



PetroChina Company Limited

CORPORATE GOVERNANCE REPORT

The Company has always duly complied with the regulatory provisions of the jurisdictions in which its shares are listed, standardized its operations and promoted the continuous improvement of the level of corporate governance. In 2005, the Company commenced a series of work with outstanding results in respect of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) in Hong Kong and the Sarbanes-Oxley Act in the United States. The Company amended its Articles of Association and the Work Manual of the Board of Directors. The Company also formulated the Organizational and Work Rules of the Audit Committee. As a result, the information disclosure system and related work processes have been further improved. Under the guidance of the above regulatory documentation, efficient checks and balances mechanism was achieved within the Company through coordination among the shareholders’ general meeting, the Board of Directors and its related special board committees, the Supervisory Committee and the management headed by the President. The internal management and operation of the Company were further standardized. The Company’s management is stable and pragmatic and abides by its undertakings. The Company provides updated, accurate, complete and reliable information with respect to the Company to all market participants and regulatory authorities and by so doing enhances the value of the Company continuously.

The Company’s website (www.petrochina.com.cn) contains information on corporate governance and mechanism for assessment of performance and for incentives and restrictions of the Company, information disclosure and transparency, the relationship between CNPC and the Company, performance of duty by independent non-executive directors, professional and ethical code for senior management personnel, code of conduct for staff and workers, and significant differences in corporate governance structure pursuant to the requirements under section 303A.11 of the New York Stock Exchange Listed Company Manual. You may access such information by following these steps:

- (1) From our main web page, click “Investor Relations”
- (2) Next, click “Corporate Governance Structure”
- (3) Finally, click on the information you are looking for.

Compliance with Code of Corporate Governance Practices

The interim report of the Company dated August 24, 2005 discloses that the composition of the Examination and Remuneration Committee is not in compliance with B.1.1 of the Code of Corporate Governance Practices (the “Code”) set out in Appendix 14 of the Listing Rules. The Company has already

appointed an additional independent non-executive director in the Examination and Remuneration Committee in November 2005 and such committee is now composed of a majority of independent non-executive directors in compliance with the provisions of the Code. Save as described above, since the listing of the H shares of the Company on the HKSE, the Company has complied with the Code applicable to the relevant reporting period.

Securities Transactions by Directors

The Company has adopted the provisions of the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) in the Listing Rules in respect of the dealings of the Company’s shares by its directors. The Directors and the Supervisors have confirmed that they have complied with the requirements under the Model Code.

Board of Directors

Pursuant to the Work Manual of the Board of Directors, the Board of Directors convened 4 ordinary meetings, 4 extraordinary meetings and 11 meetings of special committees and passed 37 Board resolutions and 10 opinions of committees were submitted during the reporting period.

The members of the Company’s Board of Directors and the rate of attendance of Directors at ordinary Board meetings are as follows (Note 2):

Position	Name	Attendance Rate (%)
Chairman	Chen Geng	100 (50 of which by proxy)
Vice Chairman	Jiang Jiemin	100
Executive Directors	Su Shulin	100 (25 of which by proxy)
	Duan Wende	100 (75 of which by proxy)
Non-executive Directors	Zheng Hu	100
	Zhou Jiping	100 (25 of which by proxy)
	Wang Yilin (Note 1)	100
	Zeng Yukang (Note 1)	100
	Gong Huazhang	100 (25 of which by proxy)
	Jiang Fan (Note 1)	100
Independent Non-executive Directors	Chee-Chen Tung	100 (25 of which by proxy)
	Liu Hongru	100 (50 of which by proxy)
	Franco Bernabè	100 (25 of which by proxy)



Notes:

Note 1. Wang Yilin, Zeng Yukang and Jiang Fan only became Directors on November 8, 2005. They only attended the first meeting of the Third Term of the Board of Directors.

Note 2. Ren Chuanjun, Wang Fucheng and Zou Haifeng resigned on November 8, 2005. Their attendance rates of ordinary Board meetings during the year were 67%, 100% and 100% respectively.

There is no relationship (including financial, business, family or other material/relevant relationship(s)) among members of the Board of Directors and between the Chairman and the chief executive officer.

Operations of the Board of Directors

The Company's Board of Directors is elected by the Company's shareholders' general meeting through voting and is held accountable to the shareholders' general meeting. The Board of Directors is the highest decision-making authority during the adjournment of the shareholders' general meeting. The primary responsibilities of the Board of Directors are to provide strategic guidance to the Company, exercise effective supervision over the management staff, ensure that the Company's interests are protected and are accountable to the shareholders. The Board of Directors makes decisions on certain important matters, including strategic proposals and long and medium-term planning; annual business plans and investment plans; annual financial budgets; annual criteria for assessment of the performance of members of working units of the Company and annual remuneration plans; interim and annual financial reports; preliminary distribution plans in respect of interim profit and full year profit; and material issues involving development, acquisition or corporate reorganization of the Company. The Directors and the Board of Directors of the Company carry out corporate governance duties in respect of the Company in a serious and responsible manner. The Directors are elected following the procedures for election and appointment of Directors provided for in the Articles of Association of the Company. The Directors attend Board meetings in a serious and responsible manner, perform their duties as Directors earnestly and diligently, make important decisions concerning the Company, appoint, dismiss and supervise the members of the operation units of the Company, communicate with shareholders, and strengthen and consolidate itself.

The Company has established a system of independent directors. There are three independent non-executive Directors in the Board of Directors, in compliance with the minimum number of independent non-executive Directors required under the Listing Rules. The Company has received a confirmation of independence from each of the three independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. The Company considers that the three non-executive Directors are completely independent of the Company, its majority shareholders and its affiliates and comply fully with the requirements concerning independent non-executive Directors under the Listing Rules. Mr Liu Hongru, an independent non-executive director of the Company, has appropriate accounting and financial expertise as required

under Rule 3.10 of the Listing Rules. Please see the Brief Biography of the Directors, a section under the Board of Directors' Report for biographical details of Mr Liu Hongru. The three independent non-executive Directors do not hold other positions in the Company. They perform their duties seriously, protect the rights and interests of minority shareholders independently and objectively, and provide checks and balances in the decision-making of the Board of Directors according to the Articles of Association of the Company and the relevant requirements under the applicable laws and regulations.

The Board of Directors has established the Audit Committee, the Investment and Development Committee, the Examination and Remuneration Committee and the Health, Safety and Environmental Protection Committee. The main responsibility of these committees is to provide support to the Board of Directors in decision-making. The Directors participating in the special committees focus their studies on particular issues according to their areas of expertise and make recommendations for the improvement of the corporate governance level of the Company.

The Chairman and Chief Executive Officer

Mr Chen Geng is the Chairman of the Board of Directors of the Company. Mr Jiang Jiemin is the Vice Chairman and President of the Company. Pursuant to the Articles of Association of the Company, the primary duties and responsibilities of the Chairman are chairing the shareholders' general meetings and convening and holding meetings of the Board of Directors, checking the implementation of Board resolutions, signing share certificates issued by the Company, and other duties and power authorized under the Articles of Association and by the Board of Directors. The key duties and responsibilities of the President are taking care of production, operation and management matters, organizing the implementation of Board resolutions, organizing the implementation of annual business plans and investment plans of the Company, formulating plans for the establishment of internal management institutions of the Company, devising the basic management system of the Company, formulating specific rules and regulations of the Company, advising the Board of Directors to appoint or dismiss Senior Vice Presidents, Vice Presidents, the Financial Controller and other senior management personnel, appointing or dismissing management staff other than those that should be appointed or dismissed by the Board of Directors, and performing other duties and power authorized by the Articles of Association and the Board of Directors.

Term of Office of Non-executive Directors

Pursuant to the Company's Articles of Association, the Directors shall be elected by the shareholders' general meeting and serve a term of three years. Upon the expiry of their term of office, the Directors may be re-elected for another term.



Remuneration of Directors

The Examination and Remuneration Committee of the Company comprises two independent non-executive Directors, Mr Liu Hongru as chief committee member and Mr Chee-Chen Tung as member, and a non-executive Director, Mr Zheng Hu. This is in compliance with the provisions of the Code. Since the listing of the Company in 2000, there have been three changes to the composition of the Examination and Remuneration Committee. The Work Manual of the Board of Directors of the Company specifies the duties and responsibilities and work system of the Examination and Remuneration Committee. The terms of reference of the Examination and Remuneration Committee are included in the Work Manual of the Board of Directors and set out in the Company's website (www.petrochina.com.cn).

The main duties and responsibilities of the Examination and Remuneration Committee are organizing appraisal of the President and submitting a report to the Board of Directors, supervising the appraisals of Senior Vice Presidents, Vice Presidents, the Financial Controller and other senior officers under the leadership of the President, studying the incentive scheme, remuneration system and stock option plan of the Company, monitor and assess the effects of their implementation, and put forward opinions on reform and improvement.

The Examination and Remuneration Committee held two meetings in 2005. All of the three members (Liu Hongru, Zheng Hu and Zou Haifeng) attended the 9th meeting of the Examination and Remuneration Committee of the Second Term of the Board of Directors. The 1st meeting of the Examination and Remuneration Committee of the Third Term of the Board of Directors was held by way of circulation.

A summary of the work of the Examination and Remuneration Committee of the Company in 2005 is as follows:

The 9th meeting of the Examination and Remuneration Committee of the Second Term of the Board of Directors reviewed the "Report on the Examination of the Completion of Performance Targets by the President's Team in 2004 and the Formulation of Performance Contracts in 2005". The 1st meeting of the Examination and Remuneration Committee of the Third Term of the Board of Directors reviewed the "Resolution on the Modification of the Standard Basic Remuneration and Annual Performance Remuneration of the President's Work Team".

Nomination of Directors

Pursuant to the Company's Articles of Association, election and replacement of Directors shall be proposed to the shareholders' general meeting for approval. Shareholders whose shareholding represents 5% or more of the voting shares of the Company are entitled to make such proposal and request the Board of Directors to authorize the Chairman to consolidate a list of the director candidates nominated by the shareholders who are entitled to make a proposal. As authorized by the Board of Directors, the Chairman shall consolidate a list of the director candidates and order the Secretariat of the Board of Directors together with the relevant departments to prepare the relevant procedural documents, including but not limited to invitations to serve as Director, confirmation letters, resume of candidates and letters of resignations. The Secretariat of the Board of Directors is responsible for requesting the Chairman and/or the shareholders entitled to make a proposal to issue invitations to serve as Director to the director candidates. The director candidates will sign the confirmation letters. At the same time, resigning Directors are required to sign resignation letters. Pursuant to the Company's Articles of Association, the Company is required to issue a notice of the shareholders' meeting to shareholders in writing 45 days in advance and send a circular to shareholders. Pursuant to Rule 13.51(2) of the Listing Rules, the list, resume and emoluments of the director candidates must be set out in the circular to shareholders to facilitate the making of discretionary voting by shareholders. The new Directors must be approved by more than half of the total voting shares held by the shareholders or the independent shareholders present in person or by proxy in the shareholders' general meeting.

The Company has not established a Nomination Committee.

Auditors' Remuneration

The external auditors of the Company are PricewaterhouseCoopers (Certified Public Accountants, Hong Kong). It provides auditing services to the Company. During the reporting period, the Company paid an aggregate of RMB50 million to its auditors as fees for their professional audit services.

In the annual general meeting of shareholders for 2004 held on May 26, 2005, the renewal of the appointment of PricewaterhouseCoopers Zhong Tian CPAs Company Limited and PricewaterhouseCoopers as domestic and international auditors respectively for the Company in 2005 was approved, and the Board of Directors was authorized to determine the remuneration for the auditors in 2005.



Audit Committee

The Audit Committee of the Company comprises one non-executive director and three independent non-executive directors. Under the Organizational and Work Rules of the Audit Committee, the chairman of the Committee must be an independent non-executive director and all resolutions of the Committee must be approved by the independent non-executive directors.

In the Organizational and Work Rules of the Audit Committee discussed and adopted in the 10th meeting of the Second Term of the Board of Directors held on June 8, 2005, the terms of reference of the Audit Committee are clarified and reinforced in accordance with the requirements under the Listing Rules. The responsibilities of the Audit Committee of the Company are set out in the Company's website (www.petrochina.com.cn).

The major responsibilities of the Audit Committee of the Company are supervising the completeness and the process of the financial reporting of the Company to ensure true, fair and transparent disclosure of financial information; evaluating the effectiveness of the internal control and risk management framework; inspecting and monitoring the internal audit functions; reviewing and monitoring the appointment and work of external auditors, including the conduct of annual reviews on the performance of external auditors, and, in conjunction with the Supervisory Committee, submitting proposals for the appointment, renewal of appointment and dismissal of external auditors and the fees for audit services to the shareholders' general meeting; receiving, keeping and dealing with complaints regarding accounting, internal control or audit matters that the Company is aware of; receiving and dealing with employees' complaints or anonymous reports regarding accounting or audit matters and ensuring the confidentiality of such complaints or reports; and performing other responsibilities as may be required under the Listing Rules from time to time.

During the reporting period, the Audit Committee held three regular meetings. The opinions of the Audit Committee will be presented to the Board of Directors and acted upon (where appropriate). The members of the Audit Committee and their rate of attendance of meetings are as follows:

Position	Name	Attendance Rate (%)
Chairman	Franco Bernabè	100
Member	Chee-Chen Tung	67
Member	Liu Hongru	100
Member	Gong Huazhang	100

The following are the work reports prepared by the Audit Committee in respect of the performance of its responsibilities relating to the interim and annual results and the review of the internal supervision and control system and the performance of the other responsibilities set out in the Code during the reporting period:

the Audit Opinion of the Audit Committee of the Board of Directors on the Financial Report for 2004

the Audit Opinion of the Audit Committee of the Board of Directors on the draft Profit Distribution Plan for 2004

the Audit Opinion of the Audit Committee of the Board of Directors on the Interim Financial Report for 2005 and Other Matters

the Audit Opinion of the Audit Committee of the Board of Directors on the Interim Profit Distribution Plan for 2005

Shareholders and Shareholders' General Meetings

To ensure that all shareholders of the Company enjoy equal rights and exercise their rights effectively, the Company convenes the shareholders' general meeting every year pursuant to its Articles of Association. In the shareholders' general meeting for 2004 held on May 26, 2005, 6 ordinary resolutions and 2 special resolutions authorizing the amendment of the Company's Articles of Association and the granting of the general mandate to the Board of Directors to issue the Company's shares were passed and approved. In the first extraordinary shareholders' meeting held on August 16, 2005, 4 ordinary resolutions including 1 resolution on the acquisition of additional interest in Newco were passed and approved. In the second extraordinary shareholders' meeting held on November 8, 2005, 16 resolutions were passed and approved relating to the election of Directors of the Company, the election of the Supervisors of the Company, and the application by the Company to the HKSE for the renewal of ongoing connected transactions and related caps between 2006 and 2008. Pursuant to the relevant provisions of the Listing Rules, as the controlling shareholder and a connected person of the Company, CNPC has waived its right to vote for or against the 4 resolutions passed in the first extraordinary shareholders' meeting and certain part of the third resolution passed in the second extraordinary shareholders' meeting. Such resolutions were passed by more than half of the voting shares represented by the independent shareholders present in the meetings in person or by proxy. The independent non-executive Directors of the Company have conducted annual review to ensure sufficient disclosures have been made of the details, examination and approval procedures, and performance of the connected transactions.



Supervisors and the Supervisory Committee

The Supervisory Committee of the Company is accountable to the shareholders' general meeting. Its members comprise a supervisor elected by the employees' representatives and two independent non-executive Supervisors. The Supervisors have discharged their duties conscientiously in accordance with the provisions of the Company's Articles of Association, attended all Board meetings and persistently reported their work to the shareholders' general meeting, and submitted the Supervisory Committee Report and related resolutions. In line with the spirit of accountability to all shareholders, the Supervisory Committee monitored the financial affairs of the Company and the performance of duties and responsibilities by the Directors, managers and other senior management personnel of the Company to ensure that they have performed their duties in compliance with applicable laws and regulations. The Supervisory Committee has participated actively in major matters of the Company including production, operation and investment projects and made constructive recommendations.