

PETROCHINA CO LTD  
Form 20-F  
June 25, 2010

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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, 2009.**  
**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**

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**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

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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 Depository Shares.

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

\*\*\*\* Includes 1,970,667,300 H Shares represented by American Depository 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, or

the CNPC group's domestic crude oil and natural gas exploration and production, refining and marketing, chemicals and natural gas businesses that were transferred to us in the restructuring of the CNPC group in 1999.

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. The audited consolidated financial statements included in this annual report have been prepared as if the operations and businesses transferred to us from CNPC were transferred as of the earliest period presented or from the date of establishment of the relevant unit, whichever is later, and conducted by us throughout the period. 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 years ended December 31, 2007 and 2008 comply with the old SEC reserve rules. Our reserve-related disclosure as of and for the year ended December 31, 2009 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	
		= 7.389 barrels of crude oil (assuming an API gravity of 34 degrees)
1 ton of crude oil	= 1 metric ton of crude oil	

**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.
API gravity	An indication of the density of crude oil or other liquid hydrocarbons as measured by a system recommended by the American Petroleum Institute (API), measured in degrees. The lower the API gravity, the heavier the compound.

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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> <p>(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.</p>
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

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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.

(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

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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 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;

impact of the PRC's entry into the World Trade Organization;

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 statement.

**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.

**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>	
December 2009	6.8299	6.8244
January 2010	6.8295	6.8258
February 2010	6.8330	6.8258
March 2010	6.8270	6.8254
April 2010	6.8275	6.8240
May 2010	6.8310	6.8245
June 2010 (ending as of June 18)	6.8323	6.8267

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

**Table of Contents****Average Noon Buying Rates<sup>(1)</sup>**

The following table sets forth the average noon buying rates between Renminbi and U.S. dollars for each of 2005, 2006, 2007, 2008 and 2009, calculated by averaging the noon buying rates on the last day of each month during the relevant year:

	<b>Average Noon Buying Rate (RMB per US\$)</b>
2005	8.1826
2006	7.9579
2007	7.5806
2008	6.9193
2009	6.8295

(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, 2007, 2008 and 2009 and the selected historical statement of financial position data as of December 31, 2008 and 2009 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, 2005 and 2006 and the selected statement of financial position data as of December 31, 2005, 2006 and 2007 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>Year Ended December 31,<sup>(1)</sup></b>				
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</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>				

**Income Statement Data**

Turnover	554,063	691,448	837,542	1,072,604	1,019,275
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Operating expenses					
Purchases, services and other	(199,317)	(270,112)	(369,786)	(562,851)	(492,472)
Employee compensation costs	(29,770)	(39,292)	(50,940)	(62,167)	(65,977)
Exploration expenses, including exploratory dry holes	(15,569)	(18,827)	(20,956)	(21,879)	(19,398)
Depreciation, depletion and amortization	(51,803)	(62,155)	(67,423)	(94,759)	(92,259)
Selling, general and administrative expenses	(36,650)	(43,400)	(52,389)	(59,617)	(65,423)
Taxes other than income taxes	(23,997)	(57,208)	(73,806)	(124,132)	(135,465)
Other (expenses)/incomes, net	(3,083)	(430)	(1,225)	12,372	(4,837)
Total operating expenses	(360,189)	(491,424)	(636,525)	(913,033)	(875,831)
Profit from operations	193,874	200,024	201,017	159,571	143,444
Share of profit of affiliates and jointly controlled entities	2,002	1,686	6,445	4,290	1,184

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	<b>Year Ended December 31,<sup>(1)</sup></b>				
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</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>					
Exchange gain (loss), net	85	272	(751)	(1,081)	(783)
Interest income	2,036	2,148	2,101	2,277	1,459
Interest expense	(2,929)	(3,328)	(3,673)	(3,044)	(5,272)
Profit before income tax expense	195,068	200,802	205,139	162,013	140,032
Income tax expense	(54,912)	(50,615)	(49,802)	(35,211)	(33,473)
Profit for the year	140,156	150,187	155,337	126,802	106,559
Other comprehensive income/(loss)					
Foreign currency translation difference	(799)	(358)	(1,852)	(2,676)	(3,500)
Income/(loss) from the change in the fair value of the financial assets available for sale	83	(4)	395	(340)	191
Income tax relating to components of other comprehensive income/(loss)	(28)	2	(87)	67	(38)
Other comprehensive loss (after tax net)	(744)	(360)	(1,544)	(2,949)	(3,347)
Total comprehensive income for the year	139,412	149,827	153,793	123,853	103,212
Profit for the year attributable to:					
Owners of the company	134,381	143,498	146,796	114,453	103,387
Non-controlling interest	5,775	6,689	8,541	12,349	3,172
	140,156	150,187	155,337	126,802	106,559
Basic and diluted earnings per share for profit attributable to owners of the company <sup>(2)</sup>	0.76	0.80	0.82	0.63	0.56
Basic and diluted earnings per ADS for profit attributable to owners of the company <sup>(3)</sup>	76.02	80.16	81.69	62.54	56.49

	<b>As of December 31,<sup>(1)</sup></b>				
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</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>					

**Statement of Financial Position  
Data**

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Inventories	62,782	76,081	88,507	90,670	114,781
Cash and cash equivalents	83,034	50,869	68,817	33,150	86,925
Total current assets	178,926	165,778	235,902	224,946	294,383
Total non-current assets	606,483	714,509	833,709	971,289	1,155,905
Total current liabilities	156,878	181,993	200,150	265,651	388,553
Total non-current liabilities	81,862	75,675	86,742	82,744	154,034
Equity attributable to owners of the company	517,921	590,414	738,246	790,910	847,223
Non-controlling interest	28,748	32,205	44,473	56,930	60,478
Total equity	546,669	622,619	782,719	847,840	907,701
Share capital	179,021	179,021	183,021	183,021	183,021
<b>Other Financial Data</b>					
Dividend per share	0.34	0.36	0.36	0.28	0.25
Dividend per ADS	33.80	35.75	36.25	28.14	25.42
Capital expenditures	(125,814)	(149,493)	(182,678)	(232,377)	(266,836)

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	As of December 31, <sup>(1)</sup>				
	2005 RMB	2006 RMB	2007 RMB	2008 RMB	2009 RMB
	(In millions, except for per share and per ADS data)				
<b>Cash Flow Data</b>					
Net cash flows from operating activities	207,656	202,701	207,633	172,465	261,972
Net cash flows used for investing activities	(91,445)	(159,065)	(183,656)	(211,797)	(261,453)
Net cash flows from/used in financing activities	(46,083)	(75,385)	(5,838)	3,777	53,077

- (1) Due to business combinations under common control completed in 2005, 2008 and 2009, the relevant financial statements of our company have been restated 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 our operations and the business acquired have always been combined. The difference between the consideration paid by us and the net assets or liabilities of the business acquired is adjusted against equity.
- (2) The basic and diluted earnings per share for the year ended December 31, 2005 was calculated by dividing the net profit with the weighted average number of 176,770 million shares issued and outstanding for the year presented. The basic and diluted earnings per share for the year ended December 31, 2006 was calculated by dividing the net profit with the number of 179,021 million shares issued and outstanding for the year presented. The basic and diluted earnings per share for the year ended December 31, 2007 was calculated by dividing the net profit with the weighted average number of 179,700 million shares issued and outstanding for the year presented. The basic and diluted earnings per share for the year ended December 31, 2008 was calculated by dividing the net profit with the number of 183,021 million shares issued and outstanding for the year presented. The basic and diluted earnings per share for the year ended December 31, 2009 was calculated by dividing the net profit with the number of 183,021 million shares issued and outstanding for the year presented.
- (3) The basic and diluted earnings per ADS for the year ended December 31, 2005 was calculated by dividing net profit with the weighted average number of 176,770 million shares issued and outstanding for the year presented, each ADS representing 100 H Shares. The basic and diluted earnings per ADS for the year ended December 31, 2006 was calculated by dividing the net profit with the weighted average number of 179,021 million shares issued and outstanding for the year presented, each ADS representing 100 H Shares. The basic and diluted earnings per ADS for the year ended December 31, 2007 was calculated by dividing the net profit with the weighted average number of 179,700 million shares issued and outstanding for the year presented, each ADS representing 100 H Shares. The basic and diluted earnings per ADS for the year ended December 31, 2008 was calculated by dividing the net profit with the number of 183,021 million shares issued and outstanding for the year presented, each ADS representing 100 H Shares. The basic and diluted earnings per ADS for the year ended December 31, 2009 was calculated by dividing the net profit with the number of 183,021 million shares issued and outstanding for the year presented, each ADS representing 100 H Shares.

**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.

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 has been quite severe since the second half of 2008. Although the Chinese economy has recovered recently, it is uncertain whether such recovery will continue into the rest of 2010 and beyond. Any recurrence of the global financial crisis which may be sparked by the recent market volatility attributed to concerns over several European countries including Greece, Portugal, Ireland and Spain may cause a further decline in the PRC economy. This change in the macro-economic conditions has and is expected to continue to have an adverse impact on our business and operations. Our profitability may be adversely affected due to the low growth in oil and gas demand. We have experienced pricing pressure on

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our refined products, which has an adverse effect on our profitability. These factors may also lead to intensified competition for market share and available margin, with consequential potential adverse effects on volumes. The financial and economic situation may have a negative impact on third parties with whom we do, or may do, business. Any of these factors may affect our results of operations, financial condition and liquidity.

In early 2003, several regions in Asia, including Hong Kong and China, were affected by the outbreak of SARS. Furthermore, in early 2008, severe snowstorms hit many areas of China and particularly affected southern China. Additionally, in May 2008, a major earthquake struck China's populous Sichuan Province, causing great loss of life, numerous injuries, property loss and disruption to the local economy. Finally, in April 2009, an outbreak of H1N1 influenza occurred in Mexico and the United States and human cases of swine flu were and continue to be discovered in China and Hong Kong. Any future outbreak of SARS, avian flu or similar adverse public health development or an increase in the severity of H1N1 influenza or other contagious diseases, extreme unexpected bad weather or severe natural disasters would adversely affect our business and operating results.

Our operations are affected by the volatility of prices for crude oil and refined products. We and China Petroleum and Chemical Corporation, or Sinopec, set our crude oil median prices monthly based on the Singapore trading prices for crude oil. In 2006, the PRC government, under its macroeconomic controls, introduced a mechanism for determining domestic prices of refined products. 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 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 natural gas properties. This review would reflect management's view of long-term oil and natural gas prices. Such a review could result in a charge for impairment which could have a significant effect on our results of operations in the period in which it occurs.

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.

Our proved crude oil reserves decreased gradually and modestly from 2001 to 2003 because the decrease in the crude oil reserves in our Daqing and Liaohe oil regions could not be offset by the increase in the crude oil

reserves in our oil regions in northwestern China, such as the Xinjiang oil region, the Changqing oil and gas region and the Tarim oil region. Our proved crude oil reserves increased slightly in 2004, 2005, 2006 and 2007 compared to prior years. Our proved crude oil reserves slightly decreased in China in 2008 and 2009 as a result of the lower oil price in 2008 and 2009. We are actively pursuing business opportunities outside China to supplement our domestic resources. For instance, we acquired certain overseas crude oil and natural

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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.

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 commerce, industry and the home. 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.

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;

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 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.

As of December 31, 2009, CNPC beneficially owned approximately 86.285% 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.

CNPC 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 LNG projects. CNPC's overseas asset portfolio includes oil and gas development projects in Iran and Sudan, which countries are on the sanction list published and administrated by the Office of Foreign Assets Control, or OFAC, of the

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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 OFACs 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.

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. Although we have entered into a Comprehensive Products and Services Agreement with CNPC and our transactions with CNPC over the past three years have been conducted on open, fair and competitive commercial terms, we have only limited leverage in negotiating with CNPC and its affiliates over the specific terms of the agreements for the future provision of these services and products.

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 Sinopec and China National Offshore Oil Corp, 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.

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.

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.

We are also subject to a number of risks relating to the PRC and the PRC oil and gas industry. These risks are described as follows:

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 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. 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 natural gas and refined



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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 several other significant projects. We do not have control over the timing and outcome of the final project approvals.

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 value 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, 2009, 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.

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.

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.

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, 2009 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 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.

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See also Item 4 Information on our 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**

***Overview of Our Operations***

We are one of the largest companies in China in terms of sales. 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.

Prior to 2009, our business consisted of exploration and production segment, refining and marketing segment, chemicals and marketing segment, and natural gas and pipeline segment. We restructured our business segmentation in 2009 by dividing our business into four segments, including exploration and production, refining and chemicals, marketing segment, and natural gas and pipeline. As a result, the refining and chemicals segment now consists of 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 segment now consists of the marketing and trading of refined oil products.

We are China's largest producer of crude oil and natural gas. Currently, substantially all of our crude oil and natural gas reserves and production-related assets are located in China. In the year ended December 31, 2009, we had turnover of RMB 1,019,275 million and profit attributable to the owners of our company of RMB 103,387 million.

Our exploration, development and production activities commenced in the early 1950s, when we conducted exploration activities in the Yumen oil region in northwestern China. The discovery of crude oil in 1959 in northeastern China's Daqing oil region, one of the world's largest oil regions in terms of proved crude oil reserves, marked the beginning of our large-scale upstream activities. Over more than five decades, we have conducted crude oil and natural gas exploration activities in many regions of China. As of December 31, 2009, we had estimated proved reserves of approximately 11,262.6 million barrels of crude oil and approximately 63,243.8 billion cubic feet of natural gas. We believe that we hold production licenses for a majority of China's proved crude oil reserves and proved natural gas reserves. In the year ended December 31, 2009, we produced 843.5 million barrels of crude oil and 2,112.2 billion cubic feet of natural gas for sale, representing an average production of 2.31 million barrels of crude oil and 5.79 billion cubic feet of natural gas for sale per day. In the year ended December 31, 2009, a substantial majority of crude oil we sold was supplied to our refineries.

We commenced limited refining activities in the mid-1950s, when we began producing gasoline and diesel at refineries in the Yumen oil region. Our chemicals operations commenced in the early 1950s, when we began producing urea at our first petrochemical plant in Lanzhou in northwestern China. In the early 1960s, we began producing ethylene. 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. In 2009, our refineries processed approximately 828.6 million barrels of crude oil or an average of 2.3 million barrels per day. In 2009, we produced approximately 73.2 million tons of gasoline, diesel and kerosene. In 2009, approximately 75.4% of the crude oil processed in our refineries was provided by our exploration and production segment and approximately

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23.0% of the crude oil processed in our refineries was imported. We are one of the major producers of ethylene in China. We produced 2,988.9 thousand tons of ethylene in 2009. In 2009, we produced 2,434.1 thousand tons of polyethylene, 1,800.9 thousand tons of polypropylene and 201.8 thousand tons of ABS, respectively.

As of December 31, 2009, our retail distribution network consisted of 16,607 service stations that we own and operate and 655 franchise service stations. In 2009, we sold approximately 101.25 million tons of gasoline, diesel and kerosene in total.

We are China's largest natural gas transporter and seller in terms of sales volume. Our natural gas transmission and marketing activities commenced in Sichuan in southwestern China in the 1950s. In 2009, our sales of natural gas totaled 2,105.1 billion cubic feet. As of December 31, 2009, we owned and operated regional natural gas pipeline networks consisting of 28,595 kilometers of pipelines. As of December 31, 2009, we owned and operated a crude oil pipeline network consisting of 13,164 kilometers of pipelines with an average daily throughput of approximately 3.03 million barrels of crude oil. As of December 31, 2009, we also had a refined product pipeline network consisting of 8,868 kilometers of pipelines with an average daily throughput of approximately 48,803 tons of refined products.

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 twelve countries, including, among others, Kazakhstan, Venezuela and Iraq, which significantly expanded our overseas operations and effectively increased our oil and gas reserves and production volumes. In November 2009, we signed a contract to develop Iraq's Rumaila oilfield, pursuant to which we hold a 37% stake in the operation of Rumaila project. In January 2010, we entered into a development and production contract in respect of the Halfaya Oilfield in Iraq for a term of 20 years, pursuant to which we own a 37.5% of the participating interest in Halfaya oilfield. We are currently assessing the feasibility of making further investments in international oil and gas markets.

In the year ended December 31, 2009, we imported approximately 326.5 million barrels of crude oil, as compared to 281.1 million barrels and 272.3 million barrels of crude oil in the years ended December 31, 2008 and 2007, respectively.

## ***Acquisitions***

On May 15, 2009, PetroChina Kunlun Gas Limited (Kunlun Gas), a wholly owned subsidiary of our company, entered into a transfer agreement with each of China Huayou Group Corporation and China Petroleum Pipeline Bureau, wholly owned subordinated entities of CNPC, pursuant to which Kunlun Gas agreed to acquire city gas business from the transferors. The targets of the acquisitions include the equity interests in eight companies held by China Huayou Group Corporation and China Petroleum Pipeline Bureau and relevant assets owned by China Huayou Group Corporation. Upon completion of the acquisition agreement, Kunlun Gas paid the transferors a consideration of approximately RMB1,093.9 million.

On June 18, 2009, an acquisition agreement was entered into between PetroChina West Pipeline Branch Company and CNPC West Pipeline Company Limited, pursuant to which Western Pipeline Branch Company agreed to acquire the western pipeline assets from the transferor. Upon completion of the acquisition on June 30, 2009, the parties referred to the appraised net assets value of the western pipeline assets as at March 31, 2009, the valuation date, and adjusted the consideration by reference to the change in the net asset value of the western pipeline assets for the period from the valuation date to the completion date on a dollar-for-dollar basis. The final consideration paid by our company to the transferor was approximately RMB8,355.4 million.

On August 28, 2009, our company entered into an equity transfer agreement with CNPC Exploration and Development Company Ltd. ( CNPC E&D ) and CNPC Central Asia Petroleum Company Limited ( CNPC Central Asia ), pursuant to which our company agreed to acquire the 100% share capital in South Oil Exploration and Development Co., Ltd. from CNPC E&D and CNPC Central Asia. Upon completion of the acquisition, the company will pay a consideration of approximately RMB2,813.3 million to CNPC E&D and CNPC Central Asia. Such consideration will be adjusted by reference to the final appraised value filed with the State-owned Assets Supervision and Administration Commission. Any net profit or loss incurred during the period from the valuation

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date to the completion date shall be attributable to the transferors. As at the end of the reporting period, the transaction has not yet been completed.

On August 28, 2009, several asset transfer agreements were entered into between ten of our company's branch companies and ten subordinated entities of CNPC (including CNPC Daqing Petrochemical Factory), pursuant to which our company agreed to acquire refinery equipment assets from the transferors. Upon completion of the acquisition on November 30, 2009, the parties referred to the appraised net asset value of the refinery equipment assets as at February 28, 2009, the valuation date, and adjusted the consideration by reference to the change in the net asset value of the refinery equipment assets for the period from the valuation date to the completion date on a dollar-for-dollar basis. The final consideration paid by our company to the transferors was approximately RMB11,327.2 million.

On August 28, 2009, PetroChina Amu Darya Natural Gas Exploration and Development (Beijing) Company Limited, a wholly owned subsidiary of the company, and China National Petroleum Corporation International ( CNPCI ), a subsidiary of CNPC, entered into the Contractual Rights Transfer Agreement, pursuant to which we have agreed to acquire from CNPCI the contractual rights under the production sharing contract on the Bagtyarlyk area at Amu Darya Right Bank in Turkmenistan, and the relevant assets and liabilities formed in the course of CNPCI's fulfillment of the same. Upon completion of the acquisition, the company will pay the consideration in the sum of approximately US\$1,186.5 million (approximately RMB8,106.6 million), of which the company will pay approximately US\$350.5 million in cash to CNPCI, and assume bank loans amounting to approximately US\$836.0 million owed by CNPCI in the course of performing its obligations under the production sharing contract. The consideration is determined by reference to the valuation results and will be adjusted by reference to the final valuation results filed with the State-owned Assets Supervision and Administration Commission and the change in value of the net asset in connection with this acquisition for the period from the valuation date to the completion date. As at the end of the reporting period, the acquisition has not yet been completed. The Amu Darya Project is an offshore natural gas project cooperation between CNPC and the Government of Turkmenistan on a product sharing basis. The product sharing contract under the Amu Darya Project involves an area of approximately 14,300 square kilometers. The term of the contract is 35 years.

On December 30, 2009, Kunlun Gas, a wholly owned subsidiary of our company, and Daqing Petroleum Administrative Bureau, a wholly owned subordinated entity of CNPC, entered into an asset transfer agreement, pursuant to which Kunlun Gas will acquire the 100% equity interest in Daqing Oilfield Zhongqing Gas Holdings Co., Ltd. held by Daqing Petroleum Administrative Bureau. Upon completion of the acquisition, Kunlun Gas will pay to the Daqing Petroleum Administrative Bureau the consideration in the amount of approximately RMB1,088.1 million, representing the net asset value of the target equity interest as at the date of valuation. This consideration will be adjusted by any gain/loss attributable to the target equity interest which arise between the reference date of valuation and the completion date on the basis of such floor price of the target equity interest as submitted for the open tender by the Daqing Petroleum Administrative Bureau. As at the end of the reporting period, the acquisition has not yet been completed.

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

In May 2009, PetroChina International (Singapore) Pte. Ltd., an indirectly wholly owned subsidiary of our company, acquired from Keppel Oil and Gas Services Pte Ltd approximately 45.51% share capital in Singapore Petroleum Company Limited ( SPC ) and completed the mandatory general cash offer for all the remaining shares in the capital of SPC in October, 2009;

In November 2009, Mangistau Investments B.V., a joint venture equally owned by CNPC E&D and JSC National Company KazMunayGas , acquired 100% of the common shares of JSC Mangistaumunaigas, which is

one of the major oil-producing companies in Kazakhstan. CNPC E&D is 50% owned by our company;

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; and



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In March 2010, CS CSG (Australia) Pty Ltd entered into an acquisition agreement with Arrow Energy Limited ( Arrow ) for the acquisition of all the shares in Arrow. Arrow is an Australian integrated energy company focusing on the development of coal seam gas throughout eastern Australia and Asia. CS CSG (Australia) Pty Ltd is a joint venture equally owned by PetroChina International (Singapore) Pte. Ltd. and Shell Energy Holdings Australia Ltd.

***Our Corporate Organization and Shareholding Structure***

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. CNPC retained the assets and liabilities relating to its remaining businesses and operations, including assets and liabilities relating to international exploration and production and refining and pipeline operations. CNPC is our primary provider of a wide range of services and products. 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, 2009, CNPC beneficially owned 157,919,717,259 shares, which include 155,120,000 H Shares indirectly held by CNPC through Fairy King Investments Limited, an overseas wholly owned subsidiary of CNPC, representing approximately 86.285% of the share capital of PetroChina.

The following chart illustrates our corporate organization structure as of December 31, 2009:

- (1) Indicates approximate shareholding.
- (2) Indicates approximate shareholding, including the 155,120,000 H Shares indirectly held by CNPC through Fairy King Investments Limited, an overseas wholly owned subsidiary of CNPC, as of December 31, 2009.
- (3) Includes PetroChina Planning & Engineering Institute, PetroChina Exploration & Development Research Institute, IT Service Center, PetroChina Petrochemical Research Institute and several other companies.

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The following chart illustrates our management structure:

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

**General Information**

Our legal name is        and its English translation is PetroChina Company Limited. 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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**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. The Songliao basin, located in Heilongjiang and Jilin provinces in northeastern China, including the Daqing and Jilin oil regions, accounted for 37.6% of our proved crude oil reserves as of December 31, 2009 and 39.9% of our crude oil production in 2009. We also have significant crude oil reserves and operations in the area around the Bohai Bay. The Bohai Bay basin includes the Liaohe, Dagang, Huabei and Jidong oil regions and accounted for 19.5% of our proved crude oil reserves as of December 31, 2009 and 17.8% of our crude oil production in 2009. In 2009, we discovered Tanan, Nanbeier, Yongpinghe and Honggouzi oil fields. Our proved natural gas reserves and production are generally concentrated in northwestern and southwestern China, specifically in the Erdos, Tarim and Sichuan basins. As of December 31, 2009, our overseas proved crude oil reserves accounted for 6.6% of our total proved crude oil reserves and our overseas proved natural gas reserves accounted for 1.4% of our total proved natural gas reserves. In 2009, our overseas crude oil production accounted for 10.4% of our total crude oil production and our overseas natural gas production accounted for 4.5% of our total natural gas production.

We currently hold exploration and exploitation licenses for oil and gas (including coal seam gas) covering a total area of approximately 458.7 million acres, consisting of the exploration licenses covering a total area of approximately 436.7 million acres and the exploitation licenses covering a total area of approximately 22.0 million acres. In 2009, our exploration and production segment had profit from operations of RMB 105,019 million.

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.

**Reserves**

Our estimated proved reserves as of December 31, 2009 totaled approximately 11,262.6 million barrels of crude oil and approximately 63,243.8 billion cubic feet of natural gas. As of December 31, 2009, proved developed reserves accounted for 69.9% and 48.9% 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 21,419.5 million barrels-of-oil equivalent as of December 31, 2008 to approximately 21,803.2 million barrels-of-oil equivalent as of December 31, 2009, taking account of our overseas crude oil reserves of 747.0 million barrels and overseas natural gas reserves of 866.9 billion cubic feet, totaling 891.5 million barrels-of-oil equivalent. Natural gas as a percentage of total proved hydrocarbon reserves increased from 47.6% as of December 31, 2008 to 48.3% as of December 31, 2009.

We prepared our reserve estimates as of December 31, 2007, 2008 and 2009 on the basis of reports prepared by two independent engineering consultants, DeGolyer & 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 was 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 2007 and 2008 is not restated.

***New SEC Reserve Disclosures***

In December 2008, the SEC announced that it had approved revisions designed to modernize the oil and gas company reserve reporting requirements. The most significant amendments to the requirements included the following:

Economic producibility of reserves and discounted cash flows are now based on a 12-month unweighted average commodity price unless contractual arrangements designate the price to be used.

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Probable and possible reserves may be disclosed separately on a voluntary basis.

Reserves may be classified as proved undeveloped if there is a high degree of confidence that the quantities will be recovered and they are scheduled to be drilled within the next five years, unless the specific circumstances justify a longer time.

Reserves may be estimated through the use of reliable technology in addition to flow tests and production history.

Additional disclosure is required regarding the qualifications of the chief technical person who oversees the reserves estimation process. We are also required to provide a general discussion of our internal controls used to assure the objectivity of the reserves estimate.

Reserves in foreign countries or continents must be presented separately if they represent more than 15% of our total oil and gas proved reserves.

The definition of oil and gas producing activities has expanded and focuses on the marketable product rather than the method of extraction.

All reserve estimates involve some degree of uncertainty. The uncertainty depends chiefly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of these data.

### ***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. The responsibilities of the RAD Team include:

formulation of reserve development strategies;

arrangement of annual reserves; and

review of the reserve assessment results.

We have established a special reserve management 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. The reserve study office is 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, 2007, 2008 and 2009. DeGolyer and MacNaughton has been providing petroleum consulting services throughout the world for over 70 years. 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. R.M. Shuck, a Senior Vice President with DeGolyer and MacNaughton is primarily responsible for the preparation of our reserve report. Mr. R.M. Shuck is a petroleum engineer and a Registered Professional Engineer in the State of Texas. Mr. R.M. Shuck is also a member of the Society of Petroleum Engineers and has 32 years of experience in oil and gas reservoir studies and evaluations.



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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 Algeria, Chad, Kazakhstan and Venezuela as of December 31, 2007, 2008 and 2009. 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, based in Singapore. 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 & MacNaughton and Gaffney, Cline & Associates (Consultants) Pte Ltd as filed hereto as exhibit 15.1 and exhibit 15.2 of this annual report.

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, 2007, 2008 and 2009.

	<b>Crude Oil</b> <b>(Millions of barrels)</b>	<b>Natural Gas<sup>(1)</sup></b> <b>(Bcf)</b>	<b>Combined<sup>(1)</sup></b> <b>(BOE, in millions)</b>
<b>Proved developed and undeveloped reserves</b>			
Reserves as of December 31, 2007	11,705.6	57,110.6	21,223.9
Revisions of previous estimates	(574.0)	(636.3)	(680.0)
Extensions and discoveries	885.4	6,579.0	1,982.0
Improved recovery	75.0	0	75.0
Production for the year	(870.7)	(1,864.1)	(1,181.4)
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
<b>Proved developed reserves</b>			
As of December 31, 2007	9,047.1	26,047.1	13,388.3
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	13,038.9
<b>Proved undeveloped reserves</b>			
As of December 31, 2007	2,658.5	31,063.5	7,835.6
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

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



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The following tables set forth our crude oil and natural gas proved reserves and proved developed reserves by region as of December 31, 2007, 2008 and 2009.

	2007		As of December 31, 2008		2009	
	Proved Developed and Undeveloped	Proved Developed	Proved Developed and Undeveloped (Millions of barrels)	Proved Developed	Proved Developed and Undeveloped	Proved Developed
<b>Crude oil reserves</b>						
Daqing	3,856.1	3,324.3	3,548.0	2,912.0	3,463.4	2,740.8
Liaohe	1,121.0	888.1	895.9	675.2	795.7	581.8
Xinjiang	1,354.9	1,198.9	1,302.6	1,106.6	1,395.1	1,117.6
Changqing	1,488.9	1,194.8	1,624.5	1,256.7	1,783.8	1,298.8
Jilin	784.2	463.4	819.8	441.0	771.6	393.4
Dagang	523.2	346.7	520.8	352.7	602.9	364.9
Tarim	590.3	379.7	594.0	371.3	584.8	277.0
Huabei	448.0	307.0	431.5	281.8	487.9	298.5
Qinghai	200.1	186.3	177.8	157.5	176.6	146.5
Tuha	164.7	91.7	162.3	97.8	134.6	87.9
Sichuan	9.5	4.4	13.1	3.6	19.9	3.5
Jidong	413.1	126.0	379.2	133.5	314.0	95.0
Other regions <sup>(1)</sup>	751.5	535.8	751.8	534.4	732.3	465.1
Total	11,705.6	9,047.1	11,221.3	8,324.1	11,262.6	7,870.8

	2007		As of December 31, 2008		2009	
	Proved Developed and Undeveloped	Proved Developed	Proved Developed and Undeveloped (Bcf)	Proved Developed	Proved Developed and Undeveloped	Proved Developed
<b>Natural gas reserves<sup>(2)</sup></b>						
Sichuan	10,400.5	4,365.5	11,285.4	4,030.4	11,177.3	4,219.0
Changqing	19,105.0	6,943.9	19,261.7	6,901.6	20,363.2	9,884.4
Xinjiang	1,537.1	999.3	4,061.8	2,028.7	3,497.9	2,156.6
Daqing	3,039.7	1,046.2	2,961.1	960.6	3,028.1	1,261.4
Qinghai	4,352.8	3,003.5	4,302.1	2,948.4	4,903.2	3,554.9
Tarim	15,114.3	7,918.8	15,516.4	7,722.7	16,892.1	7,758.3
Liaohe	386.4	296.2	283.2	193.6	133.9	100.5
Tuha	581.6	350.4	609.4	382.3	589.8	397.0

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Huabei	193.1	119.2	207.8	133.7	140.0	119.6
Dagang	347.4	197.1	289.7	148.9	261.7	93.1
Jilin	1,169.9	104.1	1,180.5	113.4	1,177.0	450.6
Jidong	191.4	40.4	203.3	96.7	137.5	31.8
Other regions <sup>(1)</sup>	691.4	662.5	1,026.8	1,005.8	942.1	921.6
Total	57,110.6	26,047.1	61,189.2	26,666.8	63,243.8	30,948.8

(1) Represents Yumen and other oil regions 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.

**Table of Contents****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. 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. Since the early 1950s, we have been working on developing exploration and recovery technologies and methods tailored to the specific geological conditions 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.

<b>Year</b>		<b>Daqing</b>	<b>Xinjiang</b>	<b>Liaoh</b>	<b>Changqing</b>	<b>Huabei</b>	<b>Dagang</b>	<b>Sichuan</b>	<b>Others<sup>(1)</sup></b>	<b>Total</b>	
2007	<b>Net exploratory wells drilled<sup>(2)</sup></b>	294	183	68	447	104	70	48	415	1,629	
	Crude oil	103	103	49	186	47	59	3	141	691	
	Natural gas	12	15		41			30	16	114	
	Dry <sup>(3)</sup>	179	65	19	220	57	11	15	258	824	
	<b>Net development wells drilled<sup>(2)</sup></b>	4,670	1,350	529	3,087	528	260	83	2,377	12,884	
	Crude oil	4,643	1,346	515	2,652	259	252	8	2,208	11,883	
	Natural gas	17	4	11	384	269	8	75	163	931	
	Dry <sup>(3)</sup>	10		3	51				6	70	
	2008	<b>Net exploratory wells drilled<sup>(2)</sup></b>	234	162	63	583	94	91	67	354	1,648
		Crude oil	71	72	38	207	42	69	2	136	637
Natural gas		1	15	0	26	0	0	38	12	92	
Dry <sup>(3)</sup>		162	75	25	350	52	22	27	206	919	
<b>Net development wells drilled<sup>(2)</sup></b>		4,238	1,887	356	5,079	415	238	100	2,887	15,200	
Crude oil		4,223	1,868	349	4,469	225	226	2	2,685	14,047	
Natural gas		4	18	6	528	186	8	77	179	1,006	
Dry <sup>(3)</sup>		11	1	1	82	4	4	21	23	147	
2009		<b>Net exploratory wells drilled<sup>(2)</sup></b>	306	149	77	688	77	67	61	369	1,794
		Crude oil	297	140	77	540	77	67	2	258	1,458
	Natural gas	9	9	0	148	0	0	59	111	336	
	Dry <sup>(3)</sup>	227	69	58	331	27	22	29	278	1,041	
	<b>Net development wells drilled<sup>(2)</sup></b>	4,924	681	93	7,288	299	155	147	1,516	15,103	
	Crude oil	4,923	674	84	6,808	224	148	8	1,162	14,031	

Natural gas	1	7	9	480	75	7	139	354	1,072
Dry <sup>(3)</sup>	10	0	0	133	0	0	23	5	171

- (1) Represents the Jilin, 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.

**Table of Contents****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, 2009.

Oil Region	Acreage <sup>(1)</sup>					
	Productive Wells <sup>(1)</sup>		Developed		Undeveloped	
	Crude Oil	Natural Gas	Crude Oil	Natural Gas	Crude Oil	Natural Gas
	(Thousands of acres)					
Daqing	46,044	252	839.2	85.3	811.0	112.6
Liaohe	17,454	658	194.8	35.9	92.9	6.4
Xinjiang	19,792	134	304.1	52.0	167.6	27.2
Jilin	16,159	197	304.7	34.1	322.0	19.6
Changqing	23,397	3,853	548.5	2,202.8	537.4	2,725.5
Huabei	5,710	110	148.9	12.3	65.4	2.9
Dagang	3,503	72	107.4	24.5	87.8	21.4
Tuha	1,727	114	51.5	24.8	24.4	10.7
Tarim	1,025	249	107.0	75.7	62.7	275.3
Sichuan	423	1,826	335.5	401.3		520.9
Other regions <sup>(2)</sup>	5,526	517	74.5	32.5	58.9	25.2
Total	140,760	7,982	3,016.1	2,981.1	2,230.1	3,747.8

(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 Qinghai, Jidong and Yumen and other oil regions.

Approximately 66.0% of our proved crude oil reserves are concentrated in the Daqing, Liaohe and Xinjiang oil regions and the Changqing oil and gas region, and approximately 84.3% of our proved natural gas reserves are concentrated in the Changqing oil and gas region, the Tarim oil and gas region, the Sichuan gas region and the Qinghai oil region. We believe that the Erdos, Junggar, and Songliao basins and Bohai Bay have the highest potential for increasing our crude oil reserve base through future exploration and development, and that the Erdos, Tarim, Sichuan, and Qaidam basins have the highest potential for increasing our natural gas reserve base through future exploration and development.

**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, 2007, 2008 and 2009.

**For the Year Ended  
December 31,**

**% of**

	2007	2008	2009	2009 Total
<b>Crude oil production<sup>(1)</sup></b>				
(thousands of barrels per day, except percentages or otherwise indicated)				
Daqing	847.3	813.2	806.2	34.9
Liaohe	231.3	224.6	202.4	8.8
Xinjiang	249.4	246.9	220.5	9.5
Changqing	246.9	279.8	318.1	13.8
Tarim	131.6	132.7	112.2	4.9
Huabei	90.8	89.7	86.3	3.7
Jilin	120.0	121.2	115.5	5.0



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	<b>For the Year Ended December 31,</b>			<b>% of 2009 Total</b>
	<b>2007</b>	<b>2008</b>	<b>2009</b>	
Dagang	91.2	92.2	87.8	3.8
Tuha	44.8	46.7	32.8	1.4
Other <sup>(2)</sup>	264.5	332.0	329.2	14.2
<b>Total</b>	<b>2,317.8</b>	<b>2,379.0</b>	<b>2,311.0</b>	<b>100</b>
Annual production (million barrels)	846.0	870.7	843.5	
Average sales price (RMB per barrel)	496.3	608.1	368.2	
(US\$ per barrel)	65.27	87.55	53.9	
<b>Natural gas production<sup>(1)(3)</sup></b> (millions of cubic feet per day, except percentages or otherwise indicated)				
Sichuan	1,329.8	1,364.6	1,381.4	23.9
Changqing	838.4	1,024.5	1,434.1	24.8
Daqing	123.7	136.0	156.5	2.7
Qinghai	286.0	378.1	378.1	6.5
Tuha	111.5	107.0	94.0	1.6
Xinjiang	102.3	129.9	173.4	3.0
Liaohu	43.9	40.8	38.7	0.7
Huabei	39.1	38.9	45.1	0.8
Tarim	1,383.1	1,564.1	1,650.3	28.5
Dagang	43.0	44.2	43.1	0.7
Other <sup>(4)</sup>	158.7	265.2	392.0	6.8
<b>Total</b>	<b>4,459.5</b>	<b>5,093.3</b>	<b>5,786.7</b>	<b>100</b>
Annual production (Bcf)	1,627.7	1,864.2	2,112.2	
Average sales price (RMB per Mcf)	29.2	32.8	32.7	
(US\$ per Mcf)	3.84	4.72	4.78	

(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 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 Jilin, Jidong, Yumen and other oil regions and our share of overseas production as a result of our acquisition of overseas assets.

In 2009, we supplied approximately 81.1% of our total crude oil sales to our refineries, 5.5% to Sinopec's refineries, 9.4% to companies or entities outside China, and the remaining 4.0% to regional refineries or other entities. We entered into a crude oil mutual supply framework agreement with Sinopec on December 30, 2009 for the supply of crude oil to each other's refineries in 2010. Under this agreement, we agreed in principle to supply 5.41 million tons of crude oil to Sinopec. For the years ended December 31, 2007, 2008 and 2009, the average lifting costs of our crude oil and natural gas production were US\$7.75 per barrel-of-oil equivalent, US\$9.48 per barrel-of-oil equivalent and US\$9.12 per barrel-of-oil equivalent, respectively.

**Table of Contents****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. The successful discovery and development of the oil fields in the Daqing oil region marked a critical breakthrough in the history of both our company and the PRC oil and gas industry. In terms of proved hydrocarbon reserves and annual production, the Daqing oil region is the largest oil region in China and one of the most prolific oil and gas properties in the world. We commenced exploration activities in the Daqing oil region in 1955 and discovered oil in the region in 1959. Annual crude oil production volume in the Daqing oil region reached one million barrels per day in 1976 and remained relatively stable until 2002. In 2007, 2008 and 2009, our crude oil production volume in the Daqing oil region was 847.3 thousand barrels per day, 813.2 thousand barrels per day, and 806.2 thousand barrels per day, respectively. As of December 31, 2009, we produced crude oil from 20 fields in the Daqing oil region.

As of December 31, 2009, our proved crude oil reserves in the Daqing oil region were 3,463.4 million barrels, representing 30.8% of our total proved crude oil reserves. The proved crude oil reserves in our Daqing oil region have gradually decreased since 1996 because the crude oil production exceeded the crude oil reserve additions in our Daqing oil region in each year since 1996. As of December 31, 2007, 2008 and 2009, the proved crude oil reserves in our Daqing oil region were 3,856.1 million barrels, 3,548.0 million barrels, and 3,463.4 million barrels, respectively. In 2009, our oil fields in the Daqing oil region produced an average of 806.2 thousand barrels of crude oil per day, representing approximately 34.9% of our total daily crude oil production. The crude oil production in our Daqing oil region decreased by 0.86% from 297.6 million barrels in 2008 to 294.3 million barrels in 2009. In 2009, the crude oil reserve-to-production ratio of the Daqing oil region was 11.6 years, compared to 11.92 years in 2008.

The crude oil we produce in the Daqing oil region has an average API gravity of 35.7 degrees. In 2009, the crude oil we produced in the Daqing oil region had an average water cut of 91.5%, increased from the average water cut of 91.2% in 2008.

The crude oil in the Daqing oil region is primarily located in large reservoirs with relatively moderate depths of approximately 900 meters to 1,500 meters and with relatively simple geological structures and most of the crude oil produced at Daqing is medium viscosity oil. Crude oil produced using enhanced recovery techniques accounted for 27.0%, 27.4%, and 30.5% of our crude oil production from the Daqing oil region in 2007, 2008 and 2009, respectively.

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 4.0% from US\$9.72 per barrel for the year ended December 31, 2008 to US\$10.11 per barrel for the year ended December 31, 2009. However, we have adopted a number of measures to control the increase in our lifting costs at these fields. Those measures include:

implementing ground optimization and simplification projects and reducing investments with low or no return so as to control cost from the source; and

applying new technologies to reduce energy consumption to increase our ability to maximize profit.

Although we plan to continue to carry out these measures to control the increase in our lifting costs, we expect our lifting costs at these fields will continue to increase gradually in the future.

We have an extensive transportation infrastructure network to transport crude oil produced in the Daqing oil region to internal and external customers in northeastern China and beyond. Crude oil pipelines link our oil fields in the Daqing oil region to the port of Dalian and the port of Qinhuangdao in Bohai Bay, providing efficient transportation for selling Daqing crude oil. These crude oil pipelines have an aggregate length of 2,500 kilometers and an aggregate throughput capacity of approximately 1,067.7 thousand barrels per day.

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

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in the Daqing oil region. In 2009, we refined approximately 76.5% of Daqing crude oil in our own refineries, exported approximately 1.7% and sold the remaining portion to Sinopec or other local refineries.

### ***Liaohe Oil Region***

The Liaohe oil region is one of our four largest crude oil producing properties and is located in the northern part of the Bohai Bay basin. We began commercial production in the Liaohe oil region in 1971. The Liaohe oil region covers a total area of approximately 580,000 acres.

As of December 31, 2009, our proved crude oil reserves in the Liaohe oil region were 795.7 million barrels, representing 7.1% of our total proved oil reserves. In 2009, our oil fields in the Liaohe oil region produced an average of 202.4 thousand barrels of crude oil per day, representing approximately 8.8% of our total daily crude oil production. In 2008, the crude oil reserve-to-production ratio in the Liaohe oil region was 11.4 years. In 2009, the crude oil we produced in the Liaohe oil region had an average API gravity of 26 degrees and an average water cut of 81.4%. We have proved crude oil reserves in 38 fields in the Liaohe oil region, all of which are currently in production. We produce several varieties of crude oil in the Liaohe oil region, ranging from light crude oil to heavy crude oil and high pour point crude oil.

We have easy access to crude oil pipelines for Liaohe crude oil. The pipelines linking Daqing to Dalian port and Qinhuangdao port pass through the Liaohe oil region. In 2009, we sold about approximately 87.4% of the crude oil we produced at the Liaohe oil region to our own refineries.

### ***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, 2009, our proved crude oil reserves in the Xinjiang oil region were 1,395.1 million barrels, representing 12.4% of our total proved crude oil reserves. In 2009, our oil fields in the Xinjiang oil region produced an average of 220.5 thousand barrels of crude oil per day, representing approximately 9.5% of our total daily crude oil production. In 2009, the crude oil reserve-to-production ratio at the Xinjiang oil region was 17.2 years. In 2009, the crude oil we produced in the Xinjiang oil region had an average API gravity of 36.8 degrees and an average water cut of 77.5%.

### ***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 22.2 years in 2009. As of December 31, 2009, we had 112 natural gas fields under development in the Sichuan gas region.

As of December 31, 2009, our proved natural gas reserves in the Sichuan gas region were 11,177.3 billion cubic feet, representing 17.7% of our total proved natural gas reserves and a decrease of 1.0% from 11,285.4 billion cubic feet as of December 31, 2008. In 2009, our natural gas production for sale in the Sichuan gas region reached 504.2 billion cubic feet, representing 23.9% of our total natural gas production for sale and an increase of 1.0% from 499.4 billion cubic feet in 2008.

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, 2009, the Guang'an gas field had a proved natural gas reserve of 1,541.8 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. We commenced operations in the Changqing oil and gas region in 1970. As

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of December 31, 2009, our proved crude oil reserves in the Changqing oil region were 1,783.8 million barrels, representing 15.8% of our total proved crude oil reserves. In 2009, our crude oil production in the Changqing oil region were an average of 318.1 thousand barrels per day, representing approximately 13.8% of our total daily crude oil production. In 2009, the crude oil reserve-to-production ratio at the Changqing oil region was 18.1 years. In 2009, the crude oil we produced in the Changqing oil region had an average API gravity of 35 degrees and an average water cut of 51.3%.

In the early 1990s, we discovered the Changqing gas field, which had total estimated proved natural gas reserves of 20,363.2 billion cubic feet as of December 31, 2009, representing 32.2% of our total proved natural gas reserves. In January 2001, we discovered the Sulige gas field, which had total estimated proved natural gas reserves of 7,674.1 billion cubic feet as of December 31, 2009. Sulige gas field is currently the largest gas field in China. In 2009 we produced 523.4 billion cubic feet of natural gas for sale in the Changqing oil and gas region, representing an increase of 39.6% from 375.0 billion cubic feet in 2008.

***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. As of December 31, 2009, our proved crude oil reserves in the Tarim oil region were 584.8 million barrels. 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 5,439.2 billion cubic feet as of December 31, 2009. As of December 31, 2009, the proved natural gas reserves in the Tarim oil and gas region reached 16,892.1 billion cubic feet, representing 26.7% of our total proved natural gas reserves.

In 2009, we produced 602.4 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 to East natural gas pipeline project. See [Natural Gas and Pipeline Nature Gas Transmission Infrastructure](#) for a discussion of our West to East natural gas pipeline project. The commencement of the operation of this West to East natural gas pipeline significantly increased our natural gas production in the Tarim oil and gas region.

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**Table of Contents****Refining and Chemicals**

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.

In 2009, our refining and chemicals segment had a profit from operations of RMB17,308 million.

The following sets forth the highlights of our refining and chemicals segment in 2009:

as of December 31, 2009, our refineries' annual primary distillation capacity totaled 975 million barrels of crude oil per year, or 2,671.2 thousand barrels per day;

we processed 828.6 million barrels of crude oil, or 2.3 million barrels per day; and

we produced approximately 73.2 million tons of gasoline, diesel and kerosene.

**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, 2007, 2008 and 2009.

<b>Product</b>	<b>Year Ended December 31,</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<b>(In thousands of tons)</b>		
Diesel	47,345.4	48,294.4	48,827.7
Gasoline	22,018.7	23,465.2	22,114.3
Fuel oil	4,162.0	4,076.5	3,057.1
Naphtha	7,491.9	7,225.8	8,041.2
Asphalt	1,563.4	2,093.3	2,307.1
Kerosene	2,017.2	2,208.8	2,252.9
Lubricants	1,760.4	1,767.9	1,401.1
Paraffin	1,003.0	948.5	770.5
Total	87,362.0	90,080.4	88,771.9

In recent years, we have made significant capital investments in facility expansions and upgrades to improve product quality to meet evolving market demand and environmental requirements in China. In each of the years ended December 31, 2007, 2008 and 2009, our capital expenditures for our refining and chemicals segment were RMB21,499 million, RMB30,619 million and RMB42,558 million, respectively. These capital expenditures were incurred primarily in connection with the expansion of our refining facilities and the upgrading of our product quality.

In 2009, we had completed the construction or renovation of 18 refining projects including, among others, the expansion of the 5 million tons per year refining unit at Huhhot Petrochemical, the renovation of the 5 million tons per year refining unit at Ningxia Petrochemical, and the expansion of the 320,000 tons per year styrene unit at Jilin Petrochemical. 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.

***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

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ended December 31, 2007, 2008 and 2009, our exploration and production operations supplied approximately 80%, 77% and 75.4%, respectively, of the crude oil processed in our refineries.

The table below sets forth certain operating statistics regarding our refineries as of December 31, 2007, 2008 and 2009.

	As of December 31,		
	2007	2008	2009
<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	186.2	236.9
Dushanzi Petrochemical	121.5	121.5	202.4
Daqing Petrochemical	121.5	121.5	121.5
Jinzhou Petrochemical	131.6	131.6	131.6
Jinxi Petrochemical	131.6	131.6	131.6
Jilin Petrochemical	141.7	141.7	141.7
Urumqi Petrochemical	121.5	121.5	121.5
Other refineries	996.9	996.9	956.4
Total	2,580.1	2,580.1	2,671.2
<b>Refining throughput (thousand barrels per day)</b>			
Lanzhou Petrochemical	213.9	202.3	211.6
Dalian Petrochemical	233.5	267.2	281.5
Fushun Petrochemical	196.6	193.1	187.9
Dushanzi Petrochemical	81.2	90.0	120.9
Daqing Petrochemical	124.3	117.1	124.7
Jinzhou Petrochemical	133.6	132.5	117.2
Jinxi Petrochemical	133.6	126.8	79.9
Jilin Petrochemical	146.1	136.3	144.9
Urumqi Petrochemical	106.1	110.3	106.3
Other refineries	887.6	946.4	895.3
Total	2,256.5	2,322.0	2,270.2
<b>Conversion equivalent<sup>(2)</sup> (percent)</b>			
Lanzhou Petrochemical	53.3	53.3	53.3
Dalian Petrochemical	27.8	44.9	44.9
Fushun Petrochemical	70.7	70.7	55.6
Dushanzi Petrochemical	41.7	41.7	57.0
Daqing Petrochemical	76.7	80.0	80.0

Jinzhou Petrochemical	84.6	84.6	84.6
Jinxi Petrochemical	66.2	66.2	66.2
Jilin Petrochemical	61.4	61.4	61.4
Urumqi Petrochemical	51.7	51.7	56.7
Average of other refineries	53.2	55.5	56.9

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

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- (2) Stated in fluid catalytic cracking, delayed coking and hydrocracking equivalent/ topping (percentage by weight), based on 100% of balanced distillation capacity.

In each of the years ended December 31, 2007, 2008 and 2009, the average utilization rate of the primary distillation capacity at our refineries was 97.7%, 94.9% and 87.7%, respectively. The average yield for our four principal refined products (gasoline, kerosene, diesel and lubricants) at our refineries was 65.6%, 65.8% and 65.4%, 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, 2007, 2008 and 2009, the yield for all refined products at our refineries was 93.0%, 92.7% and 93.1%, respectively.

Dalian Petrochemical, Fushun Petrochemical, Lanzhou Petrochemical and Dushanzi Petrochemical were our leading refineries in terms of both primary distillation capacity and throughput in 2009. They are all located close to our major oil fields in the northeast and northwest regions of China and produce a wide range of refined products. Lanzhou Petrochemical has a strategic position in our plan to expand our markets in refined product sales in the southwestern and central regions of China. It is located in the northwestern part of China, providing easy access to markets in the southwestern and central regions in China. As of December 31, 2009, these four refineries had an aggregate primary distillation capacity of 389.4 million barrels per year, or 1,066.9 thousand barrels per day, representing approximately 39.9% of the total primary distillation capacity of all our refineries as of the same date. In 2009, these four refineries processed an aggregate of 292.7 million barrels of crude oil, or 801.9 thousand barrels per day, representing approximately 35.3% of our total throughput in the same period.

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 2009, 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 were 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. We believe that the proximity of our refineries to our chemical plants promotes efficiency in production, secures feedstock supply and minimizes the risk of production interruption. Our production capacity and our market share in China for chemical products allow us to solidify our dominant position in the northern and western regions of China. In addition, our stable customer base in the eastern and southern regions of China provides us with the opportunity to expand our market share in these regions.

**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, 2007, 2008 and 2009.

	<b>Year Ended December 31,</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<b>(In thousand tons)</b>		
<b>Basic petrochemicals</b>			
Propylene	3,083.2	3,152.4	3,278.0
Ethylene	2,581.5	2,675.6	2,988.9
Benzene	827.8	943.5	1,021.7
<b>Derivative petrochemicals</b>			
Synthetic resin			
Polyethylene	2,101.2	2,153.7	2,434.1
Polypropylene	1,630.2	1,730.0	1,800.9
ABS	215.0	198.9	201.8
Other synthetic resin products	16.1	16.9	43.5
Synthetic fiber			
Polyacrylic fiber	79.3	61.6	72.6
Terylene fiber	48.1	35.7	19.6
Other synthetic fiber products	9.3	9.0	8.0
Synthetic rubber			
Styrene butadiene rubber	210.6	249.6	300.8
Other synthetic rubber products	100.0	94.4	119.3
Intermediates			
Alkylbenzene	197.5	205.4	176.6
<b>Other chemicals</b>			
Urea	3,634.5	3,823.7	3,973.3

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, 2009, our annual ethylene production capacity was 3,710 thousand tons, representing an increase of 36.9% from 2,710 thousand tons in the year ended December 31, 2008. Our production volume of ethylene increased by 11.7% from 2,675.6 thousand tons in 2008 to 2,988.9 thousand tons in 2009. 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.

In 2009, the monthly average capacity utilization rate at our ethylene production facilities was 98.6%. The cost of ethylene production is an important component of our overall chemical production costs. Reduction of energy consumption and raw material loss is a key factor in reducing ethylene production costs. We have implemented a series of measures to reduce energy consumption. The average energy consumption of our ethylene production facilities was 743.8, 713.8 and 682.2 kilograms of standard oil per ton in 2007, 2008 and 2009, respectively. We plan to continue to implement measures to reduce our energy consumption.

The average ethylene percentage loss at our chemical plants in 2009 was 0.86%. High ethylene percentage loss has contributed to the relatively high cost of our ethylene production. In order to reduce high ethylene percentage loss in

our ethylene production, we will continue to implement a series of measures at our chemical plants in the future, such as improving our process management of key units for ethylene production, reducing unplanned temporary interruptions of our chemical facilities and enhancing pyrolysis material composition and production plans.

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We produce a number of synthetic resin products, including polyethylene, polypropylene and ABS. As of December 31, 2009, our production capacities for polyethylene, polypropylene and ABS were 3,112 thousand tons, 2,524 thousand tons and 325 thousand tons, respectively. In 2009, we produced 2,434.1 thousand tons of polyethylene, 1,800.9 thousand tons of polypropylene and 201.8 thousand tons of ABS, respectively, which respectively increased by 13.0% , 4.1% and 1.5% as compared with 2008. 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/Jilin 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.

The following table sets forth the sales volumes of our chemical products by principal product category for each of the years ended December 31, 2007, 2008 and 2009.

<b>Product</b>	<b>Year Ended December 31,</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<b>(In thousands of tons)</b>		
<b>Derivative petrochemicals</b>			
Synthetic resin			
Polyethylene	2,102.4	2,194.9	2,350.5
Polypropylene	1,434.8	1,549.1	1,939.0
ABS	216.7	327.1	302.4
Synthetic fiber			
Terylene fiber	56.6	41.7	18.7
Polyacrylic fiber	71.6	67.5	107.5
Synthetic rubber			
Butadiene styrene rubber	219.0	233.8	327.0
Intermediates			
Alkylbenzene	156.6	164.6	165.4
<b>Other chemicals</b>			
Urea	3,662.2	4,393.2	4,054.1



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

We engage in the marketing of refined products through 31 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. For the year ended December 31, 2009, our marketing segment had an profit from operations of RMB13,265 million. In 2009, we sold approximately 101.25 million tons of gasoline, diesel and kerosene.

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, 2009, 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

16,607 service stations owned and operated by us and 655 franchise service stations owned and operated by third parties.

In 2009, we sold approximately 95.4 million tons of gasoline and diesel. 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. In 2009, sales of gasoline and diesel to these customers accounted for approximately 2.3% and 8.5% of our total sales of gasoline and diesel, respectively.

The following table sets forth our refined product sales volumes for each of the years ended December 31, 2007, 2008 and 2009.

<b>Product</b>	<b>Year Ended December 31,</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<b>(In thousands of tons)</b>		
Diesel	54,376.9	56,081.0	64,659.4
Gasoline	27,003.1	29,399.4	30,777.1
Kerosene	3,781.8	4,797.6	5,816.9
Lubricants	2,378.4	2,003.4	1,795.8

**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. We made wholesale sales of approximately 2.35 million tons of gasoline and diesel to Sinopec in 2009, representing approximately 2.5% of our total sales of these products in the same period.

***Retail Marketing***

The weighted average sales volume of gasoline and diesel per business day at our service station network was 8.4 tons per service station in 2007, 9.6 tons per service station in 2008 and 10.1 tons per service station in 2009.

We sell our refined products to service stations owned and operated by CNPC. These service stations sell exclusively refined products produced or supplied by us in accordance with contractual arrangements between CNPC and us. Under these contractual arrangements, we also provide supervisory support to these service stations.

We currently use        for all our service stations.

Most of the service stations in our service station network are concentrated in the northern, northeastern and northwestern regions of China where we have a dominant wholesale market position. However, the eastern and

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southern regions of China have a higher demand for gasoline and diesel. We have made significant efforts in recent years to expand our sales and market share in the eastern and southern regions of China through expanding the number of our service stations and storage facilities in these regions.

We invested a total of RMB10,177 million in expanding our service station network in 2009. In 2009, we sold approximately 27,847 thousand tons of gasoline and diesel through our owned and franchised service stations in the eastern and southern regions of China, as compared to approximately 25,660 thousand tons and 26,370 thousand tons we sold in 2007 and 2008, respectively.

In 2009, we acquired or constructed an aggregate of 692 service stations that are owned and operated by us, of which 480 are in the eastern and southern regions of China. We plan to further increase our retail market share and improve the efficiency of our retail operations, with a continued focus on the eastern and southern regions of China.

We plan to invest approximately RMB12,000 million in 2010 to expand our service station network and storage infrastructure by developing new oil storage facilities, service stations and informationization projects.

The following table sets forth the number of service stations in our marketing network as of December 31, 2009:

Owned and operated by us <sup>(1)</sup>	16,607
Franchised	655
Total	17,262

(1) Includes 462 service stations owned and operated by BP PetroChina Petroleum Company Limited.

In order to improve the efficiency and profitability of our service station network, through several years' efforts, we have completed the standardization upgrade of most of our service stations and have further standardized our service procedures, staff uniforms and client service quality of all our service stations. We have been making great efforts to implement a centralized service station computerized management system covering all the service stations across the country. We plan to use this system in all our service stations across the country by end of 2010. In addition, we are making great efforts to promote the use of pre-paid gasoline/diesel filling cards at our service stations. We are developing convenience-store-like service stations with a view to improving the management and client service quality of our service stations. In addition to selling gasoline and diesel, we have planned to gradually increase the sale of lubricants and other non-fuel products at our service stations.

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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, with turnover of RMB77,658 million and total sales volume of 2,105.1 billion cubic feet in 2009. In 2009, our natural gas and pipeline segment generated profit from operations of RMB19,046 million. 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 length of our natural gas pipelines as of December 31, 2007, 2008 and 2009 and the volume of natural gas sold by us in each of the years ended December 31, 2007, 2008 and 2009.

	<b>As of December 31 or Year Ended December 31,</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
Total length of natural gas pipelines (km)	22,043	24,037	28,595
Total length of crude oil pipeline (km)	10,559	11,028	13,164
Total length of refined oil products pipeline (km)	2,669	2,656	8,868
Total volume of natural gas sold <sup>(1)</sup> (Bcf)	1,538.7	1,802.8	2,105.1

(1) Representing the natural gas sold to third parties

**Our Principal Markets for Natural Gas**

In 2009, 23.0%, 22.8%, 23.6%, 17.9%, 4.9% and 7.8% of our natural gas sales were to the southwestern, northern, eastern, northwestern, northeastern and central regions of the PRC, respectively.

Currently, Sichuan Province and Chongqing Municipality in southwest China are two of our principal markets for natural gas. We sold 454.3 billion cubic feet of natural gas to Sichuan Province and Chongqing Municipality in 2009, representing approximately 21.6% of our total natural gas sales in 2009. We supply natural gas to Sichuan Province and Chongqing Municipality from our exploration and production operations in the Sichuan oil region. Our natural gas pipelines in these areas are well developed, consisting of a natural gas transmission network with a total length of approximately 7,305 kilometers. As these areas lack adequate supply of alternative energy resources, such as coal, we believe that we can further expand our natural gas sales as energy demand increases in these areas.

Beijing Municipality, Tianjin Municipality, Hebei Province and Shandong Province in northern China have high energy consumption levels. These areas are also important markets for our natural gas transmission and marketing business. We sold an aggregate of 415.8 billion cubic feet of natural gas to these areas in 2009, as compared to 349 billion cubic feet in 2008. Our natural gas sales to Beijing Municipality increased 15.6% from 197.2 billion cubic feet in 2008 to 227.8 billion cubic feet in 2009. We supply natural gas to Beijing Municipality, Tianjin Municipality and Hebei Province primarily from the Changqing oil region through the Shaanxi to Beijing natural gas pipeline, which is one of our natural gas trunk pipelines, and from the Huabei and Dagang oil regions. Currently, we have 3,090 kilometers of natural gas pipelines in these areas.

Shanghai Municipality, Jiangsu Province, Zhejiang Province and Anhui Province located in Yangtze River Delta of eastern China have become our significant natural gas markets. In 2009, we sold 496.5 billion cubic feet of natural gas to this area, representing approximately 23.6% of our total natural gas sales in 2009.

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 natural gas consumption in order to reduce the air

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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.

### **Natural Gas Transmission Infrastructure**

As of December 31, 2009, our natural gas and pipeline segment owned and operated approximately 25,517 kilometers of natural gas pipelines in China, which represented 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. Our experience in the design, construction management and operation of our natural gas pipelines has enabled us to develop relatively advanced technologies and skills in China in long distance pipeline design, construction and automated operational communications. We believe that we will continue to benefit from those technologies and skills in the future expansion of our natural gas pipeline networks and their ancillary facilities.

As of December 31, 2009, we constructed and operated the following main natural gas pipelines in China:

#### ***West to East Natural Gas Pipelines***

Completed in 2004, the main line of our West to East natural gas pipelines project links our natural gas fields in Xinjiang and Changqing with Henan Province, Anhui Province, Shanghai Municipality and other areas in the Yangtze River Delta. The total length of the main line is 3,839 kilometers.

The West to East natural gas pipelines project also includes three additional connecting pipelines. These lines are: (i) Hebei to Nanjing pipeline, completed in January 2006, starting at Qingshan, Jiangsu Province and ending at Anping, Hebei Province, with a length of 886 kilometers; (ii) Huaiyang to Wuhan pipeline, completed in December 2006, starting at Huaiyang, Anhui Province and ending at Wuhan, Hubei Province, with a length of 455 kilometers; and (iii) Lanzhou to Yinchuan pipeline, completed in July 2007, starting at Lanzhou, Gansu Province and ending at Yinchuan, Ningxia Autonomous Region, with a total length of 402 kilometers.

Our West to East natural gas pipelines has a designed annual throughput capacity of 423.8 billion cubic feet. As of December 31, 2009, we entered into long-term take-or-pay contracts with 95 subscribers and distributors to supply them with natural gas through the West to East natural gas pipelines. We sold 496.5 billion cubic feet of natural gas through these pipelines in 2009, representing approximately 23.6% of our total natural gas sales in 2009.

We believe that the successful completion of this natural gas pipelines project and associated storage facilities substantially enhanced our ability to capitalize on the anticipated growth in demand of natural gas in the destination regions. We are currently expanding the transmission capacity of the West to East natural gas pipelines by upgrading the existing gas compression stations and building additional stations to increase the throughput capacity. In addition, we began constructing the second phase of West to East natural gas pipelines project in February 2008, which will connect Xinjiang Autonomous Region, Gansu Province, Ningxia Autonomous Region and Shaanxi Province with a natural gas pipeline of 4,843 kilometers.

#### ***Zhong County to Wuhan Municipality natural gas pipeline***



The Zhong County to Wuhan Municipality natural gas pipeline links our natural gas fields in the Sichuan gas region to Wuhan Municipality and other regions in Hubei Province and Hunan Province, with a total length of 1,375 kilometers, including the main line of 719 kilometers and three branch lines with a total length of 656 kilometers. This line has a designed annual throughput capacity of 105.9 billion cubic feet. The main line and its Xiangfan branch line and Huangshi branch line were completed and put into commercial operation in December 2004 and the Xiangtan branch line was completed and put into commercial operation in July 2005.

As of December 31, 2009, we entered into long-term take-or-pay contracts with 29 subscribers and distributors to supply them with natural gas through our Zhong County to Wuhan Municipality natural gas pipeline. We sold

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77.7 billion cubic feet of natural gas through this pipeline in 2009, representing approximately 3.7% of our total natural gas sales for the period.

### ***The First and Second Shaanxi to Beijing Municipality natural gas pipelines***

The Shaanxi to Beijing Municipality natural gas pipelines link our Changqing oil and gas region with Shaanxi Province, Shanxi Province, Hebei Province and Beijing Municipality. The first line was completed in September 1997, with a length of 910 kilometers and a designed annual throughput capacity of 116.5 billion cubic feet. The second line was completed in July 2005, with a total length of 940 kilometers and a designed annual throughput capacity of 423.8 billion cubic feet.

As of December 31, 2009, we entered into long-term take-or-pay contracts with 78 subscribers and distributors to supply them with natural gas through our Shaanxi to Beijing Municipality natural gas pipelines. We sold 412.8 billion cubic feet of natural gas through these pipelines in 2009, representing approximately 19.7% of our total natural gas sales in 2009.

In addition to the major transmission infrastructures described above, we also operate other natural gas pipelines linking our domestic gas fields to natural gas consumption markets in China, including the pipeline network within the Sichuan gas region, the Sebei to Xining to Lanzhou natural gas pipeline, the Daqing to Harbin natural gas pipeline and Daqing to Qiqihar gas pipeline.

In 2008, we also commenced the construction of several natural gas pipeline projects to expand our existing transmission infrastructures. These projects include, but are not limited to, (i) Yongqing to Tangshan to Qinhuangdao natural gas pipeline of 321 kilometers that connects Beijing Municipality, Tianjin Municipality and Hebei Province, (ii) Changling to Changchun to Jihua natural gas pipeline of 221 kilometers that runs within the Jilin oil and gas region, and (iii) Naxi to Anbian natural gas pipeline of 106 kilometers that runs within the Sichuan gas region. The construction of these projects has been completed.

In 2009, we commenced the construction of the second West to East Pipeline, the third Shaanxi-Beijing Pipeline, the Taian to Qingdao Pipeline and the Qinhuangdao to Shenyang Pipeline projects. The second West to East Pipeline includes one main line, 8 branch lines and 3 underground storage facilities, with a total length of 8,704 kilometers. The main line of the second West to East 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 30 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 28 billion cubic feet. The third Shaanxi to Beijing Pipeline has a total length of 819.2 kilometers and a designed annual throughput capacity of 15 billion cubic feet. The Taian to Qingdao Pipeline has a total length of 355 kilometers and a designed annual throughput capacity of 15 billion cubic feet. The Qinhuangdao to Shenyang Pipeline has a total length of 421 kilometers and a designed annual throughput capacity of 15 billion cubic feet.

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

We have an extensive network for the transportation, storage and distribution of both crude oil and refined products, which covers many regions of China. Our goal is to exploit and optimize our existing infrastructure to further consolidate our presence as the leading integrated oil and gas company in China.

In 2005, we completed the construction of the PRC portion of the Sino-Kazakhstan oil pipeline. The PRC portion, starting at Ala Mountain Pass and ending at Dushanzi in Xinjiang Autonomous Region, has a total length of 246 kilometers. Commercial operation of the Sino-Kazakhstan oil pipeline was commenced in July 2006.

In June 2007, we completed the construction and commenced the commercial operation of the Dagang to Zaozhuang oil pipeline, which starts at Dagang, Tianjin and ends at Zaozhuang, Shandong Province, with a total length of 679 kilometers.

The Lanzhou to Zhengzhou to Changsha refined oil pipeline was approved by the National Development and Reform Commission in December 2007 and we commenced the construction of that pipeline thereafter. We

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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.

In May 2009, we commenced the construction of the Mohe to Daqing section on the Russia to China crude oil transmission pipeline. This section has a length of 927 kilometers and a designed annual throughput capacity of 15 million tons.

As of December 31, 2009, our crude oil transportation and storage infrastructure consisted of:

13,164 kilometers of crude oil pipelines with an average daily throughput of approximately 3.03 million barrels; and

crude oil storage facilities with an aggregate storage capacity of approximately 21.7 million cubic meters.

We deliver crude oil to customers through our pipeline and storage facility network, through crude oil storage facilities that we lease from third parties and by ships leased by customers. In 2009, approximately 90.21% of our crude oil production was delivered to refineries through our crude oil pipeline network. During the past three years, we have not experienced any delays in delivering crude oil due to pipeline capacity constraints.

Our transportation and storage infrastructure also includes:

8,868 kilometers of refined product pipelines with an average daily throughput of approximately 48,803 tons; and

refined product storage facilities with a total storage capacity of approximately 26.0 million cubic meters.

Most of our refineries are located in the northeastern and northwestern regions of China. Our ability to distribute products through our own product distribution infrastructure to the eastern and southern regions will provide us with greater flexibility in supplying refined products to the domestic markets across China. We plan to continue to enhance our product distribution infrastructure in the northeastern, northwestern, northern and southwestern regions where we already have a significant market share, and to expand our product distribution infrastructure in the eastern and southern regions by acquiring and constructing transportation storage facilities and distribution storage facilities in these regions.

Together with the expansion of our service stations, we expect that our pipelines, primary storage and secondary distribution storage facilities will significantly enhance our existing distribution infrastructure for refined products. We believe that our enhanced distribution infrastructure will help us increase the sales of our refined products.

## **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.

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### **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, 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 very limited competition in the supply of natural gas in Beijing Municipality, Tianjin Municipality, Hebei Province, Shanghai Municipality, Jiangsu Province, Zhejiang 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 Sichuan and Chongqing. We, therefore, have limited competition from Sinopec in our markets in Sichuan Province and Chongqing Municipality. 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, to a lesser extent, 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

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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 RMB231 million, RMB200 million and RMB301 million in 2007, 2008 and 2009, respectively.

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 heavy fuel oil and diesel fuel;

reducing olefin 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 2007, 2008 and 2009 were approximately RMB2,299 million, RMB1,366 million and RMB1,336 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 certain 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.

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### **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, 2009, 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. Our directors believe that this will not have any material adverse effect on our results of operations and financial condition.

We hold exploration and production licenses covering all of our interests in developed and undeveloped acreage, oil and natural gas wells and relevant facilities. See [Exploration and Production Properties](#) .

### **Intellectual Property**

Our company logo is jointly owned by us and CNPC and has been used since December 26, 2004. 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, we have applied for international trademark registration for our logo in other jurisdictions. We have received 27 Madrid International Trademark Registration Certificates for our logo covering 50 jurisdictions and 390 trademark registration certificates from individual countries and regions.

As of December 31, 2009, we owned approximately 3,800 patents in China and other jurisdictions. We were granted 700 patents in China in 2009.

### **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:

sets the import and export volume quotas for crude oil and refined products according to the overall supply and demand for crude oil and refined products in China as well as the WTO requirements for China;

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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 industry administration and policy coordination authority 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 median guidance prices for certain refined products, including gasoline and diesel;

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.

## **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,

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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 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 selling 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, selling expenses 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 diesel and gasoline 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.

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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 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 sale of crude oil by PetroChina, Sinopec and CNOOC, 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.

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### ***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.

## **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. See Item 7 Major Shareholders and Related Party Transactions Contract for the Transfer of Rights under Production Sharing Contracts .

### ***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 8 million tons or lower. Construction of new refinery or ethylene facilities, expansion of existing refinery facilities and upgrading of existing ethylene facilities by increasing annual production capacity of more than 200 thousand tons are subject to the approval of relevant government authorities. 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

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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 1 million tons or above and new gas field development projects with an annual capacity of 2 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 PTA, PX, MDI and TDI projects, and transformation of existing PTA and PX projects which will result in an additional capacity of 100 thousand tons;
- (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. Since January 1, 2000, PetroChina and its wholly owned subsidiary, Daqing Oilfield Company Limited, and branch companies have been taxed on a consolidated basis as approved by the Ministry of Finance and the State Taxation Bureau.

<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 are entitled to a rate of 15% prior to 2010.
<i>Value-added tax</i>	Turnover	13% for liquefied natural gas, natural gas, liquefied petroleum gas, agricultural film and fertilizers and 17% for other items.

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	Sales volume	5% for the Sino-foreign oil and gas exploration and development cooperative projects. However input value-added tax cannot be deducted.
<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:  RMB1.0 per liter for unleaded gasoline  RMB0.8 per liter for diesel.

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<b>Tax Item</b>	<b>Tax Base</b>	<b>Tax Rate</b>
		RMB1.0 per liter for naphtha, solvent naphtha and lubricants.
		RMB0.8 per liter for fuel oil
<i>Resource tax</i>	Aggregate volume sold or self-consumed	<p>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.</p> <p>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.</p> <p>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 at the rate of 5%. The amount of the resource tax payable = sales value × tax rate. 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.</p>
<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.

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### **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.

### **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 the year ended December 31, 2009, we produced approximately 843.5 million barrels of crude oil and approximately 2,122.2 billion cubic feet of natural gas for sale. Our refineries also processed approximately 828.6 million barrels of crude oil in the year ended December 31, 2009. In the year ended December 31, 2009, we had



turnover of RMB1,019,275 million and profit attributable to the owners of our company of RMB103,387 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 of crude oil, refined products, natural gas and chemical products, decrease in our crude oil reserves in China and fluctuations in exchange rates and interest rates.

**Table of Contents*****Crude Oil Prices***

Our results of operations are substantially affected by crude oil prices. Our actual realized crude oil prices include a premium on, or discount from, the median prices which primarily reflects transportation costs, differences in oil quality and market supply and demand conditions.

The table below sets forth the median prices for our principal grades of crude oil in 2007, 2008 and 2009 and the negotiated premiums or discounts applicable to those grades of crude oil since 2007.

Grade of Crude Oil	Benchmark	Median Prices for Principal Grades of Crude Oil (RMB/Barrel)			Premium/(Discount) (RMB/Barrel)		
		Year	Year	Year	2007	2008	2009
		2007	2008	2009			
		Average	Average	Average			
Daqing	Cinta	536	701	390	(3.8)	(3.8)	(3.8)
Jidong	Cinta	536	701	390	(3.8)	(3.8)	(3.8)
Huabei	Cinta	536	701	390	(3.9)	(3.9)	(3.9)
Dagang	Duri	512	651	350	(4)	(4)	(4)
Tarim	Cinta	536	701	390	(51)	(51)	(51)
Tuha	Minas	571	729	418	(36)	(36)	(36)

Increases or decreases in the price of crude oil in China have a significant effect on the turnover from our exploration and production segment. Our turnover from the exploration and production segment for the year ended December 31, 2009 was RMB 405,326 million, representing a decrease of 35.3% from RMB626,367 million for the year ended December 31, 2008, mainly as a result of the decreases in the prices of crude oil. In the year ended December 31, 2009, our average realized selling price for crude oil was RMB368 per barrel, decreased by 39.5% from RMB608 per barrel in the year ended December 31, 2008. See Item 4 Information on the Company Regulatory Matters Pricing for a more detailed discussion of current PRC crude oil pricing regulations.

***Refined Product Prices***

From October 2001 to December 18, 2008, we and Sinopec set our retail prices within an 8% floating range of the median gasoline and diesel guidance prices published by the National Development and Reform Commission or its predecessor, the State Planning Commission. Beginning from December 19, 2008, the PRC government set upper limits for the retail prices of various refined oil products, which had previously been allowed to float within a floating range of the median guidance prices. We determine the prices of other refined products with reference to the published median guidance prices of gasoline and diesel. Our retail prices may differ from those of Sinopec within a given market. Our average realized selling prices tend to be higher in the western and northern regions of China, where we dominate the market, as compared to our average realized selling prices in the eastern and southern regions, where Sinopec has a stronger presence. See Item 4 Information on the company Regulatory Matters Pricing for a more detailed discussion of current PRC refined products pricing regulations.

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As of the end of 2008, the ex works prices were RMB 6,229 per ton for 90# gasoline and RMB 5,625 per ton for 0# diesel. The following table sets forth the adjustments that were made to such median prices from January 2009 to June 18, 2010, as published by the National Development and Reform Commission.

<b>Date</b>	<b>90(#) Gasoline (RMB/ton)</b>	<b>0(#) Diesel (RMB/ton)</b>
January 15, 2009	(140)	(160)
March 25, 2009	290	180
June 10, 2009	400	400
June 30, 2009	600	600
July 29, 2009	(220)	(220)
September 2, 2009	300	300
September 30, 2009	(190)	(190)
November 10, 2009	480	480
April 14, 2010	320	320
June 1, 2010	(230)	(220)

***Chemical Product Prices***

We determine and set the prices of all chemical products produced by our chemicals business segment based on market conditions.

***Natural Gas Prices***

Our natural gas price is comprised of the ex-works price and pipeline transportation tariff.

We negotiate the actual ex-works price with natural gas users on the basis of the benchmark price set by the government and the adjustment range. See [Item 4 Information on the company Regulatory Matters Pricing](#) for a more detailed discussion of current PRC natural gas products pricing regulations.

***Foreign Currency Exposure***

For a discussion of the effect of exchange rate fluctuations on our results of operations, please see [Item 11 Quantitative and Qualitative Disclosures About Market Risk Foreign Exchange Rate Risk](#) .

***Interest Rate Exposure***

For a discussion of the effect of interest rate changes on our results of operations, please see [Item 11 Quantitative and Qualitative Disclosures About Market Risk Interest Rate Risk](#) .

***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.

**Table of Contents*****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 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.

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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***

We record property, plant and equipment, including oil and gas properties, initially at cost less accumulated depreciation, depletion and amortization. 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 revalued amount, being the estimated fair value at the date of the revaluation less accumulated depreciation and impairment losses. Revaluations are performed by independent qualified valuers on a periodic basis to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Revaluation surpluses realized through the depreciation or disposal of revalued assets are retained in the revaluation reserve and will not be available to offset against possible future revaluation losses. As disclosed in Note 16 to our consolidated financial statements included elsewhere in this annual report, our property, plant and equipment, excluding oil and gas reserves, were revalued as of June 30, 1999. Subsequently, our refining and chemical production equipment and oil and gas properties were revalued as of September 30, 2003 and our oil and gas properties as of March 31, 2006.

Depreciation, depletion and amortization to write off the cost or valuation of each asset, other than oil and gas properties, to its residual value is calculated using the straight-line method over the estimated useful life of such asset as follows:

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

We do not provide depreciation for construction in progress until it is completed and ready for use.

The useful lives of non-oil and gas properties are estimated at the time these purchases are made after considering future changes, business developments and our strategies. Estimated production lives for oil and gas properties are also made after considering the specific factors discussed under Oil and Gas Reserves above. Should there be unexpected adverse changes in these circumstances or events, which include, among others, declines in projected operating results and negative industry or economic trends we would be required to assess the need to shorten the useful lives and/or make impairment provisions.

In performing this impairment assessment, we review internal and external sources of information to identify indications of these unexpected adverse changes. The sources utilized to identify indications of impairment are often subjective in nature and require us to use judgment in applying such information to our businesses. Our interpretation of this information has a direct impact on whether an impairment assessment is performed as at any given balance sheet date. Such information is particularly significant as it relates to our oil and gas properties. If an indication of impairment is identified, the recoverable amount of each cash generating unit is estimated, which is the higher of its fair value net of selling cost and its value in use, which is the estimated net present value of future cash flows to be derived from the continuing use of the asset and from its ultimate disposal. To the extent the carrying amount of a cash generating unit exceeds the recoverable amount, an impairment loss is recognized in the income statement.

Depending on our assessment of the overall materiality of the asset under review and complexity of deriving reasonable estimates of the recoverable value, we may perform such assessment utilizing internal resources or we may engage external advisors to advise us in making this assessment. Regardless of the resources utilized, we are required to make many assumptions in making this assessment, including our utilization of such asset, plans to continue to produce and develop proved and associated probable or possible reserves, the cash flows to be generated based on assumptions for future commodity prices and development costs, appropriate market discount rates and the projected market and regulatory conditions. Changes in any of these assumptions could result in a material change to future estimates of the recoverable value of any asset.



**Table of Contents*****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. In 2009, we restated our consolidated financial statements to reflect the corporate mergers between the certain subsidiaries of our company and the certain subsidiaries of CNPC. These corporate mergers, whether individually or taken as a whole, do not have a significant effect on our company.

Our income statement for each of the years ended December 31, 2007, 2008 and 2009 is summarized in the table below.

	<b>Year Ended December 31,</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<b>(RMB in millions)</b>		
Turnover	837,542	1,072,604	1,019,275
Operating expenses	(636,525)	(913,033)	(875,831)
Profit from operations	201,017	159,571	143,444
Exchange gain (loss), net	(751)	(1,081)	(783)
Interest expense, net	(1,572)	(767)	(3,813)
Share of profit of affiliates and jointly controlled entities	6,445	4,290	1,184
Profit before income tax expense	205,139	162,013	140,032
Income tax expense	(49,802)	(35,211)	(33,473)
Profit for the year attributable to non-controlling interest	(8,541)	(12,349)	(3,172)
Profit for the year attributable to owners of the company	146,796	114,453	103,387

The table below sets forth our turnover by business segment for each of the years ended December 31, 2007, 2008 and 2009 as well as the percentage changes in turnover for the periods shown.

	<b>2007</b>	<b>2008</b>	<b>2008</b>		<b>2009</b>	
			<b>vs.</b>	<b>2007</b>	<b>2009</b>	<b>vs.</b>
	<b>(RMB in millions, except percentages)</b>					

**Turnover**

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Exploration and production	473,117	626,367	32.4%	405,326	(35.3)%
Refining and chemicals	481,726	560,729	16.4%	501,300	(10.6)%
Marketing	584,115	778,141	33.2%	768,295	(1.3)%
Natural gas and pipeline	50,066	63,315	26.5%	77,658	22.7%
Other	1,718	1,418	(17.5)%	1,372	(3.2)%
Total	1,590,742	2,029,970	27.6%	1,753,951	(13.6)%
Less intersegment sales	(753,200)	(957,366)	27.1%	(734,676)	(23.3)%
Consolidated net sales from operations	837,542	1,072,604	28.1%	1,019,275	(5.0)%

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The table below sets forth our operating income by business segment for each of the years ended December 31, 2007, 2008 and 2009, 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.

	2007	2008	2008 vs. 2007	2009	2009 vs. 2008
	(RMB in millions, except percentages)				
<b>Profit (loss) from operations</b>					
Exploration and production	207,749	240,470	15.8%	105,019	(56.3)%
Refining and chemicals	(23,659)	(93,830)		17,308	
Marketing	10,810	7,982	(26.2)%	13,265	66.2%
Natural gas and pipeline	12,495	16,057	28.5%	19,046	18.6%
Other	(6,378)	(11,108)		(11,194)	
Total	201,017	159,571	(20.6)%	143,444	(10.1)%

**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.

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 ( 000 ton)			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

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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.

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**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 (1) a decrease in the purchase prices of crude oil and feedstock oil from external suppliers that resulted in a decrease in purchase costs; (2) 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 (1) 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; (2) 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, 2009; and (3) 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 Incomes/(Expenses), net.** Other incomes/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-

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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.

## ***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



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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.

### **Year Ended December 31, 2008 Compared to Year Ended December 31, 2007**

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

##### ***Overview***

Our profit before taxation was RMB162,013 million for the year ended December 31, 2008, representing a decrease of 21.0% compared with the previous period. Profit attributable to the owners of the company was RMB114,453 million, representing a decrease of 22.0% compared with the previous period. For the year ended December 31, 2008, the basic and diluted earnings per share attributable to the owners of the company were RMB0.63 while the same for 2007 was RMB0.82.

**Turnover.** Our turnover increased 28.1% from RMB837,542 million for the year ended December 31, 2007 to RMB1,072,604 million for the year ended December 31, 2008. This was primarily due to the increases in the selling prices and changes in the sales volume of major products including crude oil, natural gas and certain refined products, and the efforts made by us in expanding resources and developing markets by leveraging on the opportunities presented by high prices in crude oil and petrochemical products in the international market. In addition, the increase of the trading business of refined oil products during the year also increased our turnover.

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The table below sets out the external sales volume and average realized prices for major products sold by us for 2007 and 2008 and percentages of change in the sales volume and average realized prices during these two years.

	Sales Volume ( 000 ton)			Average Realized Price (RMB/ton)		
	2008	2007	Percentage of Change (%)	2008	2007	Percentage of Change (%)
Crude oil*	38,603	29,154	32.4	4,348	3,659	18.8
Natural gas (million cubic metre, RMB/ 000 cubic metre)	51,054	43,570	17.2	813	693	17.3
Gasoline	29,399	27,003	8.9	5,881	5,168	13.8
Diesel	56,081	54,377	3.1	5,526	4,668	18.4
Kerosene	4,798	3,782	26.9	6,355	4,684	35.7
Heavy oil	7,061	8,772	(19.5)	3,541	2,519	40.6
Polyethylene	2,195	2,102	4.4	10,219	10,497	(2.6)
Lubricant	2,003	2,378	(15.8)	7,515	6,420	17.1

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

**Operating Expenses.** Operating expenses increased 43.4% from RMB636,525 million for the year ended December 31, 2007 to RMB913,033 million for the year ended December 31, 2008, of which:

**Purchases, Services and Other Expenses.** Purchases, services and other expenses increased 52.2% from RMB369,786 million for the year ended December 31, 2007 to RMB562,851 million for the year ended December 31, 2008. This was primarily due to (1) an increase in the purchase prices and purchase volume of crude oil, feedstock oil and refined products from external suppliers that resulted in the increase in the purchase costs; (2) an increase in the lifting costs of oil and gas operations and the processing costs of our refineries that resulted from the increase in prices of raw materials, fuel, energy and other production materials in the PRC as well as an expansion of our production scale; and (3) impairment losses for decline in the value of inventories in the amount of RMB8,608 million were recorded during 2008, which was driven by the low price market conditions. In addition, the increase in the purchase expenses was also due to an increase in our refined oil products trading operations in 2008.

**Employee Compensation Costs.** Employee compensation costs were RMB62,167 million for the year ended December 31, 2008, representing an increase of 11.7% compared with that of 2007. This increase in employee compensation costs was mainly due to the adjustment to the level of salaries in line with the domestic commodity prices.

**Exploration Expenses.** Exploration expenses increased 4.4% from RMB20,956 million for the year ended December 31, 2007 to RMB21,879 million for the year ended December 31, 2008. To further boost crude oil and natural gas resources, we undertook more exploration activities for crude oil and natural gas.

**Depreciation, Depletion and Amortisation.** Depreciation, depletion and amortisation increased 40.5% from RMB67,423 million for the year ended December 31, 2007 to RMB94,759 million for the year ended December 31, 2008. This was primarily due to (1) an increase in depreciation, depletion and amortisation that resulted from an increase in the average costs of fixed assets and the average net value of oil and gas properties; and (2) as a result of the significant volatility in international crude oil prices in 2008 and deterioration in the overall international and

domestic economic conditions since the fourth quarter of 2008 which resulted in the recoverable amounts of certain property, plant and equipment being less than their carrying amounts, we recorded impairment charges of RMB11,949 million and RMB4,235 million against the refining and chemical production assets and oil and gas properties, respectively.

***Selling, General and Administrative Expenses.*** Selling, general and administrative expenses increased 13.8% from RMB52,389 million for the year ended December 31, 2007 to RMB59,617 million for the year ended December 31, 2008. This was primarily due to an increase in transportation, maintenance and other related costs that resulted from expansion in production scale and business development.

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***Taxes Other than Income Taxes.*** Taxes other than income taxes increased 68.2% from RMB73,806 million for the year ended December 31, 2007 to RMB124,132 million for the year ended December 31, 2008. The increase was primarily due to an increase of RMB40,629 million compared with 2007 in the payment of the special levy on the sale of domestic crude oil by us as the average crude oil prices remained high throughout 2008.

***Other Incomes/(Expenses), net.*** Other incomes, net, was RMB12,372 million for the year ended December 31, 2008, while the other expenses, net, was RMB1,225 million for the year ended December 31, 2007. This was primarily due to the recognition of government grants to our company for imported crude oil and refined products by the PRC government in the amount of RMB15,700 million.

***Profit from Operations.*** As a result of the factors discussed above, profit from operations decreased 20.6% from RMB201,017 million for the year ended December 31, 2007 to RMB159,571 million for the year ended December 31, 2008.

***Net Exchange Loss.*** Net exchange loss increased from RMB751 million for the year ended December 31, 2007 to RMB1,081 million for the year ended December 31, 2008. The increase in the net exchange loss was primarily due to the combined effect of the appreciation of Renminbi against the United States Dollar and other currencies.

***Net Interest Expenses.*** Net interest expenses decreased 51.2% from RMB1,572 million for the year ended December 31, 2007 to RMB767 million for the year ended December 31, 2008. The decrease in net interest expenses was primarily due to the combined effect of a decrease in the interest expenses from the sharp reduction of average interest rates on loans and an increase in interest income from an increase in the average outstanding balance of deposits.

***Profit before Income Tax Expense.*** Profit before income tax expense decreased 21.0% from RMB205,139 million for the year ended December 31, 2007 to RMB162,013 million for the year ended December 31, 2008.

***Income Tax Expense.*** Income tax expense decreased 29.3% from RMB49,802 million for the year ended December 31, 2007 to RMB35,211 million for the year ended December 31, 2008. The decrease was primarily due to the combined effect of a reduction in the taxable income and the reduction of corporate income tax rate for 2008.

***Profit Attributable to Owners of the Company.*** As a result of the factors discussed above, profit attributable to the owners of the company was RMB114,453 million for the year ended December 31, 2008, a decrease of 22.0% from 2007.

***Exploration and Production***

***Turnover.*** Turnover from our exploration and production segment increased 32.4% from RMB473,117 million for the year ended December 31, 2007 to RMB626,367 million for the year ended December 31, 2008. The increase was primarily due to an increase in the prices and sales volume of crude oil and natural gas.

Intersegment sales turnover increased 32.1% from RMB378,888 million for the year ended December 31, 2007 to RMB500,522 million for the year ended December 31, 2008. This increase was mainly due to an increase in the prices of crude oil and natural gas and an increase in the intersegment sales volume.

***Operating Expenses.*** Operating expenses increased 45.4% from RMB265,368 million for the year ended December 31, 2007 to RMB385,897 million for the year ended December 31, 2008. The increase was primarily due to: (1) a significant increase in the expenses for crude oil imports; (2) an increase in the payment of the special levy on our sale of domestic crude oil as international crude oil prices were higher in 2008; (3) impairment charges for oil and

gas properties increased sharply as a result of the significant volatility in the international crude oil prices.

***Profit from Operations.*** Profit from operations increased 15.8% from RMB207,749 million for the year ended December 31, 2007 to RMB240,470 million for the year ended December 31, 2008. The profit from the exploration and production segment reached a historically high level.

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***Refining and Chemicals***

***Turnover.*** Turnover from our refining and chemicals segment rose 16.4% from RMB481,726 million for the year ended December 31, 2007 to RMB560,729 million for the year ended December 31, 2008. The increase was primarily due to an increase in the selling prices and an increase in the processing quantity.

Intersegment sales turnover increased 20.0% from RMB330,281 million for the year ended December 31, 2007 to RMB396,410 million for the year ended December 31, 2008. This increase was primarily due to increases in the selling prices and increase in intersegment sales volume of key refined products.

***Operating Expenses.*** Operating expenses increased 29.5% from RMB505,385 million for the year ended December 31, 2007 to RMB654,559 million for the year ended December 31, 2008. The increase was primarily due to an increase in the purchase costs of crude oil, feedstock oil and refined products from external suppliers.

***Loss from Operations.*** Loss from operations amounted to RMB93,830 million for the year ended December 31, 2008, representing an increase of RMB70,171 million in loss from the year ended December 31, 2007. The loss was primarily due to (i) the fact that there was a substantial increase in the prices of refined oil products on the international market but the prices of the refined oil products in China's domestic market were much lower than those on the international market due to China's macro-economic control, and (ii) a substantial decline in domestic market demands for certain chemical products in the second half of 2008 caused by the global financial crisis. In addition, impairment charges for refining production assets increased significantly compared with that of 2007 due to the deterioration of overall economic conditions in 2008.

***Marketing***

***Turnover.*** Turnover from our marketing segment rose 33.2% from RMB584,115 million for the year ended December 31, 2007 to RMB778,141 million for the year ended December 31, 2008. The growth was primarily due to an increase in the selling prices and sales volume of certain refined oil products.

***Operating Expenses.*** Operating expenses increased 34.3% from RMB573,305 million for the year ended December 31, 2007 to RMB770,159 million for the year ended December 31, 2008. The increase was primarily due to an increase in the prices and sales of refined oil products and an increase in the trading business of oil products.

***Profit from Operations.*** Profit from operations decreased 26.2% from RMB10,810 million for the year ended December 31, 2007 to RMB7,982 million for the year ended December 31, 2008. The decrease was mainly due to the significant increase of the impairment charges for inventory in 2008 compared with that of 2007.

***Natural Gas and Pipeline***

***Turnover.*** Turnover from our natural gas and pipeline segment increased 26.5% from RMB50,066 million for the year ended December 31, 2007 to RMB63,315 million for the year ended December 31, 2008. The increase was primarily due to an increase in the selling prices of natural gas and an increase in the sales volume.

***Operating Expenses.*** Operating expenses increased 25.8% from RMB37,571 million for the year ended December 31, 2007 to RMB47,258 million for the year ended December 31, 2008. The increase was primarily due to an increase in the purchase costs of natural gas and an increase in depreciation charges.

***Profit from Operations.*** Profit from operations increased 28.5% from RMB12,495 million for the year ended December 31, 2007 to RMB16,057 million for the year ended December 31, 2008. The natural gas and pipeline

business developed rapidly and has continued to increase its contributions to the income of our company.

### **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, 2009, we distributed as dividends 45% of our reported income for the year attributable to our shareholders. See Item 8

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**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 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, 2009 was RMB261,972 million. As of December 31, 2009, we had cash and cash equivalents of RMB86,925 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 RMB61,621 million were used by the end of 2009, 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, 2009, 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, 2007, 2008 and 2009 and our cash equivalents at the end of each period.

	<b>Year Ended December 31,</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<b>(RMB in millions)</b>		
Net cash flows from operating activities	207,663	172,465	261,972



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Net cash flows used for investing activities	(183,656)	(211,797)	(261,453)
Net cash flows from financing activities	(5,838)	3,777	53,077
Currency translation difference	(221)	(112)	179
Cash and cash equivalents at year end	68,817	33,150	86,925

Our cash and cash equivalents increased by 162.2% from RMB33,150 million as of December 31, 2008 to RMB86,925 million as of December 31, 2009.

**Table of Contents****Net Cash Flows from Operating Activities**

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).

Our net cash flows from operating activities was RMB172,465 million for the year ended December 31, 2008, representing a decrease of 16.9% from RMB207,663 million for the year ended December 31, 2007, mainly as a result of a decrease in our profit attributable to the owners of the company compared with that of 2007. As of December 31, 2008, our cash and cash equivalents amounted to RMB33,150 million, which were mainly denominated in RMB (approximately 67.7% were denominated in Renminbi, and approximately 32.3% were denominated in U.S. dollar).

**Net Cash Flows Used for Investing Activities**

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 project) and major programs by the company.

Our net cash flows used for investing activities for the year ended December 31, 2008 was RMB211,797 million, representing an increase of 15.3% compared with RMB183,656 million used for investing activities for the year ended December 31, 2007. The net increase in cash used for investing activities was primarily due to an increase in capital expenditures paid in cash during the year.

**Net Cash Flows from Financing Activities**

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 cash flows from financing activities for the year ended December 31, 2008 was RMB3,777 million, while our net cash flows from financing activities for the year ended December 31, 2007 was RMB5,838 million. This decrease was primarily due to an increase in the amount of net borrowings and capital contributions by minority shareholders during the year.

Our net borrowings as of December 31, 2007, 2008 and 2009 were as follows:

	<b>December 31,</b>	
<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>(RMB in millions)</b>		

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Short-term debt (including current portion of long-term debt)	31,578	93,670	148,851
Long-term debt	40,067	32,852	85,471
Total debt	71,645	126,522	234,322
Less:			
Cash and cash equivalents	68,817	33,150	86,925
Net debt	2,828	93,372	147,397

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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 the 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 Euro dollar.

Of our total borrowings as at December 31, 2008, approximately 67.1% were fixed-rate loans and approximately 32.9% were floating-rate loans. Of the borrowings as at December 31, 2008, approximately 84.3% were denominated in Renminbi, approximately 15.5% were denominated in U.S. dollar, and approximately 0.2% were denominated in Euro dollar.

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, 2009 was 20.5%, as compared to 13.0% as of December 31, 2008.

**Capital Expenditures and Investments**

For the year ended December 31, 2009, our capital expenditures increased 14.8% to RMB266,836 million from RMB232,377 million for the year ended December 31, 2008. The increase in capital expenditures was primarily due to an increase in expenditures relating to construction of sales network and construction of natural gas pipelines by our company.

The table below sets forth our capital expenditures and investments by business segment for each of the years ended December 31, 2007, 2008 and 2009 as well as those anticipated for the year ending December 31, 2010. Actual capital expenditures and investments for periods after January 1, 2010 may differ from the amounts indicated below.

	2007		2008		2009		2010 Anticipated	
	(RMB in millions)	%	(RMB in millions)	%	(RMB in millions)	%	(RMB in millions)	%
Exploration and production <sup>(1)</sup>	135,351	74.1	157,194	67.6	129,017	48.4	157,700	53.9
Refining and chemicals	21,499	11.8	30,619	13.2	42,558	15.9	49,500	16.9
Marketing	13,212	7.2	4,974	2.1	18,174	6.8	19,600	6.7
Natural gas and pipeline	11,003	6.0	36,848	15.9	74,754	28.0	62,000	21.2
Corporate and other	1,613	0.9	2,742	1.2	2,333	0.9	3,900	1.3
Total	182,678	100.0	232,377	100.0	266,836 <sup>(2)</sup>	100.00	292,700	100.00

(1) If investments related to geological and geophysical exploration costs are included, the capital expenditures and investments for the exploration and production segment for 2008 and 2009, and the estimates for the same in 2010 would be RMB168,732 million, RMB138,396 million and RMB169,000 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, 2009, the capital expenditures contracted for at the balance sheet date but not recognized in our consolidated financial statements were approximately RMB56,657 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, 2007, 2008, and 2009, capital expenditures in relation to the exploration and production segment amounted to RMB135,351 million, 157,194 million, 129,017 million, respectively. The capital expenditures and investments in the exploration and production segment were primarily used for large oil and gas exploration projects such as in the oil and gas fields located in Changqing, Daqing, Tarim and Southwestern

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oil and gas fields in China and Aktyubinsk oil and gas fields and for the construction of key production capacities for various oil and gas fields.

We anticipate that capital expenditures for the exploration and production segment for the year ended December 31, 2010 will amount to approximately RMB157,700 million, of which approximately RMB29,000 million will be mainly used for oil and gas exploration activities, and approximately RMB128,700 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. Development activities will be focused on the construction of new proved oil and gas fields, while the steady and increasing production of Daqing, Changqing, Tarim and Southwestern oil and gas fields will also be emphasized; oil and gas exploration and development in Central Asia and the Middle East 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, 2007, 2008 and 2009 were RMB21,499 million, RMB30,619 million and RMB42,558 million, respectively.

Our anticipated capital expenditures for our refining and chemicals segment for the year ending December 31, 2010 amount to RMB49,500 million, which include:

approximately RMB26,400 million for the construction and expansion of our refining facilities, mainly including the construction of large-sized refining projects in Sichuan Petrochemical and Huhhot Petrochemical; and

approximately RMB23,100 million for the construction of our chemical facilities, mainly including the large-sized 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, 2007, 2008 and 2009 were RMB13,212 million, RMB4,974 million and RMB18,174 million, respectively. Our capital expenditures for the marketing segment in 2009 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, 2010 amount to RMB19,600 million, which are expected to be mainly used for the construction and expansion of our sales network.

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

Our capital expenditures for the natural gas and pipeline segment for each of the three years ended December 31, 2007, 2008 and 2009 were RMB11,003 million, RMB36,848 million and RMB74,754, respectively. Our capital expenditures for the natural gas and pipeline segment in 2009 were mainly used for the construction of the Second West-to-East Pipeline project, the Russia to China crude oil transmission pipeline and the Lanzhou-Zhengzhou-Changsha refined oil product transmission pipeline project.

Our anticipated capital expenditures for our natural gas and pipeline segment for the year ending December 31, 2010 amount to approximately RMB62,000 million, which are expected to be used primarily for the construction of major oil and gas transmission projects such as the second phase of the West-to-East Gas Pipeline project, the Russia to

China crude oil transmission pipeline and associated liquefied natural gas and gas storage facilities.

***Others***

Our non-segment-specific capital expenditures and investments for each of the years ended December 31, 2007, 2008 and 2009 were RMB1,613 million, RMB2,742 million and RMB2,333 million, respectively.

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Our anticipated non-segment-specific capital expenditures and investments for the year ending December 31, 2010 amount to RMB3,900 million. These planned capital expenditures and investments mainly include capital expenditures for scientific research activities and the construction of the information system.

**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 certain information in connection with our long-term contractual obligations and other commercial commitments outstanding as of December 31, 2009.

Contractual Obligations	Total	Payment Due by Period			
		Less Than 1 Year	1-3 Years	3-5 Years	After 5 Years
		(RMB in millions)			
Long-term debt	99,700	14,229	49,473	25,560	10,438
Capital lease obligations					
Operating leases	93,934	4,071	6,383	6,095	77,385
Capital commitments	56,657	44,306	11,996	65	290
Unconditional purchase obligations	1,817	796	836	60	125
Other long-term obligations					
Total contractual cash obligations	252,108	63,402	68,688	31,780	88,238

Other Commercial Commitments	Amount of Commitment Expiration per Period				
	Total Amounts Committed	Less Than 1 Year	1-3 Years	3-5 Years	Over 5 Years
		(RMB in millions)			
Lines of credit					
Standby letters of credit					
Guarantees	21		21		
Total commercial commitments	21		21		

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 (RMB in millions)</b>
2010	1,000
2011	1,000
2012	1,000
2013	1,000
2014	1,000

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### ***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 RMB7,162 million was recorded in 2009.

### **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 managing and coordinating the research and development activities conducted by each of the research institutions. As of December 31, 2009, we had 19,800 employees engaged in research and development functions.

In each of the years ended December 31, 2007, 2008 and 2009, our total expenditures for research and development were approximately RMB5,315 million, RMB7,760 million and RMB9,887 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; and
- production technology for low cost chemical raw materials.

### **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 rebound of 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, 2007 to December 31, 2009 that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital

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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, 2009.

### **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.

### **Environmental Expenses**

We paid pollutant discharge fees of approximately RMB231 million, RMB200 million and RMB301 million, respectively, in 2007, 2008 and 2009. Our capital expenditures on environmental programs in 2007, 2008 and 2009 were approximately RMB2,299 million, RMB1,366 million and 1,336 million, respectively.

### **Recent Developments in IFRS**

As we prepared our consolidated financial statements in accordance with IFRS, any adoption of new standards or amendment or interpretation to existing standards, when effective, may affect our consolidated results of operation, consolidated financial position and consolidated cash flows.

The following standards and interpretations to existing standards, which are relevant to our operations, have been published and are mandatory for accounting periods beginning on or after January 1, 2010. We have not adopted these standards or interpretations as of December 31, 2009.

IFRS 3 (Revised), Business combinations effective July 1, 2009. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be 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 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 should be expensed. The company will apply the revised standard prospectively to all business combinations for which the acquisition date is on or after January 1, 2010.

IFRS 5 (Amendment), Non-current assets held for sale and discontinued operations effective July 1, 2009. The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. The Company is currently evaluating the impact of the amendment on the consolidated financial statements but it is not expected to have any significant impact.

IFRS 5 (Amendment), Measurement of non-current assets (or disposal groups) classified as held-for-sale effective January 1, 2010. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or

disposal groups) classified as held-for-sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The company is currently evaluating the impact of the amendment on the disclosures in the consolidated financial statements but it is not expected to have any significant impact.

IAS 1 (Amendment), Presentation of financial statements effective January 1, 2010. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification

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that the potential settlement of a liability by the issuance 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 company is currently evaluating the impact of the amendment on the consolidated financial statements but it is not expected to have any significant impact.

IAS 27 (Revised), Consolidated and separate financial statements effective July 1, 2009. The revised standard 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. IAS 27 (Revised) 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 recognized in profit or loss. The company will apply the revised standard prospectively to transactions with non-controlling interests from January 1, 2010.

IAS 38 (Amendment), Intangible Assets effective January 1, 2010. The amendment is part of the IASB's annual improvements project published in April 2009 and the company will apply IAS 38 (Amendment) from the date IFRS 3 (Revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The company is currently evaluating the impact of the amendment on the consolidated financial statements but it is not expected to have any significant impact.

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

### **Directors, Senior Management and Supervisors**

Currently, our board of directors consists of fourteen directors, five of whom are 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 proposals for dividend and bonus distributions and for the increase or reduction of capital; and
- exercising other powers, functions and duties as conferred by our articles of association.

Eight of the directors are currently 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 functions and powers conferred on the supervisory board include:

attending board meetings;

examining our financial affairs;

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examining balance sheets, profit and loss accounts, business reports, dividend distribution proposals and other financial information proposed at shareholders meetings by the directors from time to time; and

overseeing the actions of our board of directors and our senior management personnel in carrying out their duties.

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 discretion of our board of directors. The following table sets forth certain information concerning our current directors, supervisors and executive officers.

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Date of Election<sup>(1)</sup></b>
Jiang Jiemin	54	Chairman of the board of directors	May 15, 2008
Zhou Jiping	57	Vice Chairman of the board of directors and president	May 15, 2008
Wang Yilin	53	Director	May 15, 2008
Zeng Yukang	59	Director	May 15, 2008
Wang Fucheng	59	Director	May 15, 2008
Li Xinhua	56	Director	May 15, 2008
Liao Yongyuan	47	Director and vice president	May 15, 2008
Wang Guoliang	57	Director	May 15, 2008
Jiang Fan	46	Director	May 15, 2008
Chee-Chen Tung	67	Independent non-executive director	May 15, 2008
Liu Hongru	79	Independent non-executive director	May 15, 2008
Franco Bernabè	61	Independent non-executive director	May 15, 2008
Li Yongwu	65	Independent non-executive director	May 15, 2008
Cui Junhui	63	Independent non-executive director	May 15, 2008
Li Hualin	47	Vice President and Secretary to the board of directors	
Sun Longde	47	Vice president	
Shen Diancheng	50	Vice president	
Liu Hongbin	46	Vice president	
Zhou Mingchun	42	Chief financial officer	
Zhao Zhengzhang	53	Vice president	
Bo Qiliang <sup>(2)</sup>	47	Chief engineer	
Sun Bo <sup>(2)</sup>	49	Vice President	
Lin Aiguo	51	Chief engineer	
Wang Daofu	54	Chief geologist	
Huang Weihe	52	Chief engineer	
Chen Ming	59	Chairman of the supervisory board	
Wen Qingshan	51	Supervisor	
Sun Xianfeng	57	Supervisor	
Yu Yibo	46	Supervisor	
Wang Yawei	55	Supervisor	



Qin Gang	56	Supervisor
Wang Shali	55	Supervisor
Li Yuan	62	Independent supervisor
Wang Daocheng <sup>(3)</sup>	69	Independent supervisor

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- (1) For directors only.
- (2) Mr. Bo Qiliang and Mr. Sun Bo were appointed as Vice Presidents of our company from January 2010.
- (3) Mr. Wang Daocheng has been acting as our independent supervisor since May 2009.

**Directors**

**Jiang Jiemin**, aged 54, 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 over 35 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 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 57, 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 53, is a Director of our company and a Deputy General Manager of CNPC. Mr. Wang is a professor-level senior engineer and holds a doctoral degree. He has over 25 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 the Senior Executive of Karamay City and Xinjiang Petroleum Administration Bureau and the General Manager of our Xinjiang Oilfield Company in June 2001. In July 2003, he was appointed Assistant to General Manager of CNPC. In December 2003, he was appointed Deputy General Manager of CNPC. From May 2004, he ceased to work as the Senior Executive of Karamay City and Xinjiang Petroleum Administration Bureau and the General Manager of our Xinjiang Oilfield Company. From July 2004 to July 2007, he concurrently worked as the Safety Director of CNPC. He has been a Director of our company since November 2005.

**Zeng Yukang**, aged 59, 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 59, 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 over 40 years of working

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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. From November 2005 to May 2008, Mr. Wang had worked as the Chairman of the Supervisory Board of our company. Mr. Wang has been a Deputy General Manager of CNPC since September 2007. In May 2008, Mr. was again appointed Director of our company.

**Li Xinhua**, aged 56, 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 nearly 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 2007a Deputy General Manager of CNPC. Since May 2008, Mr. Li has been acting as a Director of our company.

**Liao Yongyuan**, aged 47, 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 over 25 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 57, 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 46, 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 nearly 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 67, 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

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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.

**Liu Hongru**, aged 79, 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 61, 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 65, 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 63, 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 47, is the Secretary to the Board of Directors and Vice President of our company and Vice Chairman 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 25 years of experience in the oil and gas industry in China. In March 1993, Mr Li became the Deputy Director-General of the Houston Office of China National Petroleum Company. In May 1995, he was appointed as the director and General Manager of China National Oil and Gas Corporation (Canada). 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 acting as the Vice President of our company while concurrently acting as the General Manager of China Petroleum Hong Kong (Holding) Limited 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 47, is a Vice President of our company. Mr. Sun is a professor-level senior engineer and holds a doctoral degree. He has 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 50, is the Vice President of our company and concurrently 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 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 the Vice President of our company and General Manager of Chemical & Marketing Company since June 2007. Mr. Shen has served as the Vice President of our company and concurrently as the General Manager of the Refining and Chemicals Company since November 2007.

**Liu Hongbin**, aged 46, is the 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 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 the Vice President of our company and concurrently as the General Manager of the Marketing Company since November 2007.

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**Zhou Mingchun**, aged 42, 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 nearly 20 years of working experience in China's oil and gas industry. Mr. Zhou was appointed the 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 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 53, 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 nearly 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 47, is the 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. In June 2001, he obtained his master of business administration degree from the Massachusetts Institute of Technology, USA. In June 2005, he obtained his doctor's degree from China University of Petroleum (Beijing), majoring in Oil and Gas Field Development. 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 the Vice President of our company and concurrently as the General Manager at PetroChina International Ltd. since January 2010.

**Sun Bo**, aged 49, is the Vice President of our company and the General Manager of Tran-Asia Gas Pipeline Company Limited. 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 the Vice President of our company and the General Manager of Tran-Asia Gas Pipeline Company Limited in January

2010.

**Lin Aiguo**, aged 51, 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.

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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.

**Wang Daofu**, aged 54, 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 over 25 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 acting concurrently as the Director of the Exploration and Development Institute since September 2008.

**Huang Weihe**, aged 52, 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 over 25 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 59, 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 51, 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 57, is a Supervisor and the General Manager of the Audit Department of our company. Mr. Sun is a senior economist and holds a bachelor's degree. 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

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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.

**Yu Yibo**, aged 46, 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 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 55, 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 56, 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 55, 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 nearly 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 Manger 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 Manger 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 62, 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.

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**Wang Daocheng**, aged 69, 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 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, 2009 was RMB3,251,352. We paid RMB182,700 as our contribution to the pension plans in respect of those individuals in the year ended December 31, 2009.

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, 2009 was RMB1,940,739.16.

Save as disclosed, no other payments have been paid or are payable, in respect of the year ended December 31, 2009, 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 2009, we paid RMB132,620.16 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, 2009 was RMB507,180.2.

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:

supervising the integrity of financial reporting process to ensure fair, transparent and true financial disclosure;

reviewing and evaluating the effectiveness of the internal control and risk management framework;

inspecting and supervising the effectiveness of the internal audit functions;

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

receiving, keeping and dealing with complaints regarding accounting, internal control or auditing matters; and

receiving and dealing with anonymous submissions and complaints by employees regarding accounting or auditing matters, and keeping such submission and complaints confidential, and other duties from time to time provided by applicable laws and regulations and listing rules of the market where the securities of our company listed.

### **Investment and Development Committee**

The current members of our investment and development committee are Mr. Li Yongwu, as chairman of the committee and Mr. Wang Yilin and Mr. Li Xinhua, as members of the committee. The investment and development committee's major responsibilities include:

studying the long-term development 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;

reviewing preliminary feasibility studies and feasibility studies for material investment and financing proposals, material capital operation projects and material asset operation projects subject to the approval of the board of directors and making recommendations to the board of directors; and

studying any other significant matters that may affect the development of the company 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:

studying the criteria for and conducting the evaluation of the performance of the directors and the management members and making recommendations to the board of directors;

studying and reviewing the director and management compensation policies and proposals, including the policies and proposals regarding the compensation payable to directors and senior management for their loss of positions or retirement;

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

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.

**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 or major issues with respect of health, safety and environmental protection that may affect the company; and

inquiring the occurrence of and responsibilities for material accidents with respect to the operation, property and assets, employees and other facilities of the company, and supervising the treatment of such accidents.

**Employees**

As of December 31, 2007, 2008 and 2009, we had 466,502, 477,780 and 539,168 employees, respectively (excluding temporary staff). The table below sets forth the number of our employees by business segment as of December 31, 2009.

	<b>Employees</b>	<b>% of Total</b>
Exploration and production	265,499	49.24
Refining and chemicals	178,689	33.15
Marketing	68,803	12.76
Natural gas and pipeline	20,667	3.83
Other <sup>(1)</sup>	5,510	1.02
Total	539,168	100.0

(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 RMB5,754 million, RMB6,997 million and RMB8,437 million, respectively, for the years ended December 31, 2007, 2008 and 2009, respectively.

In 2009, we have not experienced any strikes, work stoppages, labor disputes or actions which affected the operation of any of our businesses. Our company maintains good relationship with our employees.

### **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 May 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.

**Table of Contents****ITEM 7 MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****Major Shareholders**

Prior to the restructuring of the CNPC group in November 1999, CNPC was one of the largest companies in the PRC in terms of sales. As part of the restructuring of the CNPC group, CNPC transferred to PetroChina substantially all its businesses and assets in China relating to the exploration and production of crude oil and natural gas, refining and marketing, chemicals and natural gas sales and transmission. Since the restructuring of the CNPC group, CNPC has engaged in crude oil and natural gas exploration and production business activities outside the PRC and limited chemicals production and retail of refined products. CNPC's primary business activities relate to the provision of various services and products to PetroChina.

PetroChina was established on November 5, 1999 with CNPC as its sole promoter. As of May 31, 2010, CNPC beneficially owned 158,035,717,259 shares, which include 271,120,000 H shares indirectly held by CNPC through Fairy King Investments Limited, an overseas wholly owned subsidiary of CNPC, representing approximately 86.348% 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 May 31, 2010:

<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 May 31, 2010:

<b>Name of Shareholder</b>	<b>Class of Shares</b>	<b>Number of Shares</b>	<b>Percentage of Such Shares in That Class of the Issued Share Capital (%)</b>	<b>Percentage of Total Share Capital (%)</b>
CNPC	H shares	271,120,000 <sup>(1)</sup>	1.285	0.148
JPMorgan Chase & Co.	H shares	1,132,355,050 <sup>(2)</sup>	5.37	0.62

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

- (2) Includes (i) 61,594,980 shares held by JPMorgan Chase & Co. through various subsidiaries in short position in its capacity as beneficial owner and (ii) 1,070,760,070 shares held by JPMorgan Chase & Co. through various subsidiaries in long position in its capacity as beneficial owner, investment manager and custodian/approved lending agent under Hong Kong laws.

### **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**

##### ***Acquisition of City Gas Business from CNPC***

On May 15, 2009, Kunlun Gas, a wholly owned subsidiary of our company, entered into a transfer agreement with each of China Huayou Group Corporation and China Petroleum Pipeline Bureau, wholly owned subordinated entities of CNPC, pursuant to which Kunlun Gas agreed to acquire city gas business from the transferors. The targets of the acquisitions include the equity interests in eight companies held by China Huayou Group Corporation and China Petroleum Pipeline Bureau and relevant assets owned by China Huayou Group Corporation. Upon completion of the acquisition agreement, Kunlun Gas paid the transferors a consideration of approximately RMB1,093.9 million.

**Table of Contents*****Acquisition of Western Pipeline Assets of CNPC***

On June 18, 2009, an acquisition agreement was entered into between PetroChina West Pipeline Branch Company and CNPC West Pipeline Company Limited, pursuant to which Western Pipeline Branch Company agreed to acquire the western pipeline assets from the transferor. Upon completion of the acquisition on June 30, 2009, the parties referred to the appraised net assets value of the western pipeline assets as at March 31, 2009, the valuation date, and adjusted the consideration by reference to the change in the net asset value of the western pipeline assets for the period from the valuation date to the completion date on a dollar-for-dollar basis. The final consideration paid by our company to the transferor was approximately RMB8,355.4 million.

***Acquisition of 100% Equity Interest in South Oil from CNPC***

On August 28, 2009, our company entered into an equity transfer agreement with CNPC E&D and CNPC Central Asia, pursuant to which our company agreed to acquire the 100% share capital in South Oil from CNPC E&D and CNPC Central Asia. Upon completion of the acquisition, the company will pay a consideration of approximately RMB2,813.3 million to CNPC E&D and CNPC Central Asia. Such consideration will be adjusted by reference to the final appraised value filed with the State-owned Assets Supervision and Administration Commission. Any net profit or loss incurred during the period from the valuation date to the completion date shall be attributable to the transferors. As at the end of the reporting period, the transaction has not yet been completed.

***Acquisition of the Refinery Equipment Assets from CNPC***

On August 28, 2009, several asset transfer agreements were entered into between ten of our company's branch companies and ten subordinated entities of CNPC (including CNPC Daqing Petrochemical Factory), pursuant to which our company agreed to acquire refinery equipment assets from the transferors. Upon completion of the acquisition on November 30, 2009, the parties referred to the appraised net asset value of the refinery equipment assets as at February 28, 2009, the valuation date, and adjusted the consideration by reference to the change in the net asset value of the refinery equipment assets for the period from the valuation date to the completion date on a dollar-for-dollar basis. The final consideration paid by our company to the transferors was approximately RMB11,327.2 million.

***Acquisition of the Contractual Rights under the Production Sharing Contract from CNPC***

On August 28, 2009, PetroChina Amu Darya Natural Gas Exploration and Development (Beijing) Company Limited, a wholly owned subsidiary of the company, and CNPCI, a subsidiary of CNPC, entered into the Contractual Rights Transfer Agreement, pursuant to which we have agreed to acquire from CNPCI the contractual rights under the production sharing contract on the Bagtyiarlyk area at Amu Darya Right Bank in Turkmenistan, and the relevant assets and liabilities formed in the course of CNPCI's fulfillment of the same. Upon completion of the acquisition, the company will pay the consideration in the sum of approximately US\$1,186.5 million (approximately RMB8,106.6 million), of which the company will pay approximately US\$350.5 million in cash to CNPCI, and assume bank loans amounting to approximately US\$836.0 million owed by CNPCI in the course of performing its obligations under the production sharing contract. The consideration is determined by reference to the valuation results and will be adjusted by reference to the final valuation results filed with the State-owned Assets Supervision and Administration Commission and the change in value of the net asset in connection with this acquisition for the period from the valuation date to the completion date. As at the end of the reporting period, the acquisition has not yet been completed.

***Acquisition of the Equity Interest in Zhongqing Gas from CNPC***



On December 30, 2009, Kunlun Gas, one of our wholly owned subsidiaries, and Daqing Petroleum Administrative Bureau, a wholly owned subordinated entity of CNPC, entered into an asset transfer agreement, pursuant to which Kunlun Gas will acquire the 100% equity interest in Zhongqing Gas held by Daqing Petroleum Administrative Bureau. Upon completion of the acquisition, Kunlun Gas will pay to the Daqing Petroleum Administrative Bureau the consideration in the amount of approximately RMB1,088.1 million, representing the net asset value of the target equity interest as at the date of valuation. This consideration will be adjusted by any gain/loss attributable to the target equity interest which arise between the reference date of valuation and the completion date on the basis

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of such floor price of the target equity interest as submitted for the open tender by the Daqing Petroleum Administrative Bureau. As at the end of the reporting period, the acquisition has not yet been completed.

### ***Subscription of Additional 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. The capital contribution by our company to CPF will be paid in cash in full with our own funds at the closing date agreed in the Subscription Agreement. Following the completion of this subscription, we will hold 49% and CNPC will hold 51% of the enlarged total registered capital of CPF.

### **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, 2009, the balance of the amount of our debts guaranteed by CNPC and its affiliates was RMB 1,154.0 million.

During the reporting period, we continue to carry out a number of continuing related party transactions with CNPC Exploration and Development Company Limited, Beijing Gas Group Co., Ltd. and China Railway Materials and Suppliers Corporation. A detailed discussion of our relationships and transactions with these parties 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 Securities and Exchange Commission on May 27, 2008.

### **Loans from Related Parties**

As of December 31, 2009, we had unsecured short-term and long-term loans from CNPC and its affiliates in an aggregate amount of RMB77,305 million with an average annual interest rate of 3.35%.

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

Not applicable.

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**ITEM 8 FINANCIAL INFORMATION**

**Financial Statements**

See pages F-1 to F-56 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 RMB0.12417 per share (inclusive of applicable tax) for the six months ended June 30, 2009 was paid to our shareholders on October 16, 2009. The board of directors proposed to distribute the final dividend of RMB0.13003 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, 2009 and the interim dividend for 2008 which was paid on October 16, 2009. The final dividend to be paid for the year ended December 31, 2009 was approved by the annual shareholders meeting held on May 20, 2010. The payment will be made to shareholders whose names appear on the register of the company at close of business on June 2, 2010.

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**Significant Changes**

**Operating and Financial Results in the First Quarter of 2010**

In the first quarter of 2010, net profit attributable to our company's shareholders was RMB32,492 million, and the basic earnings per share was RMB0.18, up 71.2% year-on-year. In the first quarter of 2010, we produced 210 million barrels of crude oil, representing an increase of 2.1% as compared with the same period last year, and produced 609.9 billion cubic feet of marketable natural gas, representing an increase of 16.5% as compared with the same period last year. In the first quarter of 2010, we processed 215 million barrels of crude oil, representing an increase of 16.2% compared with the same period last year; produced 18.824 million tons of gasoline, diesel and kerosene, representing an increase of 15.0% as compared with the same period last year; and produced 0.908 million tons of ethylene, representing an increase of 37.0% as compared with the same period last year. In the first quarter of 2010, we sold 27.05 million tons of gasoline, diesel and kerosene, representing an increase of 27.3% 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, 2009, there were 21,098,900,000 H Shares and 161,922,077,818 A Shares issued and outstanding. As of December 31, 2009, there were 311 registered holders of American depositary receipts evidencing 19,706,673 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 2005 through 2009 for each quarter from 2008 to 2010 (up to the end of the first quarter of 2010), and for each month from December 2009 to June 2010 (through June 18, 2010) are set forth below.

	Price Per H Share		Price Per ADS		Price Per A Share	
	High	Low	High	Low	High	Low
	Share HK\$		US\$		RMB	
<b>Annual Data</b>						
2005	7.35	4.025	94.50	51.65		
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
<b>Quarterly Data</b>						
<b>2008</b>						
First quarter	14.24	9.17	182.12	120.63	31.31	16.99
Second quarter	12.12	9.77	156.97	125.92	18.35	14.94
Third quarter	10.66	7.45	136.92	92.79	15.63	10.17
Fourth quarter	8.14	4.25	104.30	57.25	12.19	9.95
<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

**2010**

First quarter

10.18

8.25

130.51

106.30

14.28

12.65

**Monthly Data**

**2009**

December

9.92

8.97

128.01

116.43

13.99

13.06

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	Price Per H Share HK\$		Price Per ADS US\$		Price Per A Share RMB	
	High	Low	High	Low	High	Low
<b>2010</b>						
January	10.18	8.80	130.51	111.49	14.28	13.08
February	9.13	8.25	116.58	106.30	13.05	12.70
March	9.25	8.75	119.82	111.78	13.06	12.65
April	9.55	8.92	122.67	113.26	13.23	11.92
May	8.99	7.97	115.74	101.92	11.97	10.73
June (through June 18, 2010)	8.99	8.1	115.57	104.04	11.05	10.34

The closing prices per A Share, per H Share and per ADS on June 18, 2010 were RMB10.58, HK\$8.82 and US\$114.51, respectively.

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

The following is a summary based on the significant provisions of our articles of association currently in effect, which is filed with the Commission as an exhibit to this annual report on Form 20-F. We hereby incorporate by reference the relevant exhibit to this annual report.

***Objectives and Purposes***

We are a joint stock limited company established in accordance with the company Law and certain other laws and regulations of the PRC. We are registered with the PRC State Administration for Industry and Commerce with a business license number being 100000000032522. Article 10 of our articles of association provides that our scope of businesses includes, among other things, exploration and production of oil and natural gas; production and sale of crude oil, refined oil, petrochemical and chemical products; import and export; construction and operation of oil and natural gas pipelines; technical development, consultation and service for oil exploration and petrochemistry and related engineering; sale of materials, equipment and machines necessary for production and construction of oil and gas, petrochemicals and pipelines.

***Enforceability of Shareholders Rights***

Our articles of association provide that all differences or claims

between a holder of H Shares and us;

between a holder of H Shares and any of our directors, supervisors, president, senior vice presidents, vice presidents, chief financial officer or other senior officers; or

between a holder of H Shares and a holder of domestic shares, arising from any provision of the articles of association, any right or obligation conferred or imposed by the PRC Company Law or any other relevant law



or administrative regulation which concerns our affairs must, with certain exceptions, be referred to arbitration at either the China International Economic and Trade Arbitration Commission in the PRC or the Hong Kong International Arbitration Center. Our articles of association provide that such arbitration will be final and conclusive.

If the directors, president, senior vice presidents, chief financial officer or any other executive officers violate any laws, administrative regulations or the articles of association of our company during the performance of their corporate duties, which results in any damage to our company, shareholders individually or in the aggregate hold more than 1% of the shares in our company for a consecutive 180 days shall have the right to request our supervisory

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board in writing to bring a lawsuit to the competent courts. If our supervisory board violates any laws, administrative regulations or the articles of association of our company during the performance of its corporate duties, which results in any damage to our company, the shareholders may request our board of directors in writing to bring a lawsuit to the competent courts.

If the supervisory board or the board of directors refuses to bring such lawsuits upon receiving the written request of the shareholders, or fails to file such lawsuit within 30 day following their receipt of such written request, or in case of emergency under which our company would sustain losses hard to be recovered if such lawsuit fails to be filed immediately, such shareholders as described in the above paragraph shall have the right, in the interests of our company, to bring a lawsuit directly in their own name.

If any third parties infringe our legal interests and make our company sustain any losses, the shareholders described in the above paragraphs may file a lawsuit to the competent court in accordance with the provisions in the above two paragraphs.

### ***Restrictions on Transferability and the Share Register***

The articles of association provide that PRC investors are not entitled to be registered as holders of H Shares.

As provided in the articles of association, we may refuse to register a transfer of H Shares unless:

any relevant transfer fee is paid;

the instrument of transfer is accompanied by the share certificates to which it relates, or such other evidence is given as may be reasonably necessary to show the right of the transferor to make the transfer;

the instrument of transfer is in respect of one class of shares only; and

the transfer is conducted in accordance with the laws and administrative regulations of or required by the securities exchanges on which the shares are listed.

Our articles of association provide that the shares held by our promoter in our company may not be transferred within one year from the establishment date of our company. The shares issued prior to the public offering of our company may not be transferred within one year from the date the stocks issued in such public offering commencing to be listed on the relevant stock exchange.

The directors, supervisors, president, senior vice presidents, vice presidents, chief financial officer and other executive officers shall report the number and change of the number of shares they hold in our company, and may not transfer more than 25% of the total number of shares he/she holds in our company in each year during his/her term of office. No shares held by such persons in our company may be transferred (i) within one year from the date the stocks of our company commencing to be listed on the relevant stock exchange, or (ii) within half a year from the date of their resignation or removal, other than any transfer of such shares due to judicial enforcement, inheritance, legacy, or partition of property by operation of law.

If any director, supervisor, president, senior vice president, vice president, chief financial officer and any other executive officer holds less than 1,000 shares in our company, the transfer of such shares is not subject to the above restriction on the percentage of share transfer, all of which may be transferred in one time.

If the directors, supervisors, president, senior vice presidents, vice presidents, chief financial officer and other executive officers or the shareholders holding at least 5% of the domestic shares of our company sell the shares they hold in our company within six months of acquiring the same, or buy such shares back within six months of selling the same, the gains obtained therefrom shall belong to our company and the board of directors of the company shall recover such gains from them and disclose the relevant situation timely. However, a securities company that underwrote shares on a firm commitment basis and which, after purchasing the shares remaining after the sale, holds at least 5% of the shares shall not be subject to the six month time limit when selling such shares.

If the board of directors of our company fails to act in accordance with the preceding paragraph, the shareholders shall have the right to demand that the board of directors act within 30 days. If the board of directors of our company fails to act within such 30-day time period, the shareholders shall have the right, in the interests of our

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company, to directly institute legal proceedings in a competent court in their own name. If the board of directors of our company fails to act in accordance with the above provisions, the responsible directors shall be jointly and severally liable in accordance with the law.

We are required to keep a register of our shareholders which shall be comprised of various parts, including one part which is to be maintained in Hong Kong in relation to H Shares to be listed on the Hong Kong Stock Exchange.

### ***Dividends***

We may distribute dividends twice a year, with the final dividend for any financial year being subject to the approval of the shareholders by way of an ordinary resolution. The articles of association allow for distribution of dividends in the form of cash or shares or any other form permitted under applicable laws and regulations. If a proposal concerning distribution of dividends in the form of cash or shares or conversion of the common reserve fund into share capital is approved in a shareholders meeting, we shall implement a specific plan in connection with such proposal within two months following the shareholders meeting.

Dividends may only be distributed, however, after allowance has been made for:

- recovery of losses, if any and the statutory common reserve fund is not enough to recover such losses;
- allocations to the statutory common reserve fund; and
- allocations to a discretionary common reserve fund if approved by the shareholders.

We shall allocate ten percent of income for the year attributable to the equity holders of our company to the statutory common reserve fund. If the statutory common reserve fund of our company amounts to more than 50% of our registered capital, we may cease any further allocation.

If the shareholders meeting of our company distributes profits to our shareholders before recovering the losses and making allocations to the statutory common reserve fund, the shareholders must return such profits they have received to our company. The shares held by our company in itself do not participate any dividends distribution.

The articles of association require us to appoint on behalf of the holders of H Shares a receiving agent which is registered as a trust corporation under the Trustee Ordinance of Hong Kong to receive dividends declared by us in respect of the H Shares on behalf of such shareholders. The articles of association require that cash dividends in respect of H Shares be declared in Renminbi and paid by us in HK dollars.

### ***Voting Rights and Shareholders Meetings***

Our board of directors will convene a shareholders annual general meeting once every year and within six months from the end of the preceding financial year. Our board will convene an extraordinary general meeting within two months of the occurrence of any one of the following events:

- where the number of directors is less than the number stipulated in the PRC Company law or two-thirds of the number specified in our articles of association;
- where our unrecovered losses reach one-third of the total amount of our share capital;

where shareholders individually or in the aggregate holding 10% or more of our issued and outstanding voting shares request in writing the convening of an extraordinary general meeting;

where our board deems necessary or our supervisory board so request; or

any other events provided by applicable laws, administrative regulations, rules or the articles of association of our company.

Meetings of a special class of shareholders must be called in certain enumerated situations when the rights of the holders of such class of shares may be modified or adversely affected, as discussed below. Shareholders holding 3% or more of the total number of voting shares may present special proposals ten days prior to the annual shareholders meetings and shall deliver such proposal in writing to the persons convening such shareholders meetings. The matters proposed in the special proposals shall fall within the scope of the functions and powers of

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shareholders meetings, and such proposals shall have specific subjects as well as specific matters to be resolved, and shall be in compliance with the requirements of applicable laws, administrative regulations and the articles of association of our company. The persons convening the shareholders meetings shall send additional notices of shareholders meetings within two days after receiving such proposals and announce the matters proposed therein.

All shareholders meetings must be convened by our board by written notice given to shareholders not less than 45 days before the meeting. Based on the written replies received by us 20 days before a shareholders meeting, we will calculate the number of voting shares represented by shareholders who have indicated that they intend to attend the meeting. Otherwise, we will, within five days, inform the shareholders again of the motions to be considered and the date and venue of the meeting by way of public announcement. After the announcement is made, the shareholders meeting may be convened. The accidental omission by us to give notice of a meeting to, or the non-receipt of notice of a meeting by, a shareholder will not invalidate the proceedings at that shareholders meeting.

Shareholders at meetings have the rights, among other things, to approve or reject the annual profit distribution plans, the annual budget, the financial statements, an increase or decrease in share capital, the issuance of debentures, the merger or liquidation of PetroChina, any amendment to our articles of association, external guarantees, purchase or sale of significant assets of PetroChina, change of the purposes of the funds raised and our stock incentive plans. In addition, the rights of a class of shareholders may not be modified or abrogated, unless approved by a special resolution of all shareholders at a general shareholders meeting and by a special resolution of shareholders of that class of shares at a separate meeting. Our articles of association enumerate, without limitation, certain amendments which would be deemed to be a modification or abrogation of the rights of a class of shareholders, including increasing or decreasing the number of shares of a class disproportionate to increases or decreases of other classes of shares, removing or reducing rights to receive dividends in a particular currency or creating shares with voting or equity rights superior to shares of such class.

Each H Share is entitled to one vote on all matters submitted to a vote of our shareholders at all shareholders meetings, except for meetings of a special class of shareholders where only holders of shares of the affected class are entitled to vote on the basis of one vote per share of the affected class. The shares held by our company in itself are not entitled to any vote, and such shares will not be included in the total number of voting shares in any shareholders meeting. When any shareholder is required to abstain from voting on any particular resolution or restricted to voting only for or against any particular resolution under the Rules Governing the Listing of Securities on the Stock Exchange Hong Kong Limited, or the HKSE Listing Rules, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

Shareholders are entitled to attend and vote at meetings either in person or by proxy. Proxies must be in writing and deposited at our legal address, or such other place as is specified in the meeting notice, not less than 24 hours before the time for holding the meeting at which the proxy proposes to vote or the time appointed for the passing of the relevant resolutions. When the instrument appointing a proxy is executed by the shareholder's attorney-in-fact, such proxy when deposited must be accompanied by a notarially certified copy of the relevant power of attorney or other authority under which the proxy was executed.

Except for those actions discussed below which require supermajority votes, resolutions of the shareholders are passed by a simple majority of the voting shares held by shareholders who are present in person or by proxy. Special resolutions must be passed by more than two-thirds of the voting rights represented held by shareholders who are present in person or by proxy.

The following decisions must be adopted by special resolution:

an increase or reduction of our share capital or the issue of shares of any class, warrants and other similar securities;

the issue of our debentures;

our division, merger, dissolution and liquidation;

amendments to our articles of association;

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any purchase or sale of significant assets or any guarantee provided by our company within one year exceeding 30% of our most recent audited aggregate assets;

stock incentive plans; and

any other matters required by applicable laws, administrative regulations or our articles of association, or considered by the shareholders in a general meeting and which they have resolved by way of an ordinary resolution to be of a nature which may have a material impact on us and should be adopted by special resolution.

All other actions taken by the shareholders, including the appointment and removal of our directors and independent auditors and the declaration of normal dividend payments or stock distributions, will be decided by an ordinary resolution of the shareholders.

In addition, certain amendments to the articles of association require the approval and consent of the relevant PRC authorities.

If any resolutions of our shareholders' meetings or our board meetings violate any applicable laws or administrative regulations, the shareholders shall have the right to request competent courts to decide that such resolutions are invalid. If the procedures to convene any shareholders' meetings or any board meetings or any voting methods violate any applicable laws, administrative regulations or our articles of association, or any resolutions violate our articles of association, the shareholders shall, within 60 days from the adoption of such resolutions, have the right to request competent courts to cancel such resolutions.

There are no limitations imposed by PRC law or our articles of association on the right of non-residents or foreign shareholders to hold or vote our company's shares, other than limitations that would generally apply to all of the shareholders.

***Board of Directors***

Directors will be elected by shareholders at a general meeting. Because the shares do not have cumulative voting rights, a holder of a majority of our shares is able to elect all of the directors. Directors are elected for a term of not more than three years.

Meetings of the board of directors shall be held at least four times every year and shall be convened by the Chairman of the board of directors, who shall notify all directors 14 days before each meeting.

Our board of directors is accountable to the shareholders in general meetings and exercises the following functions and powers to:

- (a) be responsible for the convening of shareholders' meetings and reporting on its work to the shareholders at such meetings;
- (b) implement the resolutions passed by the shareholders in general meetings;
- (c) determine our business plans and investment proposals;
- (d) formulate our annual preliminary and final budgets;



- (e) formulate our profit distribution proposal and loss recovery proposals;
- (f) formulate proposals for the increase or reduction of our registered capital and the issuance of our debentures or other securities and listings;
- (g) draw up plans for our acquisition of our shares or our merger, division or dissolution, or change of our corporation form;
- (h) decide on our internal management structure;
- (i) appoint or remove our president and to appoint or remove the vice presidents and other senior officers, including the financial controller, based on the recommendation of the general manager, and to decide on their remuneration;

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- (j) formulate our basic management system;
- (k) formulate proposals for any amendment of our articles of association;
- (l) manage the information disclosures of our company; and
- (m) exercise any other powers conferred by the shareholders in general meetings.

Except for items (f), (g) and (k), which require the affirmative vote of more than two-thirds of all of our directors, resolutions on any other items may be approved by the affirmative vote of a simple majority of our directors.

A director shall abstain from voting on any resolutions of the board of directors if he/she or any of his/her associates or the relevant significant shareholder is interested therein, and he/she shall not be counted in the quorum of the directors for such meetings. The board of directors shall transact its businesses by convening a board meeting instead of by circulation of papers. If an independent non-executive director or any of its associates does not have any significant interest in the matters to be resolved in a board meeting, he/she shall attend the board meeting. For purpose of this paragraph, the relevant significant shareholder and the associate herein have the same meaning ascribed to it in the HKSE Listing Rules. If any listing rules of other stock exchanges on which our stocks listed have stricter stipulations on the abstention of voting by directors, then such stipulations shall be followed.

In addition to obligations imposed by laws, administrative regulations or the listing rules of the stock exchanges on which our H Shares are listed, the articles of association place on each of our directors, supervisors, president, senior vice presidents, vice presidents and any other senior officers a duty to each shareholder, in the exercise of our functions and powers entrusted to such person:

not to cause us to exceed the scope of business stipulated in our business license;

to act honestly in our best interests;

not to expropriate our property in any way, including, without limitation, usurpation of opportunities which benefit us; and

not to expropriate the individual rights of shareholders, including, without limitation, rights to distributions and voting rights, save and except according to a restructuring which has been submitted to the shareholders for their approval in accordance with the articles of association.

Our articles of association further place on each of our directors, supervisors, president, vice presidents and senior officers:

a duty, in the exercise of such person's powers and discharge of such person's duties, to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances;

a fiduciary obligation, in the exercise of our powers entrusted to him or her, not to place himself or herself in a position where his or her duty to us and his or her interests may conflict; and

a duty not to direct a person or entity related or connected to a director, supervisor, president, vice president or senior officer in certain relationships enumerated in the articles of association to act in a manner which such director, supervisor, president, vice president or senior officer is prohibited from doing.

Subject to compliance with all relevant laws and administrative regulations, the shareholders in a general meeting may by ordinary resolution remove any director before the expiration of his term of office. Subject to certain qualifications, a director, supervisor, president, vice president or other senior officer may be relieved of liability for a specific breach of his or her duties by the informed consent of shareholders in a general meeting.

***Supervisory Board***

The Supervisory board is composed of nine members appointed to monitor our financial matters:

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

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to verify financial reports and other financial information which have been prepared by the board and which are proposed to be presented at shareholders meetings;

to oversee our directors, president, vice presidents and other senior officers in order to prevent such persons from abusing their authority or infringing upon our interest; and

to contact with the directors on behalf of our company, or bring lawsuits against the directors, president, senior vice president, vice president, chief financial officer or any other executive officers pursuant to Article 152 of the PRC Company Law.

The rights of the supervisory board are generally limited to investigating and reporting to shareholders and management on our affairs and to calling shareholders extraordinary general meetings.

At least one third of the members of the supervisory board will be employee representatives elected by our employees. The remaining members will be appointed by the shareholders in a general meeting. One member of the supervisory board shall be the chairman. A member of the supervisory board may not be a director, the president, a vice president or the chief financial officer. The term of office of each member of the supervisory board is three years, including the term of office of the chairman of the supervisory board, both of which terms are renewable upon re-election and re-appointment. Reasonable expenses incurred by the supervisory board in carrying out its duties will be paid by us.

The supervisory board is accountable, and will report, to the shareholders in the shareholders meetings.

***Restrictions on Large or Controlling Shareholders***

Our articles of association provide that, in addition to any obligation imposed by laws and administrative regulations or required by the listing rules of the stock exchanges on which our H Shares are listed, a controlling shareholder shall not exercise his voting rights in a manner prejudicial to the interests of the shareholders generally or of some part of the shareholders:

to relieve a director or supervisor from his or her duty to act honestly in our best interests;

to approve the expropriation by a director or supervisor of our assets in any way, including, without limitation, opportunities which may benefit us; or

to approve the expropriation by a director or supervisor of the individual rights of other shareholders, including, without limitation, rights to distributions and voting rights, except according to a restructuring of our company which has been submitted for approval by the shareholders in a general meeting in accordance with our articles of association.

A controlling shareholder, however, will not be precluded by our articles of association or any laws and administrative regulations or the listing rules of the stock exchanges on which our H Shares are listed from voting on these matters.

A controlling shareholder is defined by our articles of association as any person who acting alone or in concert with others:

is in a position to elect more than one-half of the board of directors;

has the power to exercise, or to control the exercise of, 30% or more of our voting rights;

holds 30% or more of our issued and outstanding shares; or

has de facto control of us in any other way.

On May 15, 2008, our annual shareholders meeting for 2007 approved certain amendments to our articles of association. Those amendments were approved by the State-owned Assets Supervision and Administration Commission on October 24, 2008.

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**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 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***

On July 21, 1993, the PRC State Administration of Taxation issued the *Notice Concerning the Taxation of Gains on Transfer and Dividends from Shares (Equities) Received by Foreign Investment Enterprises, Foreign Enterprises and*

*Foreign Individuals* (the Tax Notice ). According to the Tax Notice, dividends paid by a PRC company to foreign individuals with respect to shares listed on an overseas stock exchange ( Overseas Shares ), including the H Shares and ADSs, were provisionally exempted from PRC withholding tax for the time being.

The first amendment to the *Individual Income Tax Law of the PRC* became effective on January 1, 1994 and states that it supersedes any contradictory prior administrative regulation concerning individual income tax. The amended Individual Income Tax Law can be interpreted as providing that all foreign individuals are subject to the 20% withholding tax on dividends paid by a PRC company on its Overseas Shares unless specifically exempted by the financial authority of the State Council of the PRC. However, in a letter dated July 26, 1994 to the former State Commission for Restructuring the Economic System, the former State Council Securities Committee and the China

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Securities Regulatory Commission, the PRC State Administration of Taxation restated the exemption. 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 relevant tax authorities have not collected withholding tax from dividend payments on such Shares exempted under the Tax Notice.

***Dividends and Foreign Enterprises***

Prior to January 1, 2008, on which the *Enterprise Income Tax Law of the PRC* became effective, dividends paid by a PRC company to foreign enterprises with respect to Overseas Shares were provisionally exempted from PRC FEIT according to the Tax Notice.

Pursuant to the *Enterprise Income Tax Law of the PRC* which is effective from January 1, 2008 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 (arrangement) against the documents evidencing that such shareholder is qualified to be a beneficial owner as defined under the applicable tax treaty (arrangement). 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 (arrangement).

***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;

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

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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. However, the Tax Notice provides that gains realized by foreign individuals upon the sale of Overseas Shares are not subject to withholding tax for the time being. On March 30, 1998, the Ministry of Finance and the State Administration of Taxation issued notices providing that temporarily no capital gains tax will be imposed on gains from the sale of shares by individuals. 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, and the Tax Notice is found not to apply, 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.

Before the effectiveness of the new Enterprise Income Tax Law, gains realized by foreign enterprises that are holders of Overseas Shares excluding the shares held through their PRC domestic establishments were exempted from the withholding tax according to the Tax Notice. However, the *Circular of the Ministry of Finance and the State Administration of Taxation concerning Several Preferential Policies for Enterprise Income Tax* (Cai Shui [2008] No.) promulgated on February 22, 2008 provides that, other than those preferential policies specially stipulated thereunder, any other preferential policies concerning enterprise income tax that were implemented prior to January 1, 2008 shall all be repealed. The Tax Notice does not fall into the category of preferential policies defined under the *Circular of the Ministry of Finance and the State Administration of Taxation concerning Several Preferential Policies for Enterprise Income Tax*.

Under the Enterprise Income Tax Law that became effective on January 1, 2008, capital gains realized by foreign enterprises which are non-resident enterprises in the PRC upon the sale of Overseas Shares 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;

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.

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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 income (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, 2011 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,

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.

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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 benefit 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

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, 2009 and believe that we will not meet either of the PFIC tests in current or subsequent taxable years and therefore will not be

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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.

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.

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### ***Recent Legislative Developments***

Newly enacted legislation requires certain U.S. holders who are individuals, estates or trusts to pay up to an additional 3.8% tax on, among other things, dividends and capital gains for taxable years beginning after December 31, 2012. In addition, for taxable years beginning after March 18, 2010, new legislation requires certain U.S. holders who are individuals that hold certain foreign financial assets (which may include the H Shares or ADSs) 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 legislation 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, 2007, 2008 and 2009. 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 13.6%, 5.8% and 5.0% of our total payments for equipment in 2007, 2008 and 2009 respectively. Foreign currency payments for imported crude oil and

other materials represented 1.9%, 2.8% and 1.4% of our total payments for materials in 2007, 2008 and 2009 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, 2007, 2008 and 2009, respectively.

**December 31, 2009**

	2010	2011	Expected Maturity Date (RMB equivalent in millions, except percentages)				Total	Percentage to Total Long-Term Debt (%)	Fair Value
			2012	2013	2014	Thereafter			
<b>Long term debt</b>									
<b>Loans in RMB</b>									
Fixed rate	233	221	5560			26	6,040	6.06%	5,824
Average interest rate	4.64%	4.78%	4.32%			2.91%			
Variable rate <sup>(1)</sup>	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%	3.07%			
<b>Loans in Euros</b>									
Fixed rate	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%			
<b>Loans in United States Dollars</b>									
Fixed rate	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	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%			
<b>Loans in Japanese Yen</b>									
Fixed rate	10						10	0.01%	10
Average interest rate	2.42%								
<b>Debentures in United States Dollar</b>									

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Fixed Rate	171	171			294	636	0.64%	630	
Average interest rate	9.50%	9.50%			3.00%				
Debentures in RMB									
Fixed rate		2,000		1,500		3,500	3.51%	3,516	
Average interest rate		3.76%		4.11%					
Medium term note in RMB									
Fixed rate			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

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	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	2	2				3	7	0.02%	5
Average interest rate	0	7.47%				0			
Variable rate <sup>(1)</sup>	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	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%			
Loans in United States Dollars									
Fixed rate	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	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	7	13					20	0.05%	19
Average interest rate	2.42%	2.42%							
Debentures in United States Dollars									
Fixed rate	171	171	171			301	814	2.12%	758
Average interest rate	9.50%	9.50%	9.50%			3.00%			
Debentures in RMB									

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Fixed rate			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

**December 31, 2007**

	2008	2009	Expected Maturity Date (RMB equivalent in millions, except percentages)				Total	Percentage to Total Long-Term Debt (%)	Fair Value
			2010	2011	2012	Thereafter			
<b>Long term debt</b>									
Loans in RMB									
Fixed rate	272		2		1		275	0.53%	254
Average interest rate	3.83%		0		0				
Variable rate <sup>(1)</sup>	7,280	5,220	11,182	10	20	8,700	32,412	62.45%	32,412
Average interest rate	5.49%	5.07%	5.46%	6.89%	6.89%	5.84%			
Loans in Euros									
Fixed rate	16	16	16	16	16	167	247	0.48%	163
Average interest rate	2.12%	2.12%	2.12%	2.12%	2.12%	2.10%			
Variable rate									
Average interest rate									

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	2008	2009	Expected Maturity Date				Total	Percentage to Total Long-Term Debt (%)	Fair Value
			2010	2011	2012	Thereafter			
<b>(RMB equivalent in millions, except percentages)</b>									
Loans in United States Dollars									
Fixed rate	137	79	45	39	39	468	807	1.56%	539
Average interest rate	5.25%	3.62%	1.44%	1.43%	1.43%	1.38%			
Variable rate	4,234	249	2,629	77	3,431	2,867	13,487	25.99%	13,487
Average interest rate	4.92%	5.33%	5.07%	5.50%	7.40%	5.12%			
Loans in Japanese Yen									
Fixed rate	20	9	8				37	0.07%	36
Average interest rate	3.40%	2.42%	2.42%						
Variable rate									
Average interest rate									
Debentures in United States Dollars									
Fixed rate	241	181	184	183		334	1,123	2.17%	1,123
Average interest rate	10.83%	9.50%	9.50%	9.50%		3.30%			
Debentures in RMB									
Fixed rate				2,000		1,500	3,500	6.75%	2,981
Average interest rate				3.76%		4.11%			
<b>Total</b>	<b>12,200</b>	<b>5,754</b>	<b>14,066</b>	<b>2,325</b>	<b>3,507</b>	<b>14,036</b>	<b>51,888</b>	<b>100.00%</b>	<b>50,995</b>

(1) Due to the declining interest rates in recent years in China, the PRC government has implemented a program to adjust interest rates on certain fixed RMB loans periodically to reflect the market rates in effect published by the People's Bank of China, or the PBOC, from time to time. As a result, these previously fixed RMB loans are categorized as variable rate loans as of December 31, 2007, 2008 and 2009. The newly adjusted rates usually become effective one year after the announcement by the PBOC. The average interest rates on these loans are calculated based on the then effective rates as of December 31, 2007, 2008 and 2009, respectively.

**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 depositary 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 depositary 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 depositary 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

Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADS registered holders

Registration or transfer fees

Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares

Expenses of the depositary

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 depositary 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 depositary or its agents for servicing the deposited securities

As necessary

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

From January 1, 2009 to December 31, 2009, we received from the depositary a reimbursement of US\$473,333.11, 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 depositary has agreed to reimburse us certain amount per year of the facility, including but not limited to, investor relations expenses or any other American depositary 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, 2009.

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, 2009 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, 2009, 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. We have included these two Codes of Ethics as Exhibit 11.1 and 11.2 to this annual report.

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 .

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3. Finally, click on [Code of Ethics for Senior Management](#) or [Code of Ethics for Employees of PetroChina Company Limited](#) .

**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, 2009, 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, 2008 and 2009.

	<b>December 31,</b>	
	<b>2008</b>	<b>2009</b>
	<b>RMB</b>	<b>RMB</b>
	<b>(In millions)</b>	
Audit fees	95	80
Audit-related fees		
Tax fees		
All other fees		
<b>Total</b>	<b>95</b>	<b>80</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, 2008 and 2009.

***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 2009, 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.

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**ITEM 16E *PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS***

Not applicable.

**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. Currently, five of our fourteen directors are 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.

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### **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.

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.

### **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-56 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 Number</b>	<b>Description of Exhibits</b>
1.1	Articles of Association (as amended) (English translation) <sup>(5)</sup>
1.2	Articles of Association (as amended on May 15, 2008) (English translation) <sup>(5)</sup>
4.1	2010 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>(5)</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>(5)</sup>
4.4	Annual Crude Oil Mutual Supply Framework Agreement, dated December 30, 2009, 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>(2)</sup>
4.6	Supplementary Agreement to Comprehensive Products and Services Agreement, dated June 9, 2005, between CNPC and PetroChina (English Translation) <sup>(3)</sup>
4.7	Form of Non-competition Agreement between CNPC and PetroChina (together with English translation) <sup>(4)</sup>
4.8	Form of Comprehensive Products and Services Agreement between CNPC and PetroChina (together with English translation) <sup>(4)</sup>
4.9	Form of Land Use Rights Leasing Contract between CNPC and PetroChina (together with English translation) <sup>(4)</sup>
4.10	Form of Buildings Leasing Contract between CNPC and PetroChina (together with English translation) <sup>(4)</sup>
4.11	Form of Trademark Licensing Contract between CNPC and PetroChina (together with English translation) <sup>(4)</sup>
4.12	Form of Patent and Know-how Licensing Contract between CNPC and PetroChina (together with English translation) <sup>(4)</sup>
4.13	Form of Computer Software Licensing Contract between CNPC and PetroChina (together with English translation) <sup>(4)</sup>
4.14	Form of Contract for Transfer of Rights under Production Sharing Contracts between CNPC and PetroChina (together with English translation) <sup>(4)</sup>
4.15	Form of Guarantee of Debts Contract between CNPC and PetroChina (together with English translation) <sup>(4)</sup>
4.16	Form of Contract for the Supervision of Certain Sales Enterprises between CNPC and PetroChina (together with English translation) <sup>(4)</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>(4)</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>(4)</sup>
  - 4.19 Inspection and Maintenance Business Equity and Assets Transfer Agreement, dated April 28, 2008, between CNPC and Petrochina (English translation)<sup>(6)</sup>
  - 4.20 Assets Transfer Agreement, date June 10, 2008, between Petrochina and CNPC (English translation)<sup>(6)</sup>

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<b>Exhibit Number</b>	<b>Description of Exhibits</b>
4.21	Agreement for the Sale and Purchase of Shares in Sun World Limited, dated August 27, 2008, among Petrochina, CNPC and China Petroleum Hong Kong (Holding) Limited (English translation) <sup>(6)</sup>
4.22	Form of Risk Operation Service Business Assets Transfer Agreements, dated August November 19, 2008, among six branch companies of Petrochina and six subordinate enterprises of CNPC (English translation) <sup>(6)</sup>
4.23	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>(6)</sup>
4.24	Asset Transfer Agreement, dated June 18, 2009, between PetroChina West Pipeline Company and CNPC West Pipeline Company Limited (English translation)
4.25	Equity Transfer Agreement, dated August 28, 2009, among CNPC E&D, CNPC Central Asia and PetroChina (English translation)
4.26	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)
4.27	Contractual Rights Transfer Agreement, dated August 28, 2009, between Beijing Amu Darya Company and CNPCI (English translation)
4.28	Equity Transfer Agreement, dated December 30, 2009, between PetroChina Kunlun Gas Limited and Daqing Petroleum Administrative Bureau (English translation)
4.29	Subscription Agreement, Dated March 25, 2010 among PetroChina, CNPC and CPF (English translation)
8.1	List of major subsidiaries
11.1	Code of Ethics for Senior Management <sup>(3)</sup>
11.2	Code of Ethics for Employees <sup>(3)</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, 2009 prepared by DeGolyer and MacNaughton
15.2	Reserve Report for the year ended on December 31, 2009 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, 2006 (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, 2005 (File No. 1-15006) filed with the Commission.

(3) 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.

(4)

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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.

- (5) 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.
- (6) 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.

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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: June 25, 2010

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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, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 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, 2009, 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. 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.

PricewaterhouseCoopers

Hong Kong, May 20, 2010



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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**For the Year Ended December 31, 2009, 2008 and 2007**  
**(Amounts in millions)**

	Notes	2009 RMB	2008 RMB	2007 RMB
<b>TURNOVER</b>	6	1,019,275	1,072,604	837,542
<b>OPERATING EXPENSES</b>				
Purchases, services and other		(492,472)	(562,851)	(369,786)
Employee compensation costs	8	(65,977)	(62,167)	(50,940)
Exploration expenses, including exploratory dry holes		(19,398)	(21,879)	(20,956)
Depreciation, depletion and amortisation		(92,259)	(94,759)	(67,423)
Selling, general and administrative expenses		(65,423)	(59,617)	(52,389)
Taxes other than income taxes	9	(135,465)	(124,132)	(73,806)
Other (expenses)/income, net		(4,837)	12,372	(1,225)
<b>TOTAL OPERATING EXPENSES</b>		(875,831)	(913,033)	(636,525)
<b>PROFIT FROM OPERATIONS</b>		143,444	159,571	201,017
<b>FINANCE COSTS</b>				
Exchange gain		552	1,774	1,808
Exchange loss		(1,335)	(2,855)	(2,559)
Interest income		1,459	2,277	2,101
Interest expense	10	(5,272)	(3,044)	(3,673)
<b>TOTAL NET FINANCE COSTS</b>		(4,596)	(1,848)	(2,323)
<b>SHARE OF PROFIT OF ASSOCIATES AND JOINTLY CONTROLLED ENTITIES</b>	17	1,184	4,290	6,445
<b>PROFIT BEFORE INCOME TAX EXPENSE</b>	7	140,032	162,013	205,139
<b>INCOME TAX EXPENSE</b>	12	(33,473)	(35,211)	(49,802)
<b>PROFIT FOR THE YEAR</b>		106,559	126,802	155,337
<b>OTHER COMPREHENSIVE INCOME:</b>				
Currency translation differences		(3,500)	(2,676)	(1,852)
Fair value gain/(loss) from available-for-sale financial assets		191	(340)	395
Income tax relating to components of other comprehensive income/(loss)		(38)	67	(87)
<b>OTHER COMPREHENSIVE LOSS, NET OF TAX</b>		(3,347)	(2,949)	(1,544)

<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		103,212	123,853	153,793
<b>PROFIT FOR THE YEAR ATTRIBUTABLE TO:</b>				
Owners of the Company		103,387	114,453	146,796
Non-controlling interest		3,172	12,349	8,541
		106,559	126,802	155,337
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:</b>				
Owners of the Company		102,067	113,044	146,144
Non-controlling interest		1,145	10,809	7,649
		103,212	123,853	153,793
<b>BASIC AND DILUTED EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY (RMB)</b>	14	0.56	0.63	0.82

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, 2009 and 2008****(Amounts in millions)**

	Notes	2009 RMB	2008 RMB
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	16	1,075,467	900,424
Investments in associates and jointly controlled entities	17	28,223	28,850
Available-for-sale financial assets	18	2,343	2,034
Advance operating lease payments	20	30,236	26,280
Intangible and other assets	21	18,017	10,694
Deferred tax assets	31	289	497
Time deposits with maturities over one year		1,330	2,510
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1,155,905</b>	<b>971,289</b>
<b>CURRENT ASSETS</b>			
Inventories	22	114,781	90,685
Accounts receivable	23	28,785	16,810
Prepaid expenses and other current assets	24	59,595	69,557
Notes receivable	25	4,268	4,319
Time deposits with maturities over three months but within one year		29	10,425
Cash and cash equivalents	26	86,925	33,150
<b>TOTAL CURRENT ASSETS</b>		<b>294,383</b>	<b>224,946</b>
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued liabilities	27	204,739	156,780
Income taxes payable		9,721	1,271
Other taxes payable		25,242	13,930
Short-term borrowings	28	148,851	93,670
<b>TOTAL CURRENT LIABILITIES</b>		<b>388,553</b>	<b>265,651</b>
<b>NET CURRENT LIABILITIES</b>		<b>(94,170)</b>	<b>(40,705)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,061,735</b>	<b>930,584</b>
<b>EQUITY</b>			
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY:</b>			
Share capital	29	183,021	183,021
Retained earnings		424,067	378,473
Reserves	30	240,135	229,416

<b>TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>		847,223	790,910
<b>NON-CONTROLLING INTEREST</b>		60,478	56,930
<b>TOTAL EQUITY</b>		907,701	847,840
<b>NON-CURRENT LIABILITIES</b>			
Long-term borrowings	28	85,471	32,852
Asset retirement obligations	32	44,747	36,262
Deferred tax liabilities	31	21,449	12,466
Other long-term obligations		2,367	1,164
<b>TOTAL NON-CURRENT LIABILITIES</b>		154,034	82,744
<b>TOTAL EQUITY AND NON-CURRENT LIABILITIES</b>		1,061,735	930,584

The accompanying notes are an integral part of these financial statements.

Chairman  
Jiang Jiemin

Vice Chairman and President  
Zhou Jiping

Chief Financial Officer  
Zhou Mingchun

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**Table of Contents****PETROCHINA COMPANY LIMITED**

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2009, 2008 and 2007**  
(Amounts in millions)

	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit for the year	106,559	126,802	155,337
Adjustments for:			
Income tax expense	33,473	35,211	49,802
Depreciation, depletion and amortisation	92,259	94,759	67,423
Capitalised exploratory costs charged to expense	10,019	10,341	9,161
Share of profit of associates and jointly controlled entities	(1,184)	(4,290)	(6,445)
(Reversal) of provision/provision for impairment of receivables, net	(123)	4	(2,318)
Write down in inventories, net	354	8,593	55
Impairment of available-for-sale financial assets, net	2	45	
Impairment of investments in associates and jointly controlled entities	8	29	5
Loss on disposal of property, plant and equipment	1,642	2,602	1,808
Loss/(gain) on disposal of intangible and other assets	10	19	(2)
(Gain)/loss on disposal of investments in associates and jointly controlled entities	(33)	3	(320)
Gain on disposal of available-for-sale financial assets	(4)	(5)	(142)
Gain on disposal of subsidiaries	(22)	(259)	
Dividend income	(177)	(252)	(126)
Interest income	(1,459)	(2,277)	(2,101)
Interest expense	5,272	3,044	3,673
Advance payments on long-term operating leases	(6,045)	(4,675)	(4,803)
Changes in working capital:			
Accounts receivable and prepaid expenses and other current assets	16,240	(26,815)	(16,054)
Inventories	(20,044)	(10,775)	(12,041)
Accounts payable and accrued liabilities	41,637	(5,715)	19,799
<b>CASH FLOWS GENERATED FROM OPERATIONS</b>	<b>278,384</b>	<b>226,389</b>	<b>262,711</b>
Income taxes paid	(16,412)	(53,924)	(55,048)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>261,972</b>	<b>172,465</b>	<b>207,663</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, 2009, 2008 and 2007**  
**(Amounts in millions)**

	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital expenditures	(257,562)	(215,610)	(173,528)
Acquisition of investments in associates and jointly controlled entities	(1,487)	(3,641)	(1,903)
Acquisition of available-for-sale financial assets	(111)	(23)	(328)
Consolidation of PetroKazakhstan Inc.			1,542
Acquisition of intangible assets and other non-current assets	(3,505)	(3,909)	(3,378)
Purchase of non-controlling interest	(533)	(177)	(178)
Acquisition of subsidiaries	(16,451)	(6,693)	
Repayment of capital by associates and jointly controlled entities			6,618
Proceeds from disposal of property, plant and equipment	4,053	436	1,028
Proceeds from disposal of investments in associates and jointly controlled entities	139	67	1,033
Proceeds from disposal of subsidiaries	60	535	
Proceeds from disposal of available-for-sale financial assets	136	52	276
Proceeds from disposal of intangible and other non-current assets	26	37	
Interest received	1,425	2,365	2,074
Dividends received	783	4,095	1,113
Decrease in time deposits with maturities over three months	11,574	10,669	(18,025)
<b>NET CASH FLOWS USED FOR INVESTING ACTIVITIES</b>	<b>(261,453)</b>	<b>(211,797)</b>	<b>(183,656)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayments of short-term borrowings	(113,212)	(84,471)	(33,556)
Repayments of long-term borrowings	(7,947)	(14,196)	(24,218)
Interest paid	(5,238)	(4,065)	(4,232)
Dividends paid to non-controlling interest	(2,425)	(2,805)	(4,832)
Dividends paid to owners of the Company	(50,092)	(52,835)	(64,517)
Dividends paid to owners from business combinations pre-acquisition		(801)	(9)
Issuance of A shares			66,243
Increase in short-term borrowings	157,576	153,444	37,236
Increase in long-term borrowings	67,880	4,472	20,650
Capital contribution from non-controlling interest	7,098	8,788	1,364
Capital reduction of subsidiaries	(671)	(3,754)	
Increase in other long-term obligations	108		33
<b>NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES</b>	<b>53,077</b>	<b>3,777</b>	<b>(5,838)</b>
<b>TRANSLATION OF FOREIGN CURRENCY</b>	<b>179</b>	<b>(112)</b>	<b>(221)</b>

Increase/(decrease) in cash and cash equivalents	53,775	(35,667)	17,948
Cash and cash equivalents at beginning of the year	33,150	68,817	50,869
Cash and cash equivalents at end of the year	86,925	33,150	68,817

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, 2009, 2008 and 2007****(Amounts in millions)**

	Attributable to Owners of the Company				Non-Controlling Interest	Total Equity
	Share Capital RMB	Retained Earnings RMB	Reserves RMB	Subtotal RMB	RMB	RMB
<b>Balance at December 31, 2006</b>	179,021	267,850	143,552	590,423	31,749	622,172
Business combinations under common control		(183)	174	(9)	456	447
<b>Balance at January 1, 2007</b>	179,021	267,667	143,726	590,414	32,205	622,619
Total comprehensive income/(loss) for the year ended December 31, 2007		146,796	(652)	146,144	7,649	153,793
Special Reserve-Safety Fund Reserve		(3,536)	3,536			
Transfer to reserves		(12,768)	12,768			
Final dividend for 2006		(27,694)		(27,694)		(27,694)
Interim dividend for 2007 (Note 15)		(36,823)		(36,823)		(36,823)
Dividends to non-controlling interest					(4,823)	(4,823)
Purchase of non-controlling interest in subsidiaries			(113)	(113)	(65)	(178)
Consolidation of PetroKazakhstan Inc.					8,101	8,101
Issuance of A shares	4,000		62,243	66,243		66,243
Capital contribution from non-controlling interest					1,364	1,364
Dividends to owners from business combinations pre-acquisition		(2)		(2)	(15)	(17)
Other			77	77	57	134
<b>Balance at December 31, 2007</b>	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 (3,214)	(1,409) 3,214	113,044	10,809	123,853

Special Reserve-Safety Fund Reserve						
Transfer to reserves		(12,770)	12,770			
Final dividends for 2007 (Note 15)		(28,708)		(28,708)		(28,708)
Interim dividends for 2008 (Note 15)		(24,127)		(24,127)		(24,127)
Dividends to non-controlling interest					(2,842)	(2,842)
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
<b>Balance at December 31, 2008</b>	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			
Final dividends for 2008 (Note 15)		(27,367)		(27,367)		(27,367)
Interim dividends for 2009 (Note 15)		(22,725)		(22,725)		(22,725)
Dividends to non-controlling interest					(2,358)	(2,358)
Acquisition of subsidiaries			(248)	(248)	590	342
Purchase of non-controlling interest in subsidiaries			(179)	(179)	(354)	(533)
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)
<b>Balance at December 31, 2009</b>	183,021	424,067	240,135	847,223	60,478	907,701

The accompanying notes are an integral part of these financial statements.

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**PETROCHINA COMPANY LIMITED**

**NOTES TO THE 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 IFRSs 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 purchase method of accounting is used to account for the acquisition of subsidiaries except for business combinations under common control. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any

non-controlling interest. The excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the subsidiary acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the consolidated profit or loss.

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

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**PETROCHINA COMPANY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**(Amounts in millions unless otherwise stated)**

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 but considered an impairment indicator of the asset transferred. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

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.

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.

**(d) Transactions with non-controlling interest**

The Group applies a policy of treating transactions with non-controlling interests 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.

**(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.

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**Table of Contents****PETROCHINA COMPANY LIMITED****NOTES TO THE FINANCIAL STATEMENTS (Continued)****(Amounts in millions unless otherwise stated)**

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 recorded at cost less accumulated depreciation, depletion and amortisation. 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 revalued amounts. Revaluations are performed by independent qualified valuers on a periodic basis.

In the intervening years between independent revaluations, the directors review the carrying values of the property, plant and equipment and adjustments are made if the carrying values differ materially from their respective fair values.

Increases in the carrying values arising from revaluations are recognised in other comprehensive income and accumulated in equity under the heading of revaluation reserve. Decreases in the carrying values arising from revaluations are first offset against increases from earlier revaluations in respect of the same assets and are thereafter charged to the consolidated profit or loss. All other decreases in carrying values are charged to the consolidated profit or loss. Any subsequent increases are credited to the consolidated profit or loss up to the respective amounts previously charged.

Revaluation surpluses realised through the depreciation or disposal of revalued assets are retained in the revaluation reserve and will not be available for offsetting against future revaluation losses.

Depreciation, to write off the cost or valuation 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.

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

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**PETROCHINA COMPANY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**(Amounts in millions unless otherwise stated)**

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.

**(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 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

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**PETROCHINA COMPANY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**(Amounts in millions unless otherwise stated)**

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 only loans and receivables and available-for-sale financial assets. The detailed accounting policies for loans and receivables and available-for-sale financial assets 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.

**(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.

**(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.

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**PETROCHINA COMPANY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**(Amounts in millions unless otherwise stated)**

**(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, 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.



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**PETROCHINA COMPANY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**(Amounts in millions unless otherwise stated)**

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.

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.

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**PETROCHINA COMPANY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**(Amounts in millions unless otherwise stated)**

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 Group adopted the following relevant new and amended IFRSs as of January 1, 2009:

IFRS 7 Financial instruments Disclosures (Amendment) effective January 1, 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The amendment did not have a material impact on the disclosures in the consolidated financial statements.

IFRS 8, Operating segments effective January 1, 2009. IFRS 8 replaces IAS 14, Segment reporting . It requires a management approach under which segment information is presented on the same basis as that used for internal reporting purposes (Note 38).

IAS 1 (Revised), Presentation of financial statements effective January 1, 2009. The revised standard requires all changes in equity arising from transactions with owners in their capacity as owners and the related current and deferred tax impacts be presented separately from non-owner changes in equity. Recognised income and expenses shall be presented in a single statement (a statement of comprehensive income) or in two statements (a statement of profit and loss and a statement of comprehensive income), separately from owner changes in equity.

The Group has elected to present recognised income and expenses in a single statement of comprehensive income and these consolidated financial statements have been prepared under the revised disclosure requirements.

IAS 19 (Amendment), Employee benefits effective January 1, 2009. The amendment clarifies that the distinction between short-term and long-term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered. The amendment did not have any significant impact on the consolidated financial statements.

IAS 23 (Amendment), Borrowing costs effective January 1, 2009. The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The amendment did not have any impact on the consolidated financial statements as the Group has always capitalised borrowing costs directly attributable to the acquisition, construction or production of qualifying assets.

IAS 24 (Revised), Related Party Disclosures effective January 1, 2011. 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 elected to early adopt the partial exemption in paragraphs 25 -27 of the revised standard for

government-related entities from January 1, 2009.

IAS 28 (Amendment), Investments in associates effective January 1, 2009. The amendment requires an investment in an associate be treated as a single asset for the purposes of impairment testing and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The amendment did not have any significant impact on the consolidated financial statements.

IAS 36 (Amendment), Impairment of assets effective January 1, 2009. The amendment requires that where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those

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**PETROCHINA COMPANY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**(Amounts in millions unless otherwise stated)**

for value-in-use calculation should be made. The amendment did not have any significant impact on the consolidated financial statements.

IAS 38 (Amendment), Intangible assets effective January 1, 2009. The amendment requires a prepayment only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The amendment did not have any significant impact on the consolidated financial statements.

(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 IFRSs have been published and are mandatory for accounting periods beginning on or after January 1, 2010 or later periods and have not been early adopted by the Group:

IFRS 3 (Revised), Business combinations . The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be 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 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 should be expensed. The Group will apply the revised standard prospectively to all business combinations for which the acquisition date is on or after January 1, 2010.

IFRS 5 (Amendment), Non-current assets held for sale and discontinued operations effective July 1, 2009. The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. 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.

IFRS 5 (Amendment), Measurement of non-current assets (or disposal groups) classified as held-for-sale effective January 1, 2010. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held-for-sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The Group is currently evaluating the impact of the amendment on the disclosures in the consolidated financial statements but it is not expected to have any significant impact.

IAS 1 (Amendment), Presentation of financial statements effective January 1, 2010. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issuance 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 Group is currently evaluating the impact of the amendment on the consolidated financial statements but it is not expected to have any significant impact.

IAS 27 (Revised), Consolidated and separate financial statements effective July 1, 2009. The revised standard 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. IAS 27 (Revised) 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. The Group will apply the revised standard prospectively to transactions with non-controlling interests from January 1, 2010.

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**PETROCHINA COMPANY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**(Amounts in millions unless otherwise stated)**

IAS 38 (Amendment), Intangible Assets effective January 1, 2010. The amendment is part of the IASB's annual improvements project published in April 2009 and the Group will apply IAS 38 (Amendment) from the date IFRS 3 (Revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. 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

(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 did not enter into material hedge contracts to hedge against its foreign exchange rate risk during the current year.

(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.

(iii) Price risk

The Group is engaged in a wide range of petroleum-related activities. Prices of crude oil and petroleum 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.

(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 have been substantially provided for and accounts receivable balances within one year are generally neither past due nor impaired. The Group's accounts receivable balances that are neither past due nor impaired are with customers with no recent history of default.



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**PETROCHINA COMPANY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**(Amounts in millions unless otherwise stated)**

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**

The Group's liquidity risk management involves maintaining sufficient cash and cash equivalents and availability of funding through an adequate amount of committed credit facilities.

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, 2009 is 20.5% (2008: 13.0%).

**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, 2009 and 2008 are disclosed in the respective accounting policies.

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

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**PETROCHINA COMPANY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**(Amounts in millions unless otherwise stated)**

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>2009</b>	<b>2008</b>	<b>2007</b>
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>
Items credited and debited in arriving at the profit before income tax expense include:			
Credited			
Dividend income from available-for-sale financial assets	177	252	126
Reversal of provision for impairment of receivables	240	184	2,473
Reversal of write down in inventories	23	15	98
Government grants(i)	1,097	16,914	1,197
Charged			
Amortisation on intangible and other assets	2,153	1,888	1,507
Auditors remuneration	80	95	119
Cost of inventories recognised as expense	613,702	662,758	459,281
Provision for impairment of receivables	117	188	155
Loss on disposal of property, plant and equipment	1,642	2,602	1,808
Operating lease expenses	7,367	6,819	7,448
Research and development expenses	9,887	7,760	5,315
Write down in inventories	377	8,608	153

(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>2009</b>	<b>2008</b>	<b>2007</b>
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>
Wages, salaries and allowances	44,202	39,008	32,856
Social security costs	21,775	23,159	18,084
	65,977	62,167	50,940

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 82,429 for the year ended December 31, 2009 (2008: RMB 13,570, 2007: RMB 12,931) and special levies on domestic sales of crude oil of RMB 20,020 for the year ended December 31, 2009 (2008: RMB 85,291, 2007: RMB 44,662).

**Table of Contents****PETROCHINA COMPANY LIMITED****NOTES TO THE FINANCIAL STATEMENTS (Continued)**

(Amounts in millions unless otherwise stated)

**10 INTEREST EXPENSE**

	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>
Interest on			
Bank loans			
wholly repayable within five years	1,339	2,065	2,058
not wholly repayable within five years	90	22	181
Other loans			
wholly repayable within five years	4,624	1,365	1,643
not wholly repayable within five years	477	598	327
Accretion expense (Note 32)	1,943	1,746	1,202
Less: Amounts capitalised	(3,201)	(2,752)	(1,738)
	<b>5,272</b>	<b>3,044</b>	<b>3,673</b>

Amounts capitalised are borrowing costs that are attributable to the construction of a qualifying asset. The average interest rate used to capitalise such borrowings cost was 5.184% per annum for the year ended December 31, 2009.

**11 EMOLUMENTS OF DIRECTORS AND SUPERVISORS**

Details of the emoluments of directors and supervisors for the years ended December 31, 2009, 2008 and 2007 are as follows:

Name	2009			2008	2007
	Fee for Directors and Supervisors RMB	Salaries, Allowances and Other Benefits RMB	Contribution to Retirement Benefit Scheme RMB	Total RMB	Total RMB
<b>Chairman:</b>					
Mr. Chen Geng(i)					598
Mr. Jiang Jiemin					916
					1,514

**Vice Chairman:**

Mr. Zhou Jiping	737	37	774	515	
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**Executive directors:**

Mr. Duan Wende(iii)				366	824
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Mr. Liao Yongyuan	710	37	747	869	
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	710	37	747	1,235	824
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**Table of Contents****PETROCHINA COMPANY LIMITED****NOTES TO THE FINANCIAL STATEMENTS (Continued)**

(Amounts in millions unless otherwise stated)

Name	2009			2008	2007	
	Fee for Directors and Supervisors RMB 000	Salaries, Allowances and Other Benefits RMB 000	Contribution to Retirement Benefit Scheme RMB 000	Total RMB 000	Total RMB 000	
<b>Non-executive directors:</b>						
Mr. Wang Yilin						
Mr. Zeng Yukang						
Mr. Wang Fucheng						
Mr. Wang Guoliang						
Mr. Li Xinhua						
Mr. Jiang Fan		494	25	519	569	499
Mr. Chee-chen Tung	260			260	249	264
Mr. Liu Hongru	339			339	343	349
Mr. Li Yongwu(ii)	344			344	197	
Mr. Cui Junhui	348			348	331	
Mr. Franco Bernabè	246			246	243	257
	1,537	494	25	2,056	1,932	1,369
<b>Supervisors:</b>						
Mr. Chen Ming						
Mr. Wen Qingshan						
Mr. Sun Xianfeng						
Mr. Yu Yibo						
Mr. Xu Fengli(i)						264
Mr. Wang Yawei						
Mr. Qin Gang		507	34	541	521	469
Ms. Wang Shali						
Mr. Li Yongwu(ii)					110	315
Mr. Zhang Jinzhu(iii)					206	333
Mr. Wu Zhipan(iv)	107			107	234	319
Mr. Li Yuan	217			217	124	
Mr. Wang Daocheng(iv)	117			117		
	441	507	34	982	1,195	1,700
	1,978	2,448	133	4,559	4,877	5,407



- (i) No longer a director or supervisor since May 16, 2007.
- (ii) Elected as an independent non-executive director in May 16, 2008 and no longer a supervisor since then.
- (iii) No longer an executive director or a supervisor since May 16, 2008.
- (iv) Mr. Wu Zhipan no longer as a supervisor since May 12, 2009 and Mr. Wang Daocheng was elected as a supervisor since then.
- (v) Emoluments exclude the one-off payments by the Company to some of the independent non-executive directors of approximately RMB7.30 million in 2009.

The emoluments of the directors and supervisors fall within the following bands (including directors and supervisors whose term expired during the year):

	<b>2009 Number</b>	<b>2008 Number</b>	<b>2007 Number</b>
RMB Nil    RMB 1 million	24	25	20

**Table of Contents****PETROCHINA COMPANY LIMITED****NOTES TO THE FINANCIAL STATEMENTS (Continued)****(Amounts in millions unless otherwise stated)**

None of the directors and supervisors has waived their remuneration during the year ended December 31, 2009 (2008: None, 2007: None).

The five highest paid individuals in the Company for each of the three years ended December 31, 2009, 2008 and 2007 were also directors or supervisors and their emoluments are reflected in the analysis shown above.

During 2009, 2008 and 2007 the Company did not incur any severance payment to any director for loss of office or any payment as inducement to any director to join the Company.

**12 INCOME TAX EXPENSE**

	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>
Current taxes	24,862	43,423	48,995
Deferred taxes (Note 31)	8,611	(8,212)	807
	33,473	35,211	49,802

In accordance with the relevant PRC income tax rules and regulations, the PRC corporate income tax rate applicable to the Group is principally 25% for the years ended December 31, 2009 and 2008 and 33% for 2007. 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>2009</b>	<b>2008</b>	<b>2007</b>
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>
Profit before income tax expense	140,032	162,013	205,139
Tax calculated at a tax rate of 25% (2007: 33%)	35,008	40,503	67,696
Prior year tax return adjustment	(2,216)	25	451
Effect of income taxes from international operations in excess of taxes at the PRC statutory tax rate	1,820	6,876	633
Effect of preferential tax rate	(5,502)	(10,907)	(17,043)
Effect of change in statutory income tax rates on deferred taxes	(184)	(3,134)	(3,788)
Tax effect of income not subject to tax	(1,140)	(1,357)	(2,840)
Tax effect of taxable items deductible for tax purposes			(2,365)
Tax effect of expenses not deductible for tax purposes	5,687	3,205	4,140

Tax effect of unused tax losses which had expired			2,918
Taxation	33,473	35,211	49,802

**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 103,387 for the year ended December 31, 2009 (2008: RMB 114,453, 2007: RMB 146,796).

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Table of Contents**PETROCHINA COMPANY LIMITED****NOTES TO THE FINANCIAL STATEMENTS (Continued)****(Amounts in millions unless otherwise stated)****14 BASIC AND DILUTED EARNINGS PER SHARE**

Basic and diluted earnings per share for the year ended December 31, 2009 and December 31, 2008 have been computed by dividing profit for the year attributable to owners of the Company by the 183,021 million shares issued and outstanding for the year.

Basic and diluted net income per share for the year ended December 31, 2007 have been computed by dividing income for the year attributable to equity holders of the Company by the weighted average number of 179,700 million shares issued and outstanding for the year.

There are no potentially dilutive ordinary shares.

**15 DIVIDENDS**

	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>
Interim dividends attributable to owners of the Company for 2009 (note a)	22,725		
Proposed final dividends attributable to owners of the Company for 2009 (note b)	23,799		
Interim dividends attributable to owners of the Company for 2008 (note c)		24,127	
Final dividends attributable to owners of the Company for 2008 (note d)		27,367	
Interim dividends attributable to owners of the Company for 2007 (note e)			36,823
Final dividends attributable to owners of the Company for 2007 (note f)			28,708
	46,524	51,494	65,531

- (a) 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 and were paid on October 16, 2009.
- (b) At the meeting on March 25, 2010, the Board of Directors proposed 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. 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, 2010 when approved at the forthcoming Annual General Meeting.
- (c) 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 and were paid on October 16, 2008.

- (d) 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 approved by the shareholders in the Annual General Meeting on May 12, 2009 and were paid on June 19, 2009.
- (e) Interim dividends attributable to owners of the Company in respect of 2007 of RMB 0.205690 yuan per share amounting to a total of RMB 36,823 and were paid on September 28, 2007.
- (f) 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 and were paid on June 13, 2008.

Table of Contents**PETROCHINA COMPANY LIMITED****NOTES TO THE FINANCIAL STATEMENTS (Continued)**

(Amounts in millions unless otherwise stated)

**16 PROPERTY, PLANT AND EQUIPMENT**

<b>Year Ended December 31, 2009</b>	<b>Buildings RMB</b>	<b>Oil and Gas Property RMB</b>	<b>Equipment and Machinery RMB</b>	<b>Motor Vehicles RMB</b>	<b>Other RMB</b>	<b>Construction in Progress RMB</b>	<b>Total RMB</b>
<b>Cost or valuation</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	(2,167)	(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

**Table of Contents****PETROCHINA COMPANY LIMITED****NOTES TO THE FINANCIAL STATEMENTS (Continued)**

(Amounts in millions unless otherwise stated)

<b>Year Ended December 31, 2008</b>	<b>Buildings RMB</b>	<b>Oil and Gas Property RMB</b>	<b>Equipment and Machinery RMB</b>	<b>Motor Vehicles RMB</b>	<b>Other RMB</b>	<b>Construction in Progress RMB</b>	<b>Total RMB</b>
<b>Cost or valuation</b>							
At beginning of the year	90,951	676,011	334,948	15,284	9,034	113,283	1,239,511
Additions	1,006	14,382	3,720	2,816	288	220,202	242,414
Transfers	10,287	106,930	32,296		930	(150,443)	
Disposals or write offs	(2,317)	(3,946)	(3,631)	(496)	(222)	(10,341)	(20,953)
Currency translation differences	(247)	(3,023)	(380)	(67)	(106)	(348)	(4,171)
At end of the year	99,680	790,354	366,953	17,537	9,924	172,353	1,456,801
<b>Accumulated depreciation and impairment</b>							
At beginning of the year	(22,907)	(269,289)	(167,074)	(7,446)	(5,050)	(285)	(472,051)
Charge for the year	(5,869)	(50,848)	(31,916)	(1,466)	(946)	(1)	(91,046)
Disposals or write offs or transfers	1,008	1,868	2,039	340	214	20	5,489
Currency translation differences	58	968	109	36	59	1	1,231
At end of the year	(27,710)	(317,301)	(196,842)	(8,536)	(5,723)	(265)	(556,377)
<b>Net book value</b>							
At end of the year	71,970	473,053	170,111	9,001	4,201	172,088	900,424

The depreciation charge of the Group for the year ended December 31, 2009 included impairment losses of RMB 1,580 and RMB 478 (2008: RMB 4,235 and RMB 11,950, 2007: RMB Nil and RMB 294) primarily related to certain of the Group's oil and gas properties and refining and chemical production assets. The carrying values of these assets were written down to their recoverable values.

A valuation of all of the Group's property, plant and equipment, excluding oil and gas reserves, was carried out during 1999 by independent valuers on a depreciated replacement cost basis. As at September 30, 2003, a revaluation of the Group's refining and chemical production equipment was undertaken by a firm of independent valuers, China United Assets Appraiser Co., Ltd., in the PRC on a depreciated replacement cost basis. The revaluation surplus net of applicable deferred income taxes was credited to equity.

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

**Table of Contents****PETROCHINA COMPANY LIMITED****NOTES TO THE FINANCIAL STATEMENTS (Continued)****(Amounts in millions unless otherwise stated)**

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, 2009, 2008 and 2007.

	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>
At beginning of the year	15,853	11,975	9,005
Additions to capitalised exploratory well costs pending the determination of proved reserves	22,891	26,503	23,067
Reclassified to wells, facilities, and equipment based on the determination of proved reserves	(11,504)	(12,284)	(10,936)
Capitalised exploratory well costs charged to expense	(10,019)	(10,341)	(9,161)
At end of the year	17,221	15,853	11,975

The following table provides an aging of capitalised exploratory well costs based on the date the drilling was completed.

	<b>December 31,</b>	<b>December 31,</b>
	<b>2009</b>	<b>2008</b>
	<b>RMB</b>	<b>RMB</b>
One year or less	15,560	14,318
Over one year	1,661	1,535
Balance at December 31	17,221	15,853

RMB 1,661 at December 31, 2009 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:

<b>Name</b>	<b>Country of Incorporation</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Revenues</b>	<b>Profit/(loss)</b>	<b>Interest Held %</b>	<b>Type of Share</b>
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		RMB	RMB	RMB	RMB		
<b>As of or for the year ended December 31, 2009:</b>							
Dalian West Pacific Petrochemical Co., Ltd.	PRC	10,168	12,228	28,205	1,076	28.44	ordinary
China Marine Bunker (PetroChina) Co., Ltd.	PRC	6,546	3,501	27,510	358	50.00	ordinary
<b>As of or for the year ended December 31, 2008:</b>							
Dalian West Pacific Petrochemical Co., Ltd.	PRC	10,433	13,182	41,643	(5,660)	28.44	ordinary
China Marine Bunker (PetroChina) Co., Ltd.	PRC	6,619	3,972	43,037	392	50.00	ordinary

Dividends received and receivable from associates and jointly controlled entities were RMB 568 in 2009 (2008: RMB 3,886, 2007: RMB 991).

**Table of Contents****PETROCHINA COMPANY LIMITED****NOTES TO THE FINANCIAL STATEMENTS (Continued)****(Amounts in millions unless otherwise stated)**

In 2009, investments in associates and jointly controlled entities of RMB 345 (2008: RMB 36, 2007: RMB 833) were disposed of, resulting in a gain of RMB 33 (2008: A loss of RMB 3, 2007: A gain of RMB 320).

**18 AVAILABLE-FOR-SALE FINANCIAL ASSETS**

	<b>December 31, 2009 RMB</b>	<b>December 31, 2008 RMB</b>
Available-for-sale financial assets	2,799	2,509
Less: Impairment losses	(456)	(475)
	2,343	2,034

Available-for-sale financial assets comprise principally unlisted equity securities.

In 2009, available-for-sale financial assets of RMB 137 (2008: RMB 74, 2007: RMB 145) were disposed of, resulting in the realisation of a gain of RMB 4 (2008: RMB 5, 2007: RMB 142).

**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
PetroKazakhstan Inc.	Canada	US Dollar 665	Joint stock company with limited	67.00	Exploration, production and sale of crude oil and

PetroChina Hong Kong Limited	Hong Kong	HK Dollar 7,592	liability Limited liability company	100.00	natural gas outside the PRC Investment holding. The principal activities of its subsidiaries, associates and jointly controlled entities are the exploration and production of crude oil and natural gas in and outside the PRC
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Business combinations under common control between certain subsidiaries of the Group and subsidiaries of CNPC were completed during the year and accordingly, the financial statements have been restated. These business combinations are not individually or in aggregate material to the Group.

**Table of Contents****PETROCHINA COMPANY LIMITED****NOTES TO THE FINANCIAL STATEMENTS (Continued)****(Amounts in millions unless otherwise stated)****20 ADVANCE OPERATING LEASE PAYMENTS**

	<b>December 31, 2009 RMB</b>	<b>December 31, 2008 RMB</b>
Land use rights	19,901	16,954
Advance lease payments	10,335	9,326
	<b>30,236</b>	<b>26,280</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, 2009</b>			<b>December 31, 2008</b>		
	<b>Cost RMB</b>	<b>Accumulated amortisation RMB</b>	<b>Net RMB</b>	<b>Cost RMB</b>	<b>Accumulated amortisation RMB</b>	<b>Net RMB</b>
Patents	3,076	(1,939)	1,137	3,071	(1,729)	1,342
Technical know-how	1,654	(242)	1,412	372	(174)	198
Goodwill(i)	2,818		2,818	148		148
Other	11,025	(2,992)	8,033	7,098	(2,109)	4,989
Intangible assets	18,573	(5,173)	13,400	10,689	(4,012)	6,677
Other assets			4,617			4,017
			<b>18,017</b>			<b>10,694</b>

- (i) During the current year, the Group through PetroChina International (Singapore) Pte. Ltd. (an indirectly wholly owned subsidiary of the Company), acquired 100% of the share capital in Singapore Petroleum Company Limited for cash consideration of Singapore Dollars S\$3,239 (approximately RMB 15,296). At the date of acquisition, the fair value of the net assets in Singapore Petroleum Company Limited is S\$2,668 (approximately RMB 12,597) and consequently, goodwill of S\$571 (approximately RMB 2,699) was recognised.

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.

**Table of Contents****PETROCHINA COMPANY LIMITED****NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**(Amounts in millions unless otherwise stated)****22 INVENTORIES**

	<b>December 31, 2009</b>	<b>December 31, 2008</b>
	<b>RMB</b>	<b>RMB</b>
Crude oil and other raw materials	30,928	31,319
Work in progress	7,006	3,472
Finished goods	77,685	65,074
Spare parts and consumables	28	31
	115,647	99,896
Less: Write down in inventories	(866)	(9,211)
	114,781	90,685

The carrying amounts of inventories of the Group, which are carried at net realisable value, amounted to RMB 7,216 (2008: RMB 53,551) at December 31, 2009.

**23 ACCOUNTS RECEIVABLE**

	<b>December 31,</b>	<b>December 31,</b>
	<b>2009</b>	<b>2008</b>
	<b>RMB</b>	<b>RMB</b>
Accounts receivable	30,909	19,233
Less: Provision for impairment of receivables	(2,124)	(2,423)
	28,785	16,810

The aging analysis of accounts receivable at December 31, 2009 and December 31, 2008 is as follows:

	<b>December 31,</b>	<b>December 31,</b>
	<b>2009</b>	<b>2008</b>
	<b>RMB</b>	<b>RMB</b>
Within 1 year	28,579	16,563
Between 1 to 2 years	112	156
Between 2 to 3 years	84	25
Over 3 years	2,134	2,489

30,909

19,233

The Group offers its customers credit terms up to 180 days.

Movements in the provision for impairment of accounts receivable are as follows:

	<b>2009</b>	<b>2008</b>
	<b>RMB</b>	<b>RMB</b>
At beginning of the year	2,423	2,880
Provision for impairment of accounts receivable	38	36
Receivables written off as uncollectible	(232)	(388)
Reversal of provision for impairment of accounts receivable	(105)	(105)
At end of the year	2,124	2,423

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**Table of Contents****PETROCHINA COMPANY LIMITED****NOTES TO THE FINANCIAL STATEMENTS (Continued)**

(Amounts in millions unless otherwise stated)

**24 PREPAID EXPENSES AND OTHER CURRENT ASSETS**

	<b>December 31, 2009 RMB</b>	<b>December 31, 2008 RMB</b>
Other receivables	8,528	10,122
Advances to suppliers	36,009	37,209
	44,537	47,331
Less: Provision for impairment	(3,741)	(3,943)
	40,796	43,388
Prepaid income taxes		
Value-added tax recoverable	15,663	25,677
Prepaid expenses	421	275
Other current assets	2,715	217
	59,595	69,557

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 1.46% per annum for the year ended December 31, 2009 (2008: 2.24% per annum).

**27 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>December 31, 2009 RMB</b>	<b>December 31, 2008 RMB</b>
Trade payables	62,840	38,795
Advances from customers	21,193	13,008



Salaries and welfare payable	5,105	6,377
Accrued expenses	31	20
Dividends payable by subsidiaries to non-controlling shareholders	105	154
Interest payable	1,448	156
Construction fee and equipment cost payables	93,920	79,491
Other payables	20,097	18,779
	204,739	156,780

Other payables consist primarily of customer deposits.

**Table of Contents****PETROCHINA COMPANY LIMITED****NOTES TO THE FINANCIAL STATEMENTS (Continued)****(Amounts in millions unless otherwise stated)**

The aging analysis of trade payables at December 31, 2009 and 2008 is as follows:

	<b>December 31, 2009 RMB</b>	<b>December 31, 2008 RMB</b>
Within 1 year	60,420	36,892
Between 1 to 2 years	1,404	1,054
Between 2 to 3 years	505	306
Over 3 years	511	543
	<b>62,840</b>	<b>38,795</b>

**28 BORROWINGS***(a) Short-term borrowings*

	<b>December 31, 2009 RMB</b>	<b>December 31, 2008 RMB</b>
Bank loans		
secured	1,876	1,841
unsecured	18,377	25,111
Loans from CNPC and a fellow CNPC subsidiary	54,369	60,819
Short-term financing bills	60,000	
Other		1
	<b>134,622</b>	<b>87,772</b>
Current portion of long-term borrowings	14,229	5,898
	<b>148,851</b>	<b>93,670</b>

*(b) Long-term borrowings*

<b>Interest rates and final maturities</b>	<b>December 31, 2009 RMB</b>	<b>December 31, 2008 RMB</b>
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**Renminbi denominated borrowings:**

Bank loans for the development of oil fields and construction of refining plants	Floating interest rate at 5.35% per annum as of December 31, 2009, with maturities through 2010	100	200
Bank loans for working capital	Majority floating interest rates ranging from 4.86% to 6.23% per annum as of December 31, 2009, with maturities through 2019	7,013	6,409

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Table of Contents**PETROCHINA COMPANY LIMITED****NOTES TO THE FINANCIAL STATEMENTS (Continued)****(Amounts in millions unless otherwise stated)**

	<b>Interest rates and final maturities</b>	<b>December 31, 2009 RMB</b>	<b>December 31, 2008 RMB</b>
Loans from CNPC and a fellow CNPC subsidiary for the development of oil fields and construction of refining plants	Majority floating interest rates ranging from 2.48% to 5.04% per annum as of December 31, 2009, with maturities through 2032	16,262	16,181
Working capital loans from a fellow CNPC subsidiary	Fixed interest rates ranging from 4.32% to 4.90% per annum as of December 31, 2009, with maturities through 2012	760	456
Working capital loans	Majority fixed interest rates ranging from 2.55% to 6.32% per annum as of December 31, 2009, with no fixed repayment terms	44	5
Corporate debenture for the development of oil and gas properties	Fixed interest rates ranging from 3.76% to 4.11% per annum as of December 31, 2009, with maturities through 2013	3,500	3,500
Medium-term notes for the development of oil and gas properties	Fixed interest rates ranging from 2.28% to 3.35% per annum as of December 31, 2009, with maturities through 2014	45,000	
<b>US Dollar denominated borrowings:</b>			
Bank loans for the development of oil fields and construction of refining plants	Fixed interest rates ranging from zero to 1.50% per annum as of December 31, 2009, with maturities through 2038	240	278
Bank loans for the development of oil fields and construction of refining plants	Floating interest rates ranging from LIBOR plus 0.50% to LIBOR plus 3.00% per annum as of December 31, 2009, with maturities through 2014	4,577	3,825
Bank loans for working capital	Floating interest rates ranging from LIBOR plus 0.30% to LIBOR plus 2.00% per annum as of December 31, 2009, with maturities through 2014	10,632	2,392

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Table of Contents**PETROCHINA COMPANY LIMITED****NOTES TO THE FINANCIAL STATEMENTS (Continued)****(Amounts in millions unless otherwise stated)**

<b>Interest rates and final maturities</b>		<b>December 31, 2009 RMB</b>	<b>December 31, 2008 RMB</b>
Loans from a fellow CNPC subsidiary for the development of oil fields and construction of refining plants	Floating interest rates ranging from LIBOR plus 0.30% to 0.40% per annum as of December 31, 2009, with maturities through 2020	2,688	2,691
Loans from fellow CNPC subsidiaries for working capital	Majority floating interest rate at LIBOR plus 1.00% per annum as of December 31, 2009, with maturities through 2015	7,674	851
Loans for the development of oil fields and construction of refining plants	Fixed interest rate at 1.55% per annum as of December 31, 2009, with maturities through 2022	325	352
Loans for working capital	Floating interest rate at 5.00% per annum as of December 31, 2009, with no fixed repayment terms	47	569
Corporate debenture for the development of oil fields and construction of refining plants	Fixed interest rate at 3.00% per annum as of December 31, 2009, with maturities through 2019	295	301
Corporate debenture for the development of oil and gas properties	Fixed interest rate at 9.50% per annum as of December 31, 2009, with maturities through 2011	341	513
<b>Japanese Yen denominated borrowings:</b>			
Bank loans for the development of oil fields and construction of refining plants	Fixed interest rate at 2.42% per annum as of December 31, 2009, with maturities through 2010	10	20
<b>Euro denominated borrowings:</b>			
Bank loans for the development of oil fields and construction of refining plants	Fixed interest rates ranging from 2.00% to 2.30% per annum as of December 31, 2009, with maturities through 2023	192	207
Total long-term borrowings		99,700	38,750
Less: Current portion of long-term borrowings		(14,229)	(5,898)
		85,471	32,852

For loans denominated in RMB with floating interest rates, the interest rates are re-set annually on the respective anniversary dates based on interest rates announced by the People's Bank of China. For loans

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denominated in currencies other than RMB with floating interest rates, the interest rates are re-set quarterly or semi-annually as stipulated in the respective agreements. Other loans represent loans from independent third parties other than banks.

Borrowings of the Group of RMB 1,154 were guaranteed by CNPC and its subsidiaries at December 31, 2009 (2008: RMB 941).

The Group's borrowings include secured liabilities totalling RMB 7,904 at December 31, 2009 (2008: RMB 3,403). These borrowings are mainly secured over certain of the Group's notes receivable, inventories, fixed assets, intangible assets, cash and cash equivalents and time deposits with maturities over one year amounting to RMB 8,693(2008:RMB 4,031).

	<b>December 31, 2009 RMB</b>	<b>December 31, 2008 RMB</b>
Total borrowings:		
interest free	51	53
at fixed rates	163,155	85,170
at floating rates	71,116	41,299
	234,322	126,522
Weighted average effective interest rates:		
bank loans	3.10%	4.20%
loans from CNPC and fellow CNPC subsidiaries	3.21%	4.32%
corporate debentures	4.31%	4.51%
medium-term notes	2.78%	
short-term notes	2.01%	
other loans	2.22%	3.05%

The carrying amounts and fair values of long-term borrowings are as follows:

	<b>Carrying Amounts</b>	
	<b>December 31, 2009 RMB</b>	<b>December 31, 2008 RMB</b>
Bank loans	22,764	13,331
Loans from CNPC and fellow CNPC subsidiaries	27,384	20,179
Corporate debentures	4,136	4,314
Medium-term notes	45,000	

Other	416	926
	99,700	38,750

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(Amounts in millions unless otherwise stated)

	<b>Fair Values</b>	
	<b>December 31, 2009 RMB</b>	<b>December 31, 2008 RMB</b>
Bank loans	22,601	13,111
Loans from CNPC and fellow CNPC subsidiaries	27,377	20,179
Corporate debentures	4,146	4,020
Medium-term notes	43,587	
Other	350	798
	98,061	38,108

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 1.02% to 5.93% per annum as of December 31, 2009 (2008: 1.47% to 7.41%) depending on the type of the borrowings. The carrying amounts of short-term borrowings approximate their fair values.

Maturities of long-term borrowings at the dates indicated below are as follows:

<b>Bank Loans</b>	<b>December 31, 2009 RMB</b>	<b>December 31, 2008 RMB</b>
Within one year	8,756	579
Between one to two years	2,996	9,991
Between two to five years	10,668	2,395
After five years	344	366
	22,764	13,331

<b>Loans Other than Bank Loans</b>	<b>December 31, 2009 RMB</b>	<b>December 31, 2008 RMB</b>
Within one year	5,473	5,319
Between one to two years	9,216	5,451
Between two to five years	52,153	5,037



After five years	10,094	9,612
	76,936	25,419

**29 SHARE CAPITAL**

	<b>December 31, 2009 RMB</b>	<b>December 31, 2008 RMB</b>
Registered, issued and fully paid:		
A shares	161,922	161,922
H shares	21,099	21,099
	183,021	183,021

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**PETROCHINA COMPANY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**(Amounts in millions unless otherwise stated)**

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.

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.

**Table of Contents****PETROCHINA COMPANY LIMITED****NOTES TO THE FINANCIAL STATEMENTS (Continued)**

(Amounts in millions unless otherwise stated)

**30 RESERVES**

	<b>2009 RMB</b>	<b>2008 RMB</b>
<b>Revaluation Reserve</b>		
Beginning balance	79,946	79,946
Ending balance	79,946	79,946
<b>Capital Reserve</b>		
Beginning balance	53,362	53,362
Ending balance	53,362	53,362
<b>Statutory Common Reserve Fund</b> (Note a)		
Beginning balance	115,466	102,696
Transfer from retained earnings	9,981	12,770
Ending balance	125,447	115,466
<b>Special Reserve-Safety Fund Reserve</b>		
Beginning balance	6,750	3,536
Safety fund reserve	1,325	3,214
Ending balance	8,075	6,750
<b>Currency translation differences</b>		
Beginning balance	(2,726)	(1,554)
Currency translation differences	(1,460)	(1,172)
Ending balance	(4,186)	(2,726)
<b>Other reserves</b>		
Beginning balance	(23,382)	(16,401)
Purchase of non-controlling interest in subsidiaries	(179)	(17)
Acquisition of subsidiaries	(248)	(6,693)
Capital reduction of a subsidiary		(61)
Fair value gain/(loss) on available-for-sale financial assets	140	(237)
Capital contribution from non-controlling interest	1,158	
Other	2	27
Ending balance	(22,509)	(23,382)
	240,135	229,416

- (a) 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.

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.

**Table of Contents****PETROCHINA COMPANY LIMITED****NOTES TO THE FINANCIAL STATEMENTS (Continued)****(Amounts in millions unless otherwise stated)**

- (b) 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, 2009, the Company's distributable reserve amounted to RMB 358,415 (2008: RMB 316,708).

**31 DEFERRED TAXATION**

Deferred taxation is calculated on temporary differences under the liability method using a principal tax rate of 25% at December 31, 2009 and 2008 and 33% at December 31, 2007.

The movements in the deferred taxation account are as follows:

	<b>Year Ended December 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>
At beginning of the year	11,969	20,571	19,979
Transfer to profit and loss (Note 12)	8,611	(8,212)	807
Charge/(credit) to other comprehensive income	38	(67)	87
Acquisition of a subsidiary	991		(174)
Currency translation differences	(420)	(364)	(128)
Others	(29)	41	
At end of the year	21,160	11,969	20,571

Deferred tax balances before offset are attributable to the following items:

	<b>December 31,</b>	<b>December 31,</b>
	<b>2009</b>	<b>2008</b>
	<b>RMB</b>	<b>RMB</b>
Deferred tax assets:		
Current:		
Receivables and inventories	7,173	9,165
Tax losses of subsidiaries	166	294
Non-current:		
Impairment of long-term assets	3,983	4,580
Other	2,379	885
Total deferred tax assets	13,701	14,924

Deferred tax liabilities:		
Non-current:		
Accelerated tax depreciation	32,348	24,613
Other	2,513	2,280
Total deferred tax liabilities	34,861	26,893
Net deferred tax liabilities	21,160	11,969

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**Table of Contents****PETROCHINA COMPANY LIMITED****NOTES TO THE FINANCIAL STATEMENTS (Continued)****(Amounts in millions unless otherwise stated)**

Deferred tax balances after offset are listed as below:

	<b>December 31, 2009 RMB</b>	<b>December 31, 2008 RMB</b>
Deferred tax assets	289	497
Deferred tax liabilities	21,449	12,466

There were no material unrecognised tax losses at December 31, 2009 and 2008.

**32 ASSET RETIREMENT OBLIGATIONS**

	<b>2009 RMB</b>	<b>2008 RMB</b>	<b>2007 RMB</b>
At beginning of the year	36,262	24,761	18,481
Liabilities incurred	7,162	10,033	4,818
Consolidation of PetroKazakhstan Inc.			385
Liabilities settled	(434)	(169)	(110)
Accretion expense (Note 10)	1,943	1,746	1,202
Currency translation differences	(186)	(109)	(15)
At end of the year	44,747	36,262	24,761

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, 2009 amounted to RMB 8,437 (2008: RMB 6,997, 2007: RMB 5,754).

**34 CONTINGENT LIABILITIES****(a) Bank and other guarantees**

At December 31, 2009, borrowings of associates of RMB 21 (2008: RMB 43) from China Petroleum Finance Company Limited (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.



**Table of Contents****PETROCHINA COMPANY LIMITED****NOTES TO THE FINANCIAL STATEMENTS (Continued)****(Amounts in millions unless otherwise stated)****(d) Leasing of roads, land and buildings**

As at December 31, 2009, CNPC is still in the process of completing the process of obtaining the formal land use right certificates, necessary governmental procedures for the requisition of collectively-owned land on which gas stations are located and building ownership certificates for buildings transferred to the Group under the Restructuring Agreement entered into between the Company and CNPC in 2000.

Management confirms 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 certain relevant land use right certificates or individual building ownership certificates have not been obtained to date or the fact that the relevant governmental procedures have not been completed. In management's opinion, the outcome of the above events will not have a material adverse effect on the financial position of the Group.

**(e) 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 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, 2009 and 2008 under non-cancellable operating leases are as follows:

	<b>December 31, 2009 RMB</b>	<b>December 31, 2008 RMB</b>
No later than one year	4,071	3,634
Later than one year and no later than five years	12,478	12,492
Later than five years	77,385	78,970
	93,934	95,096

**(b) Capital commitments**

At December 31, 2009, the Group's capital commitments contracted but not provided for were RMB 56,657 (2008: RMB 22,719).

**(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 752 for the year ended December 31, 2009 (2008: RMB 944).

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**Table of Contents****PETROCHINA COMPANY LIMITED****NOTES TO THE FINANCIAL STATEMENTS (Continued)****(Amounts in millions unless otherwise stated)**

Estimated annual payments for the next five years are as follows:

	<b>December 31, 2009 RMB</b>	<b>December 31, 2008 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

**36 MAJOR CUSTOMERS**

The Group's major customers are as follows:

	<b>2009</b>		<b>2008</b>		<b>2007</b>	
	<b>Revenue</b>	<b>Percentage</b>	<b>Revenue</b>	<b>Percentage</b>	<b>Revenue</b>	<b>Percentage</b>
	<b>RMB</b>	<b>of total</b>	<b>RMB</b>	<b>of total</b>	<b>RMB</b>	<b>of Total</b>
		<b>revenue</b>		<b>revenue</b>		<b>revenue</b>
		<b>%</b>		<b>%</b>		<b>%</b>
China Petroleum & Chemical Corporation	67,137	7	57,594	5	50,292	6
CNPC and its subsidiaries	32,437	3	46,645	4	31,325	4
	99,574	10	104,239	9	81,617	10

**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 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 subsidiaries, associates and jointly controlled entities of the Group**

The Group has extensive transactions with other companies in the CNPC and its subsidiaries. Due to these relationships, it is possible that the terms of the transactions between the Group and other members of the CNPC and its 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 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 provide for a range of products and services which may be required and requested by either party. The products and services to be provided by the CNPC and its subsidiaries to the Group under the Comprehensive Products and Services Agreement include construction and

**Table of Contents****PETROCHINA COMPANY LIMITED****NOTES TO THE FINANCIAL STATEMENTS (Continued)****(Amounts in millions unless otherwise stated)**

technical services, production services, supply of material services, social services, ancillary services and financial services. The products and services 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 37,448 in the year ended December 31, 2009 (2008: RMB 51,714, 2007: RMB 49,662).

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 7,128 in the year ended December 31, 2009 (2008: RMB 9,300, 2007: RMB 3,418).

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 199,826 in the year ended December 31, 2009 (2008: RMB 204,670, 2007: RMB 169,755).

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 2,327 in the year ended December 31, 2009 (2008: RMB 3,576, 2007: RMB 2,404).

Amounts due from and to CNPC and its subsidiaries, associates and jointly controlled entities of the Group included in the following accounts captions are summarised as follows:

	<b>December 31, 2009 RMB</b>	<b>December 31, 2008 RMB</b>
Accounts receivable	3,780	4,737
Prepayments and other receivables	16,548	15,816
Accounts payable and accrued liabilities	57,076	42,121

Interest income represents interests from deposits placed with CP Finance. The total interest income amounted to RMB 143 in the year ended December 31, 2009 (2008: RMB 114, 2007: RMB 159). The balance of deposits at 31 December 2009 was RMB 10,433 (2008: RMB 8,424).

Purchases of financial service principally represent interest charged on the loans from CNPC and fellow CNPC subsidiaries, insurance fee, etc. The total amount of these transactions amounted to RMB 3,541 in the year ended December 31, 2009 (2008: RMB 1,623, 2007: RMB 1,388). Information on loans from related parties are included in Note 28.

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 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 FINANCIAL STATEMENTS (Continued)****(Amounts in millions unless otherwise stated)****(b) Key management compensation**

	<b>Year Ended December 31</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<b>RMB 000</b>	<b>RMB 000</b>	<b>RMB 000</b>
Emoluments and other benefits	9,885	10,581	10,273
Contribution to retirement benefit scheme	479	444	345
	10,364	11,025	10,618

**(c) Transactions with other state-controlled entities in the PRC**

Apart from transactions with CNPC and its subsidiaries, associates and jointly controlled entities of the Group, 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 business.

**38 SEGMENT INFORMATION**

With effect from January 1, 2009, the Group has redefined its operating segments as follows:

The businesses of refining of crude oil and petroleum products and the production and marketing of primary petrochemical products, derivative petrochemical products and other chemical products have been combined to form a new Refining and Chemicals segment.

The marketing of refined products and trading businesses are now included in a new Marketing segment.

The Group is principally engaged in a broad range of petroleum related products, services and activities. From a products and services perspective and pursuant to the above re-segmentation, the Group's operating segments comprise: Exploration and Production, Refining and Chemicals, Marketing, and Natural Gas and Pipeline. Comparative amounts have been restated to reflect the re-segmentation. Additionally, the Group has presented geographical information based on entities located in regions with 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.



**Table of Contents****PETROCHINA COMPANY LIMITED****NOTES TO THE FINANCIAL STATEMENTS (Continued)****(Amounts in millions unless otherwise stated)**

Sales between operating segments are conducted principally at market prices. On the basis of these operating segments, the management of the Company assesses the segmental operating results and allocates resources.

The accounting policies of the operating segments are the same as those described in Note 3 Summary of Principal Accounting Policies .

The segment information for the operating segments for the years ended December 31, 2009, 2008 and 2007 is as follows:

<b>Year Ended December 31, 2009</b>	<b>Exploration and Production RMB</b>	<b>Refining and Chemicals RMB</b>	<b>Marketing RMB</b>	<b>Natural Gas and Pipeline RMB</b>	<b>Other RMB</b>	<b>Total RMB</b>
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 customers	96,677	119,778	732,806	68,902	1,112	1,019,275
Depreciation, depletion and amortisation	(64,595)	(11,824)	(7,088)	(7,694)	(1,058)	(92,259)
Profit/(loss) from 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 associates and jointly controlled entities	590	53	519	8	14	1,184
Profit before income tax 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 associates and jointly controlled entities	22,183	579	5,393	68		28,223
						(1,122,521)

Elimination of intersegment balances(a)						
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 (Note 21)			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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**Table of Contents****PETROCHINA COMPANY LIMITED****NOTES TO THE FINANCIAL STATEMENTS (Continued)**

(Amounts in millions unless otherwise stated)

<b>Year Ended December 31, 2008</b>	<b>Exploration and Production RMB</b>	<b>Refining and Chemicals RMB</b>	<b>Marketing RMB</b>	<b>Natural Gas and Pipeline RMB</b>	<b>Other RMB</b>	<b>Total RMB</b>
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 customers	125,845	164,319	724,584	56,609	1,247	1,072,604
Depreciation, depletion and amortisation	(58,927)	(22,796)	(5,871)	(6,310)	(855)	(94,759)
Profit/(loss) from 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 associates and jointly controlled entities	4,561	(609)	314	5	19	4,290
Profit before income tax 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 associates and jointly controlled entities	24,021	1,686	3,074	20	49	28,850
Elimination of intersegment balances(a)						(1,078,770)
Total assets						1,196,235
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 FINANCIAL STATEMENTS (Continued)**

(Amounts in millions unless otherwise stated)

<b>Year Ended December 31, 2007</b>	<b>Exploration and Production RMB</b>	<b>Refining and Chemicals RMB</b>	<b>Marketing RMB</b>	<b>Natural Gas and Pipeline RMB</b>	<b>Other RMB</b>	<b>Total RMB</b>
Turnover	473,117	481,726	584,115	50,066	1,718	1,590,742
Less: intersegment sales	(378,888)	(330,281)	(36,773)	(6,610)	(648)	(753,200)
Turnover from external customers	94,229	151,445	547,342	43,456	1,070	837,542
Depreciation, depletion and amortisation	(43,731)	(11,504)	(5,615)	(5,926)	(647)	(67,423)
Profit/(loss) from operations	207,749	(23,659)	10,810	12,495	(6,378)	201,017
Finance costs:						
Exchange gain						1,808
Exchange loss						(2,559)
Interest income						2,101
Interest expense						(3,673)
Total net finance costs						(2,323)
Share of profit of associates and jointly controlled entities	5,908	463	55	2	17	6,445
Profit before income tax expense						205,139
Income tax expense						(49,802)
Profit for the year						155,337
Segment assets	558,589	212,179	151,758	80,252	819,153	1,821,931
Other assets						307
Investments in associates and jointly controlled entities	21,069	2,279	2,734	17	68	26,167
Elimination of intersegment balances(a)						(778,794)
Total assets						1,069,611
Segment capital expenditure	135,351	21,499	13,212	11,003	1,613	182,678
Segment liabilities	227,965	75,155	98,023	39,790	188,774	629,707
Other liabilities						43,792
Elimination of intersegment balances(a)						(386,607)

Total liabilities 286,892

*Geographical information*

Year Ended December 31,	Turnover			Non-Current Assets(b)		
	2009 RMB	2008 RMB	2007 RMB	2009 RMB	2008 RMB	2007 RMB
Mainland China	790,748	824,703	716,134	1,073,865	902,370	765,571
Other	228,527	247,901	121,408	78,078	63,878	60,057
	1,019,275	1,072,604	837,542	1,151,943	966,248	825,628

(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.

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**PETROCHINA COMPANY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**(Amounts in millions unless otherwise stated)**

**39 EVENTS AFTER THE REPORTING PERIOD**

On February 5, 2010, the Company issued the first tranche of medium-term notes for the year 2010 amounting to RMB 11 billion for a term of 7 years at an interest rate of 4.60% per annum.

On May 15, 2010, the Company issued the second tranche of medium-term notes for the year 2010 amounting to RMB 20 billion for a term of 7 years (with an option to determine the interest rate for the issuer and a put option for the investors in these notes at the end of the 5th year) at an interest rate of 3.97% per annum.

On May 19, 2010, the Company issued the third tranche of medium-term notes for the year 2010 amounting to RMB 20 billion for a term of 5 years at an interest rate of 3.97% per annum.

**40 APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were approved by the Board of Directors on March 25, 2010 and were approved by shareholders at the Annual General Meeting held on May 20, 2010.

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**PETROCHINA COMPANY LIMITED**

**SUPPLEMENTARY INFORMATION ON OIL AND GAS EXPLORATION AND  
PRODUCTION 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, 2009, 2008 and 2007 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 Oil and Condensate</b>	<b>Natural Gas</b>	<b>Total All Products</b>
	<b>(Millions of barrels)</b>	<b>(Billions of cubic feet)</b>	<b>(Million barrels of oil equivalent)</b>
Proved developed and undeveloped reserves			
The Group			
Reserves at December 31, 2006	11,618	53,469	20,529
Changes resulting from:			
Revisions of previous estimates	84	(1,062)	(93)
Improved recovery	79		79
Extensions and discoveries	764	6,331	1,819
Production	(839)	(1,627)	(1,110)
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
Proved developed reserves at:			
December 31, 2007	9,047	26,047	13,388
December 31, 2008	8,324	26,667	12,769

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December 31, 2009	7,871	30,949	13,029
Proved undeveloped reserves at:			
December 31, 2007	2,659	31,064	7,836
December 31, 2008	2,897	34,522	8,651
December 31, 2009	3,392	32,295	8,774
Equity method investments			
Share of proved developed and undeveloped reserves of associates and jointly controlled entities			
December 31, 2007	141	79	154
December 31, 2008	372	65	383
December 31, 2009	310	50	319

At December 31, 2009, total proved developed and undeveloped reserves of the Group and equity method investments is 22,122 million barrels of oil equivalent (2008: 21,803, 2007: 21,378), comprising 11,573 million

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barrels of crude oil and condensate (2008: 11,593, 2007: 11,847) and 63,294.4 billions of cubic feet of natural gas (2008: 61,254.2, 2007: 57,189.6).

At December 31, 2009, 10,516 million barrels (2008: 10,576, 2007: 11,062) of crude oil and condensate and 62,376.9 billion cubic feet (2008: 60,246.7, 2007: 56,510.0) of natural gas proved developed and undeveloped reserves of the Group are located within Mainland China, and 747 million barrels (2008: 645, 2007: 644) of crude oil and condensate and 866.9 billion cubic feet (2008: 942.6, 2007: 601.0) of natural gas proved developed and undeveloped reserves of the Group are located overseas.

**Capitalised Costs**

	<b>December 31, 2009 RMB</b>	<b>December 31, 2008 RMB</b>
The Group		
Property costs and producing assets	666,644	592,122
Support facilities	222,205	197,919
Construction-in-progress	61,581	59,078
Total capitalised costs	950,430	849,119
Accumulated depreciation, depletion and amortisation	(369,437)	(317,233)
Net capitalised costs	580,993	531,886
Equity method investments		
Share of net capitalised costs of associates and jointly controlled entities	13,020	17,237

**Costs Incurred for Property Acquisitions, Exploration and Development Activities**

	<b>Year Ended December 31, 2009</b>		
	<b>Mainland China RMB</b>	<b>Other RMB</b>	<b>Total 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

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	<b>Year Ended December 31, 2008</b>		
	<b>Mainland</b>		
	<b>China RMB</b>	<b>Other RMB</b>	<b>Total 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
	<b>Year Ended December 31, 2007</b>		
	<b>Mainland</b>		
	<b>China RMB</b>	<b>Other RMB</b>	<b>Total RMB</b>
The Group			
Property acquisition and exploration costs	35,070	1,350	36,420
Development costs	90,427	6,022	96,449
Total	125,497	7,372	132,869
Equity method investments			
Share of costs of property acquisition, exploration and development of associates and jointly controlled entities		2,798	2,798

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PRODUCTION ACTIVITIES (UNAUDITED)****(Amounts in millions unless otherwise stated)****Results of Operations for Oil and Gas Producing Activities**

	<b>Year Ended December 31, 2009</b>		
	<b>Mainland China RMB</b>	<b>Other RMB</b>	<b>Total 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

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	<b>Year Ended December 31, 2008</b>		
	<b>Mainland</b>		
	<b>China RMB</b>	<b>Other RMB</b>	<b>Total 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

	<b>Year Ended December 31, 2007</b>		
	<b>Mainland</b>		
	<b>China RMB</b>	<b>Other RMB</b>	<b>Total RMB</b>
The Group			
Sales and other operating revenues			
Sales to third parties	65,709	27,331	93,040
Intersegment sales	339,436		339,436
	405,145	27,331	432,476
Production costs excluding taxes	(60,354)	(2,903)	(63,257)



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Exploration expenses	(19,703)	(1,253)	(20,956)
Depreciation, depletion and amortisation	(34,893)	(2,129)	(37,022)
Taxes other than income taxes	(56,081)	(473)	(56,554)
Accretion expense	(1,108)	(94)	(1,202)
Income taxes	(51,487)	(6,758)	(58,245)
Results of operations from producing activities	181,519	13,721	195,240
Equity method investments			
Share of profit for producing activities of associates and jointly controlled entities		5,244	5,244
Total of the Group and equity method investments results of operations for producing activities	181,519	18,965	200,484

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PRODUCTION ACTIVITIES (UNAUDITED)****(Amounts in millions unless otherwise stated)****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, 2009, 2008 and 2007 is as follows:

	<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

	<b>RMB</b>
The Group	
At December 31, 2007	

Future cash inflows from sales of oil and gas	8,714,483
Future production costs	(3,049,226)
Future development costs	(437,946)
Future income tax expense	(1,569,898)
Future net cash flows	3,657,413
Discount at 10% for estimated timing of cash flows	(1,835,343)
Standardised measure of discounted future net cash flows	1,822,070

At December 31, 2009, RMB 1,041,228 (2008: RMB 924,623, 2007: RMB 1,709,411) of standardised measure of discounted future net cash flows related to proved oil and gas reserves located within mainland China and RMB 36,587 (2008: RMB 30,302, 2007: RMB 112,659) of standardised measure of discounted future net cash flows related to proved oil and gas reserves located overseas.

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Share of standardised measure of discounted future net cash flows of associates and jointly controlled entities:

December 31, 2009	26,457
December 31, 2008	17,912
December 31, 2007	33,543

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, 2009, 2008 and 2007 are as follows:

	<b>Year Ended December 31</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>
The Group			
Beginning of the year	954,925	1,822,070	1,155,345
Sales and transfers of oil and gas produced, net of production costs	(242,363)	(375,269)	(309,269)
Net changes in prices and production costs and other	171,170	(1,448,443)	804,330
Extensions, discoveries and improved recovery	150,846	139,058	256,476
Development costs incurred	(8,488)	67,673	(39,031)
Revisions of previous quantity estimates	(31,516)	(46,105)	(3,567)
Accretion of discount	120,396	260,643	171,389
Net change in income taxes	(37,155)	535,298	(213,603)
End of the year	1,077,815	954,925	1,822,070