



PetroChina Company Limited

BUSINESS OPERATING REVIEW

Market Review

◆ Crude Oil Market Review

In 2005, there was a huge oil demand and rather tight oil supply in the international market. As a result, international crude oil prices continued to soar and fluctuate and broke new record highs several times. The annual average prices for WTI, Brent and Minas crude oil were US\$56.59, US\$54.53 and US\$54.19 per barrel, respectively, representing an increase of US\$15.07, US\$16.28 and US\$17.22 per barrel, respectively, over the annual average prices in 2004. Corresponding to the rise in international oil prices, domestic crude oil prices also increased. The average realized price for domestic crude oil in 2005 was higher than that of 2004.

Net crude oil imports of China continued to increase in 2005 by 1.7% to a net total of 119 million tons compared with the corresponding period in the previous year. The domestic crude oil output and refinery crude oil input reached 182 million tons and 273 million tons, respectively.

◆ Refined Oil Products Market Review

International oil product prices stayed at a high level throughout 2005. Domestic prices for refined products, however, have failed to completely keep track of the international prices. Refineries incurred heavy losses in processing. In 2005, transportation of refined products was affected by tight transportation capacity. Overall, there was a tight supply of refined products in 2005, and there was a strong pressure for steady supply in the market. Nominal consumption increased by 4.7% to 164.44 million tons. The Group supplied 71.85 million tons of refined products to the domestic market, representing an increase of 11.74% over the previous year, and making its due contribution to the security, stability and continuous development of the Chinese economy.

◆ Chemical Products Market Review

The Chinese economy grew steadily and rapidly in 2005 under the government's macroeconomic regulation and control. The domestic demand for chemical products remains buoyant. In 2005, prices of domestic petrochemical products remained high and in fact rose under surging oil prices. However, the overall level of increase was moderate due to demand and supply factors. The persistent fluctuation

and surging of crude oil prices throughout the year has increased the cost of production of petrochemical products remarkably. As a result, profit margin in the petrochemical industry for 2005 was lowered significantly compared to that for 2004 and profit for petrochemical products was squeezed to a certain extent.

Business Review

For the twelve months ended December 31, 2005, total crude oil and natural gas output of the Group was 1,009.5 million barrels of oil equivalent, including 822.9 million barrels of crude oil and 1,119.5 billion cubic feet of marketable natural gas, representing an average production of 2.25 million barrels of crude oil and 3,070 million cubic feet of natural gas per day. A total of 788.8 million barrels of crude oil and 1,052.2 billion cubic feet of natural gas were sold. Approximately 83% of the crude oil sold by the Group was purchased by its refineries. In 2005, the lifting cost for the oil and gas operations of the Group was US\$5.28 per barrel, representing an increase of 14.8% from US\$4.60 per barrel in 2004.

For the twelve months ended December 31, 2005, the Group's refineries processed 752 million barrels of crude oil, or an average of 2.06 million barrels per day. Approximately 89% of the crude oil processed in the Group's refineries was supplied by the Exploration and Production segment. The Group produced approximately 66.39 million tons of gasoline, diesel and kerosene and sold approximately 75.98 million tons of these products. The Group actively expanded its sales and distribution networks, in particular the retail sales network, by capitalizing fully on the complementary value-added effect of the integration of refining and marketing. As at December 31, 2005, there were 18,164 service stations which were either owned, controlled or franchised by the Group or owned by CNPC but to which the Group provided supervisory support. The cash processing cost of the Group's refineries increased from RMB131 per ton to RMB145 per ton.

For the twelve months ended December 31, 2005, the Group produced 1.888 million tons of ethylene, 2.757 million tons of synthetic resin, 1.283 million tons of synthetic fiber raw materials and polymer, 0.281 million tons of synthetic rubber, and 3.578 million tons of urea.

For the twelve months ended December 31, 2005, the Group sold 888.8 billion cubic feet of marketable natural gas through the Natural Gas and Pipeline segment. The Group currently owns and operates 20,340 kilometers of regional natural gas pipeline networks, of which 19,212 kilometers are operated by the Natural Gas and Pipeline segment. For the twelve months ended December 31, 2005, the Group owned and operated 9,391 kilometers of crude oil pipeline and 2,462 kilometers of pipeline for refined products.