



Chen Geng Chairman



PetroChina Company Limited

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, 2005.

Review of Results of 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 2005, faced with a rapid growth of demand for oil and gas in the PRC, the Company made its best endeavours to organize its resources with a view to achieve a stronger balance of production, transportation and sales, maximize the supply of oil and chemical products to the market, and ensure safe and steady gas supply. The Company's



results of operation improved significantly. The overall strength of the Company has improved notably. In 2005, profit before taxation of the Company was RMB193.822 billion, representing an increase of 28.2% from the corresponding period of the preceding year. Net profit was RMB133.362 billion, representing an increase of 28.4% from the corresponding period of the preceding year. The Exploration and Production segment continued to be an important pillar for the increase in the Company's profits. The Refining and Marketing segment, however, recorded losses because the increase in prices of refined products was much lower than that of crude oil in China. The realised profits of the Chemicals and Marketing segment decreased as compared with those for the preceding year as a result of an increase in prices of raw materials. Profits of the Natural Gas and Pipeline segment continued to grow as a result of a dramatic increase in the production and sales volume of natural gas.

The basic and diluted earnings per share of the Company were RMB0.75.

The Board of Directors of the Company recommends a final dividend of RMB0.180325 per share for 2005 (together with the interim dividend of RMB0.157719 per share, the annual dividend for 2005 will be RMB0.338044), subject to the approval of the shareholders in the annual general meeting to be held on May 26, 2006.

Board of Directors and Supervisory Committee

The second extraordinary general meeting of the Company was held in Beijing on November 8, 2005. Article 89 of the Articles of Association of the Company 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 six directors expired on November 18, 2005. One director resigned for reason of work adjustment. Pursuant to the provisions of Articles 51(2) and (13) of the Company's Articles of Association regarding "election and replacement of directors" and "review of proposals presented by shareholders representing 5% or more of the voting shares of the Company" at shareholders' meetings, a resolution for the re-election and election of seven more Directors was considered and approved at the meeting. It was resolved that Mr Su Shulin, Mr Gong Huazhang, Mr Chee-Chen Tung and Mr Liu Hongru be re-elected as Directors and Mr Wang Yilin, Mr Zeng Yukang and Mr Jiang Fan be elected as Directors. A resolution for the re-election and election of four more Supervisors was considered and approved at the meeting. It was resolved that Mr Wen Qingshan and Mr Wu Zhipan be re-elected as Supervisors of the Company and Mr Wang Fucheng and Mr Li Yongwu be elected as Supervisors of the Company. In addition, Mr Qin Gang was elected as the Staff Representative Supervisor

through the procedures for the election of staff representative of the Company. Please see the section headed "Brief Biography of Directors, Secretary, Supervisors and Senior Management" in the "Report of Directors" for the brief biography of each of the directors and supervisors.

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.

On November 28, 2005, the first meeting of the Third Term of the Board of Directors of the Company was held in Beijing. The re-appointment of Mr Su Shulin and the appointment of Mr Duan Wende as Senior Vice Presidents of the Company were approved. Mr Wang Guoliang was re-appointed as Financial Controller. Mr Liao Yongyuan, Mr Jia Chengzao and Mr Hu Wenrui were appointed as Vice Presidents. In the first meeting of the Third Term of the Supervisory Committee held on November 8, 2005, Mr Wang Fucheng was elected as Chairman of the Supervisory Committee.

I would like to take this opportunity to express my gratitude to Mr Ren Chuanjun, Mr Wang Fucheng, Mr Zou Haifeng, Mr Li Kecheng, Mr Zhang Youcai, Mr Sun Chongren and Mr Liu Baohe for their contribution to the Company during their terms of office. I would also like to congratulate Mr Wang Yilin, Mr Zeng Yukang and Mr Jiang Fan for being elected as Directors of the Company, Mr Wang Fucheng, Mr Li Yongwu and Mr Qin Gang for being elected as Supervisors of the Company, Mr Duan Wende for being elected as Senior Vice President of the Company, and Mr Liao Yongyuan, Mr Jia Chengzao and Mr Hu Wenrui for being elected as Vice Presidents of the Company. I would also like to give my heartfelt thanks to all shareholders for their support and members of the Board of Directors and the Supervisory Committee and all staff of the Company for their close co-operation and hard work.

Standardized Operations and Business Prospects

The Company strictly follows the laws and regulations of its places of listing and operates steadily and manages in a scientific manner within the regulatory framework. The value of the Company in the international capital market appreciates continuously. The price of the Company's shares hit new highs. In 2005, the total market capitalization of the Company's H shares surpassed HK\$1,000 billion. The average price of the Company's H shares was HK\$5.5 per share, representing an increase of 41% from that of the previous year.



The Company has continued to place top priority in oil and gas exploration. In 2005, 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. The business foundation of steady development in eastern China and rapid development in western China is further consolidated. Crude oil production has been increasing steadily for four consecutive years. The natural gas output increased rapidly. In 2005, marketable natural gas output was 1,119.5 billion cubic feet, doubling that for 2000.

There was rapid development in refinery and petrochemical businesses as well as in marketing business. The Company has become ever more competitive in the market and its operating efficiency has achieved new improvements. In the production of refined oil, the production units made efforts to overcome the adversities caused by the gap between the prices of refined products from the prices of crude oil by coordinating the allocation of resources and optimizing the production process. Business scale and layout and product mix have become more rationalized. Products have become more diversified. Quality of oil products and the percentage of high value-added products have increased sharply. In the marketing of refined oil, integrated management of production and marketing was carried out and a nationwide sales network was built up, with a view to adapting to market changes proactively and stabilizing market supply. In the marketing of chemicals, the Company has managed to grasp the market opportunity to take advantage of its competitive edge in centralized marketing by promoting sales at favourable prices. The Company achieved breakthrough in its efforts at soliciting institutional and big clients. Optimization of logistics and reform of the marketing mechanism were carried out in an orderly manner. Marketing management was strengthened and became more standardized. Key technological upgrading and construction of refining and petrochemical bases in the refinery and petrochemical arena were smoothly completed and there was new progress in the adjustment of the structure of the refinery and petrochemical businesses.

Key natural gas and pipeline construction was carried out in an orderly manner. Construction period and quality were effectively guaranteed. Natural gas transmission via the second Shaanxi-Beijing Pipeline commenced ahead of schedule. Six compressor stations for the West-East Gas Pipeline Project were completed and put into operation. The Xiangtan branch line of the Zhongxian-Wuhan Pipeline was completed and went into operation successfully. The trunk line of the Jining line connecting the West-East Gas Pipeline and the second Shaanxi-Beijing Pipeline was completed. Natural gas production capacity was enhanced. As a result, production and sales of natural gas were enhanced dramatically. Safe and steady supply of natural gas was ensured. Integration of resources, market and efficiency was achieved.

Capital markets operation and asset restructuring were carried out and control of financial risks was enhanced. The Company grasped the favourable market window and issued new H shares for the first

time. The proceeds from the H shares issue will be used for business development of the Company. The Company made a general offer to acquire for cash all the outstanding shares in Jilin Chemical, Jinzhou Petrochemical and Liaohe Jinma, the three listed subsidiaries of the Company, and withdrew the listing status for their respective A Shares, H Shares and ADSs. The offer has resolved the issue of competition within the Group and has regularized connected transactions. In 2005, the Company and CNPC jointly provided capital (each provided 50%) to set up 中油勘探開發有限公司 (Zhong You Kan Tan Kai Fa Company Limited) ("**Newco**") to integrate overseas oil exploration and development businesses. This is conducive to enhancing the overall advantages and promoting the implementation of the going international strategy. At the same time, the internal control mechanism was strengthened and standardized management was further advocated. The Company's capability to prevent risks was further enhanced.

The Company always emphasizes the "human-oriented" concept in its operations and management. The Company has taken initiatives in achieving safety and environmental protection. It has also endeavoured to build itself up as an enterprise of harmony. Through the active promotion of events relating to the "Year of Safety in Production", the Company has established and perfected its HSE management system. The Company has strengthened supervision and management and technological training in respect of safety and environmental protection. The Company has made more capital contributions and focused on rectifying and eliminating hidden environmental risks. The Company has intensified its basic work at the grassroots units and improved the quality of safety regulatory institutions at the grassroots level. The Company has devised contingency plans for the handling of material incidents. The Company has improved its capability for ensuring safety in production. The Company has propagated hygienic production, enhanced on-the-spot management and environmental protection efforts, and promoted harmony between energy production and the environment.

Looking forward in 2006, China may be able to maintain high economic growth and low inflation, and a growth of approximately 8% in the GDP in 2006. The rapid development of the national economy will increase the market demand for oil and petrochemicals and provide ample room for development for the oil and petrochemical industry. However, the implementation of macroeconomic control measures and the Chinese government's general policy to establish a frugal society in an attempt to achieve scientific development for China will lower the demand for energy effectively and slow down the growth of demand for oil and gas. China will adopt more stringent land and environmental protection policies and enhance law enforcement and regulation. China will also carry out reforms in the oil and gas pricing mechanism, energy tax and the exchange rate mechanism at a proper time. Looking forward, the Company will operate



in complicated and ever changing circumstances and face more fierce competition. As such, the Company needs to react in a positive manner, carry out steady operation, emphasise the implementation of the strategies of resources, market orientation and internationalization and gain initiatives in development efforts.

The Company will continue to strengthen its exploration and development businesses in China and further consolidate its resources foundation. The Company will focus on realizing stable development in eastern China and rapid development in western China. The Company will insist on placing equal emphasis on oil and gas businesses. It will continue to give priority to oil and gas exploration and perfect its oilfield development efforts in order to ensure steady and increased crude oil production, rapid increase in natural gas production, and accelerate the establishment of a larger scale, enhanced supply and safer natural gas production base.

The Company will continue to promote the construction of key refining facilities to improve the competitiveness and profitability of the refining segment. The refining business structure will be optimized and the efficiency of the marketing network will be improved in order to accelerate the pursuit of economies of scale for leading products. In the chemicals business, the Company will insist on making optimized arrangements, enhancing development of leading new products, developing high quality and high value-added products, and improving the competitiveness of leading products.

The Company will continue to speed up construction of infrastructure for oil and gas storage and transportation, perfect gas transmission pipelines and networks, construct interconnection lines linking up main gas transmission lines such as the West-East Gas Pipeline Project and the second Shaanxi-Beijing Pipeline, construct a gas transmission network in eastern and western China, speed up the construction of compressor stations and underground storage in order to ensure safe and steady supply in the market.

The Company will continue to expand its international businesses and enlarge the scale of its overseas oil and gas production. Building on its existing oil and gas projects, the Company will lay stress on key areas and regions, enhance oil and gas exploration and exploitation, and strongly advocate the rapid development of its overseas businesses.

In international trade, the Company has to proactively diversify the sources of import of resources, make arrangements to facilitate the import of crude oil from foreign countries such as Russia and Kazakhstan, develop sour and heavy crude oil sources and make preparations for the planned introduction of natural gas, LNG and other resources into China.

The Company will continue to ensure safety and protect the environment and to realize notable improvements in these areas. The Company will firmly assure safety in production, improve the code and rules of operation, provide more education and training, make further capital contributions to the course of rectifying hidden environmental risks, emphasise and ensure safety in production in key and strategic production process and facilities, intensify its efforts in eliminating sources of pollution and reducing hidden environmental risks, promote the efficient operation of the HSE management system, and build itself up as an enterprise of harmony.

In future, the Company will persist in enhancing the Company's value and strive to maximize the benefit and value for its shareholders. The Company will lay stress on its principal businesses, strive to enhance its creative capability, promote economic growth, establish a long-term effective mechanism for safety and environmental protection, and achieve a sustainable, effective, steady and well-coordinated development of the Company.



Chen Geng
Chairman of the Board
Beijing, the PRC
March 20, 2006