PETROCHINA CO LTD
Form 20-F
April 29, 2015
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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, 2014.

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)

Wu Enlai

Telephone number: 8610 59986270

Facsimile number: 8610 62099557

Email address: jh_dong@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 889,085,900 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 j company incorporated in the People s Republic of China with limited liability and its subsidiaries and branch companies.

PRC or China are 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 during 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

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	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.
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.

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	(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 an expressions, as they related to us, are intended to identify a number of these forward-looking statements.

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

- fluctuations in crude oil and natural gas prices;
- failure to achieve continued exploration success;
- failures or delays in achieving production from development projects;
- continued availability of capital and financing;
- acquisitions and other business opportunities that we may pursue;
- general economic, market and business conditions, including volatility in interest rates, changes in foreign exchange rates and volatility in commodity markets;

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liability for remedial actions under environmental regulations;

the actions of competitors;

wars and acts of terrorism or sabotage;

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

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

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

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

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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 2014	6.1385	6.1107
November 2014	6.1429	6.1117
December 2014	6.2256	6.1490
January 2015	6.2535	6.1870
February 2015	6.2695	6.2399
March 2015	6.2741	6.1955
April 2015 (ending as of April 17)	6.2152	6.1930

(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 2010, 2011, 2012, 2013 and 2014, 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$)
2010	6.7603
2011	6.4475
2012	6.2990

2013	6.1412
2014	6.1701

(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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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 (except ADS data) and cash flow data for the years ended December 31, 2012, 2013 and 2014 and the selected historical statement of financial position data as of December 31, 2013 and 2014 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, 2010 and 2011 and the selected statement of financial position data as of December 31, 2010, 2011 and 2012 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 of or for the Year Ended December 31,[1]				
	2010	2011	2012	2013	2014
	RMB	RMB	RMB	RMB	RMB
	(In millions, except for per share and per ADS data)				
Turnover	1,465,415	2,003,843	2,195,296	2,258,124	2,282,962
Total operating expenses	(1,277,638)	(1,821,382)	(2,020,777)	(2,069,482)	(2,113,129)
Profit from operations	187,777	182,461	174,519	188,642	169,833
Profit before income tax expense	189,305	184,215	166,811	178,063	156,759
Income tax expense	(38,513)	(38,256)	(36,191)	(35,789)	(37,731)
Profit for the year	150,792	145,959	130,620	142,274	119,028
Profit for the year attributable to owners of the parent company	139,992	132,961	115,326	129,599	107,172
Non-controlling interest	10,800	12,998	15,294	12,675	11,856
Basic and diluted earnings per share for profit attributable to owners of the parent company[1]	0.76	0.73	0.63	0.71	0.59
Basic and diluted net earnings per ADS[2]	76.49	72.65	63.01	70.81	58.56
Total current assets	264,196	361,590	392,805	430,953	391,308
Total non-current assets	1,392,291	1,555,996	1,776,091	1,911,157	2,014,165
Total assets	1,656,487	1,917,586	2,168,896	2,342,110	2,405,473
Total current liabilities	429,736	560,038	574,748	645,489	579,829
Total non-current liabilities	216,622	275,002	413,400	426,686	507,863
Total liabilities	646,358	835,040	988,148	1,072,175	1,087,692
Equity attributable to owners of the parent company	938,926	1,002,745	1,064,010	1,132,735	1,175,894
Non-controlling interests	71,203	79,801	116,738	137,200	141,887
Total equity	1,010,129	1,082,546	1,180,748	1,269,935	1,317,781
Other Financial Data					
Dividend per share	0.34	0.33	0.28	0.32	0.26
Dividend per ADS	34.42	32.69	28.36	31.87	26.35

Capital expenditures	276,212	284,391	352,516	318,696	291,729
Net cash flows from operating activities	318,796	290,155	239,288	288,529	356,477
Net cash flows used for investing activities	(299,302)	(283,638)	(332,226)	(266,510)	(290,838)
Net cash flows from/used for financing activities	(60,944)	9,259	75,356	(12,239)	(44,312)
Return on net assets (%)[3]	14.9	13.3	10.8	11.4	9.1

(1) As of December 31, 2010, 2011, 2012, 2013 and 2014, respectively, basic and diluted earnings per share were calculated by dividing the profit attributable to owners of the parent company by 183.021 billion, the total number of shares outstanding in each of these financial years.

(2) 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.

(3) Return on net assets is calculated as Profit for the year attributable to owners of the parent company divided by Equity attributable to owners of the parent company .

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 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 changes in macro-economic conditions. We may experience pricing pressure on our refined products in recessionary periods, which would have an adverse effect on our profitability. In 2014, a weak domestic economy continued to affect the demand for certain of our products. 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. In recent years, with further diversification of the market players in China s petroleum and petrochemical industry, we have been facing increasingly intense competition from privately-owned companies and foreign-invested enterprises in chemical, sales and oil and gas service sectors. In addition, the rapid development of unconventional oil and gas resources, new energy sources and new products also poses competition with the conventional energy and petrochemical industries. 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. Although we have strived to increase our refinery capacity in the southern regions of China over recent years, most of our refineries and chemical plants are located in the northeastern and northwestern 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 and Trading

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 situations, unstable tax policies and unstable regulatory regimes. CNPC, our controlling shareholder, and its affiliates and subsidiaries may choose to undertake, without our involvement, overseas investments, operations and trading in the oil and gas industry, including exploration and production of oil and gas, refining and transportation, import of crude oil and natural gas, operation of liquefied natural gas, or LNG projects, or other business activities. CNPC s overseas asset portfolio includes oil and gas development and pipeline projects in certain countries that are subject to U.S. sanctions, including Iran, Sudan, Cuba, Syria and Myanmar. Furthermore, CNPC has trading relationships with certain Russia entities which are subject to U.S. sanctions. Namely, CNPC has entered into long-term agreements with Rosneft to import crude oil from Russia to China and with Gasprom to import natural gas from Russia to China. Both of Rosneft and Gazprom are subject to limited U.S. sanctions, which largely prohibit those companies from accessing U.S. financial markets. 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 and entities that are subject to U.S. sanctions. These investors may not wish CNPC to make investments or conduct activities in the countries or with the entities 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 or with those entities that are the subject of U.S. sanctions. As a result, the trading prices of our ADSs may be adversely affected.

In July 2012, the U.S. Treasury Department s Office of Foreign Assets Control, OFAC, added Bank of Kunlun Co., Ltd., or Kunlun Bank, an affiliate of our company due to common control by CNPC, to its List of Foreign Financial Institutions Subject to Part 561 pursuant to the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010. OFAC reported that Kunlun Bank provided financial services to at least six Iranian banks that were on OFAC s sanctions list during 2012. These financial services included holding accounts, making transfers, and in particular, transfer of a total of US$0.1 billion for Bank Tejarat during early 2012, and paying letters of credit on behalf of the designated banks. Kunlun Bank has not informed us of the revenue and profit it generated from such activities in relation to Iran or whether it will discontinue such activities. Our company has no involvement in or control over such activities of Kunlun Bank or CNPC and CNPC subsidiaries and affiliates, and we have never received any revenue or profit derived from these activities.

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 the shareholders protections that you may be entitled to in other jurisdictions.

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Risks Related to Controlling Shareholder

As of December 31, 2014, 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.

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.

Recently, international prices for crude oil have fluctuated widely in response to changes in global and regional economy, politics and supply and demand for crude oil. We do not have, and will not have, control over 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. When there is a change in the average crude oil price in the international market during a given time period, the PRC government can adjust refined oil prices. 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 maximum price permitted by the PRC government. When the maximum price is lower than the international natural gas price, the cost of our imported natural gas will be higher 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

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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 increases 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 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. For example, the revised PRC Environmental Protection Law has been effective since January 1, 2015 and the revised PRC Safety Production Law has been effective since December 1, 2014. Any new or potential regulations could impose stricter requirements on us and thus increase our operation costs.

The process of gasoline and diesel fuel quality upgrade is gradually accelerating in China. The *Circular of the State Council regarding the Printing and Issue of the Action Plan for Prevention and Treatment of Air Pollution* issued in September 2013 set forth a definitive schedule for the upgrading of the quality of oil products. Pursuant to the schedule, the China IV standard for auto-use gasoline was implemented on January 1, 2014, the China IV standard for auto-use diesel, which requires that the sulfur content be reduced below 50ppm, was implemented on January 1, 2015, and the China V standard for auto-use diesel, which requires the sulfur content be reduced below 10ppm, will be adopted across the nation at a time determined by the PRC government authorities. Some local governments have earlier implemented local gasoline and diesel fuel standards equivalent to the Euro IV standard. New governmental requirements to improve oil quality impose challenges to our refining and chemicals segment and could increase our costs in oil refining.

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.

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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.

Risks Related to Climate Change

In recent years, the oil industry has faced an increasingly severe challenge imposed by global climate change. Numerous international, domestic and regional treaties and agreements that 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 cannot 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.

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 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 improve our international operations. We cannot assure you, however, that we can successfully locate sufficient, if any, alternative sources of crude oil supply 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 made 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

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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, 2014 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.

Risks Related to Audit Reports Prepared by an Auditor who is not Inspected by the Public Company Accounting Oversight Board

Auditors of companies that are registered with the SEC and publicly traded in the United States, including our independent registered public accounting firm, must be registered with the United States Public Company Accounting Oversight Board, or the PCAOB, and are required by the laws of the United States to undergo regular inspections by the PCAOB to assess their compliance with the laws of the United States and professional standards. Our independent registered public accounting firm currently relies on the Chinese member firm of the KPMG network for assistance in completing the audit work associated with our operation in China. The Chinese member firm of our independent registered public accounting firm is located in China, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese authorities, and the Chinese member firm of our independent registered public accounting firm is not currently inspected by the PCAOB. As a result, investors do not have the benefits of PCAOB inspections. The inability of the PCAOB to conduct inspections of auditors in the PRC makes it more difficult to evaluate the effectiveness of our auditor s audit procedures or quality control procedures as compared to auditors outside the PRC that are subject to PCAOB inspections.

Risks Related to SEC Litigation Against the Big Four PRC-based Accounting Firms

On January 22, 2014, Judge Cameron Elliot, an SEC administrative law judge, issued an initial decision suspending the Chinese member firms of the Big Four accounting firms, including KPMG network, from, among other things, practicing before the SEC for six months. In February 2014, the initial decision was appealed. While under appeal and in February 2015, the Chinese member firms of Big Four accounting firms reached a settlement with the SEC. As part of the settlement, each of the Chinese member firms of Big Four accounting firms agreed to settlement terms that include a censure, undertakings to make a payment to the SEC, procedures and undertakings as to future requests for documents by the SEC and possible additional proceedings and remedies should those undertakings not be adhered to.

Our independent registered public accounting firm currently relies on the Chinese member firm of the KPMG network for assistance in completing the audit work associated with our operations in China. If the settlement terms are not adhered to, the Chinese member firms of Big Four accounting firms may be suspended from practicing before the SEC, which could in turn delay the timely filing of our annual report including our financial statements with the SEC. In addition, it could be difficult for us to timely identify and engage another qualified independent auditor to replace KPMG. A delinquency in our filing of the annual report with the SEC may result in the NYSE s initiating delisting procedures, which could adversely harm our reputation and have other material adverse effects on our overall growth and prospect.

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Risks Related to Employee Misconduct

We may not be able to detect or prevent employee misconduct, including misconduct by senior management, and such misconduct may damage our reputation and could adversely affect the trading price of our ordinary shares and ADSs.

Several former senior management members and directors of our company are being investigated by relevant PRC authorities. We have very limited knowledge of the status or scope of the ongoing investigations, and it is difficult for us to assess their ultimate outcome or their impact on our business.

We have re-examined our internal control and corporate governance policies and procedures in order to strengthen our ability to detect and prevent similar and other misconduct. We cannot assure you, however, that we will be able to detect or prevent such misconduct in a timely fashion, or at all. If we fail to prevent employee misconduct, our reputation may be harmed, and the trading price of our ordinary shares and ADSs could be adversely affected.

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

ITEM 4 *INFORMATION ON THE COMPANY*

Introduction

History and Development of Our Company

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

We are the largest oil and gas producer and seller occupying a leading position in the oil and gas industry in the PRC and one of the largest companies in the world. We are engaged in a broad range of petroleum and natural gas related activities, including the exploration, development, production and marketing 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 of refined oil products and trading; 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 six 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 maintaining and gradually increasing the proportion of imported crude oil in accordance with our needs. In 2014, we imported approximately 435.6 million barrels of crude oil, compared to 476.5 million barrels and 465.6 million barrels of crude oil in 2013 and 2012, respectively.

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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 RMB16.7 per share. The A Shares were listed on the Shanghai Stock Exchange on November 5, 2007. As of December 31, 2014, CNPC beneficially owned 158,325,211,528 shares in PetroChina, which included 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 in connection with securities actions is CT Corporation System, located at 111 Eighth Avenue, New York, New York 10011.

Our Corporate Organization Structure

The following chart illustrates our corporate organization structure as of December 31, 2014.

(1) Indicates approximate shareholding.
(2) Indicates approximate shareholding, including the 291,518,000 H Shares indirectly held by CNPC as of December 31, 2014 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 and Divestment

We have launched a series of overseas acquisitions of assets or exploration rights in 2014, including among others:

In November 2013, we entered into an agreement with Petrobras to acquire all shares in Petrobras Energia Peru S.A. for a total consideration of US$2.6 billion. We completed this transaction in November 2014.

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In December 2013, we acquired a 25% interest in the West Qurna-1 project in Iraq. In March 2014, we increased our interest in the West Qurna-1 project in Iraq from 25% to 32.7% for a consideration of US$442 million.

In August 2014, we exercised the option to purchase the remaining 40% interest in the Duvernay property in Alberta Canada for a consideration of 1.18 billion Canada dollars. After the transaction, we wholly owned the Duvernay property.

In November 2014, we entered into a product sharing agreement with the government of Chad in relation to the undeveloped area in the H block for an exploration term of up to eight years and a development term of up to 35 years. The government of Chad will have an interest of no more than 25% when the project reaches the development phase. This agreement is still subject to the approvals of the government authorities of China and Chad.

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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 enhanced our overseas cooperation and expanded our strategic presence in five major overseas oil and gas cooperation regions by conducting new project development. In the year ended December 31, 2014, the crude oil and natural gas produced by us at overseas regions accounted for 12.9% and 4.9% 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 380.4 million acres, including the exploration licenses covering a total area of approximately 353.2 million acres and the exploitation licenses covering a total area of approximately 27.2 million acres.

The following table sets forth the financial and operating data of our exploration and production segment for each of the years ended December 31, 2012, 2013 and 2014:

	Year Ended December 31,		
	2012	2013	2014
Revenue (RMB in millions)	789,818	783,694	777,574
Income from operations (RMB in millions)	214,955	189,698	186,897
Proved developed and undeveloped reserves			
Crude oil (million barrels)	11,018.0	10,820.3	10,593.4
Natural gas (Bcf)	67,581.2	69,322.6	71,097.5
Production			
Crude oil (million barrels)	916.5	932.9	945.5
Natural gas for sale (Bcf)	2,558.8	2,801.9	3,028.8

Reserves

Our estimated proved reserves as of December 31, 2014 totaled approximately 10,593.4 million barrels of crude oil and approximately 71,097.5 Bcf of natural gas. As of December 31, 2014, proved developed reserves for crude oil and natural gas accounted for 68.5% and 50.4% of our total proved crude oil and natural gas reserves, respectively. Total proved hydrocarbon reserves, including our overseas crude oil reserves of 857.9 million BOE and overseas natural gas reserves of 1,262.0 Bcf, totaling 1,068.2 million BOE, increased by 0.3% from approximately 22,374.1 million BOE as of December 31, 2013 to approximately 22,443.0 million BOE as of December 31, 2014. Natural gas as a percentage of total proved hydrocarbon reserves increased from 51.6% as of December 31, 2013 to 52.8% as of December 31, 2014.

We prepared our reserve estimates as of December 31, 2012, 2013 and 2014 on the basis of reports prepared by independent engineering consultants, namely DeGolyer and MacNaughton, Ryder Scott Company, L.P., GLJ Petroleum Consultants, Gaffney, Cline & Associates (Consultants) Pte Ltd, Gaffney, Cline & Associates, Inc. and McDaniel & Associates Consultants 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.

Our reserve data for 2012, 2013 and 2014 were prepared in accordance with the SEC s final rules on Modernization of Oil and Gas Reporting .

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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.

In recent years, we have been implementing a practicing professional certification regime to supervise our employees engaged in oil and gas reserve evaluation and auditing functions. We have set up a team of reserve assessors and auditors covering our headquarter office and regional companies to perform reserve estimates and audits. Meanwhile, 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 evaluation. 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 research office. Mr. Zhang Junfeng, the Director of the Reserve Administration Department of the exploration and production segment, is in charge of the reserve estimation of the company. Mr. Zhang holds a doctorate degree in geology. He has over 15 years of work experience in oil and gas exploration and development. Since 2009, Mr. Zhang has been the expert primarily responsible for overseeing the preparation of the reserves estimates and oil and gas reserve estimation technology and management. The reserve research offices of the regional companies are responsible for estimating newly discovered reserves and updating the estimates of 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, with final examination and approval by 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 assessments of independent assessment firms in accordance with the SEC requirements.

Third-Party Reserve Report

DeGolyer and MacNaughton, an independent petroleum engineering consulting firm based in the United States, carried out an independent assessment of our reserves in China and certain other countries as of December 31, 2012, 2013 and 2014. Mr. Thomas C. Pence, the Senior Vice President of DeGolyer and MacNaughton, is primarily responsible for supervising the preparation of our reserve report. Mr. Pence is a Registered Professional Engineer, a member of the International Society of Petroleum Engineers, and has over 32 years of experience in oil and gas reservoir studies and reserve evaluations.

Ryder Scott Company, L.P. (Ryder Scott), an independent petroleum engineering consulting firm based in the United States, carried out an independent assessment of certain of our selected petroleum assets in Chad, West Qurna and Kazakhstan as of December 31, 2014. Mr. Daniel R. Olds, a director and a Senior Vice President of Ryder Scott, was primarily responsible for overseeing the estimate of the reserves, future production and income as stated in the reserve report. Mr. Olds is a licensed professional engineer in the State of Texas, a member of the Society of Petroleum Evaluation Engineers and a member of the Society of Petroleum Engineers. Mr. Olds has more than 33 years of practical experience in the estimation and evaluation of petroleum reserves.

GLJ Petroleum Consultants (GLJ), a petroleum consulting firm based in Canada, carried out an independent assessment of our reserves for certain gas and oil properties in Canada as of December 31, 2013 and 2014. Ms. Trisha MacDonald was the project manager for the evaluation. She is a senior engineer and has over 10 years of relevant experience. Mr. Jodi L. Anhorn, the Executive Vice President and Chief Operation Officer of GLJ, was the technical supervisor for the evaluation. He is an internationally recognized oil and gas resource evaluation expert and has over 20 years of working experience.

Gaffney, Cline & Associates (Consultants) Pte Ltd. (GCA), an engineering consulting firm based in Singapore, carried out an independent assessment of our reserves estimation and valuation in certain countries

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such as Algeria and Chad as of December 31, 2012 and 2013. The reserve report of GCA has been compiled under the supervision of Mr. David S. Ahye, the firm s director for the Asia Pacific region. He has over 30 years experience in the petroleum industry and holds a bachelor s degree in chemical engineering.

Gaffney, Cline & Associates, Inc., an engineering consulting firm based in Texas, the United States, carried out an assessment of our reserves in the Halfaya oilfield in Iraq as of December 31, 2012 and 2013. Mr. Sakowski was the project manager for the reserves evaluation project of our Halfaya oilfield. He is a mechanical engineer and holds a master s degree in project management. Mr. Sakowski is a member of the Society of Petroleum Engineers and Alberta APGG. He has 35 years of international experience in the oil and gas industry.

McDaniel &Associates Consultants Ltd., a petroleum consulting firm with its headquarters in Canada, carried out an independent assessment of our reserves held through PetroKazakhstan Inc. as of December 31, 2012 and 2013. Mr. Bryan Emslie, the Senior Vice President of McDaniel &Associates Consultants Ltd., was responsible for supervising the preparation of our reserve report. Mr. Bryan Emslie is a member of the Society of Petroleum Evaluation Engineers and the Society of Petroleum Engineers. He has over 30 years experience in oil and gas reservoir evaluation.

None of the above consulting firms or their partners, senior officers or employees has any direct or indirect financial interest in our company and the remunerations to the firms are not in any way contingent upon reported reserve estimates.

For detailed information about our net proved reserves estimates, please refer to the summary reports of reserves filed hereto as exhibits to this annual report on Form 20-F.

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, 2012, 2013 and 2014.

	Crude Oil (Millions of barrels)	Natural Gas[(1)] (Bcf)	Combined (BOE, in millions)
Proved developed and undeveloped reserves			
Reserves as of December 31, 2012	11,018.0	67,581.2	22,281.5
Revisions of previous estimates	(124.1)	(6,415.5)	(1,193.2)
Extensions and discoveries	774.8	10,958.7	2,601.3
Improved recovery	84.4		84.4
Production for the year	(932.9)	(2,801.9)	(1,400.0)
Reserves as of December 31, 2013	10,820.3	69,322.6	22,374.1
Revisions of previous estimates	(16.1)	(2,707.4)	(467.2)
Extensions and discoveries	645.6	7,511.1	1,897.4
Improved recovery	94.0		94.0
Sold	(4.9)		(4.9)
Production for the year	(945.5)	(3,028.8)	(1,450.4)
Reserves as of December 31, 2014	10,593.4	71,097.5	22,443.0
Proved developed reserves			
As of December 31, 2012	7,395.7	31,606.5	12,663.4
As of December 31, 2013	7,219.6	32,813.1	12,688.5

As of December 31, 2014	7,253.5	35,823.9	13,224.2
Proved undeveloped reserves			
As of December 31, 2012	3,622.3	35,974.7	9,618.1
As of December 31, 2013	3,600.7	36,509.5	9,685.6
As of December 31, 2014	3,339.9	35,273.6	9,218.8

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

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Our proved undeveloped reserves were 9,218.8 million BOE in 2014. The main changes in our proved undeveloped reserves in 2014 include (i) the conversion of 2,089.2 million BOE of proved undeveloped reserves into proved developed reserves; and (ii) an increase of 1,622.4 million BOE in proved undeveloped reserves through extensions and discoveries as well as revisions of previous data as a result of improved discoveries. In 2014, we spent RMB130,912 million on developing proved undeveloped reserves. The overwhelming majority of our proved undeveloped reserves are situated around the oil fields that are currently producing. The majority of our proved undeveloped reserves are already scheduled for development within five years after initial booking.

Some of our natural gas proved undeveloped reserves are being developed more than five years after their initial disclosure primarily due to the effect of long-term natural gas supply contracts. The sale of natural gas produced from our reserves located in China is subject to our long-term contractual obligations to provide a stable supply of natural gas to customers. We sell all of the natural gas through our pipelines and under long-term supply arrangements with customers.

There are mainly two types of long-term supply arrangements. The first is multi-year supply contracts with terms ranging from 20 to 30 years that can be extended upon mutual agreement. The second type is renewable annual contracts. The majority of the natural gas produced from our gas fields in China is put into our nationwide, long-range pipeline system and sold to customers who have entered into multi-year supply contracts with us in the areas where the long-range pipeline system covers. A small portion of the natural gas produced by our company is put into local or internal pipeline systems and sold to customers in the areas adjacent to the company s gas fields. These customers typically have formed de-facto long-term relationships with our company over the years and enter into supply contracts with us before the yearend to determine the amount of gas to be purchased for the next year, with such contracts being renewed every year. In general, our supply relationships with customers under the annual contracts have existed for more than ten years.

Mainly as a result of our contractual obligations to ensure a long-term, stable supply of natural gas to customers, we must maintain a relatively large amount of proved undeveloped natural gas reserves and develop them over an extended period of time (in some cases, longer than five years).

The following tables set forth our crude oil and natural gas proved reserves and proved developed reserves by region as of December 31, 2012, 2013 and 2014.

	As of December 31,					
	2012		2013		2014	
	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	2,697.1	2,078.1	2,484.9	1,895.2	2,267.1	1,710.8
Changqing	2,257.7	1,623.2	2,383.5	1,745.3	2,553.5	1,913.6
Xinjiang	1,512.5	1,050.2	1,548.6	1,024.7	1,535.1	1,028.9
Other regions(1)	4,550.7	2,644.2	4,403.3	2,554.4	4,237.7	2,600.2
Total	11,018.0	7,395.7	10,820.3	7,219.6	10,593.4	7,253.5

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	As of December 31,					
	2012		2013		2014	
	Proved Developed and Undeveloped	Proved Developed	Proved Developed and Undeveloped	Proved Developed	Proved Developed and Undeveloped	Proved Developed
			(bcf)			
Natural gas reserves						
Changqing	22,521.1	11,111.9	22,610.0	11,275.3	23,030.1	10,796.6
Tarim	20,250.4	7,939.3	20,770.7	8,967.2	22,434.2	12,495.5
Chuanyu	10,976.7	3,270.3	12,490.3	3,488.4	12,841.8	3,781.2
Other regions[2]	13,833.0	9,285.0	13,451.6	9,082.2	12,791.4	8,750.6
Total	67,581.2	31,606.5	69,322.6	32,813.1	71,097.5	35,823.9

(1) Represents other oil regions in China and our overseas oil and gas fields.

(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.

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
2012					
Net exploratory wells drilled[2]	178	129	737	707	1,751
Crude oil	163	84	434	313	994
Natural gas	8		129	229	366
Dry[3]	7	45	174	165	391
Net development wells drilled[2]	4,498	2,018	9,289	4,127	19,932
Crude oil	4,464	2,012	8,098	3,052	17,626
Natural gas	10	6	1,050	1,030	2,096
Dry[3]	24		141	45	210
2013					
Net exploratory wells drilled[2]	182	128	1,072	636	2,018
Crude oil	164	89	638	298	1,189
Natural gas	8		150	179	337
Dry[3]	10	39	284	159	492
Net development wells drilled[2]	4,909	1,716	5,981	4,181	16,787
Crude oil	4,893	1,700	4,899	2,804	14,296

Natural gas	9	16	994	1,336	2,355
Dry(3)	7		88	41	136
2014					
Net exploratory wells drilled(2)	98	132	995	557	1,782
Crude oil	76	68	615	309	1,068
Natural gas	14	1	137	97	249
Dry(3)	8	63	243	151	465
Net development wells drilled(2)	5,134	1,559	5,611	3,832	16,136
Crude oil	5,106	1,537	4,983	3,076	14,702
Natural gas	16	22	525	731	1,294
Dry(3)	12	0	103	25	140

(1) Represents the Liaohe, Jilin, Huabei, Dagang, Sichuan, Tarim, Tuha, Qinghai, Jidong, Yumen, Zhejiang, southern 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 340 wells in the process of being drilled and 17,918 wells with multiple completions as of December 31, 2014.

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, 2014.

			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	69,222	307	1,019.58	94.78	718.20	104.11
Changqing	53,231	9,679	1,047.17	4,746.46	565.80	2,444.00
Xinjiang	30,987	265	377.50	58.1	167.52	17.1
Other regions[2]	69,393	5,266	1,493.37	979.30	970.45	1,138.14
Total	222,833	15,517	3,937.62	5,878.64	2,421.97	3,703.35

(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, Southwestern, Tarim, Tuha, Qinghai, Jidong, Yumen, Zhejiang, southern and other oil regions.

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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, 2012, 2013 and 2014.

	For the Year Ended December 31,			% of
	2012	2013	2014	2014 Total
Crude oil production[1]				
(thousands of barrels per day, except percentages or otherwise indicated)				
Daqing	799.3	797.5	792.3	30.6
Changqing	456.4	492.0	506.8	19.6
Xinjiang	222.7	234.8	238.9	9.2
Other[2]	1,025.8	1,031.4	1,052.3	40.6
Total	2,504.2	2,555.8	2,590.3	100.0
Annual production (million barrels)	916.5	932.9	945.5	
Average sales price (US$ per barrel)	103.65	100.42	94.83	
Natural gas production[1][3]				
(millions of cubic feet per day, except percentages or otherwise indicated)				
Changqing	2,421.5	2.865.9	3,186.3	38.4
Tarim	1,739.2	1,995.3	2,099.4	25.3
Chuanyu	1,198.6	1,148.9	1,252.6	15.1
Other[4]	1,632.1	1,666.2	1,759.7	21.2
Total	6,991.4	7,676.3	8,298.0	100.0
Annual production (Bcf)	2,558.8	2,801.9	3,028.8	
Average realized price (US$ per Mcf)[5]	5.04	5.61	6.30	

(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.
(5) For natural gas citygate price, please refer to Item 5 Operating and Financial Review and Prospects Overview .

In 2014, we supplied a substantial majority of our total crude oil sales to our refineries. In addition, we entered into a crude oil mutual supply framework agreement with Sinopec in January 2015 for the supply of crude oil to each other s refineries in 2015. Under this agreement, we agreed in principle to supply 4.74 million tons of crude oil to Sinopec in 2015. For the years ended December 31, 2012, 2013 and 2014, the average lifting costs of our crude oil and natural gas production were US$11.74 per BOE, US$13.23 per BOE and US$13.76 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 2012, 2013 and 2014, our crude oil production volume in the Daqing oil region was 799.3 thousand barrels per day, 797.5 thousand barrels per day and 792.3 thousand barrels per day, respectively. As of December 31, 2014, we produced crude oil from 39 fields in the Daqing oil region.

As of December 31, 2014, our proved crude oil reserves in the Daqing oil region were 2,267.1 million barrels, representing 21.4% of our total proved crude oil reserves. As of December 31, 2012 and 2013, the proved crude oil reserves in our Daqing oil region were 2,697.1 million barrels and 2,484.9 million barrels, respectively. In 2014, the crude oil reserve-to-production ratio of the Daqing oil region was 7.7 years.

Daqing s crude oil has 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.

Changqing Oil and Gas Region

The Changqing oil and gas region covers parts of Shaanxi Province, Gansu Province, Ningxia, Inner Mongolia and Shanxi Province. As of December 31, 2014, our proved crude oil reserves in the Changqing oil region were 2,553.5 million barrels, representing 24.1 % of our total proved crude oil reserves. In 2014, our crude oil production in the Changqing oil region averaged 506.8 thousand barrels per day, representing approximately 19.6% of our total daily crude oil production. In 2014, the crude oil reserve-to-production ratio at the Changqing oil region was 13.8 years.

In the early 1990s, we discovered the Changqing oil and gas region, which had total estimated proved natural gas reserves of 23,030.1 Bcf as of December 31, 2014, representing 32.4% of our total proved natural gas reserves. In January 2001, we discovered the Sulige gas field in the Changqing oil and gas region, which had total estimated proved natural gas reserves of 10,569.4 Bcf as of December 31, 2014. Sulige gas field is currently the largest gas field in China. In 2014, the Changqing oil and gas region produced 1,163.0 Bcf of natural gas for sale, representing an increase of 11.2% from 1,046.1 Bcf in 2013.

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, 2014, our proved crude oil reserves in the Xinjiang oil region were 1,535.1 million barrels, representing 14.5% of our total proved crude oil reserves. In 2014, our oil fields in the Xinjiang oil region produced an average of 238.9 thousand barrels of crude oil per day, representing approximately 9.2% of our total daily crude oil production. In 2014, the crude oil reserve-to-production ratio at the Xinjiang oil region was 17.6 years.

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, 2014, the proved natural gas reserves in the Tarim oil and gas region reached 22,434.2 Bcf, representing 31.6% of our total proved natural gas reserves.

In 2014, we produced 766.3 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 Pipelines. See Natural Gas and Pipeline Natural Gas Transmission Infrastructure for a discussion of our West-East Gas Pipeline.

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Chuanyu Gas Region

We began natural gas exploration and production in the Chuanyu gas region in the 1950s. The Chuanyu gas region covers a total area of approximately 2.3 million acres. The natural gas reserve-to-production ratio in the Chuanyu gas region was approximately 28.1 years in 2014. As of December 31, 2014, we had 114 natural gas fields under development in the Chuanyu gas region. In 2013, our proved gas reserves increased by 6,621.6 Bcf cubic meters in the Anyue gas field located in the Chuanyu gas region. This is the largest ever monomer marine uncompartmentalized carbonate gas reservoir discovered in China and represents one of our major breakthroughs in the exploration of gas reserves.

As of December 31, 2014, our proved natural gas reserves in the Chuanyu gas region were 12,841.8 Bcf, representing 18.1% of our total proved natural gas reserves and an increase of 2.8% from 12,490.3 Bcf as of December 31, 2013. In 2014, our natural gas production for sale in the Chuanyu gas region reached 457.2 Bcf, representing 15.1% of our total natural gas production for sale.

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Refining and Chemicals

We now operate 28 enterprises located in eight 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, 2012, 2013 and 2014:

	Year Ended December 31,		
	2012	2013	2014
Revenue (RMB in millions)	883,218	871,815	846,082
Loss from operations (RMB in millions)	(43,511)	(24,392)	(23,560)
Crude oil processed (million barrels)	1,012.5	992.3	1,010.6
Crude oil primary distillation capacity (million barrels/year)	1,160.8	1,174.1	1,248.0
Production of refined oil products (thousand tons)	91,016	90,282	92,671

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, 2012, 2013 and 2014.

	Year Ended December 31,		
Principal Product	2012	2013	2014
	(In thousands of tons)		
Diesel	59,227	56,876	57,627
Gasoline	28,381	29,294	30,688
Kerosene	3,408	4,112	4,356
Lubricants	1,838	1,886	1,581
Fuel oil	3,874	3,802	3,423
Naphtha	9,876	9,056	9,966

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 railways, which provide our refineries with secure supplies of crude oil and facilitate our distribution of refined products to the domestic markets. In 2014, we further optimized our production processes and increased our refinery capacity. We also completed upgrade of diesel quality to ensure compliance with China IV standards. In addition, we have begun to further upgrade diesel quality to ensure compliance with China V standards in such key areas as the Beijing-Tianjin-Hebei region, the Yangtze River Delta, and the Pearl River Delta. In 2014, Sichuan Petrochemical began production, and Guangxi Petrochemical put into operation its completed sulfur crude oil processing projects. The Yunnan refinery project, with a capacity over 10 million tons, is progressing as scheduled. In each of the years ended December 31, 2012, 2013, and 2014, our exploration and production operations supplied approximately 66.3% , 68.8%, and 68.7%, 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, 2012, 2013 and 2014.

	As of December 31,		
	2012	2013	2014
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	222.7	222.7
Dushanzi Petrochemical	202.4	202.4	202.4
Guangxi Petrochemical	202.4	202.4	202.4
Jilin Petrochemical	198.4	198.4	198.4
Sichuan Petrochemical			202.4
Other refineries	1,712.6	1,763.2	1,763.2
Total	3,180.3	3,216.7	3,419.2
Refining throughput (thousand barrels per day)			
Lanzhou Petrochemical	202.3	212.6	185.4
Dalian Petrochemical	329.1	281.9	259.1
Fushun Petrochemical	152.2	167.8	170.5
Dushanzi Petrochemical	180.7	183.4	181.2
Guangxi Petrochemical	174.1	137.3	143.8
Jilin Petrochemical	168.5	173.5	168.7
Sichuan Petrochemical			125.4
Other refineries	1,559.6	1,562.0	1,534.6
Total	2,766.5	2,718.5	2,768.7

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

In each of the years ended December 31, 2012, 2013 and 2014, the average utilization rate of the primary distillation capacity at our refineries was 90.1% , 87.3% and 86.1%, respectively, and the average yield for our four principal refined products (gasoline, kerosene, diesel and lubricants) at our refineries was 67.8%, 68.6% and 68.9% respectively. 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, 2012, 2013 and 2014, the yield for all refined products at our refineries was 93.8% , 93.4% and 93.8%, respectively.

Dalian Petrochemical, Lanzhou Petrochemical, Dushanzi Petrochemical, Guangxi Petrochemical, Sichuan Petrochemical, Fushun Petrochemical and Jilin Petrochemical were our leading refineries in terms of both primary distillation capacity and refining throughput in 2014.

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 2014, we purchased a small amount of crude oil, through independent suppliers, from Sudan, which is on the U.S. sanction list. The crude oil so purchased was mingled with crude oil from other sources during the refining process. The revenue generated from our refinery from the crude oil purchased from Sudan accounted for 0.1% of our total revenue in 2014.

Chemicals

Most of our chemical plants are close to our refineries and are connected to the refineries by pipelines, providing additional production flexibility and opportunities for cost competitiveness. The raw materials required by our chemicals operations have been supplied by our own refineries.

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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, 2012, 2013 and 2014.

	Year Ended December 31,		
	2012	2013	2014
	(In thousand tons)		
Basic petrochemicals			
Propylene	4,074	4,257	4,600
Ethylene	3,690	3,982	4,976
Benzene	1,627	1,689	1,771
Derivative petrochemicals			
Synthetic resin	6,089	6,537	7,951
Other synthetic fiber raw materials and polymer	1,595	1,218	1,293
Synthetic rubber	633	665	745
Other chemicals			
Urea	4,408	3,771	2,663

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, 2014, our annual ethylene production capacity was 5,910 thousand tons. We produce a number of synthetic resin products, including polyethylene, polypropylene and ABS. As of December 31, 2014, our production capacities for polyethylene, polypropylene and ABS were 5,062 thousand tons, 4,140 thousand tons and 705 thousand tons, respectively. In 2014, the 800 thousand tons-per-year ethylene project at Sichuan Petrochemical was completed and put into production.

Marketing of Chemicals

Our chemical products are distributed to a number of industries including the 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, 2012, 2013 and 2014.

	Year Ended December 31,		
Product	2012	2013	2014
	(In thousands tons)		
Derivative petrochemicals			
Synthetic resin	5,980.4	6,540.8	7,718.9
Synthetic fiber	107.4	101.8	86.4
Synthetic rubber	661.4	804.6	793.7
Intermediates	8,201.0	9,312.7	8,149.6
Other chemicals			
Urea	4,303.6	3,943.7	2,681.8

In each of the years ended December 31, 2012, 2013 and 2014, our capital expenditures for our refining and chemicals segment were approximately RMB36,009 million, RMB26,671 million and RMB30,965 million, respectively. These capital expenditures were incurred primarily in connection with the expansion of our refining facilities, the upgrading of our product quality and the construction of large ethylene projects. In addition, we are also focusing 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 the product specification and environmental protection requirements as set by the PRC government.

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Marketing

We engage in the marketing of refined products through 37 regional sales 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, 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, 2012, 2013 and 2014:

	Year Ended December 31,		
	2012	2013	2014
Revenue (RMB in millions)	1,890,558	1,946,806	1,938,501
Income from operations (RMB in millions)	16,391	7,562	5,421
External sales volume of refined oil products (thousand tons)	153,277	159,133	160,878

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, 2014, our marketing network consisted of:

- Numerous nationwide wholesale distribution outlets. All of these outlets are located in high demand areas across China, particularly in the coastal areas, along major railways and along the Yangtze River; and

- 20,422 service stations, consisting of 19,806 service stations owned and operated by us and 616 franchised service stations owned and operated by third parties.

The PRC government and other institutional customers, including railway, transportation and fishery operators, are 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, 2012, 2013 and 2014.

Product	Year Ended December 31, 2012	2013	2014
	(In thousands tons)		
Diesel	94,515	93,301	87,041
Gasoline	47,407	52,350	59,821
Kerosene	11,355	13,482	14,016
Lubricants	2,104	1,740	1,498

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 11.1 tons per service station in 2012, 11.0 tons per service station in 2013 and 10.8 tons per service station in 2014.

Capital expenditures for the marketing segment for the years ended December 31, 2012, 2013 and 2014 amounted to RMB14,928 million, RMB7,101 million and RMB5,616 million, respectively, 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 industrial companies, power plants, fertilizer and chemical companies, commercial users and municipal utilities owned by local governments. In addition, we also transmit crude oil and refined products 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, 2012, 2013 and 2014:

	As of December 31 or Year Ended December 31,		
	2012	2013	2014
Revenue (RMB in millions)	202,196	232,751	284,262
Income (loss) from operations (RMB in millions)	(2,110)	28,888	13,126
Total length of natural gas pipelines (km)	40,995	43,872	48,602
Total length of crude oil pipeline (km)	16,344	17,614	18,107
Total length of refined oil products pipeline (km)	9,437	9,534	10,086
Total volume of natural gas sold[(1)] (Bcf)	3,015.5	3,480.0	4,424.2

(1) Represents the natural gas sold to third parties

Our Principal Markets for Natural Gas

In 2014, in addition to satisfying the demand of the northwestern, southern, central and northeastern regions of China, we sold our natural gas mainly to the northern, eastern and southeastern 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 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, and Henan Province and Hubei Province located in the central China have become our significant natural gas markets.

We have entered into contracts to provide approximately 3,356.0 Bcf of natural gas in 2015. However, the committed quantity of supply may be adjusted by the buyers and us in the course of the performance of the contracts in light of the actual situation.

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 consumption in order to reduce the air pollution level. The PRC government has also adopted a preferential value-added tax rate of 13% for natural gas production as compared to a 17% value-added tax rate for crude oil production.

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

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Natural Gas Transmission Infrastructure

As of December 31, 2014, we owned and operated approximately 48,602 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 a national trunk network for natural gas supply and the 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 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 main branch lines and numerous accessory branch lines, and two underground storage facilities, with a total length of 4,380 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.

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. By the end of 2012, the main line and branch lines as well as the Hong Kong branch line of the Second West-East Gas Pipeline were all completed and put into operation. The Second West-East Gas Pipeline includes one main line, eight main branch lines and numerous accessory branch lines and three underground storage facilities, with a total length of 8,819 kilometers. The main line of the Second West-East Gas Pipeline has a length of 4,886 kilometers. The western section of the main line extends from Horgos to Zhongwei with a length of 2,325 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 2,561 kilometers and a designed annual throughput capacity of 988.8 Bcf.

The Third West-East Gas Pipeline

The main line of the Third West-East Gas Pipeline extends from Horgos to Fuzhou via Zhongwei. It consists of five main branch lines, including the Yining-Horgos Line, and numerous accessory branch lines, with a total length of 6,840 kilometers and a designed annual throughput capacity of 1,059.4 Bcf. By the end of 2014, the western section of the Third West-East Gas Pipeline that extends from Horgos to Zhongwei was completed, with a length of 2,459 kilometers. The middle section that extends from Zhongwei to Ji an is 2,030 kilometers long and is scheduled to be completed by 2017. The eastern section which extends from Ji an to Fuzhou is 825 kilometers long and is scheduled to be completed and put into operation by 2015.

In addition, we also operate other natural gas pipelines, such as the Zhong County-to-Wuhan natural gas pipeline, the first, the second and the third Shaanxi-to-Beijing natural gas pipelines and Sebei-to-Lanzhou 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, 2014, the crude oil transportation and storage infrastructure operated by us consisted of:

- 18,107 kilometers of crude oil pipelines; and
- crude oil storage facilities with an aggregate storage capacity of approximately 30.4 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, or NDRC. In September 2010, we completed construction of the entire line and put it into commercial production in January 2011. We were the builder and operator of the section crossing the Heilongjiang River and the section which 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. This pipeline is 935 kilometers long and has a designed transmission capacity of 15 million tons.

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

Refined Product Transportation and Storage Infrastructure

As of December 31, 2014, the refined product transportation and storage infrastructure operated by us consisted of:

- 10,086 kilometers of refined product pipelines; and
- refined product storage facilities with a total storage capacity of approximately 35.5 million cubic meters.

The Lanzhou-to-Zhengzhou-to-Changsha Pipeline

We received approval from the NDRC for and commenced construction of the Lanzhou-to-Zhengzhou-to-Changsha refined oil pipeline in December 2007. The pipeline starts from Lanzhou of Gansu Province and terminates at Changsha of Hunan Province, with a total length of 3,133 kilometers, including the length of all the main lines and branch lines. We finished 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. The construction of all the main line and branch lines was completed by October 2013.

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 China Petroleum and Chemical Corporation, or Sinopec, 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 other domestic oil and gas companies 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. In addition, the gradual development of the low-cost shale gas and shale oil in the United States has had a material effect on our business. We believe that our experience in crude oil and natural gas exploration and production and our advanced exploration and development technologies that are suitable for diverse geological conditions in China will enable us to maintain our dominant position in discovering and developing crude oil and natural gas reserves in China.

Refining and Chemicals Operations and Marketing Operations

We compete with Sinopec in our refining and chemicals operations and marketing operations on the basis of price, quality and customer service. Most of our refineries and chemical plants are located in the northeastern and northwestern regions of China where we have the dominant market share for refined products and chemical products. We sell the remainder of our refined products and chemical products to the eastern, southern, southwestern and central-southern regions of China, where our products have a considerable market share. The eastern and southern regions of China, where refined products and chemical products are in higher demand, are important markets for our refined products and chemical products. Sinopec has a strong presence in the eastern and southern regions of China in competition with us, and most of Sinopec s refineries, chemical plants and distribution networks are located in these regions in close proximity to these markets. Moreover, as the newly constructed facilities of CNOOC commenced operation in the same region, large quantity of chemical products have been marketed into that area. In addition, the further diversification of the market players in China s domestic market and the continuous increase in production capacity of low-cost petrochemical products in the Middle East have a material effect on our business. As a result, the competition has further intensified. We expect that we will continue to face competition 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. In recent years, 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 expect to face additional competitive challenges in the refined and chemical products market. In response, we have 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 in terms of sales volume. Currently, we face competition from Sinopec, CNOOC and coal-based natural gas producers in the supply of natural gas to 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. We have also expanded 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 our 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

Like other companies in the industries in which we operate, we are subject to numerous national, regional and local environmental laws and regulations promulgated by the governments in those jurisdictions. 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;

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

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

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

We anticipate that the environmental laws and regulations to which we are subject will become increasingly strict and are therefore likely to have an increasing impact on our operations. It is difficult, however, to predict accurately the effect of future developments in such laws and regulations on our future earnings and operations. Some risk of environmental costs and liabilities is inherent in 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 RMB327 million, RMB378 million and RMB385 million, in 2012, 2013and 2014, 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 sulfur 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 2012, 2013 and 2014 were approximately RMB1.94 billion, RMB2.55 billion and RMB4.00 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 reduce 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

On September 3 and 6, 2013, two respective class action complaints were filed with the United States District Court for the Southern District of New York (the Court) against the Company and certain former and current directors and senior management of the Company for alleged violations of the securities laws of the

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United States. These complaints were filed in light of PRC authorities investigation into certain former directors and senior management of the Company. The Company (through the designated legal documents delivery agent of the Company in the United States) has been served with notices of the complaints, with no details on the amounts claimed. The Company made announcements on September 6, 2013 and November 26, 2013, respectively, in relation to the actions.

On April 4, 2014, the Court entered an order to consolidate the related actions and appointed a lead plaintiff and lead counsel.

On June 6, 2014, the lead plaintiff submitted a revised complaint whereby the Company s current directors and senior management were removed from the complaint and the individual defendants only include the former directors and senior management of the Company. The relevant charges set out in the complaint were basically the same as those in the previous complaint.

On August 5, 2014, in view of the revised complaint, the Company filed a motion to dismiss.

On November 24, 2014, upon approval by the court, the U.S. plaintiff further submitted a revised joinder complaint. In view of the complaint, the Company filed another motion to dismiss on February 13, 2015.

On April 10, 2015, the Court held a pre-motion conference to discuss the plaintiff s request for submission of supplemental pleadings, and the Court dismissed the plaintiff s request.

The normal course of business of the Company has not been affected by these complaints. The Company will proactively and vigorously contest the complaint with its best efforts to protect the legitimate rights and interests of the Company.

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

Properties

We own substantially all of our properties, plants and equipment relating to our business activities. 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 121 International Trademark Registration Certificates for our logo covering more than 50 jurisdictions**.**

As of December 31, 2014, we owned approximately 8,859 patents in China and other jurisdictions. We were granted 1,480 patents in China in 2014.

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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 to grant, examine and approve oil and gas exploration and production licenses, and to oversee the registration and transfer of exploration and production licenses.

The Ministry of Commerce:

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

is responsible 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 maximum retail 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 Catalogs 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 in each corresponding block. 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

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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 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 NDRC. 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 NDRC 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 macroeconomic controls, introduced a mechanism for determining the prices of refined products.

On December 18, 2008, the NDRC issued the *Notice on Implementing Price and Tax Reform of Refined Oil (Guo Fa [2008] No. 37)*, which further improved the pricing mechanism for refined oil products. Under the improved mechanism, the domestic ex-factory prices of refined oil products are determined on the basis of the relevant international crude oil prices, by taking into consideration the average domestic processing cost, tax and a pre-determined profit margin. The prices of diesel and gasoline continue to follow the government guiding prices. The highest retail price set for gasoline and diesel is calculated by using the relevant ex-factory price and a determined profit margin for retailing activities.

On March 26, 2013, the NDRC issued the *Notice on Further Improvement of Refined Oil Pricing Mechanism (Fa Gai Jia Ge [2013] No. 624)* and the amended and restated *Measures for Oil Prices Management (on trial)*. The amended and restated Measures for Oil Prices Management (on trial) follow the provisions of the document under *Fa Gai Jia Ge [2009] No. 1198*. Under this new system, (i) the price adjustment period was shortened from 22 working days to 10 and the 4% limit on the price adjustment range was eliminated; (ii) the composition of the basket of crudes to which refined oil products prices are linked will be adjusted accordingly in light of the composition of the imported crudes and changes in crudes trading on the international market; and (iii) the refined oil products pricing mechanism will be further enhanced.

In order to promote the oil product quality upgrading, on September 16, 2013, the NDRC issued the *Circular regarding Relevant Opinions on the Pricing Policy for Oil Product Quality Upgrading*, pursuant to which the price increase standard for the auto-use gasoline and diesel upgraded to China IV Standard shall be set as RMB290 per ton and RMB370 per ton, respectively and the price increase standard for the auto-use gasoline and diesel upgraded from China IV to China V Standard shall be set at RMB170 per ton and RMB160 per ton, respectively.

Chemical Products

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

Natural Gas

The citygate 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 NDRC 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 NDRC raised the median ex-factory prices of the domestic onshore natural gas and as a result, 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.

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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, 2011, 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 unconventional natural gas such as the shale gas, coal seam gas and coal gas to allow them to be formed through market competition.

In the fourth quarter of 2012, in order to secure a stable supply on the local natural gas market, Sichuan Province and Chongqing Municipality implemented a natural gas pricing mechanism reform and adjusted their local natural gas supply price by referring to the reform model in Guangdong Province and Guangxi Province. After such adjustment, the natural gas citygate price in Sichuan and Chongqing increased by RMB0.18/cubic meter on average.

On June 28, 2013, the NDRC announced a new program for the adjustment of the price of natural gas, which was put into effect nationwide on July 10, 2013. The new program is of great significance to the promotion of the healthy and sustainable development of China s natural gas industry and market. The new program consists of (i) changing the mechanism administering the price of natural gas from ex-factory control to citygate control, and no longer differentiating the prices payable by the users in different provinces by considering the difference in gas sources and transportation routes; (ii) establishment of the mechanism linking the citygate price of natural gas to the price of alternative energy in order to establish the pricing mechanism for natural gas and alternative energy and finally achieve a completely market-driven pricing for natural gas; (iii) adopting differential pricing approaches towards the existing usage and the incremental usage so as to establish as soon as practicable a new pricing mechanism for natural gas while reducing the impact that the pricing reform will have on existing gas users, under this program, the adjustment to the price of the incremental usage will be implemented in one step while the adjustment to the price of the existing usage will be implemented in multiple steps and is targeted to be fully implemented by the end of the 12th Five-year Plan.

On August 10, 2014, based on the existing natural gas price reform roadmap, the NDRC issued price adjustment programs for non-resident natural gas, effective from September 1, 2014 in China. The main provisions are: (i) the natural gas citygate price for existing supplies to non-residential customers shall be increased by RMB400 per thousand cubic meters, if the natural gas price for new supplies were kept at current levels; (ii) no adjustment will be made to the citygate price for natural gas consumed by residential users; and (iii) further actions will be taken to implement the policy in connection with the liberalization of the sales price of imported liquefied natural gas (LNG) and the prices for shale gas, coal-seam gas and coal gas.

The NDRC 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 NDRC 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 NDRC 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.

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Production and Marketing

Crude Oil

Each year, the NDRC 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 but not limited to 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 with the required qualifications 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 NDRC determines each year the annual national natural gas production target based on the natural gas production targets submitted by domestic natural gas producers including PetroChina. Domestic natural gas producers determine their annual natural gas production targets on the basis of consumption estimates. The actual production volume of each producer is determined by the producer itself, which may deviate from the production target submitted by it. The NDRC also formulates the annual natural gas guidance supply plan, which requires natural gas producers to distribute a specified amount of natural gas to designated key municipalities and key enterprises.

Foreign Investments

Cooperation in Exploration and Production with Foreign Companies

Currently, CNPC is one of the few Chinese companies that 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.

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Transportation and Refining

Since December 1, 2007, PRC regulations have encouraged foreign investment in the construction and operation of oil and gas pipelines and storage facilities. On March 10, 2015, PRC abandoned the restrictions on foreign investment in refineries with a production capacity of below 10 million tons per annum. 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 NDRC:

(1) overall development plans for oil and gas development projects in China to be conducted in cooperation with foreign parties;

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

(3) cross-province (region or municipality) trunk network for gas transmission;

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

(5) coal-to-methanol-to-olefins project with a capacity of 0.5 million tons per annum or more and coal-to-methanol project with a capacity of 1 million tons per annum or more;

Taxes, Fees and Royalties

PetroChina is subject to a variety of taxes, fees and royalties. The table below sets forth the major taxes, fees and royalty fees payable by PetroChina or by Sino-foreign oil and gas exploration and development cooperative projects. PetroChina s subsidiaries which have 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. On November 16, 2011, the Ministry of Finance and the State Administration of Taxation promulgated the Plan for Implementation of the Pilot Reform for Collection of Value-added Tax in Lieu of Business Tax which sets forth

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Tax Item	Tax Base	Tax Rate
		the guidelines, principles and major contents of the pilot reform. Pursuant to the Plan, effective from January 1 and September 1, 2012, respectively, in pilot provinces and municipalities including Shanghai and Beijing, a pilot reform has been implemented on a step-by-step basis or completed to collect value-added tax in lieu of business tax on the revenue generated from transportation services and certain modern services, and effective from August 1, 2013, the pilot reform has been implemented across the nation. Certain pipeline transmission services and research and development technical services of our company have since then been subject to value-added-tax at the rates of 11% and 6%, respectively.
Business tax		Collected at rates prescribed by the state based on the actual contents of the services.
Consumption tax	Aggregate volume sold or self-consumed	Effective from November 29, 2014, the consumption tax on gasoline, naphtha, solvent naphtha and lubricant was increased from RMB1.0 per liter to RMB1.12 per liter, and the consumption tax on diesel oil, aviation kerosene and fuel oil was increased from RMB0.8 per liter to RMB0.94 per liter. Collection of taxes on aviation kerosene shall continue to be suspended.
		Effective from December 13, 2014, the consumption tax on gasoline, naphtha, solvent naphtha and lubricant was increased from RMB1.12 per liter to RMB1.4 per liter, and the consumption tax on diesel oil, aviation kerosene and fuel oil was increased to RMB1.1 per liter from RMB0.94 per liter. Collection of taxes on aviation kerosene shall continue to be suspended.
Resource tax	Value sold	Effective from December 1, 2014, the applicable rate of resource tax on oil and gas was increased from 5% to 6%.
		Certain oil fields, however, may enjoy certain preferential treatment with respect to 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	Effective from December 1, 2014, the compensatory fee for mineral resources with respect to oil and gas shall be reduced to zero.
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.

On December 26, 2014, the Ministry of Finance issued the *Notice on the Increase of the Threshold of the Crude Oil Special Gain Levy*, which stipulates that the threshold of the

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Tax Item	Tax Base	Tax Rate
		crude oil special gain levy will be increased from US$55 per barrel to US$65 per barrel as of January 1, 2015. After the increase, the crude oil special gain levy continues to be collected at the five-level progressive tax rates.
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, the 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 contracts signed before December 1, 2010 continue to be subject to the royalty fee until the contracts expire. Effective from November 1, 2011, the royalty fee payable by new Sino-foreign oil and gas exploration and development cooperative projects in the whole country was replaced by the resource tax, while those cooperative projects under contracts signed before November 1, 2011 continue to be subject to the 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 authority 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 authority has inspected the environmental equipment installed at the facility and decides it satisfies the environmental protection requirements. 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 authority 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 authority 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.

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ITEM 5 *OPERATING AND FINANCIAL REVIEW AND PROSPECTS*

General

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

Overview

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

- the exploration, development, production and sale of crude oil and natural gas;
- the refining of crude oil and petroleum products, and the production and marketing of basic petrochemical products, derivative chemical products and other chemical products;
- marketing of refined oil products and trading; 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 revenue. In 2014, we produced approximately 945.5 million barrels of crude oil and approximately 3,028.8 Bcf of natural gas for sale. Our refineries also processed approximately 1,010.6 million barrels of crude oil in 2014. In 2014, we had turnover of RMB2,282,962 million and profit attributable to owners of our company of RMB107,172 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 2012, 2013 and 2014.

	2012	2013	2014
Crude oil (US$/barrel)	103.65	100.42	94.83
Natural gas (US$/thousand cubic feet) (1)	6.74	7.35	7.84

Gasoline (US$/barrel)	149.23	149.42	140.85
Kerosene (US$/barrel)	128.32	122.94	116.45
Diesel (US$/barrel)	148.84	146.61	139.72

(1) Natural gas citygate price

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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.

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 when incurred. However, all costs for developmental wells, support equipment and facilities, and proved 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 classified as oil and gas assets and go through impairment review if the evaluation indicates that economic benefits can be obtained. For wells with 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 material 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

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quantities of crude oil and natural gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulation before the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether the estimate is a deterministic estimate or probabilistic estimate. 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, Singapore and Canada. 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 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. The price shall be the average price during the 12-month period before the ending date of the period covered by this 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.

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

In addition, due to the importance of these estimates in 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

Where it is probable that property, plant and equipment, including oil and gas properties, will generate future economic benefits, their costs are initially recorded in the consolidated statement of financial position as assets. 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.

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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 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.

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Our income statement for each of the years ended December 31, 2012, 2013 and 2014 is summarized in the table below.

	Year Ended December 31,		
	2012	2013	2014
	(RMB in millions)		
Turnover	2,195,296	2,258,124	2,282,962
Operating expenses	(2,020,777)	(2,069,482)	(2,113,129)
Profit from operations	174,519	188,642	169,833
Exchange gain /(loss), net	131	52	(2,313)
Interest expense, net	(16,101)	(20,859)	(21,723)
Share of profit of affiliates and joint ventures	8,262	10,228	10,962
Profit before income tax expense	166,811	178,063	156,759
Income tax expense	(36,191)	(35,789)	(37,731)
Profit for the year attributable to non-controlling interest	15,294	12,675	11,856
Profit for the year attributable to owners of the company	115,326	129,599	107,172

The table below sets forth our turnover by business segment for each of the years ended December 31, 2012, 2013 and 2014 as well as the percentage changes in turnover for the periods shown.

	2012	2013	2013 vs 2012	2014	2014 vs. 2013
	(RMB in millions, except percentages)				
Turnover					
Exploration and production	789,818	783,694	(0.8%)	777,574	(0.8%)
Refining and chemicals	883,218	871,815	(1.3%)	846,082	(3.0%)
Marketing	1,890,558	1,946,806	3.0%	1,938,501	(0.4%)
Natural gas and pipeline	202,196	232,751	15.1%	284,262	22.1%
Other	2,530	2,687	6.2%	3,027	12.7%
Total	3,768,320	3,837,753	1.8%	3,849,446	0.3%
Less intersegment sales	(1,573,024)	(1,579,629)	0.4%	(1,566,484)	(0.8%)
Consolidated net sales from operations	2,195,296	2,258,124	2.9%	2,282,962	1.1%

The table below sets forth our operating income by business segment for each of the years ended December 31, 2012, 2013 and 2014, 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.

	2012	2013	2013 vs. 2012	2014	2014 vs. 2013
	(RMB in millions, except percentages)				
Profit/(loss) from operations					
Exploration and production	214,955	189,698	(11.7%)	186,897	(1.5%)
Refining and chemicals	(43,511)	(24,392)	(43.9%)	(23,560)	(3.4%)
Marketing	16,391	7,562	(53.9%)	5,421	(28.3%)
Natural gas and pipeline	(2,110)	28,888		13,126	(54.6%)
Other	(11,206)	(13,114)	17.0%	(12,051)	(8.1%)
Total	174,519	188,642	8.1%	169,833	(10.0%)

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Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Consolidated Results of Operations

Overview

Our turnover was RMB2,282,962 million in 2014, representing an increase of 1.1% compared to the preceding year. Profit attributable to owners of the company in 2014 was RMB107,172 million, representing a decrease of 17.3% compared to the preceding year. The basic and diluted earnings per share attributable to owners of the company were RMB0.59 in 2014, representing a decrease of RMB0.12 compared to the preceding year.

Turnover Turnover increased by 1.1% from RMB2,258,124 million in 2013 to RMB2,282,962 million in 2014. This increase was primarily due to a combined effect of an increase in selling prices of natural gas coupled with an increase in the sales volume of crude oil, natural gas, gasoline and other products. The table below sets out the external sales volume and average realized prices for major products sold by the company and the percentage change in 2013 and 2014, respectively:

	Sales Volume (000 ton)			Average Realized Price (RMB/ton)		
	2013	2014	Percentage of Change (%)	2013	2014	Percentage of Change (%)
Crude oil[1]	75,482	91,772	21.6	4,533	3,939	(13.1)
Natural gas (hundred million cubic meter, RMB/ 000 cubic meter)	985.41	1,252.78	27.1	1,226	1,366	11.4
Gasoline	52,350	59,821	14.3	7,866	7,354	(6.5)
Diesel	93,301	87,041	(6.7)	6,810	6,437	(5.5)
Kerosene	13,482	14,016	4.0	6,015	5,651	(6.1)
Heavy oil	14,788	14,003	(5.3)	4,443	4,316	(2.9)
Polyethylene	3,391	4,159	22.6	9,665	9,724	0.6
Lubricant	1,740	1,498	(13.9)	9,319	9,202	(1.3)

(1) The sales volume of crude oil listed in the table above represents all external sales volume of crude oil of the company.

Operating Expenses Operating expenses increased by 2.1% from RMB2,069,482 million in 2013 to RMB2,113,129 million in 2014, of which:

Purchases, Services and Other Purchases, services and other operating expenses increased by 1.5% from RMB1,464,805 million in 2013 to RMB1,486,225 million in 2014. This was primarily due to the company s expansion of its trading capacity.

Employee Compensation Costs Employee compensation costs (including salaries and such additional costs as various insurances, provident funds and training fees for the 534,652 employees of the company and the 319,346 temporary and seasonal staff recruited from the market) increased by 3.8% from RMB116,422 million in 2013 to RMB

120,822 million in 2014. This increase was primarily due to the company s initiative to increase the compensation of its front-line employees to reflect the expansion of its operations and the consequent increase in business volumes, and rises in the domestic consumer price index, wage inflation and social security contributions in line with changes to local government policies.

Exploration Expenses Exploration expenses decreased by 12.8% from RMB25,301 million in 2013 to RMB22,064 million in 2014. This was primarily due to the fact that some overseas projects of the company have entered into the production phase.

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Depreciation, Depletion and Amortization Depreciation, depletion and amortization increased by 8.6% from RMB163,365 million in 2013 to RMB177,463 million in 2014. This increase was primarily due to the increased average carrying value of fixed assets and the increased average net value of oil and gas properties of the company.

Selling, General and Administrative Expenses Selling, general and administrative expenses decreased by 7.1% from RMB79,021 million in 2013 to RMB73,413 million in 2014. This decrease was primarily due to the fact that the company proactively implemented measures for broadening sources of income, reducing expenditures, cutting costs and enhancing efficiency to strengthen control over costs and expenses.

Taxes other than Income Taxes Taxes other than income taxes decreased by 4.1% from RMB248,086 million in 2013 to RMB237,997 million in 2014. This decrease was primarily due to the drop in the price of crude oil in 2014, leading to a decrease in the crude oil special gain levy from RMB72,726 million in 2013 to RMB64,376 million in 2014.

Other Income, net Other income, net in 2014 was RMB4,855 million, representing a decrease of 82.4% from RMB27,518 million in 2013. This decrease was primarily because the company recognized the gain on investment of certain pipeline net assets and operations in 2013.

Profit from Operations The profit from operations in 2014 was RMB169,833 million, representing a decrease of 9.97% from RMB188,642 million in 2013.

Net Exchange Gain/Loss Net exchange loss in 2014 was RMB2,313 million, while net exchange gain in 2013 was RMB52 million. This was primarily due to the fact that the depreciation of Kazakhstani Tenge (KZT) caused an increase of exchange loss during the reporting period.

Net Interest Expenses Net interest expenses increased by 4.1% from RMB20,859 million in 2013 to RMB21,723 million in 2014. This increase was primarily due to an increase in the principal amount of the interest-bearing debt of the company to finance production, operation, investment and construction.

Profit Before Income Tax Expense Profit before income tax expense decreased by 12.0% from RMB178,063 million in 2013 to RMB156,759 million in 2014.

Income Tax Expense Income tax expense increased by 5.4% from RMB35,789 million in 2013 to RMB37,731 million in 2014. This increase was primarily due to the combined effect of the increase in income tax expense arising from adjustments to the policy for crude oil special gain levy deduction before income tax and the decrease in profit before income tax expense for the current period.

Profit for the Year Profit for the year decreased by 16.3% from RMB142,274 million in 2013 to RMB119,028 million in 2014.

Profit Attributable to Non-controlling Interests of the Company Profit attributable to non-controlling interests decreased by 6.5% from RMB12,675 million in 2013 to RMB11,856 million in 2014, which was primarily due to the decrease in profits of certain overseas subsidiaries of the company.

Profit Attributable to Owners of the Company Profit attributable to owners of the company decreased by 17.3% from RMB129,599 million in 2013 to RMB107,172 million in 2014. This decrease was primarily due to a decrease in the prices of crude oil and refined oil products, and a decrease in the income generated from the pipeline assets and operations.

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Segment Information

Exploration and Production

Turnover Realized turnover of the Exploration and Production segment decreased by 0.8% from RMB783,694 million in 2013 to RMB777,574 million in 2014. This decrease was primarily due to the combined effect of the drop in the crude oil price, partially offset by the increase in the natural gas price as well as the increase in sales volume. The average realized crude oil price of the company decreased by 5.6% from US$100.42 per barrel in 2013 to US$94.83 per barrel in 2014.

Operating Expenses Operating expenses of the Exploration and Production segment decreased by 0.6% from RMB593,996 million in 2013 to RMB590,677 million in 2014, which was primarily due to a decrease in the crude oil special gain levy paid for the sales of domestic crude oil during the current period and an increase in depreciation, depletion and amortization expenses.

The oil and gas lifting cost of the company increased by 4.0% from US$13.23 per barrel in 2013 to US$13.76 per barrel in 2014. Excluding the effect of exchange rate movements, the oil and gas lifting cost increased by 3.2% compared to the preceding year. The growth of lifting cost has been effectively controlled as a result of the active implementation of measures for broadening sources of income and reducing expenditure, as well as cutting costs and improving efficiency.

Profit from Operations Profit from operations of the exploration and production segment decreased by 1.5% from RMB189,698 million in 2013 to RMB186,897 million in 2014. Nevertheless, the exploration and production segment remained the most important profit contributing segment of the company.

Refining and Chemicals

Turnover Turnover of the refining and chemicals segment decreased by 3.0% from RMB871,815 million in 2013 to RMB846,082 million in 2014. This decrease was primarily due to a decrease in the price of refined and chemicals products.

Operating Expenses Operating expenses of the refining and chemicals segment decreased by 3.0% from RMB896,207 million in 2013 to RMB869,642 in 2014. This decrease was primarily due to a reduction in the expenses in relation to the purchase of crude oil and feedstock oil from external suppliers.

The cash processing cost of the refineries of the company increased by 10.8% from RMB160.55 per ton in 2013 to RMB177.85 per ton in 2014, primarily due to an increase in fuel and power cost.

Loss from Operations The refining and chemicals segment recorded a loss of RMB23,560 million in 2014, which represented a decrease in loss of RMB832 million as compared to RMB24,392 million in 2013. The operating losses of the refining operations increased by RMB2,447 million as compared to that of 2013, resulting in a loss of RMB7,155 million in 2014. The operating losses of the chemicals operations decreased by RMB3,279 million as compared to RMB19,684 million in 2013, resulting in a loss of RMB16,405 million in 2014. This decrease in losses was primarily due to the company s initiatives in optimizing resource allocation and cost control.

Marketing

Turnover Turnover of the marketing segment decreased by 0.4% from RMB1,946,806 million in 2013 to RMB1,938,501 million in 2014, which was primarily due to continuous downward adjustments in the refined oil prices and a decrease in the sales volume of diesel.

Operating Expenses Operating expenses of the marketing segment decreased by 0.3% from RMB1,939,244 million in 2013 to RMB1,933,080 million in 2014, which was primarily due to a decrease in the expenses arising from the purchase of refined oil from external suppliers.

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Profit from Operations The marketing segment recorded a profit from operations of RMB5,421 million in 2014, representing a decrease of 28.3% from RMB7,562 million in 2013. This decrease was primarily attributable to the weaker domestic economy and lower demand for refined oil products in 2014.

Natural Gas and Pipeline

Turnover Turnover of the natural gas and pipeline segment increased by 22.1% from RMB232,751 million in 2013 to RMB284,262 million in 2014. This increase was primarily due to an increase in both the sales volume and the selling price of natural gas.

Operating Expenses Operating expenses of the natural gas and pipeline segment amounted to RMB271,136 million in 2014, representing an increase of 18.6% as compared to 2013, excluding the effect of the contribution of certain pipeline net assets and business in 2013.

Profit from Operations Operating profit of the natural gas and pipeline segment decreased by 54.6% from RMB28,888 million in 2013 to RMB13,126 million in 2014. Excluding the effect brought about by the income generated from the contribution of certain pipeline net assets and business in 2013, the profit from operations increased by RMB9,060 million as compared with the preceding year. In 2014, the natural gas and pipeline segment recorded a net loss of RMB35,020 million from sales of imported gas, representing a decrease of loss of RMB6,852 million as compared with the preceding year consisting of a loss of RMB17,683 million for the sale of 29.270 billion cubic meters of natural gas imported from Central Asia, a loss of RMB20,450 million for the sale of 7.258 billion cubic meters of imported LNG, and a loss of RMB3,465 million for the sale of 3.226 billion cubic meters of natural gas imported from Myanmar.

In 2014, the company s overseas operations[(note)] realized a turnover of RMB803,779 million, representing 35.2% of the company s total turnover. Profit before income tax expense amounted to RMB19,242 million, representing 12.3% of the company s total profit before income tax expense.

Note: The four operating segments of the company are 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 respective operating segment mentioned above.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Consolidated Results of Operations

Overview

Our turnover was RMB2,258,124 million in 2013, representing an increase of 2.9% compared with the preceding year. Profit attributable to owners of the company in 2013 was RMB129,599 million, representing an increase of 12.4% compared with the preceding year. The basic and diluted earnings per share attributable to owners of the company were RMB0.71 in 2013, representing an increase of RMB0.08 compared with the preceding year.

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Turnover Turnover increased by 2.9% from RMB2,195,296 million in 2012 to RMB2,258,124 million in 2013. This was primarily due to an increase in selling prices of natural gas coupled with the increase in the sales volume of natural gas, gasoline and other products. The table below sets out the external sales volume and average realized prices for major products sold by the company and the respective percentage change in 2012 and 2013, respectively:

	Sales Volume (thousand tons)			Average Realized Price (RMB per ton)		
	2012	2013	Percentage of Change (%)	2012	2013	Percentage of Change (%)
Crude oil[1]	76,203	75,482	(0.9)	4,678	4,533	(3.1)
Natural gas (hundred million cubic meter, RMB/ 000 cubic meter)	853.88	985.41	15.4	1,125	1,226	9.0
Gasoline	47,407	52,350	10.4	8,007	7,866	(1.8)
Diesel	94,515	93,301	(1.3)	7,046	6,810	(3.3)
Kerosene	11,355	13,482	18.7	6,399	6,015	(6.0)
Heavy oil	12,615	14,788	17.2	4,612	4,443	(3.7)
Polyethylene	3,045	3,391	11.4	9,082	9,665	6.4
Lubricant	2,104	1,740	(17.3)	8,973	9,319	3.9

(1) The sales volume of crude oil listed in the table above represents all external sales volume of crude oil of the company.

Operating Expenses Operating expenses increased by 2.4% from RMB2,020,777 million in 2012 to RMB2,069,482 million in 2013, of which:

Purchases, Services and Other Purchases, services and other operating expenses increased by 3.8% from RMB1,411,036 million in 2012 to RMB1,464,805 million in 2013. This was primarily due to the company s expansion of its trading capacity.

Employee Compensation Costs Employee compensation costs (including salaries and such additional costs as various insurances, provident funds and training fees for 544,083 employees of the company and 319,741 temporary or seasonal staff recruited from the market) increased by 9.6% from RMB106,189 million in 2012 to RMB116,422 million in 2013. The increase was primarily due to the company s initiative to increase the compensation of its front-line employees to reflect the expansion of its operations and consequent increase in business volumes, and rises in the domestic consumer price index, wage inflation and rises in social security contributions in line with changes to local government policies.

Exploration Expenses Exploration expenses increased by 5.5% from RMB23,972 million in 2012 to RMB25,301 million in 2013. This was primarily due to the fact that the company continued to increase its investments in oil and gas exploration in order to further strengthen its oil and gas resource reserves.

Depreciation, Depletion and Amortization Depreciation, depletion and amortization increased by 7.5% from RMB151,975 million in 2012 to RMB163,365 million in 2013. This was primarily due to the increased average carrying value of fixed assets and the increased average net value of oil and gas properties of the company.

Selling, General and Administrative Expenses Selling, general and administrative expenses increased by 5.8% from RMB74,692 million in 2012 to RMB79,021 million in 2013. This was primarily due to the expansion of business scale and the corresponding increase in the maintenance, transportation, lease, warehousing and other costs of the company.

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Taxes other than Income Taxes Taxes other than income taxes decreased by 2.7% from RMB254,921 million in 2012 to RMB248,086 million in 2013. This was primarily due to the drop in the price of crude oil in 2013, leading to a decrease in the crude oil special gain levy payable by the company from RMB79,119 million in 2012 to RMB72,726 million in 2013.

Other Income, net Other income, net, in 2013 was RMB27,518 million, representing an increase of RMB25,510 million from RMB2,008 million in 2012. This was primarily because the company recognized the gain on disposal of certain pipeline net assets and operations during the reporting period.

Profit from Operations The profit from operations in 2013 was RMB188,642 million, representing an increase of 8.1% from RMB174,519 million in 2012.

Net Exchange Gain/Loss Net exchange gain in 2013 was RMB52 million, representing a decrease of RMB79 million from the net exchange gain of RMB131 million in 2012. This was primarily due to the continued appreciation of Renminbi and the depreciation of Canadian dollars against US dollars during the reporting period.

Net Interest Expenses Net interest expenses increased by 29.6% from RMB16,101 million in 2012 to RMB20,859 million in 2013. The increase was primarily due to increase in the principal amount of interest-bearing debt of the company to finance production, operation, investment and construction.

Profit Before Income Tax Expense Profit before income tax expense increased by 6.7% from RMB166,811 million in 2012 to RMB178,063 million in 2013.

Income Tax Expenses Income tax expense decreased by 1.1% from RMB36,191 million in 2012 to RMB35,789 million in 2013.

Profit for the Year Profit for the year increased by 8.9% from RMB130,620 million in 2012 to RMB142,274 million in 2013.

Profit attributable to non-controlling interests of the company Profit attributable to non-controlling interests decreased by 17.1% from RMB15,294 million in 2012 to RMB12,675 million in 2013, which was primarily due to the decrease in the profits of certain overseas subsidiaries of the company as a result of a range of factors such as the drop in the international crude oil price and the adjustment of certain policies in relation to the oil and gas cooperation with overseas resource countries.

Profit attributable to owners of the company Profit attributable to owners of our company increased by 12.4% from RMB115,326 million in 2012 to RMB129,599 million in 2013.

Segment Information

Exploration and Production

Turnover Realized turnover of the Exploration and Production segment decreased by 0.8% from RMB789,818 million in 2012 to RMB783,694 million in 2013. This was primarily due to the decrease of the average realized crude oil price of the company by 3.1% from US$103.65 per barrel in 2012 to US$100.42 per barrel in 2013.

Operating Expenses Operating expenses of the Exploration and Production segment increased by 3.3% from RMB574,863 million in 2012 to RMB593,996 million in 2013. Of which, depreciation, depletion and amortization increased by RMB11,690 million as compared with last year.

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The oil and gas lifting cost of the company increased by 12.7% from US$11.74 per barrel in 2012 to US$13.23 per barrel in 2013. Excluding the effect of exchange rate movements, the oil and gas lifting cost increased by 10.6% as compared with last year, which was primarily due to an increase in the basic operational costs in 2013 as compared with last year.

Profit from Operations Profit from operations of the exploration and production segment decreased by 11.7% from RMB214,955 million in 2012 to RMB189,698 million in 2013. This decrease was primarily attributable to a reduction in the price of crude oil, the increase in costs and changes to oil and gas cooperation policies introduced by governments in countries in which we have operations. Nevertheless, the exploration and production segment remained the most important profit contributing segment of the company.

Refining and Chemicals

Turnover Turnover of the refining and chemicals segment decreased by 1.3% from RMB883,218 million in 2012 to RMB871,815 million in 2013. The decrease was primarily due to an adjustment in the crude oil processing volume in response to market changes, resulting in a decrease in output and sales volume of refined oil.

Operating Expenses Operating expenses of the refining and chemicals segment decreased by 3.3% from RMB926,729 million in 2012 to RMB896,207 million in 2013. The decrease was primarily due to a reduction in the volume of crude oil imported as a result of the company s initiatives in optimizing its resource allocation.

The cash processing cost of refineries of the company increased by 3.8% from RMB154.61 per ton in 2012 to RMB160.55 per ton in 2013, which was primarily due to increase in fuel cost and production expenses as compared with the preceding year.

Loss from Operations The refining and chemicals segment recorded a loss of RMB24,392 million in 2013 which represented a decrease in losses of RMB19,119 million as compared to the previous year. This decrease in losses was primarily due to the introduction of a new statutory pricing mechanism for refined oil products and the company s initiatives in optimizing resource allocation and product mix. The operating losses of the refining operations decreased by RMB28,964 million as compared to the previous year, resulting in a loss of RMB4,708 million in 2013. The operating losses of the chemicals operations increased by RMB9,845 million as compared to the previous year, resulting in a loss of RMB19,684 million in 2013. The increase was primarily due to the weaker market for chemicals and the provision for impairment of assets.

Marketing

Turnover Turnover of the marketing segment increased by 3.0% from RMB1,890,558 million in 2012 to RMB1,946,806 million in 2013, which was primarily due to increase in the sales volume of petroleum and the turnover of oil products trading business.

Operating Expenses Operating expenses of the marketing segment increased by 3.5% from RMB1,874,167 million in 2012 to RMB1,939,244 million in 2013, which was primarily due to an increase in the expenses arising from the oil products trading business.

Profit from Operations The marketing segment recorded a profit from operations of RMB7,562 million in 2013, representing a decrease of 53.9% from RMB16,391 million in 2012. This was primarily attributable to the weaker domestic economy and less demand for refined oil products in 2013.

Natural Gas and Pipeline

Turnover Turnover of the natural gas and pipeline segment increased by 15.1% from RMB202,196 million in 2012 to RMB232,751 million in 2013. The increase was primarily due to (i) an increase in both the sales volume and the selling price of natural gas; and (ii) an increase in the sales revenue generated from city gas, CNG and other businesses in 2013.

Operating Expenses Operating expenses of the natural gas and pipeline segment amounted to RMB203,863 million in 2013, which was broadly in line with the operating expenses of RMB204,306 million in 2012.

Profit from Operations The natural gas and pipeline segment achieved an operating profit of RMB28,888 million in 2013, representing an increase of RMB30,998 million as compared with an operating loss of RMB2,110 million in 2012. The increase was primarily due to the contribution of certain pipeline assets and operations, improved control of pipeline transmission costs and increased focus by the company on the its sales and pricing strategies.

In 2013, the natural gas and pipeline segment recorded a loss of RMB28,259 million on sales of 27.453 billion cubic meters of natural gas imported from Central Asia, a loss of RMB20,281 million on sales of 7.335 billion cubic meters of imported LNG, and a loss of RMB420 million on the sales of 0.409 billion cubic meters of natural gas imported from Myanmar. Excluding the refund of the import value-added tax totaling RMB7,088 million, a net loss of RMB41,872 million was recorded on sales of imported gas in 2013, which was broadly in line with the previous year.

In 2013, the company s overseas operations[(note)] realized a turnover of RMB754,227 million, representing 33.4% of the company s total turnover. Profit before income tax expense amounted to RMB20,520 million, representing 11.5% of the company s profit before income tax expense.

Note: The four operating segments of the company are 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 respective operating segment mentioned above.

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, 2014, 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, 2014 was RMB356,477 million. As of December 31, 2014, we had cash and cash equivalents of RMB73,778 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.

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, 2014, 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, 2012, 2013 and 2014 and our cash equivalents at the end of each year.

	Year Ended December 31,		
	2012	2013	2014
	(RMB in millions)		
Net cash flows from operating activities	239,288	288,529	356,477
Net cash flows used for investing activities	(332,226)	(266,510)	(290,838)
Net cash flows from /(used for) financing activities	75,356	(12,239)	(44,312)
Currency translation difference	(195)	(1,768)	1,044
Cash and cash equivalents at year end	43,395	51,407	73,778

Our cash and cash equivalents increased by 43.5% from RMB51,407 million as of December 31, 2013 to RMB73,778 million as of December 31, 2014.

Net Cash Flows from Operating Activities

Our net cash flows from operating activities for the year ended December 31, 2014 was RMB356,477 million, representing an increase of 23.5% from RMB288,529 million for the year ended December 31, 2013. This increase was mainly due to the company s efforts to enhance the management of the use of funds and inventory and an increase in operating funds. As of December 31, 2014, we had cash and cash equivalents of RMB73,778 million. The cash and cash equivalents were mainly denominated in Renminbi (approximately 73.9% were denominated in Renminbi, approximately 20.0% were denominated in US dollars, approximately 4.8% were denominated in HK dollars and approximately 1.3% were denominated in other currencies).

Our net cash flows from operating activities for the year ended December 31, 2013 was RMB288,529 million, representing an increase of 20.6% from RMB239,288 million for the year ended December 31, 2012. This was mainly due to the combined effect of the increase in profits during the reporting period as compared with the preceding year and changes in inventory and other account payables, as a result of the strengthening of our management and optimization of production and operation. As of December 31, 2013, we had cash and cash equivalents of RMB51,407 million. The cash and cash equivalents were mainly denominated in Renminbi (approximately 77.8% were denominated in Renminbi, approximately 8.8% were denominated in US dollars, approximately 7.3% were denominated in HK dollars and approximately 6.1% were denominated in other currencies).

Our net cash flows from operating activities for the year ended December 31, 2012 was RMB239,288 million, representing a decrease of 17.5% from RMB290,155 million in the year ended December 31, 2011. This was mainly due to the combined impact of the decrease in profit, changes in accounts receivables and payables, inventories and other kinds of working capital, and the increase in taxes and levies paid. As at December 31, 2012, we had cash and cash equivalents of RMB43,395 million. The cash and cash equivalents were mainly denominated in Renminbi (approximately 64.1% were denominated in Renminbi, approximately 16.6% were denominated in US Dollars, approximately 15.2% were denominated in HK Dollars, approximately 1.7% were denominated in KZT and approximately 2.4% were denominated in other currencies).

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Net Cash Flows Used for Investing Activities

Our net cash flows used for investing activities for the year ended December 31, 2014 amounted to RMB290,838 million, representing an increase of 9.1% from RMB266,510 million for the year ended December 31, 2013. The increase was primarily due to the increase of capital from our investment in a joint venture with certain pipeline assets and operations in 2013.

Our net cash flows used for investing activities for the year ended December 31, 2013 amounted to RMB266,510 million, representing a decrease of 19.8% from RMB332,226 million for the year ended December 31, 2012. The decrease was primarily due to the combined effect of the cash inflow resulting from our investment in a joint venture with certain pipeline assets and operations as well as the enhancement of our external cooperation and introduction of strategic investors, the strengthening of our investment management and the decrease in our cash payment of capital expenditures.

Our net cash flows used for investing activities for the year ended December 31, 2012 were RMB332,226 million, representing an increase of 17.1% from RMB283,638 million in the year ended December 31, 2011. The increase was primarily due to the increase in the payment of capital expenditures in cash during the reporting period.

Net Cash Flows (Used for)/From Financing Activities

Our net cash used for financing activities was RMB44,312 million for the year ended December 31, 2014, representing an increase of RMB32,073 million compared to the net cash outflows of RMB12,239 million used for financing activities for the year ended December 31, 2013. This was primarily due to our efforts to strengthen the management of our interest-bearing borrowings and to optimize our debt structure.

Our net cash used for financing activities was RMB12,239 million for the year ended December 31, 2013, representing a decrease of RMB87,595 million as compared with the net cash inflows of RMB75,356 million from financing activities for the year ended December 31, 2012. This was primarily due to our efforts to strengthen the management of our interest-bearing borrowings and to optimize our debt structure, resulting in a decrease in the net new borrowings during the reporting period as compared with the preceding year.

Our net cash flows from financing activities for the year ended December 31, 2012 increased by RMB66,097 million to RMB75,356 million from RMB9,259 million in the year ended December 31, 2011. Such change was primarily due to an increase in loans during the reporting period as compared with the preceding year.

Our net borrowings as of December 31, 2012, 2013 and 2014 were as follows:

	December 31,		
	2012	**2013**	**2014**
	(RMB in millions)		
Short-term debt (including current portion of long-term debt)	151,247	192,767	169,128
Long-term debt	293,774	302,862	370,301
Total debt	445,021	495,629	539,429

Less:

Cash and cash equivalents	43,395	51,407	73,778
Net debt	401,626	444,222	465,651

Our total borrowing as of December 31, 2014 consisted of approximately 63.2% fixed-rate loans and approximately 36.8% floating-rate loans. Of our borrowing as of December 31, 2014, approximately 74.6% were denominated in Renminbi, approximately 24.8% were denominated in US Dollars and approximately 0.6% were denominated in other currencies.

Our total borrowings as of December 31, 2013 consisted of 67.8% fixed-rate loans and approximately 32.2% floating-rate loans. Of our borrowings as of December 31, 2013, approximately 75.9% were denominated

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in Renminbi, approximately 23.3% were denominated in US Dollars and approximately 0.8% were denominated in other currencies.

Our total borrowings as of December 31, 2012 consisted of 78.4% fixed-rate loans and approximately 21.6% floating-rate loans. Of our borrowings as of December 31, 2012, approximately 84.9% were denominated in Renminbi, approximately 14.1% were denominated in US Dollars and approximately 1.0% 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) was 29.0%, as of December 31, 2014.

Our debt to capital ratio (calculated by dividing interest-bearing debts by the aggregate of interest-bearing debts and shareholder s equity) was 28.1%, as of December 31, 2013.

Our debt to capital ratio (calculated by dividing interest-bearing debts by the aggregate of interest-bearing debts and shareholder s equity) was 27.4%, as of December 31, 2012.

As of December 31, 2014, the outstanding amount of our debts secured by CNPC and its subsidiaries and other third parties was RMB50,878 million.

Capital Expenditures and Investments

In 2014, we focused on the principles of quality and profitability for capital expenditures, continued to optimize our investment structure, and increased investment in upstream oil and gas projects in order to enhance our sustainable development capability. In 2014, our capital expenditures decreased by 8.5% from RMB318,696 million in 2013 to RMB291,729 million.

The table below sets forth our capital expenditures and investments by business segment for each of the years ended December 31, 2012, 2013 and 2014 as well as those anticipated for the year ending December 31, 2015. Actual capital expenditures and investments for periods after January 1, 2015 may differ from the amounts indicated below.

	2012		2013		2014		2015 Anticipated	
	(RMB in millions)	%	(RMB in millions)	%	(RMB in millions)	%	(RMB in millions)	%
Exploration and production(1)	227,211	64.45	226,376	71.03	221,479	75.92	200,200	75.26
Refining and chemicals	36,009	10.21	26,671	8.37	30,965	10.61	25,900	9.74
Marketing	14,928	4.23	7,101	2.23	5,616	1.93	9,000	3.38
Natural gas and pipeline	72,939	20.69	57,439	18.02	32,919	11.28	30,200	11.35
Other	1,429	0.42	1,109	0.35	750	0.26	700	0.27
Total	352,516	100.0	318,696	100.0	291,729	100.0	266,000	100.0

(1) If investments related to geological and geophysical exploration costs are included, the capital expenditures and investments for the exploration and production segment for 2012, 2013, 2014 and the estimates for the same in 2015 would be RMB239,266 million, RMB239,641 million, RMB231,480 million and RMB210,200 million, respectively.

As of December 31, 2014, the capital commitments contracted but not provided for were approximately RMB63,027 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, 2012, 2013 and 2014, capital expenditures in relation to the exploration and production segment amounted to RMB227,211 million, RMB226,376 million and RMB221,479 million, respectively. In 2014, our capital expenditures were primarily used for domestic oil and gas exploration projects such as those in Changqing, Daqing, Southwestern, Tarim and Liaohe, and construction of production capacities for various oil and gas fields, and five large overseas oil and gas development projects.

We anticipate that capital expenditures for our exploration and production segment for 2015 would amount to RMB200,200 million. Domestic exploration activities will remain focused on the Peak Oil and Gas Reserves Program and more efforts will be devoted to key oil and gas regions such as Songliao Basin, Erdos Basin, Tarim Basin, Sichuan Basin and Bohai Bay Basin. Domestic development activities will be focused on maintaining the output of crude oil production and achieving rapid growth in the output of natural gas. We will aim for steady growth in the output of oil and gas in Daqing, Changqing, Xinjiang, Tarim and the Southwestern region and continue to develop unconventional oil and gas sources such as coal seam gas and shale gas. Overseas operations will be aimed at continued cooperation with our current partners in oil and gas exploration and development projects in the Middle East, Central Asia, the Americas and the Asia-Pacific regions to achieve rapid growth of our reserves and production.

Refining and Chemicals

Our capital expenditures for our refining and chemicals segment for each of the years ended December 31, 2012, 2013 and 2014 were RMB36,009 million, RMB26,671 million and RMB30,965 million, respectively. In 2014, RMB23,091 million was spent on the construction of refinery facilities and RMB7,874 million was spent on the construction of chemicals facilities, including the Yunnan Petrochemical project and other quality enhancement projects to comply with the China IV standard for gasoline and diesel products.

We anticipate that capital expenditures for the refining and chemicals segment for 2015 will amount to RMB25,900 million, which are expected to be used primarily for the construction of refining and chemicals projects as well as the construction of quality enhancement projects for gasoline and diesel products.

Marketing

Our capital expenditures for our marketing segment for each of the years ended December 31, 2012, 2013 and 2014 were RMB14,928 million, RMB7,101 million and RMB5,616 million, respectively. Our capital expenditures for the marketing segment in 2014 were mainly used for the construction of service stations, storage facilities and other facilities for our sales network.

We anticipate that capital expenditures for our marketing segment for the year of 2015 will amount to RMB9,000 million, which are expected to be used primarily for the construction and expansion of high-efficiency sales networks in China as well as the construction of oil and gas operating centers abroad.

Natural Gas and Pipeline

Our capital expenditures for the natural gas and pipeline segment for each of the three years ended December 31, 2012, 2013 and 2014 were RMB72,939 million, RMB57,439 million and RMB32,919 million, respectively. Our capital expenditures for the natural gas and pipeline segment in 2014 were mainly used for the construction of the Third West-East Gas Pipeline, the Zhongwei-Guiyang Gas Pipeline, the Third Daqing-Tieling Crude Oil Pipeline, the

Fourth Daqing-Tieling Crude Oil Pipeline, and the Tangshan LNG project.

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We anticipate that our capital expenditures for the natural gas and pipeline segment for 2015 will amount to approximately RMB30,200 million, which are expected to be used primarily for the construction of major oil and gas transmission projects such as the Third West-East Gas Pipeline, the Shaanxi-Beijing Fourth Gas Pipeline, the Tieling-Daqing Crude Oil Pipeline and Jinzhou-Zhengzhou Refined Oil Pipeline and storage facilities and city gas facilities.

Headquarters and Others

Our non-segment-specific capital expenditures and investments for each of the years ended December 31, 2012, 2013 and 2014 were RMB1,429 million, RMB1,109 million and RMB750 million, respectively.

Our anticipated capital expenditures for the headquarters and other segments for 2015 amount to RMB700 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

As of December 31, 2014, there were no off-balance sheet arrangements that had or were reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Long-Term Contractual Obligations and Other Commercial

Commitments and Payment Obligations

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

The tables below set forth our long-term contractual obligations outstanding as of December 31, 2014.

		Payment Due by Period			
Contractual Obligations	**Total**	**Less Than 1 Year**	**1-3 Years**	**3-5 Years**	**After 5 Years**
		(RMB in millions)			
Long-term debt	424,096	53,795	168,570	92,684	109,047
Capital lease obligations	783	164	303	270	46
Operating leases	197,946	9,855	15,822	14,834	157,435
Capital commitments	63,027	29,117	33,910		
Other long-term obligations					
Debt-related interest	74,695	17,038	25,363	12,761	19,533
Total	760,547	109,969	243,968	120,549	286,061

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

Year	Annual Payment (RMB in millions)
2015	800
2016	800
2017	800
2018	800
2019	800

Assets Retirement Obligation

A number of provinces and regions in which our oil and gas exploration and production activities are located have promulgated environmental 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, 2014 the balance of assets retirement obligation was RMB109,154 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, 2014, we had 28,894 employees engaged in research and development functions.

In each of the years ended December 31, 2012, 2013 and 2014, our total expenditures for research and development were approximately RMB14,453 million, RMB14,157 million and RMB13,088 million, respectively.

Exploration and Production

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

- theories and technologies of crude oil and natural gas exploration;
- oil and gas development theory and technology;
- engineering technology and equipment;

theory and technology for oil and gas storage and transportation; and

security, energy conservation and environment protection.

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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 and synthetic rubber; and
- new catalyst 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, 2012 to December 31, 2014 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 did not have a significant impact on our results of operations for the year ended December 31, 2014.

Related Party Transactions

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

Recent Developments in IFRS

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

ITEM 6 *DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES*

Directors, Senior Management and Supervisors

As of the date of this report, our board of directors consisted of ten directors, four of whom were independent non-executive directors. We will elect one additional director at the annual general meeting to be held on May 27, 2015. Directors are elected at shareholder meetings for three-year terms. The directors may be

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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 meeting;

(2) implementing the resolutions of the shareholders meeting;

(3) determining our business plans and investment programs;

(4) formulating our annual budget and final accounts;

(5) formulating our profit distribution 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 redeem shares, merge, spin-off, dissolve or otherwise change 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.

Six 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 consisted of nine supervisors, five of whom are elected, and may be removed, by the shareholders in a general meeting, and four of whom are employees representatives who are elected by our staff, and may be removed, by our staff. Five of our supervisors are affiliated with CNPC. The term of office of our supervisors is three years. The supervisors may be re-elected and re-appointed upon the expiration of his/her term of office. An elected supervisor cannot concurrently hold the position of a director, manager or financial controller.

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

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

to review the company s financial condition;

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;

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- 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 at 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 at 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 with respect to 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.

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The following table sets forth certain information concerning our directors, supervisors and executive officers as of the date of this report:

Name(1)	Age	Position	Date of Election(2)
Zhou Jiping	62	Chairman of the Board of Directors	May 18, 2011
Wang Dongjin	52	Vice-Chairman and President	May 18, 2011
Yu Baocai	49	Non-executive Director	May 18, 2011
Shen Diancheng	55	Non-executive Director	May 22, 2014
Liu Yuezhen	53	Non-executive Director	May 22, 2014
Liu Hongbin	51	Executive Director and Vice President	May 22, 2014
Chen Zhiwu	52	Independent Non-executive Director	May 18, 2011
Richard H. Matzke	77	Independent Non-executive Director	May 22, 2014
Lin Boqiang	57	Independent Non-executive Director	May 22, 2014
Zhang Biyi	61	Independent Non-executive Director	October 29, 2014
Guo Jinping	57	Chairman of the Board of Supervisors	
Zhang Fengshan	52	Supervisor	
Li Qingyi	54	Supervisor	
Jia Yimin	54	Supervisor	
Jiang Lifu	51	Supervisor	
Yang Hua	51	Supervisor	
Yao Wei	58	Supervisor	
Li Jiamin	51	Supervisor	
Liu Hehe	51	Supervisor	
Sun Longde	52	Vice President	
Zhao Zhengzhang	58	Vice President	
Huang Weihe	57	Vice President	
Xu Fugui	57	Vice President	
Yu Yibo	51	Chief Financial Officer	
Lin Aiguo	56	Chief Engineer	
Wang Lihua	58	Vice President	
Lv Gongxun	57	Vice President	
Wu Enlai	54	Secretary to the Board of Directors	

(1) The following changes have taken place to our board and senior management since our last annual report:
On April 26, 2014, Bo Qiliang resigned from the position of vice president of the company.

On May 22, 2014, having completed their terms, Li Xinhua, Wang Guoliang, Liu Hongru, Franco Bernabè, Li Yongwu and Cui Junhui stepped down as directors of the company, and Wang Guangjun, Wang Daocheng and Fan Fuchun stepped down as supervisors of the company. Concurrently, Shen Diancheng, Liu Yuezhen, Liu Hongbin, Richard H. Matzke and Lin Boqiang were elected directors of the company, and Zhang Fengshan, Jia Yimin, Li Luguang, Li Jiamin were elected supervisors of the company. Liao Yongyuan was elected vice-chairman of the company, and resigned from the position of vice president of the company. Wang Dongjin was elected vice-chairman of the company. Guo Jinping was elected chairman of the board of supervisors.

On June 18, 2014, Wang Lihua and Lv Gongxun were elected vice presidents of the company.

On August 26, 2014, as a result of new PRC legislation, Wang Lixin resigned from the position of supervisor. Li Luguang resigned from the position of supervisor due to his transfer to CNPC.

On October 29, 2014, Zhang Biyi was elected independent non-executive director of the Company and Jiang Lifu and Yang Hua were elected supervisors.

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On March 17, 2015, Liao Yongyuan resigned from the position of non-executive director and vice-chairman of the Company.

(2) For directors only.

Directors

Zhou, Jiping, age 62, is currently the chairman of our board of directors and the chairman of CNPC. Mr. Zhou is a professor-level senior engineer, holds a master s degree and has nearly 45 years of work experience in China s oil and petrochemical industry. In November 1996, he was appointed deputy director of the International Exploration and Development Co-operation Bureau of China National Petroleum Company and deputy general manager of China National Oil & Gas Exploration and Development Corporation. In December 1997, Mr. Zhou was promoted to general manager of China National Oil & Gas Exploration and Development Corporation. He was appointed assistant to the general manager of CNPC in August 2001 and deputy general manager of CNPC in December 2003. Mr. Zhou was elected as director of our company in May 2004 and appointed vice chairman and president of our company in May 2008. In October 2011, Mr. Zhou rose to general manager and director of CNPC. In April 2013, he became the chairman of CNPC and was promoted to chairman and president of our company. Mr. Zhou left his post as president of our company in July 2013.

Wang, Dongjin, age 52, is currently the vice-chairman and president of our company and the deputy general manager of CNPC. Mr. Wang is a professor-level senior engineer, holds a doctorate degree and has over 30 years of work experience in China s oil and gas industry. In July 1995, he was appointed deputy director of the Jiangsu Oil Exploration Bureau, and in December 1997, he was appointed deputy general manager of China National Oil & Gas Exploration and Development Corporation. From December 2000, Mr. Wang was concurrently the general manager of CNPC International (Kazakhstan) Ltd. and Aktobe Oil and Gas Co., Ltd. In October 2002, Mr. Wang was appointed general manager of China National Oil and Gas Exploration and Development Corporation, and in January 2004, he became the assistant to the general manager of CNPC and deputy chairman and general manager of China National Oil & Gas Exploration and Development Corporation. In September 2008, he was appointed deputy general manager of CNPC. He was elected director of our company in May 2011, and in July 2013, he was appointed the president of our company. In May 2014, he was appointed vice-chairman of our board of directors.

Yu, Baocai, age 49, is currently a director of our company and deputy general manager of CNPC. Mr. Yu is a senior engineer, holds a master s degree and has nearly 30 years of work experience in China s oil and petrochemical industry. He was appointed deputy general manager of PetroChina Daqing Petrochemical Company in September 1999 and was promoted to general manager in December 2001. In September 2003, Mr. Yu was appointed general manager of PetroChina Lanzhou Petrochemical Company, and September 2008, he was appointed the deputy general manager of CNPC. Mr. Yu was elected a representative of the 10th National People s Congress of PRC in February 2003 and a representative of the 11th National People s Congress of PRC in February 2008. In May 2011, Mr.Yu was elected as a director of our company.

Shen, Diancheng, age 55, is currently a director of our company and concurrently serves as deputy general manager and safety director of CNPC. Mr. Shen is a professor-level senior engineer, holds a doctorate degree and has over 30 years of work experience in China s oil and petrochemical industry. Mr. Shen was appointed standing deputy general manager of Daqing Refining & Chemical Company in October 2000, general manager of Liaoyang Petrochemical Company in April 2002 and general manager of Jilin Petrochemical Company in November 2005. In June 2007, he was appointed vice president of our company, concurrently serving as general manager of PetroChina Refining & Marketing Company. Mr. Shen served as general manager of PetroChina Refining & Chemical Company from

November 2007, and he was appointed deputy general manager of CNPC in April 2011. Mr. Shen stepped down as vice president of our company and general manager of PetroChina Refining & Chemical Company in October 2011, but he has continued to serve as safety director of CNPC since February 2012. Mr. Shen was elected director of our company in May 2014.

Liu, Yuezhen, age 53, is currently a director of our company and the chief accountant of CNPC. Mr. Liu is a researcher-level senior accountant, holds a master s degree and has nearly 35 years of work experience in the financial and accounting industries. He served as deputy general manager and chief accountant of AVIC Jianghan Aviation Life-saving Appliance Corporation since March 1996. In February 2000, he was promoted to general manager of Jianghan Aviation Life-saving Appliance Corporation and concurrently served as director of 610 Research Institute. Mr. Liu served as chairman of the board and general manager of AVIC Beijing Qingyun Aviation Instruments Co., Ltd. since May 2003 and as chief accountant of CASIC (Group) Company since November 2006. He was elected a director of our board of directors in May 2014.

Liu, Hongbin, age 51, is a director and vice president of our company and deputy general manager of CNPC. Mr. Liu is a senior engineer, holds a bachelor s degree and has over 30 years of work experience in China s oil and gas industry. He was appointed vice president of Exploration and Development Research Institute of Yumen Petroleum Administration Bureau in May 1991, director of Tuha Petroleum Exploration & Development Headquarters in October 1994, chief engineer of Tuha Petroleum Exploration & Development Headquarters in June 1995, deputy general manager of PetroChina Tuha Oilfield Company in July 1999, commander of Tuha Petroleum Exploration & Development Headquarters in July 2000, the general manager of the planning department of our company in March 2002 and director of the planning department of CNPC in September 2005. Mr. Liu was appointed vice president of our company in June 2007 and general manager of PetroChina Marketing Company in November 2007. In July 2013, he was appointed deputy general manager of CNPC. Mr. Liu was appointed executive director and general manager of Daqing Oilfield Company Ltd. in August 2013, and he was elected to our board of directors in May 2014.

Independent Non-executive Directors

Chen, Zhiwu, age 52, is currently an independent non-executive director of our company. Mr. Chen is a tenured professor of economic finance at Yale University School of Management and a distinguished professor of the Chang Jiang Scholar Program at Tsinghua University School of Humanities and Social Sciences. He received a bachelor s degree in science from Central South University of Technology in China (now named Central South University), a master s degree in engineering from National University of Defense Technology in China and a doctorate degree in finance from Yale University. Starting his teaching career in June 1990, Mr. Chen taught at University of Wisconsin, Madison. From July 1995 to July 1999, he worked at Ohio State University, where he was promoted to associate professor of finance in 1997. Since July 1999, he has been 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.

Matzke, Richard H., age 77, is currently an independent non-executive director of our company. He is concurrently a member of the human resources and compensation committee to the board of directors of OAO Lukoil and a director on the board of PHI Inc. in the United States. Mr. Matzke has a bachelor s degree from Iowa State University, a master s degree in geology from Pennsylvania State University and a master s degree in business administration from St. Mary s College. Since 1961, he worked in the exploration, planning, economic analysis and research departments of Chevron Oil Company. Mr. Matzke was made vice president of Chevron Chemical Company in 1979, director of Caltex Pacific Indonesia in 1982, president of Chevron Canada Resources Ltd. in 1986, president of Chevron Overseas Petroleum Inc. in 1997 and he was also elected to the board of directors of Chevron Chemical Company in 1997. Since his retirement from the board of directors of Chevron Oil Company in 2002, Mr. Matzke has served a director and chairman of the Strategy and Investment Committee of Lukoil, chairman of the US-Kazakhstan Business Association, chairman of the US-Azerbaijan Business Association, member of the Council on Foreign Relations and US-Russia Business Council, board member of the National Committee on US-China Relations, board member of the African-America Institute, member of the Advisory Board of the Center for Strategic and International Studies and counsel for the US International Commerce Chamber. Mr. Matzke was elected as an independent non-executive director of our company in May 2014.

Lin, Boqiang, age 57, is currently an independent non-executive director of our company. Mr. Lin holds a doctorate degree in economics from the University of California. He was a senior energy economist at the Asian Development Bank, and he currently serves as a vice principal of New Huadu Business School, director of Research Institute for China s Energy Policy at Xiamen University, director of 2011 Collaborative Innovation Centre for Energy Economics and Energy Policy and director of China Centre for Energy Economics Research.

He is a doctoral tutor at Xiamen University. He was awarded a Changjiang Scholar distinguished professor by the Ministry of Education in 2008. Mr. Lin is vice-chairman of China Energy Society, a member of the National Energy Consultation Committee under the National Energy Commission, member of the Energy Price Consultation Committee under the National Development and Reform Commission, member of the Energy Advisory Council and vice-chairman of the Global Agenda Council on Energy Security of the World Economic Forum based in Davos, Switzerland. Mr. Lin was elected as an independent non-executive director of our company in May 2014.

Zhang, Biyi, age 61, is currently an independent non-executive director of our company. Mr. Zhang is a senior accountant and holds a bachelor s degree in finance and banking from Xiamen University. He served as head of the Enterprise Division, assistant to the director, and deputy director of the Finance Bureau at China Ship Industry Corporation. In July 1999, Mr. Zhang was appointed deputy general manager of China Shipbuilding Industry Corporation, and he served as deputy general manager and chief accountant of China Shipbuilding Industry Corporation from December 2004 to February 2008. From March 2008 to January 2010, he also served concurrently as the general manager of China Shipbuilding Industry Company Ltd. Mr. Zhang was elected an independent non-executive director of our company in October 2014.

Supervisors

Guo, Jinping, age 57, is currently the chairman of our board of supervisors, general manager of our Legal Department, assistant to the general manager of CNPC, and general counsel and director of the Legal Department of CNPC. Mr. Guo is a professor-level senior economist, holds post-graduate qualification and has over 30 years of work experience in China s oil and gas industry. In November 1996, he was appointed chief economist of the Bureau of Policy and Regulations of CNPC, and in October 1998, deputy director of the Development and Research Department of CNPC. Mr. Guo was appointed general manager of our Legal Department in September 1999 and director of the Legal Department of CNPC in September 2005. In 2007, he was appointed the general counsel of CNPC. Mr. Guo was elected as a supervisor of our company in May 2011, and he s also been serving as the assistant to the general manager of CNPC since April 2014. In May 2014, Mr. Guo was appointed chairman of our board of supervisors.

Zhang, Fengshan, age 52, is currently a supervisor of our company. He is also the general manager and director of our Security, Environmental Protection, and Energy Conservation Department. In addition, he is the general manager and vice director of Security, Environmental Protection, and Energy Conservation Department of CNPC. Mr. Zhang is a professor-level senior engineer, holds a master s degree and has nearly 35 years of experience in China s oil and gas industry. He was appointed deputy director of Liaohe Oil Exploration Bureau in July 2000, safety director of Liaohe Oil Exploration Bureau in May 2002, director of Liaohe Petroleum Exploration Bureau in August 2004 and in February 2008, general manager of Great Wall Drilling and Exploration Company Ltd., where he also served as executive director since July 2008. Mr. Zhang has been the general manager of the Security, Environment, and Energy Conservation Department of our company and of CNPC since June 2012. He was elected to our board of supervisors in May 2014. In July 2014, Mr. Zhang was made director of security of our company and vice director of security of CNPC.

Li, Qingyi, age 54, is currently a supervisor and general manager of the Audit Department of our company. He is also the general manager of the Audit Department and director of the Auditing Services Centre of CNPC. Mr. Li is a senior accountant, holds a master s degree in economics and has nearly 35 years of work experience in China s oil and gas industry. Mr. Li was appointed chief accountant of Jinxi Oil Refinery in June 1999, deputy general manager and chief accountant of Jinxi Petrochemical in October 1999, director of the Capital Operation Department of CNPC in November 2000, general manager of Equipment & Supplies (Group) Company in April 2007 and general manager of CNPC Equipment Manufacturing Branch Company in December 2007. He was appointed director of CNPC Auditing Services Centre in September 2010 and appointed deputy general manager of our Audit Department and the director of the CNPC Auditing Services Centre in August 2011. In September 2012, Mr. Li was promoted to general manager of our Audit Department and concurrently the director of CNPC Auditing Services Centre. In May 2013, Mr. Li was elected a supervisor of our company.

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Jia, Yumin, age 54, is currently a supervisor and general manager of the Capital Operation Department of our company. He is also serving as general manager of the Capital Operation Department of CNPC. Mr. Jia is a professor-level senior accountant, holds a master s degree and has over 35 years of work experience. He was appointed as deputy general manager of the Finance Department of our company in February 2000, director of the Budget Planning Offices of our company and of CNPC in July 2007 and general manager of the Budget Planning Offices of our company and of CNPC in May 2011. He became the general manager of the Capital Operation Departments of our company and of CNPC in November 2013. Mr. Jia was elected a supervisor of our company in May 2014.

Jiang, Lifu, age 51, is currently a supervisor of our company. He has also been serving as the general manager of the Enterprise Management Departments (internal control management department) of our company and of CNPC. Mr. Jiang is a professor-level senior economist, holds a doctorate degree and has nearly 20 years of work experience in China s oil and gas industry. He was appointed deputy general manager of our Capital Operation Department in August 2003, deputy director of CNPC s Planning Department in May 2005, deputy general manager of our Planning Department in June 2007 and deputy director of CNPC s Planning Department. Since April 2014, Mr. Jiang has been the general manager of the Enterprise Management Department of our company and the general manager of the Enterprise Management Department of CNPC. He was elected a supervisor of our company in October 2014.

Yang, Hua, age 51, is currently a supervisor of our company nominated by the employees representatives. He is also serving as general manager of PetroChina Changqing Oilfield Company as well as director of the Changqing Petroleum Exploration Bureau. Mr. Yang is a professor-level senior engineer, holds a doctorate degree and has over 30 years of work experience in China s oil and gas industry. He was appointed deputy general manager of Changqing Oilfield Company in October 2002, standing deputy general manager in February 2008, principal in January 2014, and general manager in July 2014. Mr. Yang was also appointed director of the Changqing Oil Exploration Bureau in July 2014. He was elected as a supervisor of our company in October 2014.

Yao, Wei, age 58, is a supervisor of our company nominated by the employees representatives. He has also been a senior executive of Trans-Asia Gas Pipeline Company Ltd. since October 2014. Mr. Yao is a professor-level senior engineer, holds a master s degree and has nearly 40 years of work experience in China s oil and gas industry. Mr. Yao was appointed deputy manager of Beijing Natural Gas Transport Company in July 1995, deputy general manager of Beijing Huayou Gas Corporation Ltd. in April 2001 and general manager of PetroChina Pipeline Company in April 2007. Mr. Yao was elected as a supervisor of our company in May 2011.

Li, Jiamin, age 51, is currently a supervisor of our company nominated by the employees representatives. He is also the general manager of PetroChina Lanzhou Petrochemical Company and the general manager of Lanzhou Petroleum & Chemical Company. Mr. Li is a professor-level senior engineer, holds a master s degree and has nearly 30 years of work experience in China s oil and petrochemical industry. He was appointed deputy general manager and chief security officer of PetroChina Lanzhou Petrochemical Company in August 2004. He was promoted to general manager of PetroChina Lanzhou Petrochemical Company and Lanzhou Petroleum & Chemical Company in March 2012. Mr. Li was elected a supervisor of our company in May 2014.

Liu, Hehe, age 51, is currently a supervisor of our company nominated by the employees representatives. He has also been serving as general manager of PetroChina Inner Mongolia Marketing Company since November 2009. Mr. Liu is a professor-level senior economist, holds a bachelor s degree and has nearly 30 years of work experience in China s oil and petrochemical industry. He was appointed general manager of PetroChina East China Marketing Company in April 2004 and became general manager of PetroChina East China (Shanghai) in December 2008 . He was elected a supervisor of our company in May 2011.

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Other Senior Management

Sun, Longde, age 52, is currently a vice president of our company and director of the consultancy center of CNPC. He is a professor-level senior engineer, holds a doctorate degree and has over 30 years of work experience in China s oil and geological industry. Mr. Sun was appointed deputy chief geologist of Xianhe Oil Extraction Plant and deputy manager of Dongxin Oil Extraction Plant of the Shengli Petroleum Administration Bureau in January 1994, chief deputy director-general of the Exploration Business Department of Shengli Petroleum Administration Bureau in April 1997, manager of Exploration & Development Company of the 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 general manager of PetroChina Tarim Oilfield Company in July 2002. He has been a vice president of our company since June 2007 and was elected to the Chinese Academy of Engineering in December 2011. In April 2014, Mr. Sun was appointed director of the consultancy center of CNPC.

Zhao, Zhengzhang, age 58, is currently a vice president of our company. He is also general manager of the Exploration and Production Company of our company and deputy general manager of CNPC. Mr. Zhao is a professor-level senior engineer, holds a master s degree and has nearly 30 years of work experience in China s oil and gas industry. He was appointed deputy director of the New Zone Exploration Department of CNPC in June 1996, and in November 1996, deputy director of the Exploration Bureau of CNPC and director of the New Zone Exploration Department. In October 1998, Mr. Zhao was appointed deputy director of the CNPC Exploration and Production Company. Mr. Zhao was appointed a member of the Preparatory Group of CNPC Exploration and Production Company in September 1999 and deputy general manager of CNPC Exploration and Production Company in December 1999. He was appointed senior executive and deputy general manager of CNPC Exploration and Production Company in January 2005 and general manager of CNPC Exploration and Production Company in January 2006. In May 2008, he was appointed vice president of our company and general manager of our Exploration and Production Company. In August 2013, Mr. Zhao was appointed general manager of Changqing Oilfield Company and director of the Changqing Petroleum Exploration Bureau. He has also served as deputy general manager of CNPC since July 2014.

Huang, Weihe, age 57, is currently a vice president of our company. He is also general manager of PetroChina Natural Gas and Pipelines Company. Mr. Huang is a professor-level senior engineer, holds a doctorate degree and has over 30 years of work experience in China s oil and gas industry. He was appointed deputy director of the Petroleum and Pipelines Bureau in December 1998. In November 1999, he was appointed deputy director of the Petroleum and Pipelines Bureau and concurrently the chief engineer. Mr. Huang was then appointed general manager of PetroChina Pipelines Company in October 2000 and concurrently held the position of general manager of PetroChina West-East Natural Gas Transmission Pipelines Company beginning in May 2002, a post he held until February 2006. In December 2002, Mr. Huang became general manager of PetroChina Natural Gas and Pipelines Company. In May 2008, he was appointed chief engineer of our company and in October 2011, he became vice president of our company.

Xu, Fugui, age 57, is currently a vice president of our company and general manager of PetroChina Refining & Chemical Company. He is a professor-level senior engineer, holds a doctorate degree and has over 30 years of work experience in China s oil and petrochemical industry. Mr. Xu was appointed deputy manager of Dushanzi Petrochemical Planter of Refining Plant of the Xinjiang Petroleum Administration Bureau in November 1995, general manager of Dushanzi Petrochemical Plant of the Xinjiang Petroleum Administration Bureau in July 1999, and general manager of Dushanzi Petrochemical Company in September 1999. In September 2011, he was appointed general manager of PetroChina Refining & Chemical Company. Mr. Xu was appointed a vice president our company in October 2011.

Yu, Yibo, age 51, is currently the chief financial officer of our company. He is a professor-level senior accountant, holds a doctorate degree from Hitotsubashi University Business School in Japan and has approximately 20 years of experience in China s oil and gas industry. Mr. Yu was appointed assistant to the president of CNPC in November 1998, member of the Restructuring and Listing Preparatory Team of PetroChina in February 1999, deputy general manager of our Finance Department in November 1999, and deputy general manager of PetroChina Dagang Oilfield Branch Company in March 2002, a post he remained in until October 2002. He was appointed the vice general manager of the Finance Department of our Company in October 2002. In April 2003, he was appointed general manager of the Mergers and Acquisitions Department of our company, and he was also a supervisor of our company from May 2008 to May 2011. In March 2013, Mr. Yu was appointed chief financial officer of our company.

Lin, Aiguo, age 56, is currently the chief engineer of our company and the president of the PetroChina Petrochemical Research Institute. He is a professor-level senior engineer, holds a bachelor s degree and has over 30 years of work experience in China s oil and petrochemical industry. Mr. Lin was appointed deputy manager and standing deputy manager of the Shengli Refinery of Qilu Petrochemical Company in July 1993, deputy general manager of Dalian West Pacific Petrochemical Co. Ltd. in May 1996, general manager of Dalian West Pacific Petrochemical Co. Ltd. in August 1998, and general manager of our Refining & Marketing Company in December 2002. Mr. Lin has served as our chief engineer since June 2007 and has also been serving as the director of the Petrochemical Research Institute since February 2011.

Wang, Lihua, age 58, is currently a vice president of our company, an executive director and senior executive of PetroChina International Company Ltd., and chairman of China National United Oil Corporation. Ms. Wang is a professor-level senior economist, holds a master s degree and has nearly 35 years of work experience in China s oil and gas industry. She was appointed deputy general manager of China National United Oil Corporation in September 1997 and general manager in October 1998. She was appointed general manager of PetroChina International Company Ltd. in February 2002 and chief security officer of PetroChina International Company Ltd. (China National United Oil Corporation) in July 2006. Ms. Wang was appointed vice chief economist of CNPC and general manager and chief security officer of PetroChina International Company Ltd. (China National United Oil Corporation) in November 2007. Ms. Wang was appointed executive director of PetroChina International Company Ltd. in January 2009, stepping down as chief security officer in June 2009. In June 2014, she was appointed vice president of the company and stepped down as vice chief economist of CNPC. Since July 2014, Ms. Wang has been serving as senior executive of PetroChina International Company Ltd.

Lv, Gongxun, age 57, is currently a vice president of our company, general manager of PetroChina International Exploration & Development Company and general manager of China National Oil and Gas Exploration and Development Corporation. He is a professor-level senior engineer with over 35 years of work experience in China s oil and gas industry. Mr. Lv was appointed deputy general manager and chief security officer of China National Oil and Gas Exploration and Development Corporation in October 2006, general manager of Turkmenistan Amu Darya River Gas Company in September 2007, and general manager of CNPC (Turkmenistan) Amu Darya River Gas Company in December 2008. He has been serving as general manager of PetroChina International (Kazakhstan) Co. Ltd., general manager of Trans-Asia Gas Pipeline Company Ltd., and director of Enterprises Coordination Group (Central Asia) since December 2012. Mr. Lv was appointed general manager of PetroChina International Exploration & Development Company and general manager of China National Oil and Gas Exploration and Development Corporation in May 2014. He was appointed as vice president of our company in June 2014.

Secretary to the Board of Directors

Wu, Enlai, age 54, is currently the secretary to the board of directors of our company, executive director and general manager of CNPC Hong Kong (Holding) Ltd., and director and chairman of Kunlun Energy Company Ltd. He is a professor-level senior engineer, holds a master s degree and has over 30 years of work experience in China s oil and petrochemical industry. Mr. Wu was appointed deputy director general of Tarim Petrochemical Engineering Construction Headquarters in August 1997, deputy director general of the Capital Operation Department of CNPC in August 2002, and deputy general manager of China National Oil and Gas Exploration and Development Corporation in January 2004. He was appointed head of the Preparatory Work Team for PetroChina Guangxi Petrochemical Company in May 2005, general manager in October 2005, and head of the Enterprise Coordination Team of our company in Guangxi in September 2012. He became secretary

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to our board of directors in November 2013, and since 2013, has served concurrently as executive director and general manager of CNPC Hong Kong (Holding) Ltd. and director and chairman of Kunlun energy Company Ltd.

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 members have entered into performance 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, insurance and other benefits in kind, including our contribution to the pension plans for these directors and supervisors.

The aggregate amount of salaries, insurance and other benefits in kind paid by us to the five highest paid individuals of PetroChina during the year ended December 31, 2014 was RMB4,815,606. We paid RMB277,604 as our contribution to the pension plans with respect to those individuals in the year ended December 31, 2014.

The aggregate amount of salaries or other compensation, insurance and other 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, 2014 was RMB4,297,776.

Save as disclosed, no other payments have been paid or are payable, with respect to the year ended December 31, 2014, 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 2014, we paid RMB126,328 as our contribution to the pension plans with respect to our directors and supervisors who hold senior management positions or are otherwise employed by us. The aggregate amount of salaries or other compensation, insurance and other 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, 2014 was RMB2,491,969.

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

Board Practices

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

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Audit Committee

Our audit committee is currently composed of two non-executive independent directors, Mr. Lin Boqiang and Mr. Zhang Biyi, and one non-executive director, Mr. Liu Yuezhen. Mr. Lin Boqiang 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 with respect to 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;
- reporting regularly to the board of directors with respect to any significant matters which may affect the financial position of the company and its operations and with respect to 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. Wang Dongjin, the chairman of the committee, Mr. Liu Hongbin and Mr. Chen Zhiwu. 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. Richard H. Matzke, the chairman of the committee, Mr. Liu Yuezhen and Mr. Lin Boqiang. 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 retirement 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

studying the 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. Yu Baocai and Mr. Shen Diancheng. 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 regarding major decisions with respect to health, safety and environmental protection; and

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

Employees

As of December 31, 2012, 2013 and 2014, we had 548,355, 544,083 and 534,652 employees, respectively. During 2014, we employed 319,168 temporary employees on an average. As of December 31, 2014, we had 319,346 temporary employees. The table below sets forth the number of our employees by business segment as of December 31, 2014.

	Employees	% of Total
Exploration and production	298,014	55.74
Refining and chemicals	155,321	29.05
Marketing	59,015	11.04
Natural gas and pipeline	16,707	3.12
Other(1)	5,595	1.05

Total	534,652	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 RMB13,400 million, RMB14,855 million and RMB15,674 million, respectively, for the years ended December 31, 2012, 2013 and 2014, respectively.

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In 2014, 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, 2014 our directors, senior officers and supervisors did 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, 2015, 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, 2015:

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	97.60	86.35

The following table sets forth the major shareholders of our H shares as of March 31, 2015:

Name of Shareholders	Number of Shares Held	Percentage of Such Share in That Class of the Issued Shares Capital (%)	Percentage of the Total Share Capital(%)
CNPC	291,518,000 (Long Position)[(1)]	1.38	0.16
Aberdeen Asset Management Plc and its related parties (collectively, the Group), representing the accounts managed by the Group	1,680,255,599 (Long Position)	7.96	0.92
Black Rock, Inc.	1,502,968,891 (Long Position)	7.12	0.82
	42,188,300 (Short Position)	0.20	0.02
JP Morgan Chase & Co	1,627,443,538 (Long Position)	7.71	0.89
	205,236,560 (Short Position)	0.97	0.11

1,176,488,972 (Lending Pool)	5.58	0.64

(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, 2014.

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Continuing Related Party Transactions

Since 2000, our company has engaged in a variety of continuing related party transactions with CNPC, who provides 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 and contract for the transfer of rights under production sharing contracts. 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.

On August 28, 2014, with the existing comprehensive products and services agreement expiring on December 31, 2014, the company and CNPC entered into a new comprehensive agreement, which took effect from January 1, 2015 and will be valid for a term of three years. On the same day, under the framework of the existing land use rights leasing contract and the buildings leasing contract, the company and CNPC signed a confirmation letter with respect to the change in the areas of land parcels and leased buildings, pursuant to which the area of land parcels leased by the company from CNPC was adjusted to 1,777.21 million square meters and the estimated annual rental fees were confirmed to be RMB 4,831.21 million in aggregate. The area of buildings leased by the company from CNPC was adjusted to 1,179,585.57 million square meters for an estimated rental fee of RMB 707.70 million per year in aggregate. These new agreements were approved at the extraordinary general meeting of the Company held on October 29, 2014. For a detailed discussion of the comprehensive products and services agreement and the confirmation letter under the land use right lease agreement and building lease agreement, please refer to our Form 6-K filed with the SEC on August 28, 2014.

As of December 31, 2014, the outstanding amount of our debts secured by CNPC and its subsidiaries was RMB49,843 million.

During the reporting period, we carried 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, 2014, we had unsecured short-term and long-term loans from CNPC and its affiliates in an aggregate amount of RMB364,789 million with an average annual interest rate of 4.23%.

Interests of Experts and Counsel

Not applicable.

ITEM 8 *FINANCIAL INFORMATION*

Financial Statements

See pages F-1 to F-57 following Item 19.

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Dividend Policy

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

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

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

We may only distribute dividends after we have made allowances 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 RMB0.16750 per share (inclusive of applicable taxes) for the six months ended June 30, 2014 was paid to our shareholders on September 19, 2014 with respect to our A Shares and September 29, 2014 with respect to our H Shares. The board of directors recommended that a final dividend of RMB0.09601 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, 2014 and the interim dividend for the six months ended June 30, 2014, should be paid. The final dividend for the year ended December 31, 2014 is subject to the approval by the annual general meeting to be held on May 27, 2015.

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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, 2014, there were 21,098,900,000 H Shares and 161,922,077,818 A Shares issued and outstanding. As of December 31, 2014, there were 247 registered holders of American depositary receipts evidencing 8,890,859 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 2010 through 2014, for each quarter from 2013 to 2015 (up to the end of the first quarter of 2015), and for each month from October 2014 to April 2015 (through April 24, 2015) 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						
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
2012	11.86	9.08	153.23	117.11	10.60	8.47
2013	11.30	7.86	145.80	101.47	9.40	7.31
2014	11.62	7.33	149.48	94.75	10.81	7.47
Quarterly Data						
2013						
First quarter	11.30	10.14	145.80	130.40	9.40	8.69
Second quarter	10.28	7.86	132.03	101.47	8.73	7.31
Third quarter	9.45	8.27	121.29	107.45	8.24	7.69
Fourth quarter	9.59	8.44	122.92	108.84	8.27	7.51
2014						
First quarter	8.49	7.33	110.21	94.75	7.99	7.51
Second quarter	9.82	8.55	126.28	110.46	7.73	7.47

Third quarter	11.62	9.65	149.48	125.03	8.12	7.48
Fourth quarter	10.08	7.94	129.25	102.01	10.81	7.56

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	Price Per H Share HK$		Price Per ADS US$		Price Per A Share RMB	
	High	Low	High	Low	High	Low
2015						
First Quarter	9.02	8.13	116.37	103.74	13.09	10.71
Monthly Data						
2014						
October	10.08	9.29	129.25	119.13	7.84	7.56
November	9.71	8.41	125.50	107.02	8.17	7.71
December	8.78	7.94	113.65	102.01	10.81	8.17
2015						
January	8.92	8.39	114.90	108.09	13.09	11.31
February	9.02	8.44	116.37	109.50	11.69	10.89
March	9.00	8.13	114.97	103.74	11.99	10.71
April(through April 24, 2015)	10.62	8.63	136.37	112.76	13.38	11.84

The closing prices per A Share, per H Share and per ADS on April 24, 2015 were RMB13.32, HK$9.97 and US$130.05, respectively.

ITEM 10 *ADDITIONAL INFORMATION*

Memorandum and Articles of Association

Our Articles of Association Currently in Effect

On May 23, 2013, our annual general meeting approved the amendment to our Articles of Association which became effective as of the same day. The changes include, among others, (i) an expansion of our scope of business and (ii) an addition of a requirement to distribute cash dividends of no less than 30% of the net profits attributable to the parent company under certain circumstances. The amended and restated Articles of Association was filed with the SEC on Form 6-K on May 23, 2013.

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 with respect to the H Shares.

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

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

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

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

Taxation

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

PRC Taxation

Dividends and Individual Investors

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 348, 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

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owner as defined under the applicable tax treaty. The competent tax authority, after having verified the correctness of such documents, shall refund the difference between the amount of the tax actually paid by such shareholder and the amount of the tax payable by such shareholder as calculated on the basis of the rate stipulated in the applicable tax treaty.

Tax Treaties

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

- the United States;
- Australia;
- Canada;
- France;
- Germany;
- 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 so 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.

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Additional PRC Tax Considerations

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

United States Federal Income Taxation

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

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

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.

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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.

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 to non-corporate U.S. holders, including individuals, currently are 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).

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Sale, Exchange or Other Disposition

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

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

PFIC Rules

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

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

- 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, 2014 and believe that we will not meet either of the PFIC tests in the current or subsequent taxable years and therefore will not be treated as a PFIC for such periods. However, there can be no assurance that we will not be a PFIC in the current or subsequent taxable years.

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

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

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

If you own the H Shares or ADSs during any year that we are a PFIC, you must annually file Internal Revenue Service, or IRS, Form 8621(or any other form subsequently specified by the United States Treasury Department), subject to certain exceptions based on the value of PFIC stock held. 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.

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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, 2012, 2013 and 2014. 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 6.5%, 2.7% and 3.9% of our total payments for equipment in 2012, 2013 and 2014, respectively. Foreign currency payments for other imported materials represented 0.09%, 0.03% and 0.03%, of our total payments for materials in 2012, 2013 and 2014, respectively.

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

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The tables below provide information about our financial instruments including foreign currency denominated debt instruments that are sensitive to foreign currency exchange rates. The tables below summarize such information by presenting principal cash flows and related weighted-average interest rates at expected maturity dates in RMB equivalents, using the exchange rates in effect as of December 31, 2012, 2013 and 2014, respectively.

December 31, 2014

	Expected Maturity Date							Percentage to Total Long-Term Debt	Fair Value
	2015	2016	2017	2018	2019	Thereafter	Total		
	(RMB equivalent in millions, except percentages)								
Long term debt									
Loans in RMB									
Fixed Rate Loan Amount	20,806	39,609	22,320	20,219	30,107	88,318	221,379	52.20%	210,259
Average interest rate	4.06%	4.56%	4.19%	4.52%	4.65%	4.82%			
Variable Rate Loan Amount	4,761	10,056	15,607	245	151	6,033	36,853	8.69%	36,852
Average interest rate	5.49%	4.92%	4.58%	5.56%	5.40%	5.24%			
Loans in Euros									
Fixed Rate Loan Amount	21	21	21	21	31	14	129	0.03%	148
Average interest rate	2.79%	2.79%	2.79%	2.79%	2.57%	2.60%			
Variable Rate Loan Amount									
Average interest rate									
Loans in United States									

Dollars									
Fixed Rate Loan Amount	185	34	34	34	34	177	498	0.12%	533
Average interest rate	6.75%	1.11%	1.11%	1.11%	1.11%	0.51%			
Variable Rate Loan Amount	8,010	12,920	20,426	14,141	11,661	6,505	73,663	17.37%	73,663
Average interest rate	2.05%	2.15%	2.38%	3.00%	3.14%	1.81%			
Loans in Japanese Yen									
Fixed Rate Loan Amount	12	12	12	37	3		76	0.02%	81
Average interest rate	2.50%	2.50%	2.50%	2.37%	2.50%				
Variable Rate Loan Amount									
Average interest rate									
Debentures in Canadian Dollar									
Fixed Rate Loan Amount									
Average interest rate									
Variable Rate Loan Amount									
Average interest rate									
Debentures in United States Dollar									
Fixed Rate Loan Amount									

Average interest rate									
Debentures in RMB									
Fixed Rate Loan Amount			16,000	16,000		8,000	40,000	9.43%	43,180
Average interest rate			4.55%	4.47%		4.93%			
Medium term note in RMB									
Fixed Rate Loan Amount	20,000	498	31,000				51,498	12.14%	51,301
Average interest rate	3.97%	5.63%	4.19%						
Total	53,795	63,150	105,420	50,697	41,987	109,047	424,096	100.00%	416,017

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December 31, 2013

	Expected Maturity Date								
	2014	2015	2016	2017	2018	Thereafter	Total	Percentage to Total Long-Term Debt	Fair Value
	(RMB equivalent in millions, except percentages)								
Long term debt									
Loans in RMB									
Fixed Rate Loan Amount	40,008	20,104	49,936	13,549	40,003	40,003	203,603	52.92%	192,402
Average interest rate	5.26%	4.06%	4.60%	3.90%	4.61%	4.66%			
Variable Rate Loan Amount	6,642	14,431	1,614	2,256	121	6,050	31,114	8.09%	31,114
Average interest rate	5.60%	5.11%	4.56%	2.24%	5.71%	5.24%			
Loans in Euros									
Fixed Rate Loan Amount	23	23	23	23	23	65	180	0.04%	196
Average interest rate	2.73%	2.73%	2.73%	2.73%	2.73%	2.86%			
Variable Rate Loan Amount									
Average interest rate									