

## CORPORATE GOVERNANCE

### 1. Improvement of Corporate Governance

The Company has always duly complied with the regulatory provisions of the domestic and overseas jurisdiction in which its shares are listed, standardized its operations and promoted the continuous improvement of the level of corporate governance. The A shares of the Company were listed on November 5, 2007. As a listed company in Hong Kong, New York and the PRC, the Company has been able to comply with the legal, regulatory and procedural requirements as required by the respective jurisdictions of listing. The Company has further improved the work systems and processes laid down by the directions under the Articles of Association of the Company. Checks and balances were achieved through the coordination among the shareholders at the shareholder's meeting, the Board of Directors and its related special Board committees, the Supervisory Committee and the management headed by the President. Together with the effective internal control and management systems, the Company's internal management and operations was further standardized and the corporate governance of the Company is further enhanced.

### 2. Improvement of Internal Control System

The Company places great emphasis on internal control and risk management. The Company's management is mainly responsible for the design, implementation and improvement of the internal control system, including financial reporting, operations and compliance and risk management control functions. 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.

Since 2003, the Company has commenced the establishment of an internal control system. In 2005, pursuant to the relevant requirements of laws and regulations, the Company focused on the processes and key controls related to the preparation of financial statements and disclosure of financial information based on the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and compiled an "Internal Control Management Handbook" which has been enhanced every year. In 2007, work on the internal controls has been focused on ensuring continuous and effective operation of the internal control system and which has facilitated the further enhancement of the internal control system and its effectiveness and the level of supervision. As such, improvement on the internal control system was strengthened and effective implementation was facilitated.

The Company has established a decision making body in charge of internal control and risk management - Internal Control System Establishment Committee, which is headed by the President and the Chief Financial Officer. The Internal Control System Establishment Committee established an internal control department at the headquarters of the Company and serves as an operation organ for the daily management department and committees in charge of the internal control of the Company to organise and

coordinate the practice in relation to the implementation and improvement of the internal control system. The internal control department and the audit department shall exercise supervision functions to assess and monitor the operations of the systems. All subsidiaries and branch companies have established relevant departments to manage their own internal control on a day-to-day basis.

The Board of Directors is satisfied with the effectiveness of the internal control system of the Company and expects the Company to continue the strengthening of the implementation of internal control management and continues to emphasise risk management control, establish and improve a comprehensive risk management system which is "simple, easy and efficient" so as to ensure that the internal control is practical and efficient and management efficacy could be enhanced. The Company's internal control systems includes financial, operations and compliance and risk management controls. The Company has formulated a series of management procedures for various production, operation and management activities, including but not limited to procedures and systems which the management considers reasonable to ensure the reliability of the financial reports and preparation of financial statements. The Company has also formulated improved systems for information disclosure and the collection, consolidation and procedures for disclosure.

In 2007, with the implementation of the single-tier accounting system, the Company completed the design of key controls for business processes and improved the structure of internal controls.

The management of the Company has assessed the control environment of the Company at the Company level and at the process/transaction level and performed risk assessment of the businesses and processes. The Company has designed and adopted key controls against identified significant risks with a view to minimizing such risks.

In 2007, the management of the Company assessed the design and effectiveness of the implementation of internal control in connection with financial statement preparation and financial reporting of the Company and its subsidiaries and branch companies and considered that the internal control of the Company was effective as at December 31, 2007.

The Audit Committee is responsible for assessing the findings and opinions of the management of the Company on the effectiveness of the internal control of the Company and presents its assessment to the Board of Directors each year. The Audit Committee considers that the Company has effectively implemented an effective internal control system which has enhanced the governance of the Company. As at December 31, 2007, the Board of Directors considered that the internal control system of the Company in respect of the preparation of financial statements and compliance with the relevant regulatory requirements on internal control as required in Hong Kong and Shanghai were effective and adequate.

Looking ahead 2008, the Company shall focus on the effectiveness of the structure of the internal control system and strengthening the control and monitoring measures in all respects and further enhancement of the internal control system in accordance with actual circumstances and regulatory requirements.

### 3. Performance of Independent Directors' Duties

In 2007, the independent Directors of the Company were committed to implementing the system of independent directors and earnestly and diligently performing their duties and fiduciary duties in accordance with the relevant laws and regulations and the Articles of Association of the Company. They reviewed the documents presented by the Company and actively participated in the meetings of the Board of Directors and special committees of the Board (please refer

to the section on “Directors’ Report” in this annual report for detailed information on the attendance of the meetings). They discharged their duties objectively and independently protecting the interests of the minority shareholders and played a part in the checks and balances of the decision making process of the Board of Directors.

During the reporting period, the independent Directors of the Company did not object to the motions, resolutions and other matters discussed at the meetings of the Board of Directors.

#### 4. Independence of the Company from the Controlling Shareholder

The Company is independent from its controlling shareholder, CNPC, in respect of business, personnel, asset, organizational structure and finance. The Company has independent and comprehensive business operations and management capabilities.

#### 5. Senior Management Evaluation and Incentive Scheme

In accordance with the “Measures of Evaluation of Annual Performance of the President’s Team”, the Company evaluated the completion of the performance targets of 2006 by the President’s Team with reference to the achievement of the performance targets in 2006 and the business development plan of 2007, formulated the “2007 Performance Contracts of President’s Team” and prepared a “Report on the Examination of the Completion of Performance Targets by the President’s Team in 2006 and the Formulation of Performance Contracts in 2007”, which were reviewed and approved at the sixth meeting of the Third Session of the Board of Directors.

In accordance with the “Measures of Evaluation

of Performance of the Senior Management” and the relevant provisions and performance targets of the year, the Company conducted appraisal on 561 members of the senior management from the specialized companies, local companies and the science and research planning departments on their achievement of the performance targets in 2006, and formulated the performance contracts 2007. The Company organized a signing ceremony of the performance contracts for 2007 for specialized companies and local companies attended by key political and party personnel. The Company conducted quarterly review on the completion of performance targets, drafted and presented seven performance reports on major performance targets to the President’s office and others. The Company completed evaluation of the performance targets of the year in all aspects.

#### 6. Corporate Governance Report

##### (1) Compliance with Code on Corporate Governance Practices

The Company is dedicated to enhancing the level of its corporate governance. During the year, the Company has been in strict compliance with the code provisions set out in the Code on Corporate Governance Practices (the “Code on Corporate Governance Practices”) in Appendix 14 of the Listing Rules. However, since May 20, 2007, the roles of Chairman and President have been performed by the same person. Following the retirement of Mr Chen Geng, Mr Jiang Jiemin, who was the President and Vice Chairman of the Company, has since May 20, 2007 been appointed as the Chairman of the Board of Directors concurrently with his role as the President of the Company. With his extensive experience in China’s oil and gas industry and substantial knowledge of the operations and management of the Company, the Board of Directors believes that Mr Jiang will continue to provide strong leadership to the Board and facilitate the Company to implement its plans and strategies smoothly and effectively. The Board of Directors believes

that such change in the management structure will not affect the operations and business development and corporate governance of the Company. In view of the importance of the role as the president, should there be a candidate with the suitable credentials, the Board of Directors will consider appointing a new president to comply with the relevant requirement under the Code on Corporate Governance Practices.

#### (2) 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 dealing of the Company's shares by its Directors. Upon making 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.

#### (3) Board of Directors

Pursuant to the “Work Manual of the Board of Directors”, the Board of Directors convened 4 regular meetings and 3 extraordinary meetings of Board of Directors and 9 meetings of special Board Committees and passed 24 resolutions of the Board of Directors and 11 opinions of Board Committees during the reporting period.

For details of the composition of the Board of Directors and attendance rate of Directors at regular Board meetings during the year, please refer to the section “Members of the Board of Directors and the attendance rate of Directors” in the “Directors’ Report” of this annual report.

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.

#### (4) Operations of the Board of Directors

The Company's Board of Directors is elected by the shareholders' general meeting of the Company 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 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 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.

#### (5) The Chairman and President

Mr Jiang Jiemin is the Chairman of the Board of Directors 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, inspecting 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 Chief Financial Officer 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.

#### (6) 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.

#### (7) 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](http://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 the reporting period which was the sixth meeting of the Third Session of the Board of Directors.

A summary of the work of the Examination and Remuneration Committee of the Company in 2007 is as follows:

The meeting of the Examination and Remuneration Committee held at the sixth meeting of the Third Session of the Board of Directors reviewed the “Report on the Examination of the Completion of Performance Targets by the President’s Team in 2006 and the Formulation of Performance Contracts in 2007”.

#### (8) 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 candidates for directorship. The candidates for directorship 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 give 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 candidates for directorship must be set out in the circular to shareholders to facilitate 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.

As at the end of the reporting period, the Company has not established a nomination committee.

#### (9) 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](http://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 relevant laws, regulations and the listing rules of the stock exchanges where the shares of the Company is listed (as amended from time to time).

During the reporting period, the Audit Committee held five regular meetings. One of the meetings of the Audit Committee 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 2006;

- the Audit Opinion of the Audit Committee of the Board of Directors on the draft Profit Distribution Plan for 2006;

- the Audit Opinion of the Audit Committee of the Board of Directors on the Interim Report for 2007 and Other Matters;

- the Audit Opinion of the Audit Committee of the Board of Directors on the Interim Profit Distribution Plan for 2007; 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.



#### (10) Shareholders and Shareholders' General Meetings

For details of shareholders and shareholder's general meetings, please refer to the section entitled "Shareholders' Meetings" in this annual report.

#### (11) 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.

#### (12) 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 IFRS and CAS 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.

#### (13) 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.

#### (14) 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](http://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.