the Group believes that its liquidity risk is not material.

Analysis of the Group's financial liabilities based on the remaining period at the date of the statement of financial position to the contractual maturity dates are presented in Note 28.

***4.2 Capital management***

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, optimise returns for owners and to minimise its cost of capital. In meeting its objectives of managing capital, the Group may issue new shares, adjust its debt levels or the mix between short-term and long-term borrowings.

The Group monitors capital on the basis of the gearing ratio which is calculated as interest-bearing borrowings/(interest-bearing borrowings + total equity). The gearing ratio at December 31, 2010 is 18.8% (December 31, 2009: 20.5%).

#### **4.3 Fair value estimation**

The methods and assumptions applied in determining the fair value of each class of financial assets and financial liabilities of the Group at December 31, 2010 and 2009 are disclosed in the respective accounting policies.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The carrying amounts of the following financial assets and financial liabilities approximate their fair value as all of them are short-term in nature: cash and cash equivalents, time deposits with maturities over three months but within one year, accounts receivable, other receivables, trade payables, other payables and short-term borrowings. The fair values of fixed rate long-term borrowings are likely to be different from their respective carrying amounts. Analysis of the fair values and carrying amounts of long-term borrowings are presented in Note 28.

**5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

Estimates and judgements are regularly 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 estimates and judgements that are involved in preparing the Group's consolidated financial statements.

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

Estimates of 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 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. 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, evolution of technology or development plans.

***(b) Estimation of impairment of property, plant and equipment***

Property, plant and equipment, including oil and gas properties, are reviewed for possible impairments 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 the future price of crude oil, refined and chemical products and the production profile. However, the impairment reviews and calculations are based on assumptions that are consistent with the Group's business plans. 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.

***(c) Estimation of asset retirement obligations***

Provision is recognised for the future decommissioning and restoration of oil and gas properties. The amounts of the provision 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 levels, etc. In addition to these factors, the present value of these estimated future expenditures are also impacted by the estimation of the economic lives 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 lives of the oil and gas properties.

## **6 TURNOVER**

Turnover represents revenues from the sale of crude oil, natural gas, refined products and petrochemical products and from the transportation of crude oil, refined products and natural gas. Analysis of turnover by segment is shown in Note 38.

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|   | <b>2010</b> | <b>2009</b> | <b>2008</b> |
|---|-------------|-------------|-------------|
|   | <b>RMB</b>  | <b>RMB</b>  | <b>RMB</b>  |
| Items credited and charged in arriving at the profit before income tax expense include: |             |             |             |
| <u>Credited</u>   |             |             |             |
| Dividend income from available-for-sale financial assets                                | 165         | 177         | 252         |
| Reversal of provision for impairment of receivables                                     | 210         | 240         | 184         |
| Reversal of write down in inventories   | 42          | 23          | 15          |
| Government grants(i)  | 1,599       | 1,097       | 16,914      |
| <u>Charged</u>  |             |             |             |
| Amortisation on intangible and other assets   | 2,318       | 2,153       | 1,888       |
| Auditors remuneration   | 74          | 80          | 95          |
| Cost of inventories recognised as expense   | 947,246     | 613,702     | 662,758     |
| Provision for impairment of receivables   | 36          | 117         | 188         |
| Loss on disposal of property, plant and equipment                                       | 2,822       | 1,642       | 2,602       |
| Operating lease expenses  | 7,803       | 7,367       | 6,819       |
| Research and development expenses   | 11,840      | 9,887       | 7,760       |
| Write down in inventories   | 239         | 377         | 8,608       |

(i) Government grants during the year 2008 primarily comprise financial support measures provided by the PRC government to ensure supply of crude oil and refined products in the domestic market implemented from 2008.

**8 EMPLOYEE COMPENSATION COSTS**

|                                | <b>2010</b> | <b>2009</b> | <b>2008</b> |
|--------------------------------|-------------|-------------|-------------|
|                                | <b>RMB</b>  | <b>RMB</b>  | <b>RMB</b>  |
| Wages, salaries and allowances | 56,284      | 44,202      | 39,008      |
| Social security costs          | 27,020      | 21,775      | 23,159      |
|                                | 83,304      | 65,977      | 62,167      |

Social security costs mainly represent contributions to plans for staff welfare organised by the PRC municipal and provincial governments and others including contributions to the retirement benefit plans (Note 33).

**9 TAXES OTHER THAN INCOME TAXES**

Taxes other than income taxes include consumption taxes of RMB 89,670 for the year ended December 31, 2010 (2009: RMB 82,429, 2008: RMB 13,570) and special levies on domestic sales of crude oil of RMB 52,172 for the year ended December 31, 2010 (2009: RMB 20,020, 2008: RMB 85,291).

**Table of Contents****PETROCHINA COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****10 INTEREST EXPENSE**

|  | <b>2010</b>  | <b>2009</b>  | <b>2008</b>  |
|--|--------------|--------------|--------------|
|  | <b>RMB</b>   | <b>RMB</b>   | <b>RMB</b>   |
| Interest on                            |              |              |              |
| Bank loans                             |              |              |              |
| wholly repayable within five years     | 1,797        | 1,339        | 2,065        |
| not wholly repayable within five years | 15           | 90           | 22           |
| Other loans                            |              |              |              |
| wholly repayable within five years     | 4,721        | 4,624        | 1,365        |
| not wholly repayable within five years | 1,298        | 477          | 598          |
| Accretion expense (Note 32)            | 2,382        | 1,943        | 1,746        |
| Less: Amounts capitalised              | (3,892)      | (3,201)      | (2,752)      |
|  | <b>6,321</b> | <b>5,272</b> | <b>3,044</b> |

Amounts capitalised are borrowing costs that are attributable to the construction of a qualifying asset. The average interest rate used to capitalise such borrowing cost was ranging from 5.184% to 5.364% per annum for the year ended December 31, 2010.

**11 EMOLUMENTS OF DIRECTORS AND SUPERVISORS**

Details of the emoluments of directors and supervisors for the years ended December 31, 2010, 2009 and 2008 are as follows:

| Name                        | 2010                              |   |   | 2009          | 2008          |
|-----------------------------|-----------------------------------|---|---|---------------|---------------|
|                             | Fee for directors and supervisors | Salaries, allowances and other benefits | Contribution to retirement benefit scheme |               |               |
|                             | RMB 000                           | RMB 000                                 | RMB 000                                   | Total RMB 000 | Total RMB 000 |
| <b>Chairman:</b>            |                                   |   |   |               |               |
| Mr. Jiang Jiemin            |                                   |   |   |               |               |
| <b>Vice Chairman:</b>       |                                   |   |   |               |               |
| Mr. Zhou Jiping             |                                   | 941                                     | 40  | 981           | 774           |
| <b>Executive directors:</b> |                                   |   |   |               |               |
| Mr. Duan Wende(i)           |                                   |   |   |               | 366           |
| Mr. Liao Yongyuan           |                                   | 874                                     | 40  | 914           | 747           |

874 40 914 747 1,235

**Non-executive directors:**

Mr. Wang Yilin

Mr. Zeng Yukang

Mr. Wang Fucheng

Mr. Wang Guoliang

Mr. Li Xinhua

Mr. Jiang Fan

Mr. Chee-Chen Tung

Mr. Liu Hongru

Mr. Li Yongwu(ii)

Mr. Cui Junhui

Mr. Franco Bernabè

|       |     |    |       |       |       |
|-------|-----|----|-------|-------|-------|
|       | 664 | 30 | 694   | 519   | 569   |
| 254   |     |    | 254   | 260   | 249   |
| 227   |     |    | 227   | 339   | 343   |
| 240   |     |    | 240   | 344   | 197   |
| 244   |     |    | 244   | 348   | 331   |
| 231   |     |    | 231   | 246   | 243   |
| 1,196 | 664 | 30 | 1,890 | 2,056 | 1,932 |

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| Name                    | Fee for<br>directors<br>and<br>supervisors<br>RMB 000 | 2010  |  | Total<br>RMB 000 | 2009             | 2008             |
|-------------------------|---|---|--|------------------|------------------|------------------|
|                         |   | Salaries,<br>allowances<br>and other<br>benefits<br>RMB 000 | Contribution<br>to<br>retirement<br>benefit<br>scheme<br>RMB 000 |                  | Total<br>RMB 000 | Total<br>RMB 000 |
| <b>Supervisors:</b>     |   |   |  |                  |                  |                  |
| Mr. Chen Ming           |   |   |  |                  |                  |                  |
| Mr. Wen Qingshan        |   |   |  |                  |                  |                  |
| Mr. Sun Xianfeng        |   |   |  |                  |                  |                  |
| Mr. Yu Yibo             |   |   |  |                  |                  |                  |
| Mr. Wang Yawei          |   | 678   | 20   | 698              |                  |                  |
| Mr. Qin Gang            |   | 636   | 38   | 674              | 541              | 521              |
| Ms. Wang Shali          |   |   |  |                  |                  |                  |
| Mr. Li Yongwu(ii)       |   |   |  |                  |                  | 110              |
| Mr. Zhang Jinzhu(i)     |   |   |  |                  |                  | 206              |
| Mr. Wu Zhipan (iii)     |   |   |  |                  | 107              | 234              |
| Mr. Li Yuan             | 230   |   |  | 230              | 217              | 124              |
| Mr. Wang Daocheng (iii) | 230   |   |  | 230              | 117              |                  |
|                         | 460   | 1,314   | 58   | 1,832            | 982              | 1,195            |
|                         | 1,656   | 3,793   | 168  | 5,617            | 4,559            | 4,877            |

- (i) No longer an executive director or a supervisor since May 16, 2008.
- (ii) Elected as an independent non-executive director in May 16, 2008 and no longer a supervisor since then.
- (iii) Mr. Wu Zhipan no longer as a supervisor since May 12, 2009 and Mr. Wang Daocheng was elected as a supervisor since then.
- (iv) Emoluments set out above exclude RMB1.28 million paid to directors of the Company as part of the deferred merit pay for years 2007 to 2009 in accordance with relevant requirements by the PRC government.

The emoluments of the directors and supervisors fall within the following bands (including directors and supervisors whose term expired during the year):

| 2010<br>Number | 2009<br>Number | 2008<br>Number |
|----------------|----------------|----------------|
|----------------|----------------|----------------|



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In accordance with the relevant PRC income tax rules and regulations, the PRC corporate income tax rate applicable to the Group is principally 25%. Operations of the Group in certain regions in China have qualified for certain tax incentives in the form of a preferential income tax rate of 15% through the year 2010.

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

|   | <b>2010</b> | <b>2009</b> | <b>2008</b> |
|---|-------------|-------------|-------------|
|   | <b>RMB</b>  | <b>RMB</b>  | <b>RMB</b>  |
| Profit before income tax expense  | 189,305     | 140,032     | 162,013     |
| Tax calculated at a tax rate of 25%   | 47,326      | 35,008      | 40,503      |
| Prior year tax return adjustment  | (878)       | (2,216)     | 25          |
| Effect of income taxes from international operations in excess of taxes at the PRC statutory tax rate | 383         | 1,820       | 6,876       |
| Effect of preferential tax rate   | (8,713)     | (5,502)     | (10,907)    |
| Effect of change in statutory income tax rates on deferred taxes                                      | (346)       | (184)       | (3,134)     |
| Tax effect of income not subject to tax   | (2,651)     | (1,140)     | (1,357)     |
| Tax effect of expenses not deductible for tax purposes  | 3,392       | 5,687       | 3,205       |
| Income tax expense  | 38,513      | 33,473      | 35,211      |

**13 PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY**

The profit attributable to owners of the Company is dealt with in the consolidated financial statements of the Group to the extent of RMB 139,992 for the year ended December 31, 2010 (2009: RMB 103,387, 2008: RMB 114,453).

**14 BASIC AND DILUTED EARNINGS PER SHARE**

Basic and diluted earnings per share for the year ended December 31, 2010, 2009 and 2008 have been computed by dividing profit for the year attributable to owners of the Company by 183,021 million shares issued and outstanding for the year.

There are no potentially dilutive ordinary shares.

**15 DIVIDENDS**

|   | <b>2010</b> | <b>2009</b> | <b>2008</b> |
|---|-------------|-------------|-------------|
|   | <b>RMB</b>  | <b>RMB</b>  | <b>RMB</b>  |
| Interim dividends attributable to owners of the Company for 2010(a) | 29,399      |             |             |

|  |        |        |        |
|--|--------|--------|--------|
| Proposed final dividends attributable to owners of the Company for 2010(b) | 33,597 |        |        |
| Interim dividends attributable to owners of the Company for 2009(c)        |        | 22,725 |        |
| Final dividends attributable to owners of the Company for 2009(d)          |        | 23,799 |        |
| Interim dividends attributable to owners of the Company for 2008(e)        |        |        | 24,127 |
| Final dividends attributable to owners of the Company for 2008(f)          |        |        | 27,367 |
|  | 62,996 | 46,524 | 51,494 |

- (a) Interim dividends attributable to owners of the Company in respect of 2010 of RMB 0.16063 yuan per share amounting to a total of RMB 29,399 were paid on October 15, 2010.



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- (b) At the twelfth meeting of the Fourth Session of the Board of the Company, the Board of Directors proposed final dividends attributable to owners of the Company in respect of 2010 of RMB 0.18357 yuan per share amounting to a total of RMB 33,597. These consolidated financial statements do not reflect this dividend payable as the final dividends were proposed after the reporting period and will be accounted for in equity as an appropriation of retained earnings in the year ending December 31, 2011 when approved at the forthcoming Annual General Meeting.
- (c) Interim dividends attributable to owners of the Company in respect of 2009 of RMB 0.12417 yuan per share amounting to a total of RMB 22,725 were paid on October 16, 2009.
- (d) Final dividends attributable to owners of the Company in respect of 2009 of RMB 0.13003 yuan per share amounting to a total of RMB 23,799 were paid on June 30, 2010.
- (e) Interim dividends attributable to owners of the Company in respect of 2008 of RMB 0.13183 yuan per share amounting to a total of RMB 24,127 were paid on October 16, 2008.
- (f) Final dividends attributable to owners of the Company in respect of 2008 of RMB 0.14953 yuan per share amounting to a total of RMB 27,367 were paid on June 19, 2009.
- (g) Final dividends attributable to owners of the Company in respect of 2007 of RMB 0.156859 yuan per share amounting to a total of RMB 28,708 were paid on June 13, 2008.

**16 PROPERTY, PLANT AND EQUIPMENT**

| <b>Year Ended<br/>December 31, 2010</b> | <b>Buildings<br/>RMB</b> | <b>Oil<br/>and Gas<br/>Properties<br/>RMB</b> | <b>Equipment<br/>and<br/>Machinery<br/>RMB</b> | <b>Motor<br/>Vehicles<br/>RMB</b> | <b>Other<br/>RMB</b> | <b>Construction<br/>in Progress<br/>RMB</b> | <b>Total<br/>RMB</b> |
|---|--------------------------|---|--|-----------------------------------|----------------------|---|----------------------|
| <b>Cost</b>                             |                          |   |  |                                   |                      |   |                      |
| At beginning of the year                | 110,910                  | 888,849                                       | 452,564  | 20,184                            | 11,051               | 225,479                                     | 1,709,037            |
| Additions                               | 2,596                    | 29,545  | 10,864   | 3,660                             | 589                  | 247,232                                     | 294,486              |
| Transfers                               | 17,604                   | 112,488                                       | 90,377   |                                   | 1,163                | (221,632)                                   |                      |
| Disposals or write-offs                 | (1,642)                  | (4,880)                                       | (4,813)  | (708)                             | (207)                | (10,714)                                    | (22,964)             |
| Currency translation differences        | (83)                     | (1,066)                                       | (46)   | (29)                              | 172                  | (99)  | (1,151)              |
| At end of the year                      | 129,385                  | 1,024,936                                     | 548,946  | 23,107                            | 12,768               | 240,266                                     | 1,979,408            |
| <b>Accumulated depreciation and</b>     |                          |   |  |                                   |                      |   |                      |

**impairment**

|                                      |          |           |           |          |         |         |           |
|--------------------------------------|----------|-----------|-----------|----------|---------|---------|-----------|
| At beginning of the year             | (32,113) | (369,437) | (218,288) | (9,732)  | (3,725) | (275)   | (633,570) |
| Charge for the year                  | (8,544)  | (68,702)  | (35,596)  | (2,163)  | (1,055) | (21)    | (116,081) |
| Disposals or write-offs or transfers | 860      | 2,976     | 3,500     | 400      | 141     | 152     | 8,029     |
| Currency translation differences     | 35       | 662       | 72        | 16       | 27      | 1       | 813       |
| At end of the year                   | (39,762) | (434,501) | (250,312) | (11,479) | (4,612) | (143)   | (740,809) |
| <b>Net book value</b>                |          |           |           |          |         |         |           |
| At end of the year                   | 89,623   | 590,435   | 298,634   | 11,628   | 8,156   | 240,123 | 1,238,599 |

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| <b>Year Ended<br/>December 31, 2009</b>        | <b>Buildings<br/>RMB</b> | <b>Oil<br/>and Gas<br/>Properties<br/>RMB</b> | <b>Equipment<br/>and<br/>Machinery<br/>RMB</b> | <b>Motor<br/>Vehicles<br/>RMB</b> | <b>Other<br/>RMB</b> | <b>Construction<br/>in<br/>Progress<br/>RMB</b> | <b>Total<br/>RMB</b> |
|--|--------------------------|---|--|-----------------------------------|----------------------|---|----------------------|
| <b>Cost</b>                                    |                          |   |  |                                   |                      |   |                      |
| At beginning of the year                       | 99,680                   | 790,354                                       | 366,953  | 17,537                            | 9,924                | 172,353   | 1,456,801            |
| Additions                                      | 4,516                    | 11,141  | 27,315   | 3,277                             | 2,880                | 236,285   | 285,414              |
| Transfers                                      | 9,746                    | 97,136  | 62,540   |                                   | 1,497                | (170,919)                                       |                      |
| Disposals or write-offs                        | (2,617)                  | (5,838)                                       | (3,842)  | (503)                             | (3,107)              | (11,614)  | (27,521)             |
| Currency translation differences               | (415)                    | (3,944)                                       | (402)  | (127)                             | (143)                | (626)   | (5,657)              |
| At end of the year                             | 110,910                  | 888,849                                       | 452,564  | 20,184                            | 11,051               | 225,479   | 1,709,037            |
| <b>Accumulated depreciation and impairment</b> |                          |   |  |                                   |                      |   |                      |
| At beginning of the year                       | (27,710)                 | (317,301)                                     | (196,842)                                      | (8,536)                           | (5,723)              | (265)   | (556,377)            |
| Charge for the year                            | (5,614)                  | (57,088)                                      | (24,988)                                       | (1,657)                           | (1,012)              | (11)  | (90,370)             |
| Disposals or write-offs or transfers           | 1,087                    | 3,455   | 3,363  | 378                               | 2,873                |   | 11,156               |
| Currency translation differences               | 124                      | 1,497   | 179  | 83                                | 137                  | 1   | 2,021                |
| At end of the year                             | (32,113)                 | (369,437)                                     | (218,288)                                      | (9,732)                           | (3,725)              | (275)   | (633,570)            |
| <b>Net book value</b>                          |                          |   |  |                                   |                      |   |                      |
| At end of the year                             | 78,797                   | 519,412                                       | 234,276  | 10,452                            | 7,326                | 225,204   | 1,075,467            |

The depreciation charge of the Group for the year ended December 31, 2010 included impairment losses of RMB 4,356 (2009: RMB 2,058, 2008: RMB 16,185) on certain of the Group's property, plant and equipment. The carrying values of these assets were written down to their recoverable values.

The Group has changed its accounting policy for property, plant and equipment upon the adoption of IFRS 1 (amendment), First-time Adoption of International Financial Reporting Standards (Note 3(u)).

The following table indicates the changes to the Group's exploratory well costs, which are included in construction in progress, for the years ended December 31, 2010, 2009 and 2008.

|  | <b>2010</b> | <b>2009</b> | <b>2008</b> |
|--|-------------|-------------|-------------|
|  | <b>RMB</b>  | <b>RMB</b>  | <b>RMB</b>  |
| At beginning of the year   | 17,221      | 15,853      | 11,975      |
| Additions to capitalised exploratory well costs pending the determination of proved reserves   | 25,239      | 22,891      | 26,503      |
| Reclassified to wells, facilities, and equipment based on the determination of proved reserves | (11,395)    | (11,504)    | (12,284)    |
| Capitalised exploratory well costs charged to expense  | (10,714)    | (10,019)    | (10,341)    |
| At end of the year   | 20,351      | 17,221      | 15,853      |

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The following table provides an aging of capitalised exploratory well costs based on the date the drilling was completed.

|                        | December 31, 2010<br>RMB | December 31, 2009<br>RMB |
|------------------------|--------------------------|--------------------------|
| One year or less       | 18,900                   | 15,560                   |
| Over one year          | 1,451                    | 1,661                    |
| Balance at December 31 | 20,351                   | 17,221                   |

RMB 1,451 at December 31, 2010 (December 31, 2009: RMB 1,661) of capitalised exploratory well costs over one year are principally related to wells that are under further evaluation of drilling results or pending completion of development planning to ascertain economic viability.

**17 INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES**

The summarised financial information of the Group's principal associates and jointly controlled entities, including the aggregated amounts of assets, liabilities, revenues, profit or loss and the interest held by the Group were as follows:

| Name   | Country of<br>Incorporation | Assets<br>RMB | Liabilities<br>RMB | Revenues<br>RMB | Profit<br>RMB | Interest<br>Held % | Type of<br>Share |
|--|-----------------------------|---------------|--------------------|-----------------|---------------|--------------------|------------------|
| As of or for the year ended December 31, 2010: |                             |               |                    |                 |               |                    |                  |
| Dalian West Pacific Petrochemical Co., Ltd.    | PRC                         | 10,373        | 11,258             | 35,704          | 1,160         | 28.44              | ordinary         |
| China Marine Bunker (PetroChina) Co., Ltd.     | PRC                         | 8,039         | 5,210              | 37,552          | 388           | 50.00              | ordinary         |
| China Petroleum Finance Co., Ltd.(a)           | PRC                         | 460,387       | 438,218            | 10,339          | 3,294         | 49.00              | ordinary         |
| Arrow Energy Holdings Pty Ltd.(b)              | Australia                   | 48,299        | 13,370             | 387             | 342           | 50.00              | ordinary         |
| As of or for the year ended December 31, 2009: |                             |               |                    |                 |               |                    |                  |
| Dalian West Pacific Petrochemical Co., Ltd.    | PRC                         | 10,168        | 12,228             | 28,205          | 1,076         | 28.44              | ordinary         |

|   |     |       |       |        |     |       |          |
|---|-----|-------|-------|--------|-----|-------|----------|
| China Marine Bunker<br>(PetroChina) Co., Ltd. | PRC | 6,546 | 3,501 | 27,510 | 358 | 50.00 | ordinary |
|---|-----|-------|-------|--------|-----|-------|----------|

- (a) In 2010, the Company paid a cash consideration of RMB 9,618 for subscription of new registered capital of RMB 2,441 in China Petroleum Finance Co., Ltd. ( CP Finance ). The balance of RMB 7,177 was accounted into the capital reserve of CP Finance. The shareholding of the Company in CP Finance increased from 7.5% to 49.0%. CP Finance is recorded using the equity method of accounting in the Company s financial statements.
- (b) In 2010, CS CSG (Australia) Pty Ltd. (the Joint Venture Company ) was formed as a joint venture company by PetroChina International Investment Company Limited (a wholly-owned subsidiary of the Group) and Shell Energy Holdings Australia Ltd.. PetroChina International Investment Company Limited holds 50% equity interest in the Joint Venture Company.

On August 23, 2010, the Joint Venture Company acquired 100% equity interest in Arrow Energy Limited for a total consideration of approximately 3.5 billion Australian Dollars ( AUD ) (approximately RMB 21,120 million), representing AUD4.70 per share of Arrow Energy in cash. The Joint Venture Company has now been renamed as Arrow Energy Holdings Pty Ltd.

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Dividends received and receivable from associates and jointly controlled entities were RMB 6,948 in 2010 (2009: RMB 568, 2008: RMB 3,886).

In 2010, investments in associates and jointly controlled entities of RMB 157 (2009: RMB 345, 2008: RMB 36) were disposed of, resulting in a loss of RMB 3 (2009: a gain of RMB 33, 2008: a loss of RMB 3).

**18 AVAILABLE-FOR-SALE FINANCIAL ASSETS**

|                                     | <b>December 31, 2010</b> | <b>December 31, 2009</b> |
|-------------------------------------|--------------------------|--------------------------|
|                                     | <b>RMB</b>               | <b>RMB</b>               |
| Available-for-sale financial assets | 2,330                    | 2,799                    |
| Less: Impairment losses             | (351)                    | (456)                    |
|                                     | 1,979                    | 2,343                    |

Available-for-sale financial assets comprise principally unlisted equity securities.

In 2010, available-for-sale financial assets of RMB 207 (2009: RMB 137, 2008: RMB 74) were disposed of, resulting in the realisation of a gain of RMB 8 (2009: RMB 4, 2008: RMB 5).

**19 SUBSIDIARIES**

The principal subsidiaries of the Group are:

| <b>Company Name</b>                              | <b>Country of Incorporation</b> | <b>Paid-up Capital RMB</b> | <b>Type of Legal Entity</b> | <b>Attributable Equity Interest %</b> | <b>Principal Activities</b>  |
|--|---------------------------------|----------------------------|-----------------------------|---------------------------------------|--|
| Daqing Oilfield Company Limited                  | PRC                             | 47,500                     | Limited liability company   | 100.00                                | Exploration, production and sale of crude oil and natural gas                            |
| CNPC Exploration and Development Company Limited | PRC                             | 16,100                     | Limited liability company   | 50.00                                 | Exploration, production and sale of crude oil and natural gas in and outside the PRC     |
| PetroChina Hong Kong Limited                     | Hong Kong                       | HK Dollar<br>7,592         | Limited liability company   | 100.00                                | Investment holding. The principal activities of its subsidiaries, associates and jointly |

|   |     |        |                           |        |  |
|---|-----|--------|---------------------------|--------|--|
| Petrochina International Investment Company Limited | PRC | 31,314 | Limited liability company | 100.00 | <p>controlled entities are the exploration, production and sale of crude oil and natural gas in and outside the PRC</p> <p>Investment holding. The principal activities of its subsidiaries and jointly controlled entities are the exploration, development and production of crude oil, oilsands and coalbed methane outside the PRC</p> |
|---|-----|--------|---------------------------|--------|--|

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**Table of Contents****PETROCHINA COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****20 ADVANCE OPERATING LEASE PAYMENTS**

|                        | <b>December 31, 2010</b> | <b>December 31, 2009</b> |
|------------------------|--------------------------|--------------------------|
|                        | <b>RMB</b>               | <b>RMB</b>               |
| Land use rights        | 24,085                   | 19,901                   |
| Advance lease payments | 12,070                   | 10,335                   |
|                        | <b>36,155</b>            | <b>30,236</b>            |

Land use rights have terms up to 50 years. Advance lease payments are principally for use of land sub-leased from entities other than the PRC land authorities. These advance operating lease payments are amortised over the related lease terms using the straight-line method.

**21 INTANGIBLE AND OTHER ASSETS**

|                    | <b>December 31, 2010</b> |                     |               | <b>December 31, 2009</b> |                     |               |
|--------------------|--------------------------|---------------------|---------------|--------------------------|---------------------|---------------|
|                    | <b>Cost</b>              | <b>Accumulated</b>  | <b>Net</b>    | <b>Cost</b>              | <b>Accumulated</b>  | <b>Net</b>    |
|                    | <b>RMB</b>               | <b>Amortisation</b> | <b>RMB</b>    | <b>RMB</b>               | <b>Amortisation</b> | <b>RMB</b>    |
| Patents            | 3,237                    | (2,111)             | 1,126         | 3,076                    | (1,939)             | 1,137         |
| Technical know-how | 1,757                    | (396)               | 1,361         | 1,654                    | (242)               | 1,412         |
| Goodwill(i)        | 3,068                    |                     | 3,068         | 2,818                    |                     | 2,818         |
| Other              | 14,431                   | (3,965)             | 10,466        | 11,025                   | (2,992)             | 8,033         |
| Intangible assets  | 22,493                   | (6,472)             | 16,021        | 18,573                   | (5,173)             | 13,400        |
| Other assets       |                          |                     | 9,432         |                          |                     | 4,617         |
|                    |                          |                     | <b>25,453</b> |                          |                     | <b>18,017</b> |

(i) The goodwill primarily relates to the acquisition of Singapore Petroleum Company Limited in 2009.

Patents principally represent expenditure incurred in acquiring processes and techniques that are generally protected by the relevant government authorities. Technical know-how is amounts attributable to operational technology acquired in connection with the purchase of equipment. The costs of technical know-how are included as part of the purchase price and are separately distinguishable from the other assets acquired.

**22 INVENTORIES**

|                                   | <b>December 31,<br/>2010<br/>RMB</b> | <b>December 31,<br/>2009<br/>RMB</b> |
|-----------------------------------|--------------------------------------|--------------------------------------|
| Crude oil and other raw materials | 39,574                               | 30,928                               |
| Work in progress                  | 13,652                               | 7,006                                |
| Finished goods                    | 82,353                               | 77,685                               |
| Spare parts and consumables       | 31                                   | 28                                   |
|                                   | 135,610                              | 115,647                              |
| Less: Write down in inventories   | (722)                                | (866)                                |
|                                   | 134,888                              | 114,781                              |

The carrying amounts of inventories of the Group, which are carried at net realisable value, amounted to RMB 2,231 (December 31, 2009: RMB 7,216) at December 31, 2010.

Table of Contents**PETROCHINA COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****23 ACCOUNTS RECEIVABLE**

|   | <b>December 31,<br/>2010<br/>RMB</b> | <b>December 31,<br/>2009<br/>RMB</b> |
|---|--------------------------------------|--------------------------------------|
| Accounts receivable                           | 46,057                               | 30,909                               |
| Less: Provision for impairment of receivables | (1,052)                              | (2,124)                              |
|   | 45,005                               | 28,785                               |

The aging analysis of accounts receivable (net of impairment of accounts receivable) at December 31, 2010 and December 31, 2009 is as follows:

|                       | <b>December 31,<br/>2010<br/>RMB</b> | <b>December 31,<br/>2009<br/>RMB</b> |
|-----------------------|--------------------------------------|--------------------------------------|
| Within 1 year         | 44,689                               | 28,561                               |
| Between 1 and 2 years | 177                                  | 106                                  |
| Between 2 and 3 years | 45                                   | 80                                   |
| Over 3 years          | 94                                   | 38                                   |
|                       | 45,005                               | 28,785                               |

The Group offers its customers credit terms up to 180 days.

Movements in the provision for impairment of accounts receivable are as follows:

|   | <b>2010<br/>RMB</b> | <b>2009<br/>RMB</b> | <b>2008<br/>RMB</b> |
|---|---------------------|---------------------|---------------------|
| At beginning of the year                                    | 2,124               | 2,423               | 2,880               |
| Provision for impairment of accounts receivable             | 9                   | 38                  | 36                  |
| Receivables written off as uncollectible                    | (1,007)             | (232)               | (388)               |
| Reversal of provision for impairment of accounts receivable | (74)                | (105)               | (105)               |
| At end of the year  | 1,052               | 2,124               | 2,423               |

**24 PREPAID EXPENSES AND OTHER CURRENT ASSETS**

|                                | <b>December 31,<br/>2010<br/>RMB</b> | <b>December 31,<br/>2009<br/>RMB</b> |
|--------------------------------|--------------------------------------|--------------------------------------|
| Other receivables              | 8,670                                | 8,528                                |
| Advances to suppliers          | 37,454                               | 36,009                               |
|                                | 46,124                               | 44,537                               |
| Less: Provision for impairment | (2,847)                              | (3,741)                              |
|                                | 43,277                               | 40,796                               |
| Value-added tax recoverable    | 7,678                                | 15,663                               |
| Prepaid expenses               | 495                                  | 421                                  |
| Other current assets           | 372                                  | 2,715                                |
|                                | 51,822                               | 59,595                               |

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Other receivables consist primarily of taxes other than income tax refunds, subsidies receivable, and receivables for the sale of materials and scrap.

**25 NOTES RECEIVABLE**

Notes receivable represent mainly bills of acceptance issued by banks for the sale of goods and products. All notes receivable are due within one year.

**26 CASH AND CASH EQUIVALENTS**

The weighted average effective interest rate on bank deposits was 1.88% per annum for the year ended December 31, 2010 (2009: 1.46% per annum).

**27 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

|   | <b>December 31,<br/>2010<br/>RMB</b> | <b>December 31,<br/>2009<br/>RMB</b> |
|---|--------------------------------------|--------------------------------------|
| Trade payables  | 97,361                               | 62,840                               |
| Advances from customers   | 29,099                               | 21,193                               |
| Salaries and welfare payable                                      | 5,696                                | 5,105                                |
| Accrued expenses  | 332                                  | 31                                   |
| Dividends payable by subsidiaries to non-controlling shareholders | 199                                  | 105                                  |
| Interest payable  | 2,545                                | 1,448                                |
| Construction fee and equipment cost payables                      | 111,654                              | 93,920                               |
| Other payables  | 23,305                               | 20,097                               |
|   | <b>270,191</b>                       | <b>204,739</b>                       |

Other payables consist primarily of customer deposits.

The aging analysis of trade payables at December 31, 2010 and 2009 is as follows:

|                       | <b>December 31,<br/>2010<br/>RMB</b> | <b>December 31,<br/>2009<br/>RMB</b> |
|-----------------------|--------------------------------------|--------------------------------------|
| Within 1 year         | 93,240                               | 60,420                               |
| Between 1 and 2 years | 2,951                                | 1,404                                |
| Between 2 and 3 years | 475                                  | 505                                  |
| Over 3 years          | 695                                  | 511                                  |

97,361

62,840

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|   | <b>December 31,<br/>2010<br/>RMB</b> | <b>December 31,<br/>2009<br/>RMB</b> |
|---|--------------------------------------|--------------------------------------|
| Short-term borrowings excluding current portion of long-term borrowings | 97,175                               | 134,622                              |
| Current portion of long-term borrowings                                 | 5,093                                | 14,229                               |
|   | 102,268                              | 148,851                              |
| Long-term borrowings  | 131,352                              | 85,471                               |
|   | 233,620                              | 234,322                              |

Borrowings of the Group of RMB 6,157 were guaranteed by CNPC, its fellow subsidiaries and a third party at December 31, 2010 (December 31, 2009: RMB 1,154).

The Group's borrowings include secured liabilities totalling RMB 3,284 at December 31, 2010 (December 31, 2009: RMB 7,904). These borrowings are mainly secured over certain of the Group's notes receivable, inventories, intangible assets, cash and cash equivalents, time deposits with maturities over one year and property, plant and equipment amounting to RMB 3,303 (December 31, 2009: RMB 8,693).

|  | <b>December 31,<br/>2010<br/>RMB</b> | <b>December 31,<br/>2009<br/>RMB</b> |
|--|--------------------------------------|--------------------------------------|
| Total borrowings:                          |                                      |                                      |
| interest free                              | 47                                   | 51                                   |
| at fixed rates                             | 186,674                              | 163,155                              |
| at floating rates                          | 46,899                               | 71,116                               |
|  | 233,620                              | 234,322                              |
| Weighted average effective interest rates: |                                      |                                      |
| bank loans                                 | 3.32%                                | 3.10%                                |
| corporate debentures                       | 4.08%                                | 4.31%                                |
| medium-term notes                          | 3.48%                                | 2.78%                                |
| short-term notes                           |                                      | 2.01%                                |
| other loans                                | 3.53%                                | 3.21%                                |

The borrowings by major currency at December 31, 2010 and December 31, 2009 are as follows:

|                | <b>December 31,<br/>2010<br/>RMB</b> | <b>December 31,<br/>2009<br/>RMB</b> |
|----------------|--------------------------------------|--------------------------------------|
| RMB            | 201,470                              | 195,023                              |
| US Dollar      | 28,253                               | 39,097                               |
| Other currency | 3,897                                | 202                                  |
|                | 233,620                              | 234,322                              |

The fair values of the Group's long-term borrowings including current portion of long-term borrowings are RMB 133,942 (December 31, 2009: RMB 98,061) at December 31, 2010. The fair values of the Company's long-term borrowings including current portion of long-term borrowings are RMB 117,045 (December 31, 2009: RMB 75,244) at December 31, 2010. The carrying amounts of short-term borrowings approximate their fair values.



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The fair values are based on discounted cash flows using applicable discount rates based upon the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at the dates of the statement of financial position. Such discount rates ranged from 0.96% to 5.58% per annum as of December 31, 2010 (December 31, 2009: 1.02% to 5.93%) depending on the type of the borrowings.

The following table sets out the borrowings remaining contractual maturities at the date of financial position, which are based on contractual undiscounted cash flows including principal and interest, and the earliest contractual maturity date:

|                            | <b>December 31,<br/>2010<br/>RMB</b> | <b>December 31,<br/>2009<br/>RMB</b> |
|----------------------------|--------------------------------------|--------------------------------------|
| Within one year            | 110,380                              | 155,450                              |
| Between one and two years  | 41,533                               | 14,649                               |
| Between two and five years | 82,640                               | 67,108                               |
| After five years           | 26,642                               | 14,806                               |
|                            | 261,195                              | 252,013                              |

**29 SHARE CAPITAL**

|                                    | <b>December 31,<br/>2010<br/>RMB</b> | <b>December 31,<br/>2009<br/>RMB</b> |
|------------------------------------|--------------------------------------|--------------------------------------|
| Registered, issued and fully paid: |                                      |                                      |
| A shares                           | 161,922                              | 161,922                              |
| H shares                           | 21,099                               | 21,099                               |
|                                    | 183,021                              | 183,021                              |

In accordance with the Restructuring Agreement between CNPC and the Company effective as of November 5, 1999, the Company issued 160 billion state-owned shares in exchange for the assets and liabilities transferred to the Company by CNPC. The 160 billion state-owned shares were the initial registered capital of the Company with a par value of RMB 1.00 yuan per share.

On April 7, 2000, the Company issued 17,582,418,000 shares, represented by 13,447,897,000 H shares and 41,345,210 ADSs (each representing 100 H shares) in a global initial public offering ( Global Offering ) and the trading of the H shares and the ADSs on the Stock Exchange of Hong Kong Limited and the New York Stock Exchange commenced on April 7, 2000 and April 6, 2000, respectively. The H shares and ADSs were issued at prices of

HK\$1.28 per H share and US\$16.44 per ADS respectively for which the net proceeds to the Company were approximately RMB 20 billion. The shares issued pursuant to the Global Offering rank equally with existing shares.

Pursuant to the approval of the China Securities Regulatory Commission, 1,758,242,000 state-owned shares of the Company owned by CNPC were converted into H shares for sale in the Global Offering.

In September 2005, the Company issued 3,196,801,818 new H shares at HK\$6.00 per share and net proceeds to the Company amounted to approximately RMB 19,692. CNPC also sold 319,680,182 state-owned shares it held concurrently with PetroChina's sale of new H shares in September 2005.

On November 5, 2007, the Company issued 4,000,000,000 new A shares at RMB 16.70 yuan per share and net proceeds to the Company amounted to approximately RMB 66,243 and the listing and trading of the A shares on the Shanghai Stock Exchange commenced on November 5, 2007.

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Following the issuance of the A shares, all the existing state-owned shares issued before November 5, 2007 held by CNPC have been registered with the China Securities Depository and Clearing Corporation Limited as A shares.

Shareholders' rights are governed by the Company Law of the PRC that requires an increase in registered capital to be approved by the shareholders in shareholders' general meetings and the relevant PRC regulatory authorities.

**30 RESERVES**

|  | <b>2010</b> | <b>2009</b> |
|--|-------------|-------------|
|  | <b>RMB</b>  | <b>RMB</b>  |
| <b>Capital Reserve(a)</b>                              |             |             |
| Beginning balance                                      | 133,308     | 133,308     |
| Ending balance   | 133,308     | 133,308     |
| <b>Statutory Common Reserve Fund(b)</b>                |             |             |
| Beginning balance                                      | 125,447     | 115,466     |
| Transfer from retained earnings                        | 13,190      | 9,981       |
| Ending balance   | 138,637     | 125,447     |
| <b>Special Reserve-Safety Fund Reserve</b>             |             |             |
| Beginning balance                                      | 8,075       | 6,750       |
| Safety fund reserve                                    | 416         | 1,325       |
| Ending balance   | 8,491       | 8,075       |
| <b>Currency translation differences</b>                |             |             |
| Beginning balance                                      | (4,186)     | (2,726)     |
| Currency translation differences                       | 3,089       | (1,460)     |
| Ending balance   | (1,097)     | (4,186)     |
| <b>Other reserves</b>                                  |             |             |
| Beginning balance                                      | (22,509)    | (23,382)    |
| Purchase of non-controlling interest in subsidiaries   | (87)        | (179)       |
| Acquisition of subsidiaries                            | (572)       | (248)       |
| Fair value gain on available-for-sale financial assets | 105         | 140         |
| Capital contribution from non-controlling interest     | 3           | 1,158       |
| Other  | 338         | 2           |
| Ending balance   | (22,722)    | (22,509)    |
|  | 256,617     | 240,135     |

- (a) The Group's revaluation reserve of RMB 79,946 has been reclassified to capital reserve as the Group has changed its accounting policy for property, plant and equipment upon the adoption of IFRS 1 (amendment) (Note 3(f)).
- (b) Pursuant to the PRC regulations and the Company's Articles of Association, the Company is required to transfer 10% of its net profit, as determined under the PRC accounting regulations, to a Statutory Common Reserve Fund ( Reserve Fund ). Appropriation to the Reserve Fund may cease when the fund aggregates to 50% of the Company's registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders.

**Table of Contents****PETROCHINA COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Reserve Fund shall only be used to make good previous years' losses, to expand the Company's production operations, or to increase the capital of the Company. Upon approval of a resolution of shareholders in a general meeting, the Company may convert its Reserve Fund into share capital and issue bonus shares to existing shareholders in proportion to their original shareholdings or to increase the nominal value of each share currently held by them, provided that the balance of the Reserve Fund after such issuance is not less than 25% of the Company's registered capital.

- (c) According to the relevant PRC regulations, the distributable reserve is the lower of the retained earnings computed under PRC accounting regulations and IFRS. As of December 31, 2010, the Company's distributable reserve amounted to RMB 425,345 (December 31, 2009: RMB 358,415).

**31 DEFERRED TAXATION**

Deferred taxation is calculated on temporary differences under the liability method using a principal tax rate of 25%.

The movements in the deferred taxation account are as follows:

|  | <b>Year Ended December 31,</b> |             |             |
|--|--------------------------------|-------------|-------------|
|  | <b>2010</b>                    | <b>2009</b> | <b>2008</b> |
|  | <b>RMB</b>                     | <b>RMB</b>  | <b>RMB</b>  |
| At beginning of the year                       | 21,160                         | 11,969      | 20,571      |
| Transfer to profit and loss (Note 12)          | (104)                          | 8,611       | (8,212)     |
| Charge/ (credit) to other comprehensive income | 5                              | 38          | (67)        |
| Acquisition of subsidiaries                    | 87                             | 991         |             |
| Currency translation differences               | (61)                           | (420)       | (364)       |
| Others   | 144                            | (29)        | 41          |
| At end of the year                             | 21,231                         | 21,160      | 11,969      |

Deferred tax balances before offset are attributable to the following items:

|                             | <b>December 31,</b> | <b>December 31</b> |
|-----------------------------|---------------------|--------------------|
|                             | <b>2010</b>         | <b>2009</b>        |
|                             | <b>RMB</b>          | <b>RMB</b>         |
| Deferred tax assets:        |                     |                    |
| Current:                    |                     |                    |
| Receivables and inventories | 8,251               | 7,173              |
| Tax losses of subsidiaries  | 352                 | 166                |
| Non-current:                |                     |                    |

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|                                |        |        |
|--------------------------------|--------|--------|
| Impairment of long-term assets | 4,665  | 3,983  |
| Other                          | 3,742  | 2,379  |
| Total deferred tax assets      | 17,010 | 13,701 |
| Deferred tax liabilities:      |        |        |
| Non-current:                   |        |        |
| Accelerated tax depreciation   | 35,164 | 32,348 |
| Other                          | 3,077  | 2,513  |
| Total deferred tax liabilities | 38,241 | 34,861 |
| Net deferred tax liabilities   | 21,231 | 21,160 |

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Deferred tax balances after offset are listed as below:

|                          | <b>December 31,<br/>2010<br/>RMB</b> | <b>December 31,<br/>2009<br/>RMB</b> |
|--------------------------|--------------------------------------|--------------------------------------|
| Deferred tax assets      | 284                                  | 289                                  |
| Deferred tax liabilities | 21,515                               | 21,449                               |

There were no material unrecognised tax losses at December 31, 2010 and 2009.

**32 ASSET RETIREMENT OBLIGATIONS**

|                                  | <b>2010<br/>RMB</b> | <b>2009<br/>RMB</b> | <b>2008<br/>RMB</b> |
|----------------------------------|---------------------|---------------------|---------------------|
| At beginning of the year         | 44,747              | 36,262              | 24,761              |
| Liabilities incurred             | 13,736              | 7,162               | 10,033              |
| Liabilities settled              | (469)               | (434)               | (169)               |
| Accretion expense (Note 10)      | 2,382               | 1,943               | 1,746               |
| Currency translation differences | (32)                | (186)               | (109)               |
| At end of the year               | 60,364              | 44,747              | 36,262              |

Asset retirement obligations relate to oil and gas properties (Note 16).

**33 PENSIONS**

The Group participates in various employee retirement benefit plans (Note 3(t)). Expenses incurred by the Group in connection with the retirement benefit plans for the year ended December 31, 2010 amounted to RMB 9,600 (2009: RMB 8,437, 2008: RMB 6,997).

**34 CONTINGENT LIABILITIES****(a) Bank and other guarantees**

At December 31, 2010, borrowings of associates of RMB 13 (December 31, 2009: RMB 21) from CP Finance (a subsidiary of CNPC) were guaranteed by the Group. The Group had contingent liabilities in respect of the guarantees from which it is anticipated that no material liabilities will arise.

**(b) Environmental liabilities**

China has adopted extensive environmental laws and regulations that affect the operation of the oil and gas industry. Under existing legislation, however, management believes that there are no probable liabilities, except for the amounts which have already been reflected in the consolidated financial statements, which may have a material adverse effect on the financial position of the Group.

***(c) Legal contingencies***

Notwithstanding certain insignificant lawsuits as well as other proceedings outstanding, management believes that any resulting liabilities will not have a material adverse effect on the financial position of the Group.

***(d) Group insurance***

The Group has insurance coverage for vehicles and certain assets that are subject to significant operating risks, third-party liability insurance against claims relating to personal injury, property and environmental damages that



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result from accidents and also employer liabilities insurance. The potential effect on the financial position of the Group of any liabilities resulting from future uninsured incidents cannot be estimated by the Group at present.

**35 COMMITMENTS***(a) Operating lease commitments*

Operating lease commitments of the Group are mainly for leasing of land, buildings and equipment. Leases range from 1 to 50 years and usually do not contain renewal options. Future minimum lease payments as of December 31, 2010 and 2009 under non-cancellable operating leases are as follows:

|  | <b>December 31,<br/>2010<br/>RMB</b> | <b>December 31,<br/>2009<br/>RMB</b> |
|--|--------------------------------------|--------------------------------------|
| No later than one year                           | 4,118                                | 4,071                                |
| Later than one year and no later than five years | 13,172                               | 12,478                               |
| Later than five years                            | 77,552                               | 77,385                               |
|  | 94,842                               | 93,934                               |

*(b) Capital commitments*

At December 31, 2010, the Group's capital commitments contracted but not provided for were RMB 49,495 (December 31, 2009: RMB 56,657).

*(c) Exploration and production licenses*

The Company is obligated to make annual payments with respect to its exploration and production licenses to the Ministry of Land and Resources. Payments incurred were approximately RMB 916 for the year ended December 31, 2010 (2009: RMB 752, 2008: RMB 944).

Estimated annual payments for the next five years are as follows:

|                              | <b>December 31,<br/>2010<br/>RMB</b> | <b>December 31,<br/>2009<br/>RMB</b> |
|------------------------------|--------------------------------------|--------------------------------------|
| Within one year              | 1,000                                | 1,000                                |
| Between one and two years    | 1,000                                | 1,000                                |
| Between two and three years  | 1,000                                | 1,000                                |
| Between three and four years | 1,000                                | 1,000                                |

Between four and five years

1,000

1,000

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**Table of Contents****PETROCHINA COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****36 MAJOR CUSTOMERS**

The Group's major customers are as follows:

|  | 2010    |            | 2009    |            | 2008    |            |
|--|---------|------------|---------|------------|---------|------------|
|  | Revenue | Percentage | Revenue | Percentage | Revenue | Percentage |
|  | RMB     | of Total   | RMB     | of Total   | RMB     | of Total   |
|  |         | Revenue    |         | Revenue    |         | Revenue    |
|  |         | %          |         | %          |         | %          |
| China Petroleum & Chemical Corporation | 86,270  | 6          | 67,137  | 7          | 57,594  | 5          |
| CNPC and its fellow subsidiaries       | 49,259  | 3          | 32,437  | 3          | 46,645  | 4          |
|  | 135,529 | 9          | 99,574  | 10         | 104,239 | 9          |

**37 RELATED PARTY TRANSACTIONS**

CNPC, the controlling shareholder of the Company, is a state-controlled enterprise directly controlled by the PRC government. The PRC government is the Company's ultimate controlling party.

Related parties include CNPC and its fellow subsidiaries, other state-owned enterprises and their subsidiaries which the PRC government has control, joint control or significant influence over and enterprises which the Group is able to control, jointly control or exercise significant influence over, key management personnel of the Company and CNPC and their close family members.

**(a) Transactions with CNPC and its fellow subsidiaries, associates and jointly controlled entities**

The Group has extensive transactions with other companies in CNPC and its fellow subsidiaries. Due to these relationships, it is possible that the terms of the transactions between the Group and other members of CNPC and its fellow subsidiaries are not the same as those that would result from transactions with other related parties or wholly unrelated parties.

The principal related party transactions with CNPC and its fellow subsidiaries, associates and jointly controlled entities of the Group which were carried out in the ordinary course of business, are as follows:

On August 27, 2008, the Company and CNPC entered into a Comprehensive Products and Services Agreement (the Comprehensive Products and Services Agreement), amending the original Comprehensive Products and Services Agreements and the First Supplemental Agreement and the Second Supplemental Agreement thereto. The Comprehensive Products and Services Agreement provides for a range of products and services which may be required and requested by either party. The products and services to be provided by CNPC and its fellow subsidiaries to the Group under the Comprehensive Products and Services Agreement include construction and technical services, production services, supply of material services, social services, ancillary services and financial services. The products

and services required and requested by either party are provided in accordance with (1) government-prescribed prices; or (2) where there is no government-prescribed price, with reference to relevant market prices; or (3) where neither (1) nor (2) is applicable, the actual cost incurred or the agreed contractual price.

Sales of goods represent the sale of crude oil, refined products, chemical products and natural gas, etc. The total amount of these transactions amounted to RMB 62,459 in the year ended December 31, 2010 (2009: RMB 37,448, 2008: RMB 51,714).

Sales of services principally represent the provision of services in connection with the transportation of crude oil and natural gas, etc. The total amount of these transactions amounted to RMB 9,184 in the year ended December 31, 2010 (2009: RMB 7,128, 2008: RMB 9,300).

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Purchases of goods and services principally represent construction and technical services, production services, social services, ancillary services and material supply services, etc. The total amount of these transactions amounted to RMB 241,852 in the year ended December 31, 2010 (2009: RMB 199,826, 2008: RMB 204,670).

Purchase of assets principally represent the purchases of manufacturing equipment, office equipment and transportation equipment, etc. The total amount of these transactions amounted to RMB 4,782 in the year ended December 31, 2010 (2009: RMB 2,327, 2008: RMB 3,576).

Amounts due from and to CNPC and its fellow subsidiaries, associates and jointly controlled entities of the Group included in the following accounts captions are summarised as follows:

|  | <b>December 31,<br/>2010<br/>RMB</b> | <b>December 31,<br/>2009<br/>RMB</b> |
|--|--------------------------------------|--------------------------------------|
| Accounts receivable                      | 11,633                               | 3,780                                |
| Prepayments and other receivables        | 22,780                               | 16,548                               |
| Accounts payable and accrued liabilities | 70,272                               | 57,076                               |

Interest income represents interests from deposits placed with CNPC and its fellow subsidiaries. The total interest income amounted to RMB 207 in the year ended December 31, 2010 (2009: RMB 143, 2008: RMB 114). The balance of deposits at 31 December 2010 was RMB 7,677 million (December 31, 2009: RMB 10,433 million).

Purchases of financial service principally represents interest charged on the loans from CNPC and its fellow subsidiaries, insurance fee, etc. The total amount of these transactions amounted to RMB 3,492 in the year ended December 31, 2010 (2009: RMB 3,541, 2008: RMB 1,623).

The borrowings from CNPC and its fellow subsidiaries at 31 December 2010 were RMB 75,417 million (December 31, 2009: RMB 81,753 million).

On March 10, 2000, the Company and CNPC entered into a Land Use Rights Leasing Contract. The Land Use Rights Leasing Contract provides for the lease of 42,476 parcels of land to the business units of the Group with an aggregate area of approximately 1,145 million square meters of land located throughout the PRC for a term of 50 years at an annual fee of RMB 2,000. The total fee payable for the lease of all such property may, after every 10 years, be adjusted by agreement between the Company and CNPC.

On March 10, 2000, the Company and CNPC entered into a Buildings Leasing Contract. Under the Buildings Leasing Contract, 191 buildings covering an aggregate area of 269,770 square meters located throughout the PRC were leased at an aggregate annual fee of RMB 39 for a term of 20 years. The Company also entered into a Supplemental Buildings Leasing Agreement with the CNPC on September 26, 2002, which became effective on January 1, 2003 to lease additional 404 buildings covering 442,730 square meters at an annual rental of approximately RMB 157. The Supplemental Buildings Leasing Agreement will expire at the same time as the Buildings Leasing Agreement.



**Table of Contents****PETROCHINA COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****(b) Key management compensation***

|   | <b>Year End December 31</b> |                |                |
|---|-----------------------------|----------------|----------------|
|   | <b>2010</b>                 | <b>2009</b>    | <b>2008</b>    |
|   | <b>RMB 000</b>              | <b>RMB 000</b> | <b>RMB 000</b> |
| Emoluments and other benefits             | 12,743                      | 9,885          | 10,581         |
| Contribution to retirement benefit scheme | 606                         | 479            | 444            |
|   | 13,349                      | 10,364         | 11,025         |

Note: Emoluments set out above exclude RMB6.45 million paid to directors and other key management of the Company as part of the deferred merit pay for years 2007 to 2009 in accordance with relevant requirements by the PRC government.

***(c) Transactions with other state-controlled entities in the PRC***

Apart from transactions with CNPC and its fellow subsidiaries, associates and jointly controlled entities, the Group has transactions with other state-controlled entities include but not limited to the following:

Sales and purchases of goods and services,

Purchases of assets,

Lease of assets; and

Bank deposits and borrowings

These transactions are conducted in the ordinary course of the Group's business.

**38 SEGMENT INFORMATION**

The Group is principally engaged in a broad range of petroleum related products, services and activities. After re-segmentation in 2009, the Group's operating segments comprise: Exploration and Production, Refining and Chemicals, Marketing, and Natural Gas and Pipeline. On the basis of these operating segments, the management of the Company assesses the segmental operating results and allocates resources. Sales between operating segments are conducted principally at market prices. Additionally, the Group presents geographical information based on entities located in regions with a similar risk profile.

The Exploration and Production segment is engaged in the exploration, development, production and marketing of crude oil and natural gas.

The Refining and Chemicals segment is engaged in the refining of crude oil and petroleum products, production and marketing of primary petrochemical products, and derivative petrochemical products and other chemical products.

The Marketing segment is engaged in the marketing of refined products and the trading of crude oil and petrochemical products.

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

The Other segment relates to cash management and financing activities, the corporate center, research and development, and other business services supporting the operating business segments of the Group.

The accounting policies of the operating segments are the same as those described in Note 3 Summary of Principal Accounting Policies .



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The segment information for the operating segments for the years ended December 31, 2010, 2009 and 2008 is as follows:

|   | Year Ended December 31, 2010            |                                     |                  |                                       |              |              |
|---|---|-------------------------------------|------------------|---------------------------------------|--------------|--------------|
|   | Exploration<br>and<br>Production<br>RMB | Refining<br>and<br>Chemicals<br>RMB | Marketing<br>RMB | Natural<br>Gas and<br>Pipeline<br>RMB | Other<br>RMB | Total<br>RMB |
| Turnover  | 544,884                                 | 664,773                             | 1,134,534        | 117,043                               | 1,606        | 2,462,840    |
| Less: intersegment<br>sales   | (414,774)                               | (508,599)                           | (61,987)         | (11,601)                              | (464)        | (997,425)    |
| Turnover from external<br>customers                                 | 130,110                                 | 156,174                             | 1,072,547        | 105,442                               | 1,142        | 1,465,415    |
| Depreciation, depletion<br>and amortisation                         | (75,991)                                | (16,302)                            | (8,232)          | (11,613)                              | (1,071)      | (113,209)    |
| Profit/(loss) from<br>operations                                    | 153,703                                 | 7,847                               | 15,956           | 20,415                                | (10,144)     | 187,777      |
| Finance costs:  |   |                                     |                  |                                       |              |              |
| Exchange gain   |   |                                     |                  |                                       |              | 1,685        |
| Exchange loss   |   |                                     |                  |                                       |              | (2,857)      |
| Interest income   |   |                                     |                  |                                       |              | 1,983        |
| Interest expense  |   |                                     |                  |                                       |              | (6,321)      |
| Total net finance costs   |   |                                     |                  |                                       |              | (5,510)      |
| Share of profit of<br>associates and jointly<br>controlled entities | 5,346                                   | 39                                  | 678              | 10                                    | 965          | 7,038        |
| Profit before income<br>tax expense                                 |   |                                     |                  |                                       |              | 189,305      |
| Income tax expense  |   |                                     |                  |                                       |              | (38,513)     |
| Profit for the year   |   |                                     |                  |                                       |              | 150,792      |
| Segment assets  | 880,575                                 | 299,808                             | 252,789          | 260,269                               | 1,210,132    | 2,903,573    |
| Other assets  |   |                                     |                  |                                       |              | 284          |
| Investments in<br>associates and jointly<br>controlled entities     | 45,533                                  | 571                                 | 6,700            | 122                                   | 11,211       | 64,137       |
|   |   |                                     |                  |                                       |              | (1,311,507)  |

|   |         |         |         |         |         |           |
|---|---------|---------|---------|---------|---------|-----------|
| Elimination of intersegment balances(a) |         |         |         |         |         |           |
| Total assets                            |         |         |         |         |         | 1,656,487 |
| Segment capital expenditure             | 160,893 | 44,242  | 15,793  | 53,648  | 1,636   | 276,212   |
| Segment liabilities                     | 327,765 | 119,190 | 144,293 | 132,290 | 421,319 | 1,144,857 |
| Other liabilities                       |         |         |         |         |         | 78,792    |
| Elimination of intersegment balances(a) |         |         |         |         |         | (577,291) |
| Total liabilities                       |         |         |         |         |         | 646,358   |

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|   | Year Ended December 31, 2009            |                                     |                  |                                       |              |              |
|---|---|-------------------------------------|------------------|---------------------------------------|--------------|--------------|
|   | Exploration<br>and<br>Production<br>RMB | Refining<br>and<br>Chemicals<br>RMB | Marketing<br>RMB | Natural<br>Gas and<br>Pipeline<br>RMB | Other<br>RMB | Total<br>RMB |
| Turnover  | 405,326                                 | 501,300                             | 768,295          | 77,658                                | 1,372        | 1,753,951    |
| Less: intersegment sales  | (308,649)                               | (381,522)                           | (35,489)         | (8,756)                               | (260)        | (734,676)    |
| Turnover from external<br>customers                                 | 96,677                                  | 119,778                             | 732,806          | 68,902                                | 1,112        | 1,019,275    |
| Depreciation, depletion<br>and amortisation                         | (64,595)                                | (11,824)                            | (7,088)          | (7,694)                               | (1,058)      | (92,259)     |
| Profit/ (loss) from<br>operations                                   | 105,019                                 | 17,308                              | 13,265           | 19,046                                | (11,194)     | 143,444      |
| Finance costs:  |   |                                     |                  |                                       |              |              |
| Exchange gain   |   |                                     |                  |                                       |              | 552          |
| Exchange loss   |   |                                     |                  |                                       |              | (1,335)      |
| Interest income   |   |                                     |                  |                                       |              | 1,459        |
| Interest expense  |   |                                     |                  |                                       |              | (5,272)      |
| Total net finance costs   |   |                                     |                  |                                       |              | (4,596)      |
| Share of profit of<br>associates and jointly<br>controlled entities | 590                                     | 53                                  | 519              | 8                                     | 14           | 1,184        |
| Profit before income tax<br>expense                                 |   |                                     |                  |                                       |              | 140,032      |
| Income tax expense  |   |                                     |                  |                                       |              | (33,473)     |
| Profit for the year   |   |                                     |                  |                                       |              | 106,559      |
| Segment assets  | 756,122                                 | 256,040                             | 237,534          | 198,774                               | 1,095,827    | 2,544,297    |
| Other assets  |   |                                     |                  |                                       |              | 289          |
| Investments in<br>associates and jointly<br>controlled entities     | 22,183                                  | 579                                 | 5,393            | 68                                    |              | 28,223       |
| Elimination of<br>intersegment balances(a)                          |   |                                     |                  |                                       |              | (1,122,521)  |
| Total assets  |   |                                     |                  |                                       |              | 1,450,288    |

|   |         |        |         |        |         |           |
|---|---------|--------|---------|--------|---------|-----------|
| Segment capital expenditure and acquisition |         |        |         |        |         |           |
| Capital expenditure                         | 129,017 | 42,558 | 18,174  | 74,754 | 2,333   | 266,836   |
| Acquisition                                 |         |        | 15,296  |        |         | 15,296    |
|   |         |        |         |        |         | 282,132   |
| Segment liabilities                         | 280,573 | 98,590 | 142,254 | 92,538 | 357,107 | 971,062   |
| Other liabilities                           |         |        |         |        |         | 56,412    |
| Elimination of intersegment balances(a)     |         |        |         |        |         | (484,887) |
| Total liabilities                           |         |        |         |        |         | 542,587   |

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|  | Year Ended December 31, 2008            |                                     |                  |                                       |              |              |
|--|---|-------------------------------------|------------------|---------------------------------------|--------------|--------------|
|  | Exploration<br>and<br>Production<br>RMB | Refining<br>and<br>Chemicals<br>RMB | Marketing<br>RMB | Natural<br>Gas and<br>Pipeline<br>RMB | Other<br>RMB | Total<br>RMB |
| Turnover   | 626,367                                 | 560,729                             | 778,141          | 63,315                                | 1,418        | 2,029,970    |
| Less: intersegment sales   | (500,522)                               | (396,410)                           | (53,557)         | (6,706)                               | (171)        | (957,366)    |
| Turnover from external<br>customers  | 125,845                                 | 164,319                             | 724,584          | 56,609                                | 1,247        | 1,072,604    |
| Depreciation, depletion<br>and amortisation                                | (58,927)                                | (22,796)                            | (5,871)          | (6,310)                               | (855)        | (94,759)     |
| Profit/(loss) from<br>operations   | 240,470                                 | (93,830)                            | 7,982            | 16,057                                | (11,108)     | 159,571      |
| Finance costs:   |   |                                     |                  |                                       |              |              |
| Exchange gain  |   |                                     |                  |                                       |              | 1,774        |
| Exchange loss  |   |                                     |                  |                                       |              | (2,855)      |
| Interest income  |   |                                     |                  |                                       |              | 2,277        |
| Interest expense   |   |                                     |                  |                                       |              | (3,044)      |
| Total net finance costs  |   |                                     |                  |                                       |              | (1,848)      |
| Share of profit/(loss) of<br>associates and jointly<br>controlled entities | 4,561                                   | (609)                               | 314              | 5                                     | 19           | 4,290        |
| Profit before income tax<br>expense  |   |                                     |                  |                                       |              | 162,013      |
| Income tax expense   |   |                                     |                  |                                       |              | (35,211)     |
| Profit for the year  |   |                                     |                  |                                       |              | 126,802      |
| Segment assets   | 662,454                                 | 290,758                             | 197,950          | 121,368                               | 973,128      | 2,245,658    |
| Other assets   |   |                                     |                  |                                       |              | 497          |
| Investments in<br>associates and jointly<br>controlled entities            | 24,021                                  | 1,686                               | 3,074            | 20                                    | 49           | 28,850       |
| Elimination of<br>intersegment balances(a)                                 |   |                                     |                  |                                       |              | (1,078,770)  |
| Total assets   |   |                                     |                  |                                       |              | 1,196,235    |

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|   |         |        |         |        |         |           |
|---|---------|--------|---------|--------|---------|-----------|
| Segment capital expenditure             | 157,194 | 30,619 | 4,974   | 36,848 | 2,742   | 232,377   |
| Segment liabilities                     | 264,230 | 70,879 | 132,340 | 53,294 | 334,972 | 855,715   |
| Other liabilities                       |         |        |         |        |         | 27,667    |
| Elimination of intersegment balances(a) |         |        |         |        |         | (534,987) |
| Total liabilities                       |         |        |         |        |         | 348,395   |

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**Table of Contents****PETROCHINA COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Geographical information*

|                | Year Ended December 31, |           |                       |           |           |         |
|----------------|-------------------------|-----------|-----------------------|-----------|-----------|---------|
|                | Turnover                |           | Non-Current Assets(b) |           |           |         |
|                | 2010                    | 2009      | 2008                  | 2010      | 2009      | 2008    |
|                | RMB                     | RMB       | RMB                   | RMB       | RMB       | RMB     |
| Mainland China | 1,086,909               | 790,748   | 824,703               | 1,231,536 | 1,073,865 | 902,370 |
| Other          | 378,506                 | 228,527   | 247,901               | 132,808   | 78,078    | 63,878  |
|                | 1,465,415               | 1,019,275 | 1,072,604             | 1,364,344 | 1,151,943 | 966,248 |

(a) Elimination of intersegment balances represents elimination of intersegment accounts and investments.

(b) Non-current assets mainly include non-current assets other than financial instruments and deferred tax assets.

**39 EVENTS AFTER THE REPORTING PERIOD**

On January 31, 2011, PetroChina International (London) Company Limited ( PCI ), a wholly-owned subsidiary of the Group, has submitted a conditional binding and irrevocable offer to INEOS European Holdings Limited and INEOS Investments International Limited (together, the Sellers ), two wholly-owned subsidiaries of British petrochemical conglomerate INEOS Group Holdings plc, for the establishment of joint ventures in Europe engaged in trading and refining activities.

Since the delivery of the above offer, PCI and the Sellers have entered into certain documentation after negotiation, including amongst others, the acquisition agreement and the reorganization agreement on April 8, 2011. According to these agreements, the total cash consideration payable by PCI for the shares in the joint venture is US\$1,015 million.

Completion of the proposed transaction is subject to a number of conditions as set out in the relevant documentation.

**40 APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were approved by the Board of Directors on May 10, 2011 and will be submitted to shareholders for approval at the annual general meeting to be held on May 18, 2011.

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**PETROCHINA COMPANY LIMITED  
SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING  
ACTIVITIES (UNAUDITED)**

**(Amounts in millions unless otherwise stated)**

In accordance with the Accounting Standards Update 2010-03 Extractive Activities – Oil and Gas (Topic 932): Oil and Gas Reserve Estimation and Disclosures (an update of Accounting Standards Codification Topic 932 Extractive Activities – Oil and Gas or ASC 932 ) issued by the Financial Accounting Standards Board and corresponding disclosure requirements of the U.S. Securities and Exchange Commission, this section provides supplemental information on oil and gas producing activities of the Company and its subsidiaries (the Group ) and also the Group s investments that are accounted for using the equity method of accounting.

The supplemental information presented below covers the Group s proved oil and gas reserves estimates, historical cost information pertaining to capitalised costs, costs incurred for property acquisitions, exploration and development activities, result of operations for oil and gas producing activities, standardised measure of estimated discounted future net cash flows and changes in estimated discounted future net cash flows.

The Other geographic area includes oil and gas producing activities principally in countries such as Kazakhstan, Venezuela and Indonesia. As the Group does not have significant reserves held through its investments accounted for using the equity method, information presented in relation to these equity method investments are presented in the aggregate.

**Proved Oil and Gas Reserve Estimates**

Proved oil and gas reserves cannot be measured exactly. Reserve estimates are based on many factors related to reservoir performance that require evaluation by the engineers interpreting the available data, as well as price and other economic factors. The reliability of these estimates at any point in time depends on both the quality and quantity of the technical and economic data, and the production performance of the reservoirs as well as engineering judgment. Consequently, reserve estimates are subject to revision as additional data become available during the producing life of a reservoir. When a commercial reservoir is discovered, proved reserves are initially determined based on limited data from the first well or wells. Subsequent data may better define the extent of the reservoir and additional production performance, well tests and engineering studies will likely improve the reliability of the reserve estimate. The evolution of technology may also result in the application of improved recovery techniques such as supplemental or enhanced recovery projects, or both, which have the potential to increase reserves.

Proved oil and gas reserves are the estimated quantities of crude oil and natural gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulation before the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether the estimate is a deterministic estimate or probabilistic estimate.

Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period before the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions. The costs shall be that prevailing at the end of the period.



Proved developed oil and gas reserves are proved reserves that can be expected to be recovered:

- a. Through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared with the cost of a new well.
- b. Through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

Proved undeveloped oil and gas reserves are proved reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

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Proved reserve estimates as of December 31, 2010, 2009 and 2008 were based on reports prepared by DeGolyer and MacNaughton and Gaffney, Cline & Associates, independent engineering consultants.

Estimated quantities of net proved crude oil and condensate and natural gas reserves and of changes in net quantities of proved developed and undeveloped reserves for each of the periods indicated are as follows:

|   | <b>Crude<br/>Oil and<br/>Condensate</b> | <b>Natural<br/>Gas</b>              | <b>Total<br/>All<br/>Products</b>                  |
|---|---|-------------------------------------|--|
|   | <b>(Millions of<br/>barrels)</b>        | <b>(Billions of<br/>cubic feet)</b> | <b>(Million barrels<br/>of<br/>oil equivalent)</b> |
| Proved developed and undeveloped reserves |   |                                     |  |
| The Group                                 |   |                                     |  |
| Reserves at December 31, 2007             | 11,706                                  | 57,111                              | 21,224   |
| Changes resulting from:                   |   |                                     |  |
| Revisions of previous estimates           | (574)                                   | (637)                               | (680)  |
| Improved recovery                         | 75                                      |                                     | 75   |
| Extensions and discoveries                | 885                                     | 6,579                               | 1,982  |
| Production                                | (871)                                   | (1,864)                             | (1,181)  |
| Reserves at December 31, 2008             | 11,221                                  | 61,189                              | 21,420   |
| Changes resulting from:                   |   |                                     |  |
| Revisions of previous estimates           | (192)                                   | (1,273)                             | (405)  |
| Improved recovery                         | 73                                      |                                     | 73   |
| Extensions and discoveries                | 1,005                                   | 5,440                               | 1,911  |
| Production                                | (844)                                   | (2,112)                             | (1,196)  |
| Reserves at December 31, 2009             | 11,263                                  | 63,244                              | 21,803   |
| Changes resulting from:                   |   |                                     |  |
| Revisions of previous estimates           | (78)                                    | (1,456)                             | (320)  |
| Improved recovery                         | 74                                      |                                     | 74   |
| Extensions and discoveries                | 877                                     | 5,936                               | 1,866  |
| Production                                | (858)                                   | (2,221)                             | (1,228)  |
| Reserves at December 31, 2010             | 11,278                                  | 65,503                              | 22,195   |
| Proved developed reserves at:             |   |                                     |  |
| December 31, 2008                         | 8,324                                   | 26,667                              | 12,769   |
| December 31, 2009                         | 7,871                                   | 30,949                              | 13,029   |
| December 31, 2010                         | 7,605                                   | 31,102                              | 12,789   |
| Proved undeveloped reserves at:           |   |                                     |  |
| December 31, 2008                         | 2,897                                   | 34,522                              | 8,651  |
| December 31, 2009                         | 3,392                                   | 32,295                              | 8,774  |
| December 31, 2010                         | 3,673                                   | 34,401                              | 9,406  |
| Equity method investments                 |   |                                     |  |

Share of proved developed and undeveloped reserves of  
 associates and jointly controlled entities

|                   |     |    |     |
|-------------------|-----|----|-----|
| December 31, 2008 | 372 | 65 | 383 |
| December 31, 2009 | 310 | 50 | 319 |
| December 31, 2010 | 337 | 37 | 343 |

At December 31, 2010, total proved developed and undeveloped reserves of the Group and equity method investments is 22,538 million barrels of oil equivalent (December 31, 2009: 22,122 million barrels of oil equivalent,

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December 31, 2008: 21,803 million barrels of oil equivalent), comprising 11,615 million barrels of crude oil and condensate (December 31, 2009: 11,573 million barrels, December 31, 2008: 11,593 million barrels) and 65,539.5 billions of cubic feet of natural gas (December 31, 2009: 63,294.4 billions of cubic feet, December 31, 2008: 61,254.2 billions of cubic feet).

At December 31, 2010, 10,489 million barrels (December 31, 2009: 10,516 million barrels, December 31, 2008: 10,576 million barrels) of crude oil and condensate and 64,555.3 billion cubic feet (December 31, 2009: 62,376.9 billion cubic feet, December 31, 2008: 60,246.7 billion cubic feet) of natural gas proved developed and undeveloped reserves of the Group are located within Mainland China, and 789 million barrels (December 31, 2009: 747 million barrels, December 31, 2008: 645 million barrels) of crude oil and condensate and 947.4 billion cubic feet (December 31, 2009: 866.9 billion cubic feet, December 31, 2008: 942.6 billion cubic feet) of natural gas proved developed and undeveloped reserves of the Group are located overseas.

**Capitalised Costs**

|  | <b>December 31,<br/>2010<br/>RMB</b> | <b>December 31,<br/>2009<br/>RMB</b> |
|--|--------------------------------------|--------------------------------------|
| The Group  |                                      |                                      |
| Property costs and producing assets  | 777,461                              | 666,644                              |
| Support facilities   | 247,475                              | 222,205                              |
| Construction-in-progress   | 75,343                               | 61,581                               |
| Total capitalised costs  | 1,100,279                            | 950,430                              |
| Accumulated depreciation, depletion and amortisation                         | (434,501)                            | (369,437)                            |
| Net capitalised costs  | 665,778                              | 580,993                              |
| Equity method investments  |                                      |                                      |
| Share of net capitalised costs of associates and jointly controlled entities | 33,120                               | 13,020                               |

**Costs Incurred for Property Acquisitions, Exploration and Development Activities**

|  | <b>Mainland China<br/>RMB</b> | <b>2010<br/>Other<br/>RMB</b> | <b>Total<br/>RMB</b> |
|--|-------------------------------|-------------------------------|----------------------|
| The Group                                  |                               |                               |                      |
| Property acquisition and exploration costs | 37,442                        | 2,777                         | 40,219               |
| Development costs                          | 113,673                       | 13,433                        | 127,106              |
| Total                                      | 151,115                       | 16,210                        | 167,325              |
| Equity method investments                  |                               | 2,615                         | 2,615                |

Share of costs of property acquisition, exploration and  
development of associates and jointly controlled entities

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|   | <b>Mainland China<br/>RMB</b> | <b>2009<br/>Other<br/>RMB</b> | <b>Total<br/>RMB</b> |
|---|-------------------------------|-------------------------------|----------------------|
| The Group   |                               |                               |                      |
| Property acquisition and exploration costs  | 29,786                        | 2,949                         | 32,735               |
| Development costs   | 94,130                        | 5,977                         | 100,107              |
| Total   | 123,916                       | 8,926                         | 132,842              |
| Equity method investments   |                               |                               |                      |
| Share of costs of property acquisition, exploration and development of associates and jointly controlled entities |                               | 1,620                         | 1,620                |

|   | <b>Mainland China<br/>RMB</b> | <b>2008<br/>Other<br/>RMB</b> | <b>Total<br/>RMB</b> |
|---|-------------------------------|-------------------------------|----------------------|
| The Group   |                               |                               |                      |
| Property acquisition and exploration costs  | 34,773                        | 2,895                         | 37,668               |
| Development costs   | 117,772                       | 7,083                         | 124,855              |
| Total   | 152,545                       | 9,978                         | 162,523              |
| Equity method investments   |                               |                               |                      |
| Share of costs of property acquisition, exploration and development of associates and jointly controlled entities |                               | 4,003                         | 4,003                |

**Results of Operations for Oil and Gas Producing Activities**

|  | <b>Mainland China<br/>RMB</b> | <b>2010<br/>Other<br/>RMB</b> | <b>Total<br/>RMB</b> |
|--|-------------------------------|-------------------------------|----------------------|
| The Group                                |                               |                               |                      |
| Sales and other operating revenues       |                               |                               |                      |
| Sales to third parties                   | 82,433                        | 47,677                        | 130,110              |
| Intersegment sales                       | 346,421                       | 742                           | 347,163              |
|  | 428,854                       | 48,419                        | 477,273              |
| Production costs excluding taxes         | (76,329)                      | (4,648)                       | (80,977)             |
| Exploration expenses                     | (21,368)                      | (1,595)                       | (22,963)             |
| Depreciation, depletion and amortisation | (63,569)                      | (5,133)                       | (68,702)             |
| Taxes other than income taxes            | (66,798)                      | (11,766)                      | (78,564)             |

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|   |          |         |          |
|---|----------|---------|----------|
| Accretion expense   | (2,238)  | (144)   | (2,382)  |
| Income taxes  | (39,510) | (6,284) | (45,794) |
| Results of operations from producing activities   | 159,042  | 18,849  | 177,891  |
| Equity method investments   |          |         |          |
| Share of profit for producing activities of associates and jointly controlled entities          |          | 6,447   | 6,447    |
| Total of the Group and equity method investments results of operations for producing activities | 159,042  | 25,296  | 184,338  |

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|   | <b>Mainland China<br/>RMB</b> | <b>2009<br/>Other<br/>RMB</b> | <b>Total<br/>RMB</b> |
|---|-------------------------------|-------------------------------|----------------------|
| The Group   |                               |                               |                      |
| Sales and other operating revenues  |                               |                               |                      |
| Sales to third parties  | 62,799                        | 33,878                        | 96,677               |
| Intersegment sales  | 259,847                       | 404                           | 260,251              |
|   | 322,646                       | 34,282                        | 356,928              |
| Production costs excluding taxes  | (68,236)                      | (4,355)                       | (72,591)             |
| Exploration expenses  | (18,426)                      | (972)                         | (19,398)             |
| Depreciation, depletion and amortisation  | (53,018)                      | (4,005)                       | (57,023)             |
| Taxes other than income taxes   | (31,210)                      | (9,660)                       | (40,870)             |
| Accretion expense   | (1,787)                       | (156)                         | (1,943)              |
| Income taxes  | (30,196)                      | (3,783)                       | (33,979)             |
| Results of operations from producing activities   | 119,773                       | 11,351                        | 131,124              |
| Equity method investments   |                               |                               |                      |
| Share of profit for producing activities of associates and jointly controlled entities          |                               | 3,326                         | 3,326                |
| Total of the Group and equity method investments results of operations for producing activities | 119,773                       | 14,677                        | 134,450              |

|   | <b>Mainland China<br/>RMB</b> | <b>2008<br/>Other<br/>RMB</b> | <b>Total<br/>RMB</b> |
|---|-------------------------------|-------------------------------|----------------------|
| The Group                                       |                               |                               |                      |
| Sales and other operating revenues              |                               |                               |                      |
| Sales to third parties                          | 72,218                        | 52,169                        | 124,387              |
| Intersegment sales                              | 431,203                       | 2,181                         | 433,384              |
|   | 503,421                       | 54,350                        | 557,771              |
| Production costs excluding taxes                | (69,469)                      | (5,410)                       | (74,879)             |
| Exploration expenses                            | (20,868)                      | (1,011)                       | (21,879)             |
| Depreciation, depletion and amortisation        | (47,295)                      | (3,532)                       | (50,827)             |
| Taxes other than income taxes                   | (99,970)                      | (5,843)                       | (105,813)            |
| Accretion expense                               | (1,607)                       | (139)                         | (1,746)              |
| Income taxes                                    | (52,718)                      | (9,604)                       | (62,322)             |
| Results of operations from producing activities | 211,494                       | 28,811                        | 240,305              |
| Equity method investments                       |                               |                               |                      |



|   |         |        |         |
|---|---------|--------|---------|
| Share of profit for producing activities of associates and jointly controlled entities          |         | 9,872  | 9,872   |
| Total of the Group and equity method investments results of operations for producing activities | 211,494 | 38,683 | 250,177 |

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**Table of Contents****Standardised Measure of Discounted Future Net Cash Flows**

The standardised measure of discounted future net cash flows related to proved oil and gas reserves at December 31, 2010, 2009 and 2008 is as follows:

|  | <b>RMB</b>  |
|--|-------------|
| The Group  |             |
| At December 31, 2010                                     |             |
| Future cash inflows from sales of oil and gas            | 6,845,504   |
| Future production costs                                  | (2,576,816) |
| Future development costs                                 | (571,065)   |
| Future income tax expense                                | (819,039)   |
| Future net cash flows                                    | 2,878,584   |
| Discount at 10% for estimated timing of cash flows       | (1,560,391) |
| Standardised measure of discounted future net cash flows | 1,318,193   |

|  | <b>RMB</b>  |
|--|-------------|
| The Group  |             |
| At December 31, 2009                                     |             |
| Future cash inflows from sales of oil and gas            | 5,045,994   |
| Future production costs                                  | (1,628,794) |
| Future development costs                                 | (479,912)   |
| Future income tax expense                                | (615,290)   |
| Future net cash flows                                    | 2,321,998   |
| Discount at 10% for estimated timing of cash flows       | (1,244,183) |
| Standardised measure of discounted future net cash flows | 1,077,815   |

|  | <b>RMB</b>  |
|--|-------------|
| The Group  |             |
| At December 31, 2008                               |             |
| Future cash inflows from sales of oil and gas      | 4,426,893   |
| Future production costs                            | (1,521,416) |
| Future development costs                           | (381,498)   |
| Future income tax expense                          | (522,158)   |
| Future net cash flows                              | 2,001,821   |
| Discount at 10% for estimated timing of cash flows | (1,046,896) |

Standardised measure of discounted future net cash flows 954,925

At December 31, 2010, RMB 1,258,049 (2009: RMB 1,041,228, 2008: RMB 924,623) of standardised measure of discounted future net cash flows related to proved oil and gas reserves located within mainland China and RMB 60,144 (2009: RMB 36,587, 2008: RMB 30,302) of standardised measure of discounted future net cash flows related to proved oil and gas reserves located overseas.

Share of standardised measure of discounted future net cash flows of associates and jointly controlled entities:

|                   |        |
|-------------------|--------|
| December 31, 2010 | 34,729 |
| December 31, 2009 | 26,457 |
| December 31, 2008 | 17,912 |

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Future net cash flows were estimated using prices used in estimating the Group's proved oil and gas reserves and year-end costs, and currently enacted tax rates related to existing proved oil and gas reserves.

**Changes in Standardised Measure of Discounted Future Net Cash Flows**

Changes in the standardised measure of discounted net cash flows for the Group for each of the years ended December 31, 2010, 2009 and 2008 are as follows:

|  | <b>Year Ended December 31</b> |             |             |
|--|-------------------------------|-------------|-------------|
|  | <b>2010</b>                   | <b>2009</b> | <b>2008</b> |
|  | <b>RMB</b>                    | <b>RMB</b>  | <b>RMB</b>  |
| The Group  |                               |             |             |
| Beginning of the year  | 1,077,815                     | 954,925     | 1,822,070   |
| Sales and transfers of oil and gas produced, net of production costs | (316,888)                     | (242,363)   | (375,269)   |
| Net changes in prices and production costs and other                 | 356,503                       | 171,170     | (1,448,443) |
| Extensions, discoveries and improved recovery                        | 179,765                       | 150,846     | 139,058     |
| Development costs incurred   | 7,713                         | (8,488)     | 67,673      |
| Revisions of previous quantity estimates                             | (28,773)                      | (31,516)    | (46,105)    |
| Accretion of discount  | 136,401                       | 120,396     | 260,643     |
| Net change in income taxes   | (94,343)                      | (37,155)    | 535,298     |
| End of the year  | 1,318,193                     | 1,077,815   | 954,925     |