

CHAIRMAN'S LETTER

Dear Shareholders,

I am pleased to submit to you the annual report of PetroChina Company Limited (the “Company”) for the year ended December 31, 2000.

Review of Results and Operations

The Company is a vast scale oil company with its upstream and downstream production activities being integrated. It is the largest oil and gas producer of China. It plays a leading role in the oil and gas industry in China.

In 2000, profit before taxation of the Company was RMB82,051 million, representing an increase of 124.6% compared to the previous year. Net profit was RMB55,231 million, representing an increase of 104.6% over the previous year. The main reasons for the increase in profitability of the Company in 2000 are increases in prices of principal products, an increase in sales, a decrease in financial costs, and the insistence on the strategy of on-going restructuring and reducing cost following the listing of the Company, resulting in a decrease in the production cost of its principal businesses. Profit of the Company in 2000 was primarily derived from the sale of crude oil from the exploration and production segment.

Basic and diluted earnings per share of the Company is RMB0.32.¹

The board of directors of the Company recommends a final dividend of RMB0.082315 per share (the weighted average dividend for the year is RMB0.144812 per share) for the year 2000, subject to the approval of the shareholders in the annual general meeting to be held on June 8, 2001.

Exploration and Production

As at December 31, 2000, the Company had estimated proved reserves of approximately 11.03 billion barrels of crude oil and approximately 32.5 trillion cubic feet of natural gas. In the 12 months ended December 31, 2000, the Company produced 765.4 million barrels of crude oil and 505.3 billion cubic feet of sales natural gas, representing an average production of approximately 2.10 million barrels of crude oil and approximately 1.38 billion cubic feet of sales natural gas per day and sold 719.2 million barrels of crude oil and approximately 480.5 billion cubic feet of natural gas. In 2000, the Company successfully reduced its lifting costs to approximately RMB38.77 (US\$4.68) per barrel of oil equivalent, representing an 1.7% decrease

Note:

(1)Basic and diluted earnings per share have been computed by dividing net profit by the weighted average number of 171,630 million shares issued and outstanding for the year.

from 1999. The decrease in costs was mainly attributable to the Company's efforts in reducing administrative expenses, improving efficiency of water and gas injection, reinforcing project management, prolonging the free-from-repair period, reducing the low efficiency or non-productive workload and enhancing technological innovations. As at the end of 2000, the Company achieved 38% and its cost-reducing target of RMB6,500 million by 2002.

Refining and Marketing

In the 12 months ended December 31, 2000, the Company's refineries processed approximately 547 million barrels of crude oil or an average of approximately 1.50 million barrels per day. In 2000, the Company produced approximately 42.70 million tons of gasoline, diesel and jet fuel and sold approximately 44.16 million tons of these products. Approximately 93% of the crude oil processed in the Company's refineries was supplied by the exploration and production segment of the Company. The Company is actively expanding its sales and distribution networks, in particular, the retail distribution network. As of December 31, 2000, the retail distribution network of the Company included 4,683 service stations owned and operated by the Company, 3,600 service stations wholly-owned by CNPC itself or jointly owned by CNPC with third parties and to which the Company provides supervisory support and approximately 3,067 franchise service stations owned and operated by third parties with which the Company has long-term gasoline supply agreements. The Company's retail market share in China increased by 72% in 2000 to 15.1%. As at the end of 2000, the Company achieved 60.3% of its cost reduction target of RMB1,300 million by 2002. As of December 31, 2000, the Company owned and operated a crude oil pipeline network consisting of approximately 8,748 kilometres of pipelines with an average daily throughput of approximately 2.19 million barrels of crude oil. As of December 31, 2000, the Company also had a refined product pipeline network consisting of approximately 984 kilometres of pipelines with an average daily throughput of approximately 17,807 tons of refined products.

Chemicals

In the 12 months ended December 31, 2000, the Company produced approximately 1.5 million tons of ethylene, approximately 1.85 million tons of synthetic resin, approximately 0.30 million tons of synthetic fibres, approximately 0.22 million tons of synthetic rubber, and approximately 3.11 million tons of urea. Through focusing on high-value products, the Company has increased the revenue derived from chemical products by 31.3%. In addition, the Company has focused on reducing the production costs of chemical production and has achieved 66.77% of its cost reduction target of RMB1.2 billion by 2002. Through improved technology and adjustment of product-mix, there has been significant improvement in the operation results of the chemicals segment, achieving profitability in 2000.

Natural Gas

The natural gas segment is the core business segment for development. In the 12 months ended December 31, 2000, of the Company's production of sales natural gas of 480.5 billion cubic feet, 391.0 billion cubic feet was sold through the Company's natural gas segment. The Company currently owns and operates regional natural gas pipeline networks consisting of approximately 11,617 kilometres of pipelines, of which approximately 10,525 kilometres are operated by the natural gas segment. With the construction of the Seninglan Pipeline and the Zhongwu Pipeline, the natural gas segment will be provided with a solid foundation for future growth. The Company will engage in the construction of pipelines from Xinjiang to Shanghai as scheduled and is currently undertaking the preliminary work.

Standardised Operations and Business Prospects of the Company

The year 2000 is a very special year for the Company as it is the first year the Company operates independently following its successful listing in Hong Kong and New York.

The successful listing of the Company has led to a reformulation of the operating concepts of the Company's management, which has changed its traditional concept of emphasising on production to a modern operating concept which focuses on increasing the Company's value, maximising return on capital employed and shareholders' return. For this purpose, we have persistently implemented the strategy of on-going restructuring. In the past year, we closed and suspended a number of inefficient refining and chemical facilities, streamlined the management of upstream segments and reduced 38,400 employees, thereby effectively increasing the asset value of the Company. We have continued to implement the cost reduction strategy. At the end of 2000, the Company has already achieved 45% of the cost reduction target of RMB9 billion by the end of 2002.

The successful listing of the Company has further led to the perfection of a standardised legal person management structure by the Company according to the Company Law of the PRC and international norms, which comprises the shareholders' meeting, the board of directors and corresponding professional committees, supervisory committee and presidents. This structure co-ordinates operations and exercises effective controls, enabling the Company to operate in a standardised manner. In particular, the Company has appointed three independent directors and two independent supervisors. In the board of directors, the independent directors are in charge of the work of crucial committees, including the audit committee and the corporate examination and remuneration committee. They play an important role in ensuring the transparency of the Company's management and protecting shareholders' rights and interests.

The successful listing of the Company has also led to a further change in the Company's management style. While continuing to exercise central management of funds, indebtedness and external investment, the Company has perfected a management structure which has a