



Chen Geng Chairman

CHAIRMAN'S REPORT

Dear Shareholders,

I am pleased to submit to you the annual report of PetroChina Company Limited (the "**Company**") for the year ended December 31, 2004.

Review of Results and Operations

The Company is the largest oil and gas producer and seller occupying a leading position in the oil and gas industry in the PRC. The Company is engaged in a broad range of petroleum-related activities.

In 2004, the Company achieved good production and operating results, benefiting from persistent high oil prices and strong market demand as well as the optimisation of production structure and enhanced production management. As a result, the Company's value has further appreciated. In 2004, the Company's profit before taxation was RMB147.141 billion, representing an increase of 49.7% compared with the corresponding period in the previous year. Net profit was RMB102.927 billion, representing an increase of 47.9% compared with the corresponding period in the previous year. The Exploration and Production segment



remained the backbone of profit growth for the Company. Realised profit from the Refining and Marketing segment as well as the Chemicals and Marketing segment reached a historical high. These segments contributed significantly to the profit growth of the Company. Realised profit from the Natural Gas and Pipeline segment also improved from the previous year, despite the fact that the designed transmission capability was not fully utilised at the initial stage of the operation of the West-East Pipeline Project.

The basic and diluted earnings per share of the Company were RMB0.59.

The Board of Directors of the Company recommends a final dividend of RMB0.147511 per share for 2004 (together with the interim dividend of RMB0.115919 per share, the annual dividend for 2004 is RMB0.26343 per share), subject to the approval of the shareholders in the annual general meeting to be held on May 26, 2005.

Board of Directors and Supervisory Committee

The 2003 annual general meeting of the Company was held in Beijing on May 18, 2004. Article 89 of the Company's Articles of Association provides that "directors shall be elected at the shareholders' meeting for a term of three years and may serve consecutive terms if re-elected upon the expiry of their term of office". The term of office of one of the directors expired and two other directors resigned. In addition, there was a vacant seat on the Board of Directors. Pursuant to the provisions of Article 51 (2) and (13) of the Company's Articles of Association on "election and replacement of directors" and "review of proposals presented by shareholders representing 5% or more of the voting shares of the Company", a resolution for the re-election and election of four Directors was considered and approved at the meeting. It was resolved that Mr Chen Geng be re-elected as Director and Mr Jiang Jiemin, Mr Zhou Jiping and Mr Duan Wende be elected as Directors. A proposal to appoint two additional Supervisors was also considered and approved at the meeting and it was resolved that Mr Sun Xianfeng and Mr Xu Fengli be elected as Supervisors of the Company. Please see the section headed "Brief Biography of Directors, Secretary, Supervisors and Senior Management" in the "Report of Directors" for their respective brief biography.

The Board of Directors currently consists of thirteen Directors, including three independent non-executive Directors. The Supervisory Committee consists of seven Supervisors, including two independent Supervisors.

In 2004, the Board of Directors held four regular meetings and one extraordinary meeting, at which nineteen resolutions were approved.

I would like to take this opportunity to express my gratitude to Mr Ma Fucai for his contribution to the Company as a Director and Chairman, and to Mr Wu Yaowen for his contribution to the Company as a Director and Vice Chairman during their terms of office. I would also like to congratulate Mr Jiang Jiemin, Mr Zhou Jiping and Mr Duan Wende for being elected as Directors of the Company, and Mr Sun Xianfeng and Mr Xu Fengli for being elected as Supervisors of the Company.

Standardised Operations and Business Prospects

The Company strictly follows the laws and regulations of its places of listing and operates steadily



within the regulatory framework. In 2004, a number of effective corporate governance measures were undertaken by the Company in accordance with regulatory requirements to build up its internal control mechanism. The level of corporate governance of the Company was improved. The average closing price of the Company's H shares was HK\$3.90 per share in 2004, representing an increase of 70% over the last year, and an increase of over 200% from the issue price.

In 2004, the Company continued to enhance its efforts in exploration and exploitation of oil and gas reserves and achieved significant results in oil and gas exploration, indicating a bright prospect for the development of this field. Production of crude oil recorded steady growth while the natural gas business developed rapidly. The pace of overseas oil and gas exploration and development quickened and the geographical allocation and product structure of the refining and chemicals business of the Company improved. The production and sales of both refined and chemical products blossomed, profitability improved markedly and the construction of key pipeline projects and refining facilities were smooth. With the early commencement of commercial operation of the West-East Pipeline Project, the Company has achieved the objective of the project.

Using the "Energyahead" website (www.energyahead.com) as an e-commerce platform, the Company focused on the centralized procurement of goods in large quantities and enhanced the integration of its resources procurement business. The Company will continue to promote e-commerce which will effectively lower procurement costs and improve the management of resources.

In the course of production and operation, the Company persistently adhered to the principle of "human-oriented" management and devoted great efforts to fundamental work on quality, safety and environmental protection. Through the advancement of technology, the Company has improved the quality of its products, minimized consumption of materials and energy and established its brand image. The launching of the "Safety Management Year" campaign has helped the Company enforce its organizational leadership in safety promotion, increase the awareness and level of safety in production among all staff and devise a comprehensive emergency plan in dealing with accidents, thereby minimizing and preventing the occurrence of accidents to the greatest extent possible. The Company also adopted clean production technologies and focused on reducing the source of pollution by strengthening the monitoring and regulation of pollution as well as controlling the discharge of pollutants. The Company will continue to improve its Quality, Health, Safety and Environmental management system and establish a long-term effective mechanism to promote quality, health, safety and environmental protection.

Looking forward, the Company intends to continue to improve oil and gas exploration and exploitation and speed up its reserve and production capabilities, accelerate the adjustment and optimization of its refining and chemicals business, further improve its competitiveness and profitability, intensify its marketing efforts, improve operating efficiency, accelerate the development of its overseas business and secure as much overseas resources as possible.

For the exploration and production business, the Company will continue to give top priority to exploration and more effort will be put into the development of oil and gas fields. A continuous improvement in the rate of conversion of resources, the rate of utilization of reserves and the ultimate



recovery rate will ensure a steady increase in the output of crude oil and a significant growth in the output of natural gas.

For the refining and chemicals business, the Company will continue to integrate the refining and chemicals business, optimize allocation of resources, improve the concentration of crude oil processing and increase the standard of light chemical materials. On the basis of safe operation of equipment, the Company will strive to increase the production of processed crude oil, finished oil as well as other value-added products in order to satisfy market demand and improve economic efficiency.

For the marketing business, the Company will continue to further improve and optimize its marketing network as a means to stabilize market supply and maximize operating efficiency. It will also raise the level of marketing services and management in order to build up a good reputation for PetroChina.

For the natural gas and pipeline business, the Company will accelerate the construction of key pipelines, connected pipelines and underground gas storage tanks according to the requirements of balanced development of upstream and downstream operations, and will ensure the timely completion and commencement of production. In addition, the Company will further improve the linkage between production, transportation and marketing in order to achieve balance of resources and ensure a safe and steady supply of gas through operating pipelines.

For the overseas business, the Company will continue to accelerate the implementation of its overseas business development strategy. It will expand overseas operations and will actively seek opportunities to develop its overseas oil and gas exploration and development business. It will also expand international trade and grow its overseas business by way of mergers and acquisitions or joint ventures.

The Company will have been listed in Hong Kong and New York for five years in April 2005. During these five years, with the support and endorsement of shareholders and the public, the business of the Company has developed smoothly and the value of the Company has steadily increased. In the future, the Company's management will persist in enhancing the Company's value and strive to maximize the benefit and value for its shareholders. The Company will make substantial efforts in technological and management innovation, further strengthen its internal control mechanism and monitoring system which comply with regulatory requirements in the market, and by way of careful planning and prudent operations, which promotes the continuous, effective and relatively speedy development of the Company.

Chen Geng
Chairman of the Board
Beijing, the PRC
March 16, 2005

