

PETROCHINA CO LTD
Form 20-F
May 27, 2008

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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, 2007.

or

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

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 _____

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)

16 Andelu

Dongcheng District, Beijing, 100011

The People's Republic of China

(Address of principal executive offices)

Li Huaiqi

Telephone number: 8610 84886270

Facsimile number: 8610 84886260

Email address: xwzou@petrochina.com.cn

Address: 16 Andelu, Dongcheng District, Beijing, 100011, 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.

Title of Each class	Name of each exchange on which registered
American Depositary Shares, each representing 100 H Shares, par value RMB 1.00 per share*	New York Stock Exchange, Inc.
H Shares, par value RMB 1.00 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 RMB 1.00 per share***	161,922,077,818 ⁽¹⁾
H Shares, par value RMB 1.00 per share	21,098,900,000****

(1): Includes the
157,922,077,818
A Shares held by
CNPC and the
4,000,000,000 A
Shares held by
the public
shareholders.

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

Yes No

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

Yes No

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) or 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 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 Other

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 o No p

* 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 were became listed on the Shanghai Stock Exchange on November 5, 2007.

**** Includes 19,004,728,000 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 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 are to the People's Republic of China, but do 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.

Conversion Table

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

Certain Oil and Gas Terms

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

acreage	The total area, expressed in acres, over which an entity has interests in exploration or production. Net acreage is the entity's interest, expressed in acres, in the relevant exploration or production area.
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.
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.
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 stratigraphic test wells. Finding cost is also known as

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	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	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	Estimated quantities of crude oil and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not of escalations based upon future conditions.
proved undeveloped reserves	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.

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;

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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;

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 noon buying rate in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York was US\$1.00=RMB 6.9880 on May 16, 2008. 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:

	Noon buying rate	
	High	Low
	(RMB per US\$)	
December 2007	7.4120	7.2946
January 2008	7.2946	7.1818
February 2008	7.1973	7.1100
March 2008	7.1110	7.0105
April 2008	7.0185	6.9840
May 2008 (ending as of May 16)	7.0000	6.9860

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The following table sets forth the average noon buying rates between Renminbi and U.S. dollars for each of 2003, 2004, 2005, 2006 and 2007, calculated by averaging the noon buying rates on the last day of each month during the relevant year:

	Average noon buying rate (RMB per US\$)
2003	8.2772
2004	8.2768
2005	8.1826
2006	7.9579
2007	7.5806

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 cashflow data for the years ended December 31, 2005, 2006 and 2007 and the selected historical balance sheet data as of December 31, 2006 and 2007 set forth below are derived from our audited consolidated financial statements included elsewhere in this annual report. The selected historical income statement data and cashflow data for the years ended December 31, 2003 and 2004 and the selected historical balance sheet data as of December 31, 2003, 2004 and 2005 set forth below are derived from our audited financial statements, not included in this annual report. The financial information included in this section may not necessarily reflect our results of operations, financial position and cash flows in the future.

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	Year ended December 31,				
	2003 (1)	2004 (1)	2005	2006	2007
	RMB	RMB	RMB	RMB	RMB
	(in millions, except for per share and per ADS data)				
Income Statement Data					
Revenues					
Sales and other operating revenues	310,431	397,354	552,229	688,978	835,037
Operating expenses					
Purchases, services and other	(89,741)	(114,249)	(200,321)	(271,123)	(370,740)
Employee compensation costs	(20,044)	(22,934)	(29,675)	(39,161)	(50,616)
Exploration expenses, including exploratory dry holes	(10,624)	(12,090)	(15,566)	(18,822)	(20,648)
Depreciation, depletion and amortization	(42,163)	(48,362)	(51,305)	(61,388)	(66,625)
Selling, general and administrative expenses	(25,982)	(28,302)	(36,538)	(43,235)	(51,576)
Employee separation costs and shutting down of manufacturing assets	(2,355)	(220)			
Taxes other than income taxes	(16,821)	(19,943)	(23,616)	(56,666)	(73,712)
Revaluation loss of property, plant and equipment	(391)				
Other expenses, net	(598)	(116)	(3,037)	(607)	(1,265)
Total operating expenses	(208,719)	(246,216)	(360,058)	(491,002)	(635,182)
Income from operations	101,712	151,138	192,171	197,976	199,855
Income from equity affiliates and jointly controlled entities	933	1,621	2,401	2,277	6,997
Exchange gain (loss), net	(36)	8	88	74	(866)
Interest income	973	1,373	1,924	2,066	1,990
Interest expense	(2,889)	(2,896)	(2,762)	(3,220)	(3,595)
Income before taxes	100,693	151,244	193,822	199,173	204,381
Income taxes	(28,796)	(43,598)	(54,180)	(49,776)	(49,152)
Income for this year	71,897	107,646	139,642	149,397	155,229

Attributable to:					
Shareholders	69,835	103,843	133,362	142,224	145,625
Minority shareholders	2,062	3,803	6,280	7,173	9,604
	71,897	107,646	139,642	149,397	155,229
Basic and diluted net income per share					
Attributable to shareholders for this year (2)	0.40	0.59	0.75	0.79	0.81
Basic and diluted net income per ADS (3)	39.72	59.06 9	75.44	79.45	81.04

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	2003 (1)	2004 (1)	As of December 31,		2007
	RMB	RMB	2005	2006	RMB
			(in millions, except for per share and per ADS data)		
			RMB	RMB	
Balance Sheet Data					
Assets					
Current assets					
Cash and cash equivalents	11,613	11,688	80,905	48,559	65,494
Time deposits with maturities after three months but within 12 months	2,648	1,425	1,691	3,012	18,042
Investments in collateralized loans	24,224	33,217	235		
Accounts receivable	4,115	3,842	4,630	8,488	18,419
Inventories, at net book value	30,064	47,377	62,733	76,038	88,467
Prepaid expenses and other current assets	18,845	24,704	25,701	26,125	40,753
Total current assets	91,509	122,253	175,895	162,222	231,175
Non-current assets					
Property, plant and equipment, less accumulated depreciation, depletion and amortization	442,311	485,612	563,890	645,337	762,882
Long-term investments, at net book value	9,405	11,504	13,608	35,010	29,116
Prepaid operating lease rentals	7,286	12,307	16,235	20,468	23,417
Intangible and other assets	3,027	3,020	5,011	6,627	8,488
Time deposits mature after one year	3,485	3,751	3,428	2,499	5,053
Total non-current assets	465,514	516,194	602,172	709,941	828,956
Total assets	557,023	638,447	778,067	872,163	1,060,131
Liabilities and shareholders equity					
Current liabilities					
Short-term debt	34,328	34,937	28,689	35,763	30,934
Accounts payable and accrued liabilities	66,700	73,072	99,758	120,182	144,353

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Income tax payable	12,068	17,484	20,567	17,744	11,709
Other taxes payable	9,251	5,032	4,824	6,190	11,099
Total current liabilities	122,347	130,525	153,838	179,879	198,095
Non-current liabilities					
Long-term debt	51,601	44,648	44,570	35,634	39,688
Other long-term obligations	2,010	2,481	1,046	995	1,035
Assets retirement obligations	735	919	14,187	18,481	24,761
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	2003 (1)	2004 (1)	As of December 31,		2007
	RMB	RMB	2005	2006	RMB
			RMB	RMB	
			(in millions, except for per share and per ADS data)		
Deferred taxes	13,436	16,902	20,759	19,583	20,205
Total non-current liabilities	67,782	64,950	80,562	74,693	85,689
Total liabilities	190,129	195,475	234,400	254,572	283,784
Equity					
Shareholder's equity					
Share capital	175,824	175,824	179,021	179,021	183,021
Retained income	88,152	143,115	203,812	264,092	332,432
Reserves	93,952	108,834	132,556	143,564	217,952
Minority interest	357,928	427,773	515,389	586,677	733,405
	8,966	15,199	28,278	30,914	42,942
Total equity	366,894	442,972	543,667	617,591	776,347
Total liabilities and equity	557,023	638,447	778,067	872,163	1,060,131
Share capital, issued and outstanding, RMB 1.00 par value					
State-owned shares	158,242	158,242	157,922	157,922	
A Shares					161,922
H Shares and ADSs	17,582	17,582	21,099	21,099	21,099
Other Financial Data					
Dividend per share	0.18	0.26	0.34	0.36	0.36
Dividend per ADS	17.82	26.34	33.80	35.75	36.25
Capital expenditures	(86,373)	(98,946)	(124,801)	(148,746)	(181,583)
Cash Flow Data					
Net cash provided by operating activities	139,570	141,691	203,885	198,102	203,748

Net cash used for investing activities	(102,549)	(102,276)	(91,576)	(158,451)	(184,205)
Net cash used for financing activities	(35,593)	(39,586)	(42,634)	(71,739)	(2,648)

Notes:

- (1) Certain financial data for these periods and as of these dates are derived from our audited consolidated financial statements, not included in this annual report, and were retroactively restated. In 2005, we retroactively restated our prior years consolidated financial statements to reflect the effect as if the refinery and petrochemical operations of Ningxia Dayuan Refinery and Petrochemical Company Limited, or Dayuan, Qingyang Refinery and Petrochemical Company Limited, or Qingyang, both of which we acquired from CNPC, and the operations of CNPC Exploration and

Development Company Limited, or CNPC E&D, of which we acquired a 50% interest from China National Oil and Gas Exploration and Development Corporation, or CNODC, a wholly owned subsidiary of CNPC, had always been combined since inception.

- (2) The basic and diluted income per share for the years ended December 31, 2003 and 2004 has been calculated by dividing the net income by the

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number of
175,824 million
shares issued
and outstanding
for the
corresponding
years. The basic
and diluted
income per
share for the
year ended
December 31,
2005 was
calculated by
dividing the net
income by the
weighted
average number
of
176,770 million
shares issued
and outstanding
for the year
presented. The
basic and
diluted income
per share for the
year ended
December 31,
2006 was
calculated by
dividing the net
income by the
number of
179,021 million
shares issued
and outstanding
for the year
presented. The
basic and
diluted income
per share for the
year ended
December 31,
2007 was
calculated by
dividing the net
income by the
number of

179,700 million shares issued and outstanding for the year presented.

- (3) The basic and diluted income per ADS for the years ended December 31, 2003 and 2004 has been calculated by dividing the net income by the number of 175,824 million shares issued and outstanding for the corresponding years, each ADS representing 100 H Shares. The basic and diluted income per ADS for the year ended December 31, 2005 has been calculated by dividing the net income by 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 income per ADS for the year ended December 31, 2006 has been

calculated by dividing the net income by the number of 179,021 million shares issued and outstanding for the year presented, each ADS representing 100 H Shares. The basic and diluted income per ADS for the year ended December 31, 2007 was calculated by dividing the net income by the number of 179,700 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.

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 new mechanism for determining the prices of refined products. 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.

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. Although our proved crude oil reserves increased slightly in 2004, 2005, 2006 and 2007 compared to prior years, we cannot assure you that we will be able to increase or maintain our crude oil reserves in the future by our exploration activities in China. We are actively pursuing business opportunities outside China to supplement our domestic resources. For instance, we acquired certain overseas crude oil and natural gas assets from CNPC. We cannot assure you, however, that we can successfully locate sufficient alternative sources of crude oil supply or at all due to the complexity of the international political, economic and other conditions. If we fail to obtain sufficient alternative sources of crude oil supply, our results of operations and financial condition may be materially and adversely affected.

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The United States Securities and Exchange Commission, or the 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, 2007 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.

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.

Except for limited insurance coverage for vehicles and certain assets that we consider to be subject to significant operating risks, we do not carry any other insurance for our property, facilities or equipment in respect of our business operations. We do not currently carry any third party liability insurance against claims relating to personal injury or death, property or environmental damage arising from accidents on our property or relating to our operations. We also do not currently carry any business interruption insurance. The limited insurance coverage of our assets exposes us to substantial risks and will not cover most losses.

CNPC owns approximately 86.29% 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 requirements of the Listing Rules of the Hong Kong Stock Exchange, 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 controlling shareholder, will always vote its shares in a way that benefits our minority shareholders.

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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 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 arises, we may have to seek external financing to satisfy our capital needs. Under such circumstance, our inability to obtain sufficient funding for our development plans could adversely affect our business, financial condition and results of operations.

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. As a result, we recorded an aggregate of RMB 28,914 million and an aggregate of RMB44,582 million as such levy to the PRC government in relation to our domestic sales of crude oil in 2006 and in 2007, respectively.

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 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.

Prior to 2005, our company performed capping or plugging on wellheads and surface facilities that could be salvaged for alternative use. For safety reasons, our company also performed capping or plugging on certain wells that were considered to be in areas with extensive human use at the time of the abandonment. Our company, however, did not perform capping or plugging on wells that were neither considered to be in areas with extensive human use nor could be salvaged for alternative use. Consequently, such wellheads and surface facilities were left at their original sites after the wells were retired.

The Environmental Protection Regulation for Oil and Gas Exploration and Production Activities in Heilongjiang Province and The Environmental Protection Regulation for Oil and Gas Exploration and Production Activities in Gansu Province were issued in mid and late 2005. Based on our reading of the new provincial regulations and in consultation with the environmental administrative authorities in Heilongjiang and Gansu provinces, we believe that such regulations only apply to the oil and gas properties retired after these regulations were issued in 2005. Accordingly, our company established standard abandonment procedures, requesting that all of its branch and

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subsidiary companies recognize asset retirement provisions for their currently used oil and gas properties.

Our company believes it had no obligation to adopt such abandonment procedures prior to the issuance of the new regulations in 2005. For the oil and gas properties that were retired prior to the issuance of such regulations, the activities required to retire these assets, at a level that would be in compliance with the regulations and our internal policy, have not been performed. The costs associated with these activities have not been included in the asset retirement obligations accrued during 2005. However, Heilongjiang Province and Gansu Province 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 in 2005, we could be required to incur substantial costs associated with such asset retirement obligations. In addition, we cannot assure you that the provincial governments other than Heilongjiang Province and Gansu Province will not enact new regulations which will 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.

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. We have included the Mandatory Provisions and certain additional requirements that are imposed by the Hong Kong Stock Exchange Listing Rules in our Articles of Association for the purpose of reducing the scope of difference between the Hong Kong Company Law and the PRC Company Law. However, 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.

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.

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

ITEM 4 INFORMATION ON THE COMPANY

Introduction

History and Development of the 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, transportation, storage and marketing of crude oil and petroleum products;

the production and marketing of basic petrochemical products, derivative chemical products and other chemical products; and

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

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, 2007, we had total revenue of RMB 835,037 million and net income of RMB 145,625 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 four decades, we

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have conducted crude oil and natural gas exploration activities in many regions of China. As of December 31, 2007, we had estimated proved reserves of approximately 11,705.6 million barrels of crude oil and approximately 57,110.6 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, 2007, we produced 838.8 million barrels of crude oil and 1,627.0 billion cubic feet of natural gas for sale, representing an average production of 2.30 million barrels of crude oil and 4.46 billion cubic feet of natural gas for sale per day. In 2007, we sold 857.2 million barrels of crude oil and 1,647.8 billion cubic feet of natural gas. Approximately 84% of the crude oil we sold in the year ended December 31, 2007 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. We now operate 26 refineries located in eight provinces, four autonomous regions and one municipality. In 2007, our refineries processed approximately 823.6 million barrels of crude oil or an average of 2.3 million barrels per day. In the year ended December 31, 2007, we produced approximately 71.38 million tons of gasoline, diesel and kerosene and sold approximately 85.74 million tons of these products. In the year ended December 31, 2007, approximately 80% of the crude oil processed in our refineries was provided by our exploration and production segment and approximately 18.9% of the crude oil processed in our refineries was imported. As of December 31, 2007, our retail distribution network consisted of 17,070 service stations that we own and operate, 282 service stations, wholly owned by CNPC or jointly owned by CNPC and third parties, to which we provide supervisory support and 1,296 franchise service stations.

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 currently produce and sell a wide range of basic and derivative petrochemical products and other chemical products through 12 chemical plants and four chemical products sales companies located in five provinces, three autonomous regions and two municipalities under the direct administration of the central government in China. Our other segments supply substantially all of the hydrocarbon feedstock requirements of our chemicals operations.

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 2007, our sales of natural gas totaled 1,647.8 billion cubic feet, of which 1,502.0 billion cubic feet was sold through our natural gas and pipeline segment. As of December 31, 2007, we owned and operated regional natural gas pipeline networks consisting of 22,043 kilometers of pipelines, of which 19,792 kilometers were operated by our natural gas and pipeline segment. As of December 31, 2007, we owned and operated a crude oil pipeline network consisting of 10,559 kilometers of pipelines with an average daily throughput of approximately 3.13 million barrels of crude oil. As of December 31, 2007, we also had a refined product pipeline network consisting of 2,669 kilometers of pipelines with an average daily throughput of approximately 39,525 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. In June 2005, we entered into a capital contribution agreement with CNODC, Central Asia Petroleum Company Limited and CNPC E&D, pursuant to which, in December 2005, we acquired a 50% interest in CNPC E&D, a subsidiary of CNODC, for a consideration of RMB 20,741 million, which was paid to CNPC E&D as a part of our capital contribution. Under this agreement, CNODC, a wholly owned subsidiary of CNPC, transferred certain of its overseas oil and natural gas assets to CNPC E&D in November 2005. Following the completion of the transactions contemplated by this agreement, each of CNODC and us obtained a 50% interest in CNPC E&D and CNODC subsequently transferred its 50% interest in CNPC E&D to CNPC, which resulted in CNPC holding the 50% interest in CNPC E&D directly. We have the right to appoint four of the seven directors of CNPC E&D, which enables us to maintain effective control over CNPC E&D. We also entered into a transfer agreement with CNPC E&D in December 2005 to transfer all of our interest in PTRI, the operating entity of our oil and natural gas assets in Indonesia, as the remaining part of our capital contribution to CNPC E&D for a consideration of RMB 579 million.

Following the completion of the acquisition of CNPC E&D through capital contribution, we obtained a 50% interest in the oil and natural gas assets held by CNPC E&D in twelve countries, including, among others, Kazakhstan, Venezuela and Peru. The consummation of the transactions described above has significantly expanded

our overseas operations, effectively increased our oil and gas reserves and production volumes, and streamlined our existing overseas business in Indonesia with the acquired businesses.

In August 2006, CNPC E&D entered into an acquisition agreement to acquire a 67% equity interest in PetroKazakhstan Inc., or PKZ, from CNPC for a consideration of US\$2,735 million. This acquisition was consummated in December 2006. This acquisition has streamlined our existing exploration and development operations in Kazakhstan and increased our oil and gas assets.

In 2006, we acquired a 100% interest in an exploration block in Chad through CNPC E&D. This Chad Block covers an area of 220,000 square kilometers and a trap resource of more than 1,000 million barrels of crude oil and is currently one of our most important overseas exploration blocks. The term trap resource means the geological reserve estimated on a non-filled-trap basis. It is equal to the trap area multiplied by the unit reserve factor and then multiplied by the filling percentage of the trap. The term unit reserve factor means the geological serve within one unit area and one unit depth.

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On December 27, 2007, we entered the Capital Injection Agreement Concerning CNPC Exploration and Development Company Limited with CNODC and CNPC E&D. Pursuant to that agreement, we and CNODC, as shareholders of CNPC E&D, shall inject capital in the aggregate of RMB16,000 million into CNPC E&D. The Company and CNODC shall each inject RMB8,000 million in cash, payable in one lump sum. Upon completion of the capital injection, each of us and CNODC will continue to hold 50% of the shares of CNPC E&D.

In addition, we are currently assessing the feasibility of making further investments in international oil and gas markets.

In the year ended December 31, 2007, we imported approximately 272.3 million barrels of crude oil, as compared to 228.8 and 184.9 million barrels of crude oil in the years ended December 31, 2006 and 2005, respectively.

Acquisitions

Pursuant to our board resolutions dated October 26, 2005, we made an offer to the holders of the A Shares of Jinzhou Petrochemical Co., Ltd. or Jinzhou Petrochemical, to acquire at the purchase price of RMB 4.25 per share 150 million outstanding Jinzhou Petrochemical A Shares. Jinzhou Petrochemical was delisted from the Shenzhen Stock Exchange on January 4, 2006 upon approval from the China Securities Regulatory Commission.

Pursuant to our board resolutions dated October 26, 2005, we made separate offers to the holders of the A Shares of Jilin Chemical Industrial Company Limited, or Jilin Chemical, and the holders of the H Shares of Jilin Chemical to acquire at the purchase price of RMB 5.25 per share 200 million outstanding A Shares, and at the purchase price of HK\$2.80 per Share 964.778 million outstanding H Shares (including Jilin Chemical ADSs). Jilin Chemical H Shares, A Shares, and ADSs were delisted from the Hong Kong Stock Exchange, the Shenzhen Stock Exchange, and the New York Stock Exchange on January 23, February 20 and February 15, 2006, respectively.

Pursuant to our board resolutions dated October 26, 2005, we made an offer to the holders of A Shares of Liaohe Jinma Oilfield Co., Ltd. or Liaohe Jinma, to acquire at the purchase price of RMB 8.80 per share 200 million issued and outstanding Liaohe Jinma A Shares. Liaohe Jinma was delisted from the Shenzhen Stock Exchange on January 4, 2006.

In 2007, we completed the acquisition of the remaining interest in Jinzhou Petrochemical, Liaohe Jinma and Jilin Chemical. Each of Jinzhou Petrochemical, Liaohe Jinma and Jilin Chemical completed the cancellation of its business registration in 2007.

On December 6, 2005, we entered into two separate purchase agreements with two wholly owned subsidiaries of CNPC, Liaohe Petroleum Exploration Bureau and China Petroleum Pipeline Bureau, to acquire from the two companies a 15.56% equity interest and a 20.17% equity interest, respectively, in PetroChina Fuel Oil Company or the Fuel Oil Company, a 55.43% subsidiary of our company, with a total cash consideration of RMB 559 million.

On August 23, 2007, we entered into an transfer agreement with CNPC, pursuant to which we acquired the assets of the risk operation service business from CNPC. Under the transfer agreement, we paid CNPC RMB 1,652.28 million as consideration, representing the value of the net assets of the risk operation service business as at December 31, 2006. The parties shall adjust the consideration by reference to the net assets generated by the risk operation service business for the period from January 1, 2007 to August 31, 2007 as shown in the management accounts for that period.

On April 28, 2008, we entered into an acquisition agreement with CNPC, pursuant to which we acquired from CNPC the Northeastern Inspection, Maintenance and Repair Business Division of CNPC. Upon the closing of the agreement, we shall pay RMB 43.8 million to CNPC as consideration, representing the net asset value of the Northeastern Inspection, Maintenance and Repair Business Division as at September 30, 2007. The parties shall adjust the consideration by reference to the net assets generated by the Northeastern Inspection, Maintenance and Repair Business Division for the period from October 1, 2007 to April 30, 2008 as shown in the management accounts for that period.

Disposal

Pursuant to an equity transfer agreement with CNPC dated March 18, 2007, we disposed of our 70% equity interests in China National United Oil Corporation (China United Oil) to CNPC for a consideration of RMB1.01 billion. This transaction was approved by our shareholders at our annual shareholders meeting for 2006 held on May 16, 2007. We have also received the internal approval of CNPC and the approval from the State-owned

Assets Supervision and Administration Commission, or SASAC, and other relevant regulatory authorities with respect to this transaction. The consideration for this transaction was determined on the basis of the equal discussions between the parties thereto and the net asset value of China United Oil as at December 31, 2006

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equal to RMB1.44 billion as appraised by China Enterprise Appraisal Co., Ltd. The consideration for this transaction is equal to 70% of such appraised net asset value.

Our Corporate Organization and Shareholding Structure

PetroChina was 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, PetroChina completed a global offering of H Shares and ADSs. In September 2005, PetroChina completed a follow-on offering of over 3 billion H Shares at the price of HK\$6.00 per share. In October 2007 PetroChina issued 4 billion A Shares at an issue price of RMB16.7 per share. The A Shares were listed on the Shanghai Stock Exchange on November 5, 2007. Currently, CNPC owns an approximate 86.29% interest in PetroChina.

The following chart illustrates our corporate organization and our shareholding structure:

- (1) Indicates approximate shareholding.
- (2) Includes subsidiary companies and those branches without legal person status.
- (3) Represents enterprises directly administered and operated by such segment.
- (4) Includes PetroChina Planning & Engineering Institute, PetroChina Exploration & Development Research Institute, CNPC E&D, PetroChina Foreign Cooperation Administration Department,

Beijing Oil and
Gas Pipeline
Network
Dispatching
Center, IT
Service Center,
PetroChina
International
Co., Ltd., and
Petrochemical
Research
Institute.

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The following chart illustrates our management structure:

- (1) Includes subsidiary companies and those branches without legal person status.
- (2) Represents enterprises directly administered and operated by such segment.

General Information

Our legal name is , and its English translation is PetroChina Company Limited. Our headquarters are located at 16 Andelu, Dongcheng District, Beijing, China, 100011, and our telephone number at this address is (86-10) 8488-6270. Our website address is www.petrochina.com.cn. The information on our website is not part of this annual report.

Launch of New Logo

Effective December 26, 2004, we began using a new logo that is jointly owned by us and CNPC. We have applied for trademark registration of the new logo with the State Trademark Bureau of the PRC. To date, some of these applications have been approved, for which we have received trademark registration certificates, and others are either in the process of review or public announcement. In addition, we have applied for international trademark registration for the new logo in other jurisdictions. To date, we have received two Madrid International Trademark Registration Certificates for the new logo covering 31 jurisdictions, including the U.S., U.K., Japan, and Korea, and 25 national trademark registration certificates for the new logo from seven jurisdictions, including Canada, Myanmar, and Hong Kong.

Table of Contents**Exploration and Production**

We are engaged 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 39.6% of our proved crude oil reserves as of December 31, 2007 and 41.8% of our crude oil production in 2007. 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 21.4% of our proved crude oil reserves as of December 31, 2007 and 20.4 of our crude oil production in 2007. Our proved natural gas reserves and production are generally concentrated in northwestern and southwestern China, specifically in the Erdos, Tarim and Sichuan basins. Our overseas proved crude oil reserves and proved natural gas reserves accounted for 5.5% of our proved crude oil reserves and 1.1% of our proved natural gas reserves as of December 31, 2007 and our overseas oil production and natural gas production accounted for 6.0% of our crude oil production and 2.7% of our natural gas production in 2007.

We currently hold exploration licenses covering a total area of approximately 446.4 million acres and production licenses covering a total area of approximately 16.4 million acres. In 2007, our exploration and production segment had income from operations of RMB 206,587 million.

To further develop our crude oil and natural gas businesses, we have applied to the Ministry of Land and Resources for oil and gas exploration and production licenses covering the southern part of the South China Sea to commence offshore crude oil and natural gas exploration and production. We cannot assure you that we will ultimately obtain these licenses or that we will have sufficient capital to fund these activities.

Reserves

Our estimated proved reserves as of December 31, 2007 totaled approximately 11,705.6 million barrels of crude oil and approximately 57,110.6 billion cubic feet of natural gas. As of December 31, 2007, proved developed reserves accounted for 77.3% and 45.6% of our total proved crude oil and natural gas reserves, respectively. Total proved hydrocarbon reserves on a barrels-of -oil equivalent basis increased by 3.4% from approximately 20,529.4 million barrels-of -oil equivalent as of the end of 2006 to approximately 21,223.9 million barrels-of -oil equivalent as of the end of 2007, taking account of our overseas crude oil reserves of 643.2 million barrels and overseas natural gas reserves of 600.6 billion cubic feet, totaling 743.3 barrels-of -oil equivalent. Natural gas as a percentage of total proved hydrocarbon reserves increased from 43.4% as of December 31, 2006 to 44.8 as of December 31, 2007.

The following table sets forth our estimated proved reserves (including proved developed reserves and proved undeveloped reserves) and proved developed reserves of crude oil and natural gas as of December 31, 2005, 2006 and 2007. We prepared our reserve estimates as of December 31, 2005, 2006 and 2007, on the basis of reports prepared by DeGolyer & MacNaughton and Gaffney, Cline & Associates, independent engineering consultants, in accordance with Statement of Financial Accounting Standards No. 69, or SFAS No. 69. 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.

	Crude oil (millions of barrels)	Natural gas (1) (Bcf)	Combined (1) (BOE, in millions)
Proved developed and undeveloped reserves			
Reserves as of December 31, 2005	11,536.2	48,123.1	19,556.7
Revisions of previous estimates	196.1	685.9	310.4
Extensions and discoveries	635.3	6,247.7	1,676.5
Improved recovery	81.1		81.1
Production for the year	(830.7)	(1,587.5)	(1,095.3)

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Reserves as of December 31, 2006	11,618.0	53,469.2	20,529.4
Revisions of previous estimates	83.7	(1,063.0)	(93.4)
Extensions and discoveries	763.9	6,331.4	1,819.1
Improved recovery	78.8	0	78.8
Production for the year	(838.8)	(1,627.0)	(1,110.0)

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	Crude oil (millions of barrels)	Natural gas (1) (Bcf)	Combined (1) (BOE, in millions)
Reserves as of December 31, 2007	11,705.6	57,110.6	21,223.9
Proved developed reserves			
As of December 31, 2005	9,194.8	19,857.8	12,504.4
As of December 31, 2006	9,185.2	22,563.9	12,945.8
As of December 31, 2007	9,047.1	26,047.1	13,388.3

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

The following tables set forth our crude oil and natural gas proved reserves and proved developed reserves by region as of December 31, 2005, 2006 and 2007.

	2005		As of December 31, 2006		2007	
	Proved developed and undeveloped	Proved developed	Proved Developed And Undeveloped (millions of barrels)	Proved developed	Proved developed and undeveloped	Proved developed
Crude oil reserves						
Daqing	4,396.9	3,863.9	4,200.3	3,516.0	3,856.1	3,324.3
Liaohu	1,114.6	937.5	1,067.5	845.8	1,121.0	888.1
Xinjiang	1,261.8	1,010.8	1,306.6	1,077.0	1,354.9	1,198.9
Changqing	1,267.0	840.6	1,450.6	1,182.9	1,488.9	1,194.8
Jilin	675.0	472.2	775.5	501.8	784.2	463.4
Dagang	516.1	426.7	482.1	400.0	523.2	346.7
Tarim	543.8	418.1	523.9	370.4	590.3	379.7
Huabei	536.2	381.5	500.9	388.4	448.0	307.0
Qinghai	243.0	185.5	227.9	187.2	200.1	186.3
Tuha	165.0	110.8	156.5	104.9	164.7	91.7
Sichuan	8.0	5.5	11.7	5.4	9.5	4.4
Jidong	122.7	73.6	180.4	98.3	413.1	126.0
Other regions (1)	686.1	468.1	734.1	507.1	751.5	535.8
Total	11,536.2	9,194.8	11,618.0	9,185.2	11,705.6	9,047.1

As of December 31,

	2005		2006		2007	
	Proved developed and undeveloped	Proved developed	Proved developed and undeveloped (Bcf)	Proved developed	Proved developed and undeveloped	Proved Developed
Natural gas reserves (2)						
Sichuan	9,211.2	5,063.5	10,362.8	4,867.3	10,400.5	4,365.5
Changqing	15,765.6	4,089.8	17,846.1	4,559.7	19,105.0	6,943.9
Xinjiang	1,686.8	1,120.4	1,723.0	1,047.0	1,537.1	999.3
Daqing	1,936.8	813.3	1,894.6	740.2	3,039.7	1,046.2
Qinghai	4,534.1	1,528.0	4,467.0	1,584.0	4,352.8	3,003.5
Tarim	11,838.8	5,347.9	14,443.6	7,818.4	15,114.3	7,918.8
Liaohe	489.8	417.6	429.3	338.8	386.4	296.2
Tuha	677.4	367.8	640.5	401.8	581.6	350.4
Huabei	369.3	211.8	340.3	264.6	193.1	119.2

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	2005		As of December 31, 2006		2007	
	Proved developed and undeveloped	Proved developed	Proved developed and undeveloped (Bcf)	Proved developed	Proved developed and undeveloped	Proved Developed
Dagang	586.9	207.8	275.0	189.7	347.4	197.1
Jilin	187.8	132.7	198.6	113.7	1,169.9	104.1
Jidong	38.9	27.2	52.7	31.5	191.4	40.4
Other regions (1)	799.7	530.0	795.7	607.2	691.4	662.5
Total	48,123.1	19,857.8	53,469.2	22,563.9	57,110.6	26,047.1

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

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

Exploration and Development

We are currently conducting exploration and development efforts in 11 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 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.

Year	Daqing	Xinjiang	Liaohu	Changqing	Huabei	Dagang	Sichuan	Others (1)	Total
2005	250	191	71	456	83	39	58	360	1,508

	Net exploratory wells drilled (2)									
	Crude oil	78	92	47	200	53	22	0	152	644
	Natural gas	6	1	0	24	0	0	30	15	76
	Dry (3)	166	98	24	232	30	17	28	193	788
	Net development wells drilled (2)	3,722	1,608	563	2,608	250	192	101	2,587	11,631
	Crude oil	3,712	1,604	549	2,364	248	188	6	2,495	11,166
	Natural gas	10	4	12	195	2	4	83	88	398
	Dry (3)	0	0	2	49	0	0	12	4	67
2006	Net exploratory wells drilled (2)	250	180	64	466	83	50	62	390	1,545
	Crude oil	73	88	35	203	49	21		114	583
	Natural gas	7	21	1	37		7	31	6	110
	Dry (3)	170	71	28	226	34	22	31	270	852
	Net development wells drilled (2)	4,183	1,605	713	2,023	330	179	57	2,361	11,451
	Crude oil	4,160	1,586	688	1,772	225	173	9	2,235	10,848
	Natural gas	23	8	14	216	105	6	40	123	535
	Dry (3)	0	11	11	35	0	0	8	3	68
2007	Net exploratory wells drilled (2)	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 (3)	179	65	19	220	57	11	15	258	824
	Net development wells drilled (2)	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 (3)	10		3	51				6	70

(1) Represents the Jilin, Tarim, Tuha, Qinghai, Jidong and Yumen 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.

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

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, 2007.

Oil region	Acreage (1) (thousands of acres)					
	Productive wells (1)		Developed		Undeveloped	
	Crude oil	Natural gas	Crude oil	Natural gas	Crude oil	Natural gas
Daqing	71,314	196	762.5	83.4	788.8	113.2
Liaohe	20,608	627	190.9	35.8	91.3	6.5
Xinjiang	23,293	98	299.7	37.1	152.4	20.3
Jilin	23,883	112	292.2	28.4	309.3	22.6
Changqing	21,957	1,725	470.4	2,191.9	335.2	1,730.8
Huabei	7,383	105	140.3	12.3	60.0	2.9
Dagang	4,959	63	104.6	24.5	62.2	20.7
Tuha	2,301	90	40.8	21.2	27.2	8.3
Tarim	937	167	105.9	66.2	49.1	190.6
Sichuan	425	1,409	335.5	377.7		329.1
Other regions (2)	5,517	322	68.3	32.5	48.3	25.2
Total	182,577	4,914	2,811.2	2,910.9	1,923.7	2,470.1

- (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 oil regions.

Approximately 66.8% 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 85.8% of our proved natural gas reserves are

concentrated in the Changqing oil and gas region, the Tarim oil 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, 2005, 2006 and 2007.

	For the year ended December 31,			% of 2007 Total
	2005	2006	2007	
Crude oil production (1)				
(thousands of barrels per day, except percentages or otherwise indicated)				
Daqing	915.1	883.1	847.3	36.9
Liaohe	238.2	230.4	231.3	10.1
Xinjiang	238.8	244.2	249.4	10.9
Changqing	191.4	215.6	246.9	10.7
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	For the year ended December 31,			% of
	2005	2006	2007	2007 Total
Tarim	122.8	123.9	131.6	5.7
Huabei	88.4	89.4	90.8	4.0
Jilin	112.1	115.6	120.0	5.0
Dagang	102.6	93.6	91.2	4.0
Tuha	45.2	44.4	44.8	2.0
Other (2)	200.0	235.7	244.8	10.7
Total	2,254.5	2,275.9	2,298.1	100.0
Annual production (million barrels)	822.9	830.7	838.8	
Average sales price (RMB per barrel)	396.2	476.8	496.3	
(US\$ per barrel)	48.37	59.81	65.27	
Natural gas production (1)(3) (millions of cubic feet per day, except percentages or otherwise indicated)				
Sichuan	1,107.9	1,233.9	1,329.8	29.8
Changqing	640.7	650.4	838.4	18.8
Daqing	133.8	138.0	123.7	2.8
Qinghai	172.8	200.7	286.0	6.4
Tuha	121.1	133.4	111.5	2.5
Xinjiang	109.8	114.2	102.3	2.3
Liaohe	56.0	52.8	43.9	1.0
Huabei	43.5	41.3	39.1	0.9
Tarim	479.5	1,015.7	1,383.1	31.0
Dagang	26.2	28.7	43.0	1.0
Other (4)	175.9	149.6	156.7	3.5
Total	3,067.2	3,758.7	4,457.5	100.0%
Annual production (Bcf)	1,119.5	1,371.9	1,627.0	
Average sales price (RMB per Mcf)	23.35	27.6	29.0	
(US\$ per Mcf)	2.85	3.46	3.81	

(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 and Yumen oil regions, the Sichuan gas region 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 and Yumen oil regions and our share of overseas production as a result of our acquisition of overseas assets.

In 2007, we supplied approximately 84.4% of our total crude oil sales to our refineries, 6.0% to Sinopec's refineries, 6.6% to companies or entities outside China, and the remaining 3.0% to regional refineries or other entities. We entered into a crude oil mutual supply framework agreement with Sinopec on January 8, 2008 for the supply of crude oil to each other's refineries in 2008. Under this agreement, we agreed in principle to supply 48.5 million barrels of crude oil to Sinopec, and Sinopec agreed in principle to supply to us approximately 8.0 million barrels of crude oil in 2008 at negotiated prices based on the Singapore market FOB prices for crude oil. See Item 5 Operating and Financial Review and Prospects General Factors Affecting Results of Operations Crude Oil Prices for a detailed discussion of the crude oil premium and discount calculation agreement and its supplemental agreement. For the years ended December 31, 2005, 2006 and 2007, the average lifting costs

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of our crude oil and natural production were US\$5.28 per barrel-of-oil equivalent, US\$6.74 per barrel-of-oil equivalent and US\$7.75 per barrel-of-oil equivalent, respectively.

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

The Daqing oil region, our largest oil and gas producing property, is located in the Songliao basin and covers an area of approximately one million acres. 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 2005, 2006 and 2007, our crude oil production volume in the Daqing oil region was 915.1 thousand barrels per day, 883.1 thousand barrels per day and 847.3 thousand barrels per day, respectively. As of December 31, 2007, we produced crude oil from 20 fields in the Daqing oil region.

As of December 31, 2007, our proved crude oil reserves in the Daqing oil region were 3,856.1 million barrels, representing 32.9% 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, 2005, 2006 and 2007, the proved crude oil reserves in our Daqing oil region were 4,396.9 million barrels, 4,200.3 million barrels, and 3,856.1 million barrels, respectively. In 2007, our oil fields in the Daqing oil region produced an average of 847.3 thousand barrels of crude oil per day, representing approximately 36.9% of our total daily crude oil production. The crude oil production in our Daqing oil region decreased by 4% from 322.3 million barrels in 2006 to 309.3 million barrels in 2007. In 2007, the crude oil reserve-to-production ratio of the Daqing oil region was 12.47 years, compared to 13.0 years in 2006.

The crude oil we produce in the Daqing oil region has an average API gravity of 35.7 degrees. In 2007, the crude oil we produced in the Daqing oil region had an average water cut of 90.98%, increased from the average water cut of 90.44% in 2006.

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 26.9%, 27.0% and 27.0% of our crude oil production from the Daqing oil region in 2005, 2006 and 2007, 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 17.9% from US\$6.86 per barrel for the year ended December 31, 2006 to US\$8.09 per barrel for the year ended December 31, 2007. However, we have adopted a number of measures to contain the increase in our lifting costs at these fields. Those measures include:

terminating unprofitable or marginally profitable exploration and production activities;

reducing expenditures on ancillary ground facilities in the outer areas of the Daqing oil region;

increasing preventive maintenance to prolong the useful life of our production facilities; and

applying new technologies to reduce energy consumption.

Although we plan to continue to carry out these measures to contain 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 2,590 kilometers and an aggregate throughput capacity of approximately 911 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 in the Daqing oil region. In 2007, we refined approximately 82.2% of Daqing crude oil in our own refineries, exported approximately 1.3% and sold the remaining portion to Sinopec or local refineries.

Table of Contents***Liaohe Oil Region***

The Liaohe oil region is one of our three 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, 2007, proved crude oil reserves in the Liaohe oil region were 1,121.0 million barrels, representing 9.6% of our total proved oil reserves. In 2007, our oil fields in the Liaohe oil region produced an average of 231.3 thousand barrels of crude oil per day, representing approximately 10.1% of our total daily crude oil production. In 2007, the crude oil reserve-to -production ratio in the Liaohe oil region was 13.28 years. In 2007, the crude oil we produced in the Liaohe oil region had an average API gravity of 26 degrees and an average water cut of 78.58%. We have proved crude oil reserves in 39 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 2007, we sold about approximately 90.1% 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 three 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 thousand acres.

As of December 31, 2007, our proved crude oil reserves in the Xinjiang oil region were 1,354.9 million barrels, representing 11.6% of our total proved crude oil reserves. In 2007, our oil fields in the Xinjiang oil region produced an average of 249.4 thousand barrels of crude oil per day, representing approximately 10.9% of our total crude oil production. In 2007, the crude oil reserve-to -production ratio at the Xinjiang oil region was 14.88 years. In 2007, 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 74.87%.

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 21.43 years in 2007. As of December 31, 2007, we had 107 natural gas fields under development in the Sichuan gas region.

As of December 31, 2007, our proved natural gas reserves in the Sichuan gas region were 10,400.5 billion cubic feet, representing 18.2% of our total proved natural gas reserves and an increase of 0.4% from 10,362.8 billion cubic feet as of December 31, 2006. In 2007, our natural gas production for sale in the Sichuan gas region reached 485.4 billion cubic feet, representing 29.8% of our total natural gas production for sale and an increase of 7.8% from 450.4 billion cubic feet in 2006.

In 2007, we discovered and proved significant natural gas reserves in Guang'an field in the Sichuan gas region in our border expansion in that region. As of December 31, 2007, Guang'an gas field had a proved natural gas reserve of 1,795.7 billion cubic feet. Currently, Guang'an gas field is the largest gas field in the Sichuan basin. 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.

In November 2002, we obtained approval from the State Development Planning Commission, the predecessor of the National Development and Reform Commission, to construct pipelines to transmit natural gas produced in the Sichuan gas region to major cities in central China. This is known as the Zhong County to Wuhan City natural gas pipeline project. By the end of 2004, we completed the construction and commenced the commercial operation of the main line of the Zhong County to Wuhan City natural gas pipeline and its Xiangfan branch pipeline and Huangshi branch pipeline. In addition, we completed the construction of the Xiangtan branch pipeline and commenced the commercial operation of this branch pipeline in July 2005. As of March 31, 2008, we had entered into take-or-pay contracts with 29 customers in Hubei Province and Hunan Province, including municipal governments and enterprises, to supply them with natural gas through the main line and branch lines of the Zhong County to Wuhan

City natural gas pipeline. See Natural Gas and Pipeline Expansion of Our Natural Gas Transmission and Marketing Business for a discussion of the Zhong County to Wuhan City natural gas pipeline project.

Changqing Oil and Gas Region

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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. In 2007, we produced 90.1 million barrels of crude oil in the Changqing oil and gas region.

In the early 1990s, we discovered the Changqing gas field, which had total estimated proved natural gas reserves of 19,105.0 billion cubic feet as of December 31, 2007, representing 33.5% 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 4,223.7 billion cubic feet as of December 31, 2007. In 2007 we produced 306.0 billion cubic feet of natural gas for sale in the Changqing oil and gas region, representing an increase of 28.9% from 237.4 billion cubic feet in 2006. The establishment of a natural gas pipeline from Shaanxi to Beijing in 1997 has significantly expanded the range of target markets for natural gas produced in the Changqing oil and gas region over the years. In July 2005, we completed the construction and commenced commercial operation of the second Shaanxi to Beijing natural gas pipeline, with a designed annual throughput capacity of 423.8 billion cubic feet of natural gas. In 2007, we sold 245.5 billion cubic feet of natural gas through the first and the second Shaanxi to Beijing natural gas pipelines. See *Natural Gas and Pipeline Expansion of Our Natural Gas Transmission and Marketing Business* for a discussion of this additional Shaanxi to Beijing natural gas pipeline project.

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 thousand acres. As of December 31, 2007, our proved crude oil reserves in the Tarim oil region were 590.3 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 6,587.71 billion cubic feet as of December 31, 2007. As of December 31, 2007, the proved natural gas reserves in the Tarim oil and gas region reached 15,114.3 billion cubic feet, representing 26.5% of our total proved natural gas reserves. Currently, the Kela 2 natural gas field is the largest natural gas field in China in terms of proved natural gas reserves.

In 2007, we produced 504.8 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 Expansion of Our Natural Gas Transmission and Marketing Business* 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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We engage in refining and marketing operations in China through 26 refineries, 22 regional sales and distribution branch companies and one lubricants branch company. These operations include the refining, transportation, storage and marketing of crude oil, and the wholesale, retail and export of refined products, including gasoline, diesel, kerosene, lubricant, paraffin, and asphalt.

In 2007, our refining and marketing segment had loss from operations of RMB 20,680 million.

The following sets forth the highlights of our refining and marketing segment in 2007:

as of December 31, 2007, our refineries' annual primary distillation capacity totaled 941.7 million barrels of crude oil per year, or 2,580.1 thousand barrels per day;

we processed 823.6 million barrels of crude oil, or 2.3 million barrels per day;

we produced approximately 71.38 million tons of gasoline, diesel and kerosene and sold approximately 85.74 million tons of these products;

as of December 31, 2007, our retail distribution network consisted of:

17,070 service stations owned and operated by us,

282 service stations either wholly owned by CNPC or jointly owned by CNPC and third parties and to which we provide supervisory support, representing a significant decrease from last year, as a result of our taking ownership of or operating certain service stations previously owned by CNPC or jointly owned by CNPC and third parties, and

1,296 franchise service stations owned and operated by third parties with which we have long-term refined product supply agreements, representing a significant decrease from last year, as a result of our termination of cooperation arrangements with certain franchise service stations that had demonstrated deficiencies in image, service or oil quality; and

in 2007, our service stations, which are located throughout China, sold approximately 54.8 million tons of gasoline and diesel, representing 66.9% of the total of these products sold through our marketing operations.

Refining

Our refineries are located in eight provinces, four autonomous regions and one municipality in the northeastern, northwestern and northern regions of China.

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 volume for our principal refined products for each of the three years ended December 31, 2005, 2006 and 2007.

Product	2005	Year ended December 31,	
		2006	2007
		(in thousands of tons)	
Diesel	43,000.7	44,226.5	47,345.4
Gasoline	21,414.6	22,027.2	22,018.7
Fuel oil	3,816.3	3,491.4	4,162.0
Naphtha	4,872.8	6,317.9	7,491.9
Asphalt	1,484.7	1,605.7	1,563.4
Kerosene	1,970.3	2,063.7	2,017.2
Lubricants	1,528.6	1,488.4	1,760.4
Paraffin	1,139.3	1,051.8	1,003.0

Total	79,227.3	82,272.6	87,362.0
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We optimize our production facility mix to meet market demand and to focus on the production of high margin products. This has resulted in an overall modest increase in the production of lighter refined products which generally are higher margin products, such as gasoline and diesel. In 2007, our diesel production increased to 47,345.4 thousand tons. In 2005 and 2006, we produced 1,528.6 thousand tons and 1,488.4 thousand tons of lubricants, respectively. In 2007, we increased our lubricant production to 1,760.4 thousand tons to meet the growing market demands for lubricants.

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 three years ended December 31, 2005, 2006 and 2007, our capital expenditures for our refining and marketing segment were RMB 16,454 million, RMB 19,206 million, and RMB 26,546 million, respectively. These capital expenditures were incurred primarily in connection with the expansion and upgrades of our refining facilities, upgrade of our product quality, and expansion of our refined product retail marketing network and storage infrastructure for the purpose of maintaining and increasing our market share. We built or renovated 10 of our refining facilities in 2005, including, among others, the regular pressure reducing unit at Dalian Petrochemical with a designed annual capacity of 10 million tons, the delayed coking unit at Lanzhou Petrochemical with an annual capacity of 1,000 thousand tons and the catalytic reforming unit at Jinzhou Petrochemical with an annual capacity of 600 thousand tons. In 2006, we built a coking unit at Daqing Petrochemical with an annual capacity of 1.2 million tons and upgraded the heavy oil catalytic cracking unit at Jinxi Petrochemical to increase its annual capacity to 1.8 million tons. In 2007, we had completed the construction or renovation of 18 refining projects, including, among others, the expansion and renovation of the 10 million tons/year refining unit at Dagang Petrochemical, the construction of the new 1.2 million tons/year hydrocracking unit at Changqing Petrochemical, the construction of the 800 thousand/year propane deasphalting unit and accessory facilities at Karamay Petrochemical, and the renovation of the 1.8 million tons/year diesel hydrofining unit at North China Petrochemical. In 2007, we operated an aggregate of 18,648 service stations. 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, including the specification limiting the olefin and benzene content in gasoline.

Our Refineries

Most of our refineries are strategically located close to our crude oil storage facilities, along our crude oil and refined product transmission pipelines and/or railways. These systems provide our refineries with secure supplies of crude oil and facilitate our distribution of refined products to the domestic markets. In each of the three years ended December 31, 2005, 2006 and 2007, our exploration and production operations supplied approximately 89%, 82%, and 80%, respectively, of the crude oil processed in our refineries.

The table below sets forth certain operating statistics regarding our refineries as of December 31, 2005, 2006 and 2007.

	As of December 31,		
	2005	2006	2007
Primary distillation capacity (1) (thousand barrels per day)			
Lanzhou Petrochemical	212.6	212.6	212.6
Dalian Petrochemical	212.6	415.0	415.0
Fushun Petrochemical	186.2	186.2	186.2
Daqing Petrochemical	121.5	121.5	121.5
Jinzhou Petrochemical	131.6	131.6	131.6

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	As of December 31,		
	2005	2006	2007
Jinxi Petrochemical	131.6	131.6	131.6
Jilin Petrochemical	141.7	141.7	141.7
Urumqi Petrochemical	101.2	101.2	121.5
Other refineries	1,098.2	1,122.5	1,118.4
Total	2,337.2	2,563.9	2,580.1

Refining throughput (thousand barrels per day)

Lanzhou Petrochemical	178.7	191.4	213.9
Dalian Petrochemical	223.7	244.7	233.5
Fushun Petrochemical	194.4	196.4	196.6
Daqing Petrochemical	125.5	128.5	124.3
Jinzhou Petrochemical	127.9	137.8	133.6
Jinxi Petrochemical	129.2	132.1	133.6
Jilin Petrochemical	138.0	146.5	146.1
Urumqi Petrochemical	85.3	98.0	106.1
Other refineries	858.4	875.3	968.8
Total	2,061.1	2,150.8	2,256.5

Conversion equivalent (2) (percent)

Lanzhou Petrochemical	53.3	53.3	53.3
Dalian Petrochemical	54.3	27.8	27.8
Fushun Petrochemical	68.5	70.7	70.7
Daqing Petrochemical	76.7	76.7	76.7
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	62.0	62.0	51.7
Average of other refineries	50.5	51.8	51.9

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

(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 three years ended December 31, 2005, 2006 and 2007, the average utilization rate of the primary distillation capacity at our refineries was 95.5%, 95.9% and 97.7%, respectively. The average yield for our four principal refined products (gasoline, kerosene, diesel and lubricants) at our refineries was 66.7%, 65.7 and 65.6%, 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 three years ended December 31, 2005, 2006 and 2007, the yield for all refined products at our refineries was 92.3%, 92.2% and 93.0%, respectively.

Dalian Petrochemical, Fushun Petrochemical and Lanzhou Petrochemical were our leading refineries in terms of both primary distillation capacity and throughput in 2007. 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, 2007, these three refineries had an aggregate primary distillation capacity of 297.0 million barrels per year, or 813.8 thousand barrels per day, representing approximately 31.5% of the total primary distillation capacity of all our refineries as of the same date. In 2007, these three refineries processed an aggregate of 235.1 million barrels of crude oil, or 644.0 thousand barrels per day, representing approximately 28.5% of our total throughput in the same period.

Table of Contents**Marketing**

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, 2007, our marketing network consisted of:

approximately 802 regional wholesale distribution outlets nationwide. Substantially all of these outlets are located in high demand areas such as economic centers across China, particularly in the coastal areas, along major railways and along the Yangtze River; and

17,070 service stations owned and operated by us, 282 service stations wholly owned by CNPC or jointly owned by CNPC and third parties that exclusively sell refined products produced or supplied by us and to which we provide supervisory support under contractual arrangement, and 1,296 franchise service stations owned and operated by third parties.

In 2007, we sold approximately 82.0 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 ex-works median prices published by the PRC government with an 8% floating range. See **Regulatory Matters Pricing Refined Products** for a discussion of refined product pricing. In 2007, sales of gasoline and diesel to these customers accounted for approximately 3% and 13% of our total sales of gasoline and diesel, respectively.

The following table sets forth our refined product sales volumes by principal product category for each of the three years ended December 31, 2005, 2006 and 2007.

Product	Year ended December 31,		
	2005	2006	2007
		(in thousands of tons)	
Diesel	47,811.0	48,863.9	54,844.3
Gasoline	26,161.6	23,993.2	27,115.7
Fuel oil	6,409.6	8,711.2	9,656.2
Naphtha	5,574.1	6,887.6	8,347.6
Kerosene	2,008.0	2,047.4	3,782.2
Lubricants	2,181.6	2,044.4	2,348.5
Asphalt	2,475.6	3,321.2	4,387.1
Paraffin	1,160.3	1,104.3	1,021.8
Total	93,781.8	96,973.2	111,503.4

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 0.7 million tons of gasoline and diesel to Sinopec in 2007, representing approximately 0.9% of our total sales of these products in the same period. In 2007, we sold approximately 20.2 million tons of our other principal refined products.

Retail Marketing

In 2007, we sold approximately 54.8 million tons of gasoline and diesel through our service station network, accounting for 66.9% of the total of these products sold through our marketing operations in the same period. Although sales volumes vary significantly by geographic region, the weighted average sales volume of gasoline and diesel per business day at our service station network in 2005, 2006 and 2007 was 6.7 tons, 7.8 tons and 8.4 tons per service station, respectively.

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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 operate a majority of our service stations under the trade name of BP. We intend to gradually adopt our new logo BP for all our service stations in the next few years.

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 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 those regions through expanding the number of our service stations and storage facilities in those regions. As part of our expansion initiatives, on May 14, 2004, we entered into the Joint Venture Contract and the Articles of Association with BP Global Investments Limited, a subsidiary of BP Amoco p.l.c., to form BP PetroChina Petroleum Company Limited in Guangdong Province. We and BP Global Investments Limited hold 51% and 49% equity interests in BP PetroChina Petroleum Company Limited, respectively. We expect that BP PetroChina Petroleum Company Limited will build, acquire and manage approximately 500 service stations in Guangdong Province within three years from its establishment. As of December 31, 2007, BP PetroChina Petroleum Company Limited owned and operated 461 service stations in the Pearl River Delta of Guangdong Province.

We invested a total of RMB 5,683.52 million in expanding our service station network in 2007, of which 76.4% was invested in the eastern and southern regions of China. In 2007, we sold approximately 25,660 thousand tons of gasoline and diesel through our owned and franchised service stations in these regions, as compared to approximately 17,490 thousand tons and approximately 21,480 thousand tons we sold in 2005 and 2006, respectively.

In 2007, we acquired or constructed an aggregate of 729 service stations that are owned and operated by us, of which 436 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 RMB 5,066.85 million in 2008 to expand our service station network and storage infrastructure by adding approximately 450 new service stations.

The following table sets forth the number of the service stations in our marketing network as of December 31, 2007:

Owned and operated by us (1)	17,070
Wholly owned by CNPC or jointly owned by CNPC and third parties (2)	282
Franchised	1,296
Total	18,648

Note:

- (1) Includes 461 service stations owned and operated by BP PetroChina Petroleum Company Limited.
- (2) These service stations exclusively sell refined products produced or

supplied by us.
We also provide
supervisory
support to these
service stations.

In order to improve the efficiency and profitability of our existing service station network, we standardize the interior and exterior of our service stations, our service procedures, staff uniforms and the product quality of all our service stations. We are in the process of constructing a centralized service station management system covering all our sales branches and promoting the use of pre-paid gasoline/diesel filling cards at our service stations. In addition, 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**Chemicals and Marketing**

Through 12 chemical plants and four chemical products sales companies, we produce and market basic petrochemical products, derivative petrochemical products, and other chemical products. As of December 31, 2007, our chemicals and marketing segment had income from operations of RMB 7,831 million.

Our chemical plants and sales companies are located in five provinces, three autonomous regions and two municipalities under the direct administration of the central government in China. Most of our chemical plants are co-located with our refineries and are also connected with the refineries by pipelines, providing additional production flexibility and opportunities for cost competitiveness. Our exploration and production, refining and marketing, 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.

Our Chemical Products

The table below sets forth the production volumes of our principal chemical products for each of the three years ended December 31, 2005, 2006 and 2007.

	Year ended December 31,		
	2005	2006	2007
	(in thousand tons)		
Basic petrochemicals			
Propylene	2,493.5	2,671.2	3,083.2
Ethylene	1,887.9	2,067.9	2,581.5
Benzene	707.9	749.6	827.8
Derivative petrochemicals			
Synthetic resin			
Polyethylene	1,355.9	1,531.3	2,101.2
Polypropylene	1,142.8	1,291.0	1,630.2
ABS	223.0	223.0	215.0
Other synthetic resin products	35.2	15.8	16.1
Synthetic fiber			
Polyacrylic fiber	97.1	81.0	79.3
Terylene fiber	86.2	53.3	48.1
Other synthetic fiber products	6.3	6.4	9.3
Synthetic rubber			
Styrene butadiene rubber	194.4	212.9	210.6
Other synthetic rubber products	87.0	99.1	100.0
Intermediates			
Alkylbenzene	205.7	207.9	197.5
Other chemicals			
Urea	3,577.6	3,576.3	3,634.5

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. In 2001, we implemented a five-year plan to invest RMB 10,000 million to upgrade our ethylene production facilities at Daqing Petrochemical, Jilin Petrochemical, Liaoyang Petrochemical, Dushanzi Petrochemical and Lanzhou Petrochemical. As of December 31,

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2006, we had completed the upgrades of all ethylene projects included in such five-year plan. In 2006, we also completed a new capacity-expansion project at Jilin Petrochemical. As of December 31, 2007, our annual ethylene production capacity was 2,710 thousand tons, an increase of 80 thousand tons from the year ended December 31, 2006. Our production volume of ethylene increased by 24.8% from 2,067.9 thousand tons in 2006 to 2,581.5 thousand tons in 2007. We expect to complete the 1,000,000 tons/ year ethylene production project at Dushanzi Petrochemical by the end of 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 2007, the monthly average capacity utilization rate at our ethylene production facilities was 95.0%. 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 751.5, 748.4 and 743.8 kilograms of standard oil per ton in 2005, 2006 and 2007, respectively. This is significantly higher than the world average of 500 to 690 kilograms of standard oil per ton. We plan to continue to implement measures to reduce our energy consumption.

In addition, high ethylene percentage loss has also contributed to the relatively high cost of our ethylene production. In order to reduce high ethylene percentage loss in our ethylene production, we have implemented a series of measures at our chemical plants in the past several years, 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. As a result, the average ethylene percentage loss at our chemical plants decreased from 0.57% in 2003 to 0.54% in 2004. The average ethylene percentage loss rate went up to 0.61% in 2005, due to the significant losses resulting from the trial of an upgraded ethylene production facility. In 2006, our average ethylene percentage loss decreased to 0.55%. In 2007, our average ethylene percentage loss went up to 0.63%. We believe that our measures will enable us to further reduce the cost of our ethylene production without incurring significant capital expenditures.

We produce a number of synthetic resin products, including polyethylene, polypropylene and ABS. As of December 31, 2007, our production capacities for polyethylene, polypropylene and ABS were 2,212 thousand tons, 1,863.5 thousand tons and 220 thousand tons, respectively. In 2007, we produced 2,101.2 thousand tons and 1,630.2 thousand tons of polyethylene and polypropylene, respectively, which respectively increased by 37.2% and 26.3% as compared with 2006. In 2007, we produced 215 thousand tons of ABS, representing a decrease of 3.6% from 2006. Currently, China imports significant volumes of these products to meet the domestic demand due to an inadequate supply of high-quality domestically produced polyethylene and polypropylene. We intend to increase the production, and improve the quality, of these products. We have built new production facilities with new technology for the production of these products in Daqing Petrochemical, Daqing Refining and Chemical, Jilin Petrochemical, Lanzhou Petrochemical, Dalian Petrochemical and other branch companies to meet this target.

Sales and Marketing

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 three years ended December 31, 2005, 2006 and 2007.

Product	Year ended December 31,		
	2005	2006	2007
	(in thousands of tons)		
Derivative petrochemicals			
Synthetic resin			
Polyethylene	1,477.0	1,594.8	2,102.4
Polypropylene	972.3	1,069.6	1,434.8

ABS		232.0	233.4	216.7
	35			

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Product	Year ended December 31,		
	2005	2006	2007
	(in thousands of tons)		
Synthetic fiber			
Terylene fiber	103.3	59.4	56.6
Polyacrylic fiber	95.5	91.2	71.6
Synthetic rubber			
Butadiene styrene rubber	202.2	203.4	219.0
Intermediates			
Alkylbenzene	112.3	127.9	156.6
Other chemicals			
Urea	3,413.8	3,570.6	3,662.2

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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 revenues of RMB 50,066 million and total sales volume of 1,647.8 billion cubic feet in 2007, of which 1,502.0 billion cubic feet was sold by our natural gas and pipeline segment. In 2007, our natural gas and pipeline segment generated income from operations of RMB 12,495 million. We sell natural gas primarily to fertilizer and chemical companies, commercial users and municipal utilities owned by local governments.

The following table sets forth the length of our natural gas pipelines as of December 31, 2005, 2006 and 2007 and the volume of natural gas sold by us in each of the three years ended December 31, 2005, 2006 and 2007.

	As of December 31 or year ended December 31,		
	2005	2006	2007
Length of natural gas pipelines used by our natural gas segment (km)	19,212	19,662	19,792
Total length of natural gas pipelines (km)	20,340	20,590	22,043
Volume of natural gas sold by our natural gas segment (Bcf)	888.8	1,200.5	1,502.0
Total volume of natural gas sold(1)(Bcf)	1,052.2	1,357.0	1,647.8

(1) Including both the natural gas sold to third parties and the natural gas sold within our company for the production of other products.

In addition, we also conduct the operation of crude oil and refined product transmission and storage infrastructure in the natural gas and pipeline segment.

Our Principal Markets for Natural Gas

In 2007, 31.87%, 17.85%, 16.54%, 4.06%, 3.02% and 26.66% of our natural gas sales were to the southwestern, northern, northwestern, northeastern, central, and eastern 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 462.1 billion cubic feet of natural gas to Sichuan Province and Chongqing Municipality in 2007, as compared to 415.6 billion cubic feet in 2006, representing approximately 28.0% of our total natural gas sales in 2007. 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 5,923 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 261.3 billion cubic feet of natural gas to these areas in 2007, as compared to 217.5 billion cubic feet in 2006. Our natural gas sales to Beijing Municipality increased 11.4% from 135.6 billion cubic feet in 2006 to 151.1 billion cubic feet in 2007. 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 2,827 kilometers of natural gas pipelines in these areas.

Gansu Province, Qinghai Province, Shanghai Municipality, Jiangsu Province, Zhejiang Province, Anhui Province, Henan Province, Shanxi Province, Hubei Province and Hunan Province are also our natural gas markets. In 2001, we completed the construction of the Sebei to Xining to Lanzhou natural gas pipeline and in 2004, we completed the construction and commenced commercial operation of the mainlines of the West to East natural gas pipeline and the Zhong County to Wuhan City natural gas pipeline. These three pipelines link our Xinjiang, Changqing, Sichuan and Qinghai gas fields with our natural gas markets referred to above. Shanghai Municipality, Jiangsu Province, Zhejiang Province and Anhui Province located in Yangtze River Delta have become our significant natural gas markets. In 2007, we sold 342.1 billion cubic feet of natural gas to this area, representing approximately 20.8% of our total natural gas sales in 2007.

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.

We have entered into long-term take-or-pay contracts with 23 municipalities and enterprises in Qinghai Province, Gansu Province, Shanxi Province and Tianjin Municipality, 29 municipalities and enterprises in Hubei Province and Hunan Province, 16 municipalities in Shandong

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Province and 59 municipalities and enterprises in Henan Province, Anhui Province, Shanghai Municipality and other provinces located in the Yangtze River Delta. Under these take-or-pay contracts, we will supply natural gas to these customers in the next 20 to 25 years at prices determined based on the prices published by the National Development and Reform Commission, formerly the State Development Planning Commission. See Regulatory Matters Pricing Natural Gas for a discussion of natural gas pricing.

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 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, 2007, our natural gas and pipeline segment owned and operated approximately 19,792 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 existing 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.

Expansion of Our Natural Gas Transmission and Marketing Business

In October 2004, we completed the construction of the main line of our West to East natural gas pipeline and commenced commercial operation in December 2004. Our West to East natural gas pipeline project is designed to link 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 for the West to East natural gas pipeline project is 3,786 kilometers. As of December 31, 2007, we had invested RMB 40,023.58 million in this project. We have completed the construction of three connecting pipelines for the West to East natural gas pipeline project, the Hebei to Nanjing pipeline, the Huaiyang to Wuhan pipeline and the Lanzhou to Yinchuan pipeline. The Hebei to Nanjing pipeline starts at Qingshan, Jiangsu Province and ends at Anping, Hebei Province, with its mainline having a length of 886 kilometers. We completed the construction and commenced the commercial operation of the main line of this pipeline in January 2006. The Huaiyang to Wuhan pipeline starts at Huaiyang, Anhui Province and ends at Wuhan, Hubei Province with a total length of 455 kilometers. We completed the construction and commenced the commercial operation of this pipeline in December 2006. The Lanzhou to Yinchuan pipeline starts at Lanzhou, Gansu Province and ends at Yinchuan, Ningxia Autonomous Region, with a total length of 402 kilometers. We completed the construction and commenced the commercial operation of this pipeline in July 2007. The Daqing to Harbin pipeline starts at Daqing, Heilongjiang Province and ends at Harbin, Heilongjiang Province, with a total length of 78 kilometers. We completed the construction and commenced the commercial operation of this pipeline in December 2007. As of March 31, 2008, we entered into take-or-pay contracts with 59 subscribers and distributors to supply them with natural gas through the West to East natural gas pipeline. We believe that the successful completion of this natural gas pipeline and associated storage facilities will substantially enhance our ability to capitalize on anticipated growth in demand for natural gas in these regions. We are currently expanding the transmission capacity of the West to East natural gas pipeline by upgrading the existing 10 gas compression stations and building additional 12 gas compression stations to increase the capacity from 12 billion cubic meters to 17 billion cubic meters per year.

The Zhong County to Wuhan City natural gas pipeline is designed to link the Sichuan gas region with Wuhan City, the other areas in Hubei province and Hunan Province, and has a designed annual throughput capacity of 105.9 billion

cubic feet of natural gas. We commenced the construction of the pipeline in August 2003. In December 2004, we completed the construction and commenced commercial operation of the main line of the Zhong County to Wuhan City natural gas pipeline and its Xiangfan branch pipeline and Huangshi branch pipeline. We completed the construction and commenced commercial operation of the Xiangtan branch line in July 2005. As of March 31, 2008, we had entered into take-or-pay contracts with 29 customers in Hubei Province and Hunan Province including municipal governments and enterprises, to supply them with natural gas to be transmitted through the main line and branch lines of the Zhong County to Wuhan City pipeline.

We completed constructing the second natural gas pipeline from Shaanxi to Beijing Municipality in July 2005. This second Shaanxi to Beijing natural gas pipeline has a total length of 935 kilometers and can be used to deliver natural gas from our Changqing oil and gas region to Shaanxi Province, Shanxi Province, Hebei Province and Beijing Municipality with a designed annual throughput capacity of 423.8 billion cubic feet of natural gas. In 2007, we sold 245.5 billion cubic feet of natural gas through the first and the second Shaanxi to Beijing natural gas pipelines.

Crude Oil and Refined Product Transportation and Storage Infrastructure

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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 have a total length of 246 kilometers. Commercial operation of the Sino-Kazakhstan oil pipeline 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 605 kilometers.

As of December 31, 2007, our crude oil transportation and storage infrastructure consisted of:

10,559 kilometers of crude oil pipelines with an average daily throughput of approximately 3.13 million barrels; and

crude oil storage facilities with an aggregate storage capacity of approximately 18.1 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 2007, approximately 86.37% of our crude oil production was delivered to refineries through our crude oil pipeline network. We believe that our crude oil pipeline network is sufficient for our current and anticipated transportation needs. 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:

2,669 kilometers of refined product pipelines with an average daily throughput of approximately 39,525 tons; and

refined product storage facilities with a total storage capacity of approximately 19.2 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 China National Offshore Oil Corporation, or 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 will face some competition in the development of offshore oil and gas resources. We believe that our experience in crude oil and natural gas exploration and production and our advanced exploration and development technologies that are suitable for diverse geological conditions in China will enable us to maintain our dominant position in discovering and developing crude oil and natural gas reserves in China.

Refining and Marketing and Chemicals and Marketing Operations

We compete with Sinopec in our refining and marketing and chemicals and marketing operations on the basis of price, quality and customer service. Most of our refineries and chemical plants are located in the northeastern,

northwestern and northern regions of China where we have the dominant market share for refined products and chemical products. We also sell our refined products and chemical products in 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

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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, the competition is further intensified. We expect that we will continue to face competition from, among other competitors, Sinopec in increasing 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, we expect that competition from foreign producers of refined products and chemical products may increase as tariff and non-tariff barriers for imported refined products and chemical products will be reduced or eliminated over time, including the opening over time of retail and wholesale markets in China for refined products and chemical products to foreign competition. Our ability to compete with foreign producers of refined products and chemical products will depend on our ability to reduce our production costs and improve the quality of our products. See Item 3 Key Information Risk Factors .

Natural Gas and Pipeline Operations

We are the largest supplier of natural gas in terms of volume of natural gas supplied 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 concerning our oil and gas exploration and production operations, petroleum and petrochemical products and other activities. In particular, these laws and regulations:

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

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

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

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

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

We anticipate that the environmental laws and regulations to which we are subject will become increasingly strict and are therefore likely to have an increasing impact on our operations. It is difficult, however, to predict accurately the effect of future developments in such laws and regulations on our future earnings and operations. Some risk of environmental costs and liabilities is inherent in certain of our operations and products, as it is with other companies engaged in similar businesses. We cannot assure you that material costs and liabilities will not be incurred. However, we do not currently expect any material adverse effect on our financial condition or results of operations as a result of compliance with such laws and regulations. We paid pollutant discharge fees of approximately RMB 199 million,

RMB 211 million and RMB 231 million in 2005, 2006 and 2007, 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;

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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 2005, 2006 and 2007 were approximately RMB 1,633 million RMB 4,634 million and RMB 2,299 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 safety production measures we have adopted previously.

We believe that these preventative measures have helped minimize the possibility of similar incidents resulting 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 not involved in any judicial and arbitral proceedings, the results of which, in the aggregate, would have a material adverse impact on our financial condition.

Properties

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

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

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

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

As of December 31, 2007, CNPC obtained formal land use right certificates for 27,554 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. Our directors 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 .

Regulatory Matters

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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;

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 RMB 2,000 per square kilometer for the initial year to RMB 5,000 per square kilometer for the second year, and to RMB 10,000 per square kilometer for the third and subsequent years. Additionally, the holder has to pay an annual exploration license fee that starts at RMB 100 per square kilometer for each of the first three years and increases by an additional RMB 100 per square kilometer per year for subsequent years up to a maximum of RMB 500 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.

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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 RMB 1,000 per square kilometer. Administrative rules issued by the State Council provide that the maximum term of a production license is 30 years. In accordance with a special approval from the State Council, the Ministry of Land and Resources has issued production licenses with terms coextensive with the projected productive life of the assessed proven reserves as discussed above. Each of our production licenses is renewable upon our application 30 days prior to expiration. If oil and gas prices increase, the productive life of our crude oil and natural gas reservoirs may be extended beyond the current terms of the relevant production licenses.

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

Pricing***Crude Oil***

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

Refined Products

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

PetroChina sets the wholesale prices for its gasoline and diesel on the basis of its retail prices and a discount to its retail prices of at least 4.5% as required by the National Development and Reform Commission.

In addition, the National Development and Reform Commission sets the ex-works median prices for gasoline and diesel sold for military use and national reserve. For other institutional customers including airlines and railway operators, PetroChina may charge on the basis of the ex-works median prices adjustment within an upward or downward adjustment up to 8%.

Chemical Products

PetroChina determines the prices of all of its chemical products.

Natural Gas

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

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

On December 26, 2005, the National Development and Reform Commission reformed the mechanism for setting the ex-works prices of domestic natural gas by changing the ex-works prices to governmental guidance prices, and categorizing domestic natural gas into two categories.

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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 RMB 400/1000 cubic meters.

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

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.

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-related business.

Refined Products

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

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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 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.

Tax item	Tax base	Tax Rate
<i>Enterprise income tax</i>	Taxable income	

Since January 1, 2008, applicable to the legal rate of 25%.
However, our qualified branch companies in the
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Tax item	Tax base	Tax Rate
		west regions of the PRC are entitled to a rate of 15%. Tax concession or exemption enjoyed by any subsidiary or branch company continues to apply.
<i>Value-added tax</i>	Revenue	13% for liquified natural gas, natural gas, liquified petroleum gas, agricultural film and fertilizers and 17% for other items. PetroChina charges value-added tax from its customers at the time of settlement on top of the selling prices of its products on behalf of the taxation authority. The value-added tax paid by PetroChina for purchasing materials to be consumed during the production process and for charges paid for drilling and other engineering services and labor is deducted from output value-added tax payable by PetroChina. Since March 14, 2006, the rebate of the value-added tax paid in connection with export of gasoline has been suspended.
	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>	Revenue from transportation services	3%
<i>Consumption tax</i>	Aggregate volume sold or self-consumed	RMB 277.6 per ton for leadless gasoline; RMB 388.64 per ton for leaded gasoline. RMB 117.6 per ton for diesel. Since April 1, 2006, RMB 277 per ton for naphtha and levied at the rate of 30% of the taxable amount for the time being. Since April 1, 2006, RMB 256.4 per ton for solvent naphtha and levied at the rate of 30% of the taxable amount for the time being. Since April 1, 2006, RMB 225.2 per ton for lubricants and levied at the rate of 30% of the taxable amount for the time being. Since April 1, 2006, RMB 101.5 per ton for fuel oil and levied at the rate of 30% of the taxable amount for the time being.

Since April 1, 2006, RMB 124.6 per ton for aviation kerosene and not levied for the time being.

Resource tax

Aggregate volume sold or self-consumed

Since July 1, 2005, resource tax applicable to crude oil of our company was adjusted upward from the original RMB 8 to 30 per ton to RMB 14 to 30 per ton, and the resource tax for natural gas was adjusted from the original RMB 2 to 15 per thousand cubic meter to RMB 7 to 15 per thousand cubic meter.

The actual applicable rate for each oil field may differ

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Tax item	Tax base	Tax Rate
		depending on the resource differences, volume of the exploration and production activities and costs required for the production at the particular oil field.
<i>Compensatory fee for mineral resources</i>	Revenue	1% for crude oil and natural gas
<i>Crude oil special gain levy</i>	Sales amount above certain 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%
Tax item	Tax base	Tax Rate
<i>Exploration license fee</i>	Area	RMB 100 to 500 per square kilometer per year
<i>Production license fee</i>	Area	RMB 1,000 per square kilometer per year
<i>Royalty fee (1)</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. The State Council will formulate specific implementation methods and procedures for the imposition of fuel tax. The State Council has not yet announced or published any specific rate, implementation method or procedure for the imposition of the tax.

Environmental Regulations

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.

Table of Contents**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, transportation, storage and marketing of crude oil and petroleum products;

the production and marketing of basic petrochemical products, derivative chemical products and other chemical products; and

the transmission and storage of crude oil, refined oil products and natural gas 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, 2007, we produced approximately 838.8 million barrels of crude oil and approximately 1,627.0 billion cubic feet of natural gas for sale. Our refineries also processed approximately 823.6 million barrels of crude oil in the year ended December 31, 2007. In the year ended December 31, 2007, we had total revenue of RMB 835,037 million and net income of RMB 145,625 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.

Crude Oil Prices

Our results of operations are substantially affected by crude oil prices. Since March 2001, we and Sinopec have set our crude oil median prices monthly based on the Singapore market FOB prices for crude oil. 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.

Since September 1, 1999, the discounts and premiums applied to our crude oil sales have been determined in accordance with a crude oil premium or discount calculation agreement and its supplemental agreement we entered into with Sinopec. These agreements establish premiums or discounts which effect adjustments to the benchmark prices. These agreements do not obligate either party to purchase or sell any crude oil and is thus subject to renegotiation. Under these agreements, the National Development and Reform Commission, formerly the State Development Planning Commission, will mediate if we cannot agree with Sinopec on the premium or discount applicable to a particular crude oil purchase. The table below sets forth the median prices for our principal grades of crude oil in 2005, 2006 and 2007 and the negotiated premiums or discounts applicable to those grades of crude oil since 2005.

Grade of crude oil	Benchmark	Median prices for principal grades of crude oil (RMB/barrel)			Premium/(discount) (RMB/barrel)		
		Year 2005 average	Year 2006 average	Year 2007 average	2005	2006	2007
Daqing	Minas	430	513	536	(4.4)	(3.8)	(3.8)
Jidong	Minas	430	513	536	(4.4)	(3.8)	(3.8)

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Huabei	Minas	430	513	536	(3.0)	(2.4)	(3.9)
Dagang	Cinta	412	494	512	(1.8)	(2.5)	(4)
Tarim	Minas	430	513	536	(34.9)	(34.6)	(51)
Tuha	Tapis	457	554	571		(29.0)	(36)

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In 2007, the median prices for our principal grades of crude oil and crude oil produced in our Daqing oil region were RMB 511 per barrel and RMB 534 per barrel, respectively.

Increases or decreases in the price of crude oil in China have a significant effect on the revenue from our exploration and production segment. In the year ended December 31, 2007, our average realized selling price for crude oil was RMB 496 per barrel, increased by 4.0% from RMB 477 per barrel in the year ended December 31, 2006. 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

Prior to October 2001, the State Development Planning Commission published from time to time retail median gasoline and diesel guidance prices for major cities and provinces. Once published, the retail median prices remained unchanged until either we or Sinopec requested an adjustment and demonstrated that the cumulative change of the FOB Singapore gasoline or diesel trading price from the then applicable retail median guidance price exceeded 5%. From October 2001 to early 2006, the State Development Planning Commission or the National Development and Reform Commission has adjusted such retail median prices from time to time to reflect the FOB Singapore, Rotterdam and New York trading prices for gasoline and diesel, supplemented by transportation costs and taxes. In 2006, the PRC government, under its macro economic controls, introduced a new mechanism for determining the prices of refined products. See Item 4 Information on the Company Regulatory Matters Pricing for a more detailed discussion of current PRC refined products pricing regulations.

Since October 2001, we and Sinopec have set our retail prices within an 8% floating range of the published median gasoline and diesel 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.

The following table sets forth the retail median prices for 90(#) gasoline and 0(#) diesel published by the State Development Planning Commission or the National Development and Reform Commission from January 2007 to March 2008 when such adjustments were made.

Date	90(#) Gasoline (RMB/ton)	0(#) Diesel (RMB/ton)
January 14, 2007	5,452	
November 1, 2007	5,980	5,520

Chemical Product Prices

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

Natural Gas Prices

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

Prior to December 26, 2005, ex-works prices varied depending on whether 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 the prices upward or downward by up to 10%.

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On November 10, 2007, the National Development and Reform Commission adjusted the natural gas ex-works benchmark price upward by RMB 400/1000 cubic meter.

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 the domestic natural gas into two tiers. 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 tier may float upward or downward of up to 10%; while the actual ex-works price of the second tier may float upward of up to 10% and downward to any level. The price of the first tier will be adjusted to the same level as the second tier within three to five years.

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

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.

We sold our natural gas at prices which exceed our production and transportation costs in 2007.

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 revenue and expenses during the reporting period. Notwithstanding the presentation of our principal accounting policies in Note 3 to our consolidated financial statements included elsewhere in this annual report, we have identified the accounting policies below as most critical to our business operations and the understanding of our financial condition and results of operations presented in accordance with IFRS. Although these estimates are based on our management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Accounting of Oil and Gas Exploration and Production Activities

We use 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. The costs of exploratory wells will be further capitalized pending determination of whether the wells find sufficient economically exploitable 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.

Table of Contents***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 United States Securities and Exchange Commission. 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.

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 17 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	7-14 years
Other	5-12 years

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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 price 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.

Provision for Asset Decommissioning

Provision for future decommissioning and restoration is recognized in full on the installation of oil and gas properties. The amount recognized 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 capital costs of the oil and gas properties. Any change in the present value of the estimated expenditure other than the one due to passage of time which is regarded as interest cost, is reflected as an adjustment to the provision and oil and gas properties.

Impairment of Accounts Receivable

Accounts receivables are recognized initially at fair value and subsequently measured at amortized costs, using the effective interest method, less provisions made for the impaired receivables. Accounts where there are indications that a receivable may be impaired or not collectible, a provision would be recorded based on best estimates to reduce the receivable balance to the amount that is expected to be collected. Factors considered in making a provision include the historical payment and collection experience, debtors' credit worthiness and appropriate discount rates. The recording of provisions requires the application of judgments about the ultimate resolution of these accounts receivable. As a result, provisions are reviewed at each balance sheet date and adjusted to reflect our current best estimates.

Deferred Tax Assets

We are required to exercise considerable judgment in making provisions for deferred tax under the liability method. Under this method, deferred tax is provided for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. 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 income or loss. Deferred tax is determined using tax rates (and tax laws) that has been enacted or substantially enacted by the balance sheet date and are expected to apply to the period when the related deferred tax asset is realized or deferred tax liability is settled. If these rates change, we would have to adjust our deferred tax in the period in which these changes happen through the income statement.

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 recognized to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilized.

Table of Contents***Revenue Recognition***

Sales are recognized upon delivery of products and customer acceptance or performance of services, net of sales taxes and discounts. Revenues are recognized only when we have transferred to the buyer the significant risks and rewards of ownership of the goods in the ordinary course of business, and when the amount of revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably and the collectibility of the related receivables is reasonably assured.

We sell part of the natural gas produced by us under take-or-pay contracts entered into with our customers. Customers who entered into such a take-or-pay contract are required to take or pay for the minimum amount of natural gas specified in the contract. Revenues from the sale and transportation of natural gas under take-or-pay contracts are recognized under the above accounting policies. Any advance payment for natural gas that has not been consumed will be recorded as deferred revenue until the natural gas has been actually consumed.

We entered into a Crude Oil Mutual Supply Framework Agreement with Sinopec on January 8, 2008, which can be characterized as a buy/sell contract, and recognized the revenue derived from this agreement in our consolidated statements of income. Since the transactions under the agreement are separately invoiced and settled and cannot be offset with each other, they were not treated as non-monetary transactions as defined in APB Opinion No. 29

Accounting for Non-monetary transactions . In February 2005, the U.S. Securities and Exchange Commission issued a letter to the oil and gas industry requesting additional disclosures regarding buy/sell contracts. Accordingly, we have reviewed such transactions and estimated that, if we are required to report the net amount of such buy/sell contracts, our reported amount in the line items of Sales and other operating revenues and Purchase, services and other for the year ended December 31, 2005, 2006 and 2007 would be reduced by RMB 1,384 million, RMB 2,119 million and RMB 4,694 million, respectively. No change will occur to our net income as a result of this.

Acquisitions

In June 2005, we entered into a capital contribution agreement with CNODC, Central Asia Petroleum Co., Ltd. and CNPC E&D, whereby, in December 2005 we acquired a 50% interest in CNPC E&D, a subsidiary of CNODC, for a consideration of RMB 20,741 million which was paid to CNPC E&D as our capital contribution. Upon consummation of the transaction, we obtained a 50% interest in certain overseas oil and gas assets transferred by CNODC to CNPC E&D. We also entered into a transfer agreement, pursuant to which, in December 2005, we transferred all of our interest in PTRI to CNPC E&D for a consideration of RMB 579 million. See Item 4 Information on the Company Introduction History and Development of the Company Overview of Our Operations.

Upon completion of the acquisition and transfer, we obtained control over CNPC E&D by having the right to appoint four of the seven directors. Our investment in CNPC E&D and the transfer of PTRI to CNPC E&D will be accounted for in a manner similar to a uniting of interests since these transactions are among entities under common control by CNPC. Our consolidated financial statements will be restated as if operations of PetroChina and CNPC E&D had always been combined.

We plan to continue to pursue attractive opportunities outside China as part of our business growth strategy to utilize both domestic and international resources to strengthen our competitiveness. As we continue to implement this strategy, we expect that acquisitions of overseas assets will over time have a material effect on our results of operations and financial condition.

Pursuant to an acquisition agreement by and between our company and CNPC dated March 28, 2005, we acquired the refinery and petrochemical operations respectively owned by CNPC's wholly owned subsidiaries, Dayuan and Qingyang, from CNPC for which we paid a cash consideration of RMB 9 million.

The acquisition is deemed a combination of entities under common control since we and the refinery and petrochemical operations of Dayuan and Qingyang are under the common control of CNPC. As a result, we have accounted for the acquisition in a manner similar to a uniting of interests, whereby the assets and liabilities of the refinery and petrochemical operations acquired are accounted for at historical cost to CNPC with net liabilities of RMB 183 million as at the effective date. Our prior years' consolidated financial statements were restated to give effect to the acquisition in these periods as if the operations of our company and these operations had always been combined in these periods. The difference between the RMB 9 million acquisition price and the net liabilities transferred from CNPC was adjusted against equity.

Pursuant to our board resolutions dated October 26, 2005, we made an offer to the holders of the A Shares of Jinzhou Petrochemical to acquire 150 million outstanding Jinzhou Petrochemical A Shares at the purchase price of RMB 4.25 per share. Jinzhou Petrochemical was delisted from the Shenzhen Stock Exchange on January 4, 2006.

Pursuant to our board resolutions dated October 26, 2005, we made separate offers to the holders of the A Shares of Jilin Chemical and the holders of the H Shares of Jilin Chemical to acquire 200 million outstanding A Shares at the purchase price of RMB 5.25 per share, and 964.778 million outstanding H Shares (including ADSs) at the purchase price of HK\$2.80 per Share. Jilin Chemical H Shares, A Shares and ADSs were delisted from the Hong Kong Stock Exchange, Shenzhen Stock Exchange and the New York Stock Exchange on January 23, February 20 and February 15, 2006, respectively.

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Pursuant to our board resolutions dated October 26, 2005, we made an offer to the holders of A Shares of Liaohe Jinma to acquire 200 million issued and outstanding Liaohe Jinma A Shares at the purchase price of RMB 8.80 per share. Liaohe Jinma was delisted from the Shenzhen Stock Exchange on January 4, 2006.

In 2007, we completed the acquisition of the entire interest in Jinzhou Petrochemical, Liaohe Jinma and Jilin Chemical. Each of Jinzhou Petrochemical, Liaohe Jinma and Jilin Chemical completed the cancellation of its business registration in 2007.

On December 6, 2005, we entered into two separate purchase agreements with two wholly owned subsidiaries of CNPC, Liaohe Petroleum Exploration Bureau and China Petroleum Pipeline Bureau, to acquire from the two companies a 15.56% equity interest and a 20.17% equity interest, respectively, in the Fuel Oil Company, a 55.43% subsidiary of our company, with a total cash consideration of RMB 559 million.

In August 2006, CNPC E&D entered into an acquisition agreement to acquire a 67% equity interest in PetroKazakhstan Inc., or PKZ, from CNPC for a consideration of US\$2,735 million. This acquisition, completed in December 2006, has been accounted for in a manner similar to a pooling of interests. This acquisition increased the level of our oil and gas assets and streamlined our existing exploration and development operations in Kazakhstan. On December 12, 2007, through a supplementary agreement between CNPC E&D and the minority shareholder of PKZ, we gained control over PKI from that date.

In 2006, we acquired a 100% interest in an exploration block in Chad through CNPC E&D. This Chad Block covers an area of 220,000 square kilometers and a trap resource of more than 1,000 million barrels of crude oil and is currently one of our most important overseas exploration blocks.

On August 23, 2007, we entered into an transfer agreement with CNPC, pursuant to which we acquired the assets of the risk operation service business from CNPC. Under the transfer agreement, we paid CNPC RMB1,652.28 million as consideration, representing the value of the net assets of the risk operation service business as at December 31, 2006. The parties shall adjust the consideration by reference to the net assets generated by the risk operation service business for the period from January 1, 2007 to August 31, 2007 as shown in the management accounts for that period.

On April 28, 2008, we entered into an acquisition agreement with CNPC, pursuant to which we acquired from CNPC the Northeastern Inspection, Maintenance and Repair Business Division of CNPC. Upon the closing of the agreement, we shall pay RMB 43.8 million to CNPC as consideration, representing the net asset value of the Northeastern Inspection, Maintenance and Repair Business Division as at September 30, 2007. The parties shall adjust the consideration by reference to the net assets generated by the Northeastern Inspection, Maintenance and Repair Business Division for the period from October 1, 2007 to April 30, 2008 as shown in the management accounts for that period.

Operating Results

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

Our income statement for each of the three years ended December 31, 2005, 2006 and 2007 is summarized in the table below.

	Year ended December 31,		
	2005	2006	2007
	in million	in million	In million
	RMB	RMB	RMB
Total revenues	552,229	688,978	835,037
Operating expenses	(360,058)	(491,002)	(635,182)
Income from operations	192,171	197,976	199,855

Exchange gain (loss), net	88	74	(866)
Interest expense, net	(838)	(1,154)	(1,605)
Income from equity affiliates and jointly controlled entities	2,401	2,277	6,997

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	Year ended December 31,		
	2005 in million RMB	2006 in million RMB	2007 In million RMB
Income before income taxes	193,822	199,173	204,381
Income taxes	(54,180)	(49,776)	(49,152)
(Income) loss attributable to minority interest	(6,280)	(7,173)	(9,604)
Net income	133,362	142,224	145,625

The table below sets forth our revenues by business segment for each of the three years ended December 31, 2005, 2006 and 2007 as well as the percentage changes in revenues for the periods shown.

	2005	2006	2006 vs. 2005		2007 vs. 2006	
			2006	2007	2007	2006
(RMB in millions, except percentages)						
Sales and other operating revenues						
Exploration and production	337,208	421,340	24.9%	468,175	11.1%	
Refining and marketing	428,494	543,299	26.8%	670,844	23.5%	
Chemicals and marketing	73,978	82,791	11.9%	102,718	24.1%	
Natural gas and pipeline	26,214	38,917	48.5%	50,066	28.6%	
Other		1,080		1,718	59.1%	
Total	865,894	1,087,427	25.6%	1,293,521	19.0%	
Less intersegment sales	(313,665)	(398,449)	27.0%	(458,484)	15.1%	
Consolidated net sales from operations	552,229	688,978	24.8%	835,037	21.2%	

The table below sets forth our operating profits by business segment for each of the three years ended December 31, 2005, 2006 and 2007, as well as the percentage changes in operating income for the periods shown. Other income from operations shown below consists of research and development, business services and infrastructure support to our operating business segments.

	2005	2006	2006 vs. 2005		2007 vs. 2006	
			2006	2007	2007	2006
(RMB in millions, except percentages)						
Income (loss) from operations						
Exploration and production	208,080	219,860	5.7%	206,587	(6.0)%	
Refining and marketing	(19,810)	(29,164)		(20,680)	%	
Chemicals and marketing	3,276	5,058	54.4%	7,831	54.8%	

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Natural gas and pipeline	3,183	8,986	182.3%	12,495	39.0%
Other	(2,558)	(6,764)		(6,738)	%
Total	192,171	197,976	3.0%	199,855	0.9%

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Consolidated Results of Operation

Overview

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For the twelve months ended December 31, 2007, our income before taxation was RMB 204,381 million, representing an increase of 2.6% compared with the previous year. Net income attributable to equity holders of our Company (Net income) was RMB 145,625 million, representing an increase of 2.4% compared with the previous year. Our basic and diluted earnings per share attributable to our shareholders for the year ended December 31, 2007 was RMB 0.81 while the same for 2006 was RMB 0.79.

Total Revenue. Total revenue increased 21.2% from RMB 688,978 million for the twelve months ended December 31, 2006 to RMB 835,037 million for the twelve months ended December 31, 2007. 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 refined products. In addition, the increase in our refined oil product supply operations during the year also increased our revenue.

The table below sets out the external sales volume and average realized prices for major products sold by us for 2006 and 2007 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)		
	2007	2006	Percentage of Change (%)	2007	2006	Percentage of Change (%)
Crude oil*	18,730	20,066	(6.7)	3,594	3,487	3.1
Natural gas (million cubic meter, RMB/ 000 cubic meter)	435.70	357.15	22.0	693	678	2.2
Gasoline	27,003	23,899	13.0	5,168	5,035	2.6
Diesel	54,377	48,516	12.1	4,668	4,411	5.8
Kerosene	3,782	2,054	84.1	4,684	4,502	4.0
Heavy oil	8,772	8,009	9.5	2,519	2,482	1.5
Polyethylene	2,102	1,590	32.2	10,497	10,299	1.9
Lubricant	2,378	2,059	15.5	6,420	6,433	(0.2)

* The external sales volume of crude listed above is the crude oil produced by our company.

Operating Expenses. Operating expenses increased 29.4% from RMB 491,002 million for the twelve months ended December 31, 2006 to RMB 635,182 million for the twelve months ended December 31, 2007, of which:

Purchases, Services and Other Expenses. Purchases, services and other expenses increased 36.7% from RMB 271,123 million for the twelve months ended December 31, 2006 to RMB 370,740 million for the twelve months ended December 31, 2007. This was primarily due to (i) 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; and (ii) an increase in the lifting costs of oil and gas operations and the processing cost 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 the production scale of our company. In addition, the increase in the purchase expenses also resulted from an increase in the refined product supply operations in 2007.

Employee Compensation Costs. The remuneration paid by us in cash rose 15.3% or increased RMB 3,752 million from RMB 24,538 million to RMB 28,290 million for 2007. Other employees' costs increased RMB 7,703 million from RMB 14,623 million to RMB 22,326 million for 2007. As a result of the above increment, employees' compensation costs and benefits increased RMB 11,455 million. This was primarily due to (i) our upward adjustment of the level of salaries and performance bonuses; (ii) an increase in the employees' compensation costs that resulted from the expansion of our operation scale and retail network; and (iii) a sequential increase in the welfare expenses as a result of the increase in the salaries.

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Exploration Expenses. Exploration expenses increased 9.7% from RMB 18,822 million for the twelve months ended December 31, 2006 to RMB 20,648 million for the twelve months ended December 31, 2007.

Depreciation, Depletion and Amortization. Depreciation, depletion and amortization increased 8.5% from RMB 61,388 million for the twelve months ended December 31, 2006 to RMB 66,625 million for the twelve months ended December 31, 2007. This was primarily due to an increase in depreciation, depletion and amortization that resulted from an increase in the average amount of property, plant and equipment and the average net value of oil and gas properties during 2007.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased 19.3% from RMB 43,235 million for the twelve months ended December 31, 2006 to RMB 51,576 million for the twelve months ended December 31, 2007. This was primarily due to an increase in transportation, leasing, maintenance and other related costs that resulted from expansion in the production scale and business development.

Taxes other than Income Taxes. Taxes other than income taxes increased 30.1% from RMB 56,666 million for the twelve months ended December 31, 2006 to RMB 73,712 million for the twelve months ended December 31, 2007. The increase was primarily due to a sharp increase in our payment of the special levy on our sale of domestic crude oil as international crude oil prices remained high throughout 2007.

Income from Operations. As a result of the factors discussed above, income from operations increased 0.9% from RMB 197,976 million for the twelve months ended December 31, 2006 to RMB 199,855 million for the twelve months ended December 31, 2007.

Net Exchange Loss. For the twelve months ended December 31, 2007, a net exchange loss of RMB 866 million was recorded. For the twelve months ended December 31, 2006, there was net exchange gain of RMB 74 million. The net exchange loss was primarily due to a combination of the effects of the appreciation of Renminbi against the United States Dollar and other currencies.

Net Interest Expense. Net interest expenses increased 39.1% from RMB 1,154 million for the twelve months ended December 31, 2006 to RMB 1,605 million for the twelve months ended December 31, 2007. The increase in net interest expenses was primarily due to an increase in interest expenses recognized as a result of the accretion expense in relation to asset retirement obligations.

Income Before Income Taxes. Income before taxation rose by 2.6% from RMB 199,173 million for the twelve months ended December 31, 2006 to RMB 204,381 million for the twelve months ended December 31, 2007.

Income Taxes. Income taxes decreased 1.3% from RMB 49,776 million for the twelve months ended December 31, 2006 to RMB 49,152 million for the twelve months ended December 31, 2007. The decrease was primarily due to a reduction in our income tax for the twelve months ended December 31, 2007 as we reassessed our deferred taxes based on the corporate income tax rate applicable to us under the Corporate Income Tax Law of the PRC which came into effect on January 1, 2008.

Net Income. As a result of the factors discussed above, net income increased 2.4% from RMB 142,224 million for the twelve months ended December 31, 2006 to RMB 145,625 million for the twelve months ended December 31, 2007.

Exploration and Production

Sales and Other Operating Revenue. Sales and Other Operating Revenue increased 11.1% from RMB 421,340 million for the year ended December 31, 2006 to RMB 468,175 million for the year ended December 31, 2007. The increase was primarily due to increases in the prices and sales volumes of crude oil and natural gas. Our average realized selling price of crude oil in 2006 was US\$65.27 per barrel, representing an increase of 9.1% from US\$59.81 per barrel in the year ended December 31, 2006. In 2007, our exploration and production segment sold 857.2 million barrels of crude oil and 1,599.3 billion cubic feet of natural gas, representing an increase of 2.9% and 20.9% from 2006, respectively.

Intersegment sales revenue increased 10.8% from RMB 339,619 million for the year ended December 31, 2006 to RMB 376,451 million for the year ended December 31, 2007. 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.

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Operating Expenses. Operating expenses increased 29.8% from RMB 201,480 million for the year ended December 31, 2006 to RMB 261,588 million for the year ended December 31, 2007. The increase was primarily due to a sharp increase in the payment of the special levy on the sale of domestic crude oil by us as international crude oil prices remained high throughout 2007.

Income from Operations. Income from operations decreased 6.0% from RMB219,860 million for the twelve months ended December 31, 2006 to RMB206,587 million for the twelve months ended December 31, 2007. The Exploration and Production segment remains our main source of external sales revenue.

Refining and Marketing

Sales and Other Operating Revenue. Sales and other operating revenue increased 23.5% from 543,299 million for the year ended December 31, 2006 to RMB 670,844 million for the year ended December 31, 2007. The increase was due primarily to increases in the selling prices and changes in sales volume of our key refined products. The Refining and Marketing segment is our main source of external sales revenue.

Sales revenue from gasoline increased 16.0% from RMB 120,771 million for the year ended December 31, 2006 to RMB 140,126 million for the year ended December 31, 2007, primarily due to a 2.7% increase in our average realized selling price from RMB 5,034 per ton for the year ended December 31, 2006 to RMB 5,168 per ton for the year ended December 31, 2007 and a 14.5% increase in the sales volume from 23.99 million tons for the year ended December 31, 2006 to 27.12 million tons for the year ended December 31, 2007.

Sales revenue from diesel increased 18.8% from RMB 215,459 million for the year ended December 31, 2006 to RMB 255,952 million for the year ended December 31, 2007. The average realized selling price of diesel increased 5.9% from RMB 4,409 per ton for the year ended December 31, 2006 to RMB 4,667 per ton for the year ended December 31, 2007. The sales volume of diesel increased 12.2% from 48.86 million tons for the year ended December 31, 2006 to 54.84 million tons for the year ended December 31, 2007.

Sales revenue from kerosene increased 92.1% from RMB 9,219 million for the year ended December 31, 2006 to RMB 17,709 million for the year ended December 31, 2007.

Intersegment sales revenue increased 42.3% from RMB 44,806 million for the year ended December 31, 2006 to RMB 63,766 million for the year ended December 31, 2007. 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 20.8% from RMB 572,463 million for the year ended December 31, 2006 to RMB 691,524 million for the year ended December 31, 2007. This increase was primarily due to an increase in purchase expenses of crude oil, other feedstock and refined products from external suppliers, and an increase in the selling, general and administrative expenses. In addition, the increase in our supply of refined products in 2007 also contributed to the increase in the operating expenses. In 2007, we purchased 813 million barrels of crude oil, representing an increase of 38 million barrels as compared with 2006. The average purchase price of crude oil in 2007 was RMB 517 per barrel, representing an increase of RMB 23 per barrel as compared with 2006. As a result, our expenses for purchased crude oil in 2007 were RMB 420,475 million, representing an increase of RMB 37,388 million as compared with 2006.

Loss from Operations. Loss from operations amounted to RMB20,680 million for the twelve months ended December 31, 2007, representing a reduction of RMB8,484 million for the twelve months ended December 31, 2006. The loss from the Refining and Marketing segment was primarily due to the control of the domestic prices of refined products by the PRC Government, as a result of which despite persistently high crude oil prices, prices of refined products were lower than that of the international market.

Chemicals and Marketing

Sales and Other Operating Revenue. Sales and other operating revenue increased 24.1% from RMB 82,791 million for the year ended December 31, 2006 to RMB 102,718 million for the year ended December 31, 2007, primarily due to increases in the sales volumes and selling prices of certain chemical products. Our chemicals and marketing segment sold 15,573 thousand tons of chemical products for the year ended December 31, 2007, representing an increase of 14.8% from the year ended December 31, 2006.

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Operating Expenses. Operating expenses increased 22.1% from RMB77,733 million for the twelve months ended December 31, 2006 to RMB94,887 million for the twelve months ended December 31, 2007. The increase was primarily due to an increase in the purchase costs for direct materials and selling, general and administrative expenses.

Income from Operations. As a result of the factors discussed above, income from operations increased 54.8% from RMB 5,058 million for the year ended December 31, 2006 to RMB 7,831 million for the year ended December 31, 2007.

Natural Gas and Pipeline

Sales and Other Operating Revenue. Sales and other operating revenue increased 28.6% from RMB 38,917 million for the year ended December 31, 2006 to RMB 50,066 million for the year ended December 31, 2007. The increase was primarily due to increases in the sales volume and selling prices of natural gas, as well as increases in the transmission volume and average transmission price of natural gas. Our natural gas and pipeline segment sold 1,502.0 billion cubic feet of natural gas in the year ended December 31, 2007, representing an increase of 25.1% from the year ended December 31, 2006. The selling price of natural gas in the year ended December 31, 2007 was US\$2.64 per thousand cubic feet, representing an increase of 8.2% from the year ended December 31, 2006. Our natural gas and pipeline segment transmitted 1,466 billion cubic feet of natural gas in the year ended December 31, 2007, representing an increase of 30.5% from the year ended December 31, 2006. The average natural gas transmission price in the year ended December 31, 2007 was US\$1.3 per thousand cubic feet, representing an increase of 8.3% from the year ended December 31, 2006.

Operating Expenses. Operating expenses increased 25.5% from RMB 29,931 million for the year ended December 31, 2006 to RMB 37,571 million for the year ended December 31, 2007 due primarily to an increase of 302 billion cubic feet in the natural gas purchase volume, as well as the increase of the average purchase price of natural gas from US\$1.9 per thousand cubic feet in 2006 to US\$2.1 per thousand cubic feet in 2006.

Income from Operations. As a result of the factors discussed above, income from operations increased 39.0% from RMB8,986 million for the twelve months ended December 31, 2006 to RMB12,495 million for the twelve months ended December 31, 2007. The natural gas and pipeline business grew rapidly and has become our new income growth engine.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005**Consolidated Results of Operation****Overview**

For the year ended December 31, 2006, our total revenue was RMB 688,978 million, representing an increase of 24.8% from the total revenue of RMB 552,229 million for the year ended December 31, 2005. Our net income for the year ended December 31, 2006 was RMB 142,224 million, representing an increase of 6.6% from RMB 133,362 for the year ended December 31, 2005. Our basic and diluted earnings per share attributable to our shareholders for the year ended December 31, 2006 was RMB 0.79, representing an increase of 5.3% from RMB 0.75 for the year ended December 31, 2005.

Sales and Other Operating Revenue. Sales and other operating revenue increased 24.8% from RMB 552,229 million for the year ended December 31, 2005 to RMB 688,978 million for the year ended December 31, 2006. This was primarily due to the increases in the selling prices and sales volume of our principal products, including crude oil, natural gas and certain refined products. The average realized selling price for crude oil increased from US\$48.37 per barrel for the year ended December 31, 2005 to US\$59.81 per barrel for the year ended December 31, 2006.

Operating Expenses. Operating expenses increased 36.4% from RMB 360,058 million for the year ended December 31, 2005 to RMB 491,002 million for the year ended December 31, 2006. This was primarily due to (i) a 35.3% increase in purchases, services and other expenses, (ii) a 32.0% increase in employee compensation costs, (iii) a 19.7% increase in depreciation, depletion and amortization, (iv) a 18.3% increase in selling, general and administrative expenses and (v) a 20.9% increase in exploration expenses.

Purchases, Services and Other Expenses. Purchases, services and other expenses increased 35.3% from RMB 200,321 million for the year ended December 31, 2005 to RMB 271,123 million for the year ended December 31, 2006. This was primarily due to (i) an increase in the purchase cost of crude oil and other feedstock as a result of the

increases in the purchase price and purchase volume of crude oil and other feedstock from external suppliers, as we purchased an aggregate of 22.22 million tons of crude oil and other feedstock at an average price of

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RMB 3,832 per ton in 2006, as compared to 18.98 million tons of crude oil and other feedstock at an average price of RMB 3,194 per ton in 2005; (ii) an increase in the purchase cost of refined products as a result of the increases in the purchase price and purchase volume of refined products from external suppliers, as we purchased 16.93 million tons of refined products at an average price of RMB 3,308 per ton in 2006 as compared to 13.11 million tons of refined oil products at an average price of RMB 2,883 in 2005; and (iii) an increase in the lifting costs of oil and gas operations and the processing costs of our refineries as a result of the increases in prices of raw materials, fuel, electricity and other production materials as well as our expanded production scale. In addition, the increase in the purchase expenses also resulted from an increase in the refined product supply operation in 2006.

Employee Compensation Costs. Employee compensation costs increased 32.0% from RMB 29,675 million for the year ended December 31, 2005 to RMB 39,161 million for the year ended December 31, 2006. This was primarily due to an increase of RMB 7,278 million in the employees' salaries and benefits as a result of the improvement of our operating results and the expansion of our production scale and retail distribution network.

Depreciation, Depletion and Amortization. Depreciation, depletion and amortization increased 19.7% from RMB 51,305 million for the year ended December 31, 2005 to RMB 61,388 million for the year ended December 31, 2006. This was primarily due to an increase of RMB 8,220 million in the provision for depreciation, depletion and amortization that resulted from increases in the average balance of fixed assets and the average balance of oil and gas assets during 2006.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased 18.3% from RMB 36,538 million for the year ended December 31, 2005 to RMB 43,235 million for the year ended December 31, 2006. This was primarily due to (i) an increase of RMB 3,050 million in transportation expenses that resulted from increases in railway freights and marine fuel prices and an increase in the sales volume of refined and petrochemical products, and (ii) an increase of RMB 1,065 million in research and development expenses as a result of intensified research and development efforts.

Exploration Expenses. Exploration expenses increased 20.9% from RMB 15,566 million for the year ended December 31, 2005 to RMB 18,822 million for the year ended December 31, 2006. This increase was due primarily to increased expenditures in exploration activities, for the purpose of increasing our crude oil and gas reserves, and an increase in the expensing of exploratory well costs.

Taxes other than Income Taxes. Taxes other than income taxes increased 139.9% from RMB 23,616 million for the year ended December 31, 2005 to RMB 56,666 million for the year ended December 31, 2006. The increase was primarily due to (i) a recorded levy of RMB 28,914 million to the PRC government as the PRC government commenced to impose a special levy on petroleum exploration enterprises such as our company from March 26, 2006; (2) an increase of RMB 1,510 million in consumption tax as a result of increased sales volume of gasoline and diesel and an expansion of the scope of consumption tax in the PRC in 2006; and (3) an increase of RMB 632 million in resource tax as a result of an increase in resource tax rates in the second half of 2005 and increased production volumes of crude oil and natural gas.

Income from Operations. As a result of the factors discussed above, income from operations increased 3.0% from RMB 192,171 million for the year ended December 31, 2005 to RMB 197,976 million for the year ended December 31, 2006.

Net Exchange Gain. Net exchange gain decreased 15.9% from RMB 88 million for the year ended December 31, 2005 to RMB 74 million for the year ended December 31, 2006. The decrease in the net exchange gain was primarily due to the appreciation of Renminbi against both the United States Dollar and the Japanese Yen, offset by the depreciation in Renminbi against both the Euro and the Pound Sterling.

Net Interest Expense. Net interest expenses increased 37.7% from RMB 838 million for the year ended December 31, 2005 to RMB 1,154 million for the year ended December 31, 2006. This increase was primarily due to an increase of RMB 736 million in accretion expense, recognized as interest expense, in relation to asset retirement obligations.

Income before Income Taxes. Income before income taxes increased by 2.8% from RMB 193,822 million for the year ended December 31, 2005 to RMB 199,173 million for the year ended December 31, 2006.

Income Taxes. Income taxes decreased 8.1% from RMB 54,180 million for the year ended December 31, 2005 to RMB 49,776 million for the year ended December 31, 2006. This decrease was primarily due to the reversal of a tax liability of RMB 4,401 million in relation to certain crude oil sales that were exempted from income tax prior to the establishment of our company in November 1999.

Net Income. As a result of the factors discussed above, net income increased 6.6% from RMB 133,362 million for the year ended December 31, 2005 to RMB 142,224 million for the year ended December 31, 2006.

Exploration and Production

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Sales and Other Operating Revenue. Sales and other operating revenue increased 24.9% from RMB 337,208 million for the year ended December 31, 2005 to RMB 421,340 million for the year ended December 31, 2006. The increase was primarily due to increases in the prices and sales volumes of crude oil and natural gas. Our average realized selling price of crude oil in 2006 was US\$59.81 per barrel, representing an increase of US\$11.44 per barrel or 23.7% from US\$48.37 per barrel in the year ended December 31, 2005. In 2006, our exploration and production segment sold 832.8 million barrels of crude oil and 1,322.7 billion cubic feet of natural gas, representing an increase of 5.6% and 26.0% from 2005, respectively.

Intersegment sales revenue increased 25.3% from RMB 270,943 million for the year ended December 31, 2005 to RMB 339,619 million for the year ended December 31, 2006. 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.

In 2006, our revenue from sales of crude oil to Sinopec was RMB 33,682 million, representing an increase of 21.9% from 2005.

Operating Expenses. Operating expenses increased 56.0% from RMB 129,128 million for the year ended December 31, 2005 to RMB 201,480 million for the year ended December 31, 2006. The increase was primarily due to an increase of RMB 31,114 million in taxes other than income taxes, an increase of RMB 27,564 million in purchase expenses and an increase of RMB 7,021 million in depreciation, depletion and amortization.

Income from Operations. Income from operations increased 5.7% from RMB 208,080 million for the year ended December 31, 2005 to RMB 219,860 million for the year ended December 31, 2006.

Refining and Marketing

Sales and Other Operating Revenue. Sales and other operating revenue increased 26.8% from RMB 428,494 million for the year ended December 31, 2005 to RMB 543,299 million for the year ended December 31, 2006. The increase was due primarily to increases in the selling prices and sales volume of our key refined products.

Sales revenue from gasoline increased 9.4% from RMB 110,438 million for the year ended December 31, 2005 to RMB 120,771 million for the year ended December 31, 2006, primarily due to a 19.3% increase in our average realized selling price from RMB 4,221 per ton for the year ended December 31, 2005 to RMB 5,034 per ton for the year ended December 31, 2006, partially offset by a 8.3% decrease in the sales volume from 26.16 million tons for the year ended December 31, 2005 to 23.99 million tons for the year ended December 31, 2006.

Sales revenue from diesel increased 21.7% from RMB 176,999 million for the year ended December 31, 2005 to RMB 215,459 million for the year ended December 31, 2006. The average realized selling price of diesel increased 19.1% from RMB 3,702 per ton for the year ended December 31, 2005 to RMB 4,409 per ton for the year ended December 31, 2006, resulting in an increase in revenue by RMB 34,544 million. The sales volume of diesel increased 2.2% from 47.81 million tons for the year ended December 31, 2005 to 48.86 million tons for the year ended December 31, 2006, resulting in an increase in revenue by RMB 3,916 million.

Sales revenue from kerosene increased 23.2% from RMB 7,480 million for the year ended December 31, 2005 to RMB 9,219 million for the year ended December 31, 2006.

Intersegment sales revenue increased 35.7% from RMB 33,019 million for the year ended December 31, 2005 to RMB 44,806 million for the year ended December 31, 2006. This increase was primarily due to increases in the selling prices and changes in intersegment sales volume of key refined products.

Operating Expenses. Operating expenses increased 27.7% from RMB 448,304 million for the year ended December 31, 2005 to RMB 572,463 million for the year ended December 31, 2006. This increase was primarily due to an increase of RMB 80,650 million in purchase expenses of crude oil, other feedstock and refined products from external suppliers, and an increase of RMB 2,784 million in the selling, general and administrative expenses. In addition, the increase in our supply of refined products in 2006 also contributed to the increase in the operating expenses. In 2006, we purchased 775 million barrels of crude oil, representing an increase of 31 million barrels as compared with 2005. The average purchase price of crude oil in 2006 was RMB 494 per barrel, representing an increase of RMB 85 per barrel as compared with 2005. As a result, our expenses for purchased crude oil in 2006 were RMB 383,087 million, representing an increase of RMB 78,731 million as compared with 2005.

Loss From Operations. Loss from operations amounted to RMB 29,164 million for the year ended December 31, 2006, compared to RMB 19,810 million for the year ended December 31, 2005, primarily due to the fact that the price

increase for crude oil in the international market exceeded that of refined products in the domestic market.

Chemicals and Marketing

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Sales and Other Operating Revenue. Sales and other operating revenue increased 11.9% from RMB 73,978 million for the year ended December 31, 2005 to RMB 82,791 million for the year ended December 31, 2006, primarily due to increases in the sales volumes and selling prices of certain chemical products. The average realized selling prices of polyethylene, polyester, styrene butadiene rubber and urea in 2006 increased 11%, 4%, 22% and 3%, respectively, from 2005. Our chemicals and marketing segment sold 13,562 thousand tons of chemical products for the year ended December 31, 2006, representing an increase of 3.4% from the year ended December 31, 2005.

Operating Expenses. Operating expenses increased 9.9% from RMB 70,702 million for the year ended December 31, 2005 to RMB 77,733 million for the year ended December 31, 2006. The increase was primarily due to the increase in purchase expenses for direct materials.

Income from Operations. As a result of the factors discussed above, income from operations increased 54.4% from RMB 3,276 million for the year ended December 31, 2005 to RMB 5,058 million for the year ended December 31, 2006.

Natural Gas and Pipeline

Sales and Other Operating Revenue. Sales and other operating revenue increased 48.5% from RMB 26,214 million for the year ended December 31, 2005 to RMB 38,917 million for the year ended December 31, 2006. The increase was primarily due to increases in the sales volume and selling prices of natural gas, as well as increases in the transmission volume and average transmission price of natural gas. Our natural gas and pipeline segment sold 1,200.5 billion cubic feet of natural gas in the year ended December 31, 2006, representing an increase of 35.1% from the year ended December 31, 2005. The selling price of natural gas in the year ended December 31, 2006 was US\$2.44 per thousand cubic feet, representing an increase of 15.1% from the year ended December 31, 2005. Our natural gas and pipeline segment transmitted 1,123 billion cubic feet of natural gas in the year ended December 31, 2006, representing an increase of 36.8% from the year ended December 31, 2005. The average natural gas transmission price in the year ended December 31, 2006 was US\$1.2 per thousand cubic feet, representing an increase of 24.7% from the year ended December 31, 2005.

Operating Expenses. Operating expenses increased 30.0% from RMB 23,031 million for the year ended December 31, 2005 to RMB 29,931 million for the year ended December 31, 2006 due primarily to (i) an increase of RMB 5,155 million in purchase expenses of natural gas primarily as a result of the increase of 312 billion cubic feet in the natural gas purchase volume, as well as the increase of the average purchase price of natural gas from US\$1.8 per thousand cubic feet in 2005 to US\$1.9 per thousand cubic feet in 2006, and (ii) an increase of RMB 785 million in depreciation expenses.

Income from Operations. As a result of the factors discussed above, income from operations increased 182.3% from RMB 3,183 million for the year ended December 31, 2005 to RMB 8,986 million for the year ended December 31, 2006.

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, 2007, we distributed as dividends 45% of our reported net income. We expect that we will continue to distribute as dividends approximately 40% to 50% of our reported net income for all years. See Item 8 Financial Information Dividend Policy for a discussion of factors which may affect the determination by our board of directors of the appropriate level of dividends.

Our financing ability may be limited by our financial condition, our results of operations and the international and domestic capital markets. Prior to accessing the international and domestic capital markets, we must obtain approval from the relevant PRC government authorities. In general, we must obtain PRC government approval for any project involving significant capital investment for our refining and marketing, chemicals and 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 generated by operating activities, short-term and long-term borrowings and cash and cash equivalents. Net cash generated by operating activities in the year ended December 31, 2007 was RMB 203,748 million. As of December 31, 2007, we had cash and cash equivalents of RMB 65,494 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

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Our shareholders approved at our shareholders meeting held on May 28, 2003 the proposed issuances of our corporate bonds in the principal amount of up to RMB 1,500 million and RMB 4,000 million to PRC citizens and enterprises. Upon the grant of PRC government approval, we issued a portion of these corporate bonds in the principal amount of RMB 1,500 million in October 2003. We received RMB 1,500 million in net proceeds from this issuance. We used the proceeds received from the issuance of these corporate bonds for various crude oil and natural gas exploration projects in a number of our oil and gas regions, as well as for upgrading refining facilities in Daqing Petrochemical and constructing the natural gas pipeline from Zhong County to Wuhan City. We issued another portion of these corporate bonds in the principal amount of RMB 2,000 million in October 2006. We received RMB 2,000 million in net proceeds from this issuance. We used the proceeds received from the issuance of these corporate bonds for various crude oil and natural gas exploration projects in a number of our oil and gas regions, as well as for the construction of supporting facilities to transmit natural gas from our Southwest Oil and Gas Field to eastern China and upgrading PTA (Pure Terephthalic Acid) and raw materials facilities in Liaoyang PetroChemical. In addition, we consider from time to time opportunities to fund our capital needs by accessing the domestic equity capital markets.

In October 2007, we issued 4 billion A Shares, which have been listed and traded on the Shanghai Stock Exchange from 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 RMB 6,840 million were used for the project to increase the crude oil production capacity of Changqing Oilfield; approximately RMB 5,930 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 RMB 17,500 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 RMB 6,000 million were used for the 1.2 million tons/year ethylene redevelopment and expansion project of Daqing Petrochemical. The balance of the net proceeds would be used as additional working capital and for general commercial purpose. Out of the proceeds raised for the above five projects in the amount of RMB37,770 million, RMB13,943 million were used for the year, 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, 2007, 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 three years ended December 31, 2005, 2006 and 2007 and our cash equivalents at the end of each period.

	Year Ended December 31,		
	2005	2006	2007
	(RMB in millions)		
Net cash generated by operating activities	203,885	198,102	203,748
Net cash used for investing activities	(91,576)	(158,451)	(184,205)
Net cash used for financing activities	(42,634)	(71,739)	(2,648)
Currency translation difference	(458)	(258)	40
Cash and cash equivalents at the end of period	80,905	48,559	65,494

Our cash and cash equivalents increased by 34.9% from RMB 48,559 million as of December 31, 2006 to RMB 65,494 million as of December 31, 2007.

Cash Generated by Operating Activities

Our net cash flow generated by operating activities was RMB 203,748 million for the year ended December 31, 2007, representing an increase of RMB 5,646 million from RMB 198,102 million for the year ended December 31, 2006. As of December 31, 2007, our cash and cash equivalents were mainly denominated in RMB (approximately 88.9% were denominated in RMB, and approximately 11.1% were denominated in US\$).

We had a working capital balance of RMB 33,080 million for the year ended December 31, 2007, compared with the working capital deficit of RMB 17,657 million for the year ended December 31, 2006. This increase in working capital balance was due primarily to the successful issuance of A Shares and decrease of the income tax paid.

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Our net cash generated by operating activities was RMB 198,102 million for the year ended December 31, 2006, representing a decrease of RMB 5,783 million from RMB 203,885 million for the year ended December 31, 2005, due primarily to an increase of RMB 6,657 million in income tax paid during the year ended December 31, 2006.

We had a working capital deficit of RMB 17,657 million for the year ended December 31, 2006, compared with a working capital balance of RMB 22,057 million for the year ended December 31, 2005. This decrease in working capital was due primarily to (i) a payment of approximately RMB 21,376 million for the acquisition of the 67% equity interest of PKZ, and (ii) an increase of RMB 14,922 million in the dividends we distributed to our shareholders.

Our notes and other receivables include notes receivable from customers. Other receivables represent advances to employees, non-trade related receivables from other companies, and receivables from government agencies. Allowance for doubtful accounts were primarily related to other receivables which we estimated to be uncollectible. Our notes receivable do not include past due customer amounts and, as a majority portion of our notes receivable are approved by banks, we do not have special arrangements with respect to extended payment terms on notes receivable.

Cash Used for Financing Activities

Our net borrowings as of December 31, 2005, 2006 and 2007 were as follows:

	2005	December 31, 2006	2007
Short-term debt (including current portion of long-term debt)	28,689	35,763	30,934
Long-term debt	44,570	35,634	39,688
Total debt	73,259	71,397	70,622
Less:			
Cash and cash equivalents	80,905	48,559	65,494
Time deposits with term exceeding three months within one year	1,691	3,012	18,042
Investments in Collateralized Loans	235		
Time deposits exceeding one year	3,428	2,499	5,053
Net debt	(13,000)	17,327	(17,967)

See Note 22 to our consolidated financial statements included elsewhere in this annual report for information regarding the maturity profile of debt, currency and interest rate structure.

The debts which were guaranteed by CNPC amounted to RMB 674 million, RMB 597 million and RMB 498 million in the three years ended December 31, 2005, 2006 and 2007, respectively. CNPC and we have undertaken to the Hong Kong Stock Exchange that we will continue to, on a best endeavor basis, approach each lender with respect to these guaranteed debts with a view toward obtaining the unconditional release of such guarantees.

Of the total debts outstanding as of December 31, 2007, approximately 17% were fixed-rate loans and approximately 83% were floating-rate loans. Of the total debts outstanding as of December 31, 2007, approximately 67.4% were denominated in Renminbi, approximately 28.8% were denominated in the U.S. dollar and approximately 3.8% were denominated in other major foreign currencies.

Our debts included short-term and long-term debts owed to China Petroleum Finance Company Limited of RMB 27,319 million, RMB 27,184 million and RMB 24,482 million in the three years ended December 31, 2005, 2006 and 2007, respectively. The amount of such short-term debts in the three years ended December 31, 2005, 2006 and 2007 were RMB 520 million, RMB 320 million and RMB 50 million, respectively. The amount of such long-term debts in

each of the three years ended December 31, 2005, 2006 and 2007 were RMB RMB 26,799 million, RMB 26,864 million and RMB 24,432 million, respectively. These debts were unsecured with interest at below the prime rate as

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published by the People's Bank of China. We also maintain a portion of our deposits at China Petroleum Finance Company Limited at the same deposit interest rate for commercial banks published by the People's Bank of China. Our net cash used for financing activities decreased 96.3% from RMB 71,739 million for the year ended December 31, 2006 to RMB 2,648 million for the year ended December 31, 2007. This decrease resulted primarily from the following:

an increase in repayment of short-term debts leading to an increase of RMB 4,678 million in cash outflow;

an increase in the repayment of long-term debts leading to an increase of RMB 6,484 million in cash outflow; and

an increase in the distribution of dividends to minority shareholders leading to an increase of RMB 3,117 million in cash outflow;

These changes were offset primarily by the following:

an increase in new short-term debts leading to an increase of RMB 6,659 million in cash inflow;

an increase in new long-term debts leading to an increase of RMB 6,455 million in cash inflow; and

our offering of A Shares leading to an increase of RMB 66,243 million in cash inflow.

Our net cash used for financing activities increased 68.3% from RMB 42,634 million for the year ended December 31, 2005 to RMB 71,739 million for the year ended December 31, 2006. This increase resulted primarily from the following:

an increase in the distribution of dividends leading to an increase of RMB 14,922 million in cash outflow; and

our follow-on offering of H Shares in 2005 leading to an increase of RMB 19,692 million in cash inflow while no such financing activity occurred in 2006.

As at December 31, 2007, our debts consisted of RMB 3,607 million secured loans, most of which were secured by our assets and time deposits with a term longer than one year.

Our debt to capital employed ratio (calculated by dividing interest-bearing debts by the aggregate of interest-bearing debts and shareholder's equity) as of December 31, 2007 was 8.3%, as compared to 10.4% as of December 31, 2006.

Capital Expenditures and Investments

Our net cash used for investing activities includes capital expenditures and investments, offset by proceeds from the sale of assets and dividends received. The table below sets forth our capital expenditures and investments (including non dry hole exploration expenses) by business segment for each of the years ended December 31, 2005, 2006 and 2007 as well as those anticipated for the year ending December 31, 2008. Actual capital expenditures and investments for periods after January 1, 2008 may differ materially from the amounts indicated below.

	2005		2006		2007		2008 anticipated	
	(RMB in millions)	%	(RMB in millions)	%	(RMB in millions)	%	(RMB in millions)	%
Exploration and production	92,233	68.92	114,520	72.44	145,743	75.49	143,200	65.45
Refining and marketing	16,454	12.30	19,206	12.15	26,546	13.75	23,000	10.51
Chemicals and marketing	13,569	10.14	10,681	6.76	8,165	4.23	13,200	6.03
Natural gas and pipeline	11,137	8.32	11,309	7.15	11,003	5.70	37,700	17.23

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Corporate and other	427	0.32	2,358	1.50	1,613	0.83	1,700	0.78
Total	133,820	100.0	158,074	100.0	193,070	100.00	218,800	100.00

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Our capital expenditures and investments increased 22.1% from RMB 158,074 million for the year ended December 31, 2006 to RMB 193,070 million for the year ended December 31, 2007. This increase was due primarily to an increase of RMB 31,223 million in capital expenditures and investments in the exploration and production segment and an increase of RMB 7,340 million in capital expenditures in the refining and marketing segment, which were partially offset by a decrease of RMB 2,516 million in capital expenditures in the chemicals and marketing segment. Taking into account the exclusion of the investments relating to the non-dry hole exploration expenses, our capital expenditures for the years ended 2005, 2006 and 2007 would have been RMB 124,801 million, RMB 148,746 million and RMB 181,583 million, respectively.

As of December 31, 2007, the capital expenditures contracted for at the balance sheet date but not recognized in our consolidated financial statements were approximately RMB 11,621 million.

Exploration and Production

A majority of our capital expenditures and investments relate to our exploration and production segment. Our capital expenditures and investments in this segment for the year ended December 31, 2007 totaled RMB 145,743 million, including RMB 35,401 million for development activities and RMB 91,463 million for exploration activities. Our capital expenditures and investments in this segment for the year ended December 31, 2006 totaled RMB 114,520 million, including RMB 29,809 million for exploration activities and RMB 75,050 million for development activities. The increase in our capital expenditures and investments from the year ended December 31, 2006 to the year ended December 31, 2007 was primarily due to the increased capital expenditures for oil and natural gas exploration activities as a part of our efforts to achieve a stable production of crude oil in eastern regions, a rapid development of our operations in western regions and an expedited development of our natural gas business. In addition, we also increased our capital expenditures for safety and environmental protections for this segment in 2007. Taking into account the exclusion of the investments relating to the non-dry hole exploration expenses, the capital expenditures of our exploration and production segment for the years ended December 31, 2005, 2006 and 2007 would have been RMB 83,214 million, RMB 105,192 million and RMB 134,256 million, respectively.

Our anticipated capital expenditures and investments for our exploration and production segment for the year ending December 31, 2008 amount to RMB 143,200 million. Approximately RMB 35,100 million is expected to be used for exploration activities and approximately RMB 90,500 million for development activities. We plan to focus our exploration and development efforts in Ordos, Junggar, Tarim, Songliao, Sichuan, Bohai Bay and Qaidam basins.

Refining and Marketing

Our capital expenditures for our refining and marketing segment for each of the three years ended December 31, 2005, 2006 and 2007 were RMB 16,454 million, RMB 19,206 million and RMB 26,546 million, respectively. The increase in 2007 is due primarily to an increase of RMB 4,343 million in our investment in the construction of refining facilities. In addition, we also increased the capital expenditures for safety production protection for this segment in 2007.

Our anticipated capital expenditures for our refining and marketing segment for the year ending December 31, 2008 amount to RMB 23,000 million, which include:

approximately RMB 16,100 million for the construction and expansion of our refining facilities; and

approximately RMB 6,900 million for the construction of our distribution networks and storage facilities for oil products.

Chemicals and Marketing

Our capital expenditures for our chemicals and marketing segment for each of the three years ended December 31, 2005, 2006 and 2007 were RMB 13,569 million, RMB 10,681 million and RMB 8,165 million, respectively.

Our anticipated capital expenditures for our chemicals and marketing segment for the year ending December 31, 2008 amount to RMB 13,200 million, which mainly include capital expenditures for the construction and expansion of chemical facilities.

Natural Gas and Pipeline

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Our capital expenditures for our natural gas and pipeline segment for each of the three years ended December 31, 2005, 2006 and 2007 were RMB 11,137 million, RMB 11,309 million and RMB 11,003 million, respectively.

Our anticipated capital expenditures for our natural gas and pipeline segment for the year ending December 31, 2008 amount to approximately RMB 37,700 million, which are expected to be used primarily for major oil and gas transmission projects such as the Lanzhou-Zhengzhou-Changsha refined oil pipeline project, the Second West-East Gas Pipeline project and associated gas storage facilities and LNG projects. See Item 4 Information on our company Natural Gas and Pipeline Expansion of Our Natural Gas Transmission and Marketing Business for a more detailed discussion of the expansion plans of our natural gas and pipeline segment.

Others

Our non-segment-specific capital expenditures and investments for each of the three years ended December 31, 2005, 2006 and 2007 were RMB 427 million, RMB 2,358 million and RMB 1,613 million, respectively.

Our anticipated non-segment-specific capital expenditures and investments for the year ending December 31, 2008 amount to RMB 1,700 million. These planned capital expenditures and investments mainly include capital expenditures for scientific research activities and the construction of the ERP 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.

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.

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

The tables below set forth certain information in connection with our long-term contractual obligations and other commercial commitments outstanding as of December 31, 2007.

	Total	Payment due by period			After 5 years
		Less than 1 year	1-3 years	3-5 years	
Contractual obligations					
		(RMB in millions)			
Long-term debt	51,888	12,200	19,819	5,833	14,036
Capital lease obligations					
Operating leases	94,395	3,394	6,004	5,972	79,025
Capital commitments	11,621	5,003	6,402	55	161
Unconditional purchase obligations	3,061	1,474	1,549	17	20
Other long-term obligations					
Total contractual cash obligations	160,965	22,071	33,774	11,877	93,242
		Amount of commitment expiration per period			
	Total amounts committed	Less than 1 year	1-3 years	3-5 years	Over 5 years
Other commercial commitments					
		(RMB in millions)			
Lines of credit					
Standby letters of credit					
Guarantees	77	18	22	37	
Total commercial commitments	77	18	22	37	

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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 future five years:

Year	Annual payment (RMB in millions)
2008	906
2009	906
2010	906
2011	906
2012	906

Assets Retirement Obligation

Before the issuance of two provincial regulations, *The Environmental Protection Regulation for Oil and Gas Exploration and Production Activities in Heilongjiang Province* and *The Environmental Protection Regulation for Oil and Gas Exploration and Production Activities in Gansu Province*, which set forth specific abandonment and disposal processes for oil and gas exploration and production activities in 2005, our company was neither legally obligated to, nor was our company under the constructive obligation, to take any abandonment measures for its retired oil and gas properties located in China. In 2005, our company 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 two provincial regulations which set forth specific abandonment and disposal processes for oil and gas exploration and production activities. As a result, our company became legally obligated to take abandonment measures for its retired oil and gas properties located in the two provinces where the new regulations were enacted, and is under the constructive obligation to take abandonment measures for its retired oil and gas properties located in other provinces where comparable regulations were not enacted. An additional obligation of RMB 4,818 million was recorded in 2007 and did not have a material impact on our financial results.

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, 2007, we had 25,502 employees engaged in research and development functions.

In 2007, we applied for 445 patents and we were granted patent rights for 364 patents in China in the same year.

In each of the three years ended December 31, 2005, 2006 and 2007, our total expenditures for research and development were approximately RMB 3,195 million, RMB 4,260 million and RMB 5,315 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

In order to organize and coordinate our research and development activities related to our refining and chemicals businesses, we established PetroChina Refining & Chemicals Technology Research Center in July 2003. In order to enhance our competitiveness and develop core technologies, we have integrated the resources of our down-stream scientific research and development. In April 2006, we expanded PetroChina Refining & Chemicals Technology Research Center and renamed it to PetroChemical Research Institute to carry out our research and

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development of technologies for refining and chemicals. In the meantime, we have integrated the research and development resources of our local petrochemical companies, and established four research and development centers in Lanzhou Petrochemical, Daqing Petrochemical, Jilin Petrochemical and Liaoyang Petrochemical. In order to further integrate our research and development resources in refining and chemicals and speed up the construction of the research and development capability of PetroChemical Research Institute, we subjected Daqing Petrochemical research center and Lanzhou Petrochemical research center to the administration of PetroChemical Research Institute in 2007.

Trend Information**Streamlining of Production Facilities**

We plan to continue to streamline our production facilities within the next several years to further improve our operating efficiency and competitiveness by consolidating or shutting down some of our production facilities. We do not believe that the implementation of such plans will have a material adverse impact on our financial position, although we believe that it could have a material adverse effect on our results of operations because we would be required under our accounting policies to recognize in our income statement any impairment loss or impairment provision associated with shutting down our production facilities. See **General Critical Accounting Policies** and **General Factors Affecting Results of Operations** above for a detailed discussion of other trend information.

Other Information**Inflation**

Inflation or deflation has not had a significant impact on our results of operations for the year ended December 31, 2007.

Non-Exchange Traded Contracts

We did not engage for the year ended December 31, 2007, and do not currently engage, to a material extent, in any trading activities involving commodity contracts that are accounted for at fair value but for which a lack of market price quotations makes it necessary to apply fair value estimation techniques.

Related Party Transactions

For a discussion of related party transactions, see **Item 7 Major Shareholders and Related Party Transactions** **Related Party Transactions** and Note 32 to our consolidated financial statements included elsewhere in this annual report.

Recent 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 standard and interpretations to existing standards, which are relevant to our operations, have been published and are mandatory for accounting periods beginning on or after March 1, 2007. We did not adopt such standard or interpretations as of December 31, 2007:

IAS 1 (Amendment), **Presentation of financial statements** requires all changes in equity arising from transactions with owners in their capacity as owners and related current and deferred tax impacts be presented separately from non-owner changes in equity. Recognized income and expenses shall be presented in a single statement (a statement of comprehensive income) or in two statements (a statement of income or loss and a statement of comprehensive income), separately from owner changes in equity. IAS 1 (Amendment) is effective from January 1, 2009 and we are currently evaluating the impact of IAS 1 (Amendment) on our financial statements.

IAS 23 (Amendment), **Borrowing costs** 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 is removed. IAS 23 (Amendment) is effective from January 1, 2009 and the adoption of IAS 23 (Amendment) is not expected to affect our financial statements as interest and other costs on borrowings to finance the construction of property, plant and equipment are capitalized under the Group's current accounting policy.

IFRS 8, **Operating segments** replaces IAS 14. The new standard requires a management approach, under which segment information is presented on the same basis as that used for internal reporting purposes. IFRS 8 is effective

from January 1, 2009 and we are currently evaluating the impact of IFRS 8 on our financial statements.

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IFRIC 11, IFRS 2 Group and treasury share transactions, provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions. IFRIC 11 is effective for annual periods beginning on or after March 1, 2007 and we are currently evaluating the impact of IFRIC 11 on our financial statements.

IFRIC 13, Customer loyalty programs, clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is effective from January 1, 2009 and we are currently evaluating the impact of IFRIC 13 on our financial statements.

IFRIC 14, IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction provides guidance on assessing the limit in IAS 19 on the amount of the funding surplus that can be recognized as defined benefit asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. IFRIC 14 is effective from January 1, 2009 and we are currently evaluating the impact of IFRIC 14 on our financial statements.

Environmental Expenses and Capital Expenditures

We paid pollutant discharge fees of approximately RMB 199 million, RMB 211 million and RMB 231 million respectively, in 2005, 2006 and 2007. Our capital expenditures on environmental programs in 2005, 2006 and 2007 were approximately RMB1,633 million, RMB 4,634 million and 2,299 million, respectively.

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.

Name	Age	Position	Date of election (1)
Jiang Jiemin	52	Chairman of the board of directors	May 15, 2008
Zhou Jiping	55	Vice Chairman of the board of directors and president	May 15, 2008
Wang Yilin	51	Director	May 15, 2008
Zeng Yukang	57	Director	May 15, 2008
Wang Fucheng	57	Director	May 15, 2008
Li Xinhua	55	Director	May 15, 2008
Liao Yongyuan	45	Director and vice president	May 15, 2008
Wang Guoliang	55	Director	May 15, 2008
Jiang Fan	44	Director	May 15, 2008
Chee-Chen Tung	65	Independent non-executive director	May 15, 2008
Liu Hongru	77	Independent non-executive director	May 15, 2008
Franco Bernabè	59	Independent non-executive director	May 15, 2008
Li Yongwu	63	Independent non-executive director	May 15, 2008
Cui Junhui	62	Independent non-executive director	May 15, 2008
Li Huaiqi	58	Secretary to the board of directors	
Sun Longde	45	Vice president	
Shen Diancheng	48	Vice president	
Liu Hongbin	44	Vice president	
Zhou Mingchun	40	Chief financial officer	
Li Hualin	45	Vice president	
Zhao Zhengzhang	51	Vice president	
Lin Aiguo	49	Chief engineer	
Wang Daofu	52	Chief geologist	
Huang Weihe	50	Chief engineer	
Chen Ming	57	Chairman of the supervisory board	
Wen Qingshan	49	Supervisor	
Sun Xianfeng	55	Supervisor	
Yu Yibo	44	Supervisor	
Wang Yawei	53	Supervisor	
Qin Gang	54	Supervisor	
Wang Shali	53	Supervisor	
Wu Zhipan	51	Independent supervisor	
Li Yuan	61	Independent supervisor	

(1) For directors only.

Directors

Jiang Jiemin, aged 52, is the Chairman of our company and the General Manager of CNPC. Mr. Jiang is a senior economist and holds a master's degree. Mr. Jiang has over 30 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

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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 55, 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 over 35 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 51, 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 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 and Senior Executive of Xinjiang Petroleum Administration Bureau, and the General Manager of our Xinjiang Oilfield Company concurrently. In December 2003, he was appointed Deputy General Manager of CNPC and Senior Executive of Xinjiang Petroleum Administration Bureau and the General Manager of our Xinjiang Oilfield Company concurrently. From May 2004, he ceased to work as the Senior Executive of 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 57, 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 nearly 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. In March 2001, he was appointed 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 57, 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 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 Administration Bureau. Since November 1997, Mr. Wang had worked as Director of the Liaohe Petroleum 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 to November 2005. Mr. Wang was appointed a Vice President of our company in July 2000, and the Chairman of the Supervisory Board of our company in November 2005. Prior to the appointment as Supervisor of our company, Mr. Wang resigned from his office as Director of our company. Mr. Wang has been a Deputy General Manager of CNPC since September 2007. In May 2008, Mr. Wang was again appointed Director of our company. Prior to the appointment as Director of our company,

Mr. Wang resigned from his office as Supervisor of our company.

Li Xinhua, aged 55, is a Director of our company and a Deputy General Manager of CNPC. Mr. Li is a senior engineer. He graduated from the Chemical Engineering Department of Kunming College of Engineering, majored in fundamental organic synthesis. Mr. Li has over in June, 1985 and 30 years of working experience in China's oil and gas industry. Mr. Li was appointed the Deputy Manager and the Factory Manager of Yunnan Petrochemical Factory in June, 1985 and in February 1992, the Chairman and General Manager of Yuntianhua Group in March 1997, the Assistant Governor of Yunnan Province in March 2002, a Deputy Governor of Yunnan Province in January 2003, and a Deputy General Manager of CNPC in April 2007. Since May 2008, Mr. Li has become a Director of our company.

Liao Yongyuan, aged 45, is a Director and Vice President of our company and concurrently serves as the Deputy General Manager and Safety Director of CNPC. Mr. Liao holds a master's degree and is a professor-level senior engineer. He has nearly 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

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of Sichuan Petroleum Administration since April 2004. He was appointed a Deputy General Manager of CNPC in February 2007, and Safety Director of CNPC in July 2007. He has been a Vice President of our company since November 2005 and a Director of our company since May 2008.

Wang Guoliang, aged 55, 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 26 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 to February 2007. From November 1999 to March 2002, he concurrently served as the General Manager of our Finance Department. He was appointed General Accountant of CNPC in February 2007, and Director of our company in May 2008.

Jiang Fan, aged 44, is a Director of our company and the General Manager of Dalian Petrochemical Company. Mr. Jiang is a professor-level senior engineer and holds a master's degree. He has over 20 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 65, is an independent non-executive Director of our company. Mr. Tung is the Chairman and Chief Executive Officer of Orient Overseas (International) Limited. He was educated at the University of Liverpool, England, where he received his Bachelor of Science degree. He later acquired a Master's degree in Mechanical Engineering at the Massachusetts Institute of Technology in the United States. He served as Chairman of the Hong Kong Shipowners' Association between 1993 and 1995. From 1999 to 2001, he was the Chairman of the Hong Kong General Chamber of Commerce. He is an independent non-executive director of Zhejiang Expressway Co., Ltd., BOC Hong Kong (Holdings) Limited, Wing Hang Bank Limited, Sing Tao News Corporation Limited, Cathay Pacific Airways Limited and U-Ming Marine Transport Corporation, and a member of the Hong Kong Port Development Board. Mr. Tung is also the Chairman of the Institute for Shipboard Education Foundation, the Chairman of the Advisory Council and a member of the Board of Trustees of the Hong Kong Polytechnic University and a member of the Board of Trustees of the International Academic Center of the University of Pittsburgh and the School of Foreign Service of Georgetown University. Mr. Tung has been an independent non-executive Director of our company since November 5, 1999.

Liu Hongru, aged 77, 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's current position include President of the Shanghai Institute of Finance and Law and he 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 as an independent non-executive director of CITIC 21CN Company Limited and Minerals Resources Limited, and possesses the accounting or financial management qualification required under the Listing Rules of Hong Kong Stock Exchange. Mr. Liu was appointed an independent Supervisor of our company in December 1999. Upon his resignation from this post in November 2002, he has become an independent non-executive Director of our company since November 19, 2002.

Franco Bernabè, aged 59, is an independent non-executive Director of our company. He holds a doctoral degree in political economics. Mr. Bernabè is 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. He was CEO of ENI and of Telecom Italia and a special representative of the Italian government for the reconstruction of the Balkan region. 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. 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. Mr. Bernabè has been an independent non-executive Director of our company since June 2000.

Li Yongwu, aged 63, 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 since March 1998. In April 2001, he was appointed a Deputy Director of the Liaison Office of

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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. Prior to the appointment as Director of our company, Mr. Li resigned from his office as Supervisor of our company.

Cui Junhui, aged 62, is an independent non-executive Director of our company. Mr. Cui graduated from the Graduate Class of the Party School of the Central Committee of C.P.C.. The positions he held from February 1987 include Deputy Director of the Local Tax Bureau of Shandong Province, Deputy Director-General of the Financial Department of Shandong Province, Director of the Local Tax Bureau of Shandong Province and Director of the National Tax Bureau of Shandong Province. From December 1999 to December 2006, 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. Mr. Cui has become a non-executive Director of our company since May 2008.

Secretary to the Board of Directors

Li Huaiqi, aged 58, is the Secretary to the Board of Directors of our company. Mr. Li is a senior economist. He has over 35 years of working experience in China's oil and gas industry. Mr. Li once worked in the Daqing Oilfield, the Liaohe Oilfield and the Huabei Oilfield and in the Nanhai Petroleum Company. From June 1992, Mr. Li worked as Deputy Director and Director of the Foreign Affairs Bureau of China National Petroleum Corporation successively. From October 1998, Mr. Li was appointed as Director of the International Co-operation Department (Foreign Affairs Bureau) of CNPC. Mr. Li has been the Secretary to the Board of Directors of our company since August 2001.

Other Senior Management Personnel

Sun Longde, aged 45, is a Vice President of our company. Mr. Sun is a professor-level senior engineer and holds a doctoral degree. He has nearly 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 48, is the Vice President of our company and concurrently the General Manager of Chemical & Marketing Company of our company. Mr. Shen is a professor-level senior engineer and holds a college degree. He has nearly 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 Chemical Headquarters 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 December 2005. Mr. Shen has been the Vice President of our company and General Manager of Chemical & Marketing Company since June 2007.

Liu Hongbin, aged 44, is the Vice President of our company. Mr. Liu is a senior engineer and holds a college degree. He has nearly 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.

Zhou Mingchun, aged 40, is the Chief Financial Officer 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 Executive of the Finance & Assets Division of Daqing Oilfield Company from 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.

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Li Hualin, aged 45, is the Vice President of our company. Mr. Li holds a master's degree and is a senior engineer. Mr. Li has nearly 25 years of experience in the oil and gas industry in China. Mr. Li became the Deputy Director-General of the Houston Office of China National Petroleum Company in March 1993, the director and General Manager of China National Oil and Gas Corporation (Canada) in May 1995, 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 December 1997, the General Manager of CNPC International (Kazakhstan) Ltd. and the Deputy General Manager of the China National Oil and Gas Exploration Development Corporation in September 1999, the Deputy General Manager of China Petroleum Hongkong (Holding) Limited in January 2001, the Chairman of Shenzhen Petroleum Industrial Co., Ltd in December 2001, and the Vice-Chairman and General Manager of China Petroleum Hongkong (Holding) Limited, whilst remaining as the Chairman of Shenzhen Petroleum Industrial Co., Ltd. in July 2006. Mr. Li was appointed as the Vice President of our company and the Vice Chairman and General Manager of China Petroleum Hongkong (Holding) Limited in November 2007.

Zhao Zhengzhang, aged 51, 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 senior engineer and has nearly 25 years of working experience in China's oil and industry. Mr Zhao's past positions include Deputy Chief Geologist of the Northern China Petroleum Administration Bureau, Deputy Director of the Oil Exploration Bureau and Director of New District Exploration Department of China National Petroleum Company, Deputy Director of the Oil and Gas Exploration Department of CNPC, and Deputy General Manager of PetroChina Exploration and Production Company. Mr. Zhao was appointed a principle leader of PetroChina Exploration and Production Company in January 2005 and the General Manager of PetroChina Exploration and Production Company in January 2006. Mr. Zhao has become a Vice President of our company since May 2008.

Lin Aiguo, aged 49, is the Chief Engineer of our company. Mr. Lin is a professor-level senior engineer and holds a college degree. He has over 30 years of working experience in China's oil and petrochemical industry. Mr. Lin was appointed the Deputy Manager and the Standing Deputy Manager of Shengli Refinery of Qilu Petrochemical Company in July 1993, the Deputy General Manager of Dalian West Pacific Petrochemical Co. Ltd. in May 1996, and the General Manager of Dalian West Pacific Petrochemical Co. Ltd. in August 1998, and the General Manager of Refining & Marketing Company of our company in December 2002. Mr. Lin serves as the Chief Engineer of our company from June 2007.

Wang Daofu, aged 52, is the General Geologist of our company. Mr. Wang holds a doctoral degree. He is a senior engineer and has over 25 years of working experience in China's oil and gas industry. Mr. Wang worked as Chief Engineer, Deputy Director and Director of the Development Department of the Changqing Oil Exploration Bureau. He was appointed Deputy General Manager of PetroChina Changqing Oilfield Company in October 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.

Huang Weihe, aged 50, is the General Engineer of our Company and concurrently the General Manager of Natural Gas and Pipelines Company of our Company. Mr. Huang holds a doctoral degree. He is a senior engineer and has nearly 25 years of working experience in China's oil and gas industry. Mr. Huang's past positions include Vice President and President of the Exploration Design Institute of the China Petroleum Pipeline Bureau, Assistant to the Director (and concurrently the Deputy General Manager of Pipeline Construction Company), Deputy Director (and concurrently the Chief Engineer) of the China Petroleum Pipeline Bureau, the General Manager of PetroChina Pipeline Branch Company, and General Manager of PetroChina West East Gas Pipeline Company. Mr. Huang was appointed the General Manager of PetroChina Natural Gas and Pipelines Company in December 2002 and concurrently the General Manager of PetroChina West East Gas Pipeline Company. Mr. Huang became the General Manager of PetroChina Natural Gas and Pipelines Company in February 2006, and was appointed the General Engineer of our company in May 2008.

Supervisors

Chen Ming, aged 57, is the Chairman of the Supervisory Board of our company and team leader of the discipline inspection team of CNPC.. Mr. Chen is a professor-level economist and holds a bachelor's degree. He has over

30 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 become the Chairman of our Supervisory Board since May 2008.

Wen Qingshan, aged 49, is a Supervisor of our company and the Deputy Chief Accountant 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 over 30 years of working experience in China's petrochemical industry. He was the Deputy Chief Accountant of the Finance and Assets Department of CNPC from November 1998, 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 and the Deputy Chief Accountant of CNPC since November 2007.

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Sun Xianfeng, aged 55, is a Supervisor and the General Manager of the Audit Department of our company, and the Director of the Audit Department of CNPC. Mr. Sun is a senior economist and holds a bachelor's degree. Mr. Sun has over 35 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 and concurrently became the Director of the Audit Services Centre in December 2000. He has been the Director of the Audit Department of CNPC and the Director of the Audit Service Centre from April 2004, a Supervisor of our company since May 2004 and the General Manager of the Audit Department of our company since July 2007.

Yu Yibo, aged 44, is a Supervisor and the General Manager of our company and the Director of the Capital Operation Department of CNPC. Mr. Yu is a professor-level senior accountant and holds a doctoral degree. He graduated from the Business School of Hitotsubashi University in Japan, with a major in finance. Mr. Yu has 10 years of working experience in China's oil and gas industry. He was appointed Assistant to the President of China Petroleum Finance Company Limited in November 1998, member of the Restructuring and Listing Preparatory Team of CNPC in February 1999, Deputy General Manager of the Finance Department of our company in November 1999, Deputy General Manager of PetroChina Dagang Oilfield Branch Company in March 2002, Deputy General Manager of the Finance Department of our company in October 2002, and General Manager of the Capital Operation Department of our company in April 2003. Mr. Yu serves concurrently as the Director of the Capital Operation Department of CNPC from April 2007, and has become a Supervisor of our company since May 2008.

Wang Yawei, aged 53, is an employee representative of our company's Supervisory Board and the Chairman of the Labour Union of Daqing Oil Field Co. Ltd. Mr. Wang is a professor-level senior engineer and graduated as a master in petroleum and natural gas engineering from Daqing Petroleum Institute in July 2001. Mr. Wang worked as the Deputy Manager of No.3 Drilling Company of Daqing Petroleum Administrative Bureau, the Secretary of the Party Committee in Daqing Energy Development Company, and the Assistant to the Director (and concurrently the General Manager of Drilling Technology Service Company), the Deputy Director, the Chairman of the Labour Union and the Standing Committee Member of the Party Committee of Daqing Petroleum Administrative Bureau. Mr. Wang has become a Supervisor of our company since May 2008.

Qin Gang, aged 54, is an employee representative of our company's Supervisory Board and a Senior Executive of the PetroChina West-East Gas Pipeline Company. Mr. Qin is a senior engineer and has nearly 35 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 June 2000, Mr. Qin was appointed the Senior Executive of Tarim Southwest Company concurrently. In July 2002, Mr. Qin was appointed an executive and the Chairman of Labour Union of PetroChina Tarim Oilfield Company. Mr. Qin has been the Senior Executive and the Chairman of the Labour Union of PetroChina West-East Gas Pipeline Company since June 2007, and a Supervisor of our company since November 2005.

Wang Shali, aged 53, is an employee representative of our company's Supervisory Board and a Senior Deputy General Manager and the General Legal Counsel of CNPC Exploration and Development Company Limited. Ms. Wang is a professor-level senior economist. She received her bachelor's degree in English language and literature at the Zhengzhou University in August 1977 and her LL.M. degree at Southern Methodist University, USA in June 1987. Ms. Wang's past positions include Chief Economist and Deputy General Manager (concurrently the Chief Economist). Ms. Wang has become a Supervisor of our company since May 2008.

Wu Zhipan, aged 51, is an independent Supervisor of our company. Mr. Wu is a holder of doctoral degree. He is a professor, a LL.D. Supervisor, Standing Vice Chairman of Peking University Council and Chief Legal Advisor of Peking University, Dean of the Asia-Pacific Research Institute of Peking University and Director of Financial Law Institute of Peking University. He is also an expert consultant of the Supreme People's Court of the PRC, an arbitrator of the Arbitration Panel of China International Economic and Trade Arbitration Commission and President of the China Economic Law Research Societies. Mr. Wu also serves as an independent non-executive director of Air China Limited, Fortune SGAM Fund Management Co., Ltd. and China Minsheng Banking Corp., Ltd. Mr. Wu has been an

independent Supervisor of our company since December 1999.

Li Yuan, aged 61, is an independent Supervisor of our company. Mr. Li graduated from Renmin University of China with a major 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 become an independent Supervisor of our company since May 2008.

Table of Contents**Compensation****Senior Management Compensation System**

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

	%	% Stock	%
	Fixed salary	appreciation rights	Performance bonus
Chairman	30	70	0
President	25	60	15
Vice President	25	60	15
Department GM	25	50	25

We have granted stock appreciation rights to 300 persons, including members of the board of directors and the supervisory board, president, vice presidents and departmental managers, general managers and deputy general managers of specialized companies and local subsidiaries. Upon exercise of these stock appreciation rights, members of the senior management will not receive any of our shares, but will, by way of stock appreciation rights, receive a monetary sum that is calculated on the basis of the price of our H Shares. Since companies are not permitted to repurchase and hold their own shares for offering stock options under current PRC law, we expect to calculate our book gains and losses on the basis of share prices and in accordance with stock appreciation rights measures and make cash payment of such compensations. None of the directors and senior management exercised any of the stock appreciation rights granted to them. All of such stock appreciation rights have vested in April 2008. We have established a new senior management compensation system, pending for the approval of the State-owned Assets Supervision and Administration Commission of the State Council.

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, 2007 was RMB 3,635,615. We paid RMB 148,154 as our contribution to the pension plans in respect of those individuals in the year ended December 31, 2007.

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, 2007 was RMB 2,745,962.

Save as disclosed, no other payments have been paid or are payable, in respect of the year ended December 31, 2007, 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 2007, we paid RMB 134,619 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, 2007 was RMB 1,021,618.

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.

Audit Committee

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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;

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 strategic action plans as proposed by our President and making recommendations to the board of directors;

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

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

Evaluation and Remuneration Committee

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

managing the performance evaluations for our President and submitting report to our board and monitoring performance evaluations led by our President for Senior Vice President, Vice Presidents, Chief Financial Officer and other senior management personnel; 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;

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

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inquiring the occurrence of and responsibilities for material accidents and supervising the remedial measures of material accidents.

Employees

As of December 31, 2005, 2006 and 2007, we had 439,220, 446,290 and 466,502 employees, respectively (excluding temporary staff). The table below sets forth the number of our employees by business segment as of December 31, 2007.

	Employees	% of total
Exploration and production	261,802	56.12
Refining and marketing	122,593	26.28
Chemicals and marketing	61,635	13.21
Natural gas and pipeline	15,706	3.37
Other (1)	4,766	1.02
Total	466,502	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 retirement benefit plans organized by municipal and provincial governments whereby we are required to make monthly contributions to these plans at rates ranging from 16% to 22% of the employees' salary. Expenses incurred by us in connection with the retirement benefit plans were approximately RMB 3,104 million, RMB 4,645 million and RMB 5,744 million, respectively, for the three years ended December 31, 2005, 2006 and 2007, respectively.

In 2007, 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

Our directors, senior officers and supervisors do not have share ownership in PetroChina or any of PetroChina's affiliates. We have granted stock appreciation rights relating to our H Shares to our directors, senior officers and

supervisors. Upon exercise of these stock appreciation rights, members of the senior management will not receive any of our shares, but will, by way of stock appreciation rights, receive a monetary sum which is calculated on the basis of the price of our H Shares. Because the relevant PRC laws limit the ownership of the H Shares of a company incorporated under the PRC laws to only non-PRC nationals, and companies are not permitted to repurchase and hold their own shares for offering stock appreciation rights under current PRC law, our directors, senior officers and supervisors do not hold our H Shares under the stock options granted to them. Instead, we expect to calculate the book gains and losses on the basis of share prices and in accordance with our stock appreciation rights granting criteria, and make cash payments of such compensation to our directors, senior officers and supervisors.

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 December 31, 2007, CNPC owned 157,922,077,818 shares, representing approximately 86.29% of the share capital of PetroChina, and, accordingly, CNPC is our controlling shareholder.

The following table sets out the shareholding of the major H shareholders of our company as of December 31, 2007:

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Name of shareholders	Number of shares held	Percentage of the issued share capital of the same class of shares (%)	Percentage of the total share capital (%)
UBS AG ¹	1,089,453,631(L)	5.16(L)	0.60
	414,468,390(S)	1.96(S)	0.23

¹ UBS AG owns 1,089,453,631 H Shares in our company in the aggregate through its several wholly owned subsidiaries.

The following table set out the shareholding of the major A shareholders of our company as of December 31, 2007:

Name of shareholders	Number of shares held	Percentage of the issued share capital of the same class of shares (%)	Percentage of the total share capital (%)
CNPC	157,922,077,818	97.53	86.29

The shares held by CNPC are domestic shares in the share capital of PetroChina. However, CNPC has identical voting rights as holders of H Shares. Holders of domestic shares and H Shares are deemed to be shareholders of different classes for certain matters which may have effect on their respective interest.

Related Party Transactions

As at December 31, 2007, CNPC directly owns an aggregate of approximately 86.29% of the shares of our company and therefore transactions of PetroChina constitute related party transactions of PetroChina under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, or the Listing Rules, and the listing rules of the Shanghai Stock Exchange, or SSE Listing Rules. As at December 31, 2007, CNPC (Hong Kong) Limited (stock code: 135), or CNPC (HK), is a 51.89% owned subsidiary of CNPC. Therefore, transactions between PetroChina and CNPC (HK) constitute related party transactions of PetroChina under the Listing Rules and SSE Listing Rules. As Beijing Gas Group Co., Ltd., or Beijing Gas, and China Railway Materials and Suppliers Corporation, or CRMSC, are respectively a substantial shareholder (as defined under the Listing Rules) of Beijing

Huayou Gas Corporation Limited and PetroChina & CRMSC Oil Marketing Company Limited, and PetroChina's subsidiaries, pursuant to the Listing Rules, the transactions between PetroChina, and Beijing Gas and CRMSC respectively constitute related party transactions of PetroChina. China National Oil and Gas Exploration and Development Corporation, or CNODC, a state-owned enterprise, the entire interest of which is owned by CNPC, is interested in 50% interest in CNPC Exploration and Development Company Limited, or CNPC E&D, a not wholly owned subsidiary of our company. Pursuant to the Listing Rules, CNPC E&D is a connected person of our company and any transaction between our company and CNPC E&D constitutes related party transaction of PetroChina. On December 28, 2006, our company became interested in 67% equity interest in PetroKazakhstan Inc., or PKZ, through CNPC E&D. Pursuant to the Listing Rules, CNPC E&D and any affiliates of CNPC E&D will also be treated as a connected person(s) of PetroChina. Accordingly, transactions between PetroChina and PKZ constitute related party transactions of our company.

One-off Related Party Transactions

1. Disposal of Equity Interests in China National United Oil Corporation

On March 18, 2007, our company entered into an equity transfer agreement with CNPC pursuant to which our company has agreed to dispose 70% of the equity interests in China National United Oil Corporation to CNPC for a consideration of approximately RMB 7.01 billion. As CNPC is the controlling shareholder of our company, CNPC is a connected person of our company under the Listing Rules and therefore such equity transfer constitutes a related party transaction of our company. Details of the transaction were announced by our company on March 18, 2007 and in the circular to the shareholders dated March 30, 2007. The transaction was approved by the independent shareholders of our company at the annual general meeting held on May 16, 2007.

2. Acquisition of Assets of the Risk Operation Service Business from CNPC

On August 23, 2007, our company entered into an transfer agreement with CNPC pursuant to which our company has agreed to acquire the assets of the risk operation service business from CNPC. Pursuant to the transfer agreement, our company has paid CNPC a consideration in the sum of RMB 1,652.28 million, representing the value of the net assets of the risk operation service business as at December 31, 2006. The parties shall adjust the consideration by reference to the net assets generated by the risk operation service business for the period from January 1, 2007 to

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August 31, 2007 as shown in the management accounts for that period. As CNPC is the controlling shareholder of our company, CNPC is a connected person of our company under the Listing Rules and therefore such asset acquisition constitutes a related party transaction of our company. Details of the transaction were announced by our company on the website of the Hong Kong Stock Exchange on August 23, 2007.

3. Acquisition of Northeastern Inspection, Maintenance and Repair Business Division of CNPC

On April 28, 2008, we entered into an acquisition agreement with CNPC pursuant to which we acquired from CNPC the Northeastern Inspection, Maintenance and Repair Business Division of CNPC. Upon the closing of the agreement, we shall pay RMB 43.8 million to CNPC as consideration, representing the net asset value of the Northeastern Inspection, Maintenance and Repair Business Division as at September 30, 2007. The parties shall adjust the consideration by reference to the net assets generated by the Northeastern Inspection, Maintenance and Repair Business Division for the period from October 1, 2007 to April 30, 2008 as shown in the management accounts for that period.

CNPC is our controlling shareholder. As defined under the Listing Rules, CNPC is a related party of our company and the acquisition constitutes a related party transaction of our company. Given that the percentage ratios involved in the acquisition are more than 0.1% and less than 2.5% for CNPC, the acquisition is only subject to reporting and announcement requirement and is exempted from the independent shareholders' approval requirement under the Listing Rules. Details of the transaction have been posted on the website of Hong Kong Stock Exchange on April 28, 2008.

4. Capital Injection concerning CNPC Exploration and Development Company Limited

On December 27, 2007, our company entered the Capital Injection Agreement Concerning CNPC Exploration and Development Company Limited with CNODC and CNPC E&D. Pursuant to the agreement, our company and CNODC, as shareholders of CNPC E&D, shall inject capital in the aggregate amount of RMB 16,000 million into CNPC E&D. Our company and CNODC shall each make a capital injection of RMB 8,000 million in cash, payable in one lump sum. Upon completion of the capital injection, our company and CNODC will continue to hold 50% of the shares of CNPC E&D respectively.

As CNODC is a wholly owned subsidiary of CNPC, the controlling shareholder of our company, CNODC is a connected person of our company pursuant to the SSE Listing Rules and the Listing Rules. As CNODC holds 50% of the shares of CNPC E&D, and CNPC E&D is a non-wholly owned subsidiary of our company, CNPC E&D is also a connected person of our company under the Listing Rules. Therefore, the capital injection by our company and CNODC into CNPC E&D also constitutes a related party transaction of our company under the SSE Listing Rules and the Listing Rules. Details of the transaction were announced by our company on the websites of the Hong Kong Stock Exchange and the Shanghai Stock Exchange on December 27, 2007.

Continuing Related Party Transactions***(1) Continuing Related Party Transactions with CNPC***

PetroChina and CNPC continue to carry out certain existing continuing related party transactions. Our company sought independent shareholders' approval at the general meeting held on November 8, 2005 for a renewal of the existing continuing related party transactions and the new continuing related party transactions and proposed the new caps for existing continuing related party transactions and the new continuing related party transactions for January 1, 2006 to December 31, 2008. Our company further sought independent shareholders' approval at the general meeting held on November 1, 2006 for an increase of the proposed caps which were previously approved on November 8, 2005.

PetroChina and CNPC will continue to carry out the existing continuing related party transactions referred to in the following agreements:

1. Comprehensive Products and Services Agreement, First Supplemental Comprehensive Agreement and Second Supplemental Comprehensive Agreement

(1) PetroChina and CNPC continue to implement the Comprehensive Products and Services Agreement (Comprehensive Agreement) entered into on March 10, 2000 for the provision (i) by PetroChina to CNPC and (ii) by CNPC to PetroChina, of a range of products and services which may be required and requested from time to time by either party and/or its subsidiary companies and affiliates. The Comprehensive Agreement has been amended by the

First Supplemental Comprehensive Agreement and the Second Supplemental Comprehensive Agreement.

The term of the Comprehensive Agreement was initially 10 years starting from the date when our company's business license was issued. This term has been amended by the Second Supplemental Comprehensive Agreement to three years commencing from January 1, 2006.

During the term of the Comprehensive Agreement, termination of the product and service implementation agreements described below may be effected from time to time by the parties to the product and service implementation agreements providing at least six months' written notice of termination in relation to any one or more categories of products or services. Further, in respect of any products or services already contracted to be provided, termination may not take place until after such products and services have been provided.

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(A) Products and Services to be provided by PetroChina to CNPC

Under the Comprehensive Agreement, products and services to be provided by PetroChina to CNPC include such products as refined products, chemical products, natural gas, crude oil, and such services as relating to the supply of water, electricity, gas and heating, quantifying and measuring and quality inspection and other products and services as may be requested by the CNPC Group for its own consumption, use or sale from time to time.

(B) Products and Services to be provided by CNPC to PetroChina

More products and services are to be provided by CNPC to PetroChina, both in terms of quantity and variety, than those to be provided by PetroChina to CNPC. Products and services