

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, 2001.

Review of Results and Operations

Ranking as one of the "Fortune Global 500" enterprises in the world, the Company is the largest oil and gas producer and seller, taking a leading position in the oil and gas industry in China.

In 2001, profit before taxation of the Company was RMB69,458 million, representing a decrease of 15.35% compared to the previous year. Net profit was RMB46,808 million, representing a decrease of 15.25% over the previous year. Profit of the Company in 2001 was primarily derived from the sale of crude oil from the exploration and production segment. At a time when the selling prices of crude oil have shown significant decline, the Company has offset some of the effect of the decline in prices by increasing the production and sales volume and by reducing costs.

The basic and diluted earnings per share of the Company is RMB0.27.

The board of directors of the Company recommends a final dividend of RMB0.050272 per share, subject to the approval of the shareholders in the annual general meeting to be held on June 6, 2002.

Exploration and Production

As at December 31, 2001, the Company had estimated proved reserves of approximately 10.96 billion barrels of crude oil and approximately 36.1 trillion cubic feet of natural gas. For the 12 months ended December 31, 2001, the Company's annual total output of oil and gas amounted to 857.4 million barrels, including 763.5 million barrels of crude oil and 563.5 billion cubic feet of marketable natural gas, representing an average production of 2.09 million barrels of crude oil and 1.544 billion cubic feet of natural gas per day. The Company sold 716 million barrels of crude oil and 529.8 billion cubic feet of natural gas. Approximately 75% of the crude oil sold by the Company was purchased by the refineries of the Company. As at the end of 2001, the Company had an accumulated reduction of RMB4.5 billion in lifting costs and achieved 75% of the RMB6 billion cost reduction target set for the period from the listing of the Company to December 31, 2002. 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.

Refining and Marketing

In 2001, the Company's refineries processed 567 million barrels of crude oil, or an average of 1.55 million barrels per day. The Company produced approximately 46.54 million tons of gasoline, diesel and kerosene and sold approximately 51.64 million tons of these products. Approximately 95% 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, 2001, the retail distribution network of the Company included 6,524 service stations owned and operated by the Company, 3,536 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 2,042 franchise service stations

owned and operated by third parties with which the Company has long-term gasoline supply agreements. In 2001, 1,841 more service stations were added to the Company. As a result, the Company's retail market share in China increased by 36% in 2001 to 20.6%. As at the end of 2001, the Company achieved 89% of its cost reduction target of RMB1.3 billion set for the period from the listing of the Company to December 31, 2002. As of December 31, 2001, the Company owned and operated a crude oil pipeline network comprising approximately 9,186 kilometres of pipelines with an average daily throughput of approximately 2.14 million barrels of crude oil. As of December 31, 2001, the Company also had a refined product pipeline network consisting of approximately 984 kilometres of pipelines with an average daily throughput of approximately 12,022 tons of refined products.

Chemicals and Marketing

For the 12 months ended December 31, 2001, the Company produced 1.571 million tons of ethylene, 1.827 million tons of synthetic resin, 0.327 million tons of synthetic fibres, 0.239 million tons of synthetic rubber, and 3.068 million tons of urea. In addition, the Company has focused on reducing the production costs of chemical production. In 2001 the Company has already achieved 88% of the RMB1.2 billion cost reduction target set for the period from the listing of the Company to December 31, 2002.

Natural Gas and Pipeline

The natural gas and pipeline segment is the Company's core business segment for development. For the 12 months ended December 31, 2001, the Company produced 563.5 billion cubic feet of marketable natural gas, of which 442.2 billion cubic feet was sold through the Company's natural gas segment. The Company currently owns and operates 12,918 kilometres of regional natural gas pipeline networks, of which 11,826 kilometres are operated by the natural gas and pipeline segment. The Se-Ning-Lan Pipeline was completed and put into operation in September 2001. The preparatory work in relation to the Zhong-Wu Pipeline has been making satisfactory progress, and its feasibility study report has been completed and submitted to the State Development Planning Commission for approval. The construction of the Cang-Zi Pipeline commenced in November 2001, and it was completed and put into operation in March 2002. The construction of the Lan-Cheng-Yu Pipeline has been progressing smoothly and the works for the principal part of the pipeline have been basically completed. In addition, the Company will engage in the construction of West-East Gas Pipeline from Xinjiang to Shanghai as scheduled and its preparatory work has been advancing satisfactorily. The State Development Planning Commission has given its approval for the project feasibility study report in December 2001. The construction of the entire pipeline is expected to commence in the first half of 2002. With the completion of the Se-Ning-Lan Pipeline, the Zhong-Wu Pipeline, the Cang-Zi Pipeline, the Lan-Cheng-Yu Pipeline and the West-East Gas Pipeline, the natural gas segment will be provided with a solid foundation for future growth.

Standardised Operations and Business Prospects of the Company

The management of the Company has always insisted on realising the contemporary management concept, which focuses on increasing the value of the Company and optimising benefits and maximising value for shareholders. Despite the unfavourable factors such as the decrease in international oil prices and the decline in the domestic market demand for refined products and chemical products, the Company has been able to offset the effect of price decrease partially and achieve satisfactory operating results by such means as increasing the output and sales volume of its products and reducing costs.

To achieve this purpose, we have reinforced our exploration and exploitation work, strengthened the restructuring of the refining and chemicals business, accelerated the development of the natural gas business and vigorously implemented the low cost strategy. By the end of 2001, the Company has already achieved 79% of its cost reduction target set for the period up to 2002. The Company has integrated its management system process. As part of the restructuring process the Company reduced 19,800 employees during the year, achieving an accumulated reduction of 58,200 employees and meeting the target of reducing 50,000 employees three years ahead of schedule.

The Company has reinforced its information management system, actively promoted e-commerce, established a platform for electronic transactions, established an e-commerce management system and network, unified procurement activities and conducted on-line purchases in order to lower the procurement cost and facilitated the reformation of the Company's traditional management process and management method.

In the course of its production and operation, the Company strictly adheres to the principle of "acting in the interest of man and emphasising on precautions" regarding health, safety and environment. The Company plans to continue to set up and perfect the HSE (Health, Safety and Environment) management system, endeavour to increase the efficiency in utilising resources and to reduce the discharge of pollutants at the sources.

Looking forward, the Company plans to continue to maintain and develop its core business, uphold its advantageous position in the upstream business, increase the profitability of the downstream business, and enhance the value of the Company.

For the exploration and production segment, the Company plans to continue to enhance the exploration of oil and gas exploration, increase the amount of good-quality exploitable reserves and realise a positive cycle of resource substitution. The Company intends to restructure its business in the eastern part of China actively and speed up the development of business in the western part. The Company plans to strive to maintain a stable increase in crude oil production and a substantial growth in natural gas production in order to uphold the Company's leading position in the domestic oil and gas industry.

For the refining and marketing segment, the Company plans to focus on adjusting the layout of production and the product mix, improving the quality and grades of oil products and the proportion between diesel and petroleum. It plans to reinforce the technological transformation of the major installations and the construction of the two large oil refining bases in Dalian and Lanzhou, respectively. At the same time, we plan to gradually shut down those refining plants and installations which are of low efficiency and high consumption rate.

For the chemicals and marketing segment, the Company plans to, in the process of adjusting the product mix of its chemicals business, reinforce the technological transformation of the production installations of ethylene and polyolefin and the production of products with high added value. It plans to focus on the development of quality products such as polyethylene, polypropylene, ABS, urea and alkylbenzene.

For the natural gas and pipeline segment, the Company plans to accelerate the construction of the West-East Gas Pipeline project which is the key project in the Company's construction of long-distance transmission pipeline infrastructure facilities. The Company will actively develop the natural gas market so that the natural gas business will become a new source of increased profitability for the Company as soon as possible.

China has already accessed to the WTO. The further opening of the Chinese market to the outside world may enable us to introduce capital, technology and advanced management method into the Company. It may also enable us to accelerate the implementation of the strategy of overseas development, develop international operations, participate in international competition and expand the scope for development. At the same time, we recognise that after China's accession to the WTO, there will be a gradual decrease in the imported tax of oil products and chemical products, and the gradual opening of the retail and wholesale markets for oil products. Market competition will certainly become more fierce. These are all challenges which we have to encounter in the near future.

Facing the new operational environment and challenges, the Company intends to continue in implementing the four-point strategy of accelerating the development of the core businesses, reducing costs, developing new technology and undergoing continuous restructuring.

Besides further reinforcing and expanding our market share in China, we strive to develop international market and overseas business, participate in the international oil and gas market competition, enhance the growth and international competitiveness of the Company and continue to increase the Company's value.

The Board of Directors

The board of directors currently consists of 13 directors, including three independent non-executive directors. There were changes of personnel in the board of directors and in the secretary of the board of directors last year. Mr Jiang Jinchu, director of the Company, resigned on June 8, 2001 for retirement. Mr Jiang was elected as a director at the Company's promoters' meeting on October 28, 1999. Mr Chen Geng has been duly appointed to fill up the director's vacancy with the shareholders' approval at the annual general meeting held on June 8, 2001.

Mr Chen Geng graduated from the Faculty of Labour Economics of Beijing Economic Institute and has over 30 years' experience in China's oil and gas industry. From 1983 to 2001, Mr Chen was deputy director of Changqing Petroleum Exploration Bureau, deputy director of the Labour Department under the Ministry of Petroleum Industry, director of Labour Bureau of CNPC, assistant president of CNPC, vice president of CNPC, and deputy director of the State Petroleum and Chemical Industry Bureau. Mr Chen is currently vice president of the CNPC Group.

Mr Shou Xuancheng resigned on November 26, 2001 as the company secretary. Mr

Shou has been appointed for another position within the Company. The Company is very honoured to appoint Mr Li Huaiki to become the new company secretary effective from November 26, 2001.

Mr Li Huaiki is a senior economist and has over 30 years' experience in China's oil and gas industry. From 1992 to 1996, Mr Li worked as deputy director of the Foreign Affairs Bureau and Chairman of Foreign Service Company of CNPC, and director of the Foreign Affairs Bureau of CNPC. In 1999 Mr Li was appointed as director of the International Cooperation Department (Foreign Affairs Bureau) of the CNPC Group.

Finally, I would like to show my gratitude to Mr Jiang and Mr Shou for their contribution to the Company, and I would also like to take this opportunity to express my sincere thanks for the support of our shareholders, the valuable contribution of our board of directors and supervisory committee, and the hard work of all our employees.

Ma Fucai
Chairman of the Board
Beijing, the PRC
April 15, 2002