

PETROCHINA CO LTD
Form 20-F
June 25, 2010

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

Form 20-F

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g)
OF THE SECURITIES EXCHANGE ACT OF 1934**
or
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2009.
or
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**
or
- SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of event requiring this shell company report _____
For the transition period from _____ to _____

Commission File Number 1-15006

(Exact name of Registrant as specified in its charter)

PetroChina Company Limited

(Translation of Registrant's name into English)

The People's Republic of China

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

Li Hualin

Telephone number: 8610 59986223

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 157,764,597,259 A Shares held by CNPC and 4,157,480,559 A Shares held by the public shareholders.

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

Yes No

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

Yes No

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

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

Yes No

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

Yes No

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

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

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

Item 17 Item 18

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

Yes No

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

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

Yes No

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

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

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

**** Includes 1,970,667,300 H Shares represented by American Depositary Shares.

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CERTAIN TERMS AND CONVENTIONS

Conventions Which Apply to this Annual Report

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

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

PetroChina, we, our, our company, the company and us are to:

PetroChina Company Limited, a joint stock company incorporated in the People's Republic of China with limited liability and its subsidiaries and branch companies, or

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

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

We publish our consolidated financial statements in Renminbi or RMB. The audited consolidated financial statements included in this annual report have been prepared as if the operations and businesses transferred to us from CNPC were transferred as of the earliest period presented or from the date of establishment of the relevant unit, whichever is later, and conducted by us throughout the period. In this annual report, IFRS refers to International Financial Reporting Standards as issued by the International Accounting Standards Board.

In December 2008, the United States Securities and Exchange Commission (the SEC or the Commission) announced that it had approved revisions designed to modernize the oil and gas company reserves reporting requirements. The revisions became effective on January 1, 2010. For purposes of this annual report, the oil and gas reserve disclosure rules prior to the effectiveness of the revisions are referred to herein as the old SEC reserve rules. The new oil and gas reserve disclosure rules that became effective on January 1, 2010 are referred to herein as the new SEC reserve rules. Our reserve-related disclosure as of and for the years ended December 31, 2007 and 2008 comply with the old SEC reserve rules. Our reserve-related disclosure as of and for the year ended December 31, 2009 complies with the new SEC reserve rules.

Conversion Table

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

Certain Oil and Gas Terms

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

acreage	The total area, expressed in acres, over which an entity has interests in exploration or production. Net acreage is the entity's interest, expressed in acres, in the relevant exploration or production area.
API gravity	An indication of the density of crude oil or other liquid hydrocarbons as measured by a system recommended by the American Petroleum Institute (API), measured in degrees. The lower the API gravity, the heavier the compound.

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condensate	Light hydrocarbon substances produced with natural gas that condense into liquid at normal temperatures and pressures associated with surface production equipment.
crude oil	Crude oil, including condensate and natural gas liquids.
developed reserves	<p>Under the new SEC reserve rules, developed reserves are reserves of any category that can be expected to be recovered:</p> <p>(i) through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and</p> <p>(ii) through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.</p>
development cost	For a given period, costs incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas.
finding cost	For a given period, costs incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects of containing oil and gas reserves, including costs of drilling exploratory wells and exploratory-type test wells. Finding cost is also known as exploration cost.
lifting cost	For a given period, costs incurred to operate and maintain wells and related equipment and facilities, including applicable operating costs of support equipment and facilities and other costs of operating and maintaining those wells and related equipment and facilities. Lifting cost is also known as production cost.
natural gas liquids	Hydrocarbons that can be extracted in liquid form together with natural gas production. Ethane and pentanes are the predominant components, with other heavier hydrocarbons also present in limited quantities.
offshore	Areas under water with a depth of five meters or greater.
onshore	Areas of land and areas under water with a depth of less than five meters.
primary distillation capacity	At a given point in time, the maximum volume of crude oil a refinery is able to process in its basic distilling units.
proved developed reserves	Under the old SEC reserve rules, proved developed reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved

recovery techniques for supplementing the natural forces and mechanisms of primary recovery are included as proved developed reserves only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.

proved reserves

Under the new SEC reserve rules, proved reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically

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producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

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

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

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

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

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

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

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

excluding escalations based upon future conditions.

Under the old SEC reserve rules, proved reserves are estimated quantities of crude oil and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and

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operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not of escalations based upon future conditions.

proved undeveloped reserves

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

reserve-to-production ratio

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

sales gas

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

undeveloped reserves

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

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

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

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

water cut

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

References to:

BOE is to barrels-of-oil equivalent,

Mcf is to thousand cubic feet, and

Bcf is to billion cubic feet.

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FORWARD-LOOKING STATEMENTS

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

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

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

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

fluctuations in crude oil and natural gas prices;

failure to achieve continued exploration success;

failures or delays in achieving production from development projects;

continued availability of capital and financing;

acquisitions and other business opportunities that we may pursue;

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

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liability for remedial actions under environmental regulations;

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

the actions of competitors;

wars and acts of terrorism or sabotage;

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

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

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

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

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

Not applicable. However, see Item 6 Directors, Senior Management and Employees Directors, Senior Management and Supervisors.

ITEM 2 *OFFER STATISTICS AND EXPECTED TIMETABLE*

Not applicable.

ITEM 3 *KEY INFORMATION***Exchange Rates**

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

	Noon Buying Rate⁽¹⁾	
	High	Low
	(RMB per US\$)	
December 2009	6.8299	6.8244
January 2010	6.8295	6.8258
February 2010	6.8330	6.8258
March 2010	6.8270	6.8254
April 2010	6.8275	6.8240
May 2010	6.8310	6.8245
June 2010 (ending as of June 18)	6.8323	6.8267

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

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

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

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

Selected Financial Data**Historical Financial Information**

You should read the selected historical financial data set forth below in conjunction with the consolidated financial statements of PetroChina and their notes and Item 5 Operating and Financial Review and Prospects included elsewhere in this annual report. The selected historical income statement and cash flow data for the years ended December 31, 2007, 2008 and 2009 and the selected historical statement of financial position data as of December 31, 2008 and 2009 set forth below are derived from our audited consolidated financial statements included elsewhere in this annual report. The selected historical income statement data and cash flow data for the years ended December 31, 2005 and 2006 and the selected statement of financial position data as of December 31, 2005, 2006 and 2007 set forth below are derived from our audited financial statements not included in this annual report. Our consolidated financial statements were prepared in accordance with IFRS as issued by the International Accounting Standards Board. The financial information included in this section may not necessarily reflect our results of operations, financial position and cash flows in the future.

	Year Ended December 31,⁽¹⁾				
	2005	2006	2007	2008	2009
	RMB	RMB	RMB	RMB	RMB
	(In millions, except for per share and per ADS data)				

Income Statement Data

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

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

	As of December 31,⁽¹⁾				
	2005	2006	2007	2008	2009
	RMB	RMB	RMB	RMB	RMB
(In millions, except for per share and per ADS data)					

Statement of Financial Position Data

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

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

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

Risk Factors

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

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

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

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

Our operations are affected by the volatility of prices for crude oil and refined products. We and China Petroleum and Chemical Corporation, or Sinopec, set our crude oil median prices monthly based on the Singapore trading prices for crude oil. In 2006, the PRC government, under its macroeconomic controls, introduced a mechanism for determining domestic prices of refined products. On December 18, 2008, the PRC government further modified this mechanism by linking the domestic prices of refined oil products to a number of factors, including international market prices, average domestic processing cost, tax, selling expenses and appropriate profit margin. Historically, international prices for crude oil and refined products have fluctuated widely in response to changes in many factors, such as global and regional economic and political developments, and global and regional supply and demand for crude oil and refined products. We do not have, and will not have, control over the factors affecting international prices for crude oil and refined products. A decline in crude oil prices will reduce our crude oil revenues derived from external customers. If crude oil prices remain at a low level for a prolonged period, our company has to determine and estimate whether our oil and gas assets may suffer impairment losses and, if so, the amount of the impairment losses. An increase in crude oil prices may, however, increase the production costs of refined products. In addition, a decline in refined products prices will reduce our revenue derived from refining operations. An increase in the refined products prices, however, will increase the production costs of chemical products which use refined products as raw materials.

In addition to the adverse effect on our revenues, margins and profitability from any future fall in oil and natural gas prices, a prolonged period of low prices or other indicators would lead to a review for impairment of our oil and natural gas properties. This review would reflect management's view of long-term oil and natural gas prices. Such a review could result in a charge for impairment which could have a significant effect on our results of operations in the period in which it occurs.

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

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

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

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gas assets from CNPC. We cannot assure you, however, that we can successfully locate sufficient alternative sources of crude oil supply or at all due to the complexity of the international political, economic and other conditions. If we fail to obtain sufficient alternative sources of crude oil supply, our results of operations and financial condition may be materially and adversely affected.

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

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

fires;

explosions;

spills;

blow-outs; and

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

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

Significant operating hazards and natural disasters may cause partial interruptions to our operations and property and environmental damage that could have an adverse impact on our financial condition.

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

As of December 31, 2009, CNPC beneficially owned approximately 86.285% of our share capital. This ownership percentage enables CNPC to elect our entire board of directors without the concurrence of any of our other shareholders. Accordingly, CNPC is in a position to:

control our policies, management and affairs;

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

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

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

CNPC may choose to undertake, without our involvement, overseas investments and operations in the oil and gas industry, including exploration and production of oil and gas, refining and LNG projects. CNPC's overseas asset portfolio includes oil and gas development projects in Iran and Sudan, which countries are on the sanction list published and administrated by the Office of Foreign Assets Control, or OFAC, of the

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U.S. Department of Treasury. Certain U.S.-based investors may not wish to invest, and have proposed or adopted divestment or similar initiatives regarding investments, in companies that do business with countries on OFACs sanction list. These investors may not wish to invest, and may divest their investment, in us because of our relationship with CNPC and its investments and activities in those OFAC sanctioned countries. As a result, the trading prices of our ADSs may be materially and adversely affected.

In addition to its relationship with us as our controlling shareholder, CNPC by itself or through its affiliates also provides us with certain services and products necessary for our business activities, such as construction and technical services, production services and supply of material services. The interests of CNPC and its affiliates as providers of these services and products to us may conflict with our interests. Although we have entered into a Comprehensive Products and Services Agreement with CNPC and our transactions with CNPC over the past three years have been conducted on open, fair and competitive commercial terms, we have only limited leverage in negotiating with CNPC and its affiliates over the specific terms of the agreements for the future provision of these services and products.

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

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

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

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

Our operations, like those of other PRC oil and gas companies, are subject to extensive regulations and control by the PRC government. These regulations and control affect many material aspects of our operations, such as exploration and production licensing, industry-specific and product-specific taxes and fees and environmental and safety standards. As a result, we may face significant constraints on our ability to implement our business strategies, to develop or expand our business operations or to maximize our profitability. Our business may also be adversely affected by future changes in certain policies of the PRC government with respect to the oil and gas industry. For example, since March 26, 2006, we have been subject to a crude oil special gain levy imposed by the PRC government. On June 1, 2010, the Ministry of Finance and the State Administration of Taxation jointly promulgated a new resource tax regulation for the extraction of crude oil and natural gas. Pursuant to this regulation, effective from June 1, 2010, the resource

tax payable by the resource tax payers in connection with their extraction of crude oil and natural gas in Xinjiang shall be collected based on value instead of volume. In the future if the Ministry of Finance and the State Administration of Taxation promulgate similar regulations applicable to any other provinces or regions in China, our results of operations may be adversely affected.

Currently, the PRC government must approve the construction and major renovation of significant refining and petrochemical facilities as well as the construction of significant natural gas and refined

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product pipelines and storage facilities. We presently have several significant projects pending approval from the relevant government authorities and will need approvals from the relevant government authorities in connection with several other significant projects. We do not have control over the timing and outcome of the final project approvals.

We receive most of our revenues in Renminbi. A portion of our Renminbi revenues must be converted into other currencies to meet our foreign currency obligations. The existing foreign exchange limitations under the PRC laws and regulations could affect our ability to obtain foreign exchange through debt financing, or to obtain foreign exchange for capital expenditures. The value of Renminbi against U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. On July 21, 2005, the PRC government introduced a floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of foreign currencies. From July 21, 2005 to December 31, 2009, the value of the Renminbi has appreciated significantly against the U.S. dollar. The appreciation of Renminbi against U.S. dollar may cause a decrease in our exportation of our products.

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

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

SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring every public company in the United States to include a management report on such company's internal control over financial reporting in its annual report, which contains management's assessment of the effectiveness of the company's internal control over financial reporting. Although our management concluded that our internal control over our financial reporting for the fiscal year ended December 31, 2009 was effective, we may discover other deficiencies in the course of our future evaluation of our internal control over our financial reporting and may be unable to remediate such deficiencies in a timely manner. If we fail to maintain the adequacy of our internal

control over financial reporting, we may not be able to conclude that we have effective internal control over financial reporting on an ongoing basis, in accordance with the Sarbanes-Oxley Act. Moreover, effective internal control is necessary for us to produce reliable financial reports and is important to prevent fraud. As a result, our failure to achieve and maintain effective internal control over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the trading prices of our ADSs, H Shares or A Shares.

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

ITEM 4 INFORMATION ON THE COMPANY

Introduction

History and Development of Our Company

Overview of Our Operations

We are one of the largest companies in China in terms of sales. We are engaged in a broad range of petroleum and natural gas related activities, including:

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

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

the marketing and trading of refined oil products; and

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

Prior to 2009, our business consisted of exploration and production segment, refining and marketing segment, chemicals and marketing segment, and natural gas and pipeline segment. We restructured our business segmentation in 2009 by dividing our business into four segments, including exploration and production, refining and chemicals, marketing segment, and natural gas and pipeline. As a result, the refining and chemicals segment now consists of the refining of crude oil and petroleum products, as well as the production and marketing of basic petrochemical products, derivative chemical products and other chemical products. The marketing segment now consists of the marketing and trading of refined oil products.

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

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

We commenced limited refining activities in the mid-1950s, when we began producing gasoline and diesel at refineries in the Yumen oil region. Our chemicals operations commenced in the early 1950s, when we began producing urea at our first petrochemical plant in Lanzhou in northwestern China. In the early 1960s, we began producing ethylene. We now operate 30 enterprises located in nine provinces, four autonomous regions and three municipalities to engage in refining of crude oil and petroleum products, as well as the production and marketing of basic petrochemical products, derivative chemical products and other chemical products. In 2009, our refineries processed approximately 828.6 million barrels of crude oil or an average of 2.3 million barrels per day. In 2009, we produced approximately 73.2 million tons of gasoline,