

CORPORATE GOVERNANCE STRUCTURE

The Company has always and conscientiously complied with the requirements of the China Securities Regulatory Commission, The Stock Exchange of Hong Kong Limited (the “HKSE”), The New York Stock Exchange, Inc. and the United States Securities and Exchange Commission as well as other regulatory requirements, continued to regulate and improve its corporate governance structure and formed shareholders’ meetings, a Board of Directors and corresponding special committees, a Supervisory Committee and a management team headed by the President. These bodies coordinate to check and balance the powers of each other as well as to discharge their functions in a regulated manner. The Company has been regulating its internal management and operations in a strict manner in accordance with its Articles of Association, Work Manual of the Board of Directors, Organisation and Rules of Procedure of the Supervisory Committee, as well as the Principles for Control and Procedures of Disclosure by the Company. The Company has also provided all the market participants and regulatory authorities with timely, accurate, complete and reliable information of the Company, striving to enhance the corporate value.

An outline of these rules is as follows:

In relation to Shareholders and shareholders’ meetings: In order to ensure that all shareholders of the Company enjoy equal status and are able to exercise their rights effectively, the Company holds shareholders’ meetings every year in strict compliance with the requirements of the Standard Opinion regarding Shareholders’ Meetings promulgated by the China Securities Regulatory Commission. At the annual general meeting for 2002 held on May 28, 2003, ten resolutions were adopted, among others, the issuance of the PetroChina Corporate Bonds. In order to ensure the connected transactions are fair and reasonable, in passing resolutions concerning connected transactions in shareholders’ meetings, CNPC, being a connected person of the Company, will abstain from voting. Independent non-executive Directors of the Company ensure full disclosure of the details and performance of the connected transactions every year.

In relation to Directors and Board of Directors: The Directors and the Board of Directors of the Company have discharged their duties in respect of corporate governance in a conscientious and responsible manner and are accountable to the shareholders of the Company. The Company has elected its Directors in strict compliance with the directors election procedures set out in its Articles of Association. All Directors have attended board meetings and discharged their duties in a conscientious and responsible manner, diligently made decisions on major issues for the Company, in appointing, dismissing and supervising the executives of the Company and in communicating with the shareholders. The Company has adopted the independent directors system whereby three independent non-executive Directors have been appointed to the Board of Directors. The primary duties of the independent non-executive Directors are to protect the interest of the minority shareholders independently and objectively, and balancing the power of the Board of Directors in making decisions.

Four special committees have been set up under the Board of Directors to assist the Board of Directors in making decisions. The special committees are:

- **Audit Committee**, the duties of which include: to monitor critical accounting policies of the Company, financial reporting logistics, major rules and systems and the legality and effectiveness of major business activities; to review audit plan and reports prepared by the internal audit department and execute audit work specified by the Board of Directors; to inspect and supervise the independent auditors' work; and to monitor compliance in relation to connected transactions.
- **Investment and Development Committee**, the duties of which include: to study strategic plans proposed by the President and submit to the Board of Directors its recommendation in respect of investment and development; to study the annual investment plan proposed by the President and submit to the Board of Directors its opinion; and to review the feasibility study in relation to any material investment project to be decided by the Board of Directors and submit its proposal to the Board of Directors.
- **Examination and Remuneration Committee**, the duties of which include: to organise the assessment of the President and submit report to the Board of Directors; to supervise the assessments led by the President in relation to the performance of the Senior Vice President, Vice Presidents, Chief Financial Officer and other members of the senior management of the Company; and to study the Company's incentive scheme, remuneration system and share option scheme, monitor and evaluate the effects of the implementation of these schemes and to provide its opinions for further improvement or perfection.
- **Health, Safety and Environmental Protection Committee**, the duties of which include: to monitor the effective implementation of the Company's HSE scheme; to make proposal to the Board of Directors or the President in relation to any major decision on health, safety and environment; and to make inquiry in relation to the occurrence of and responsibility for any material accident, and to inspect and supervise the handling of any material accident.

In 2003, the Company held three regular board meetings, three extraordinary board meetings and five special committee meetings, in which sixteen board resolutions and five committee recommendations were passed.

In relation to the Supervisors and Supervisory Committee: The Supervisory Committee is accountable to the shareholders' meetings, and the members of which include one Supervisor elected by the employees' representatives and two independent non-executive Supervisors. The Supervisors have discharged their duties conscientiously, procured that the Supervisory Committee meetings were convened in accordance with the relevant laws, regulation and the Articles of Association of the Company, attended all board meetings and persistently reported their work and submitted the Supervisory Committee's reports and related proposals to the shareholders' meetings. In line with the spirit of accountability to all the shareholders, the Supervisory Committee has supervised the legality and legitimacy of the

Company's financial affairs and the performance of the Company's Directors, managers and other members of the senior management, and has participated actively in the Company's material affairs such as production, operation and investment projects and has raised many constructive proposals.

In relation to the mechanism for assessment of performance and for incentive and restrictions: The appointment and dismissal of members of the senior management of the Company have been conducted in an open and transparent manner and in compliance with the relevant laws, regulations and the Articles of Association of the Company. The Company has formulated and implemented incentive schemes such as Standards for Senior Management Share Option Scheme and Remuneration Standards for Senior Management. The selection and appointment of regional deputy managers of the Company has been conducted either on the basis of competition among candidates who outnumber the positions or on the basis of company-wide competition. The policy of appointing the best candidate through competition has been implemented in the headquarters of the Company, which has improved the transparency of human resources and formed an open, just and fair mechanism for selection and appointment.

Disclosure of information and transparency: The Secretary to the Board of Directors of the Company and the Secretariat under his/her leadership are responsible for the disclosure of information and receiving visits by and inquiries from investors. In accordance with the provisions of the Company's Articles of Association and the regulations of the places of listing, the Secretariat has disclosed information of the Company in compliance with the law. In this respect the Company has formed an information disclosure committee and its working group in 2003, and selected a disclosure supervisor from the working group, who is responsible for supervising the affairs relating to disclosure controls and procedures. In line with the spirit of accountability to all the shareholders, the Company continue to enhance communications with its investors by various means, respond to issues raised by investors in a timely manner, further strengthen and develop relationships with its investors, focus on the establishment and development of its relationships with the financial media, and enhance coordination with the regulatory bodies and trading organisations. In addition, the Company has established a wide information collection network to strictly monitor market information and development and to report to the management of the Company in a timely manner any material or sensitive issues, the latest development of the capital markets and feedback from the investors in relation to the Company. The Company has also provided investors with information disclosed to the public and documents for inspection, and has actively advertised through the media. The Company has also publicised its latest material development in a timely manner through news release and its website where there is a specific section called "Investors", through which the investors may view information such as corporate information, various reports and announcements and information relating to road-show and business promotion.

In relation to the relationship between CNPC and the Company: CNPC, the controlling shareholder of the Company, has exercised its rights and interests as shareholder at shareholders' meetings in accordance with the law. CNPC has not directly interfered with the Company's decision-making, production or operation, nor has it prejudiced against the lawful interests of the Company and other shareholders. CNPC is independent from the Company in all aspects, including personnel deployment, assets, finance, organisation and business operations. At the time of listing of the Company, the Company and CNPC had entered into a

Non-competition Agreement which ensures that CNPC will not engage either directly or indirectly in any business that is or may be in competition with any core business of the Company. The Board of Directors, the Supervisory Committee and the management team headed by the President of the Company also work independently.

Discharge of Duties by Independent Non-executive Directors: There are three independent non-executive Directors on the Board of Directors of the Company who are nominated by the Board of Directors and elected by the shareholders' meetings. The three independent non-executive Directors are totally independent from the Company and its substantial shareholders, and do not hold any executive position in the Company, and hence in full compliance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**HKSE Listing Rules**") relating to independent non-executive directors. The independent non-executive Directors have conscientiously discharged their duties in accordance with the Articles of Association of the Company and the relevant laws and regulations. They have actively attended meetings of the Board of Directors and participated in discussions leading to decisions on material issues. They have commented on the standardised functioning and operations of the Company based on their plenteous professional knowledge and experience, as well as the compliance of the connected transactions waiver requirements of the regulators in the places of listing, so as to ensure that the connected transactions are fair and reasonable. They have reviewed and formed independent opinion on asset restructuring and connected transactions. Independent non-executive Directors have also participated in the work of the audit committee and the examination and remuneration committee. The independent non-executive Directors have made important contributions to the protection of the Company's interest and the lawful rights and interests of all the shareholders, as well as to the promotion of the healthy development of the Company.