

# CHAIRMAN'S REPORT



*Chen Geng Chairman*

Dear Shareholders,

I am pleased to submit to you the annual report of PetroChina Company Limited (the “**Company**”) for the year ended December 31, 2006.

## 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 2006, leveraging on the opportunities presented by the steady and rapid growing economy in the PRC and the rising demands in oil and natural gas, the Company actively developed its principal businesses. The Group achieved fruitful results in oil and gas exploration and the oil and gas output reached another historical high. In relation to the refinery and petrochemical operations, the Group continues to optimise resource allocation and has been able to meet market demands. Rapid developments on the oil and gas marketing and the international operations all led to the highest profit-making position of the Company since listing. For the twelve months ended December 31, 2006, profit before taxation of the Group was RMB199,173 million, representing an increase of 2.8% compared with the previous year. Net profit was RMB142,224 million, representing an increase of 6.6% compared with the previous year.

For the twelve months ended December 31, 2006, the basic and diluted earnings per share attributable to equity holders of the Company were RMB0.79.

The Board of Directors has recommended final dividends of RMB0.154699 per share for 2006 (together with the interim dividends of RMB0.202806 per share, the annual dividends for 2006 will be RMB0.357505 per share), subject to the approval of the shareholders at the forthcoming annual general meeting of the Company to be held on May 16, 2007.

## I Board of Directors and Supervisory Committee

The annual general meeting of the Company for 2005 was held in Beijing on May 26, 2006. 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 two directors expired on May 27, 2006. Pursuant to the provisions of Articles 51 (13) of the Company’s Articles of Association regarding “review of proposals presented by shareholders representing 5% or more of the voting shares of the Company” at shareholders’ meetings, a resolution for the election of two Directors was considered and approved at the meeting. It was resolved that Mr Zheng Hu be re-elected as a non-executive Director and Mr Franco Bernabè be re-elected as an independent non-executive Director.

On November 24, 2006, the fifth meeting of the Third Term of the Board of Directors of the Company was held in Beijing. Mr Su Shulin resigned from his office of Director and Senior Vice President of the Company due to his taking up new designation with the provincial government of Liaoning Province of the PRC. The Board of Directors accepted Mr Su Shulin’s resignation on the same day. Please see the section headed “Brief Biography of Directors, Secretary, Supervisors and Senior Management” in the “Directors’ Report” for the brief biography of each of the Directors and the Supervisors. The Board of Directors currently consists of twelve Directors, including three independent non-executive Directors. The Supervisory Committee consists of seven Supervisors, including two independent Supervisors.

In addition, the Articles of Association of the Company provides that the Board of Directors shall consist of thirteen Directors. Due to Mr Su Shulin's resignation, a vacancy has occurred at the Board of Directors. To ensure the normal operation of the Board of Directors, the Company will elect one Director in accordance with the procedures provided in the Articles of Association of the Company.

I would like to take this opportunity to express my gratitude to Mr Su Shulin for his contribution to the Company and the Board of Directors during his term of office. 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.

## Standardised Operations and Business Prospects

The Company strictly abides by the laws and regulations of its respective places of listing and operates prudently and steadily and manages in an efficient manner within the regulatory framework.

The Group achieved fruitful results in oil and gas exploration and the oil and gas output reached another historical high. The Group achieved significant results in exploration of proven geological oil reserves and three-level natural gas reserves. The oil reserve replacement ratio remained at more than one. Comprehensive measures were implemented in oil and gas development by enhancing the recovery rate of mature oilfields and effectively controlling natural decline and overall decline and the rate of increase of water level. At the same time, the foundation for steady and increased production was reinforced by accelerating the increase of production capacity at new oilfields. Crude oil output set a new record high. Natural gas output grew rapidly. In 2006, output of marketable natural gas reached 1,371.9 billion cubic feet, representing an increase of 2.7 times from that of 2000.

The Group achieved efficiency and stability in its refining operations and continued to increase allocation of resources in this segment. Facing the growing demand in the market, the Group overcame insufficient processing capacity in the refining operations, adversities caused by the gap between the

## CHAIRMAN'S REPORT

prices on domestic refined products and crude oil, onerous inspection and maintenance responsibilities and other difficulties by optimising the allocation of resources and achieving full and steady production capacity at the principal facilities. The processing load rate of refining facilities hit a historical high. Key technical and economic indicators were further improved. The Group maintained its leading position in the production utilisation output of chemical ethylene in the domestic market. In the marketing of refined products and chemical products, market analysis and forecast was enhanced. Production, transportation and distribution were better co-ordinated. Allocation of resources was improved. Sales were responsive to market demands. The marketing network was further improved. As a result, stable supply in the market was achieved.

Constructions of key projects are proceeded on schedule with certain projects commenced commercial operation as planned. The construction of key projects for the refinery and petrochemical segments progressed in an orderly manner, easing off the inadequacy in processing capability in oil refining. The Group's ethylene production capability was strengthened and the scale of production was further expanded. The Group made smooth progress in the construction of oil and gas pipelines. The China-Kazakhstan Pipeline, the refined oil pipeline in western China, the Ji-Ning Connection Line and the Huai-Wu Connection Line were completed and came into operation. Construction of the trunk line of the crude oil pipeline in western China was completed. Construction projects of ancillary facilities for the West-East Gas Pipeline were implemented smoothly. Construction of the Dagang-Zaozhuang Refined Oil Pipeline, the Lanzhou-Yinchuan Gas Transmission Pipeline and the Daqing-Harbin Gas Transmission Pipeline commenced and made smooth progress.

The Group improved its internal control system and risk management control capability. Focusing on risk control and management, the Group carried out comprehensive risk management by strengthening its internal control system, paying attention to testing and strengthening internal control, and improving its organisational structure and task network in 2006. Risk management on legal risks was put in place in a systematic manner and under a set of rules and procedures. This was conducive to the establishment of systems, construction of important projects and management of equity rights.

The Group paid special emphasis on achieving safety, environmental protection as well as energy saving and strengthened its efforts in this direction gradually. The Group established the concept of “prioritising safety, environmental protection and people-orientation” and pushed forward the establishment of its Health, Safety and Environmental Protection Management System (“HSE”). The Group emphasised on achieving safety, environmental protection and energy saving and strived to build itself up as a balanced and harmonious enterprise.

Looking forward in 2007, global economy may hopefully be able to maintain rapid growth which will lead to a gradual increase in the demand for energy products. The rapid development of the Chinese economy will continue to fuel the demand for oil and natural gas. We believe the Chinese market will open up further in the post-WTO transitional period. China has been adjusting its financial and tax policies in view of the potential risk of further appreciation of Renminbi and the increasing exposure on foreign exchange risk. At the same time, it is expected that government regulation will be more stringent and the public will become more concerned about changes in oil prices and steady supply of oil and gas. The Group shall respond proactively to complicated and ever changing external conditions and fierce market competition in its future development, operate steadily, place greater emphasis on and implement the three key strategies concerning resources, market orientation and internationalisation, and simultaneously maintain rapid development of its core businesses.

The Group will continue to strengthen its oil and gas exploration and development and further consolidate and upgrade its resources bases so as to maintain growth in the production. The Group will carry out oil and gas exploration at eight basins, including Bohai Bay Basin, Erdos Basin and Sichuan Basin. Further geological studies will be conducted. Key projects will be prioritised. In oil and gas exploration, great importance will be placed to the exploration of mature oilfields and unearthing of potential sources, building up of key production capability will be adequately completed. Production facilities in the key areas will be secured. The Group will actively proceed with the large scale exploration of coalbed gas, develop biomass energy and other new form of energy, and make greater efforts to assess oil shale, oil sand and other non-conventional form of resources.

## CHAIRMAN'S REPORT

The Group will continue to place greater emphasis on modification and optimisation of its refinery and petrochemical business structure and to commence construction of production facilities steadily in order to improve the operational efficiency. The Group will co-ordinate the optimal allocation of resources and promote partial optimisation and modification of business structure. The Group will also continue to improve different economic and technological indicators in order to ensure the production infrastructure can operate in the long run. The Group will endeavour to optimise product mix, improve the quality of oil products and increase the output of high value-added products. The sale of refined products should be market-oriented with improvements resulting from better allocation of marketing resources, transportation and logistics. The Group will also endeavour to improve the sales and marketing and the retail sales network. In the sales of petrochemical products, centralised sales will be enhanced and market forecast and the pricing mechanism will be perfected.

The Group will continue to speed up construction of major pipelines and ancillary facilities in order to maintain a stable supply of natural gas in the market. In the sale of natural gas, allocation and striving for an overall balance of resources will be carried out, management of operation of pipelines will be enhanced, thereby achieving a safe and steady supply of gas so as to benefit further from the optimisation attained by improvement in the sales network nationwide.

The Group will continue to expand the development of international businesses in order to improve its strength in scale and competitiveness. The Group will continue to strive for more high quality reserves by strengthening the sophisticated exploration carried out in its existing overseas oil and gas businesses and accelerating exploration and development in key areas. The Group will also work on maintaining steady supplies in mature oilfields and accelerating the commencement of production for new projects. The Group will further place emphasis on key segments and regions and promote rapid development and further expansion of its overseas businesses.

The Group will continue to adopt measures to ensure safety, environmental protection and energy saving and strictly abide by the PRC laws and regulations on safety, environmental protection and energy saving. The Group will strengthen the elimination of potential safety and environmental risks, as well as the reform on energy and water saving, and take more effective measures to strengthen management of

safety, environmental protection and energy saving in various important domains and key sectors. The Group will promote the effective operation of the HSE management system and make an effort to build itself up as a balanced and harmonious enterprise.

In its future development, the Group will place emphasis on two main principles, namely, relying on efficient and scientific development and building up a balanced and harmonious enterprise. The Group will continue to conduct its business in a prudent and steady manner, thereby increasingly enhance its corporate value and actively fulfills its economic, environmental and social responsibilities to maximise returns to its equity holders, the society and its staff.



Chen Geng  
Chairman of the Board  
Beijing, the PRC  
March 19, 2007