

CORPORATE GOVERNANCE REPORT

The Company has always duly complied with the regulatory provisions of the jurisdictions in which its shares are listed, standardised its operations and promoted the continuous improvement of the level of corporate governance. In 2006, the Company continued to implement the internal control provisions and relevant provisions 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 of 2002 in the United States of America. The Company fully operated its internal control management system, further improved various systems, and sped up the progress in relation to the standardisation of business processes and the computerisation of the management information system of the Company. In 2006, in accordance with the direction set out in the Company’s Articles of Association and other internal documents, effective checks and balances were 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 management and operation of the Company were further standardised. As a result, the Company’s value is continuously enhanced.

Compliance with Code of Corporate Governance Practices

The Company is dedicated to enhancing the level of its corporate governance. During the year, the Company has been in compliance with the code provisions set out in the Code of Corporate Governance Practices (the “**Code of Corporate Governance Practices**”) in Appendix 14 of the Listing Rules.

Securities Transactions by Directors and Supervisors

The Company has adopted the provisions of the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 of the Listing Rules in respect of the dealings of the Company’s shares by its directors. Upon the making of special enquiries to all the Directors and the Supervisors of the Company, they have confirmed that, during the reporting period, they have complied with the standards as required under the Model Code.

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Board of Directors

Pursuant to the Work Manual of the Board of Directors, the Board of Directors convened 4 regular board of directors' meetings, 1 extraordinary meeting and 9 meetings by special board committees and passed in aggregate 25 board resolutions and 9 opinions of board committees were submitted during the reporting period.

Members of the Board of Directors and attendance rate of Directors at regular Board meetings are as follows (Note 1):

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

Note:

1. Mr Su Shulin resigned from his office as Director due to his taking up new designation with the provincial government of Liaoning Province of the PRC. On November 24, 2006, the Board of Directors accepted Mr Su Shulin's resignation. During the year, Mr Su Shulin attended three regular meetings of the Board of Directors and attained a 100% attendance rate.

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 President of the Company.

I 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, 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 reorganisation 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 thereby strengthen the function of the Board of Directors.

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 independent non-executive Directors are completely independent of the Company, its major 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, has appropriate accounting and financial experience as required under Rule 3.10 of the Listing Rules. Please see the section headed the Brief Biography of the Directors under the 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 these special board committees focus on particular issues according to their areas of expertise and make recommendations for the improvement of the corporate governance level of the Company.

I The Chairman and President

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 authorised 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, organising the implementation of Board resolutions, organising 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 authorised by the Articles of Association of the Company and the Board of Directors.

I Term of Office of Directors

Pursuant to the Company's Articles of Association, the Directors (including non-executive Directors) shall be elected at 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 three Directors, including two independent non-executive Directors with 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 of Corporate Governance Practices. 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 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 organising appraisal of the President and submitting a report therefor to the Board of Directors, supervising the appraisals of Senior Vice Presidents, Vice Presidents, the Chief Financial Officer and other senior officers under the leadership of the President, reviewing the incentive scheme, remuneration system and stock option plan of the Company, monitor and assess the effectiveness of their implementation, and put forward opinions on reform and improvement in relation thereto.

The Examination and Remuneration Committee held one meeting in 2006. The second meeting of the Examination and Remuneration Committee of the Third Term of the Board of Directors was held by way of written resolution.

A summary of the work of the Examination and Remuneration Committee of the Company in 2006 is as follows:

The second meeting of the Examination and Remuneration Committee of the Third Term of the Board of Directors reviewed the "Report on the Examination of the Completion of Performance Targets by the President's Team in 2005 and the Formulation of Performance Contracts in 2006".

I 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 authorise the Chairman to consolidate a list of the director candidates nominated by the shareholders who are entitled to make a proposal. As authorised 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.

I 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 RMB140 million to its auditors as fees for their professional audit services.

In the annual general meeting of shareholders for 2005 held on May 26, 2006, the renewal of the appointment of PricewaterhouseCoopers Zhong Tian CPAs Company Limited and PricewaterhouseCoopers (Certified Public Accountants, Hong Kong) as domestic and international auditors respectively for the Company in 2006 was approved, and the Board of Directors was authorised to determine the remuneration for the auditors in 2006.

Audit Committee

The Audit Committee of the Company comprises one non-executive Director and three independent non-executive Directors. Under the Organisational 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.

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 five regular meetings. One of the meetings of the Audit Committee of the Board of Directors was held by way of written resolution.

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 attendance rate at meetings are as follows:

Position	Name	Attendance Rate (%)
Chairman	Franco Bernabè	100
Member	Chee-Chen Tung	75
Member	Liu Hongru	100
Member	Gong Huazhang	75

The followings 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 control system and the performance of the other responsibilities set out in the Code on Corporate Governance Practices during the reporting period:

- the Audit Opinion of the Audit Committee of the Board of Directors on the Financial Report for 2005;
- the Audit Opinion of the Audit Committee of the Board of Directors on the draft Profit Distribution Plan for 2005;
- the Audit Opinion of the Audit Committee of the Board of Directors on the Interim Financial Report for 2006 and Other Matters;
- the Audit Opinion of the Audit Committee of the Board of Directors on the Interim Profit Distribution Plan for 2006; and
- the Audit Opinion of the Audit Committee of the Board of Directors on the Internal Control Work Report and other Reports of the Company.

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 2005 held on May 26, 2006, eight ordinary resolutions and a special resolution granting of the general mandate to the Board of Directors to issue the Company's shares and apply for the listing of such shares were passed and approved. In the extraordinary shareholders' general meeting held on November 1, 2006, two ordinary resolutions including one resolution on the new continuing connected transactions arising following completion of the acquisition of a 67% interest in PetroKazakhstan Inc. and thereby also increase the related annual caps for such continuing connected transactions from 2006 to 2008 and renewal of continuing connected transactions and the related annual caps between 2006 and 2008 and one special resolution on the amendment of the Articles of Association of the Company were passed and approved. Pursuant to the relevant provisions of the Listing Rules, as the controlling shareholder and a connected person of the Company, CNPC abstained from voting on the first resolution passed at such extraordinary shareholders' meeting and certain part of the second resolution passed at the 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 on these connected transactions to ensure sufficient disclosures have been made in respect of the details, examination and approval procedures, and performance of the connected transactions.

I 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.

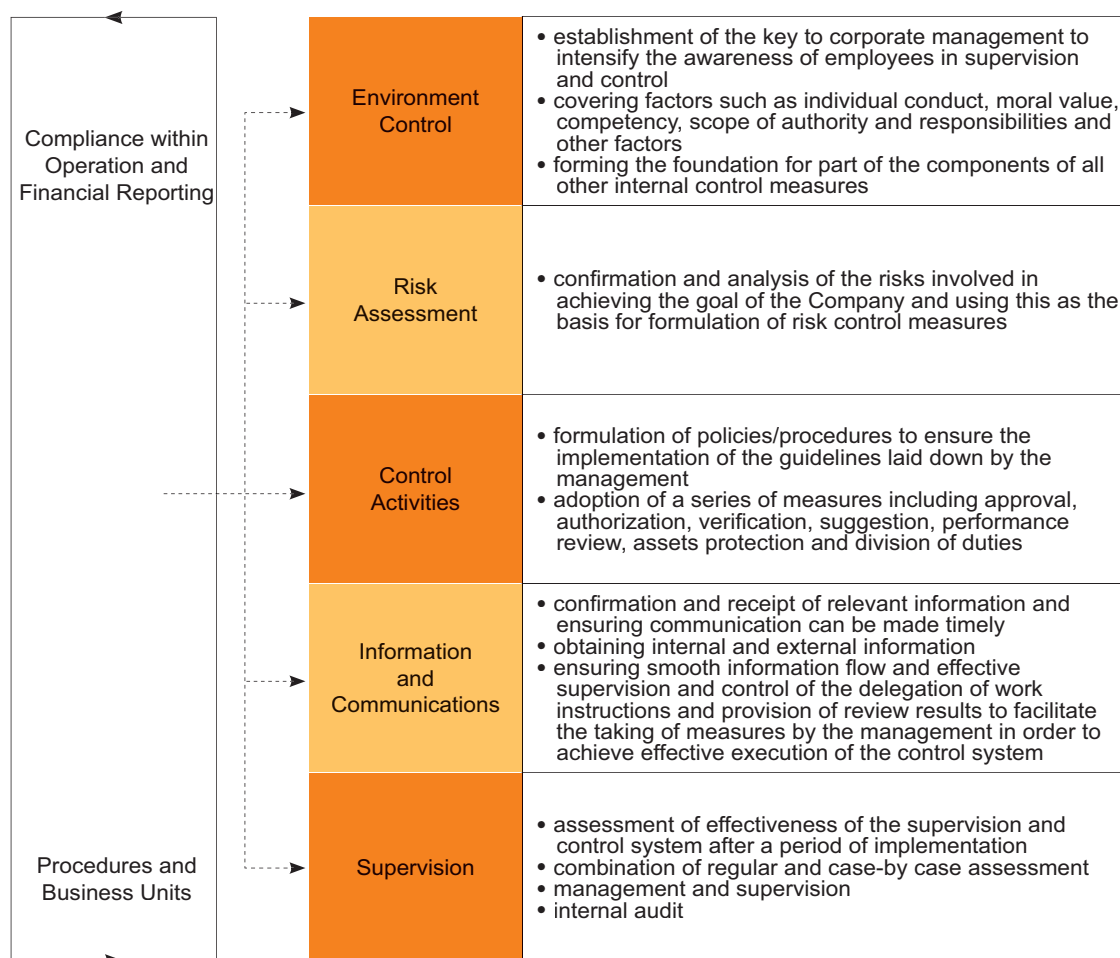
I Internal Control

The Company places great emphasis on internal control and risk management. The Company's H shares and ADS are listed on HKSE and the New York Stock Exchange. Therefore, the Company must comply with the relevant listing rules in Hong Kong and the United States of America (the "**United States**"), including the Code of Corporate Governance Practices, Corporate Governance Report set out in Appendix 23 of the Listing Rules and the provisions under Rules 13a - 15 (e) and Rule 15d(e) of the Sarbanes-Oxley Act of 2002. Under these rules and regulations, the Company is required to implement a sound and effective internal control and management system in order to protect shareholders' investment and the assets of the Company and improve the corporate governance level and transparency of the Company.

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According to Code C2.1 of the Code of Corporate Governance Practices, the Board of Directors of a listed issuer should at least review annually the effectiveness of its internal control and that of its subsidiaries and inform its shareholders that it has completed such review in the corporate governance report.

The Company has adopted a comprehensive internal control structure. The structure is consistent with the structure laid down by the Committee of Sponsoring Organisation of the Treadway Commission as follows:



Under the Company's internal control structure, the management is mainly responsible for the design, implementation and improvement of the internal control system, including financial control, operation and compliance and risk management control. The Board of Directors and the Audit Committee are responsible for supervising the activities of the management and monitoring the effectiveness of the existing internal control system.

Internal control comprises the process designed by the Company's management for the purpose of ensuring the reliability of financial reports and preparation of financial statements. The aim and procedures of internal control are as follows:

- 1) maintaining a record that reflects fully, accurately and fairly transactions and disposals of the assets of the Company;
- 2) reasonably ensuring that full record of transactions is maintained for the purpose of preparing financial statements according to recognised accounting standards, and ensuring that the income and expenditure of the Company will only be accrued and incurred as authorised by the management and the Board of Directors of the Company;
- 3) reasonably ensuring that unauthorised obtaining, use or disposal of the assets of the Company that may have a material impact on the financial statements of the Company will be prevented or promptly examined.

The management of the Company has assessed the control environment of the Company at the company level and at the level of various processes/transactions. It has performed risk analysis of businesses and processes. The Company has designed and adopted key control against identified important risks with a view to minimising such risks. From the beginning of 2006, the management of the Company will carry out testing on the key controls each year.

Effectiveness of Control

The Board of Directors is responsible for the internal control of the Company and reviewing the effectiveness of internal control. The management of the Company will conduct at least a review of the effectiveness of the internal control of the Company (including its branches) each year. In such review, reference will be made to the guidance made by regulatory authorities and specialised institutions in respect of the effectiveness of the internal control of the Company.

The Audit Committee is responsible for reviewing the findings and opinions of the management of the Company regarding the effectiveness of the internal control of the Company and reporting such review to the Board of Directors each year.

The Audit Committee considers that the Company has effectively operated a sound internal control system which has enhanced the management of the Company.

As at December 31, 2006, the Board of Directors considers that the internal control of the Company regarding the preparation of financial statements and compliance with the Listing Rules is effective and adequate.

■ Directors' Responsibility In Preparing Financial Statements

The Directors are charged with the responsibility to audit the financial statements in each financial year with supports from the accounting departments, and to ensure that the relevant accounting practices and policies are observed and the International Financial Reporting Standards issued by the International Accounting Standards Board are complied with in the compilation of such financial statements in order to report the financial position of the Company in a factual and unbiased manner.

■ Going Concern

The Directors, having made appropriate enquiries, consider that the Company has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

■ Others

Information on corporate governance, mechanisms for assessment of performance and performance 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 on corporate governance structure pursuant to the requirements under section 303A.11 of the New York Stock Exchange Listed Company Manual can be found on the Company's website (www.petrochina.com.cn). 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.