PETROCHINA CO LTD
Form 20-F
April 26, 2012
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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

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2011.

or

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

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of event requiring this shell company report ______

For the transition period from ______ to ______

Commission File Number 1-15006

(Exact name of Registrant as specified in its charter)

PetroChina Company Limited

(Translation of Registrant s name into English)

The People s Republic of China

(Jurisdiction of incorporation or organization)

9 Dongzhimen North Street

Dongcheng District, Beijing 100007

The People s Republic of China,

(Address of principal executive offices)

Li Hualin

Telephone number: 8610 59986223

Facsimile number: 8610 62099557

Email address: suxinliang@petrochina.com.cn

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

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

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

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

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

None

(Title of Class)

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

None

(Title of Class)

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

A Shares, par value RMB1.00 per share***	161,922,077,818(1)
H Shares, par value RMB1.00 per share	21,098,900,000****

(1): Includes 158,033,693,528 A Shares held by CNPC and 3,888,384,290 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 x 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 x

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 x No ¨

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

Yes ¨ No ¨

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

Large Accelerated Filer x 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 x 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 ¨ No x

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

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

Yes ¨ No ¨

* PetroChina s H Shares are listed and traded on The Stock Exchange of Hong Kong Limited.
** Not for trading, but only in connection with the registration of American Depository Shares.
*** PetroChina s A Shares became listed on the Shanghai Stock Exchange on November 5, 2007.
**** Includes 1,556,881,900 H Shares represented by American Depositary Shares.

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CERTAIN TERMS AND CONVENTIONS

Conventions Which Apply to this Annual Report

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

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

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

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

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

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.
condensate	Light hydrocarbon substances produced with natural gas that condense into liquid at normal temperatures and pressures associated with surface production equipment.
crude oil	Crude oil, including condensate and natural gas liquids.
developed reserves	Under the reserve rules of the Securities and Exchange Commission, or SEC, developed reserves are reserves of any category that can be expected to be recovered:

(i) through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and

(ii) through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

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development cost	For a given period, costs incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas.
finding cost	For a given period, costs incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects of containing oil and gas reserves, including costs of drilling exploratory wells and exploratory-type test wells. Finding cost is also known as exploration cost.
lifting cost	For a given period, costs incurred to operate and maintain wells and related equipment and facilities, including applicable operating costs of support equipment and facilities and other costs of operating and maintaining those wells and related equipment and facilities. Lifting cost is also known as production cost.
natural gas liquids	Hydrocarbons that can be extracted in liquid form together with natural gas production. Ethane and pentanes are the predominant components, with other heavier hydrocarbons also present in limited quantities.
offshore	Areas under water with a depth of five meters or greater.
onshore	Areas of land and areas under water with a depth of less than five meters.
primary distillation capacity	At a given point in time, the maximum volume of crude oil a refinery is able to process in its basic distilling units.
proved reserves	Under the SEC reserve rules, proved reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time. (i) The area of the reservoir considered as proved includes: (A) The area identified by drilling and limited by fluid contacts, if any, and (B) Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data. (ii) In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons (LKH) as seen in a well penetration unless geoscience, engineering, or performance data and reliable technology establishes a lower contact with

reasonable certainty.

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	(iii) Where direct observation from well penetrations has defined a highest known oil (HKO) elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering, or performance data and reliable technology establish the higher contact with reasonable certainty.
	(iv) Reserves which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when:
	(A) Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and (B) The project has been approved for development by all necessary parties and entities, including governmental entities.
	(v) Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.
reserve-to-production ratio	For any given well, field or country, the ratio of proved reserves to annual production of crude oil or, with respect to natural gas, to wellhead production excluding flared gas.
sales gas	Marketable production of gas on an as sold basis, excluding flared gas, injected gas and gas consumed in operations.
undeveloped reserves	Under the SEC reserve rules, undeveloped reserves are reserves of any category that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.
	(i) Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.
	(ii) Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances, justify a longer time.

	(iii) Under no circumstances shall estimates for undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir, or by other evidence using reliable technology establishing reasonable certainty.
water cut	For a given oil region, the percentage that water constitutes of all fluids extracted from all wells in that region.

References to:

- BOE is to barrels-of-oil equivalent,
- Mcf is to thousand cubic feet, and
- Bcf is to billion cubic feet.

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FORWARD-LOOKING STATEMENTS

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

- the amounts and nature of future exploration, development and other capital expenditures;
- future prices and demand for crude oil, natural gas, refined products and chemical products;
- development projects;
- exploration prospects;
- reserves potential;
- production of oil and gas and refined and chemical products;
- development and drilling potential;
- expansion and other development trends of the oil and gas industry;
- the planned development of our natural gas operations;
- the planned expansion of our refined product marketing network;
- the planned expansion of our natural gas infrastructure;
- the anticipated benefit from the acquisition of certain overseas assets from CNPC, our parent company;
- the plan to continue to pursue attractive business opportunities outside China;
- our future overall business development and economic performance;

our anticipated financial and operating information regarding, and the future development and economic performance of, our business;

our anticipated market risk exposure arising from future changes in interest rates, foreign exchange rates and commodity prices; and

other prospects of our business and operations.

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

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will occur in the future and are beyond our control. The forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of factors, including, without limitation, the risk factors set forth in this annual report and the following:

fluctuations in crude oil and natural gas prices;

failure to achieve continued exploration success;

failures or delays in achieving production from development projects;

continued availability of capital and financing;

acquisitions and other business opportunities that we may pursue;

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

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- liability for remedial actions under environmental regulations;
- the actions of competitors;
- wars and acts of terrorism or sabotage;
- changes in policies, laws or regulations of the PRC, including changes in applicable tax rates;
- the other changes in global economic and political conditions affecting the production, supply and demand and pricing of crude oil, refined products, petrochemical products and natural gas; and
- the other risk factors discussed in this annual report, and other factors beyond our control.

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

PART I

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

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

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

Not applicable.

ITEM 3 ***KEY INFORMATION***

Exchange Rates

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

	Noon Buying Rate[(1)]	
	High	Low
	(RMB per US$)	
October 2011	6.3825	6.3534
November 2011	6.3839	6.3400
December 2011	6.3733	6.2939
January 2012	6.3330	6.2940
February 2012	6.3120	6.2935
March 2012	6.3315	6.2975
April 2012 (ending as of April 20)	6.3150	6.2975

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

Average Noon Buying Rates[(1)]

The following table sets forth the average noon buying rates between Renminbi and U.S. dollars for each of 2007, 2008, 2009, 2010 and 2011, 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$)
2007	7.5806
2008	6.9193
2009	6.8295
2010	6.7603
2011	6.4475

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

Selected Financial Data

Historical Financial Information

You should read the selected historical financial data set forth below in conjunction with the consolidated financial statements of PetroChina and their notes and Item 5 Operating and Financial Review and Prospects included elsewhere in this annual report. The selected historical income statement and cash flow data for the years ended December 31, 2009, 2010 and 2011 and the selected historical statement of financial position data as of December 31, 2010 and 2011 set forth below are derived from our audited consolidated financial statements included elsewhere in this annual report. The selected historical income statement data and cash flow data for the years ended December 31, 2007 and 2008 and the selected statement of financial position data as of December 31, 2007, 2008 and 2009 set forth below are derived from our audited financial statements not included in this annual report. Our consolidated financial statements were prepared in accordance with IFRS as issued by the International Accounting Standards Board. The financial information included in this section may not necessarily reflect our results of operations, financial position and cash flows in the future.

	As at or for the Year Ended December 31,(1)				
	2007	**2008**	**2009**	**2010**	**2011**
	RMB	**RMB**	**RMB**	**RMB**	**RMB**
	(In millions, except for per share and per ADS data)				
Turnover	837,542	1,072,604	1,019,275	1,465,415	2,003,843
Total operating expenses	(636,525)	(913,033)	(875,831)	(1,277,638)	(1,821,382)
Profit from operations	201,017	159,571	143,444	187,777	182,461
Profit before income tax expense	205,139	162,013	140,032	189,305	184,215
Income tax expense	(49,802)	(35,211)	(33,473)	(38,513)	(38,256)
Profit for the year	155,337	126,802	106,559	150,792	145,959
Profit for the year attributable to owners of the parent company	146,796	114,453	103,387	139,992	132,961
Non-controlling interests	8,541	12,349	3,172	10,800	12,998
Basic and diluted earnings per share for profit attributable to owners of the parent company(2)	0.82	0.63	0.56	0.76	0.73
Basic and diluted net earnings per ADS(5)	81.69	62.54	56.49	76.49	72.65
Total current assets	235,902	224,946	294,383	286,392	382,711
Total non-current assets	833,709	971,289	1,155,905	1,370,095	1,534,875
Total assets	1,069,611	1,196,235	1,450,288	1,656,487	1,917,586
Total current liabilities	200,150	265,651	388,553	429,736	560,038
Total non-current liabilities	86,742	82,744	154,034	216,622	275,002
Total liabilities	286,892	348,395	542,587	646,358	835,040
Equity attributable to owners of the parent company	738,246	790,910	847,223	938,926	1,002,745
Non-controlling interests	44,473	56,930	60,478	71,203	79,801
Total equity	782,719	847,840	907,701	1,010,129	1,082,546
Other Financial Data					
Dividend per share	0.36	0.28	0.25	0.34	0.33
Dividend per ADS	36.25	28.14	25.42	34.42	32.69
Capital expenditures	182,678	232,377	266,836	276,212	284,391
Net cash flows from operating activities	212,542	177,140	268,017	318,796	290,155
Net cash flows used for investing activities	(188,535)	(216,472)	(267,498)	(299,302)	(283,638)
Net cash flows from/used for financing activities	(5,838)	3,777	53,077	(60,944)	9,295
Net cash flows from operating activities per share (RMB)(3)	1.18	0.97	1.46	1.74	1.59
Net cash flows from operating activities per ADS (RMB)(5)	118.28	96.78	146.44	174.19	158.53
Net assets per share attributable to owners of the parent company (RMB)(4)	4.03	4.32	4.63	5.13	5.48
Net assets per ADS attributable to owners of the parent company (RMB)(5)	403.37	432.14	462.91	513.02	547.89
Return on net assets (%)	19.9	14.5	12.2	14.9	13.3

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(1) Due to business combinations under common control completed in 2008 and 2009, the relevant financial statements of the company have been restated in a manner identical to a pooling of interests to reflect the acquisitions.
(2) As at December 31, 2007, basic and diluted earnings per share were calculated by dividing the net profit with the weighted average number of shares issued for this financial year of 179.700 billion. As at December 31, 2008, 2009, 2010 and 2011, respectively, basic and diluted earnings per share were calculated by dividing the net profit with the number of shares issued for each of these financial years of 183.021 billion.
(3) As at December 31, 2007, cash flows from operating activities per share were calculated by dividing the cash flows from operating activities with the weighted average number of shares issued for this financial year of 179.700 billion. As at December 31, 2008, 2009, 2010 and 2011, respectively, cash flows from operating activities per share were calculated by dividing the cash flows from operating activities with the number of shares issued for each of these financial years of 183.021 billion.
(4) As at December 31, 2007, 2008, 2009, 2010 and 2011, respectively, net asset per share was calculated by dividing the shareholders equity with the number of shares issued for each of these financial years of 183.021 billion.
(5) Each ADS represents 100 H Shares. The basic and diluted earnings per ADS were calculated with the same method as that used for the calculation of the basic and diluted earnings per share. The cash flows from operating activities per ADS were calculated with the same method as that used for the calculation of the basic and diluted earnings per share. Net assets per ADS attributable to owners of the parent company per ADS were calculated with the same method as that used for the calculation of the net assets per share attributable to owners of the parent company.

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Risk Factors

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

Risks Related to Macro Economic Conditions

Our operations may be adversely affected by the international and domestic economic conditions. As the oil and gas industry is sensitive to macro-economic trends, oil and gas prices tend to fluctuate along with the change of macro-economic conditions. We may experience pricing pressure on our refined products in recessionary periods, which would have an adverse effect on our profitability. These factors may also lead to intensified competition for market share, with consequential potential adverse effects on volumes. There has been an uptrend in China s overall inflation rate in recent years. Notwithstanding the measures taken by the PRC government to control inflation, China may continue to experience inflation in the near term and our operating costs may become higher than anticipated. The financial and economic situation may also have a negative impact on third parties with whom we do, or may do, business. Any of these factors may adversely affect our financial condition, results of operations and liquidity.

Risks Related to Competition

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

The eastern and southern regions of China have a higher demand for refined products and chemical products than the western and northern regions. Most of our refineries and chemical plants are located in the western and northern regions of China. We incur relatively higher transportation costs for delivery of our refined products and chemical products to certain areas of the eastern and southern regions from our refineries and chemical plants in western and northern China. We face strong competition from other domestic oil companies. As a result, we expect that we will continue to encounter difficulty in increasing our sales of refined products and chemical products in these regions.

Risks Related to Outbound Investments

We are subject to various political, legal and regulatory environments in foreign developing countries where we operate, some of which are known to be unstable and differ in certain significant respects from those prevailing in developed countries. Main factors affecting our outbound investments include unstable political situation, unstable tax policies, import and export restrictions and unstable regulatory regime.

CNPC, our controlling shareholder, may choose to undertake, without our involvement, overseas investments and operations in the oil and gas industry, including exploration and production of oil and gas, refining, transportation and trading and liquefied natural gas, or LNG, projects. CNPC s overseas asset portfolio includes oil and gas development projects in Iran, Sudan, Cuba and Syria, which countries are the subject of U.S. sanctions. Certain U.S.-based investors may not wish to invest, and have proposed or

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adopted divestment or similar initiatives regarding investments, in companies that do business with countries that are the subject of U.S. sanctions. These investors may not wish CNPC to make investments or conduct activities in the countries that are the subject of U.S. sanctions, and may divest their investment in us because of our relationship with CNPC and its investments and activities in those countries that are the subject of U.S. sanctions. As a result, the trading prices of our ADSs may be adversely affected.

Risks Related to Government Regulation

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 affected by future changes in certain policies of the PRC government with respect to the oil and gas industry.

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

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

Risks Related to Controlling Shareholder

As of December 31, 2011, CNPC beneficially owned approximately 86.507% of our share capital. This ownership percentage enables CNPC to elect our entire board of directors without the concurrence of any of our other shareholders. Accordingly, CNPC is in a position to:

- control our policies, management and affairs;
- subject to applicable PRC laws and regulations and provisions of our articles of association, affect the timing and amount of dividend payments and adopt amendments to certain of the provisions of our articles of association; and
- otherwise determine the outcome of most corporate actions and, subject to the regulatory requirements of the jurisdictions in which our shares are listed, cause our company to effect corporate transactions without the approval of minority shareholders.

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

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

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Risks Related to Pricing and Exchange Rate

Our operations are affected by the volatility of prices for crude oil, refined products and natural gas. We set our crude oil median prices monthly based on the Singapore trading prices for crude oil. Historically, international prices for crude oil have fluctuated widely in response to changes in many factors, such as global and regional and politics and supply and demand for crude oil. We do not have, and will not have, control over the factors affecting international prices for crude oil. Fluctuations in crude oil prices have a significant impact in our results of operations. A decline in crude oil prices may reduce revenues from, and may result in a loss in, our exploration and production segment. Further, 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, reduce demand for our products and affect our operating profits.

Since 2008, the PRC government has further improved its refined oil pricing mechanism. Based on the refined oil pricing mechanism, when the change in the average crude oil price in the international market during a given time period exceeds a certain percentage, the PRC government can adjust the refined oil prices. However, when international crude oil price experiences sustained increases or becomes significantly volatile, the PRC government may increase its control over the refined oil prices. As a result, the regulation on refined product prices by the PRC government may reduce our profit and cause our refining assets to suffer impairment losses.

We negotiate the actual ex-factory price with natural gas users within the benchmark price and the adjustment range set by the PRC government. When the benchmark price is lower than the international natural gas price, the cost of our imported natural gas will be lower than the selling price of our natural gas, which may reduce our revenues or cause our natural gas assets to suffer impairment losses.

We receive most of our revenues in Renminbi. A portion of our Renminbi revenues must be converted into other currencies to meet our foreign currency obligations. The existing foreign exchange limitations under the PRC laws and regulations could affect our ability to obtain foreign exchange through debt financing, or to obtain foreign exchange for capital expenditures. The value of Renminbi against U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China s political and economic conditions. On July 21, 2005, the PRC government introduced a floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of foreign currencies. Because most of our purchases of crude oil and our outbound investments are settled in foreign currencies, the exchange rates between RMB and U.S. dollars and any other relevant foreign currencies may have an effect on our crude oil purchase costs and investment costs.

Risks Related to Environmental Protection and Safety

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

A number of provinces in which our oil and gas exploration and production activities are located have promulgated environment protection regulations, which set forth specific abandonment and disposal processes for oil and gas exploration and production activities. We have established standard abandonment procedures in response to the issuance of these provincial regulations. We have included under our asset

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retirement obligations the costs for these abandonment activities and this asset retirement obligation is based on our best estimate of future abandonment expenditures. In addition, PRC central government or other provincial governments may enact similar regulations or stricter environmental protection regulations. Such potential new regulations could increase our asset retirement costs.

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

- fires;
- explosions;
- spills;
- blow-outs; and
- other unexpected or dangerous conditions causing personal injuries or death, property damage, environmental damage and interruption of operations.

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

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

In November 2011, the Chinese government concluded its investigation of a pipeline explosion accident that occurred at one of our subsidiaries in Dalian City, Liaoning Province on July 16, 2010. The accident was a result of the injection of the hydrogen sulfide removal agent into the crude oil transmission pipeline in violation of standard operating procedures. The accident caused a fire and oil spill and resulted in one person missing and one injury. The accident resulted in a direct economic loss of RMB223 million. Based on the results of the investigation, our subsidiary was fined RMB5.0 million and criminal charges were brought against a few employees directly involved in the accident. The Chinese government also gave disciplinary warnings to a few of our executives. Since the accident, we have implemented a number of safety measures to prevent similar accidents, including further improving our Health Safety and Environment Management System and taking more rigorous actions to eliminate latent hazards. We believe this accident and its consequences have not had any material adverse effect on our business, financial condition or results of operations.

Risks Related to Climate Change

In recent years, the oil industry has faced an increasingly severe challenge imposed by the global climate change. Numerous international, domestic and regional treaties and agreements to restrict the emission of greenhouse gas have been executed and become effective. If China or any other country in which we operate business remains committed to the reduction of the emission of greenhouse gas, the legal and regulatory requirements for that purpose may lead to a substantial increase in our capital expenditures and tax expenses and in turn, an increase in our operating costs. As a result, our results of operations and our strategic investment may be adversely affected.

Risks Related to Insurance Coverage

Due to the fact that oil industry is susceptible to high and industry-specific risks in nature, the current ordinary commercial insurance can not cover all the business areas in which we operate. We maintain insurance coverage against some, but not all, potential losses. We may suffer material losses resulting from uninsurable or uninsured risks or insufficient insurance coverage.

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Risks Related to Oil and Gas Reserves

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

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

Risks Related to Liquidity

We have tried our best endeavors to ensure an appropriate level of liquidity and financing ability. However, as we are currently undergoing constructions in response to a peak in our oil and gas reserves, strengthening capacity building in key areas, constructing new, and expanding some existing, refinery and petrochemical facilities and constructing several natural gas and oil pipelines, we may have to make substantial capital expenditures and investments. We cannot assure you that the cash generated by our operations will be sufficient to fund these development plans or that our actual future capital expenditures and investments will not significantly exceed our current planned amounts. If either of these conditions arise, we may have to seek external financing to satisfy our capital needs. Our inability to obtain sufficient funding for our development plans could adversely affect our business, financial condition and results of operations.

Risks Related to Effectiveness of Internal Control Over Financial Reporting

SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring every public company in the United States to include a management report on such company s internal control over financial reporting in its annual report, which contains management s assessment of the effectiveness of the company s internal control over financial reporting. Although our management concluded that our internal control over our financial reporting for the fiscal year ended December 31, 2011 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 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.

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

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ITEM 4 ***INFORMATION ON THE COMPANY***

Introduction

History and Development of Our Company

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

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

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

We have increased our efforts to pursue attractive business opportunities outside China as part of our business growth strategy to utilize both domestic and international resources to strengthen our competitiveness. Since 2005, we have acquired interests in various oil and natural gas assets in several countries, which significantly expanded our overseas operations and effectively increased our oil and gas reserves and production volumes. We are currently assessing the feasibility of making further investments in international oil and gas markets. At the same time, we have been gradually increasing the proportion of the imported crude oil.

In the year ended December 31, 2011, we imported approximately 441.2 million barrels of crude oil, as compared to 359.1 million barrels and 326.5 million barrels of crude oil in the years ended December 31, 2010 and 2009, respectively.

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

On April 7, 2000, we completed a global offering of H Shares and ADSs. In September 2005, we completed a follow-on offering of over 3 billion H Shares at the price of HK$6.00 per share. In October 2007, we issued 4 billion A Shares at an issue price of RMB 16.7 per share. The A Shares were listed on the Shanghai Stock Exchange on November 5, 2007. As of December 31, 2011, CNPC beneficially owned 158,325,211,528 shares, which include 291,518,000 H Shares indirectly held by CNPC through Fairy King Investments Limited, an overseas wholly owned subsidiary of CNPC, representing approximately 86.507% of the share capital of PetroChina.

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

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

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

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Our Corporate Organization Structure

The following chart illustrates our corporate organization structure as of December 31, 2011.

(1) Indicates approximate shareholding.
(2) Indicates approximate shareholding, including the 291,518,000 H Shares indirectly held by CNPC as of December 31, 2011 through Fairy King Investments Limited, a wholly owned overseas subsidiary of CNPC.
(3) Includes PetroChina Planning & Engineering Institute, PetroChina Exploration & Development Research Institute, IT Service Center, PetroChina Petrochemical Research Institute and several other companies.

Acquisitions

On October 16, 2011, we entered into a joint venture agreement with Beijing Enterprises Group Company Limited and Hebei Natural Gas Company Limited for the formation of a joint venture named PetroChina Jingtang LNG Co., Ltd., or Jingtang LNG, in Tangshan City, Hebei Province. Pursuant to the agreement, we will contribute approximately RMB1,326 million to Jingtang LNG for its 51% equity interest. As of December 31, 2011, the transaction has not been completed.

On October 27, 2011, we entered into an equity transfer agreement with CNPC Exploration and Development Company Limited, or CNPC E&D, and CNPC Central Asia Petroleum Company Limited, or CNPC Central Asia, to acquire the entire equity interests in South Oil Exploration and Development Co., Ltd. from CNPC E&D and CNPC Central Asia, for total consideration of approximately RMB1.67 billion. 50% of the equity interests of CNPC E&D is held by us and 50% is held by a wholly owned subsidiary of CNPC. CNPC Central Asia is a wholly owned subsidiary of CNPC. The transaction has been completed.

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

In February 2010, PetroChina International Investment Company Limited, a subsidiary of our company, and Athabasca Oil Sands Corp. (AOSC), a Canada-based company, entered into a series of agreements for us to acquire 60% interest in AOSC s two oil sand projects in MacKay River and Dover. On March 15, 2012, we acquired the remaining 40% interest in the MacKay River oil sand project for consideration of approximately RMB4.3 billion.

On September 26, 2011, Arrow Engergy Limited, a joint venture between Shell Royal Dutch plc. (Shell) and us, entered into an agreement to acquire Bow Energy Limited (Bow), a company that used to be part of Arrow Energy Limited in 2005 and specializes in coal seam gas exploration and development in Australia. The transaction was completed in January 2012 for consideration of approximately RMB3.6 billion.

On July 1, 2011, PetroChina International (London) Company Limited, or PCI, a wholly owned subsidiary of our company, formed two joint ventures with INEOS Investments (Jersey) Limited, or INEOS and contributed approximately RMB6.6 billion in total for its equity interests in those two joint ventures. One of the joint

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ventures, in which PCI has 50.1% equity interests, will engage in trading activities related to the crude oil refining operations using physical assets located at the Grangemouth refinery in Scotland and the Lavéra refinery in France. The other joint venture, in which PCI has 49.9% equity interests, will carry out crude oil refining business using the refining assets at Grangemouth and Lavéra. The formation of the joint ventures creates a strategic partnership between our company and INEOS and will further enhance our downstream oil refinery business in the European markets.

In 2011, we entered into an agreement with Shell for us to acquire 20% of Shell s interest in its unconventional natural gas assets located in British Columbia of Canada. Such assets include 240 equity units 100% owned by Shell in Groundbirch, British Columbia of Canada, covering an area of 628 square kilometers. We completed the transaction on January 31, 2012 for consideration of approximately RMB8.2 billion. After the closing, we and Shell will jointly develop the assets and Shell will act as operator.

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Exploration and Production

We engage in crude oil and natural gas exploration, development and production. Substantially all of our total estimated proved crude oil and natural gas reserves are located in China, principally in northeastern, northern, southwestern and northwestern China. Meanwhile, we have been further extending our overseas cooperation. In the year ended December 31, 2011, the crude oil and natural gas produced by us at overseas regions accounted for 11.5% and 4.7% of our total production of crude oil and natural gas, respectively.

We currently hold exploration and exploitation licenses for oil and gas (including coal seam gas) covering a total area of approximately 457.9 million acres, consisting of the exploration licenses covering a total area of approximately 435.8 million acres and the exploitation licenses covering a total area of approximately 22.1 million acres.

To further develop our crude oil and natural gas businesses, we have obtained oil and gas exploration licenses covering an area of 41.76 million acres in South China Sea. The crude oil and natural gas exploration in that area is currently under way.

The following table sets forth the financial and operating data of our exploration and production segment for each of the years ended December 31, 2009, 2010 and 2011:

	Year Ended December 31,		
	2009	**2010**	**2011**
Revenue (RMB in millions)	405,326	544,884	774,777
Income from operations (RMB in millions)	105,019	153,703	219,539
Proved developed and undeveloped reserves			
Crude oil (million barrels)	11,262.6	11,277.7	11,128.2
Natural gas (Bcf)	63,243.8	65,502.7	66,653.0
Production			
Crude oil (million barrels)	843.5	857.7	886.1
Natural gas for sale (Bcf)	2,112.2	2,221.2	2,396.4

Reserves

Our estimated proved reserves as of December 31, 2011 totaled approximately 11,128.2 million barrels of crude oil and approximately 66,653.0 Bcf of natural gas. As of December 31, 2011, proved developed reserves for crude oil and natural gas accounted for 67.0% and 48.5% of our total proved crude oil and natural gas reserves, respectively. Total proved hydrocarbon reserves on a BOE basis increased by 0.19% from approximately 22,194.8 million BOE as of December 31, 2010 to approximately 22,237.0 million BOE as of December 31, 2011, taking account of our overseas crude oil reserves of 768.9 million barrels and overseas natural gas reserves of 1,144.6 Bcf, totaling 959.7 million BOE. Natural gas as a percentage of total proved hydrocarbon reserves increased from 49.2% as of December 31, 2010 to 50.0% as of December 31, 2011.

We prepared our reserve estimates as of December 31, 2009, 2010 and 2011 on the basis of reports prepared by two independent engineering consultants, DeGolyer and MacNaughton and Gaffney, Cline & Associates (Consultants) Pte Ltd. Our reserve estimates include only crude oil and natural gas which we believe can be reasonably produced within the current terms of our production licenses or within the terms of the licenses which we are reasonably certain can be renewed. 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.

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Our reserve data for 2009, 2010 and 2011 were prepared in accordance with the SEC s final rules on Modernization of Oil and Gas Reporting , which became effective on January 1, 2010 and for annual reports for accounting periods ending on or after December 31, 2009.

Internal Controls Over Reserves Estimates

We have appointed a Reserve Assessment Directing Team, or the RAD Team. The leader of the RAD Team is our Vice President in charge of our upstream business.

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

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

Third-Party Reserve Report

We commissioned DeGolyer and MacNaughton, an independent petroleum engineering consulting firm based in the United States, to carry out an independent assessment of our reserves in China and certain other countries as of December 31, 2009, 2010 and 2011. DeGolyer and MacNaughton does not have any financial interest, including stock ownership, in our company. The fees of DeGolyer and MacNaughton are not contingent on the results of its evaluation.

Mr. R.M. Shuck, the Senior Vice President of DeGolyer and MacNaughton, is primarily responsible for supervising the preparation of our reserve report. Mr. R.M. Shuck is a petroleum engineer and a Registered Professional Engineer in the State of Texas. Mr. R.M. Shuck is also a member of the International Society of Petroleum Engineers and has over 29 years of experience in oil and gas reservoir studies and evaluations.

We also commissioned Gaffney, Cline & Associates (Consultants) Pte Ltd., as independent reserve auditors, to carry out an independent assessment of our reserves estimation and valuation in certain countries such as Algeria, Chad and Kazakhstan as of December 31, 2009, 2010 and 2011. Gaffney, Cline & Associates (Consultants) Pte Ltd s senior partners, officers, and employees have no direct or indirect financial interest in either our company or our affiliated companies. Gaffney, Cline & Associates (Consultants) Pte Ltd s remuneration was not in any way contingent upon reported reserve estimates.

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

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

The following table sets forth our estimated proved reserves (including proved developed reserves and proved undeveloped reserves), proved developed reserves and proved undeveloped reserves of crude oil and natural gas as of December 31, 2009, 2010 and 2011.

	Crude Oil (Millions of barrels)	Natural Gas(1) (Bcf)	Combined(1) (BOE, in millions)
Proved developed and undeveloped reserves			
Reserves as of December 31, 2009	11,262.6	63,243.8	21,803.2
Revisions of previous estimates	(77.8)	(1,455.8)	(320.3)
Extensions and discoveries	876.9	5,935.9	1,866.2
Improved recovery	73.7	0	73.7
Production for the year	(857.7)	(2,221.2)	(1,228.0)
Reserves as of December 31, 2010	11,277.7	65,502.7	22,194.8
Revisions of previous estimates	(75.7)	(751.5)	(200.8)
Extensions and discoveries	746.1	4,298.3	1,462.4
Improved recovery	66.3	0	66.3
Sale	(0.1)	(0.1)	(0.1)
Production for the year	(886.1)	(2,396.4)	(1,285.6)
Reserves as of December 31, 2011	11,128.2	66,653.0	22,237.0
Proved developed reserves			
As of December 31, 2009	7,870.8	30,948.8	13,028.9
As of December 31, 2010	7,605.4	31,102.4	12,789.1
As of December 31, 2011	7,458.3	32,329.4	12,846.5
Proved undeveloped reserves			
As of December 31, 2009	3,391.8	32,295.0	8,774.3
As of December 31, 2010	3,672.3	34,400.3	9,405.7
As of December 31, 2011	3,669.9	34,323.6	9,390.5

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

Our proved undeveloped reserves were 9,390.5 million BOE in 2011. The main changes in our proved undeveloped reserves in 2011 include (i) an increase of 1,167.6 million BOE to proved undeveloped reserves through extensions and discoveries as well as improved discoveries; and (ii) the conversion of 1,182.7 million BOE of proved undeveloped reserves into proved developed reserves. In 2011, we spent more than RMB122,857 million on developing proved undeveloped reserves. The overwhelming majority of our proved undeveloped reserves are situated around the oil fields that are currently producing. A majority of our proved undeveloped reserves are already scheduled to be developed within the next five years. A portion of our natural gas proved undeveloped reserves are anticipated to take more than five years to be fully developed due to characteristics of the development projects and contractual or pipeline capacity restrictions.

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The following tables set forth our crude oil and natural gas proved reserves and proved developed reserves by region as of December 31, 2009, 2010 and 2011.

	As of December 31,					
	2009		2010		2011	
	Proved Developed and Undeveloped	Proved Developed	Proved Developed and Undeveloped	Proved Developed	Proved Developed and Undeveloped	Proved Developed
	(Millions of barrels)					
Crude oil reserves						
Daqing	3,463.4	2,740.8	3,178.1	2,533.4	2,925.2	2,296.3
Changqing	1,783.8	1,298.8	1,946.8	1,310.5	2,097.3	1,439.8
Xinjiang	1,395.1	1,117.6	1,418.6	1,109.6	1,477.0	1,081.5
Other regions(1)	4,620.3	2,713.6	4,734.2	2,651.9	4,628.7	2,640.7
Total	11,262.6	7,870.8	11,277.7	7,605.4	11,128.2	7,458.3

	As of December 31,					
	2009		2010		2011	
	Proved Developed and Undeveloped	Proved Developed	Proved Developed and Undeveloped	Proved Developed	Proved Developed and Undeveloped	Proved Developed
	(Bcf)					
Natural gas reserves(2)						
Changqing	20,363.2	9,884.4	21,244.4	10,853.4	22,113.1	11,446.7
Tarim	16,892.1	7,758.3	19,147.7	7,822.9	19,270.8	7,148.3
Sichuan	11,177.3	4,219.0	10,512.5	2,814.8	10,938.1	4,339.7
Other regions(1)	14,811.2	9,087.1	14,598.1	9,611.3	14,331.0	9,394.7
Total	63,243.8	30,948.8	65,502.7	31,102.4	66,653.0	32,329.4

(1) Represents other oil regions in China and our overseas oil and gas fields as a result of our acquisition of overseas assets.
(2) Represents natural gas remaining after field separation for condensate removal and reduction for flared gas.

Exploration and Development

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

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

Year	**Daqing**	**Xinjiang**	**Changqing**	**Others**(1)	**Total**
2009					
Net exploratory wells drilled(2)	533	218	1,019	1,065	2,835
Crude oil	297	140	540	481	1,458
Natural gas	9	9	148	170	336
Dry(3)	227	69	331	414	1,041
Net development wells drilled(2)	4,934	681	7,421	2,238	15,274
Crude oil	4,923	674	6,808	1,626	14,031
Natural gas	1	7	480	584	1,072
Dry(3)	10	0	133	28	171
2010					
Net exploratory wells drilled(2)	157	169	680	634	1,640
Crude oil	146	131	431	342	1,050
Natural gas	1	1	100	61	163
Dry(3)	10	37	149	231	427
Net development wells drilled(2)	5,073	1,323	7,754	3,477	17,627
Crude oil	5,024	1,312	7,106	3,083	16,525
Natural gas	27	11	542	348	928
Dry(3)	22	0	106	46	174
2011					
Net exploratory wells drilled(2)	258	197	697	643	1,795
Crude oil	231	153	381	344	1,109
Natural gas	7	4	72	96	179
Dry(3)	20	40	244	203	507
Net development wells drilled(2)	4,664	1,554	8,298	3,762	18,278
Crude oil	4,626	1,547	7,076	3,328	16,577
Natural gas	25	7	1,089	403	1,524
Dry(3)	13	0	133	31	177

(1) Represents the Liaohe, Jilin, Huabei, Dagang, Sichuan, Tarim, Tuha, Qinghai, Jidong, Yumen and other oil regions.
(2) Net wells refer to the wells after deducting interests of others. No third parties own any interests in any of our wells.
(3) Dry wells are wells with insufficient reserves to sustain commercial production.

We had 445 wells in the process of being drilled and 9,146 wells with multiple completions as of December 31, 2011.

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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, 2011.

			Acreage[(1)]			
	Productive Wells[(1)]		Developed		Undeveloped	
Oil Region	**Crude Oil**	**Natural Gas**	**Crude Oil**	**Natural Gas**	**Crude Oil**	**Natural Gas**
			(Thousands of acres)			
Daqing	60,332	267	937.6	90.4	745.6	108.4
Changqing	38,205	5,764	709.2	2,798.7	440.6	3,058.3
Xinjiang	24,364	164	339.4	65.1	173.2	18.1
Other regions[(2)]	62,168	4,253	1,391.6	831.6	764.3	987.4
Total	185,069	10,448	3,377.8	3,785.8	2,123.7	4,172.2

(1) Includes all wells and acreage in which we have an interest. No third parties own any interests in any of our wells or acreage.
(2) Represents the Liaohe, Jilin, Huabei, Dagang, Sichuan, Tarim, Tuha, Qinghai, Jidong and Yumen and other oil regions.

Production

The following table sets forth our historical average net daily crude oil and natural gas production by region and our average sales price for the periods ended December 31, 2009, 2010 and 2011.

	For the Year Ended December 31,			% of
	2009	**2010**	**2011**	**2011 Total**
Crude oil production[(1)]				
(thousands of barrels per day, except percentages or otherwise indicated)				
Daqing	806.2	805.6	804.4	33.1
Changqing	318.1	369.3	405.2	16.7
Xinjiang	220.5	220.5	220.7	9.1
Other[(2)]	966.2	954.3	997.4	41.1
Total	2,311.0	2,349.7	2,427.7	100
Annual production (million barrels)	843.5	857.7	886.1	
Average sales price (US$ per barrel)	53.90	72.93	104.20	
Natural gas production[(1)(3)]				
(millions of cubic feet per day, except percentages or otherwise indicated)				
Tarim	1,650.3	1,674.2	1,548.7	23.6
Changqing	1,434.1	1,579.8	2,122.9	32.3
Sichuan	1,381.4	1,387.2	1,296.8	19.8
Other[(4)]	1,320.9	1,444.2	1,597.1	24.3
Total	5,786.7	6,085.4	6,565.5	100

Annual production (Bcf)	2,112.2	2,221.2	2,396.4
Average sales price (US$ per Mcf)	4.78	5.54	6.42

(1) Production volumes for each region include our share of the production from all of our cooperative projects with foreign companies in that region.

(2) Represents production from the Liaohe, Jilin, Huabei, Dagang, Tarim, Tuha, Qinghai, Jidong, Yumen and other oil regions and our share of overseas production as a result of our acquisition of overseas assets.

(3) Represents production of natural gas for sale.

(4) Represents production from the Daqing, Qinghai, Tuha, Xinjiang, Liaohe, Huabei, Dagang Jilin, Jidong, Yumen and other oil and gas regions and our share of overseas production as a result of our acquisition of overseas assets.

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In 2011, we supplied a substantial majority of our total crude oil sales to our refineries. We entered into a crude oil mutual supply framework agreement with Sinopec on December 31, 2011 for the supply of crude oil to each other s refineries in 2012. Under this agreement, we agreed in principle to supply 5.58 million tons of crude oil to Sinopec in 2012. For the years ended December 31, 2009, 2010 and 2011, the average lifting costs of our crude oil and natural gas production were US$9.12 per BOE, US$9.97 per BOE and US$11.23 per BOE, respectively.

Principal Oil and Gas Regions

Daqing Oil Region

The Daqing oil region, our largest oil and gas producing property, is located in the Songliao basin and covers an area of approximately one million acres. In 2009, 2010 and 2011, our crude oil production volume in the Daqing oil region was 806.2 thousand barrels per day, 805.6 thousand barrels per day and 804.4 thousand barrels per day, respectively. As of December 31, 2011, we produced crude oil from 37 fields in the Daqing oil region.

As of December 31, 2011, our proved crude oil reserves in the Daqing oil region were 2,925.2 million barrels, representing 26.3% of our total proved crude oil reserves. As of December 31, 2009 and 2010, the proved crude oil reserves in our Daqing oil region were 3,463.4 million barrels and 3,178.1 million barrels, respectively. In 2011, the crude oil reserve-to-production ratio of the Daqing oil region was 10.0 years.

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.

Xinjiang Oil Region

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

As of December 31, 2011, our proved crude oil reserves in the Xinjiang oil region were 1,477.0 million barrels, representing 13.3% of our total proved crude oil reserves. In 2011, our oil fields in the Xinjiang oil region produced an average of 220.7 thousand barrels of crude oil per day, representing approximately 9.1% of our total daily crude oil production. In 2011, the crude oil reserve-to-production ratio at the Xinjiang oil region was 18.1 years.

Sichuan Gas Region

We began natural gas exploration and production in Sichuan in the 1950s. The Sichuan gas region covers a total area of approximately 2.3 million acres. The natural gas reserve-to-production ratio in the Sichuan gas region was approximately 23.1 years in 2011. As of December 31, 2011, we had 109 natural gas fields under development in the Sichuan gas region.

As of December 31, 2011, our proved natural gas reserves in the Sichuan gas region were 10,938.1 Bcf, representing 16.4% of our total proved natural gas reserves and an increase of 4.0% from 10,512.5 Bcf as of December 31, 2010. In 2011, our natural gas production for sale in the Sichuan gas region reached 473.4 Bcf, representing 19.8% of our total natural gas production for sale.

In 2007, we discovered significant natural gas reserves in the Guang an field in the Sichuan gas region in our border expansion in that region. As of December 31, 2011, the Guang an gas field had a proved natural gas reserve of 1,507.9 Bcf. 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.

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Changqing Oil and Gas Region

The Changqing oil and gas region covers parts of Shaanxi Province and Gansu Province and the Ningxia and Inner Mongolia Autonomous Regions. As of December 31, 2011, our proved crude oil reserves in the Changqing oil region were 2,097.3 million barrels, representing 18.8% of our total proved crude oil reserves. In 2011, our crude oil production in the Changqing oil region were an average of 405.2 thousand barrels per day, representing approximately 16.7% of our total daily crude oil production. In 2011, the crude oil reserve-to-production ratio at the Changqing oil region was 14.2 years.

In the early 1990s, we discovered the Changqing gas region, which had total estimated proved natural gas reserves of 22,113.1 Bcf as of December 31, 2011, representing 33.2% of our total proved natural gas reserves. In January 2001, we discovered the Sulige gas field in Changqing gas region, which had total estimated proved natural gas reserves of 10,565.5 Bcf as of December 31, 2011. Sulige gas field is currently the largest gas field in China. In 2011, we produced 774.9 Bcf of natural gas for sale in the Changqing oil and gas region, representing an increase of 34.4% from 576.6 Bcf in 2010.

Tarim Oil and Gas Region

The Tarim oil and gas region is located in the Tarim basin in northwestern China with a total area of approximately 590,000 acres. In 1998, we discovered the Kela 2 natural gas field in the Tarim oil and gas region. As of December 31, 2011, the proved natural gas reserves in the Tarim oil and gas region reached 19,270.8 Bcf, representing 28.9% of our total proved natural gas reserves.

In 2011, we produced 565.3 Bcf of natural gas for sale in the Tarim oil and gas region. We have completed the construction of the pipelines to deliver natural gas in the Tarim oil and gas region to the central and eastern regions of China where there is strong demand for natural gas transmitted through our West-East Gas Pipeline. See Natural Gas and Pipeline Natural Gas Transmission Infrastructure for a discussion of our West-East Gas Pipeline.

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Refining and Chemicals

We now operate 29 enterprises located in nine provinces, four autonomous regions and three municipalities to engage in refining of crude oil and petroleum products, as well as the production and marketing of basic petrochemical products, derivative chemical products and other chemical products.

The following table sets forth the financial and operating data of our refining and chemicals segment for each of the years ended December 31, 2009, 2010 and 2011:

	Year Ended December 31,		
	2009	2010	2011
Revenue (RMB in millions)	501,300	664,773	847,711
Income/(loss) from operations (RMB in millions)	17,308	7,847	(61,866)
Crude oil processed (million barrels)	828.6	903.9	984.6
Crude oil primary distillation capacity (million barrels/year)	975	1,082.9	1,129.0
Production of refined oil products (thousand tons)	73,195	79,448	87,150

Refining

Refined Products

We produce a wide range of refined products at our refineries. Some of the refined products are for our internal consumption and used as raw materials in our petrochemical operation. The table below sets forth production volumes for our principal refined products for each of the years ended December 31, 2009, 2010 and 2011.

Principal Product	Year Ended December 31, 2009	2010	2011
	(In thousand tons)		
Diesel	48,828	53,745	59,040
Gasoline	22,114	23,308	25,447
Kerosene	2,253	2,395	2,663
Lubricants	1,401	1,607	1,573
Fuel oil	3,057	4,131	3,717
Naphtha	8,041	10,016	10,301

Our Refineries

Most of our refineries are strategically located close to our crude oil production and storage bases, along our crude oil and refined product transmission pipelines and/or railways, which provide our refineries with secure supplies of crude oil and facilitate our distribution of refined products to the domestic markets. In each of the years ended December 31, 2009, 2010 and 2011, our exploration and production operations supplied approximately 75.4%, 69.1% and 64.9%, respectively, of the crude oil processed in our refineries.

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The table below sets forth certain operating statistics regarding our refineries as of December 31, 2009, 2010 and 2011.

	As of December 31,		
	2009	**2010**	**2011**
Primary distillation capacity[1] (thousand barrels per day)			
Lanzhou Petrochemical	212.6	212.6	212.6
Dalian Petrochemical	415.0	415.0	415.0
Fushun Petrochemical	236.9	236.9	236.9
Dushanzi Petrochemical	202.4	202.4	202.4
Guangxi Petrochemical	0	202.4	202.4
Jilin Petrochemical	141.7	198.4	198.4
Other refineries	1,462.6	1,499.0	1,625.6
Total	2,671.2	2,966.7	3,093.3
Refining throughput (thousand barrels per day)			
Lanzhou Petrochemical	211.6	209.3	213.2
Dalian Petrochemical	281.5	331.1	302.8
Fushun Petrochemical	187.9	181.9	134.7
Dushanzi Petrochemical	120.9	176.8	169.5
Guangxi Petrochemical	0	55.2	183.5
Jilin Petrochemical	144.9	146.6	185.0
Other refineries	1,323.4	1,375.5	1,508.7
Total	2,270.2	2,476.4	2,697.4

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

In each of the years ended December 31, 2009, 2010 and 2011, the average utilization rate of the primary distillation capacity at our refineries was 87.7%, 91.3% and 92.0%, respectively. The average yield for our four principal refined products (gasoline, kerosene, diesel and lubricants) at our refineries was 65.4%, 66.3% and 66.6% 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 years ended December 31, 2009, 2010 and 2011, the yield for all refined products at our refineries was 93.1%, 93.5% and 94.0%, respectively.

Dalian Petrochemical, Lanzhou Petrochemical, Dushanzi Petrochemical, Guangxi Petrochemical and Jilin Petrochemical were our leading refineries in terms of both primary distillation capacity and refining throughput in 2011.

To maintain effective operations of our facilities and lower production costs, we have endeavored to achieve the most cost-efficient proportions of various types of crude oil in our refining process. We purchase a portion of our crude oil requirements from third-party international suppliers located in different countries and regions. As a result, in 2011, we purchased a small amount of crude oil, through independent suppliers, from certain countries on the U.S. sanction list, such as Sudan. The crude oil so purchased was mingled with crude oil from other sources during the refining process.

Chemicals

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

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Our Chemical Products

The table below sets forth the production volumes of our principal chemical products for each of the years ended December 31, 2009, 2010 and 2011.

	Year Ended December 31,		
	2009	2010	2011
	(In thousand tons)		
Basic petrochemicals			
Propylene	3,278	3,491	3,807
Ethylene	2,989	3,615	3,467
Benzene	1,022	1,247	1,510
Derivative petrochemicals			
Synthetic resin	4,480	5,550	5,690
Other synthetic fiber raw materials and polymer	1,471	1,985	2,031
Synthetic rubber	420	619	606
Other chemicals			
Urea	3,973	3,764	4,484

We are one of the major producers of ethylene in China. We use the bulk of the ethylene we produce as a principal feedstock for the production of many chemical products, such as polyethylene. As of December 31, 2011, our annual ethylene production capacity was 3,710 thousand tons. Our production volume of ethylene decreased by 4.1% from 3,615 thousand tons in 2010 to 3,467 thousand tons in 2011. The petrochemical ethylene projects at Fushun Petrochemical, Sichuan Petrochemical and Daqing Petrochemical have been approved by the National Development and Reform Commission and we are currently in the process of implementing these projects.

We produce a number of synthetic resin products, including polyethylene, polypropylene and ABS. As of December 31, 2011, our production capacities for polyethylene, polypropylene and ABS were 3,112 thousand tons, 3,029 thousand tons and 295 thousand tons, respectively. Currently, China imports significant volumes of these products to meet the domestic demand due to an inadequate supply of domestically produced polyethylene and polypropylene. We intend to increase the production, and improve the quality, of these products. We are building new production facilities with new technology for the production of these products in Daqing Petrochemical, Daqing Refining and Chemical, Fushun Petrochemical, Sichuan Petrochemical and other branch companies to meet this target.

Marketing of Chemicals

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

The following table sets forth the sales volumes of our chemical products by principal product category for each of the years ended December 31, 2009, 2010 and 2011.

	Year Ended December 31,		
Product	2009	2010	2011
	(In thousand tons)		
Derivative petrochemicals			
Synthetic resin	4,458.3	5,431.4	5,625.9
Synthetic fiber	135.2	140.5	108.7
Synthetic rubber	492.0	628.6	605.0
Intermediates	4,933.6	5,109.7	6,774.1
Other chemicals			
Urea	4,054.1	3,445.0	4,226.6

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In each of the years ended December 31, 2009, 2010 and 2011, our capital expenditures for our refining and chemicals segment were approximately RMB42,558 million, RMB44,242 million and 42,781 million, respectively. These capital expenditures were incurred primarily in connection with the expansion of our refining facilities and the upgrading of our product quality and the construction of large ethylene projects. In addition, we have also focused on enhancing our processing technologies and methods. These efforts have enabled us to improve the quality of refined products at our refineries, particularly that of gasoline and diesel. We believe that our refined products are capable of meeting product specification and environmental protection requirements as set by the PRC government.

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OUR MARKETING SEGMENT

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Marketing

We engage in the marketing of refined products through 37 regional sales branch companies including three distribution branch companies, one lubricants branch company and one fuel oil company. These operations include the transportation and storage of the refined products, and the wholesale, retail and export of gasoline, diesel, kerosene, lubricant, paraffin, asphalt and other refined products. In addition, we have been actively developing international trade and have made some new achievements in Asia, Europe and America, the three oil and gas operating centers in the world, which further improved our international operations.

The following table sets forth the financial and operating data of our marketing segment for each of the years ended December 31, 2009, 2010 and 2011:

	Year Ended December 31,		
	2009	2010	2011
Revenue (RMB in millions)	768,295	1,134,534	1,693,130
Income from operations (RMB in millions)	13,265	15,956	20,653
External sales volume of refined oil products (thousand tons)	101,253	120,833	145,532

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, 2011, our marketing network consisted of:

- Numerous nationwide wholesale distribution outlets. 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

- 19,362 service stations, consisting of 18,792 service stations owned and operated by us and 570 franchise service stations owned and operated by third parties.

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

The following table sets forth our sales volumes of diesel, gasoline, kerosene and lubricants for each of the years ended December 31, 2009, 2010 and 2011.

	Year Ended December 31,		
Product	**2009**	**2010**	**2011**
	(In thousand tons)		
Diesel	64,659	77,789	91,787
Gasoline	30,777	36,328	43,967
Kerosene	5,817	6,716	9,778
Lubricants	1,796	1,703	1,761

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.

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Retail Marketing

The weighted average sales volume of gasoline and diesel per business day at our service station network was 10.1 tons per service station in 2009, 11.0 tons per service station in 2010 and 11.1 tons per service station in 2011.

Capital expenditures for the marketing segment for the year ended December 31, 2011 amounted to RMB15,136 million, which were used mainly for the construction of sales network facilities including service stations and oil storage tanks.

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Natural Gas and Pipeline

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

The following table sets forth the financial and operating data of our natural gas and pipeline segment for each of the years ended December 31, 2009, 2010 and 2011:

	As of December 31 or Year Ended December 31,		
	2009	2010	2011
Revenue (RMB in millions)	77,658	117,043	173,058
Income from operations (RMB in millions)	19,046	20,415	15,530
Total length of natural gas pipelines (km)	28,595	32,801	36,116
Total length of crude oil pipeline (km)	13,164	14,782	14,782
Total length of refined oil products pipeline (km)	8,868	9,257	9,334
Total volume of natural gas sold[(1)] (Bcf)	2,105.1	2,225.2	2,658.5

(1) Represents the natural gas sold to third parties

Our Principal Markets for Natural Gas

In 2011, in addition to satisfying the demand of the northwestern, southwestern and northeastern regions of China where our gas fields are located, we sold our natural gas mainly to the northern, eastern and central regions of the PRC.

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

Shanghai Municipality, Jiangsu Province, Zhejiang Province and Anhui Province located in Yangtze River Delta of eastern China have become our significant natural gas markets.

We have entered into contracts to provide approximately 3,200 Bcf of natural gas to certain users in 2012. However, the committed quantity of supply may be adjusted by us and the users in the course of the performance of the contracts in light of the actual situation.

Each year, we must supply natural gas to customers subject to the government-formulated guidance supply plan first as required by the PRC government. We enter into natural gas supply contracts with those customers on the basis of the amount of natural gas to be supplied according to the guidance supply plan for the following year s supply. Driven by environmental and efficiency concerns, the PRC government is increasingly encouraging industrial and residential use of natural gas to meet primary energy and environmental protection needs. The PRC government has adopted a number of laws and regulations to require municipal governments to increase the use of clean energy, such as natural gas and liquefied petroleum gas, to replace the use of raw coal. Several local governments, including that of Beijing, have adopted policies to facilitate an increase in natural gas

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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, 2011, we owned and operated approximately 36,116 kilometers of natural gas pipelines in China. Our natural gas pipelines represent the vast majority of China s onshore natural gas pipelines. Our existing natural gas pipelines form regional natural gas supply networks in northwestern, southwestern, northern and central China as well as the Yangtze River Delta.

The First West-East Gas Pipeline

The construction of the First West-East Gas Pipeline commenced officially in July 2002 and was entirely completed and put into operation on October 1, 2004. The main line of our West-East Gas Pipeline links our natural gas fields in Xinjiang and Changqing with Henan Province, Anhui Province, Jiangsu Province, Shanghai Municipality and other areas in the Yangtze River Delta. It is designed to mainly transmit the natural gas produced at Tarim oil region to Henan, Anhui, Jiangsu, Zhejiang and Shanghai. The First West-East Gas Pipeline includes one main line, three branch lines and three underground storage facilities, with a total length of 6,426 kilometers, of which the main line has a total length of 3,839 kilometers. The First West-East Gas Pipeline has a designed annual throughput capacity of 600.4 Bcf. As of December 31, 2011, we entered into long-term take-or-pay contracts with 129 subscribers and distributors to supply them with natural gas through the First West-East Gas Pipeline.

The Second West-East Gas Pipeline

In February 2008, we commenced the construction of the Second West-East Gas Pipeline. The west section of the Second West-East Gas Pipeline was put into operation in December 2009. In June 2011, the east section was put into operation. The Second West-East Gas Pipeline includes one main line, eight branch lines and three underground storage facilities, with a total length of 8,686 kilometers. The main line of the Second West-East Gas Pipeline has a length of 4,978 kilometers. The western section of the main line extends from Horgos to Zhongwei with a length of 2,461 kilometers and a designed annual throughput capacity of 1,059.5 Bcf. The eastern section of the main line extends from Zhongwei to Guangzhou with a length of 2,517 kilometers and a designed annual throughput capacity of 988.8 Bcf. As of December 31, 2011, we entered into long-term take-or-pay contracts with 40 subscribers and distributors to supply them with natural gas through the Second West-East Gas Pipeline.

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

Crude Oil Transportation and Storage Infrastructure

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

As of December 31, 2011, our crude oil transportation and storage infrastructure consisted of:

- 14,782 kilometers of crude oil pipelines; and
- crude oil storage facilities with an aggregate storage capacity of approximately 32.8 million cubic meters.

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Russia to China Crude Oil Pipeline

In May 2009, we commenced the construction of the Russia to China crude oil transmission pipeline (the Mohe-to-Daqing section) upon the approval of the National Development and Reform Commission. We are the constructor and operator of the section crossing the Heilongjiang River and the section lies in China. This pipeline extends from the Skovorodino off-take station of Russia s Far East Pipeline, through Galinda at the Russian border, Heilongjiang Province and Inner Mongolia, to Daqing terminal station. With a designed transmission capacity of 15 million tons, this pipeline is 935 kilometers long. This pipeline was entirely completed on September 27, 2010 and was put into commercial operation on January 1, 2011.

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

Refined Product Transportation and Storage Infrastructure

As of December 31, 2011, our refined product transportation and storage infrastructure includes:

- 9,334 kilometers of refined product pipelines; and
- refined product storage facilities with a total storage capacity of approximately 29.3 million cubic meters.

The Lanzhou-to-Zhengzhou-to-Changsha Pipeline

We commenced the construction of the Lanzhou-to-Zhengzhou-to-Changsha refined oil pipeline on August 18, 2007. The pipeline starts from Lanzhou of Gansu Province and terminates at Changsha of Hunan Province, with a total length of 3,111 kilometers, including the length of all the main lines and branch lines. We finished the construction and commenced the operation of the section from Lanzhou to Zhengzhou in April 2009 and the section from Zhengzhou to Wuhan in August 2009. We finished the construction of the whole main line in March 2010 and we expect to finish the construction and commence the operation of the whole branch lines in 2012.

In addition, we also operate other refined product pipelines, such as the refined product pipelines for western regions and Lanzhou-to-Chengdu-to-Chongqing refined product pipeline.

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

Competition

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

Exploration and Production Operations

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

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Refining and Chemicals Operations and Marketing Operations

We compete with Sinopec in our refining and chemicals operations and marketing operations on the basis of price, quality and customer service. Most of our refineries and chemical plants are located in the northeastern and northwestern regions of China where we have the dominant market share for refined products and chemical products. We sell the remainder of our refined products and chemical products to the eastern, southern, southwestern and central-southern regions of China, where our products have a considerable market share. The eastern and southern regions of China, where refined products and chemical products are in higher demand, are important markets for our refined products and chemical products. Sinopec has a strong presence in the eastern and southern regions of China in competition with us, and most of Sinopec s refineries, chemical plants and distribution networks are located in these regions in close proximity to these markets. Moreover, as the newly constructed facilities of CNOOC commenced operation in the same region, large quantity of chemical products have been marketed into that area. As a result, the competition has further intensified. We expect that we will continue to face competition from, among other competitors, Sinopec and CNOOC in our refined products and chemical products sales in these regions. See Item 3 Key Information Risk Factors .

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

Natural Gas and Pipeline Operations

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

Environmental Matters

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

- require an environmental evaluation report to be submitted and approved prior to the commencement of exploration, production, refining and chemical projects;
- restrict the type, quantities, and concentration of various substances that can be released into the environment in connection with drilling and production activities;
- limit or prohibit drilling activities within protected areas and certain other areas; and
- impose penalties for pollution resulting from oil, natural gas and petrochemical operations, including criminal and civil liabilities for serious pollution.

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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 RMB301 million, RMB305 million and RMB324 million in 2009, 2010 and 2011, respectively.

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

- building environment-friendly projects;
- reducing sulphur levels in gasoline and diesel fuel;
- reducing paraffin and benzene content in gasoline, and continuously reducing the quantity of emissions and effluents from our refineries and petrochemical plants; and
- developing and installing monitoring systems at our pollutant discharge openings and developing environmental impact assessments for construction projects.

Our capital expenditures on environmental programs in 2009, 2010 and 2011 were approximately RMB1.34 billion, RMB1.28 billion and RMB1.65 billion, respectively.

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

- providing each household in areas surrounding our production facilities with printed materials to explain and illustrate safety and protection knowledge and skills; and
- enhancing the implementation of various effective safety production measures we have adopted previously.

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

Legal Proceedings

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

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Properties

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

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

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

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

As of December 31, 2011, CNPC obtained formal land use right certificates for 28,065 of the 28,649 parcels of land and ownership certificates for some buildings. The governmental procedures for the above-mentioned service stations located on collectively owned land have not been completed to date. We believe that the use of and the conduct of relevant activities at the above-mentioned parcels of land, service stations and buildings are not affected by the fact that the relevant land use right certificates or building ownership certificates have not been obtained or the fact that the relevant governmental procedures have not been completed. We believe that this will not have any material adverse effect on our results of operations and financial condition.

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

Intellectual Property

Our company logo is jointly owned by us and CNPC and has been used since December 26, 2004. Together with CNPC, we have applied for trademark registrations of the logo with the State Trademark Bureau of the PRC. To date, several of our applications have been approved and others are either in the process of review or public announcement phase. In addition, together with CNPC, we have applied for international trademark registration for our logo in other jurisdictions. We have received 143 International Trademark Registration Certificates for our logo covering more than 50 jurisdictions.

As of December 31, 2011, we owned approximately 4,082 patents in China and other jurisdictions. We were granted 1,413 patents in China in 2011.

Regulatory Matters

Overview

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

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

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The Ministry of Commerce:

- grants the import and export volume quotas for crude oil and refined products in accordance with the market supply and demand in China as well as the WTO requirements for China;
- issues import and export licenses for crude oil and refined products to oil and gas companies that have obtained import and export quotas; and
- examines and approves production sharing contracts in relation to oil and coal seam gas and Sino-foreign equity and cooperative joint venture contracts.

The National Development and Reform Commission:

- has the authority for industry administration, industry policy and policy coordination over China s oil and gas industry;
- determines mandatory minimum volumes and applicable prices of natural gas to be supplied to certain fertilizer producers;
- publishes guidance prices for natural gas and retail highest guidance prices for certain refined products, including gasoline and diesel;
- formulates the plan for aggregate import and export volume of crude oil and refined products in accordance with the market supply and demand in China;
- approves significant petroleum, natural gas, oil refinery and chemical projects set forth under the Catalogues of Investment Projects Approved by the Central Government; and
- approves Sino-foreign equity and cooperative projects exceeding certain capital amounts.

Exploration Licenses and Production Licenses

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

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

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

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

Pricing

Crude Oil

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

Refined Products

Since October 2001, PetroChina has set its retail prices within an 8% floating range of the published retail median guidance prices of gasoline and diesel published by the National Development and Reform Commission (but after March 26, 2006, the price of diesel for fishing vessels has been set in line with the published retail base price, with no upward adjustment for the time being). These retail median guidance prices of gasoline and diesel vary in each provincial level distribution region. From October 2001 to early 2006, the National Development and Reform Commission published the retail median guidance prices of gasoline and diesel from time to time based on the weighted average FOB Singapore, Rotterdam and New York trading prices for diesel and gasoline plus transportation costs and taxes. Generally, adjustments were made only if the weighted average prices fluctuate beyond 8% of the previously published retail median guidance price. In 2006, the PRC government, under its macro economic controls, introduced a mechanism for determining the prices of refined products.

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

On May 7, 2009, the National Development and Reform Commission promulgated and implemented the *Measures for Administration of Petroleum Price* (on trial) (the Oil Price Measures). The Oil Price Measures officially specifies the relevant conditions and mechanisms for the adjustment of the prices of China s domestic refined oil products. Under the Oil Price Measures, when the change in the average price of crude oil on the international market for 22 consecutive days exceeds 4%, prices of domestic refined oil products may be adjusted accordingly. When the price of crude oil on the international market becomes lower than US$80 per barrel, the

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prices of domestic refined oil products shall be computed on the basis of normal profit margin for processing. On the contrary, when the price of crude oil on the international market becomes higher than US$80 per barrel, the profit margin for processing shall be reduced until being reduced to zero. When the price of crude oil becomes higher than US$130 per barrel, appropriate financial and tax policies shall be adopted to ensure the production and supply of refined oil products and the stability of the domestic gasoline and diesel prices. Retailers of refined oil products may set the retail prices freely as long as their retail prices are not higher than the highest retail prices of gasoline and diesel set by the government.

Chemical Products

PetroChina determines the prices of all of its chemical products based on market conditions.

Natural Gas

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

Prior to December 26, 2005, ex-factory 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-factory 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-factory 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-factory prices of domestic natural gas by changing the ex-factory prices to governmental guidance prices, and categorizing domestic natural gas into two categories. On the basis of the ex-factory price set by the government, subject to the negotiations between the seller and the buyer, the actual ex-factory price of the first category may float upward or downward up to 10%; while the actual ex-factory 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-factory price of the industrial use natural gas by RMB400/thousand cubic meters. On June 1, 2010, the National Development and Reform Commission raised the median ex-factory prices of the domestic onshore natural gas and as a result of that, the median ex-factory price of all the oil and gas fields in China increased by RMB0.23/cubic meter. At the same time, the National Development and Reform Commission combined the first category and the second category median ex-factory prices of the natural gas from Dagang Oil Field, Liaohe Oil Field and Zhongyuan Oil Field, thus ending the dual-track natural gas pricing system as described above. In addition, the National Development and Reform Commission expanded the floating range of the median ex-factory price by allowing the median ex-factory price to float upward to 10% and downward to any level.

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

On December 26, 2012, the NDRC implemented a natural gas price formation mechanism pilot reform in Guangdong Province and Guangxi Zhuang Autonomous Region. In general, the approaches under this reform consist of (i) modifying the natural gas pricing method from the current cost plus pricing to the netback pricing by choosing a pricing reference point and an alternative energy to establish a price linkage mechanism between the natural gas and the alternative energy; (ii) determining the gate station natural gas price in each province (region or municipality) based on the natural gas price of the pricing reference point and by taking into account the direction of the main flows of the natural gas market resources and the pipeline transportation cost of natural gas; (iii) implementing a dynamic adjustment mechanism for the gate station natural gas price under which the gate station natural gas price will be initially adjusted on an annual basis and subsequently on a semi-annual or quarterly basis in response to the change in the price of the alternative energy; and (iv) lifting the control over the ex-works prices of non-conventional natural gas such as the shale gas, coal seam gas and coal gas to allow them to be formed through market competition.

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

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

Production and Marketing

Crude Oil

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

Refined Products

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

Natural Gas

The National Development and Reform Commission publishes each year the production targets for natural gas producers based on the annual production target prepared on the basis of consumption estimates submitted by all natural gas producers such as PetroChina. The National Development and Reform Commission also formulates the annual natural gas guidance supply plan, which requires natural gas producers to distribute a specified amount of natural gas to specified fertilizer producers, municipal governments and enterprises. The actual production levels of natural gas, except the amount supplied to the fertilizer producers, are determined by the natural gas producers.

Foreign Investments

Cooperation in Exploration and Production with Foreign Companies

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

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

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

Transportation and Refining

Since December 1, 2007, PRC regulations encourage foreign investment in the construction and operation of oil and gas pipelines and storage facilities but restrict foreign investment in refineries with an annual capacity of ten million tons or lower. Furthermore, when appropriate, projects must receive necessary approvals from relevant PRC government agencies. See Item 3 Key Information Risk Factors .

Import and Export

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

Capital Investment and Financing

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

(1) new oil field development projects with an annual capacity of one million tons or above and new gas field development projects with an annual capacity of two billion cubic meters or above;

(2) facilities for taking delivery of, storing or transporting imported liquefied natural gas, and cross-province (region or municipality) major oil transmission pipeline facilities;

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

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

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

(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 fee payable by PetroChina or by Sino-foreign oil and gas exploration and development cooperative projects. As approved by the State Taxation Bureau, PetroChina s subsidiaries which have the legal person status should report and pay enterprise income tax to the relevant tax authorities based on the applicable laws and regulations.

Tax Item	**Tax Base**	**Tax Rate**
Enterprise income tax	Taxable income	Effective from January 1, 2008, the statutory corporate tax rate is 25%, whereas a statutory corporate tax rate of 15% is applicable to operations in certain western regions in China qualified for certain tax incentives through the year 2020
Value-added tax	Turnover	13% for liquified natural gas, natural gas, liquified petroleum gas, agricultural film and fertilizers and 17% for other items.
Business tax	Income from oil and gas transportation services	3%
Consumption tax	Aggregate volume sold or self-consumed	Effective January 1, 2009, the unit tax amount of the consumption tax for refined oil products was increased as follows:
		RMB1.0 per liter for unleaded gasoline
		RMB0.8 per liter for diesel.
		RMB1.0 per liter for naphtha, solvent naphtha and lubricants.
		RMB0.8 per liter for fuel oil
Resource tax	Value sold	Starting from December 1, 2010, the resource tax on crude oil and natural gas has been assessed on the basis of value instead of quantity and collected at the rate of 5% of the value sold for 12 provinces in western China. This taxation method has been applied nationwide since November 1, 2011.
		Certain oil fields, however, may enjoy certain preferential treatment in respect of the resource tax based on the quality of their actual resources, scale of exploration and production activities, and actual production cost.
Compensatory fee for mineral resources	Turnover	1% for crude oil and natural gas

Tax Item	Tax Base	Tax Rate
Crude oil special gain levy	Sales amount above specific threshold	Effective from November 1, 2011, the threshold above which crude oil special gain levy levied on the domestic crude oil sold was raised from US$ 40 per barrel to US$ 55 per barrel, with the five-level progressive tax rates varying from 20% to 40% remaining.
Exploration license fee	Area	RMB100 to 500 per square kilometer per year
Production license fee	Area	RMB1,000 per square kilometer per year
Royalty fee[(1)]	Production volume	Progressive rate of 0-12.5% for crude oil and 0-3% for natural gas

(1) It shall be paid in cash and is only applicable to Sino-foreign oil and gas exploration and development cooperative projects in China. However, effective from December 1, 2010, royalty fee payable by new Sino-foreign oil and gas exploration and development cooperative projects in western regions was replaced by the resource tax, while those cooperative projects under the contracts signed before December 1, 2010 continue to be subject to royalty fee until the contracts expire.

Environmental Regulations

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

The environmental regulations require a company, such as us, to register or file an environmental impact report with the relevant environmental bureau for approval before it undertakes any construction of a new production facility or any major expansion or renovation of an existing production facility. The new facility or the expanded or renovated facility will not be permitted to operate unless the relevant environmental bureau has inspected to its satisfaction that environmental equipment that satisfies the environmental protection requirements has been installed for the facility. A company that wishes to discharge pollutants, whether it is in the form of emission, water or materials, must submit a pollutant discharge declaration statement detailing the amount, type, location and method of treatment. After reviewing the pollutant discharge declaration, the relevant environmental bureau will determine the amount of discharge allowable under the law and will issue a pollutant discharge license for that amount of discharge subject to the payment of discharge fees. If a company discharges more than is permitted in the pollutant discharge license, the relevant environmental bureau can fine the company up to several times the discharge fees payable by the offending company for its allowable discharge, or require the offending company to close its operation to remedy the problem.

ITEM 4A *UNRESOLVED STAFF COMMENTS*

We do not have any unresolved staff comment that is material and required to be disclosed.

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.

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Overview

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

- the exploration, development, production and sale of crude oil and natural gas;
- the refining of crude oil and petroleum products, and the production and marketing of basic petrochemical products, derivative chemical products and other chemical products;
- marketing and trading of refined oil products; and
- the transmission of natural gas, crude oil and refined oil products as well as the sale of natural gas.

We are China s largest producer of crude oil and natural gas and are one of the largest companies in China in terms of sales. In 2011, we produced approximately 886.1 million barrels of crude oil and approximately 2,396.4 Bcf of natural gas for sale. Our refineries also processed approximately 984.6 million barrels of crude oil in 2011. In 2011, we had turnover of RMB 2,003,843 million and profit attributable to owners of our company of RMB 132,961 million.

Factors Affecting Results of Operations

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

Prices of Principal Products

The fluctuations in the prices of crude oil, refined products, chemical products and natural gas have a significant impact on our turnover. See Item 4 Information on the Company Regulatory Matters Pricing for a more detailed discussion of current PRC pricing regulations and Item 3 Risk Factors Risks Related to Pricing and Exchange Rate .

The table below sets forth the average realized prices of our principal products in 2009, 2010 and 2011.

	2009	2010	2011
Crude oil (US$/barrel)	53.90	72.93	104.20
Natural gas (US$/thousand cubic feet)	4.78	5.54	6.42
Gasoline (US$/barrel)	99.25	115.17	142.16
Kerosene (US$/barrel)	72.20	91.14	121.63
Diesel (US$/barrel)	96.91	116.41	143.51

Production and Sales Volume for Oil and Gas Products

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

Regulatory Environment

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

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Critical Accounting Policies

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

Accounting for Oil and Gas Exploration and Production Activities

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

Oil and Gas Reserves

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

Before estimated oil and gas reserves are designated as proved , certain engineering criteria must be met in accordance with industry standards and the regulations of the SEC. Proved oil and gas reserves are the estimated quantities of crude oil and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Therefore, these estimates do not include probable or possible reserves. Our proved reserve estimates are updated annually by independent, qualified and experienced oil and gas reserve engineering firms in the United States. Our oil and gas reserve engineering department has policies and procedures in place to ensure that these estimates are consistent with these authoritative guidelines. Among other factors as required by authoritative guidelines, this estimation takes into account recent information about each field, including production and seismic information, estimated recoverable reserves of each well, and oil and gas prices and operating costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions. Therefore, as prices and cost levels change from year to year, the estimate of proved reserves also changes.

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

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

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

Property, Plant and Equipment

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

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

The company uses the following useful lives for depreciation purposes:

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

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

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

Property, plant and equipment, including oil and gas properties, are reviewed for possible impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of a cash generating unit exceeds the higher of its fair value less costs to sell and its value in use, which is the estimated net present value of future cash flows to be derived from the cash generating unit.

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

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

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

Provision for Asset Decommissioning

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

Operating Results

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

Our income statement for each of the years ended December 31, 2009, 2010 and 2011 is summarized in the table below.

	Year Ended December 31,		
	2009	2010	2011
	(RMB in millions)		
Turnover	1,019,275	1,465,415	2,003,843
Operating expenses	(875,831)	(1,277,638)	(1,821,382)
Profit from operations	143,444	187,777	182,461
Exchange loss, net	(783)	(1,172)	(936)
Interest expense, net	(3,813)	(4,338)	(8,212)
Share of profit of affiliates and jointly controlled entities	1,184	7,038	10,902
Profit before income tax expense	140,032	189,305	184,215
Income tax expense	(33,473)	(38,513)	(38,256)
Profit for the year attributable to non-controlling interests	3,172	10,800	12,998
Profit for the year attributable to owners of the company	103,387	139,992	132,961

The table below sets forth our turnover by business segment for each of the years ended December 31, 2009, 2010 and 2011 as well as the percentage changes in turnover for the periods shown.

	2009	2010	2010 vs. 2009	2011	2011 vs. 2010
	(RMB in millions, except percentages)				
Turnover					
Exploration and production	405,326	544,884	34.4%	774,777	42.2%
Refining and chemicals	501,300	664,773	32.6%	847,711	27.5%
Marketing	768,295	1,134,534	47.7%	1,693,130	49.2%
Natural gas and pipeline	77,658	117,043	50.7%	173,058	47.9%
Other	1,372	1,606	17.1%	2,354	46.6%
Total	1,753,951	2,462,840	40.4%	3,491,030	41.7%
Less intersegment sales	(734,676)	(997,425)	35.8%	(1,487,187)	49.1%
Consolidated net sales from operations	1,019,275	1,465,415	43.8%	2,003,843	36.7%

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The table below sets forth our operating income by business segment for each of the years ended December 31, 2009, 2010 and 2011, as well as the percentage changes in operating income for the periods shown. Other profit from operations shown below consists of research and development, business services and infrastructure support to our operating business segments.

	2009	2010	2010 vs. 2009	2011	2011 vs. 2010
	(RMB in millions, except percentages)				
Profit (loss) from operations					
Exploration and production	105,019	153,703	46.4%	219,539	42.8%
Refining and chemicals	17,308	7,847	(54.7%)	(61,866)	
Marketing	13,265	15,956	20.3%	20,653	29.4%
Natural gas and pipeline	19,046	20,415	7.2%	15,530	(23.9%)
Other	(11,194)	(10,144)		(11,395)	
Total	143,444	187,777	30.9%	182,461	(2.8%)

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Consolidated Results of Operations

Overview

Our turnover for the year ended December 31, 2011 was RMB2,003,843 million, representing an increase of 36.7% compared with the previous period. Profit attributable to owners of the parent company for the year ended December 31, 2011 was RMB132,961 million, representing a decrease of 5.0% compared with the previous period. For the year ended December 31, 2011, the basic and diluted earnings per share attributable to owners of the parent company were RMB0.73 while the same for the year ended December 31, 2010 was RMB0.76.

Turnover. Turnover increased by 36.7% from RMB1,465,415 million for the year ended December 31, 2010 to RMB2,003,843 million for the year ended December 31, 2011. This was primarily due to increases in the selling prices and the sales volume of major products, including crude oil, natural gas, gasoline and diesel. The table below sets out the external sales volume and average realized prices for major products sold by the company in 2011 and 2010 and percentage of changes in the sales volume and average realized prices during these two years.

	Sales Volume (thousand tons)			Average Realized Price (RMB per ton)		
	2011	2010	Percentage of Change (%)	2011	2010	Percentage of Change (%)
Crude oil*	62,057	61,629	0.7	4,748	3,623	31.1
Natural gas (million cubic meter, RMB/ 000 cubic meter)	75,281	63,011	19.5	1,082	955	13.3
Gasoline	43,967	36,328	21.0	7,804	6,627	17.8
Diesel	91,787	77,789	18.0	6,952	5,910	17.6
Kerosene	9,778	6,716	45.6	6,206	4,874	27.3
Heavy oil	9,325	9,603	(2.9)	4,376	3,800	15.2
Polyethylene	2,885	3,012	(4.2)	9,425	8,958	5.2
Lubricant	1,761	1,703	3.4	9,601	8,215	16.9

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

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Operating Expenses. Operating expenses increased by 42.6% from RMB1,277,638 million for the year ended December 31, 2010 to RMB1,821,382 million for the year ended December 31, 2011, of which:

Purchases, Services and Other. Purchases, services and other increased by 54.3% from RMB795,525 million for the year ended December 31, 2010 to RMB1,227,533 million for the year ended December 31, 2011. This was primarily due to (i) an overall increase in purchase cost as a result of larger trading volume in oil products, increased imports of crude oil by the refineries and the sharp rise in crude oil prices on the international market, and (ii) an increase in the costs of importing extra natural gas from Central Asia and LNG to ensure the safe and stable supply of gas to urban residents, utilities and key industrial users.

Employee Compensation Costs. Employee compensation costs (including employees salaries and such additional costs as contributions to social security and housing fund scheme) of the company were RMB97,162 million for the year ended December 31, 2011. Excluding the impact due to the expansion of operations and the rise of the social security contribution base due to changes in government policies, employee compensation costs of the company increased by 9.8% as compared to the year ended December 31, 2010. This was primarily due to the fact that the company has adjusted its front-line employees salaries to appropriate level, taking into consideration of certain factors, such as the rise of the domestic consumer price index.

Exploration Expenses. Exploration expenses increased by 4.1% from RMB22,963 million for the year ended December 31, 2010 to RMB23,908 million for the year ended December 31, 2011. This was primarily due to the fact that the company continued to put more efforts into oil and gas exploration to further strengthen its base of oil and gas resources.

Depreciation, Depletion and Amortization. Depreciation, depletion and amortization increased by 22.0 % from RMB 113,209 million for the year ended December 31, 2010 to RMB138,073 million for the year ended December 31, 2011. This was primarily due to the fact that (i) both the average carrying value of fixed assets and the average net value of oil and gas properties increased as a result of an increase in capital expenditure of the company, leading to an increase in depreciation and depletion provisions during 2011; and (ii) a higher amount of impairment charges were recorded by the company against certain refining equipment during 2011.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased by 5.8% from RMB74,239 million for the year ended December 31, 2010 to RMB69,969 million for the year ended December 31, 2011. Excluding the impact due to the change in the calculation method in respect of transportation costs, the year-on-year increase was 11.7%, which was primarily due to an increase in repair costs of refining equipment and extra storage and leasing costs as a result of business expansion.

Taxes other than Income Taxes. Taxes other than income taxes increased by 44.6% from RMB184,209 million for the year ended December 31, 2010 to RMB266,343 million for the year ended December 31, 2011. In particular: (i) crude oil special gain levy increased from RMB52,172 million for the year ended December 31, 2010 to RMB102,458 million for the year ended December 31, 2011. With effect from November 1, 2011, the threshold of the crude oil special gain levy was raised from US$40 per barrel to US$55 per barrel. However, as the international crude oil price rose significantly during the reporting period and only November and December in 2011 were affected by the implementation of the policy of imposing a higher threshold of the crude oil special gain levy, there was a substantial increase in the company s crude oil special gain levy for the year ended December 31, 2011; (ii) consumption tax borne by the company increased from RMB89,670 million for the year ended December 31, 2010 to RMB98,795 million for the year ended December 31, 2011, which was primarily due to an increase in the sales volume of refined products from refineries during 2011; and (iii) resource tax borne by the company increased from RMB9,796 million for the year ended December 31, 2010 to RMB19,784 million for the year ended December 31, 2011. The substantial increase in the company s resource tax for the year ended December 31, 2011 as compared with 2010 was primarily due to the promulgation of new resource tax policy by the PRC government.

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Other Income/(Expenses), net**.** Other income, net, of the company for the year ended December 31, 2011 was RMB1,606 million, representing an increase of RMB5,795 million from the other expenses, net, of the company in the amount of RMB4,189 million for the year ended December 31, 2010. This was primarily due to the fact that the refund of value-added tax, or VAT, for imported natural gas, including LNG, was recognized by the company in 2011.

Profit from Operations. The profit from operations of the company for the year ended December 31, 2011 was RMB182,461 million, representing a decrease of 2.8% from RMB187,777 million for the year ended December 31, 2010.

Net Exchange Loss. Net exchange loss decreased from RMB1,172 million for the year ended December 31, 2010 to RMB936 million for the year ended December 31, 2011, representing a decrease of 20.1%. The decrease in net exchange loss was primarily due to the repayment of loans denominated in Canadian dollars at the end of 2010.

Net Interest Expenses**.** Net interest expenses increased by 89.3% from RMB4,338 million for the year ended December 31, 2010 to RMB8,212 million for the year ended December 31, 2011. The increase in net interest expenses was primarily due to (i) an increase in our interest-bearing debts in order to ensure the funds required for production, operation and capital investment; and (ii) an increase in our financial costs as a result of the increase in interest rates in China.

Profit Before Income Tax Expense**.** Profit before income tax expense decreased by 2.7% from RMB189,305 million for the year ended December 31, 2010 to RMB184,215 million for the year ended December 31, 2011.

Income Tax Expenses**.** Income tax expenses decreased by 0.7% from RMB38,513 million for the year ended December 31, 2010 to RMB38,256 million for the year ended December 31, 2011, which was primarily due to a decrease in the taxable income for the year.

Profit for the year. Profit for the year decreased by 3.2% from RMB150,792 million for the year ended December 31, 2010 to RMB145,959 million for the year ended December 31, 2011.

Profit attributable to non-controlling interests of the company. As international oil prices in 2011 increased significantly compared with that of last year, certain overseas subsidiaries engaging in upstream operations recorded material increases in profits, which resulted in an increase of the profit attributable to non-controlling interests by 20.4%, from RMB10,800 million for the year ended December 31, 2010 to RMB12,998 million for the year ended December 31, 2011.

Profit attributable to owners of the parent company**.** Due to the effect of government control over domestic price of refined oil products, the purchase price of imported natural gas being higher than the selling price of the same and a significant increase in taxes and levies, profit attributable to owners of the parent company decreased by 5.0% from RMB139,992 million for the year ended December 31, 2010 to RMB132,961 million for the year ended December 31, 2011.

Segment Information

Exploration and Production

Turnover. Turnover increased by 42.2% from RMB544,884 million for the year ended December 31, 2010 to RMB774,777 million for the year ended December 31, 2011. The increase was primarily due to an increase both in the average realized prices and sales volumes of crude oil and natural gas. The average realized crude oil price of the company was US$104.20 per barrel in 2011, representing an increase of 42.9% from US$72.93 per barrel in 2010.

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Operating Expenses. Operating expenses increased by 41.9% from RMB391,181 million for the year ended December 31, 2010 to RMB555,238 million for the year ended December 31, 2011 because: (i) operating expenses incurred for purchases, services and other increased RMB 76,299 million as compared with the previous year, primarily due to an increase in the purchase cost of oil import from Russia and Kazakhstan during 2011; and (ii) taxes other than income taxes increased RMB 70,144 million compared with last year, primarily due to a significant increase in the crude oil special gain levies and the resource tax during 2011.

The oil and gas lifting cost increased by 12.6%, or 7.4% excluding the impact of the fluctuation of exchange rates, from US$9.97 per barrel in 2010 to US$11.23 per barrel in 2011, which shows that the oil and gas lifting cost was brought under effective control.

Profit from Operations. In 2011, the exploration and production segment transformed the mode of development and continued to step up cost control while crude oil prices remained high. As a result, our profitability has further improved and the basis for sustainable development has been reinforced. The profit from operations for the year ended December 31, 2011 was RMB219,539 million, representing an increase of 42.8% from RMB153,703 million for the year ended December 31, 2010. The exploration and production segment remains as the most important profit contributing segment of the company.

Refining and Chemicals

Turnover. Turnover increased by 27.5% from RMB664,773 million for the year ended December 31, 2010 to RMB847,711 million for the year ended December 31, 2011. The increase was primarily due to an increase in both the selling prices and sales volumes of major refined products.

Operating Expenses. Operating expenses increased by 38.5% from RMB656,926 million for the year ended December 31, 2010 to RMB909,577 million for the year ended December 31, 2011. The operating expenses incurred for purchases, services and other increased by RMB230,170 million as compared with last year. This was primarily due to an increase in crude oil imports by refineries and increases in international crude oil prices during 2011. Taxes other than income taxes increased by RMB10,024 million, which was primarily due to an increase in consumption tax as compared with last year.

The cash processing cost of refineries was RMB146.27 per ton in 2011, which was substantially the same as RMB144.04 per ton in 2010.

Profit from Operations. Due to the fact that international crude oil prices remained high in 2011, the prices of domestic refined products were subject to government regulation and control and the demand in the petrochemical market was down, the refining and chemicals segment recorded operating losses of RMB61,866 million for the year ended December 31, 2011, of which, the refining operations and the chemicals operations recorded operating losses of RMB60,087 million and RMB1,779 million for the year ended December 31, 2011, respectively.

Marketing

Turnover. Turnover increased by 49.2% from RMB1,134,534 million for the year ended December 31, 2010 to RMB1,693,130 million for the year ended December 31, 2011. The increase was primarily due to an increase in both the selling prices and the sales volumes of refined products as well as an increase in revenue from the oil products trading business.

Operating Expenses. Operating expenses increased by 49.5% from RMB1,118,578 million for the year ended December 31, 2010 to RMB1,672,477 million for the year ended December 31, 2011, of which, the operating expenses incurred for purchases, services and other increased by RMB558,011 million as compared to last year, primarily due to an increase in the purchase cost relating to the oil products trading business.

Profit from Operations. In 2011, the marketing segment promptly took advantage of opportunities presented by the market and organized its marketing efforts scientifically. It expanded sales and improved the quality of marketing efforts. As a result, profit from operations was RMB20,653 million for the year ended

December 31, 2011, representing an increase of 29.4% from RMB15,956 million for the year ended December 31, 2010.

Natural Gas and Pipeline

Turnover. Turnover amounted to RMB173,058 million in 2011, representing an increase of 47.9% from RMB117,043 million in 2010. This increase was primarily due to (i) increases in both the sales and transmission volumes as well as the ongoing optimization of the sales structure by the natural gas and pipeline segment in 2011, resulting in an increase in the share of industrial gas in the sales volume; (ii) the PRC government raising the ex-factory base price of locally produced onshore natural gas by RMB0.23 per cubic meters with effect from June 1, 2010; (iii) an increase in the sales revenue of city gas and LPG in 2011.

Operating Expenses. Operating expenses amounted to RMB157,528 million in 2011, representing an increase of 63.0% from RMB96,628 million in 2010, of which purchases, services and other increased RMB56,723 million compared to 2010. For the purposes of ensuring a safe and stable supply of gas to city residents, utilities and key industrial users, we imported 15.53 billion cubic meters of natural gas from Central Asia and 1.83 billion cubic meters of LNG in 2011, thereby increasing the purchase costs. Depreciation, depletion and amortization increased RMB4,376 million, which was primarily due to the fact that key projects such as the trunk line of the Second West-East Gas Pipeline commencing operation, leading to a corresponding increase in depreciation and depletion.

Profit from Operations. Profit from operations was RMB 15,530 million for the year ended December 31, 2011, representing a decrease by 23.9% from RMB20,415 million for the previous year, which was primarily due to the effect of an increase in the losses in the sales of imported natural gas as well as the transfer of major projects to fixed assets and the corresponding increase in depreciation, of which the aggregate losses arising from selling imported natural gas and LNG approximately amounted to RMB 21,400 million.

In 2011, our overseas operations (Note) further increased their contribution to the company. Turnover of overseas operations amounted to RMB574,212 million in 2011, or 28.6% of our total turnover. Profit before income tax expense of overseas operations amounted to RMB34,747 million in 2011, or 18.9% of our profit before income tax expense.

Note: The four operating segments of the company are namely exploration and production, refining and chemicals, marketing as well as natural gas and pipeline. Overseas operations do not constitute a separate operating segment of the company. The financial data of overseas operations are included in the financial data of the respective operating segments mentioned above.

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Consolidated Results of Operations

Overview

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

Turnover. Turnover increased by 43.8% from RMB1,019,275 million for the year ended December 31, 2009 to RMB1,465,415 million for the year ended December 31, 2010. This was primarily due to increases in the selling prices and in the sales volume of major products including crude oil, natural gas, gasoline and diesel.

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The table below sets out the external sales volume and average realized prices for major products sold by the company in 2010 and 2009 and percentage of changes in the sales volume and average realized prices during these two years.

	Sales Volume (thousand tons)			Average Realized Price (RMB per ton)		
	2010	2009	Percentage of Change (%)	2010	2009	Percentage of Change (%)
Crude oil*	61,629	53,768	14.6	3,623	2,750	31.7
Natural gas (million cubic meter, RMB/ 000 cubic meter)	63,011	59,614	5.7	955	814	17.3
Gasoline	36,328	30,777	18.0	6,627	5,763	15.0
Diesel	77,789	64,659	20.3	5,910	4,965	19.0
Kerosene	6,716	5,817	15.5	4,874	3,896	25.1
Heavy oil	9,603	8,472	13.3	3,800	2,903	30.9
Polyethylene	3,012	2,349	28.2	8,958	8,430	6.3
Lubricant	1,703	1,796	(5.2)	8,215	7,204	14.0

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

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

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

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

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

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

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

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

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

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

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

Net Interest Expenses. Net interest expenses increased by RMB525 million, from RMB3,813 million for the year ended December 31, 2009 to RMB4,338 million for the year ended December 31, 2010. The increase in net interest expenses was primarily attributable to an increase in interest expenses compared with the previous year, due to an increase in the monthly average balance of interest-bearing debts prompted by the need to secure required funding for production, operation and capital investment.

Profit Before Income Tax Expense. Profit before income tax expense increased by 35.2% from RMB140,032 million for the year ended December 31, 2009 to RMB189,305 million for the year ended December 31, 2010.

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

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

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

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

Exploration and Production

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

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

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

Refining and Chemicals

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

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

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

Marketing

Turnover. Turnover increased by 47.7% from RMB768,295 million for the year ended December 31, 2009 to RMB1,134,534 million for the year ended December 31, 2010. The increase was primarily due to an increase in both the selling prices and the sales volumes of refined products and an increase in revenue from the oil products trading business.

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

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

Natural Gas and Pipeline

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

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

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

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. For the year ended December 31, 2011, we distributed as dividends 45% of our reported income for the year attributable to our shareholders. See Item 8 Financial Information Dividend Policy for a discussion of factors which may affect the determination by our board of directors of the appropriate level of dividends.

Our financing ability may be limited by our financial condition, our results of operations and the international and domestic capital markets. Prior to accessing the international and domestic capital markets, we must obtain approval from the relevant PRC government authorities. In general, we must obtain PRC government approval for any project involving significant capital investment for our refining and chemicals, marketing and natural gas and pipeline segments. For a more detailed discussion of factors which may affect our ability to satisfy our financing requirements, see Item 3 Key Information Risk Factors .

We plan to fund the capital and related expenditures described in this annual report principally through cash from operating activities, short-term and long-term borrowings and cash and cash equivalents. Net cash flows from operating activities in the year ended December 31, 2011 was RMB290,155 million. As of December 31, 2011, we had cash and cash equivalents of RMB61,172 million. While each of the projects described in this annual report for which significant capital expenditures will be required is important to our future development, we do not believe that failure to implement any one of these projects would have a material adverse effect on our financial condition or results of operations. If the price of crude oil undergoes a steep decline in the future, it is likely that we would delay or reduce the scale of the capital expenditures for our exploration and production segment.

In October 2007, we issued 4 billion A Shares, which have been listed and traded on the Shanghai Stock Exchange since November 5, 2007. The total proceeds and net proceeds from such issuance were RMB66,800 million and RMB66,243 million, respectively. Of the net proceeds, approximately RMB6,840 million were used for the project to increase the crude oil production capacity of Changqing Oilfield; approximately RMB5,930 million were used for the project to increase the crude oil production capacity of Daqing Oilfield; approximately RMB1,500 million were used for the project to increase the crude oil production capacity of Jidong Oilfield; approximately RMB17,500 million were used for the project to process and refine sulphur-bearing crude oil imported from Kazakhstan and the ethylene technology development project of Dushanzi Petrochemical, and approximately RMB6,000 million were used for the 1.2 million tons/year ethylene redevelopment and expansion project of Daqing Petrochemical. The balance of the net proceeds were used as working capital of the Company. As of December 31, 2011, the total amount of the net proceeds has been used up.

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, 2011, and do not currently have, any transactions, arrangements or other relationships with unconsolidated entities or other persons that are reasonably likely to materially affect the liquidity or availability of or requirements for our capital resources.

The table below sets forth our cash flows for each of the years ended December 31, 2009, 2010 and 2011 and our cash equivalents at the end of each period.

	Year Ended December 31,		
	2009	2010	2011
		(RMB in millions)	
Net cash flows from operating activities	268,017	318,796	290,155
Net cash flows used for investing activities	(267,498)	(299,302)	(283,638)
Net cash flows from/(used for) financing activities	53,077	(60,944)	9,259
Currency translation difference	179	234	(313)
Cash and cash equivalents at year end	86,925	45,709	61,172

Our cash and cash equivalents increased by 33.8% from RMB45,709 million as of December 31, 2010 to RMB61,172 million as of December 31, 2011.

Net Cash Flows from Operating Activities

Our net cash flows from operating activities for the year ended December 31, 2011 was RMB290,155 million, representing a decline of 9.0% compared with RMB318,796 million generated for the year ended December 31, 2010. This was mainly due to an increase in taxes and levies paid as well as changes in inventories and other kinds of working capital. As at December 31, 2011, the company had cash and cash equivalents of RMB61,172 million. The cash and cash equivalents were mainly denominated in Renminbi (approximately 67.8% were denominated in Renminbi, approximately 25.7% were denominated in US Dollars, approximately 1.6% were denominated in HK Dollars and approximately 4.9% were denominated in other currencies).

Our net cash flows from operating activities for the year ended December 31, 2010 was RMB318,796 million, representing an increase of 18.9% compared with RMB268,017 million generated for the year ended December 31, 2009. This was mainly due to the increase in net profit in 2010 compared with that of last year. As at December 31, 2010, the company had cash and cash equivalents of RMB45,709 million. The cash and cash equivalents were mainly denominated in Renminbi (approximately 75.2% were denominated in Renminbi, approximately 17.8% were denominated in US Dollars, approximately 0.8% were denominated in HK Dollars and approximately 6.2% were denominated in other currencies).

Net Cash Flows Used for Investing Activities

Our net cash flows used for investing activities for the year ended December 31, 2011 was RMB283,638 million, representing a decline of 5.2% compared with RMB299,302 million used for investing activities for the year ended December 31, 2010. The decrease was primarily due to a decrease in expenditures for the acquisition of associated entities and jointly controlled entities during 2011, partially offset by an increase in capital expenditures.

Our net cash flows used for investing activities for the year ended December 31, 2010 was RMB299,302 million, representing an increase of 11.9% compared with RMB267,498 million used for investing activities for the year ended December 31, 2009. The net increase was primarily due to an increase in expenditures for the acquisition of associated companies and joint venture companies.

Net Cash Flows From/(Used for) Financing Activities

Our net cash flows from financing activities for the year ended December 31, 2011 was RMB9,259 million, while our net cash flows used for financing activities for the year ended December 31, 2010 was RMB60,944 million. Such change from net cash outflows to net cash inflows was primarily due to an increase in new loans in 2011.

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

Our net borrowings as of December 31, 2009, 2010 and 2011 were as follows:

	December 31,		
	2009	2010	2011
	(RMB in millions)		
Short-term debt (including current portion of long-term debt)	148,851	102,268	137,698
Long-term debt	85,471	131,352	180,675
Total debt	234,322	233,620	318,373
Less:			
Cash and cash equivalents	86,925	45,709	61,172
Net debt	147,397	187,911	257,201

Of our total borrowings as at December 31, 2011, approximately 72.4% were fixed-rate loans and approximately 27.5% were floating-rate loans, and approximately 0.1% were interest-free loans. Of our borrowings as at December 31, 2011, approximately 79.8% were denominated in Renminbi, approximately 17.7% were denominated in United States Dollars, approximately 1.2% were denominated in Japanese yen, approximately 0.9% were denominated in Canadian Dollars and approximately 0.4% were denominated in other currencies.

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

Our debt to capital ratio (calculated by dividing interest-bearing debts by the aggregate of interest-bearing debts and shareholder s equity) as of December 31, 2011 was 22.7%, as compared to 18.8% as of December 31, 2010.

Capital Expenditures and Investments

We reasonably timed our investment decisions and focused more on strengthening control of our investment costs. Our capital expenditures in 2011 increased by 3.0% to RMB284,391 million from RMB276,212 million in 2010. The increase in capital expenditures was under effective control.

The table below sets forth our capital expenditures and investments by business segment for each of the years ended December 31, 2009, 2010 and 2011 as well as those anticipated for the year ending December 31, 2012. Actual capital expenditures and investments for periods after January 1, 2012 may differ from the amounts indicated below.

	2009		2010		2011		2012 Anticipated	
	(RMB in millions)	%	(RMB in millions)	%	(RMB in millions)	%	(RMB in millions)	%
Exploration and production[(1)]	129,017	48.35	160,893	58.25	162,154	57.02	172,900	57.64
Refining and chemicals	42,558	15.95	44,242	16.02	42,781	15.04	43,900	14.63
Marketing	18,174	6.81	15,793	5.72	15,136	5.32	16,600	5.53
Natural gas and pipeline	74,754	28.01	53,648	19.42	62,645	22.03	63,600	21.20

Other	2,333	0.88	1,636	0.59	1,675	0.59	3,000	1.00
Total	266,836(2)	100.0	276,212	100.0	284,391	100.0	300,000	100.0

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(1) If investments related to geological and geophysical exploration costs are included, the capital expenditures and investments for the exploration and production segment for 2009, 2010, 2011 and the estimates for the same in 2012 would be RMB138,396 million, RMB173,142 million, RMB173,760 million and RMB184,900 million, respectively.

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

As of December 31, 2011, the capital expenditures contracted for at the balance sheet date but not recognized in our consolidated financial statements were approximately RMB49,550 million.

Exploration and Production

A majority of our capital expenditures and investments relate to our exploration and production segment. For each of the three years ended December 31, 2009, 2010 and 2011, capital expenditures in relation to the exploration and production segment amounted to RMB129,017 million, RMB160,893 million and RMB162,154 million, respectively. In 2011, the capital expenditures and investments in the exploration and production segment were primarily used for large oil and gas exploration projects and for the construction of key production capacities for various oil and gas fields such as in the oil and gas fields located in Changqing, Daqing, Southwestern and Tarim oil and gas fields in China and for the development of large-sized overseas oil and gas fields such as Rumaila and Akotobe oil and gas fields.

We anticipate that capital expenditures for the exploration and production segment for the year of 2012 will amount to approximately RMB172,900 million, of which approximately RMB31,000 million will be mainly used for oil and gas exploration activities, and approximately RMB141,900 million will be used for the oil and gas development activities. Domestic exploration activities will continue to focus on the Peak Growth in Oil and Gas Reserves Program and to strengthen development of regions in Songliao Basin, Erdos Basin, Tarim Basin, Sichuan Basin, Bohai Basin and other key oil and gas regions. Development activities will be focused on the steady production of Daqing oil field, increasing production of oil and gas equivalent of Changqing oil field, and increasing production of Tarim oil field will also be emphasized; oil and gas exploration and development in Central Asia, the Middle East, America, and Asia Pacific regions will be the focus of our overseas development efforts.

Refining and Chemicals

Our capital expenditures for our refining and chemicals segment for each of the years ended December 31, 2009, 2010 and 2011 were RMB42,558 million, RMB44,242 million and RMB42,781 million, respectively. Among the capital expenditure made in 2011, RMB21,653 million was used on the construction of refinery facilities and RMB21,128 million was used on the construction of chemicals facilities. Capital expenditures for the refining and chemicals segment were mainly used for the construction of large scale refining and ethylene projects, such as the Guangxi Petrochemical, Sichuan Petrochemical, Fushun Petrochemical, Daqing Petrochemical, Ningxia Petrochemical and Hohhot Petrochemical projects.

We anticipate that our capital expenditures for our refining and chemicals segment for 2012 will amount to RMB43,900 million, approximately RMB31,700 million of which will be used for the construction and expansion of refinery facilities, mainly for the construction of large scale refining projects at Sichuan Petrochemical, Guangdong Petrochemical, North China Petrochemical, Yunan Petrochemical, and Huhhot Petrochemical, and approximately RMB12,200 million will be used for the construction and expansion of chemicals facilities, mainly the large scale ethylene projects at Sichuan Petrochemical, Fushun Petrochemical and Daqing Petrochemical.

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Marketing

Our capital expenditures for our marketing segment for each of the years ended December 31, 2009, 2010 and 2011 were RMB18,174 million, RMB15,793 million and RMB15,136 million, respectively. Our capital expenditures for the marketing segment in 2011 were mainly used for the construction of service stations, storage facilities and other facilities for our sales network.

Our anticipated capital expenditures for our marketing segment for the year of 2012 amount to RMB16,600 million, which are expected to be used primarily for the construction and expansion of high-efficiency sales networks.

Natural Gas and Pipeline

Our capital expenditures for the natural gas and pipeline segment for each of the three years ended December 31, 2009, 2010 and 2011 were RMB74,754, RMB53,648 million and RMB62,645 million, respectively. Our capital expenditures for the natural gas and pipeline segment in 2011 were mainly used for the construction of the Second West-East Gas Pipeline, the Third Shaanxi-Beijing Gas Pipeline, the Lanzhou-Chengdu Crude Oil Pipeline projects, and Jiangsu and Dalian LNG projects.

Our anticipated capital expenditures for our natural gas and pipeline segment for the year of 2012 amount to approximately RMB63,600 million, which are expected to be used primarily for the construction of major oil and gas transmission projects such as the branch of Second West-East Gas Pipeline, and Zhongwei-Guiyang Natural Gas Pipeline and associated liquefied natural gas and city gas facilities.

Others

Our non-segment-specific capital expenditures and investments for each of the years ended December 31, 2009, 2010 and 2011 were RMB2,333 million, RMB1,636 million and RMB1,675 million, respectively.

Our anticipated capital expenditures for the headquarter and other segments for the year of 2012 amount to RMB3,000 million. These planned capital expenditures and investments mainly include capital expenditures for scientific research activities and the construction of the information system.

Off-Balance Sheet Arrangements

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

Long-Term Contractual Obligations and Other Commercial

Commitments and Payment Obligations

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

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The tables below set forth our long-term contractual obligations outstanding as of December 31, 2011.

Contractual Obligations	Total	Less Than 1 Year	1-3 Years	3-5 Years	After 5 Years
	Payment Due by Period (RMB in millions)				
Long-term debt	218,546	37,871	85,081	75,391	20,203
Capital lease obligations					
Operating leases	104,090	7,072	8,790	8,676	79,552
Capital commitments	49,550	47,907	1,643		
Unconditional purchase obligations	45,179	15,999	28,100	738	342
Other long-term obligations					
Debt-related interest	29,917	7,844	13,168	3,730	5,175
Total contractual cash obligations	447,282	116,693	136,782	88,535	105,272

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

Year	Annual Payment (RMB in millions)
2012	1,000
2013	1,000
2014	1,000
2015	1,000
2016	1,000

Assets Retirement Obligation

A number of provinces and regions in which our oil and gas exploration and production activities are located have promulgated environment protection regulations, which set forth specific abandonment and disposal processes for oil and gas exploration and production activities. We have established standard abandonment procedures, including plugging all retired wells, dismantling all retired metering stations and other related facilities and performing site restoration, in response to the issuance of these provincial and regional regulations. As of December 31, 2011 the balance of assets retirement obligation was RMB68,702 million.

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, 2011, we had 28,427 employees engaged in research and development functions.

In each of the years ended December 31, 2009, 2010 and 2011, our total expenditures for research and development were approximately RMB9,887 million, RMB11,840 million and RMB13,224 million, respectively.

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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 theory and technology;
- engineering technology and equipment;
- theory and technology for oil and gas storage and transportation; and
- security, energy conservation and environment protection.

Refining and Chemicals

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

- technology for clean refined oil products;
- technology for unqualified heavy oil processing;
- refining-chemical integration technology;
- technology for new products of synthetic resin;
- technology for new products of synthetic rubber; and
- new catalytic and catalytic materials.

Trend Information

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

Other than as disclosed above and elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the periods from January 1, 2009 to December 31, 2011 that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that would cause the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

Other Information

Inflation

Inflation or deflation has not had a significant impact on our results of operations for the year ended December 31, 2011.

Related Party Transactions

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

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Recent Developments in IFRS

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

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

Directors, Senior Management and Supervisors

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

(1) convening shareholders meetings and reporting its work to the shareholders meetings;

(2) implementing the resolutions of the shareholders meetings;

(3) determining our business plans and investment programs;

(4) formulating our annual budget and final accounts;

(5) formulating our profit distribution proposal and loss recovery proposals;

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

(7) proposing to acquire our shares or merger, spin-off, dissolution or any plan to change in the form of the company;

(8) deciding on our internal management structure;

(9) appointing or dismissing the President of the company, and upon the nomination of the President, appointing or dismissing the senior vice president, vice president, chief financial officer, and other senior management, and determining matters relating to their remuneration;

(10) formulating our basic management system;

(11) preparing amendments to our articles of association;

(12) managing the information disclosures of our company; and

(13) exercising any other powers and duties conferred by the shareholders at general meetings.

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

The PRC Company Law requires a joint stock company with limited liability to establish a supervisory board. This requirement is reflected in our articles of association. The supervisory board is responsible for monitoring our financial matters and overseeing the corporate actions of our board of directors and our management personnel. At the end of this reporting period, the supervisory board consists of eight supervisors, five of whom are elected, including four shareholders representatives and one independent supervisor, and may be removed, by the shareholders in a general meeting and three of whom are employees representatives who are elected by our staff, and may be removed, by our staff. Four of our supervisors are affiliated with CNPC. The term of office of our supervisors is three years. The supervisors may be re-elected and re-appointed upon the expiration of his/her term of office. An elected supervisor cannot concurrently hold the position of a director, manager or financial controller.

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

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

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- to review the company s financial position;
- to oversee the performance of duties by the directors, the president, senior vice presidents, vice presidents, the chief financial officer and other senior officers of the company and to propose the removal of any of the foregoing persons who acts in contravention of any law, regulation, the company s articles of association or any resolutions of the shareholders meeting;
- to demand any director, the president, senior vice president, vice president, the chief financial officer or any other senior officer who acts in a manner which is harmful to the company s interest to rectify such behavior;
- to check the financial information such as the financial report, business report and plans for distribution of profits to be submitted by the board of directors to the shareholders meetings and to authorize, in the company s name, publicly certified and practicing auditors to assist in the re-examination of such information should any doubt arise in respect thereof;
- to propose the convening of an extraordinary shareholders meeting, and convene and preside over a shareholders meeting when the board fails to perform its duties to do so as set forth in the PRC Company Law;
- to submit proposals to the shareholders meetings;
- to confer with any director, or initiate legal proceedings on behalf of the company against any director, the president, senior vice president, vice president, the chief financial officer or any other senior officer in accordance with Article 152 of the PRC Company Law
- to initiate investigations upon being aware of any extraordinary development in the operational conditions of the company;
- together with the audit committee of the board of directors, to review the performance of the outside auditors on a yearly basis, and to propose the engagement, renewal of engagement and termination of engagement of the outside auditors, as well as the service fees in respect of the audit services;
- to oversee the compliance of related party transactions; and
- other functions and powers as set forth in the articles of association of the company.

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

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

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

The following table sets forth certain information concerning our directors, supervisors and executive officers as of December 31, 2011.

Name	Age	Position	Date of Election[1]
Jiang Jiemin	56	Chairman of the board of directors	May 18,2011
Zhou Jiping	59	Vice Chairman of the board of directors and president	May 18, 2011
Li Xinhua	58	Director	May 18, 2011
Liao Yongyuan	49	Director and vice president	May 18, 2011
Wang Guoliang	59	Director	May 18, 2011
Wang Dongjin	49	Director	May 18, 2011
Yu Baocai	46	Director	May 18, 2011
Ran Xinquan	46	Director and vice president	May 18, 2011
Liu Hongru	81	Independent non-executive director	May 18, 2011
Franco Bernabè	63	Independent non-executive director	May 18, 2011
Li Yongwu	67	Independent non-executive director	May 18, 2011
Cui Junhui	65	Independent non-executive director	May 18, 2011
Chen Zhiwu	49	Independent non-executive director	May 18, 2011
Li Hualin	49	Vice President and Secretary to the board of directors	
Sun Longde	49	Vice president	
Liu Hongbin	48	Vice president	
Zhou Mingchun	44	Chief financial officer	
Zhao Zhengzhang	55	Vice president	
Bo Qiliang	49	Vice president	
Sun Bo	51	Vice president	
Huang Weihe	54	Vice president	
Xu Fugui	54	Vice president	
Lin Aiguo	53	Chief engineer	
Wang Daofu	56	Chief geologist	
Wang Lixin	55	Chairman of the supervisory board	
Guo Jinping	54	Supervisor	
Wen Qingshan	53	Supervisor	
Sun Xianfeng	59	Supervisor	
Wang Guangjun	47	Supervisor	
Yao Wei	55	Supervisor	
Liu Hehe	48	Supervisor	
Wang Daocheng	71	Independent supervisor	

(1) For directors only.

Directors

Jiang Jiemin, aged 56, is the Chairman of our company. Mr. Jiang is a senior economist and has been awarded with post-graduate qualification. Mr. Jiang has nearly 40 years of working experience in China s oil and gas industry. He was made Deputy Director of the Shengli Petroleum Administration Bureau in March 1993, Senior Executive of the Qinghai Petroleum Administration Bureau in June 1994 and Director of Qinghai Petroleum Administration Bureau in November 1994, and Assistant to the General Manager and Team Leader for the Restructuring and Listing Preparatory Team of CNPC in February 1999, and a Director and Vice President of our company in November 1999. Mr. Jiang was appointed Deputy Provincial Governor of the Qinghai Province in June 2000, was made a member of the provincial party committee of the Qinghai Province and Deputy Provincial Governor of Qinghai Province in November 2000, and the deputy secretary of the provincial party committee of Qinghai Province and Deputy Provincial Governor of Qinghai Province 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. In November 2006, Mr. Jiang became the General Manager of CNPC. In May

2007, he became the Chairman of our company. He ceased to act as the President of the Company since May 2008. In October 2011, Mr. Jiang became the Chairman of CNPC and ceased to serve as the General Manager of CNPC.

Zhou Jiping, aged 59, is the Vice Chairman and President of our company and a General Manager of CNPC. Mr. Zhou is a professor-level senior engineer and holds a master s degree. He has nearly 40 years of working experience in China s oil and gas industry. In November 1996, he was appointed Deputy Director of the International Exploration and Development Cooperation Bureau of China National Petroleum Corporation and Deputy General Manager of China National Oil & Gas Exploration and Development Corporation. In December 1997, he was appointed General Manager of China National Oil & Gas Exploration and Development Corporation and Deputy Director of the International Exploration and Development Cooperation Bureau of China National Petroleum Corporation, and in August 2001, he was appointed Assistant to the General Manager of CNPC and General Manager of China National Oil & Gas Exploration and Development Corporation. Mr. Zhou has been a Deputy General Manager of CNPC since December 2003, and a Director of our company since May 2004. In May 2008, Mr. Zhou was appointed the Vice Chairman and President of our company. Mr. Zhou was appointed as the General Manager of CNPC in October 2011.

Li Xinhua, aged 58, is a Director of our company and a Deputy General Manager of CNPC. Mr. Li is a senior engineer and holds a college degree. Mr. Li has over 35 years of working experience in China s petrochemical industry. In June, 1985 Mr. Li was appointed the Vice Director of Yunnan Province Natural Gas Chemical Plant, in February 1992 the Director of Yunnan Province Natural Gas Chemical Plant, in March 1997 the Chairman and General Manager of Yunnan Province Yuntianhua Group, in March 2002 the Assistant Governor of Yunnan Province, In January 2003 the Deputy Governor of Yunnan Province, and in April 2007 a Deputy General Manager of CNPC. Since May 2008, Mr. Li has been acting as a Director of our company.

Liao Yongyuan, aged 49, is a Director and Vice President of our company and concurrently serves as the Deputy General Manager and Safety Director of CNPC. Mr. Liao holds a master s degree and is a professor-level senior engineer. He has nearly 30 years of working experience in China s oil and gas industry. He was Deputy Director of the New Zone Exploration and Development Department of China National Petroleum Corporation from June 1996, the Standing Deputy Commander and then Commander of Tarim Petroleum Exploration and Development Headquarters from November 1996. He was the General Manager of Tarim Oilfield Branch Company from September 1999, and also Deputy Director of Gansu Provincial Economic and Trade Committee from October 2001. He has worked as the Assistant to the General Manager of CNPC since January 2004 and has been concurrently the Head of Coordination Team for Oil Enterprises in Sichuan and Chongqing and Director of Sichuan Petroleum Administration since April 2004. He has been a Vice President of our company since November 2005. He was appointed a Deputy General Manager of CNPC in February 2007, and Safety Director of CNPC in July 2007. He has been a Director of our company since May 2008.

Wang Guoliang, aged 59, is a Director of our company and the General Accountant of CNPC. Mr. Wang is a professor-level senior accountant and holds a master s degree. Mr. Wang has nearly 30 years of working experience in China s oil and gas industry. Mr. Wang had worked as the Vice President of China Petroleum Finance Company Limited from October 1995. In November 1997, he was appointed a Deputy General Manager and the General Accountant of China National Oil & Gas Exploration and Exploitation Corporation. Mr. Wang had been the Chief Financial Officer of our company from November 1999. He was appointed General Accountant of CNPC in February 2007, and Director of our company in May 2008.

Wang Dongjin, aged 49, is a Director of our company and the Deputy General Manager of CNPC. Mr. Wang is a professor-level senior engineer and holds a master s degree. Mr. Wang has nearly 30 years of working experience in China s oil and gas industry. In July 1995, Mr. Wang was made the Deputy Director of Jiangsu Oil Exploration Bureau. In December 1997, he was made the Deputy General Manager of China National Oil & Gas Exploration and Development Corporation. From December 2000, Mr. Wang has worked concurrently as the General Manager in each of CNPC International (Kazakhstan) Ltd. and Aktobe Oil and Gas Co., Ltd.. In October 2002, he assumed the position as the General Manager of China National Oil & Gas Exploration and

Development Corporation. In January 2004, Mr. Wang assumed the positions as the Assistant to the General Manager of CNPC and the Vice Chairman and General Manager of China National Oil & Gas Exploration and Development Corporation. In September 2008, Mr. Wang was appointed as the Deputy General Manager of CNPC. Mr. Wang was elected as a Director of our company in May 2011.

Yu Baocai, aged 46, is a Director of our company and the Deputy General Manager of CNPC. Mr. Yu is a senior engineer and holds a master s degree. He has nearly 25 years of working experience in China s oil and petrochemical industry. In September 1999, Mr. Yu was made the Deputy General Manager of PetroChina Daqing Petrochemical Company. In December 2001, he assumed the position as the General Manager of PetroChina Daqing Petrochemical Company. In September 2003, he undertook the position as General Manager of PetroChina Lanzhou Petrochemical Company. In September 2008, Mr. Yu was made the Deputy General Manager of CNPC. In February 2003, Mr. Yu was elected as a representative of the 10th National People s Congress of PRC. In February 2008, Mr. Yu was elected as a representative of the 11th National People s Congress of PRC. Mr. Yu was elected as a Director of our company in May 2011.

Ran Xinquan, aged 46, is a Director and Vice President of our company and the General Manager of PetroChina Changqing Oilfield Company. Mr. Ran is a professor-level senior engineer and holds a doctorate degree. He has over 20 years of working experience in the China s oil and gas industry. In April 2002, Mr. Ran was made the Deputy General Manager of CNPC Exploration and Production Company. In February 2005, he was made the Deputy General Manager of PetroChina Changqing Oilfield Company. In October 2006, Mr. Ran became the key executive of PetroChina Changqing Oilfield Company. Since February 2008, he has served as the General Manager of PetroChina Changqing Oilfield Company. Mr. Ran was elected as a Director of our company in May 2011 and appointed as the Vice President of our company in October 2011.

Independent Non-executive Directors

Liu Hongru, aged 81, is an independent non-executive Director of our company. Mr. Liu is a professor and holds a doctoral degree. He graduated from the Faculty of Economics of the University of Moscow in 1959 with an associate doctoral degree. Mr. Liu worked as Vice Governor of the Agricultural Bank of China, Vice-Governor of the People s Bank of China, Deputy Director of the State Economic Restructuring Committee, and the Chairman of the China Securities Regulatory Commission. Mr. Liu is also a professor at the Peking University, the Postgraduate School of the People s Bank of China and the City University of Hong Kong. Mr. Liu also serves as a non-executive director of OP Financial Investments Limited and possesses the accounting or financial management qualification required under the Rules Governing the Listing of Securities on the Stock Exchange Hong Kong Limited. Mr. Liu was appointed an independent Supervisor of our company in December 1999. After his resignation from this position as independent supervisor, Mr. Liu was appointed an independent non-executive Director of our company in November 2002.

Franco Bernabè, aged 63, is an independent non-executive Director of our company. He holds a doctoral degree in political economics. He is currently the Chief Executive Officer of Telecom Italia (serving a second time). Prior to that, he held the responsibilities of the chairman of the Franco Bernabè Group, the Vice Chairman of H3G, the Vice Chairman of Rothschild Europe, a non-executive director of Pininfarina Spa and an independent non-executive director of Areoportidi Bologna. Mr. Bernabè joined ENI in 1983 to become an assistant to the chairman; in 1986 he became director for development, planning and control; and between 1992 and 1998 he was the Chief Executive Officer of ENI. Mr. Bernabè led the restructuring program of the ENI Group, making it one of the world s most profitable oil companies. Between 1998 and 1999, Mr. Bernabè was the Chief Executive Officer of Telecom Italia. Between 1999 and 2000, he has also served as a special representative of the Italian government for the reconstruction of the Balkan region. He was the Chairman of La Biennale di Venezia from 2001 to 2003 and has been the Chairman of the Modern Arts Museum of Trento and Rovereto since 2005. Prior to his joining ENI, Mr. Bernabè was the head of economic studies at FIAT. Mr. Bernabè was a senior economist at the OECD Department of Economics and Statistics in Paris. Earlier he was a professor of economic politics at the School of Industrial Administration, Turin University. He had also served on the Advisory Board of the Council of Foreign Relations and is currently an International Governor of the Peres Center for Peace. Mr. Bernabè has been an independent non-executive Director of our company since June 2000.

Li Yongwu, aged 67, is an independent non-executive Director of our company. Mr. Li is a senior engineer and holds a bachelor s degree. In June 1991, Mr. Li was appointed as the Director of Tianjin Chemicals Bureau. In July 1993, he was appointed as the Director of Tianjin Economic Committee. He was elected as the Vice Minister of the PRC Ministry of Chemical Industry in April 1995. He became Director of the State s Petroleum and Chemical Industry Bureau in March 1998. In April 2001, he was appointed a Deputy Director of the Liaison Office of the Central Government at the Special Administrative Region of Macau. In December 2004, he was appointed the Vice President of China Petroleum and Petrochemical Industry Association. In May 2005, he became the Chairman of China Petroleum and Petrochemical Industry Association and in November 2005, he became an Independent Supervisor of our company. In 2003, he was elected as a standing member of the Tenth Chinese People s Consultative Conference. In May 2008, Mr. Li was appointed an independent non-executive Director of our company.

Cui Junhui, aged 65, is an independent non-executive Director of our company. Mr. Cui is a representative of the 11th National People s Congress of the PRC and a Committee Member of the Financial and Economic Affairs Committee of the National People s Congress of the PRC. He is holder of a postgraduate degree (part-time study). The positions he held include Deputy Director of the Tax Bureau of Shandong Province and the Director of State Tax Bureau of Shandong Province. From January 2000 to January 2007, he served as a Deputy Director of the State Administration of Taxation. In December 2006, he was made a Vice President of China Society of Taxation and a Vice President of China Charity Federation. Mr. Cui was elected as a representative of the 11th National People s Congress and a member of the Financial and Economic Affairs Committee of the National People s Congress in March 2008. In April 2008, Mr. Cui was elected as the President of the sixth term of the Chinese Taxation Institute. Mr. Cui has served as an independent non-executive Director of our company since May 2008.

Chen Zhiwu, aged 49, is an independent non-executive Director of our company. Mr. Chen is a tenured professor of finance at Yale University School of Management and a distinguished professor under the Chang Jiang Scholar Program at Tsinghua University School of Humanities and Social Sciences. Mr. Chen received a bachelor of science degree from Central South University of Technology in China (now Central South University), a master s degree in engineering from National University of Defense Technology of the PRC and a doctoral degree of finance from Yale University of the United States. In June 1990, Mr. Chen started his teaching career in the University of Wisconsin Madison of the United States. From July 1995 to July 1999, he worked at Ohio State University of the United States and was promoted to associate professor of finance in 1997. From July 1999, Mr. Chen became a tenured professor of finance at Yale University School of Management. Mr. Chen was elected as an independent non-executive Director of our company in May 2011.

Secretary to the Board of Directors

Li Hualin, aged 49, is the Secretary to the Board of Directors and Vice President of our company, and an Executive Director and General Manager of China Petroleum Hongkong (Holding) Limited. Mr. Li holds a master s degree and is a professor-level senior economist. Mr. Li has over 25 years of experience in the oil and gas industry in China. In December 1997, Mr. Li became the Deputy General Manager of the China National Oil and Gas Exploration Development Corporation and the Chairman and General Manager of CNPC International (Canada) Ltd. In September 1999, Mr. Li became the General Manager of CNPC International (Kazakhstan) Ltd. whilst remaining as the Deputy General Manager of the China National Oil and Gas Exploration and Development Corporation. In January 2001, Mr. Li became the Deputy General Manager of China Petroleum Hongkong (Holding) Limited. In December 2001, he was appointed as the Chairman of Shenzhen Petroleum Industrial Co., Ltd. From July 2006, Mr. Li became the Vice-Chairman and General Manager of China Petroleum Hongkong (Holding) Limited, whilst remaining as the Chairman of Shenzhen Petroleum Industrial Co., Ltd. Mr. Li has been a Vice President of our company since November 2007. Mr. Li was appointed as the Secretary to the Board of Directors of our company in May 2009.

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Other Senior Management Personnel

Sun Longde, aged 49, is a Vice President of our company. Mr. Sun is a professor-level senior engineer and holds a doctoral degree. He has over 25 years of working experience in China s oil and geological industry. Mr. Sun was appointed the Deputy Chief Geologist of Xianhe Oil Extraction Plant and Deputy Manager of Dongxin Oil Extraction Plant of Shengli Petroleum Administration Bureau in January 1994, Chief Deputy Director-General of Exploration Business Department of Shengli Petroleum Administration Bureau in April 1997, the Manager of Exploration & Development Company of Shengli Petroleum Administration Bureau in September 1997, Chief Geologist of Tarim Petroleum Exploration & Development Headquarters in November 1997, Deputy General Manager of PetroChina Tarim Oilfield Company in September 1999 and the General Manager of PetroChina Tarim Oilfield Company in July 2002. Mr. Sun has been a Vice President of our company since June 2007.

Liu Hongbin, aged 48, is a Vice President of our company and concurrently the General Manager of the Marketing Company of our company. Mr. Liu is a senior engineer and holds a college degree. He has over 25 years of working experience in China s oil and gas industry. Mr. Liu was appointed the Vice President of Exploration & Development Research Institute of Yumen Petroleum Administration Bureau in May 1991, the Director of the Development Division of Tuha Petroleum Exploration & Development Headquarters in October 1994, the Chief Engineer of Tuha Petroleum Exploration & Development Headquarters in June 1995, the Deputy General Manager of PetroChina Tuha Oilfield Company in July 1999, the Commander of Tuha Petroleum Exploration & Development Headquarters in July 2000, the General Manager of the Planning Department of our company in March 2002 and the Director of the Planning Department of CNPC in September 2005. Mr. Liu has become a Vice President of our company since June 2007. Mr. Liu has served as a Vice President of our company and concurrently as the General Manager of the Marketing Company since November 2007.

Zhou Mingchun, aged 44, is the Chief Financial Officer of our company and currently the General Manager of the Finance Department of our company. Mr. Zhou is a professor-level senior accountant and holds a master s degree. He has over 20 years of working experience in China s oil and gas industry. Mr. Zhou was appointed the Director of the Finance Division and the Director-General of Financial Settlement Center of Daqing Petroleum Administration Bureau in October 1998, the principal officer of the Finance & Assets Division of Daqing Oilfield Company in September 1999, the director and Deputy Chief Accountant of Daqing Oilfield Company Limited in January 2000, the director and Chief Accountant of Daqing Oilfield Company Limited in October 2000, and the General Manager of the Finance Department of our company in March 2002. Mr. Zhou has served as the Chief Financial Officer of our company since June 2007.

Zhao Zhengzhang, aged 55, is a Vice President of our company and concurrently the General Manager of Exploration and Production Company of our company. Mr. Zhao holds a master s degree. He is a professor-level senior engineer and has over 25 years of working experience in China s oil and industry. In June 1996, Mr. Zhao was appointed as the Deputy Director of the New District Exploration Department of CNPC. In November 1996, he was appointed as Deputy Director of the Exploration Bureau of CNPC and Director of the New District Exploration Department. In October 1998, Mr. Zhao was appointed as Deputy Director of the Exploration Department of CNPC. In September 1999, he was appointed as a member of the Preparatory Group of CNPC Exploration and Production Company. In December 1999, Mr. Zhao was appointed as Deputy General Manager of CNPC Exploration and Production Company. In January 2005, he was appointed as Senior Executive and Deputy General Manager of CNPC Exploration and Production Company. In January 2006, he was appointed as the General Manager of CNPC Exploration and Production Company. In May 2008, Mr. Zhao was appointed the Vice President of the company and the General Manager of the Exploration and Production Company.

Bo Qiliang, aged 49, is a Vice President of our company and concurrently the General Manager of PetroChina International Ltd. Mr. Bo holds a doctor s degree and is a professor-level senior engineer. He has nearly 25 years of working experience in China s oil and gas industry. Mr. Bo was made the Vice President of the Scientific Research Institute of Petroleum Exploration and Development in February 1997, key leader of CNPC International (E&D) Ltd. in December 2001, Senior Deputy General Manager of China National Oil and

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Gas Exploration and Development Corporation in October 2004, President of PetroKazakhstan Inc. and concurrently leader of the Kazakhstan Coordination and Steering Team in November 2005, and General Manager of China National Oil and Gas Exploration and Development Corporation in September 2008. Mr. Bo began to act as the General Manager of PetroChina International Ltd. while concurrently acting as the General Manager of China National Oil and Gas Exploration and Developing Corporation from November 2009. Mr. Bo has been acting as a Vice President of our company and concurrently as the General Manager at PetroChina International Ltd. since January 2010.

Sun Bo, aged 51, is a Vice President of our company and concurrently the General Manager of Central-Asia China Gas Pipeline Company Limited and the General Manager of the Kazakhstan branch of our company. Mr. Sun is a professor-level senior engineer and has over 25 years of working experience in China s oil and gas industry. He was appointed the Deputy General Manager of Al Waha Oil Company Ltd. in June 1996; Vice President of CNPC International (Venezuela) Ltd. in October 1998; Chief Engineer and Deputy General Manager of China National Oil and Gas Exploration and Development Corporation and concurrently President of CNPC International (Venezuela) Ltd. in September 1999; General Manager of China Petroleum Engineering & Construction Corporation in January 2004; and Vice Chairman and President of CNPC Services & Engineering Ltd. and concurrently General Manager of China Petroleum Engineering & Construction Corporation in June 2006. Mr. Sun was appointed as the General Manager of Trans-Asia Gas Pipeline Company Limited in September 2007. Mr. Sun has been acting as a Vice President of our company and concurrently the General Manager of Central-Asia China Gas Pipeline Company Limited and the General Manager of the Kazakhstan branch of our company since January 2010.

Huang Weihe, aged 54, is a Vice President and the General Manager of PetroChina Natural Gas and Pipelines Company. Mr. Huang is a professor-level senior engineer and holds a doctoral degree. He has nearly 30 years of working experience in China s oil and gas industry. In December 1998, he was appointed as Deputy Director of the Petroleum and Pipelines Bureau. In November 1999, he was appointed as Deputy Director of the Petroleum and Pipelines Bureau while concurrently acting as Chief Engineer. From October 2000 to November 2002, Mr. Huang served as the General Manager of PetroChina Pipelines Company and in May 2002, was appointed as the General Manger of PetroChina West-to-East Natural Gas Transmission Pipelines Company while continuing to serve as the General Manager of PetroChina Pipelines Company. In December 2002, he was appointed as the General Manager of PetroChina Natural Gas and Pipelines Company under the company while concurrently serving as the General Manager of PetroChina West-to-East Natural Gas Transmission Pipelines Company. In February 2006, Mr. Huang ceased to be the General Manager of PetroChina Natural Gas Transmission Pipelines Company. In May 2008, Mr. Huang was appointed as the Chief Engineer of the company while concurrently serving as the General Manager of PetroChina Natural Gas and Pipelines Company. Mr. Huang was appointed the Vice President of our company in October 2011.

Xu Fugui, aged 54, is the Vice President of our company and the General Manager of PetroChina Refining & Chemical Company. Mr. Xu is a professor-level senior engineer and holds a doctoral degree. He has nearly 30 years of working experience in China s oil and petrochemical industry. Mr. Xu had worked as the Deputy Manager of Dushanzi Petrochemical Plant and manager of Refining Plant of Xinjiang Petroleum Administration Bureau concurrently. He was appointed as the Manager of Dushanzi Petrochemical Plant of Xinjiang Petroleum Administration Bureau in July 1999, and the General Manager of Dushanzi Petrochemical Company in September 1999. In September 2011, he was as appointed the General Manager of PetroChina Refining & Chemical Company. In October 2011, he was appointed as the Vice President of our company.

Lin Aiguo, aged 53, 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 as 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 has served as the Chief Engineer of our company since June 2007.

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Wang Daofu, aged 56, is the General Geologist of our company and Director of the Exploration and Development Institute. Mr. Wang is a professor-level senior engineer and holder of a doctoral degree. He has nearly 30 years of working experience in China s oil and gas industry. He was appointed as Deputy General Manager of PetroChina Changqing Oilfield Company in September 1999 and General Manager of PetroChina Changqing Oilfield Company in January 2003. He was elected as a representative of the 11th National People s Congress of the PRC in 2008. Mr. Wang has become the General Geologist of our company since May 2008. Mr. Wang has been concurrently acting as the Director of the Exploration and Development Institute since September 2008.

Supervisors

Wang Lixin, aged 55, is the chairman of the supervisory board of our company. Mr. Wang is a professor-level senior economist and holder of a master s degree. Mr. Wang has nearly 40 years of working experience in China s oil and petrochemical industry. He was made the executive of Shengli Petroleum Administration Bureau in February 1998. In November 2004, he was appointed as senior executive of Shengli Petroleum Administration Bureau and Vice Chairman of Shengli Oilfield Company Limited. Mr. Wang became the director of the Shengli Petroleum Administration Bureau in March 2007 and was also appointed as the Assistant to the General Manager of China Petrochemical Corporation since March 2009. In May 2011, he was appointed as the head of Discipline Inspection Group of CNPC. In October 2011, he was elected as the chairman of the supervisory board of our company at an extraordinary general meeting of our company.

Guo Jinping, aged 54, is a Supervisor and the General Manager of the Legal Department of our company and the General Counsel and the director of the Legal Department of CNPC. Mr. Guo is a professor-level senior economist and has been awarded with post-graduate qualification. Mr. Guo has nearly 30 years of working experience in the China s oil and gas industry. In November 1996, he became the chief economist in the Bureau of Policy and Regulations of CNPC. In October 1998, Mr. Guo was made the deputy director of the Development and Research Department in CNPC. Since September 1999, he has served as the General Manager of the Legal Department of our company. In September 2005, Mr. Guo has worked as the director of the Legal Department of CNPC. In November 2007, he became the general manager of the Legal Department of the Company and the General Counsel and the director of the Legal Department of CNPC concurrently. In May 2011, he was elected as a Supervisor of our company.

Wen Qingshan, aged 53, 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 nearly 30 years of working experience in China s petrochemical industry. He had acted as the Deputy Director of the Finance and Assets Department of CNPC since May 1999 and Director of the Finance and Assets Department of CNPC since May 2002. He has been a Supervisor of our company since November 2002. He has been acting as the Deputy Chief Accountant and the Director of the Finance and Assets Department of CNPC since November 2007.

Sun Xianfeng, aged 59, is a Supervisor and the General Manager of the Audit Department of our company. Mr. Sun is a senior economist and holds a master s degree in business administration. Mr. Sun has nearly 40 years of working experience in China s oil and gas industry. Mr. Sun was made Deputy Director of the Supervisory Bureau of CNPC in 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 as the Deputy Director of the Audit Department of CNPC in October 2000. He was appointed as the Vice Director of the Audit Department and concurrently the Director of the Audit Institute in December 2000. Mr. Sun was made the Director of the Audit Department of CNPC and the Director of the Audit Service Center in April 2004. Mr. Sun has been a Supervisor of our company since May 2004. In October 2005, Mr. Sun was appointed as a concurrent State-owned Company Supervisor from State-owned Assets Supervision and Administration Commission to CNPC. Mr. Sun has been acting as the General Manager of the Audit Department of our company since July 2007.

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Wang Guangjun, aged 47, is a Supervisor of our company and the General Manager of PetroChina Jilin Petrochemical Company. Mr. Wang is a professor-level senior engineer and holds a doctoral degree. He has 25 years of working experience in China s oil and petrochemical industry. He was appointed as the deputy general manager of the Quality, Safety and Environmental Protection Department of our company in September 1999. In May 2006, he became the general manager of PetroChina Northeast Chemicals and Marketing Company. Mr. Wang was then appointed as the general manager of PetroChina Jilin Petrochemical Company in June 2007. In May 2011, he was elected as a Supervisor of our company.

Yao Wei, aged 55, is a Supervisor of our company and the General Manager of PetroChina Pipeline Company. Mr. Yao is a professor-level senior engineer and holds a master s degree. He has nearly 35 years of working experience in China s oil and gas industry. Mr. Yao became the deputy manager of Beijing Natural Gas Transport Company in July 1995. In April 2001, he was appointed as the deputy general manager of Beijing Huayou Gas Corporation Limited. In April 2007, Mr. Yao became the General Manager of PetroChina Pipeline Company. In May 2011, he was elected as a supervisor of our company.

Liu Hehe, aged 48, is a Supervisor of our company and the General Manager of PetroChina Inner Mongolia Marketing Company. Mr. Liu is a professor-level senior economist and graduated in petrochemical major from Fushun Petroleum Institute (now Liaoning Shihua University). He has nearly 25 years of working experience in China s oil and petrochemical industry. He was made the General Manager of PetroChina East China Marketing Company in April 2004 and became the General Manager of PetroChina East China (Shanghai) Marketing Company in December 2008. He was appointed as the General Manager of PetroChina Inner Mongolia Marketing Company in November 2009. In May 2011, he was elected as a supervisor of our company.

Wang Daocheng, aged 71, is an Independent Supervisor of our company. Mr. Wang is currently the President of the China Institute of Internal Audit. He is a senior auditor and holds a bachelor s degree. He has over 40 years of experience in finance and auditing. From 1981 to 1984, he led the preparatory committee within the audit department of the Ministry of Finance and headed the science and technology training center of the National Audit Office as well as the financial and monetary authority. From August 1984 to March 1999, Mr. Wang held a number of positions, including Deputy Director of Xicheng District Audit Bureau of Beijing, Deputy Director of the Research Department of the National Audit Office, the Deputy Director of the General Affairs Bureau, Deputy Director of the Foreign Investment Bureau, Director of the Foreign Investment Department, Director of the Financial Audit Department and Director of the General Office of the National Audit Office. From March 1999 to March 2005, Mr. Wang headed the discipline inspection panel of the Central Commission for Discipline Inspection in the National Audit Office. In June 2005, he became the President of the China Institute of Internal Audit. Mr. Wang has been an Independent Supervisor of our company since May 2009.

Compensation

Senior Management Compensation System

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

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.

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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, 2011 was RMB3,926,649. We paid RMB209,664 as our contribution to the pension plans in respect of those individuals in the year ended December 31, 2011.

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, 2011 was RMB2,614,379.12.

Save as disclosed, no other payments have been paid or are payable, in respect of the year ended December 31, 2011, 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 2011, we paid RMB227,966 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, 2011 was RMB2,015,758.56.

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

Board Practices

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

Audit Committee

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

- reviewing and supervising the engagement of external auditors and their performance;
- reviewing and ensuring the completeness of annual reports, interim reports and quarterly reports, if any, and related financial statements and accounts, and reviewing any material opinion contained in the aforesaid statements and reports in respect of financial reporting;
- reporting to the board of directors in writing on the financial reports of the company and related information, having considered the issues raised by external auditors;
- reviewing and scrutinizing the work conducted by the internal audit department in according with the applicable PRC and international rules;
- monitoring the financial reporting system and internal control procedures of the company, as well as checking and assessing matters relating to, among others, the financial operations, internal control and risk management of the company;

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

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

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

Investment and Development Committee

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

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

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

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

Evaluation and Remuneration Committee

The current members of our evaluation and remuneration committee are Mr. Liu Hongru, as chairman of the committee, and Mr. Chen Zhiwu and Mr. Wang Guoliang, as members of the committee. The evaluation and remuneration committee s major responsibilities include:

studying the evaluation criteria for directors and senior officers, conducting the evaluations and proposing suggestions;

studying and evaluating the remuneration policies and plans for directors and senior officers (including the compensation in connection with the removal or retire of the director and senior officers);

organizing the evaluation of the performance of our president and reporting the evaluation result to the board of directors, supervising the evaluation of the performance of our senior vice presidents, vice presidents, chief financial officer and other senior management members conducted under the leadership of the president;

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

relevant laws, regulations and the listing rules of the stock exchanges where the shares of the company are listed (as amended from time to time) and other matters authorized by the board of directors.

Health, Safety and Environment Committee

The current members of our health, safety and environment committee are Mr. Liao Yongyuan, as chairman of the committee, and Mr. Yu Baocai and Mr. Ran Xinquan, 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, or the HSE Plan;

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

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

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Employees

As of December 31, 2009, 2010 and 2011, we had 539,168, 552,698 and 552,810 full-time employees, respectively. During 2011, we employed 261,522 temporary employees on an average. As of December 31, 2011, we had 323,605 temporary employees. The table below sets forth the number of our employees by business segment as of December 31, 2011.

	Employees	% of Total
Exploration and production	293,143	53.03
Refining and chemicals	169,418	30.65
Marketing	64,978	11.75
Natural gas and pipeline	19,838	3.59
Other[1]	5,433	0.98
Total	552,810	100.00

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

Our employees participate in various basic social insurance plans organized by municipal and provincial governments whereby we are required to make monthly contributions to these plans at certain rates of the employees salary as stipulated by relevant local regulations. Expenses incurred by us in connection with the retirement benefit plans were approximately RMB8,437 million, RMB9,600 million and RMB11,400 million, respectively, for the years ended December 31, 2009, 2010 and 2011, respectively.

In 2011, we did not experience any strikes, work stoppages, labor disputes or actions that affected the operation of any of our businesses. Our company maintains good relationship with our employees.

Share Ownership

As of December 31, 2011 our directors, senior officers and supervisors do not have share ownership in PetroChina or any of PetroChina s affiliates.

ITEM 7 *MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS*

Major Shareholders

PetroChina was established on November 5, 1999 with CNPC as its sole promoter. As of March 31, 2012, CNPC beneficially owned 158,325,211,528 shares, which include 291,518,000 H shares indirectly held by CNPC through Fairy King Investments Limited, an overseas wholly owned subsidiary of CNPC, representing approximately 86.507% of the share capital of PetroChina, and, accordingly, CNPC is our controlling shareholder.

The following table sets forth the major shareholders of our A shares as of March 31, 2012:

Name of Shareholders	Class of Shares	Number of Shares Held	Percentage of the Issued Share Capital of the Same Class of Shares (%)	Percentage of the Total Share Capital(%)
CNPC	A shares	158,033,693,528	97.600	86.347

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The following table sets forth the major shareholders of our H shares as of March 31, 2012:

Name of Shareholders	Class of Shares	Number of Shares Held	Percentage of Such Share in That Class of the Issued Shares Capital (%)	Percentage of the Total Share Capital(%)
CNPC	H shares	291,518,000(1)	1.382	0.159
Blackrock Inc.	H shares	1,437,013,460	6.811	0.785

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

Related Party Transactions

CNPC is a controlling shareholder of our company. We enter into extensive transactions with CNPC and other members of the CNPC group, all of which constitute related party transactions for us. We also continue to carry out existing continuing transactions with other related parties in the year ended December 31, 2011.

One-off Related Party Transactions

Formation of a Joint Venture Company

On January 4, 2012, we and CNPC entered into a Capital Contribution Agreement with CNPC, pursuant to which the two parties agreed to set up a captive insurance company with a registered capital of RMB5 billion (approximately US$793.64 million). Upon completion of the Capital Contribution Agreement, the equity interests in such captive insurance company would be held as to 51% by CNPC and as to 49% by us according to our respective capital contributions. The proposed name of the joint venture company is CNPC Captive Insurance Company Limited, a joint stock limited company incorporated under the laws and regulations of the PRC. The final name of the joint venture company is subject to the registration by the local branch of the State Administration of Industry and Commerce. Subject to the approval of China Insurance Regulatory Commission, the joint venture company will be principally engaged in property insurance, liability insurance, credit insurance, guarantee insurance, short term health insurance, accident insurance, the reinsurance of those insurance businesses and the use of insurance funds permitted by relevant laws and regulations. The final scope of business is subject to the approval by China Insurance Regulatory Commission and the registration by the local branch of the State Administration of Industry and Commerce.

Disposal of Assets in Northeast Engineering Company

On August 25, 2011, we and CNPC entered into a disposal agreement, pursuant to which we agreed to sell to CNPC the assets of the Northeast Engineering Company. Upon completion of the disposal agreement, CNPC paid consideration in the sum of approximately RMB299.26 million to us, representing the value of the net assets of the Northeast Engineering Company as at April 30, 2011 and the change in the statement of equity interests from April 30, 2011 to the closing. This transaction has been completed as of the date of this report.

For other one-off related party transactions including our acquisition of the entire equity interests in South Oil Exploration and Development Co., Ltd., see Item 4 Information on the Company Acquisitions .

Continuing Related Party Transactions

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

Our comprehensive products and services agreement and its supplemental agreements expired on December 31, 2008. On August 27, 2008, we and CNPC entered into a new comprehensive products and services agreement that incorporates the provisions from the previous agreements and became effective on January 1, 2009 for a period of three years, which expired on December 31, 2011. On August 25, 2011, we and CNPC further entered into a new comprehensive agreement with a term of three years commencing from January 1, 2012, while other terms and conditions remain unchanged.

On August 25, 2011, the company and CNPC entered into Supplemental Land Use Rights Leasing Contract which took effect on January 1, 2012.

The company and CNPC entered into the Buildings Leasing Agreement on March 10, 2000 and the Supplemental Buildings Leasing Agreement on September 26, 2002. On August 25, 2011, the company and CNPC entered into the Amendment to the Buildings Leasing Contract (the Amendment), pursuant to which the company agreed to lease from CNPC buildings with an aggregate gross floor area of approximately 734,316 square meters. The parties further agreed to adjust the average rental fees to RMB1,049 per square meter per year. The expiry date of the Amendment is the same as the Buildings Leasing Agreement. We and CNPC may adjust the area of building leased and the rental fees every three years as appropriate by reference to the status of our production and operations and the prevailing market price, but the adjusted rental fees shall not exceed the comparable fair market price.

As of December 31, 2011, the balance of the amount of our debts guaranteed by CNPC and its affiliates was RMB3,423 million.

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

Loans from Related Parties

As of December 31, 2011, we had unsecured short-term and long-term loans from CNPC and its affiliates in an aggregate amount of RMB130,961 million with an average annual interest rate of 4.60%.

Interests of Experts and Counsel

Not applicable.

ITEM 8 *FINANCIAL INFORMATION*

Financial Statements

See pages F-1 to F-53 following Item 19.

Dividend Policy

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

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

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

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

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

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

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

- providing our shareholders with a competitive return on investment; and
- assuring sufficient reinvestment of profits to enable us to achieve our strategic objectives.

A dividend of RMB0.16229 per share (inclusive of applicable taxes) for the six months ended June 30, 2011 were paid to the shareholders on October 21, 2011. The board of directors recommended that a final dividend of RMB0.16462 per share (inclusive of applicable taxes), which was calculated on the basis of the balance between 45% of our income for the year attributable to our shareholders under IFRS for the year ended December 31, 2011 and the interim dividend for the six months ended June 30, 2011, should be paid. The final dividend for the year ended December 31, 2011 is subject to the approval by the annual shareholders meeting to be held on May 23, 2012. The payment will be made to shareholders whose names appear on the register of the company at close of business on June 6, 2012.

Significant Changes

None.

ITEM 9 ***THE OFFER AND LISTING***

Nature of the Trading Market and Market Price Information

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

As of December 31, 2011, there were 21,098,900,000 H Shares and 161,922,077,818 A Shares issued and outstanding. As of December 31, 2011, there were 316 registered holders of American depositary receipts evidencing 15,568,819 ADSs. The depositary of the ADSs is the Bank of New York.

The high and low closing sale prices of our A Shares on the Shanghai Stock Exchange, of H Shares on the Hong Kong Stock Exchange and of the ADSs on the New York Stock Exchange for each year from 2007 through 2011 for each quarter from 2010 to 2012 (up to the end of the first quarter of 2012), and for each month from December 2011 to April 2012 (through April 20, 2012) are set forth below.

	Price Per H Share HK$		Price Per ADS US$		Price Per A Share RMB	
	High	**Low**	**High**	**Low**	**High**	**Low**
Annual Data						
2007	19.90	8.57	263.70	109.55	43.96	29.24
2008	14.24	4.25	182.12	57.25	31.31	9.95
2009	10.48	5.10	133.65	64.09	16.38	10.02
2010	10.50	7.97	136.45	101.92	14.28	9.94
2011	12.50	8.59	158.83	111.29	12.41	9.35
Quarterly Data						
2010						
First quarter	10.18	8.25	130.51	106.30	14.28	12.65
Second quarter	9.55	7.97	122.67	101.92	13.23	10.25
Third quarter	9.12	8.44	117.73	108.22	10.76	9.94
Fourth quarter	10.50	9.39	136.45	120.44	12.74	10.47
2011						
First quarter	11.78	10.14	152.25	130.41	12.10	11.02
Second quarter	12.34	10.32	156.44	132.22	12.18	10.66
Third quarter	11.78	9.03	149.86	112.49	11.06	9.57
Fourth quarter	10.62	8.99	136.00	114.42	10.19	9.46
Monthly Data						
2011						
December	10.10	8.99	129.88	114.42	9.83	9.51
2012						
January	11.54	10.10	148.86	131.38	10.32	9.75
February	11.86	11.40	153.23	146.63	10.60	10.09
March	11.76	10.74	152.86	137.74	10.59	9.69
April (through April 20, 2012)	11.44	10.70	146.25	137.26	9.95	9.62

The closing prices per A Share, per H Share and per ADS on April 20, 2012 were RMB9.95, HK$11.40 and US$146.18, respectively.

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ITEM 10 *ADDITIONAL INFORMATION*

Memorandum and Articles of Association

Our Articles of Association Currently in Effect

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

Material Contracts

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

Foreign Exchange Controls

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

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

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

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

We have been, and will continue to be, affected by changes in exchange rates in connection with our ability to meet our foreign currency obligations and will be affected by such changes in connection with our ability to pay dividends on the H Shares in Hong Kong dollars and on ADSs in U.S. dollars. We believe that we have or will be able to obtain sufficient foreign exchange to continue to satisfy these obligations. We do not engage in any financial contract or other arrangement to hedge our currency exposure.

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

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Taxation

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

PRC Taxation

Dividends and Individual Investors

Pursuant to the Individual Income Tax Law of the PRC, all foreign individuals are subject to a 20% withholding tax on dividends paid by a PRC company on its shares listed overseas, or Overseas Shares, unless specifically exempt by the financial authority of the State Council of the PRC. However, pursuant to the *Notice on the Collection of Individual Income Tax after the Abolishment of Guoshuifa [1993] No. 045*, or Circular 34, issued by the State General Administration of Taxation of the PRC on June 28, 2011, foreign individual shareholders holding H shares, or Individual H Shareholders, in a PRC company listed in Hong Kong may be subject to different levels of withholding taxes on dividends based on the tax treaties of their home countries with China. Individual H Shareholders, who are residents of Hong Kong or Macau or who enjoy a 10% tax rate on dividends based on the tax treaties of their home countries with China, are subject to a withholding tax rate of 10% in respect of the H-share dividends they receive. For those Individual H Shareholders whose home countries have tax treaties with China prescribing a tax rate on dividends lower than 10%, the PRC company, whose shares are held by such Individual H Shareholders, need to apply for such tax treatment under relevant PRC taxation regulation on behalf of the Individual H Shareholders in order for them to enjoy such tax treatment. For Individual H Shareholders whose home countries have tax treaties with China prescribing a tax rate on dividends between 10% and 20%, the PRC company, whose shares are held by such Individual H Shareholders, shall withhold the individual income tax at the agreed-upon tax rate. For Individual H Shareholders whose home countries have no tax treaties with China or whose home countries have tax treaties with China prescribing a tax rate on dividends higher than 20%, the PRC company shall withhold the tax at a rate of 20%.

Dividends and Foreign Enterprises

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

Tax Treaties

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

- the United States;
- Australia;

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- Canada;
- France;
- Germany;
- Japan;
- Malaysia;
- Singapore;
- the United Kingdom; and
- the Netherlands.

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

Capital Gains

The *Individual Income Tax Law of the PRC* provides for a capital gain tax of 20% on individuals. The *Provisions for Implementing the Individual Income Tax Law of the PRC* provides that the measures to levy individual income tax on the gains realized on the sale of shares will be made in the future by the Ministry of Finance and subject to the approval of the State Council. However, the Ministry of Finance has not by far promulgated a specific taxation method to levy tax on the capital gains realized by individual holders of H Shares or ADSs from sale of shares. If in the future such specific taxation method is promulgated, an individual holder of H Shares or ADSs may be subject to a 20% tax on capital gains under the *Individual Income Tax Law of the PRC* as amended from time to time, unless exempted or reduced by an applicable double taxation treaty or relevant PRC law or regulation.

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

Additional PRC Tax Considerations

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

United States Federal Income Taxation

The following is a general discussion of the material United States federal income tax consequences of purchasing, owning and disposing of the H Shares or ADSs if you are a U.S. holder, as defined below, and hold

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the H Shares or ADSs as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended, or the Code. This discussion does not address all of the tax consequences relating to the purchase, ownership and disposition of the H Shares or ADSs, and does not take into account U.S. holders who may be subject to special rules including:

- tax-exempt entities;
- certain insurance companies;
- broker-dealers;
- traders in securities that elect to mark to market;
- U.S. holders liable for alternative minimum tax;
- U.S. holders that own 10% or more of our voting stock;
- U.S. holders that hold the H Shares or ADSs as part of a straddle or a hedging or conversion transaction; or
- U.S. holders whose functional currency is not the U.S. dollar.

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

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

- a citizen or resident of the United States for United States federal income tax purposes;
- a corporation, or other entity treated as a corporation for United States federal income tax purposes, created or organized under the laws of the United States, or any state thereof or the District of Columbia;
- an estate the income of which is subject to United States federal income tax without regard to its source; or
- a trust:
  - subject to the primary supervision of a United States court and the control of one or more United States persons; or

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

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

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

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

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

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Distributions on the H Shares or ADSs

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

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

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

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

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

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

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

Sale, Exchange or Other Disposition

Upon a sale, exchange or other disposition of the H Shares or ADSs, you will recognize a capital gain or loss for United States federal income tax purposes in an amount equal to the difference between the U.S. dollar value of the amount realized and your tax basis, determined in U.S. dollars, in such H Shares or ADSs. Any gain or loss will generally be United States source gain or loss for foreign tax credit limitation purposes. Capital gain of certain non-corporate U.S. holders, including individuals, is generally taxed at a reduced rate where the property has been held more than one year. Your ability to deduct capital losses is subject to limitations. If any

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PRC tax is withheld from your gain on a disposition of H Shares or ADSs, such tax would only be creditable against your United States federal income tax liability to the extent that you have foreign source income. However, in the event that such PRC tax is withheld, a U.S. holder that is eligible for the benefits of the Treaty may be able to treat the gain as foreign source income for foreign tax credit satisfaction purposes. You are urged to consult your tax advisors regarding the United States federal income tax consequences if PRC tax is withheld from your gain on the sale or other disposition of H Shares or ADSs, including the availability of a foreign tax credit under your particular circumstances.

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

PFIC Rules

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

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

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

We believe that we did not meet either of the PFIC tests in the taxable year that ended December 31, 2011 and believe that we will not meet either of the PFIC tests in current or subsequent taxable years and therefore will not be treated as a PFIC for such periods. However, there can be no assurance that we will not be a PFIC in the current or subsequent taxable years.

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

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

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

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

Backup Withholding and Information Reporting

In general, information reporting requirements will apply to dividends in respect of the H Shares or ADSs or the proceeds of the sale, exchange, or redemption of the H Shares or ADSs paid within the United States, and in some cases, outside of the United States, other than to various exempt recipients, including corporations. In addition, you may, under some circumstances, be subject to backup withholding with respect to dividends paid on the H Shares or ADSs or the proceeds of any sale, exchange or transfer of the H Shares or ADSs, unless you

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

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

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

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

Documents on Display

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

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

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

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

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

Interest Rate Risk

Our interest risk exposure arises from changing interest rates. The tables below provide information about our financial instruments including various debt obligations that are sensitive to changes in interest rates. The tables present principal cash flows and related weighted-average interest rates at expected maturity dates. Weighted-average variable rates are based on effective rates as of December 31, 2009, 2010 and 2011. The information is presented in Renminbi equivalents, our reporting currency.

Foreign Exchange Rate Risk

We conduct our business primarily in Renminbi. However, a portion of our RMB revenues are converted into other currencies to meet foreign currency financial instrument obligations and to pay for imported equipment, crude oil and other materials. Foreign currency payments for imported equipment represented 5.0%, 7.3% and 2.5% of our total payments for equipment in 2009, 2010 and 2011, respectively. Foreign currency payments for other imported materials represented 1.4%, 1.0% and 0.83% of our total payments for materials in 2009, 2010 and 2011, respectively.

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

The tables below provide information about our financial instruments including foreign currency denominated debt instruments that are sensitive to foreign currency exchange rates. The tables below summarize such information by presenting principal cash flows and related weighted-average interest rates at expected maturity dates in RMB equivalents, using the exchange rates in effect as of December 31, 2009, 2010 and 2011, respectively.

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December 31, 2011

	Expected Maturity Date							Percentage to Total	
	2012	2013	2014	2015	2016	Thereafter	Total	Long-Term Debt	Fair Value
	(RMB equivalent in millions, except percentages)								
Long term debt									
Loans in RMB									
Fixed Rate Loan Amount	4	29	40,005	20,006	13,080	4	73,128	33.46%	72,215
Average interest rate	4.52%	4.73%	5.26%	4.05%	4.25%	4.35%			
Variable Rate Loan Amount	5,183	6,566	7,031	4	4	6,006	24,794	11.34%	24,794
Average interest rate	5.13%	4.55%	5.74%	2.55%	2.55%	5.44%			
Loans in Euros									
Fixed Rate Loan Amount	37	34	33	33	23	63	223	0.10%	222
Average interest rate	2.61%	2.64%	2.64%	2.64%	2.11%	0.87%			
Variable Rate Loan Amount									
Average interest rate									
Loans in United States Dollars									
Fixed Rate Loan Amount	33	35	35	649	35	320	1,107	0.51%	1,180
Average interest rate	1.48%	1.43%	1.43%	4.32%	1.43%	1.77%			
Variable Rate Loan Amount	2,592	3,321	8,512	1,260	252	2,481	18,418	8.43%	18,419
Average interest rate	2.83%	2.47%	2.38%	2.53%	3.58%	0.89%			
Loans in Japanese Yen									
Fixed Rate Loan Amount	22	22	23	22	22	82	193	0.09%	209
Average interest rate	2.46%	2.46%	2.46%	2.46%	2.46%	2.42%			
Variable Rate Loan Amount									
Average interest rate									
Debentures in Canadian Dollar									
Fixed Rate Loan Amount									
Average interest rate									
Variable Rate Loan Amount		2,936					2,936	1.34%	2,936
Average interest rate		1.79%							
Debentures in United States Dollar									
Fixed Rate Loan Amount						247	247	0.11%	241
Average interest rate									
Debentures in RMB									
Fixed Rate Loan Amount		1,500					1,500	0.69%	1,476
Average interest rate		4.11%							
Medium term note in RMB									
Fixed Rate Loan Amount	30,000		15,000	40,000		11,000	96,000	43.93%	93,637
Average interest rate	2.49%		3.35%	3.97%		4.60%			
Total	37,871	14,443	70,639	61,974	13,416	20,203	218,546	100.00%	215,329

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December 31, 2010

	Expected Maturity Date							Percentage to Total Long-Term Debt	Fair Value
	2011	2012	2013	2014	2015	Thereafter	Total		
	(RMB equivalent in millions, except percentages)								
Long term debt									
Loans in RMB									
Fixed Rate Loan Amount	8	5,555	771	6	6	84	6,430	4.71%	6,190
Average interest rate	3.54%	4.32%	4.37%	2.55%	4.04%	2.55%			
Variable Rate Loan Amount	101	204	5,155	11	7	6,054	11,532	8.45%	11,532
Average interest rate	5.42%	4.69%	4.32%	5.06%	2.55%	4.75%			
Loans in Euros									
Fixed Rate Loan Amount	42	38	29	25	25	128	287	0.21%	51
Average interest rate	1.33%	1.17%	1.19%	1.36%	1.34%	1.42%			
Variable Rate Loan Amount									
Average interest rate									
Loans in United States Dollars									
Fixed Rate Loan Amount	35	36	36	36	857	333	1,333	0.98%	1,283
Average interest rate	1.48%	1.43%	1.43%	1.43%	4.20%	1.36%			
Variable Rate Loan Amount	2,719	1,201	539	6,626		2,646	13,731	10.06%	13,730
Average interest rate	1.10%	2.73%	1.65%	1.31%		1.01%			
Loans in Japanese Yen									
Fixed Rate Loan Amount	22	22	22	22	22	105	215	0.16%	
Average interest rate	2.46%	2.46%	2.46%	2.46%	2.46%	2.43%			
Variable Rate Loan Amount									
Average interest rate									
Debentures in Canadian Dollar									
Fixed Rate Loan Amount									
Average interest rate									
Variable Rate Loan Amount			2,977				2,977	2.18%	2,977
Average interest rate			2.08%						
Debentures in United States Dollar									
Fixed Rate Loan Amount	166					274	440	0.32%	426
Average interest rate	9.50%					3.00%			
Debentures in RMB									
Fixed Rate Loan Amount	2,000		1,500				3,500	2.57%	3,516
Average interest rate	3.76%		4.11%						
Medium term note in RMB									
Fixed Rate Loan Amount		30,000		15,000	40,000	11,000	96,000	70.36%	94,237
Average interest rate		2.49%		3.35%	3.97%	4.60%			
Total	5,093	37,056	11,029	21,726	40,917	20,624	136,445	100.00%	133,942

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December 31, 2009

	Expected Maturity Date							Percentage to Total	
	2010	2011	2012	2013	2014	Thereafter	Total	Long-Term Debt	Fair Value
	(RMB equivalent in millions, except percentages)								
Long term debt									
Loans in RMB									
Fixed Rate Loan Amount	233	221	5,560			26	6,040	6.06%	5,824
Average interest rate	4.64%	4.78%	4.32%			2.91%			
Variable Rate Loan Amount	11,306	135	68	33	552	6,045	18,139	18.19%	18,139
Average interest rate	4.90%	5.38%	5.33%	5.40%	6.03%	3.70%			
Loans in Euros									
Fixed Rate Loan Amount	16	16	16	16	15	113	192	0.19%	65
Average interest rate	2.12%	2.12%	2.12%	2.12%	2.12%	2.11%			
Variable Rate Loan Amount									
Average interest rate									
Loans in United States Dollars									
Fixed Rate Loan Amount	37	37	37	37	37	1,225	1,410	1.41%	1,517
Average interest rate	1.43%	1.43%	1.43%	1.43%	1.43%	5.95%			
Variable Rate Loan Amount	2,456	9,632	1,580	83	8,287	2,735	24,733	24.85%	24,733
Average interest rate	1.00%	1.95%	2.54%	1.91%	1.80%	1.72%			
Loans in Japanese Yen									
Fixed Rate Loan Amount	10						10	0.01%	10
Average interest rate	2.42%								
Variable Rate Loan Amount									
Average interest rate									
Debentures in United States Dollar									
Fixed Rate Loan Amount	171	171				294	636	0.64%	630
Average interest rate	9.50%	9.50%				3.00%			
Debentures in RMB									
Fixed Rate Loan Amount		2,000		1,500			3,500	3.51%	3,516
Average interest rate		3.76%		4.11%					
Medium term note in RMB									
Fixed Rate Loan Amount			30,000		15,000		45,000	45.14%	43,587
Average interest rate			2.49%		3.35%				
Total	14,229	12,212	37,261	1,669	23,891	10,438	99,700	100.00%	98,061

Commodity Price Risk

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

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ITEM 12 *DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES*

Fees paid by our ADS holders

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

Persons Depositing or Withdrawing Shares Must Pay:	For:
$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)	Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property
	Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
$0.02 (or less) per ADS	Any cash distribution to ADS registered holders
A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs	Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADS registered holders
Registration or transfer fees	Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares
Expenses of the depositary	Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)
	Converting foreign currency to U.S. dollars
Taxes and other governmental charges the depositary or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes	As necessary
Any charges incurred by the depositary or its agents for servicing the deposited securities	As necessary

Fees and Payments from the Depositary to Us

From January 1, 2011 to December 31, 2011, we received from the depositary a reimbursement of US$156,814.47, net of withholding tax, for our continuing annual stock exchange listing fees and our expenses incurred in connection with investor relationship programs. In addition, the depositary has agreed to reimburse us certain amount per year of the facility, including but not limited to, investor relations expenses or any other American depositary receipts program related expenses. The amount of such reimbursements is subject to certain limits.

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PART II

ITEM 13 *DEFAULTS, DIVIDENDS ARREARAGES AND DELINQUENCIES*

None.

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

None.

ITEM 15 *CONTROLS AND PROCEDURES*

Evaluation of the Management on Disclosure Controls and Procedures

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

Management s Report on Internal Control over Financial Reporting

Our company s management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our company s management, including our principal executive officer and principal financial officer, our company evaluated the effectiveness of the its internal control over financial reporting based on criteria established in the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our company s management has concluded that its internal control over financial reporting was effective as of December 31, 2011.

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

The effectiveness of our company s internal control over financial reporting as of December 31, 2011 has been audited by PricewaterhouseCoopers (Certified Public Accountants, Hong Kong), our company s independent registered public accountants, as stated in its report attached hereto.

Changes in Internal Control over Financial Reporting

During the year ended December 31, 2011, there were no changes in the company s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our company s internal control over financial reporting.

ITEM 16A *AUDIT COMMITTEE FINANCIAL EXPERT*

Our audit committee is composed of three non-executive independent directors, Messrs. Franco Bernabè, Mr. Cui Junhui, and Mr. Chen Zhiwu, and one non-executive director, Mr. Wang Guoliang. See Item 6 Directors, Senior Management and Employees Board Practices Audit Committee . Mr. Cui Junhui, our non-executive independent director has been confirmed as a financial expert, as defined in Item 16A of Form 20-F.

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ITEM 16B ***CODE OF ETHICS***

We have adopted a Code of Ethics that applies to our Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, other executives and senior officers and a separate Code of Ethics that applies to all of our employees.

These two Codes of Ethics are also posted on our website, *www.petrochina.com.cn,* and may be accessed as follows:

1. From our main web page, first click on Investor Relations .

2. Next, click on Corporate Governance Structure .

3. Finally, click on Code of Ethics for Senior Management or Code of Ethics for Employees of PetroChina Company Limited .

ITEM 16C ***PRINCIPAL ACCOUNTANT FEES AND SERVICES***

PricewaterhouseCoopers (Certified Public Accountants, Hong Kong) has served as PetroChina s independent registered public accountants for each of the fiscal years in the three-year period ended December 31, 2011, for which audited financial statements appear in this annual report on Form 20-F. The auditors are elected annually at the annual general meeting of PetroChina.

The offices of PricewaterhouseCoopers (Certified Public Accountants, Hong Kong) are located at Prince s Building, 22nd Floor, Central, Hong Kong.

The following table presents the aggregate fees for professional audit services and other services rendered by PricewaterhouseCoopers (Certified Public Accountants, Hong Kong) to PetroChina for each of the years ended December 31, 2010 and 2011.

	December 31,	
	2010	**2011**
	RMB	**RMB**
	(In millions)	
Audit fees	74	70
Audit-related fees		
Tax fees		
All other fees		
Total	74	70

Audit fees consist of fees billed for the annual audit services and other audit services, which are those services that only the external auditor reasonably can provide, and include the group audit, statutory audits, and assistance with and review of documents filed with SEC.

Tax fees include fees billed for tax compliance services and the aggregate fees are less than RMB1 million for each of years ended December 31, 2010 and 2011.

Audit Committee Pre-approved Policies and Procedures

Currently, all audit services to be provided by our independent registered public accountants, PricewaterhouseCoopers (Certified Public Accountants, Hong Kong), must be approved by our audit committee.

During 2011, services relating to all non-audit-related fees provided to us by PricewaterhouseCoopers (Certified Public Accountants, Hong Kong) were approved by our audit committee in accordance with the *de minimis* exception to the pre-approval requirement provided by paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

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ITEM 16D *EXEMPTIONS FROM LISTING STANDARDS FOR AUDIT COMMITTEES*

We rely on an exemption contained in paragraph (b)(1)(iv)(D) of Rule 10A-3 under the Securities and Exchange Act of 1934, as amended, from the New York Stock Exchange listing requirement that each member of the audit committee of a listed issuer must be independent. Our single non-independent audit committee member, who is a representative of CNPC, has only observer status on the audit committee of our board of directors and is not an executive officer of our company, which qualifies us for the exemption from the independence requirements available under paragraph (b)(1)(iv)(D) of Rule 10A-3. See Item 6 Directors, Senior Management and Employees Board Practice Audit Committee. We believe our reliance on this exemption does not have any adverse effect on the ability of our audit committee to act independently.

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

Not applicable.

ITEM 16F *CHANGE IN REGISTRANT S CERTIFYING ACCOUNTANT*

None.

ITEM 16G *CORPORATE GOVERNANCE*

We are incorporated under the laws of the People s Republic of China, or the PRC, with A Shares publicly traded on the Shanghai Stock Exchange, or the SSE, and H Shares publicly traded on the Hong Kong Stock Exchange, or the HKSE, and American Deposit Shares representing H Shares on the NYSE. As a result, our corporate governance framework is subject to the mandatory provisions of the PRC Company Law and the Corporate Governance Rules as well as the securities laws, regulations and the listing rules of Hong Kong and the United States.

The following discussion summarizes the significant differences between our corporate governance practices and those that would apply to a U.S. domestic issuer under the NYSE corporate governance rules.

Director Independence

Under the NYSE corporate governance rule 303A.01, a listed company must have a majority of independent directors on its board of directors. A company of which more than 50% of the voting power is held by an individual, a group or another company, or a controlled company, is not required to comply with this requirement. We are not required under the PRC Company Law and the HKSE Listing Rules to have a majority of independent directors on our board of directors. As of December 31, 2011, five of our thirteen directors were independent non-executive directors.

Under the NYSE corporate governance rule 303A.03, the non-management directors of a listed company must meet at regularly scheduled executive sessions without management. There are no mandatory requirements under the PRC Company Law and the HKSE Listing Rules that a listed company should hold, and we currently do not hold, such executive sessions.

Nominating/Corporate Governance Committee

Under the NYSE corporate governance rule 303A.04, a listed company must have a nominating/corporate governance committee composed entirely of independent directors, with a written charter that covers certain minimum specified duties, but a controlled company is not required to comply with this requirement. The Corporate Governance Code recently amended by the Stock Exchange of Hong Kong provides that issuers shall establish a nominating committee, and a majority of which should be independent non-executive directors and

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the chairman shall be served by an independent non-executive director or the board chairman. We are not required under the PRC Company Law and the HKSE Listing Rules to have, and we do not currently have, a nominating/corporate governance committee.

Compensation Committee

Under the NYSE corporate governance rule 303A.05, a listed company must have a compensation committee composed entirely of independent directors, with a written charter that covers certain minimum specified duties. A controlled company is not required to comply with this requirement. We are not required under the PRC Company Law to have a compensation committee. Under the Corporate Governance Code of the HKSE Listing Rules, a listed company must have a remuneration committee composed of a majority of independent non-executive directors, with a written terms of references that covers certain minimum specified duties.

We currently do not have a compensation committee composed entirely of independent directors. However, we have an evaluation and remuneration committee including a majority of independent non-executive directors.

Corporate Governance Guidelines

Under the NYSE corporate governance rule 303A.09, a listed company must adopt and disclose corporate governance guidelines that cover certain minimum specified subjects. We are not required under the PRC Company Law and the HKSE Listing Rules to have, and we do not currently have, formal corporate governance guidelines.

However, we have the Articles of Association, the Rules and Procedures of Board of Directors and the Trial Implementation Rules for Compensation of Senior Management that address the following subjects:

- director qualification standards and responsibilities;
- key board committee responsibilities;
- director compensation; and
- director orientation and continuing education.

In addition, under the HKSE Listing Rules, we are expected to comply with, but may choose to deviate from, certain code provisions in the Corporate Governance Code of the Listing Rules which sets forth the principles and standards of corporate governance for listed companies. Pursuant to the HKSE Listing Rules, if we choose to deviate from any code provisions of the Corporate Governance Code, we must disclose such deviations in our annual report.

In 2009, we formulated the Administrative Measures on Independent Directors, the Administrative Rules on Holding of Company Shares by Directors, Supervisors and Senior Management, the Administrative Measures on Investor s Relationship and the rules and procedures of the Audit Committee, the Performance Review and Compensation Committee, the Investment and Development Committee, and the Safety and Environmental Protection Committee. All these policies have further enhanced our corporate governance system and can ensure the better performance of duties of directors, supervisors, senior managers and committee members.

In 2010, we adopted the revised Regulations of PetroChina Company Limited on Disclosure of Information and formulated the Rules and Regulations of PetroChina Company Limited on the Registration of Holders of Insider Information.

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Code of Business Conduct and Ethics

Under the NYSE corporate governance rule 303A.10, a listed company must adopt and disclose its code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. We adopted our code of business conduct and ethics for senior management on March 23, 2004 and have disclosed the content of this code on our website and in the annual report on Form 20-F for the fiscal year ended December 31, 2003. In addition, we adopted our code of business conduct and ethics for employees on March 2, 2005 and have disclosed the content of this code on our website. We are not required under the PRC Company Law and the HKSE Listing Rules to have, and we do not currently have, a code of business conduct and ethics for directors. However, pursuant to the HKSE Listing Rules, all of our directors must comply with the Model Code for Securities Transactions by Directors of Listed Companies (the Model Code) as set out in the Listing Rules. The Model Code sets forth required standards with which the directors of a listed company must comply in securities transactions of the listed company.

Certification Requirements

Under the NYSE corporate governance rule 303A.12(a), each listed company CEO must certify to the NYSE each year that he or she is not aware of any violation by the company of NYSE corporate governance listing standards. Our CEO is not required under the PRC Company Law and the HKSE Listing Rules to submit, and our CEO does not currently submit, such certification.

ITEM 16H ***MINE SAFETY DISCLOSURE***

Not applicable.

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PART III

ITEM 17 *FINANCIAL STATEMENTS*

We have elected to provide the financial statements and related information specified in Item 18 in lieu of Item 17.

ITEM 18 *FINANCIAL STATEMENTS*

See page F-1 to F-53 following Item 19.

ITEM 19 *EXHIBITS*

(a) See Item 18 for a list of the financial statements as part of this annual report.

(b) Exhibits to this annual report.

Exhibit Number	Description of Exhibits
1.1	Articles of Association (as amended) (English translation)(3)
1.2	Articles of Association (as amended on May 15, 2008) (English translation)(3)
4.1	Form of Non-competition Agreement between CNPC and PetroChina (together with English translation)(1)
4.2	Form of Comprehensive Products and Services Agreement between CNPC and PetroChina (together with English translation)(1)
4.3	Form of Land Use Rights Leasing Contract between CNPC and PetroChina (together with English translation)(1)
4.4	Form of Buildings Leasing Contract between CNPC and PetroChina (together with English translation)(1)
4.5	Form of Trademark Licensing Contract between CNPC and PetroChina (together with English translation)(1)
4.6	Form of Patent and Know-how Licensing Contract between CNPC and PetroChina (together with English translation)(1)
4.7	Form of Computer Software Licensing Contract between CNPC and PetroChina (together with English translation)(1)
4.8	Form of Contract for Transfer of Rights under Production Sharing Contracts between CNPC and PetroChina (together with English translation)(1)
4.9	Form of Guarantee of Debts Contract between CNPC and PetroChina (together with English translation)(1)
4.10	Form of Contract for the Supervision of Certain Sales Enterprises between CNPC and PetroChina (together with English translation)(1)
4.11	Form of Agreement for Transfer of Rights and Interests under the Crude Oil Premium and Discount Calculation Agreement between China Petrochemical Corporation, CNPC and PetroChina (together with English translation)(1)

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Exhibit Number	Description of Exhibits
4.12	Form of Agreement for the Transfer of Rights and Interests under the Retainer Contracts relating to Oil Exploration and Exploitation in Lengjiapu Area, Liaohe Oil Region and No. 9.1-9.5 Areas, Karamay Oil Field (together with English translation)(1)
4.13	Annual Crude Oil Mutual Supply Framework Agreement, dated December 2012, between China Petroleum and Chemical Corporation and PetroChina (English translation)
4.14	Supplemental Agreement to the Land Use Rights Leasing Contract, dated August 25, 2011, between CNPC and PetroChina (English translation)
4.15	Amended Buildings Leasing Contract, dated August 25, 2011, between CNPC and PetroChina (English translation)
4.16	Equity Transfer Agreement, dated October 27, 2011, among PetroChina, CNPC Exploration and Development Company Limited and CNPC Central Asia Petroleum Company Limited (English translation)
4.17	Equity Transfer Agreement, dated August 25, 2011 between the Company and CNPC in respect of the Disposal by PetroChina of Northeast Engineering Company to CNPC (English translation)
8.1	List of major subsidiaries
11.1	Code of Ethics for Senior Management(2)
11.2	Code of Ethics for Employees(2)
12.1	Certification of Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002
12.2	Certification of Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002
13.1	Certification of Chief Executive Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2	Certification of Chief Financial Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1	Reserve Report for the year ended on December 31, 2011 prepared by DeGolyer and MacNaughton
15.2	Reserve Report for the year ended on December 31, 2011 prepared by Gaffney, Cline & Associates (Consultants) Pte Ltd.

(1) Incorporated by reference to our Registration Statement on Form F-1 (File No. 333-11566) filed with the Commission, as declared effective on March 29, 2000.
(2) Incorporated by reference to our annual report on Form 20-F for the fiscal year ended December 31, 2004 (File No. 1-15006) filed with the Commission.
(3) Incorporated by reference to our annual report on Form 20-F for the fiscal year ended December 31, 2007 (File No. 1-15006) filed with the Commission.

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SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

PETROCHINA COMPANY LIMITED

/s/ Li Hualin
Name: Li Hualin
Title: Secretary to Board of Directors

Date: April 26, 2012

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of PetroChina Company Limited:

In our opinion, the accompanying consolidated statement of financial position and the related consolidated statement of comprehensive income, of changes in equity and of cash flows (consolidated financial statements) present fairly, in all material respects, the financial position of PetroChina Company Limited (the company) and its subsidiaries (collectively referred to as the Group) at December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the Management s Report on Internal Control Over Financial Reporting appearing under item 15. Our responsibility is to express opinions on these financial statements and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

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

/s/ PricewaterhouseCoopers

Hong Kong, April 26, 2012

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PETROCHINA COMPANY LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2011, 2010 and 2009

	Notes	2011 RMB	2010 RMB (Amounts in millions)	2009 RMB
TURNOVER	6	2,003,843	1,465,415	1,019,275
OPERATING EXPENSES				
Purchases, services and other		(1,227,533)	(795,525)	(492,472)
Employee compensation costs	8	(97,162)	(83,304)	(65,977)
Exploration expenses, including exploratory dry holes		(23,908)	(22,963)	(19,398)
Depreciation, depletion and amortisation		(138,073)	(113,209)	(92,259)
Selling, general and administrative expenses		(69,969)	(74,239)	(65,423)
Taxes other than income taxes	9	(266,343)	(184,209)	(135,465)
Other income/ (expenses), net		1,606	(4,189)	(4,837)
TOTAL OPERATING EXPENSES		(1,821,382)	(1,277,638)	(875,831)
PROFIT FROM OPERATIONS		182,461	187,777	143,444
FINANCE COSTS				
Exchange gain		2,662	1,685	552
Exchange loss		(3,598)	(2,857)	(1,335)
Interest income		2,674	1,983	1,459
Interest expense	10	(10,886)	(6,321)	(5,272)
TOTAL NET FINANCE COSTS		(9,148)	(5,510)	(4,596)
SHARE OF PROFIT OF ASSOCIATES AND JOINTLY CONTROLLED ENTITIES	17	10,902	7,038	1,184
PROFIT BEFORE INCOME TAX EXPENSE	7	184,215	189,305	140,032
INCOME TAX EXPENSE	12	(38,256)	(38,513)	(33,473)
PROFIT FOR THE YEAR		145,959	150,792	106,559
OTHER COMPREHENSIVE INCOME				
Currency translation differences		(5,408)	2,687	(3,500)
Fair value (loss)/ gain from available-for-sale financial assets		(15)	114	191
Income tax relating to components of other comprehensive (loss)/ income		17	(5)	(38)
OTHER COMPREHENSIVE (LOSS)/ INCOME, NET OF TAX		(5,406)	2,796	(3,347)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		140,553	153,588	103,212
PROFIT FOR THE YEAR ATTRIBUTABLE TO:				
Owners of the Company		132,961	139,992	103,387
Non-controlling interests		12,998	10,800	3,172

		145,959	150,792	106,559
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:				
Owners of the Company		129,055	143,186	102,067
Non-controlling interests		11,498	10,402	1,145
		140,553	153,588	103,212
BASIC AND DILUTED EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY (RMB)	14	0.73	0.76	0.56

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

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PETROCHINA COMPANY LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2011 and 2010

	Notes	2011 RMB	2010 RMB
		(Amounts in millions)	
NON-CURRENT ASSETS			
Property, plant and equipment	16	1,372,007	1,238,599
Investments in associates and jointly controlled entities	17	70,739	64,137
Available-for-sale financial assets	18	1,832	1,979
Advance operating lease payments	20	48,229	36,155
Intangible and other non-current assets	21	38,854	25,453
Deferred tax assets	31	505	284
Time deposits with maturities over one year		2,709	3,488
TOTAL NON-CURRENT ASSETS		1,534,875	1,370,095
CURRENT ASSETS			
Inventories	22	182,253	134,888
Accounts receivable	23	53,822	45,005
Prepaid expenses and other current assets	24	72,358	51,822
Notes receivable	25	12,688	5,955
Time deposits with maturities over three months but within one year		418	3,013
Cash and cash equivalents	26	61,172	45,709
TOTAL CURRENT ASSETS		382,711	286,392
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	27	302,600	270,191
Income taxes payable		18,310	22,169
Other taxes payable		101,430	35,108
Short-term borrowings	28	137,698	102,268
TOTAL CURRENT LIABILITIES		560,038	429,736
NET CURRENT LIABILITIES		(177,327)	(143,344)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,357,548	1,226,751
EQUITY			
Equity attributable to owners of the Company:			
Share capital	29	183,021	183,021
Retained earnings		556,717	499,288
Reserves	30	263,007	256,617
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		1,002,745	938,926
Non-controlling interests		79,801	71,203
TOTAL EQUITY		1,082,546	1,010,129

NON-CURRENT LIABILITIES			
Long-term borrowings	28	180,675	131,352
Asset retirement obligations	32	68,702	60,364
Deferred tax liabilities	31	20,749	21,515
Other long-term obligations		4,876	3,391
TOTAL NON-CURRENT LIABILITIES		275,002	216,622
TOTAL EQUITY AND NON-CURRENT LIABILITIES		1,357,548	1,226,751

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

Chairman	Vice Chairman and President	Chief Financial Officer
Jiang Jiemin	Zhou Jiping	Zhou Mingchun

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PETROCHINA COMPANY LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2011, 2010 and 2009

	2011 RMB	2010 RMB	2009 RMB
		(Amounts in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year	145,959	150,792	106,559
Adjustments for:			
Income tax expense	38,256	38,513	33,473
Depreciation, depletion and amortisation	138,073	113,209	92,259
Capitalised exploratory costs charged to expense	12,302	10,714	10,019
Share of profit of associates and jointly controlled entities	(10,902)	(7,038)	(1,184)
Reversal of provision for impairment of receivables, net	(137)	(174)	(123)
Write down in inventories, net	478	197	354
Impairment of available-for-sale financial assets		4	2
Impairment of investments in associates and jointly controlled entities			8
Loss on disposal of property, plant and equipment	3,047	2,822	1,642
Loss/ (gain) on disposal of intangible and other assets	67	(6)	10
Loss/(gain) on disposal of investments in associates and jointly controlled entities	3	3	(33)
Gain on disposal of available-for-sale financial assets	(8)	(8)	(4)
Loss/(gain) on disposal of subsidiaries	20	23	(22)
Dividend income	(213)	(165)	(177)
Interest income	(2,674)	(1,983)	(1,459)
Interest expense	10,886	6,321	5,272
Changes in working capital:			
Accounts receivable and prepaid expenses and other current assets	(36,793)	(10,105)	16,240
Inventories	(39,942)	(20,004)	(20,044)
Accounts payable and accrued liabilities	78,112	61,850	41,637
CASH FLOWS GENERATED FROM OPERATIONS	336,534	344,965	284,429
Income taxes paid	(46,379)	(26,169)	(16,412)
NET CASH FLOWS FROM OPERATING ACTIVITIES	290,155	318,796	268,017

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

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PETROCHINA COMPANY LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

For the Year Ended December 31, 2011, 2010 and 2009

	2011 RMB	2010 RMB	2009 RMB
		(Amounts in millions)	
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(267,975)	(259,120)	(257,562)
Acquisition of investments in associates and jointly controlled entities	(5,931)	(32,052)	(1,487)
Acquisition of available-for-sale financial assets	(77)	(73)	(111)
Advance payments on long-term operating leases	(14,914)	(8,110)	(6,045)
Acquisition of intangible assets and other non-current assets	(5,568)	(5,062)	(3,505)
Purchase of non-controlling interests	(713)	(411)	(533)
Acquisition of subsidiaries	(2,995)	(1,389)	(16,451)
Proceeds from disposal of property, plant and equipment	802	722	4,053
Proceeds from disposal of investments in associates and jointly controlled entities	45	136	139
Proceeds from disposal of subsidiaries	356	2,082	60
Proceeds from disposal of available-for-sale financial assets	21	76	136
Proceeds from disposal of intangible and other non-current assets	35	127	26
Interest received	2,526	1,938	1,425
Dividends received	7,532	7,065	783
Decrease/ (increase) in time deposits with maturities over three months	3,218	(5,231)	11,574
NET CASH FLOWS USED FOR INVESTING ACTIVITIES	(283,638)	(299,302)	(267,498)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of short-term borrowings	(366,561)	(227,677)	(113,212)
Repayments of long-term borrowings	(18,276)	(43,855)	(7,947)
Interest paid	(11,497)	(6,746)	(5,238)
Dividends paid to non-controlling interests	(3,633)	(2,955)	(2,425)
Dividends paid to owners of the Company	(63,300)	(53,198)	(50,092)
Increase in short-term borrowings	369,749	190,194	157,576
Increase in long-term borrowings	101,323	80,828	67,880
Capital contribution from non-controlling interests	2,522	5,118	7,098
Capital reduction of subsidiaries	(1,239)	(2,368)	(671)
Increase/ (decrease) in other long-term obligations	171	(285)	108
NET CASH FLOWS FROM/ (USED FOR) FINANCING ACTIVITIES	9,259	(60,944)	53,077
TRANSLATION OF FOREIGN CURRENCY	(313)	234	179
Increase/ (decrease) in cash and cash equivalents	15,463	(41,216)	53,775
Cash and cash equivalents at beginning of the year	45,709	86,925	33,150
Cash and cash equivalents at end of the year	61,172	45,709	86,925

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

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PETROCHINA COMPANY LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended December 31, 2011, 2010 and 2009

	Attributable to owners of the Company					
	Share Capital RMB	Retained Earnings RMB	Reserves RMB	Subtotal RMB	Non-controlling interests RMB	Total Equity RMB
			(Amounts in millions)			
Balance at January 1, 2009	183,021	378,473	229,416	790,910	56,930	847,840
Total comprehensive income/(loss) for the year ended December 31, 2009		103,387	(1,320)	102,067	1,145	103,212
Special Reserve-Safety Fund Reserve		2,280	1,325	3,605	3	3,608
Transfer to reserves		(9,981)	9,981			
Dividends		(50,092)		(50,092)	(2,358)	(52,450)
Acquisition of subsidiaries			(248)	(248)	590	342
Purchase of non-controlling interests in subsidiaries			(179)	(179)	(354)	(533)
Capital contribution from non-controlling interests			1,158	1,158	5,940	7,098
Capital reduction of a subsidiary					(1,354)	(1,354)
Other			2	2	(64)	(62)
Balance at December 31, 2009	183,021	424,067	240,135	847,223	60,478	907,701
Total comprehensive income for the year ended December 31, 2010		139,992	3,194	143,186	10,402	153,588
Special Reserve-Safety Fund Reserve		1,016	416	1,432	17	1,449
Transfer to reserves		(13,190)	13,190			
Dividends		(53,198)		(53,198)	(2,995)	(56,193)
Acquisition of subsidiaries			(572)	(572)	967	395
Purchase of non-controlling interests in subsidiaries			(87)	(87)	(324)	(411)
Capital contribution from non-controlling interests			3	3	5,115	5,118
Capital reduction of a subsidiary					(2,368)	(2,368)
Disposal of subsidiaries					(47)	(47)
Other		601	338	939	(42)	897
Balance at December 31, 2010	183,021	499,288	256,617	938,926	71,203	1,010,129
Total comprehensive income/ (loss) for the year ended December 31, 2011		132,961	(3,906)	129,055	11,498	140,553
Special Reserve-Safety Fund Reserve		416	616	1,032	(6)	1,026
Transfer to reserves		(12,643)	12,643			
Dividends		(63,300)		(63,300)	(5,894)	(69,194)
Acquisition of subsidiaries					166	166
Transaction with non-controlling interests in subsidiaries (Note 19)			(2,904)	(2,904)	(1,134)	(4,038)
Capital contribution from non-controlling interests					5,280	5,280
Capital reduction of a subsidiary					(1,239)	(1,239)
Disposal of subsidiaries					(43)	(43)
Other		(5)	(59)	(64)	(30)	(94)
Balance at December 31, 2011	183,021	556,717	263,007	1,002,745	79,801	1,082,546

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

PETROCHINA COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in millions unless otherwise stated)

1 ORGANISATION AND PRINCIPAL ACTIVITIES

PetroChina Company Limited (the Company) was established as a joint stock company with limited liability on November 5, 1999 by China National Petroleum Corporation (CNPC) as the sole proprietor in accordance with the approval Guo Jing Mao Qi Gai [1999] No. 1024 Reply on the approval of the establishment of PetroChina Company Limited from the former State Economic and Trade Commission of the People s Republic of China (China or PRC). CNPC restructured (the Restructuring) and injected its core business and the related assets and liabilities into the Company. CNPC is a wholly state-owned company registered in China. The Company and its subsidiaries are collectively referred to as the Group .

The Group is principally engaged in (i) the exploration, development and production and marketing of crude oil and natural gas; (ii) the refining of crude oil and petroleum products, production and marketing of primary petrochemical products, derivative petrochemical products and other chemical products; (iii) the marketing of refined products and trading business; and (iv) the transmission of natural gas, crude oil and refined products and the sale of natural gas (Note 38).

2 BASIS OF PREPARATION

The consolidated financial statements and the statement of financial position of the Company have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). The consolidated financial statements and the statement of financial position of the Company have been prepared under the historical cost convention except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of financial position and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management s best knowledge of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

(a) Basis of consolidation

Subsidiaries are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has the power to govern the financial and operating policies.

A subsidiary is consolidated from the date on which control is transferred to the Group and is no longer consolidated from the date that control ceases. The acquisition method of accounting is used to account for the acquisition of subsidiaries except for business combinations under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interests in the acquiree either at fair value or at the non-controlling interests proportionate share of the acquiree s net assets.

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PETROCHINA COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in millions unless otherwise stated)

The excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

An acquisition of a business which is a business combination under common control is accounted for in a manner similar to a uniting of interests whereby the assets and liabilities acquired are accounted for at carryover predecessor values to the other party to the business combination with all periods presented as if the operations of the Group and the business acquired have always been combined. The difference between the consideration paid by the Group and the net assets or liabilities of the business acquired is adjusted against equity.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

For purpose of the presentation of the Company s statement of financial position, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

A listing of the Group s principal subsidiaries is set out in Note 19.

(b) Investments in associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting in the consolidated financial statements of the Group and are initially recognised at cost.

Under this method of accounting, the Group s share of the post-acquisition profits or losses of associates is recognised in the consolidated profit or loss and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amounts of the investments. When the Group s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group s interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group s investment in associates includes goodwill identified on acquisition, net of any accumulated loss and is tested for impairment as part of the overall balance. Goodwill represents the excess of the cost of an acquisition over the fair value of the Group s share of the net identifiable assets of the acquired associate at the date of acquisition. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

For purposes of the presentation of the Company s statement of financial position, investments in associates are accounted for at cost less impairment.

A listing of the Group s principal associates is shown in Note 17.

PETROCHINA COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in millions unless otherwise stated)

(c) Investments in jointly controlled entities

Jointly controlled entities are those over which the Group has contractual arrangements to jointly share control with one or more parties. The Group s interest in jointly controlled entities is accounted for by the equity method of accounting (Note 3(b)) in the consolidated financial statements.

For purposes of the presentation of the Company s statement of financial position, investments in jointly controlled entities are accounted for at cost less impairment.

A listing of the Group s principal jointly controlled entities is shown in Note 17.

(d) Transactions with non-controlling interests

Transactions with non-controlling interests are treated as transactions with owners in their capacity as owners of the Group. Gains and losses resulting from disposals to non-controlling interests are recorded in equity. The differences between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired resulting from the purchase of non-controlling interests, are recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(e) Foreign currencies

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the functional currency). Most assets and operations of the Group are located in the PRC (Note 38), and the functional currency of the Company and most of the consolidated subsidiaries is the Renminbi (RMB). The consolidated financial statements are presented in the presentation currency of RMB.

Foreign currency transactions of the Group are accounted for at the exchange rates prevailing at the respective dates of the transactions; monetary assets and liabilities denominated in foreign currencies are translated at exchange rates at the date of the statement of financial position; gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities are recognised in the consolidated profit or loss.

For the Group entities that have a functional currency different from the Group s presentation currency, assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the statement of financial position. Income and expenses for each statement of comprehensive income presented are translated at the average exchange rates for each period and the resulting exchange differences are recognised in other comprehensive income.

PETROCHINA COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in millions unless otherwise stated)

(f) Property, plant and equipment

Property, plant and equipment, including oil and gas properties (Note 3(g)), are initially recorded in the consolidated statement of financial position at cost where it is probable that they will generate future economic benefits. Cost represents the purchase price of the asset and other costs incurred to bring the asset into existing use. Subsequent to their initial recognition, property, plant and equipment are carried at cost less accumulated depreciation, depletion and amortisation (including any impairment).

Depreciation, to write off the cost of each asset, other than oil and gas properties (Note 3(g)), to their residual values over their estimated useful lives is calculated using the straight-line method.

The Group uses the following useful lives for depreciation purposes:

Buildings	8	40 years
Equipment and Machinery	4	30 years
Motor vehicles	4	14 years
Other	5	12 years

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

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

Property, plant and equipment, including oil and gas properties (Note 3(g)), are reviewed for possible impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of a cash generating unit exceeds the higher of its fair value less costs to sell and its value in use. Value in use is the estimated net present value of future cash flows to be derived from the cash generating unit.

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

Interest and other costs on borrowings to finance the construction of property, plant and equipment are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Costs for repairs and maintenance activities are expensed as incurred except for costs of components that result in improvements or betterments which are capitalised as part of property, plant and equipment and depreciated over their useful lives.

(g) Oil and gas properties

The successful efforts method of accounting is used for oil and gas exploration and production activities. Under this method, all costs for development wells, support equipment and facilities, and proved mineral interests in oil and gas properties are capitalised. Geological and geophysical costs are expensed when incurred. Costs of exploratory wells are capitalised pending determination of whether the wells find proved oil and gas reserves. Proved oil and gas reserves are the estimated quantities of crude oil and natural gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulation before the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether the estimate is a deterministic

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PETROCHINA COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in millions unless otherwise stated)

estimate or probabilistic estimate. Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period before the ending date of the period covered by the proved oil and gas reserve report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period unless prices are defined by contractual arrangements, excluding escalations based upon future conditions. The costs shall be that prevailing at the end of the period.

Exploratory wells in areas not requiring major capital expenditures are evaluated for economic viability within one year of completion of drilling. The related well costs are expensed as dry holes if it is determined that such economic viability is not attained. Otherwise, the related well costs are reclassified to oil and gas properties and are subject to impairment review (Note 3(f)). For exploratory wells that are found to have economically viable reserves in areas where major capital expenditure will be required before production can commence, the related well costs remain capitalised only if additional drilling is underway or firmly planned. Otherwise the related well costs are expensed as dry holes. The Group does not have any significant costs of unproved properties capitalised in oil and gas properties.

The Ministry of Land and Resources in China issues production licenses to applicants on the basis of the reserve reports approved by relevant authorities.

The cost of oil and gas properties is amortised at the field level based on the units of production method. Units of production rates are based on oil and gas reserves estimated to be recoverable from existing facilities based on the current terms of the Group s production licenses.

(h) Intangible assets

Expenditures on acquired patents, trademarks, technical know-how and licenses are capitalised at historical cost and amortised using the straight-line method over their estimated useful lives. Intangible assets are not subsequently revalued. The carrying amount of each intangible asset is reviewed annually and adjusted for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount and is recognised in the consolidated profit or loss. The recoverable amount is measured as the higher of fair value less costs to sell and value in use. Value in use is the estimated net present value of future cash flows to be derived from the asset.

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the amount of any non-controlling interests in the acquiree.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(i) Financial assets

Financial assets are classified into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. The Group has principally loans and receivables and

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available-for-sale financial assets and limited financial assets at fair value through profit or loss. The detailed accounting policies for loans and receivables, available-for-sale financial assets and financial assets at fair value through profit or loss held by the Group are set out below.

Classification

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the date of the statement of financial position, which are classified as non-current assets. The Group s loans and receivables comprise accounts receivable, notes receivable, other receivables, time deposits and cash and cash equivalents. The recognition methods for loans and receivables are disclosed in the respective policy notes.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories; these are included in non-current assets unless management intends to dispose of the investment within 12 months of the date of the statement of financial position. The Group s available-for-sale financial assets primarily comprise unquoted equity instruments.

(iii) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets are measured at fair value except where there are no quoted market prices in active markets and the fair values cannot be reliably measured using valuation techniques. Available-for-sale financial assets that do not have quoted market prices in active markets and whose fair value cannot be reliably measured are carried at cost. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income. Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the income statement within other income/ (expenses), net in the period in which they arise.

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the available-for-sale financial asset and the present value of the estimated cash flows.

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(j) Leases

Leases of property, plant and equipment where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases. The Group has no significant finance leases.

Leases of assets under which a significant portion of the risks and benefits of ownership are effectively retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are expensed on a straight-line basis over the lease terms. Payments made to the PRC s land authorities to secure land use rights are treated as operating leases. Land use rights are generally obtained through advance lump-sum payments and the terms of use range up to 50 years.

(k) Inventories

Inventories include oil products, chemical products and materials and supplies which are stated at the lower of cost and net realisable value. Cost is primarily determined by the weighted average cost method. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads, but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

(l) Accounts receivable

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision made for impairment of these receivables. Such provision for impairment is established if there is objective evidence that the Group will not be able to collect amounts due according to the original terms of the receivables. The factors the Group considers when assessing whether an account receivable is impaired include but are not limited to significant financial difficulties of the customer, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments. The amount of the provision is the difference between the asset s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held with banks and highly liquid investments with original maturities of three months or less from the time of purchase.

(n) Accounts payable

Accounts payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(o) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective interest method. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in the consolidated profit or loss over the period of the borrowings.

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General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Borrowings are classified as current liabilities unless the Group has unconditional rights to defer settlements of the liabilities for at least 12 months after the reporting period.

(p) Taxation

Deferred tax is provided in full, using the liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the date of the statement of financial position and are expected to apply to the period when the related deferred tax asset is realised or deferred tax liability is settled.

The principal temporary differences arise from depreciation on oil and gas properties and equipment and provision for impairment of receivables, inventories, investments and property, plant and equipment. Deferred tax assets relating to the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised.

The Group also incurs various other taxes and levies that are not income taxes. Taxes other than income taxes , which form part of operating expenses, primarily comprise a crude oil special gain levy (Note 9), consumption tax (Note 9), resource tax (Note 9), urban construction tax, education surcharges and business tax.

(q) Revenue recognition

Sales are recognised upon delivery of products and customer acceptance or performance of services, net of value added taxes and discounts. Revenues are recognised only when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods in the ordinary course of the Group s activities, and when the amount of revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably and collectability of the related receivables is reasonably assured.

The Group markets a portion of its natural gas under take-or-pay contracts. Customers under the take-or-pay contracts are required to take or pay for the minimum natural gas deliveries specified in the contract clauses. Revenue recognition for natural gas sales and transmission tariff under the take-or-pay contracts follows the accounting policies described in this note. Payments received from customers for natural gas not yet taken are recorded as deferred revenues until actual deliveries take place.

(r) Provisions

Provisions are recognised when the Group has present legal or constructive obligations as a result of past events, it is probable that an outflow of resources will be required to settle the obligations, and reliable estimates of the amounts can be made.

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Provision for future decommissioning and restoration is recognised in full on the installation of oil and gas properties. The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding addition to the related oil and gas properties of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the costs of the oil and gas properties. Any change in the present value of the estimated expenditure other than due to passage of time which is regarded as interest expense, is reflected as an adjustment to the provision and oil and gas properties.

(s) Research and development

Research expenditure incurred is recognised as an expense. Costs incurred on development projects are recognised as intangible assets to the extent that such expenditure is expected to generate future economic benefits.

(t) Retirement benefit plans

The Group contributes to various employee retirement benefit plans organised by PRC municipal and provincial governments under which it is required to make monthly contributions to these plans at prescribed rates for its employees in China. The relevant PRC municipal and provincial governments undertake to assume the retirement benefit obligations of existing and future retired employees of the Group in China. The Group has similar retirement benefit plans for its employees in its overseas operations. Contributions to these PRC and overseas plans(defined contribution plan) are charged to expense as incurred. In addition, the Group joined the corporate annuity plan approved by relevant PRC authorities. Contribution to the annuity plan is charged to expense as incurred. The Group currently has no additional material obligations outstanding for the payment of retirement and other post-retirement benefits of employees in the PRC or overseas other than what described above.

(u) New accounting developments

(i) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2011:

IAS 24 (Revised), Related Party Disclosures . The Group has applied it from January 1, 2011 (Note 37), and had early adopted the partial exemption in paragraphs 25-27 for government-related entities from January 1, 2009. The revised standard did not have any significant impact on the consolidated financial statements.

(ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following relevant IFRSs, amendments to existing IFRSs and interpretation of IFRS have been published and are mandatory for accounting periods beginning on or after January 1, 2012 or later periods and have not been early adopted by the Group:

IFRS 9, Financial instruments is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity s business

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model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. The Group is currently evaluating the full impact of IFRS 9 and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015.

IFRS 10, Consolidated financial statements builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is currently evaluating the full impact of IFRS 10 and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013.

IFRS 11, Joint arrangements is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group is currently evaluating the full impact of IFRS 11 and intends to adopt IFRS 11 no later than the accounting period beginning on or after 1 January 2013.

IFRS 12, Disclosures of interests in other entities includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is currently evaluating the full impact of IFRS 12 and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.

IFRS 13, Fair value measurement aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently evaluating the full impact of IFRS 13 and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2013.

4 FINANCIAL RISK AND CAPITAL MANAGEMENT

4.1 Financial risk factors

The Group s activities expose it to a variety of financial risks, including market risk, credit risk and liquidity risk.

(a) Market risk

Market risk is the possibility that changes in foreign exchange rates, interest rates and the prices of oil and gas products will adversely affect the value of assets, liabilities and expected future cash flows.

(i) Foreign exchange risk

The Group conducts its domestic business primarily in RMB, but maintains a portion of its assets in other currencies to pay for imported crude oil, imported equipment and other materials and to meet foreign currency financial liabilities. The Group is exposed to currency risks arising from fluctuations in various foreign currency exchange rates against the RMB. The RMB is not a freely convertible currency and is regulated by the PRC government. Limitations on foreign exchange transactions imposed by the PRC government could cause future exchange rates to vary significantly from current or historical exchange rates.

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Additionally, the Group operates internationally and foreign exchange risk arises from future acquisitions and commercial transactions, recognised assets and liabilities and net investments in foreign operations. Certain entities in the Group might use currency derivatives to manage such foreign exchange risk.

(ii) Interest rate risk

The Group has no significant interest rate risk on interest-bearing assets. The Group s exposure to interest rate risk arises from its borrowings. The Group s borrowings at floating rates expose the Group to cash flow interest rate risk and its borrowings at fixed rates expose the Group to fair value interest rate risk. However, the exposure to interest rate risk is not material to the Group. A detailed analysis of the Group s borrowings, together with their respective interest rates and maturity dates, is included in Note 28.

(iii) Price risk

The Group is engaged in a wide range of oil and gas products-related activities. Prices of oil and gas products are affected by a wide range of global and domestic factors which are beyond the control of the Group. The fluctuations in such prices may have favourable or unfavourable impacts on the Group. The Group did not enter into any material hedging of its price risk during the year.

(b) Credit risk

Credit risk arises from cash and cash equivalents, time deposits with banks and credit exposure to customers with outstanding receivable balances.

A substantial portion of the Group s cash at bank and time deposits are placed with the major state-owned banks and financial institutions in China and management believes that the credit risk is low.

The Group performs ongoing assessment of the credit quality of its customers and sets appropriate credit limits taking into account the financial position and past history of defaults of customers. The Group s accounts receivable balances over 3 years have been substantially provided for and accounts receivable balances within one year are generally neither past due nor impaired. The aging analysis of accounts receivable (net of impairment of accounts receivable) is presented in Note 23. The Group s accounts receivable balances that are neither past due nor impaired are with customers with no recent history of default.

The carrying amounts of cash and cash equivalents, time deposits placed with banks, accounts receivable, other receivables and notes receivable included in the consolidated statement of financial position represent the Group s maximum exposure to credit risk. No other financial assets carry a significant exposure to credit risk.

The Group has no significant concentration of credit risk.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities.

In managing its liquidity risk, the Group has access to funding at market rates through equity and debt markets, including using undrawn committed borrowing facilities to meet foreseeable borrowing requirements.

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Given the low level of gearing and continued access to funding, the Group believes that its liquidity risk is not material.

Analysis of the Group s financial liabilities based on the remaining period at the date of the statement of financial position to the contractual maturity dates are presented in Note 28.

4.2 Capital management

The Group s objectives when managing capital are to safeguard its ability to continue as a going concern, optimise returns for owners and to minimise its cost of capital. In meeting its objectives of managing capital, the Group may issue new shares, adjust its debt levels or the mix between short-term and long-term borrowings.

The Group monitors capital on the basis of the gearing ratio which is calculated as interest-bearing borrowings/ (interest-bearing borrowings + total equity). The gearing ratio at December 31, 2011 is 22.7% (December 31, 2010: 18.8%).

4.3 Fair value estimation

The methods and assumptions applied in determining the fair value of each class of financial assets and financial liabilities of the Group at December 31, 2011, 2010 and 2009 are disclosed in the respective accounting policies.

The carrying amounts of the following financial assets and financial liabilities approximate their fair value as all of them are short-term in nature: cash and cash equivalents, time deposits with maturities over three months but within one year, accounts receivable, other receivables, trade payables, other payables and short-term borrowings. The fair values of fixed rate long-term borrowings are likely to be different from their respective carrying amounts. Analysis of the fair values and carrying amounts of long-term borrowings are presented in Note 28.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The matters described below are considered to be the most critical in understanding the estimates and judgements that are involved in preparing the Group s consolidated financial statements.

(a) Estimation of oil and natural gas reserves

Estimates of oil and natural gas reserves are key elements in the Group s investment decision-making process. They are also an important element in testing for impairment. Changes in proved oil and natural gas reserves, particularly proved developed reserves, will affect unit-of-production depreciation, depletion and amortisation recorded in the Group s consolidated financial statements for property, plant and equipment related to oil and gas production activities. A reduction in proved developed reserves will increase depreciation, depletion and amortisation charges. Proved reserve estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms, evolution of technology or development plans, etc.

(b) Estimation of impairment of property, plant and equipment

Property, plant and equipment, including oil and gas properties, are reviewed for possible impairments when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determination as

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to whether and how much an asset is impaired involves management estimates and judgements such as the future price of crude oil, refined and chemical products and the production profile. However, the impairment reviews and calculations are based on assumptions that are consistent with the Group s business plans taking into account current economic conditions. Favourable changes to some assumptions may allow the Group to avoid the need to impair any assets, whereas unfavourable changes may cause the assets to become impaired.

(c) Estimation of asset retirement obligations

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

6 TURNOVER

Turnover represents revenues from the sale of crude oil, natural gas, refined products and petrochemical products and from the transmission of crude oil, refined products and natural gas. Analysis of turnover by segment is shown in Note 38.

7 PROFIT BEFORE INCOME TAX EXPENSE

	2011 RMB	2010 RMB	2009 RMB
Items credited and charged in arriving at the profit before income tax expense include:			
Credited			
Dividend income from available-for-sale financial assets	213	165	177
Reversal of provision for impairment of receivables	164	210	240
Reversal of write down in inventories	127	42	23
Government grants(i)	6,734	1,599	1,097
Charged			
Amortisation of intangible and other assets	2,742	2,318	2,153
Auditors remuneration	70	74	80
Cost of inventories recognised as expense	1,401,376	947,246	613,702
Provision for impairment of receivables	27	36	117
Loss on disposal of property, plant and equipment	3,047	2,822	1,642
Operating lease expenses	9,262	7,803	7,367
Research and development expenses	13,224	11,840	9,887
Write down in inventories	605	239	377

(i) Comprises proportionate refund of import value-added tax relating to the import of natural gas (including liquefied natural gas) provided by the PRC government. This value-added tax refund is applicable from January 1, 2011 to December 31, 2020 and available when the import prices of the natural gas and liquefied natural gas imported under any State-sanctioned pipelines are higher than their prescribed selling prices.

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8 EMPLOYEE COMPENSATION COSTS

	2011 RMB	2010 RMB	2009 RMB
Wages, salaries and allowances	64,526	56,284	44,202
Social security costs	32,636	27,020	21,775
	97,162	83,304	65,977

Social security costs mainly represent contributions to plans for staff welfare organised by the PRC municipal and provincial governments and others including contributions to the retirement benefit plans (Note 33).

9 TAXES OTHER THAN INCOME TAXES

	2011 RMB	2010 RMB	2009 RMB
Crude oil special gain levy	102,458	52,172	20,020
Consumption taxes	98,795	89,670	82,429
Resource tax	19,784	9,796	6,336
Other	45,306	32,571	26,680
	266,343	184,209	135,465

In accordance with PRC new tax rules and regulations, the threshold above which crude oil special gain levy will be imposed (with the five-level progressive tax rates varying from 20% to 40% remaining) was raised from US$ 40 per barrel to US$ 55 per barrel. Resource tax on domestic sales of crude oil and natural gas, assessed based on value instead of volume (with rates from 5% to 10% and the resource tax rate applicable to the Group up to 5%), was implemented nationally. Both changes in tax regulations were effective from November 1, 2011.

10 INTEREST EXPENSE

	2011 RMB	2010 RMB	2009 RMB
Interest on			
Bank loans			
wholly repayable within five years	2,286	1,797	1,339
not wholly repayable within five years	65	15	90
Other loans			
wholly repayable within five years	7,436	4,721	4,624
not wholly repayable within five years	1,786	1,298	477
Accretion expense (Note 32)	3,272	2,382	1,943
Less: Amounts capitalised	(3,959)	(3,892)	(3,201)

	10,886	6,321	5,272

Amounts capitalised are borrowing costs that are attributable to the construction of a qualifying asset. The average interest rate used to capitalise such general borrowing cost ranged from 5.364% to 6.210% per annum for the year ended December 31, 2011.

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11 EMOLUMENTS OF DIRECTORS AND SUPERVISORS

Details of the emoluments of directors and supervisors for the years ended December 31, 2011, 2010 and 2009 are as follows:

	2011				2010	2009
Name	Fee for directors and supervisors RMB 000	Salaries, allowances and other benefits RMB 000	Contribution to retirement benefit scheme RMB 000	Total RMB 000	Total RMB 000	Total RMB 000
Chairman:						
Mr. Jiang Jiemin						
Vice Chairman:						
Mr. Zhou Jiping		970	42	1,012	981	774
Executive directors:						
Mr. Liao Yongyuan		919	42	961	914	747
Mr. Ran Xinquan(i)		589	28	617		
		1,508	70	1,578	914	747
Non-executive directors:						
Mr. Wang Yilin(i)						
Mr. Zeng Yukang(i)						
Mr. Wang Fucheng(i)						
Mr. Li Xinhua						
Mr. Wang Guoliang						
Mr. Wang Dongjin(i)						
Mr. Yu Baocai(i)						
Mr. Jiang Fan(i)		138	10	148	694	519
Mr. Chee-Chen Tung(i)	212			212	254	260
Mr. Liu Hongru	238			238	227	339
Mr. Franco Bernabè	239			239	231	246
Mr. Li Yongwu	247					