



CORPORATE GOVERNANCE STRUCTURE

The Company has always conscientiously complied with the regulatory requirements of the China Securities Regulatory Commission, the HKSE, The New York Stock Exchange Inc. and the United States Securities and Exchange Commission, as well as other regulatory requirements; the Company continued to regulate and improve its corporate governance structure and has set up shareholders' meetings, the Board of Directors and other corresponding special committees, the Supervisory Committee and a management team headed by the President. These bodies co-ordinate to effectively check and balance the powers of each other and discharge their functions in a regulated manner. The Company has been regulating its internal management and operations in strict compliance with its Articles of Association, Work Manual of the Board of Directors, Organisation and Rules of Procedures of the Supervisory Committee, and the Principles for Disclosure Control and Disclosure Procedures by the Company. The Company has





also provided all market participants and regulatory authorities with timely, accurate, complete and reliable information about the Company, and strived to enhance the Company's 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 2003 held on May 18, 2004, nine resolutions were adopted, including adopting the resolutions on the Report of Directors for 2003, the profit distribution plan for 2003 and authorising the Board of Directors to issue shares. In order to ensure that connected transactions are fair and reasonable, in the shareholders' meetings, CNPC, being a connected person of the Company, abstained from voting in respect of such resolutions. Each year the independent non-executive Directors of the Company will also ensure that details of connected transactions, including examination and approval procedures and compliance status of connected transactions have been disclosed.

In relation to Directors and the Board of Directors: The Directors and the Board of Directors of the Company have carried out actions in relation to corporate governance matters in a conscientious and responsible manner and are held accountable to the Company and its shareholders. The Company has elected its Directors in strict compliance with the procedures for election of directors as set out in its Articles of Association. All Directors have attended Board meetings in a conscientious and responsible manner, performed their duties as Directors conscientiously and diligently, made decisions on major matters affecting the Company, appointed, dismissed and supervised the executives of the Company, and communicated with Shareholders. The Company has established a system of independent Directors whereby three independent non-executive Directors have been appointed to the Board of Directors to protect the interests of minority shareholders independently and objectively. They act as a force to check and balance the power of the Board of Directors in the decision-making process.

The Board of Directors has established four special committees. They are the Audit Committee, the Investment and Development Committee, the Examination and Remuneration Committee, and the Health, Safety and Environmental Protection Committee. The Audit Committee is made up of two independent non-executive Directors and one non-executive Director. The Chairman of the Audit Committee is an independent non-executive Director. This is in full compliance with requirements of the Listing Rules of the Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The Examination and Remuneration Committee is made up of one independent non-executive Director and two non-executive Directors. The main duty of the four special committees is to assist the decision-making process of the Board of Directors.



Directors participating in the special committees fully utilise their expertise in their respective specialised areas and focus on particular issues so as to make recommendations in perfecting and improving the level of corporate governance of the Company.

In 2004, the Company held four regular Board meetings, one extraordinary Board meeting and seven special committee meetings, in which nineteen Board resolutions and seven committee recommendations were passed.

In relation to the Supervisors and the Supervisory Committee: The Supervisory Committee is accountable to the shareholders' meetings, and its members are made up of a Supervisor elected by the employees' representatives and two independent non-executive Supervisors. The Supervisors have discharged their duties conscientiously in accordance with the laws, regulations and the Articles of Association of the Company, held Supervisory Committee meetings in accordance with the prescribed procedures, sat in all Board meetings, persisted in reporting their work and presented Supervisory Committee reports and related resolutions to the shareholders' meetings. In line with the spirit of accountability to all Shareholders, the Supervisory Committee also monitored the Company's financial affairs and the performance of the Company's Directors, the President and other senior management staff to ensure they are in compliance with all legal and regulatory requirements. The Supervisory Committee has participated actively in the Company's business 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 the members of the senior management of the Company have been conducted in an open and transparent manner and in compliance with the relevant provisions of laws and regulations and the Articles of Association of the Company. The Company has adopted incentive schemes such as the Standards for Senior Management Share Option Scheme and the Remuneration Standards for Senior Management. Regional deputy managers of the Company have been recruited in the form of open competition or company-wide competition. The headquarters of the Company has adopted the policy of appointment through competition, thereby increasing the transparency of human resources work and forming an open, just and fair system of 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 information disclosure and receiving visits by and enquiries from investors. The Secretariat of the Board of Directors has disclosed information in accordance with the law, pursuant to the Articles of Association of the Company and the regulatory requirements of the places of its listing. The Company formed an information disclosure committee and its working group in 2003, and selected a disclosure supervisor within the group, who is responsible for supervising matters relating to disclosure controls and procedures. In line with the spirit of accountability to all Shareholders, the Company has continued to enhance communication with its investors through various means, respond to various 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 media in the financial sector, and improve co-ordination with regulatory bodies and trading institutions. In addition, the Company has established a wide information collection network to closely 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 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 published various information concerning its recent material developments in a timely manner in its website and through news releases. The “Investors” section on the Company’s website contains information on the corporate governance structure, company information, reports and announcements, roadshows and other information for investors’ reference.

In relation to the relationship between CNPC and the Company: CNPC, the controlling shareholder of the Company, has exercised its rights at shareholders’ meeting in accordance with the law. CNPC has not directly interfered with the decision-making, production or operation of the Company, nor has it prejudiced the legitimate interests of the Company and of its Shareholders. CNPC is independent from the Company in all aspects, including personnel deployment, assets, financing, organisation and business operations. At the time of listing of the Company, it entered into a Non-competition Agreement with CNPC to ensure 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 of each other.

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, in compliance with the requirements of the Listing Rules relating to the minimum number of independent non-executive directors. The Company has received confirmation letters issued by the three independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules confirming their independence, and is satisfied that the three independent non-executive Directors are totally independent from the Company and its substantial shareholders and associates, and hence in full compliance with the requirements of the Listing Rules relating to independent non-executive directors. The three independent non-executive Directors do not hold any other positions in the Company. 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 orderly functioning and operations of the Company based on their plentiful 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.

Disclosure of significant differences in corporate governance structure pursuant to the requirements under section 303A.11 of the New York Stock Exchange Listed Company Manual: The Company has disclosed a summary of the significant differences in corporate governance practices for purposes of Section 303A.11 of the New York Stock Exchange Listed Company Manual on its website, www.petrochina.com.cn. You may access such information from the Company's website by taking the following steps:

- (1) From our main web page, first click "Investor Relations"
- (2) Next, click "Corporate Governance Structure"
- (3) Finally, click "Significant Differences in Corporate Governance Practices for purposes of Section 303A.11 of the New York Stock Exchange Listed Company Manual".