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PETROCHINA CO LTD
Form 6-K
April 11, 2006

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN ISSUER

PURSUANT TO RULE 13A-16 OR 15D-16 OF
THE SECURITIES EXCHANGE ACT OF 1934

For the month of April 2006

PETROCHINA COMPANY LIMITED

16 ANDELU, DONGCHENG DISTRICT
BEIJING, THE PEOPLE'S REPUBLIC OF CHINA, 100011
(Address of Principal Executive Offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F Form 40-F

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes No

(If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-_____)

PetroChina Company Limited (the "Registrant") is furnishing under the cover of Form 6-K the Registrant's 2005 annual report.

This annual report contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- the Registrant's plan to continue to strengthen its exploration and development business in China and further consolidate its resources foundation;
- the Registrant's plan to continue to promote the construction of key refining facilities to improve the competitiveness and profitability of the refining segment;
- the Registrant's plan to continue to speed up construction of infrastructure for oil and gas storage and transportation

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- the Registrant's plan to continue to expand its international businesses and enlarge the scale of its overseas oil and gas production;
- the Registrant's plan to continue to ensure safety and protect the environment and to realize notable improvements in these areas; and
- the Registrant's other future plans and prospects.

These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in these forward-looking statements as a result of a number of factors, including, without limitation:

- fluctuations in crude oil and natural gas prices;
- failure to achieve continued exploration success;
- failure or delay in achieving production from development projects;
- failure to complete the proposed acquisition of certain overseas assets as planned;
- change in demand for competing fuels in the target market;
- continued availability of capital and financing;
- general economic, market and business conditions;
- changes in policies, laws or regulations of the PRC and other jurisdictions in which the Registrant and its subsidiaries conduct business; and
- other factors beyond the Registrant's control.

We do not intend to update or otherwise revise the forward-looking statements in this annual report, whether as a result of new information, future events or otherwise. Because of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this annual report might not occur in the way we expect, or at all.

You should not place undue reliance on any of these forward-looking statements.

2005 ANNUAL REPORT

FINANCIAL AND OPERATING SUMMARY

Output of crude oil for 2005 was 822.9 million barrels, representing an increase of 1.1% from 2004. Output of marketable natural gas for 2005 was 1,119.5 billion cubic feet, representing an increase of 27.8% from 2004. Total output of crude oil and natural gas for 2005 was 1,009.5 million barrels of oil equivalent, representing an increase of 5.1% from 2004.

Consolidated turnover for 2005 was RMB552,229 million, representing an increase of 39.0% from 2004.

Consolidated net profit* for 2005 was RMB133,362 million, representing an increase of 28.4% from 2004.

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Basic and diluted earnings per share attributable to equity holders of the Company for 2005 were RMB0.75, representing an increase of RMB 0.16 from 2004. The Board of Directors has proposed a final dividend attributable to equity holders of the Company for 2005 of RMB0.180325 per share.

* Consolidated net profit is profit attributable to the equity holders of the Company.

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COMPANY PROFILE

PetroChina Company Limited (the "COMPANY") was established as a joint stock company with limited liability under the Company Law of the People's Republic of China (the "PRC" or "CHINA") on November 5, 1999 as part of the restructuring of the China National Petroleum Corporation ("CNPC"). In the restructuring, CNPC injected into the Company most of the assets and liabilities of CNPC relating to its exploration and production, refining and marketing, chemicals and natural gas businesses.

The Company, one of the largest companies in the PRC in terms of sales, is engaged in a broad range of petroleum and natural gas related activities, including:

- the exploration, development, production and sales of crude oil and natural gas;
- the refining, transportation, storage and marketing of crude oil and petroleum products;
- the production and sales of basic petrochemical products, derivative chemical products and other chemical products; and

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- the transmission of natural gas, crude oil and refined products, and the sales of natural gas.

The American Depositary Shares (the "ADSS") and H shares of the Company were listed on the New York Stock Exchange, Inc. and The Stock Exchange of Hong Kong Limited ("HKSE") on April 6, 2000 and April 7, 2000, respectively.

Registered Chinese Name of the Company:	(Chinese Characters)
English Name of the Company:	PetroChina Company Limited
Legal Representative of the Company:	Chen Geng
Secretary to the Board:	Li Huaiqi
Legal Address of the Company:	World Tower 16 Andelu Dongcheng District, Beijing The People's Republic of China
Postal Code:	100011
Telephone:	(8610) 8488 6270
Facsimile:	(8610) 8488 6260
Places of Listing:	
H shares: The Stock Exchange of Hong Kong Limited	Code: 857
ADS: The New York Stock Exchange, Inc.	Symbol: PTR

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CHAIRMAN'S REPORT

Dear Shareholders,

I am pleased to submit to you the annual report of PetroChina Company Limited (the "COMPANY") for the year ended December 31, 2005.

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 2005, faced with a rapid growth of demand for oil and gas in the PRC, the Company made its best endeavours to organize its resources with a view to achieve a stronger balance of production, transportation and sales, maximize the supply of oil and chemical products to the market, and ensure safe and steady gas supply. The Company's

(photo)

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results of operation improved significantly. The overall strength of the Company has improved notably. In 2005, profit before taxation of the Company was RMB193.822 billion, representing an increase of 28.2% from the corresponding period of the preceding year. Net profit was RMB133.362 billion, representing an increase of 28.4% from the corresponding period of the preceding year. The

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Exploration and Production segment continued to be an important pillar for the increase in the Company's profits. The Refining and Marketing segment, however, recorded losses because the increase in prices of refined products was much lower than that of crude oil in China. The realised profits of the Chemicals and Marketing segment decreased as compared with those for the preceding year as a result of an increase in prices of raw materials. Profits of the Natural Gas and Pipeline segment continued to grow as a result of a dramatic increase in the production and sales volume of natural gas.

The basic and diluted earnings per share of the Company were RMB0.75.

The Board of Directors of the Company recommends a final dividend of RMB0.180325 per share for 2005 (together with the interim dividend of RMB0.157719 per share, the annual dividend for 2005 will be RMB0.338044), subject to the approval of the shareholders in the annual general meeting to be held on May 26, 2006.

BOARD OF DIRECTORS AND SUPERVISORY COMMITTEE

The second extraordinary general meeting of the Company was held in Beijing on November 8, 2005. 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 six directors expired on November 18, 2005. One director resigned for reason of work adjustment. Pursuant to the provisions of Articles 51(2) and (13) of the Company's Articles of Association regarding "election and replacement of directors" and "review of proposals presented by shareholders representing 5% or more of the voting shares of the Company" at shareholders' meetings, a resolution for the re-election and election of seven more Directors was considered and approved at the meeting. It was resolved that Mr Su Shulin, Mr Gong Huazhang, Mr Chee-Chen Tung and Mr Liu Hongru be re-elected as Directors and Mr Wang Yilin, Mr Zeng Yukang and Mr Jiang Fan be elected as Directors. A resolution for the re-election and election of four more Supervisors was considered and approved at the meeting. It was resolved that Mr Wen Qingshan and Mr Wu Zhipan be re-elected as Supervisors of the Company and Mr Wang Fucheng and Mr Li Yongwu be elected as Supervisors of the Company. In addition, Mr Qin Gang was elected as the Staff Representative Supervisor

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through the procedures for the election of staff representative of the Company. Please see the section headed "Brief Biography of Directors, Secretary, Supervisors and Senior Management" in the "Report of Directors" for the brief biography of each of the directors and supervisors.

The Board of Directors currently consists of thirteen Directors, including three independent non-executive Directors. The Supervisory Committee consists of seven Supervisors, including two independent Supervisors.

On November 28, 2005, the first meeting of the Third Term of the Board of Directors of the Company was held in Beijing. The re-appointment of Mr Su Shulin and the appointment of Mr Duan Wende as Senior Vice Presidents of the Company were approved. Mr Wang Guoliang was re-appointed as Financial Controller. Mr Liao Yongyuan, Mr Jia Chengzao and Mr Hu Wenrui were appointed as Vice Presidents. In the first meeting of the Third Term of the Supervisory Committee held on November 8, 2005, Mr Wang Fucheng was elected as Chairman of the Supervisory Committee.

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I would like to take this opportunity to express my gratitude to Mr Ren Chuanjun, Mr Wang Fucheng, Mr Zou Haifeng, Mr Li Kecheng, Mr Zhang Youcai, Mr Sun Chongren and Mr Liu Baohe for their contribution to the Company during their terms of office. I would also like to congratulate Mr Wang Yilin, Mr Zeng Yukang and Mr Jiang Fan for being elected as Directors of the Company, Mr Wang Fucheng, Mr Li Yongwu and Mr Qin Gang for being elected as Supervisors of the Company, Mr Duan Wende for being elected as Senior Vice President of the Company, and Mr Liao Yongyuan, Mr Jia Chengzao and Mr Hu Wenrui for being elected as Vice Presidents of the Company. 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.

STANDARDIZED OPERATIONS AND BUSINESS PROSPECTS

The Company strictly follows the laws and regulations of its places of listing and operates steadily and manages in a scientific manner within the regulatory framework. The value of the Company in the international capital market appreciates continuously. The price of the Company's shares hit new highs. In 2005, the total market capitalization of the Company's H shares surpassed HK\$1,000 billion. The average price of the Company's H shares was HK\$5.5 per share, representing an increase of 41% from that of the previous year.

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The Company has continued to place top priority in oil and gas exploration. In 2005, the Company continued to enhance its efforts in exploration and exploitation of oil and gas reserves and achieved significant results in oil and gas exploration. The business foundation of steady development in eastern China and rapid development in western China is further consolidated. Crude oil production has been increasing steadily for four consecutive years. The natural gas output increased rapidly. In 2005, marketable natural gas output was 1,119.5 billion cubic feet, doubling that for 2000.

There was rapid development in refinery and petrochemical businesses as well as in marketing business. The Company has become ever more competitive in the market and its operating efficiency has achieved new improvements. In the production of refined oil, the production units made efforts to overcome the adversities caused by the gap between the prices of refined products from the prices of crude oil by coordinating the allocation of resources and optimizing the production process. Business scale and layout and product mix have become more rationalized. Products have become more diversified. Quality of oil products and the percentage of high value-added products have increased sharply. In the marketing of refined oil, integrated management of production and marketing was carried out and a nationwide sales network was built up, with a view to adapting to market changes proactively and stabilizing market supply. In the marketing of chemicals, the Company has managed to grasp the market opportunity to take advantage of its competitive edge in centralized marketing by promoting sales at favourable prices. The Company achieved breakthrough in its efforts at soliciting institutional and big clients. Optimization of logistics and reform of the marketing mechanism were carried out in an orderly manner. Marketing management was strengthened and became more standardized. Key technological upgrading and construction of refining and petrochemical bases in the refinery and petrochemical arena were smoothly completed and there was new progress in the adjustment of the structure of the refinery and petrochemical businesses.

Key natural gas and pipeline construction was carried out in an orderly

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manner. Construction period and quality were effectively guaranteed. Natural gas transmission via the second Shaanxi-Beijing Pipeline commenced ahead of schedule. Six compressor stations for the West-East Gas Pipeline Project were completed and put into operation. The Xiangtan branch line of the Zhongxian-Wuhan Pipeline was completed and went into operation successfully. The trunk line of the Jining line connecting the West-East Gas Pipeline and the second Shaanxi-Beijing Pipeline was completed. Natural gas production capacity was enhanced. As a result, production and sales of natural gas were enhanced dramatically. Safe and steady supply of natural gas was ensured. Integration of resources, market and efficiency was achieved.

Capital markets operation and asset restructuring were carried out and control of financial risks was enhanced. The Company grasped the favourable market window and issued new H shares for the first

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time. The proceeds from the H shares issue will be used for business development of the Company. The Company made a general offer to acquire for cash all the outstanding shares in Jilin Chemical, Jinzhou Petrochemical and Liaohe Jinma, the three listed subsidiaries of the Company, and withdrew the listing status for their respective A Shares, H Shares and ADSs. The offer has resolved the issue of competition within the Group and has regularized connected transactions. In 2005, the Company and CNPC jointly provided capital (each provided 50%) to set up (Chinese Characters) (Zhong You Kan Tan Kai Fa Company Limited) ("NEWCO") to integrate overseas oil exploration and development businesses. This is conducive to enhancing the overall advantages and promoting the implementation of the going international strategy. At the same time, the internal control mechanism was strengthened and standardized management was further advocated. The Company's capability to prevent risks was further enhanced.

The Company always emphasizes the "human-oriented" concept in its operations and management. The Company has taken initiatives in achieving safety and environmental protection. It has also endeavoured to build itself up as an enterprise of harmony. Through the active promotion of events relating to the "Year of Safety in Production", the Company has established and perfected its HSE management system. The Company has strengthened supervision and management and technological training in respect of safety and environmental protection. The Company has made more capital contributions and focused on rectifying and eliminating hidden environmental risks. The Company has intensified its basic work at the grassroots units and improved the quality of safety regulatory institutions at the grassroots level. The Company has devised contingency plans for the handling of material incidents. The Company has improved its capability for ensuring safety in production. The Company has propagated hygienic production, enhanced on-the-spot management and environmental protection efforts, and promoted harmony between energy production and the environment.

Looking forward in 2006, China may be able to maintain high economic growth and low inflation, and a growth of approximately 8% in the GDP in 2006. The rapid development of the national economy will increase the market demand for oil and petrochemicals and provide ample room for development for the oil and petrochemical industry. However, the implementation of macroeconomic control measures and the Chinese government's general policy to establish a frugal society in an attempt to achieve scientific development for China will lower the demand for energy effectively and slow down the growth of demand for oil and gas. China will adopt more stringent land and environmental protection policies and enhance law enforcement and regulation. China will also carry out reforms in the oil and gas pricing mechanism, energy tax and the exchange rate mechanism at

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a proper time. Looking forward, the Company will operate

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in complicated and ever changing circumstances and face more fierce competition. As such, the Company needs to react in a positive manner, carry out steady operation, emphasize the implementation of the strategies of resources, market orientation and internationalization and gain initiatives in development efforts.

The Company will continue to strengthen its exploration and development businesses in China and further consolidate its resources foundation. The Company will focus on realizing stable development in eastern China and rapid development in western China. The Company will insist on placing equal emphasis on oil and gas businesses. It will continue to give priority to oil and gas exploration and perfect its oilfield development efforts in order to ensure steady and increased crude oil production, rapid increase in natural gas production, and accelerate the establishment of a larger scale, enhanced supply and safer natural gas production base.

The Company will continue to promote the construction of key refining facilities to improve the competitiveness and profitability of the refining segment. The refining business structure will be optimized and the efficiency of the marketing network will be improved in order to accelerate the pursuit of economies of scale for leading products. In the chemicals business, the Company will insist on making optimized arrangements, enhancing development of leading new products, developing high quality and high value-added products, and improving the competitiveness of leading products.

The Company will continue to speed up construction of infrastructure for oil and gas storage and transportation, perfect gas transmission pipelines and networks, construct interconnection lines linking up main gas transmission lines such as the West-East Gas Pipeline Project and the second Shaanxi-Beijing Pipeline, construct a gas transmission network in eastern and western China, speed up the construction of compressor stations and underground storage in order to ensure safe and steady supply in the market.

The Company will continue to expand its international businesses and enlarge the scale of its overseas oil and gas production. Building on its existing oil and gas projects, the Company will lay stress on key areas and regions, enhance oil and gas exploration and exploitation, and strongly advocate the rapid development of its overseas businesses.

In international trade, the Company has to proactively diversify the sources of import of resources, make arrangements to facilitate the import of crude oil from foreign countries such as Russia and Kazakhstan, develop sour and heavy crude oil sources and make preparations for the planned introduction of natural gas, LNG and other resources into China.

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The Company will continue to ensure safety and protect the environment and to realize notable improvements in these areas. The Company will firmly assure safety in production, improve the code and rules of operation, provide more education and training, make further capital contributions to the course of rectifying hidden environmental risks, emphasize and ensure safety in production

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in key and strategic production process and facilities, intensify its efforts in eliminating sources of pollution and reducing hidden environmental risks, promote the efficient operation of the HSE management system, and build itself up as an enterprise of harmony.

In future, the Company will persist in enhancing the Company's value and strive to maximize the benefit and value for its shareholders. The Company will lay stress on its principal businesses, strive to enhance its creative capability, promote economic growth, establish a long-term effective mechanism for safety and environmental protection, and achieve a sustainable, effective, steady and well-coordinated development of the Company.

Chen Geng
Chairman of the Board
Beijing, the PRC
March 20, 2006

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FINANCIAL HIGHLIGHTS

	AS AT OR YEAR ENDED DECEMBER 31,				
	2001	2002	2003	2004	2005
	RMB MILLION				
TURNOVER	245,536	249,386	310,431	397,354	552,2
OPERATING EXPENSES					
Purchases, services and other	(78,737)	(71,383)	(89,741)	(114,249)	(200,3
Employee compensation costs	(14,833)	(16,665)	(20,044)	(22,934)	(29,6
Exploration expenses, including exploratory dry holes	(7,361)	(8,203)	(10,624)	(12,090)	(15,5
Depreciation, depletion and amortisation	(34,139)	(37,680)	(41,952)	(48,362)	(51,3
Selling, general and administrative expenses	(22,765)	(23,930)	(25,982)	(28,302)	(36,5
Employees redundancy costs and shut down of manufacturing facilities	(487)	(2,121)	(2,355)	(220)	
Taxes other than income taxes	(14,401)	(15,366)	(16,821)	(19,943)	(23,6
Property, plant and equipment revaluation loss	--	--	(602)	--	
Other expense, net	(32)	(59)	(598)	(116)	(3,0
TOTAL OPERATING EXPENSES	(172,755)	(175,407)	(208,719)	(246,216)	(360,0
PROFIT FROM OPERATIONS	72,781	73,979	101,712	151,138	192,1
FINANCE COSTS					
Exchange gain	393	179	224	225	9
Exchange loss	(160)	(609)	(260)	(217)	(8
Interest income	873	663	973	1,373	1,9
Interest expense	(5,104)	(4,068)	(2,889)	(2,896)	(2,7
TOTAL FINANCE COSTS	(3,998)	(3,835)	(1,952)	(1,515)	(7
SHARE OF PROFIT OF ASSOCIATES	247	169	933	1,621	2,4
PROFIT BEFORE TAXATION	69,030	70,313	100,693	151,244	193,8

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TAXATION	(23,617)	(22,939)	(28,796)	(43,598)	(54,111)
PROFIT FOR THE YEAR	45,413	47,374	71,897	107,646	139,600
ATTRIBUTABLE TO:					
Equity holders of the Company	45,431	46,766	69,835	103,843	133,300
Minority interests	(18)	608	2,062	3,803	6,200
	45,413	47,374	71,897	107,646	139,600
BASIC AND DILUTED EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY DURING THE YEAR (RMB) (2)	0.26	0.27	0.40	0.59	0.80
NON CURRENT ASSETS					
Property, plant and equipment	372,369	404,135	442,311	485,612	563,800
Long term investments	5,872	6,055	9,405	11,504	13,600
Advance operating lease payments	5,404	6,267	7,286	12,307	16,200
Intangible and other assets	2,379	2,769	3,027	3,020	5,000
Time deposits with maturities over one year	2,980	3,498	3,485	3,751	3,400
	389,004	422,724	465,514	516,194	602,100
CURRENT ASSETS					
Inventories	29,117	29,352	30,064	47,377	62,700
Accounts receivable	8,265	6,544	4,115	3,842	4,600
Prepaid expenses and other current assets	25,030	19,618	18,845	24,704	25,700
Investments in collateralized loans	2,636	420	24,224	33,217	2,000
Time deposits with maturities over three months but within one year	3,262	2,621	2,648	1,425	1,600

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	AS AT OR YEAR ENDED DECEMBER 31,				
	2001	2002	2003	2004	2005
	RMB MILLION				
Cash and cash equivalents	20,252	19,532	11,613	11,688	80,900
TOTAL CURRENT ASSETS	88,562	78,087	91,509	122,253	175,800
CURRENT LIABILITIES					
Accounts payable and accrued liabilities	54,888	59,950	66,700	73,072	99,700
Taxes payable	14,571	11,348	21,320	22,516	25,300
Short-term borrowings	28,011	23,185	34,328	34,937	28,600
	97,470	94,483	122,348	130,525	153,800
NET CURRENT ASSETS/ (LIABILITIES)	(8,908)	(16,396)	(30,839)	(8,272)	22,000
TOTAL ASSETS LESS CURRENT LIABILITIES	380,096	406,328	434,675	507,922	624,200
EQUITY					

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Equity attributable to equity holders of the Company					
Share capital	175,824	175,824	175,824	175,824	179,0
Retained earnings	34,105	57,358	88,152	143,115	203,8
Reserves	81,835	84,456	93,952	108,834	132,5
	-----	-----	-----	-----	-----
	291,764	317,638	357,928	427,773	515,3
Minority interests	6,646	6,672	8,966	15,199	28,2
	-----	-----	-----	-----	-----
TOTAL EQUITY	298,410	324,310	366,894	442,972	543,6
	-----	-----	-----	-----	-----
NON CURRENT LIABILITIES					
Long-term borrowings	72,042	68,894	51,601	44,648	44,5
Other long-term obligations	1,402	1,707	2,010	2,481	1,0
Asset retirement obligations	544	585	735	919	14,1
Deferred taxation	7,698	10,832	13,435	16,902	20,7
	-----	-----	-----	-----	-----
	81,686	82,018	67,781	64,950	80,5
	-----	-----	-----	-----	-----
	380,096	406,328	434,675	507,922	624,2
	=====	=====	=====	=====	=====
Other financial data					
Capital expenditures	(62,092)	(75,496)	(86,373)	(98,946)	(124,8
Net cash generated by operating activities	83,864	98,989	139,570	141,691	203,8
Net cash used for investing activities	(62,027)	(73,732)	(102,549)	(102,276)	(91,5
Net cash used for financing activities (provided by financing activities)	(28,817)	(26,488)	(35,593)	(39,586)	(42,6
Fixed assets, net of accumulated depreciation	372,369	404,135	442,311	485,612	563,8
Total assets	477,566	500,811	557,023	638,447	778,0
Equity attributable to equity holders of the Company	291,764	317,638	357,928	427,773	515,3

NOTE:

- (1) The Company acquired the assets, liabilities and equities of the refined products sales enterprises and refining and chemical businesses of CNPC in 2002 and 2005 respectively, and acquired 50% equity interests in Newco in 2005. The accounting statements for the Group in all relevant periods have been restated in a manner similar to a uniting of interests to reflect the acquisitions.
- (2) As at December 31, 2001, 2002, 2003 and 2004 respectively, basic and diluted earnings per share was calculated by dividing the net profit with the number of shares issued for this financial year of 175.82 billion. As at December 31, 2005, basic and diluted earnings per share was calculated by dividing net profit with the weighted average number of shares issued for this financial year of 176.77 billion.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements of the Company and its subsidiaries ("GROUP") and the notes thereto.

OVERVIEW

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For the twelve months ended December 31, 2005, profit before taxation of the Group was RMB193,822 million, representing an increase of 28.2% compared with the corresponding period in the previous year. Net profit was RMB133,362 million, representing an increase of 28.4% compared with the corresponding period in the previous year. The performance results and the comprehensive strengths of the Group have increased dramatically. The increase in profit was primarily due to the Group's ability to take full advantage of the opportunities presented by persistently high oil prices and strong market demand by strengthening its efforts in exploration and development resulting in a continuous growth of crude oil and natural gas production; stable market supplies resulting from earnest efforts in refining and marketing and an increase in operating efficiency; continuously accelerating the pace of natural gas production; an orderly construction of the infrastructure of crude oil and natural gas pipelines; the strengthening of the management of the operations of the Group and the continuous efforts in technological and managerial innovations.

(photo)

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For the twelve months ended December 31, 2005, the Group's basic and diluted earnings per share were RMB0.75.

TWELVE MONTHS ENDED DECEMBER 31, 2005 COMPARED WITH TWELVE MONTHS ENDED DECEMBER 31, 2004 CONSOLIDATED OPERATING RESULTS

- Turnover

Turnover increased 39.0% from RMB397,354 million for the twelve months ended December 31, 2004 to RMB552,229 million for the twelve months ended December 31, 2005. This was primarily due to the increases in the selling prices and sales volume of crude oil, gasoline, diesel and other main products as well as the increase in the sales volume of natural gas.

- Operating Expenses

Operating expenses increased 46.2% from RMB246,216 million for the twelve months ended December 31, 2004 to RMB360,058 million for the twelve months ended December 31, 2005. This was primarily due to an increase in the purchase cost of crude oil, refined products and other raw materials and ancillary materials from external suppliers and an increase in the employee compensation costs.

- Purchases, Services and Other Expenses

Purchases, services and other expenses increased 75.3% from RMB114,249 million for the twelve months ended December 31, 2004 to RMB200,321 million for the twelve months ended December 31, 2005. This was primarily due to (1) an increase in the purchase expenses of crude oil from external suppliers resulted from an increase in crude oil prices and an increase in the purchase volume of crude oil by the Group's refineries; and (2) an increase in the oil and gas production costs resulted from an increase in the rate of water and tariff of electricity and the prices of other production materials in the PRC as well as an expansion of the production scale of the Group. In addition, the increase in the purchase expenses was also resulted from an increase in the refined product supply operation in the year.

- Employee Compensation Costs

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Employee compensation costs rose 29.4% from RMB22,934 million for the twelve months ended December 31, 2004 to RMB29,675 million for the twelve months ended December 31, 2005. This was

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primarily due to an increase in employees' salaries and welfare expenses as a result of strong results of operations achieved by the Group, and an increase in labour costs resulted from further development of the Group's retail network.

- Exploration Expenses

Exploration expenses increased 28.8% from RMB12,090 million for the twelve months ended December 31, 2004 to RMB15,566 million for the twelve months ended December 31, 2005. This was primarily due to an appropriate increase in investments in exploration of crude oil and natural gas by the Group in a high oil price environment.

- Depreciation, Depletion and Amortization

Depreciation, depletion and amortization increased 6.1% from RMB48,362 million for the twelve months ended December 31, 2004 to RMB51,305 million for the twelve months ended December 31, 2005. This was primarily due to an increase in the provision for depreciation and depletion resulted from an increase in the average amount of property, plant and equipment.

- Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 29.1% from RMB28,302 million for the twelve months ended December 31, 2004 to RMB36,538 million for the twelve months ended December 31, 2005. This was primarily due to an increase in transportation and other related costs resulted from an increase in freights for railway transportation in 2005 and an increase in the sales volume of refined and petrochemical products.

- Taxes other than Income Tax

Taxes other than income tax increased 18.4% from RMB19,943 million for the twelve months ended December 31, 2004 to RMB23,616 million for the twelve months ended December 31, 2005. The increase was primarily due to an increase in consumption tax and surcharges as a result of an increase in the sales volume of gasoline and diesel by the Group's refineries, an increase in compensation fees for mineral resources due to an increase in crude oil and natural gas revenue, and an increase in natural resource tax due to an increase in natural resource tax rates by the PRC government in 2005.

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- Profit from Operations

As a result of the factors discussed above, profit from operations increased 27.1% from RMB151,138 million for the twelve months ended December 31, 2004 to RMB192,171 million for the twelve months ended December 31, 2005.

- Net Exchange Gain

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Net exchange gain increased ten times from RMB8 million for the twelve months ended December 31, 2004 to RMB88 million for the twelve months ended December 31, 2005. The increase in net exchange gain was primarily due to the appreciation of Renminbi in 2005.

- Net Interest Expenses

Net interest expenses decreased 45.0% from RMB1,523 million for the twelve months ended December 31, 2004 to RMB838 million for the twelve months ended December 31, 2005. This decrease was primarily due to a decrease in interest expenses resulted from the decrease in the average outstanding borrowings and an increase in interest income resulted from sufficient cash flow generated from operating activities.

- Profit Before Taxation

Profit before taxation rose 28.2% from RMB151,244 million for the twelve months ended December 31, 2004 to RMB193,822 million for the twelve months ended December 31, 2005.

- Taxation

Taxation increased 24.3% from RMB43,598 million for the twelve months ended December 31, 2004 to RMB54,180 million for the twelve months ended December 31, 2005. The increase was primarily due to an increase in taxable profits.

- Net Profit

As a result of the factors discussed above, net profit increased 28.4% from RMB103,843 million for the twelve months ended December 31, 2004 to RMB133,362 million for the twelve months ended December 31, 2005.

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SEGMENT INFORMATION

The Group operates a wide range of petroleum and related activities through four primary business segments: Exploration and Production Segment, Refining and Marketing Segment, Chemicals and Marketing Segment, and Natural Gas and Pipeline Segment.

EXPLORATION AND PRODUCTION

THE BUSINESS OF THE EXPLORATION AND PRODUCTION SEGMENT INCLUDES THE EXPLORATION, DEVELOPMENT, PRODUCTION AND MARKETING OF PETROLEUM AND NATURAL GAS.

- Turnover

Turnover increased 44.1% from RMB233,948 million for the twelve months ended December 31, 2004 to RMB337,208 million for the twelve months ended December 31, 2005. The increase was primarily due to an increase in the prices

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and sales volume of crude oil and an increase in the sales volume of natural gas. The average realized crude oil price of the Group in 2005 was US\$48.37 per barrel, representing an increase of US\$14.65 per barrel or 43.4% from US\$33.72 per barrel compared with the corresponding period in the previous year.

Intersegment sales increased 50.4% from RMB180,129 million for the twelve months ended December 31, 2004 to RMB270,943 million for the twelve months ended December 31, 2005. The increase was primarily due to an increase in the prices of crude oil and an increase in the intersegment sales volume of crude oil and natural gas.

- Operating Expenses

Operating expenses increased 24.5% from RMB103,735 million for the twelve months ended December 31, 2004 to RMB129,128 million for the twelve months ended December 31, 2005. The increase was primarily due to increases in purchase expenses, exploration expenses and staff costs.

- Profit from Operations

Profit from operations increased 59.8% from RMB130,213 million for the twelve months ended December 31, 2004 to RMB208,080 million for the twelve months ended December 31, 2005.

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REFINING AND MARKETING

The business of the Refining and Marketing Segment includes refining, transportation, storage and marketing of crude oil and petroleum products.

- Turnover

Turnover rose 44.6% from RMB296,427 million for the twelve months ended December 31, 2004 to RMB428,494 million for the twelve months ended December 31, 2005. The increase was due to an increase in the prices and sales volume of key products, of which:

Sales revenue from gasoline increased 43.6% from RMB76,919 million for the twelve months ended December 31, 2004 to RMB110,438 million for the twelve months ended December 31, 2005. The average realized selling price of gasoline surged 19.2% from RMB3,542 per ton for the twelve months ended December 31, 2004 to RMB4,221 per ton for the twelve months ended December 31, 2005, resulting in an increase in revenue by RMB17,763 million. The sales volume of gasoline increased 20.5% from 21.71 million tons for the twelve months ended December 31, 2004 to 26.16 million tons for the twelve months ended December 31, 2005, resulting in an increase in revenue by RMB15,756 million.

Sales revenue from diesel increased 29.5% from RMB136,649 million for the twelve months ended December 31, 2004 to RMB176,999 million for the twelve months ended December 31, 2005. The average realized selling price of diesel increased 17.0% from RMB3,165 per ton for the twelve months ended December 31, 2004 to RMB3,702 per ton for the twelve months ended December 31, 2005, resulting in an increase in revenue by RMB25,674 million. The sales volume of diesel increased 10.7% from 43.18 million tons for the twelve months ended December 31, 2004 to 47.81 million tons for the twelve months ended December 31, 2005, resulting in an increase in revenue by RMB14,676 million.

Sales revenue from kerosene increased 27.2% from RMB5,881 million for the

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twelve months ended December 31, 2004 to RMB7,480 million for the twelve months ended December 31, 2005.

Intersegment sales revenue increased 51.0% from RMB21,862 million for the twelve months ended December 31, 2004 to RMB33,019 million for the twelve months ended December 31, 2005. The increase was primarily due to an increase in selling prices and intersegment sales volume of key products.

- Operating Expenses

Operating expenses increased 57.6% from RMB284,536 million for the twelve months ended December 31, 2004 to RMB448,304 million for the twelve months ended December 31, 2005. The

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increase was primarily due to an increase in the purchase expenses of crude oil and refined products from external suppliers, and an increase in selling and administrative expenses. In addition, the increase in the purchase expenses was also resulted from an increase in the refined product supply operation in the year.

- Profit/(loss) from Operations

Loss from operations amounted to RMB19,810 million for the twelve months ended December 31, 2005, while profit from operations amounted to RMB11,891 million for the twelve months ended December 31, 2004. This decrease was primarily due to the increase in the domestic price of refined products being much lower than the increase in the price of crude oil in 2005.

CHEMICALS AND MARKETING

The business of the Chemicals and Marketing Segment consists of the production and sale of basic petrochemical products, derivative petrochemical products and other chemical products.

- Turnover

Turnover rose 29.4% from RMB57,179 million for the twelve months ended December 31, 2004 to RMB73,978 million for the twelve months ended December 31, 2005. The growth in turnover was primarily due to an increase in the sales volume and selling prices of key chemical products.

- Operating Expenses

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Operating expenses increased 42.8% from RMB49,524 million for the twelve months ended December 31, 2004 to RMB70,702 million for the twelve months ended December 31, 2005. The increase was primarily due to an increase in the purchase expenses for direct materials and an increase in selling and administrative expenses.

- Profit from Operations

Profit from operations decreased 57.2% from RMB7,655 million for the twelve months ended December 31, 2004 to RMB3,276 million for the twelve months ended December 31, 2005. The decrease was primarily due to an increase in the prices of raw materials in 2005.

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NATURAL GAS AND PIPELINE

The business of the Natural Gas and Pipeline Segment consists of the delivery of natural gas, crude oil and refined products, and the sale of natural gas.

- Turnover

Turnover increased 43.6% from RMB18,255 million for the twelve months ended December 31, 2004 to RMB26,214 million for the twelve months ended December 31, 2005. The increase was primarily due to an increase in the sales volume and selling prices of natural gas, and an increase in the volume of natural gas from pipeline transmission and the prices for pipeline transmission.

- Operating Expenses

Operating expenses increased 46.5% from RMB15,720 million for the twelve months ended December 31, 2004 to RMB23,031 million for the twelve months ended December 31, 2005. The increase was primarily due to an increase in expenses for the purchase of natural gas and an increase in depreciation charges.

- Profit from Operations

Profit from operations increased 25.6% from RMB2,535 million for the twelve months ended December 31, 2004 to RMB3,183 million for the twelve months ended December 31, 2005.

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LIQUIDITY AND CAPITAL RESOURCES

For the twelve months ended December 31, 2005, the Group's primary sources of capital were cash generated from operating activities, short-term and long-term borrowings, cash and cash equivalents. The Group's capital was primarily used for operating activities, capital expenditures, repayment of

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short-term and long-term borrowings and distribution of dividends to shareholders.

As at December 31, 2005, short-term borrowings made up approximately 4.7% of the Group's capital employed as compared with approximately 6.7% as at December 31, 2004. The Group's ability to obtain adequate financing may be affected by the financial position, the results of operations and the conditions of the domestic and foreign capital markets. The Group must seek approvals from the relevant PRC government authorities before raising capital in the domestic and foreign capital markets. In general, the Group must obtain the PRC government's approvals for any project involving significant capital investments in the Refining and Marketing segment, the Chemicals and Marketing segment and the Natural Gas and Pipeline segment.

The Group plans to fund its capital expenditures and related investments principally from cash generated from operating activities, short-term and long-term borrowings, cash and cash equivalents. For the twelve months ended December 31, 2005, net cash generated from operating activities was RMB203,885 million. As at December 31, 2005, the Group had RMB80,905 million in cash and cash equivalents. Cash and cash equivalents were primarily Renminbi (with Renminbi accounting for approximately 79.6%, United States Dollar accounting for approximately 12.3% and Hong Kong Dollar accounting for approximately 8.1%).

The table below sets forth the cash flow of the Group for the twelve months ended December 31, 2005 and 2004, respectively and the cash and cash equivalents as at the end of each period.

	YEARS ENDED DECEMBER 31,	
	2005	2004
	RMB MILLION	RMB MILLION
Net cash from operating activities	203,885	141,691
Net cash used for investing activities	(91,576)	(102,276)
Net cash used for financing activities	(42,634)	(39,586)
Currency translation differences	(458)	246
Cash and cash equivalents as at the end of year	80,905	11,688

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CASH FLOWS FROM OPERATING ACTIVITIES

The net cash flow of the Group generated from operating activities for the twelve months ended December 31, 2005 was RMB203,885 million, which represents an increase of 43.9% compared with the RMB141,691 million generated for the twelve months ended December 31, 2004. This increase was primarily due to a dramatic increase in profits for the period as well as an increase in the account payables for the period.

For the twelve months ended December 31, 2005, the Group had a working capital of RMB22,057 million compared with a working capital deficit of RMB8,272 million for the twelve months ended December 31, 2004. The increase in working capital was primarily due to an increase in cash and cash equivalents resulted from a dramatic increase in sales revenues for the period, and an increase in inventories resulted from an expansion of the scale of sales and an increase in selling prices.

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CASH USED FOR FINANCING ACTIVITIES

The net borrowings of the Group as at December 31, 2005 and December 31, 2004 are as follows:

	YEARS ENDED DECEMBER 31,	
	2005	2004
	RMB MILLION	RMB MILLION
Short-term borrowings (including current portion of long-term borrowings)	28,689	34,937
Long-term borrowings	44,570	44,648
Total borrowings	73,259	79,585
Less:		
Cash and cash equivalents	80,905	11,688
Net borrowings	(7,646)	67,897

The maturity profile of the long-term borrowings of the Group is as follows:

	PRINCIPAL AS AT DECEMBER 31, 2005	PRINCIPAL AS AT DECEMBER 31, 2004
	RMB MILLION	RMB MILLION
To be repaid within one year	15,325	18,962
To be repaid within one to two years	18,373	10,145
To be repaid within two to five years	14,942	27,072
To be repaid after five years	11,255	7,431
	59,895	63,610

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Of the total borrowings of the Group as at December 31, 2005, approximately 27.0% were fixed-rate borrowings and approximately 73.0% were floating-rate borrowings. Of the borrowings as at December 31, 2005, approximately 72.1% were denominated in Renminbi, approximately 27.1% were denominated in United States Dollar, approximately 0.2% were denominated in British Pound Sterling, approximately 0.3% were denominated in Japanese Yen, and approximately 0.3% were denominated in Euro.

As at December 31, 2005, the amount of borrowings owed to China Petroleum Finance Company Limited ("CNPC FINANCE") was RMB27,319 million, the amount of borrowings owed to state-owned banks and other state-owned non-banking financial

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institutions was RMB31,178 million and the amount of borrowings owed to other related parties was RMB62 million.

As at December 31, 2005, the amount of short-term and long-term borrowings owed to CNPC Finance was RMB520 million and RMB26,799 million, respectively.

The net cash used for financing activities of the Group for the twelve months ended December 31, 2005 increased 7.7% compared with the twelve months ended December 31, 2004. The increase was primarily due to an increase in payments of dividends to shareholders of the Company as compared with the corresponding period of last year.

As at December 31, 2005, borrowings of the Group consisted of RMB1,108 million (RMB2,269 million as at December 31, 2004) secured loans (finance leases and bank borrowings), most of which were secured over certain of the Group's property and time deposits with maturities over one year.

As at December 31, 2005, the debt to capitalization ratio (debt to capitalization ratio = interest-bearing debts/(interest-bearing debts + total equity)) was 11.9% (15.2% as at December 31, 2004).

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CAPITAL EXPENDITURES

The table below sets out our capital expenditures by the business segments of the Group for the twelve months ended December 31, 2005, the twelve months ended December 31, 2004 and the estimated value for 2006 respectively. For the twelve months ended December 31, 2005, capital expenditures of the Group increased 26.1% to RMB124,801 million from RMB98,946 million for the twelve months ended December 31, 2004. The increase in capital expenditures was primarily due to an increase in expenditures relating to crude oil and natural gas exploration and development and petrochemical projects in 2005 as well as an increase in prices of steel products, fuel oil, water, electricity and other production materials.

SEGMENT	YEARS ENDED DECEMBER 31,					
	2005		2004		2006 (ESTIMATED VALUE)	
	RMB MILLION	%	RMB MILLION	%	RMB MILLION	%
Exploration and Production	83,214*	66.68	62,868*	63.54	93,500*	62.75
Refining and Marketing	16,454	13.18	17,684	17.87	23,700	15.91
Chemicals and Marketing	13,569	10.87	4,319	4.37	15,300	10.27
Natural Gas and Pipeline	11,137	8.92	13,901	14.05	15,300	10.27
Others	427	0.35	174	0.17	1,200	0.80
Total	124,801	100.00	98,946	100.00	149,000	100.00
	=====	=====	=====	=====	=====	=====

Note: * If the investments portion related to geological and geophysical exploration costs were included, the capital expenditures and investments for the Exploration and Production segment for 2004 and 2005, and the estimate of the same for the entire 2006 would be RMB70,217 million,

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RMB92,233 million and RMB104,500 million, respectively.

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- Exploration and Production

A majority of the Group's capital expenditures is related to the Exploration and Production segment. For the twelve months ended December 31, 2005, capital expenditures in relation to the Exploration and Production segment amounted to RMB83,214 million, including RMB16,499 million for exploration activities and RMB59,113 million for development activities. For the twelve months ended December 31, 2004, capital expenditures in relation to this segment totalled RMB62,868 million, including RMB11,744 million for exploration activities and RMB45,832 million for development activities. The increase in capital expenditures was primarily due to an increase in expenditures relating to oil and gas exploration and development which reflects the targets of the Group in stabilizing the production of crude oil in eastern China, rapidly developing the business in western China and accelerating the development of natural gas business.

The Group anticipates that capital expenditures for the Exploration and Production segment for the twelve months ending December 31, 2006 will amount to RMB93,500 million. Approximately RMB20,000 million will be used for oil and gas exploration, and RMB73,500 million will be used for oil and gas development. Exploration and development will be mainly carried out in seven basins including the Erdos, Junggar, Tarim, Songliao, Sichuan, Bohai Bay and Chaidamu basins.

- Refining and Marketing

Capital expenditures for the Group's Refining and Marketing segment for the twelve months ended December 31, 2005 amounted to RMB16,454 million, of which RMB9,565 million was spent on the expansion of the retail sales network of refined products and storage infrastructure facilities for oil products, and RMB6,889 million was spent on renovation of refining facilities. The total capital expenditures of this segment for the twelve months ended December 31, 2004 were RMB17,684 million. The decrease in capital expenditures was primarily due to a decrease in investments in the building up of sales network as compared with that of the corresponding period of last year.

The Group anticipates that capital expenditures for the Refining and Marketing segment for the twelve months ending December 31, 2006 will amount to RMB23,700 million, which include approximately RMB15,200 million for construction and expansion of refining facilities; and approximately RMB8,500 million for investments in the building up of the sales network for refined products.

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- Chemicals and Marketing

Capital expenditures for the Chemicals and Marketing segment for the twelve months ended December 31, 2005 and 2004 amounted to RMB13,569 million and RMB4,319 million, respectively. The increase was primarily due to an increase in investments in the ethylene projects in Jilin Petrochemical, Lanzhou Petrochemical and Dushanzi Petrochemical and in the PTA projects in Liaoyang Petrochemical.

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The Group anticipates that capital expenditures for the Chemicals and Marketing segment for the twelve months ending December 31, 2006 will amount to RMB15,300 million, which is expected to be used primarily for upgrading the ethylene facilities in Jilin Petrochemical, Lanzhou Petrochemical and Dushanzi Petrochemical and the construction of the PTA project in Liaoyang Petrochemical.

- Natural Gas and Pipeline

Capital expenditures in the Natural Gas and Pipeline segment for the twelve months ended December 31, 2005 amounted to RMB11,137 million. The Group spent RMB10,413 million of these expenditures on the construction of long distance pipelines, of which RMB6,083 million were spent on the West-East Gas Pipeline project. For the twelve months ended December 31, 2004, capital expenditures in the segment totalled RMB13,901 million. The decrease in capital expenditures was primarily due to a decrease in investments in the second Shaanxi-Beijing Pipeline project.

The Group anticipates that capital expenditures for the Natural Gas and Pipeline segment for the twelve months ending December 31, 2006 will amount to RMB15,300 million, which are expected to be used primarily for increasing transmission capacity by the West-East Gas Pipeline project and for construction of underground natural gas storage facilities and pipelines for crude oil and refined products.

- Others

Non-segment-specific capital expenditures for the twelve months ended December 31, 2005 and for the twelve months ended December 31, 2004 were RMB427 million and RMB174 million, respectively. These capital expenditures were mainly used for non-segment-specific equipment purchases and research and development activities.

The Group anticipates that its non-segment-specific capital expenditures for the twelve months ending December 31, 2006 will amount to approximately RMB1.2 billion, which is expected to be used primarily for scientific research activities and for construction of ERP and other information system.

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MATERIAL INVESTMENT

The Group did not hold any material external investment for the year ended December 31, 2005.

MATERIAL ACQUISITIONS OR DISPOSALS

In accordance with the acquisition agreement between the Company and CNPC dated March 28, 2005, the Company acquired the refinery and petrochemical businesses owned by CNPC's wholly-owned subsidiaries, Dayuan and Qingyang, at a consideration of RMB9 million. Under the Listing Rules, the above transaction constitutes a connected transaction of the Company. The details of the transaction were announced on March 30, 2005.

In August 2005, the shareholders of the Company approved the acquisition and transfer agreements relating to the Company's acquisition of a 50% ownership interest in Newco. Newco was formed in 2005 and was wholly owned by CNODC and one of its subsidiaries. Under the terms of the related agreements, CNODC transferred certain oil and gas exploration operations into Newco and the

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Company contributed to Newco its wholly-owned subsidiary, PetroChina International Limited ("PTRI"), and cash amounting to approximately RMB20,162 million, which is the difference between the cash contribution of RMB20,741 million payable by the Company according to the acquisition agreement and cash consideration of RMB579 million for PTRI receivable by the Company.

The Board resolution dated October 26, 2005 approved the Company's acquisition of 150 million outstanding A shares from minority interests of Jinzhou Petrochemical at a price of RMB4.25 per share through tender offers. As at December 31, 2005, the Company acquired 117,486,753 A shares (representing approximately 14.92% of the total share capital of Jinzhou Petrochemical) at a total cash consideration of approximately RMB500 million. After the acquisition, the Company owns 95.87% of the total share capital of Jinzhou Petrochemical. The difference between the acquisition consideration and the book value of the acquired assets and liabilities will be included in the equity interests. Jinzhou Petrochemical was delisted on January 4, 2006 upon approval of the China Securities Regulatory Commission.

The Board resolution dated October 26, 2005 approved the Company's acquisition of 200 million outstanding A shares and 964.778 million H shares (including ADSs) respectively from minority interests of Jilin Chemical Industrial Company Limited ("JILIN Chemical") at prices of RMB5.25 per A share and HK\$2.80 per H share, respectively, through tender offers. The tender offers were completed in February 2006 and the impacts of the acquisitions will be reflected in the annual consolidated financial statements of the Group as at December 31, 2006.

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The Board resolution dated October 26, 2005 also approved the Company's acquisition of 200 million outstanding A shares from minority interests of Liaohe Jinma at a price of RMB8.80 per share through tender offers. As at December 31, 2005, the Company acquired 172,315,428 A shares (representing approximately 15.67% of the total share capital of Liaohe Jinma) at a total cash consideration of approximately RMB1,519 million. Upon completion of the acquisition, the Company owns 97.48% of the total share capital of Liaohe Jinma. The difference between the acquisition consideration and the book value of the acquired assets and liabilities will be recorded in equity interests. Liaohe Jinma was delisted on January 4, 2006 upon approval of the China Securities Regulatory Commission.

The Company has entered into two acquisition agreements with two wholly owned subsidiaries of CNPC, Liaohe Petroleum Exploration Bureau and China Petroleum Pipeline Bureau, on December 6, 2005 for the acquisition of shares representing 15.56% and 20.17%, respectively, from them in Petrochina Fuel Oil Company Limited ("FUEL OIL COMPANY"), a 55.43% subsidiary of the Company, for an aggregate cash consideration of RMB559 million. The Fuel Oil Company is principally engaged in the business of investment and development of fuel oil in the upstream and downstream areas in the PRC. Upon completion of the above acquisitions, the Company's interest in the Fuel Oil Company will be increased and it is expected that the management of the Fuel Oil Company will be strengthened.

EVENTS AFTER THE BALANCE SHEET DATE

As discussed above, the Company acquired, by tender offers, all the outstanding A shares and H shares (including ADSs) from minority interests of Jilin Chemical. In February 2006 when the relevant offer periods expired, the Company acquired 908,113,053 H shares (including ADSs) and 157,700,200 A shares

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of Jilin Chemical (representing 29.93% of the total share capital of Jilin Chemical in aggregate) at an aggregate consideration of approximately RMB3,372 million. Jilin Chemical was delisted from the HKSE, the New York Stock Exchange and Shenzhen Stock Exchange on January 23, 2006, February 15, 2006 and February 20, 2006, respectively.

FOREIGN EXCHANGE RATE RISK

The PRC government reformed the Renminbi exchange rate regime on July 21, 2005. A managed floating exchange rate regime under which the exchange rate for Renminbi is adjusted with reference to a basket of currencies and based on the demand and supply for Renminbi is implemented. However, the exchange rate for Renminbi in the capital account is yet to be liberalized. The exchange rates of Renminbi are affected by the domestic and international economic and political environment, and the supply and demand for Renminbi. In future, the exchange rate of Renminbi against other currencies may

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differ from the current ones significantly. As Renminbi is the base currency of the Company and most of its consolidated entities, the fluctuation of exchange rates of Renminbi may have positive or negative impact on the results of operations of the Group. An appreciation of Renminbi against United States Dollar will decrease the turnover of the Group but may lower the cost incurred by the Group in acquiring imported raw materials and equipment. A devaluation of Renminbi against United States Dollar may not have a negative impact on the Group's turnover but may increase the cost incurred by the Group in acquiring imported materials and equipment as well as the foreign currency-denominated obligations of the Group. The results of operations and the financial position of the Group may also be affected by fluctuations in exchange rates against Renminbi of a number of other foreign currencies.

COMMODITY PRICE RISK

The Group is engaged in a broad range of petroleum related activities. The hydrocarbon commodity markets are influenced by the global as well as regional supply and demand conditions. The prices of onshore crude oil are determined with reference to international prices of crude oil. A decline in the prices of crude oil and refined products could adversely affect the Group's financial performance. The Group historically has not used commodity derivative instruments to hedge against potential price fluctuations of crude oil and refined products. Therefore, during 2004 and 2005, the Group was exposed to the general price fluctuations of broadly traded oil and gas commodities.

INDUSTRY RISK

Like other oil and gas companies in China, the Group's operating activities are subject to regulation and control by the PRC government in many aspects. This regulation and control, such as by way of grant of exploration and production licences, the imposition of industry-specific taxes and levies and the implementation of environmental and safety standards etc, is expected to have an impact on the Group's operating activities. As a result, the Group may be subject to fairly significant restrictions when implementing its business strategy, developing and expanding its business or maximizing its profitability. Any future changes in the PRC governmental policies on the oil and gas industry may also affect the Group's business operations.

EMPLOYEES AND EMPLOYEE COMPENSATION

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- Number of employees

As at December 31, 2005 and December 31, 2004, the Group had 439,220 and 424,175 employees, respectively. The table below sets out the number of employees by business segment as at December 31, 2005:

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SEGMENT	NUMBER OF EMPLOYEES	PERCENTAGE OF TOTAL (%)
Exploration and Production	247,258	56.3
Refining and Marketing	117,260	26.7
Chemicals and Marketing	60,272	13.7
Natural Gas and Pipeline	10,760	2.5
Other *	3,670	0.8
	-----	-----
Total	439,220	100.00
	=====	=====

Notes: * "Other" includes staff of the Company's headquarters, specialized subsidiaries, Exploration & Development Research Institute, Planning & Engineering Institute, Oil Refining and Petrochemical Technological Research Centres and other units.

- Employee Compensation

The total employee compensation payable by the Group for the twelve months ended December 31, 2005 was RMB19,351 million, being the total salaries of employees during the reporting period. Compensation of employees is determined according to industry practice and the actual conditions of the Group, and is based on the principles of attracting and retaining high-calibre personnel, and motivating all staff for the realization of best results.

The Company's senior management remuneration system links senior management financial interests (including those of executive directors and supervisors) with the Group's results of operations and the market performance of its shares. All members of the senior management have entered into performance contracts with the Company. Under this system, the senior management members' compensation has three components, namely, fixed salaries, performance bonuses and stock appreciation rights. The variable components in their compensation account for approximately 70% to 75% of the senior management officers' total potential compensation, including approximately 0% to 25% forming the performance bonus component and approximately 50% to 70% forming the stock appreciation rights component. Variable compensation rewards are linked to the attainment of specific performance targets, such as net profit, return on capital and cost reduction targets. The chart below sets forth the components of the total potential compensation for key officers.

BASIC SALARY (%)	STOCK APPRECIATION RIGHTS (%)	PERFORMANCE BONUS (%)
-----	-----	-----

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Chairman	30	70	0
President	25	60	15
Vice President	25	60	15
Department General Manager	25	50	25

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Details of the directors' and supervisors' emoluments as at December 31, 2005 and December 31, 2004 were as follows (for remuneration for each of the directors and supervisors on a named basis, please see note 10 to the consolidated financial statements of the Group in this annual report):

	2005	2004
	-----	-----
	RMB'000	RMB'000
Fee for directors and supervisors	897	120
Salaries, allowances and other benefits	4,031	2,012
Contribution to retirement benefit scheme	57	43
	-----	-----
	4,985	2,175
	=====	=====

The number of directors and supervisors whose emoluments fall within the following band (including directors and supervisors whose term expired during the year):

	2005	2004
	Number	Number
	-----	-----
Nil-RMB1,000,000	25	24
	===	===

Upon exercise of their stock options, members of the senior management will not receive any shares in the Company, but will, by way of stock appreciation rights, receive a monetary sum which is calculated on the basis of the share price of the H shares listed on the HKSE.

- Training Programs

The training program of the Company for 2005 has been geared towards achieving the development strategy and operating objectives of the Company. In line with the strategic requirement for "a strong corporation with highly talented personnel", the Company has targeted high-calibre, skilful and international staff in its training program with a focus on the training of the "core" and "backbone" personnel and strived to build a proficient operating and management team, a technology innovation team and a skilful operators' team to ensure the supply of talents required for the continuous and stable development of the Company.

- Medical Insurance

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Since October 1, 2002, the Company's headquarters and its regional branches based in Beijing have joined the basic medical insurance scheme organized by the Beijing Municipality, making contributions at 9% of the total basic salaries of the employees. Other local subsidiaries and branches of the Group have also participated in their respective local basic medical insurance schemes.

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As basic medical insurance is organized by local authorities, the dates of implementation, rates of contribution and reimbursement methods vary with the localities. The rate of contribution is generally set at 6% to 10% of the total basic salaries of the employees.

In accordance with the relevant regulations of the PRC government, the Group has given permission to local subsidiaries and branches which have participated in local basic insurance schemes to establish a supplemental medical insurance scheme from 2002. Contributions to the schemes are set at no more than 4% of the total salaries and will be booked as cost.

CONTINGENT LIABILITIES

Information on the Group's contingent liabilities as at December 31, 2005 is as follows:

- Bank and other guarantees

As at December 31, 2005, the Group had contingent liabilities in respect of guarantees made to CNPC Finance, a subsidiary of CNPC, from which it is anticipated that no material liabilities will arise.

	2005 ----- RMB MILLION	2004 ----- RMB MILLION
Guarantees of borrowings of associates	187 ===	203 ===

- Environmental liabilities

CNPC and the Group have operated in China for many years. China has adopted extensive environmental laws and regulations that affect the operations of the oil and gas industry. The outcome of environmental liabilities under proposed or future environmental legislation cannot reasonably be estimated at present, and could be material. Under existing legislation, however, management believes that there are no probable environmental liabilities, except for the amounts which have already been reflected in the financial statements, that will have a material adverse effect on the financial position of the Group.

- Legal contingencies

The Group is the named defendant in certain insignificant lawsuits as well as the named party in other proceedings arising in the ordinary course of business. While the outcome of such contingencies, lawsuits or other proceedings cannot be determined at present, management believes that any resulting legal liabilities will not have a material adverse effect on the financial position of

the Group.

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- Leasing of land, roads and buildings

According to the Restructuring Agreement entered into between the Company and CNPC in 1999 upon the formation of the Company, CNPC has undertaken to the Company the following:

- CNPC will use its best endeavours to obtain formal land use right certificates to replace the entitlement certificates in relation to the 28,649 parcels of land which were leased or transferred to the Company from CNPC, within one year from August, September and October 1999 when the relevant entitlement certificates were issued;
- CNPC will complete, within one year from November 5, 1999, the necessary governmental procedures for the requisition of collectively-owned land on which 116 service stations owned by the Company are located; and
- CNPC will obtain individual building ownership certificates in the name of the Company for all of the 57,482 buildings transferred to the Company by CNPC, before November 5, 2000.

As at December 31, 2005, CNPC had obtained formal land use right certificates in relation to 27,400 out of the above-mentioned 28,649 parcels of land, some building ownership certificates for the above-mentioned buildings, but has completed none of the necessary governmental procedures for the above-mentioned service stations located on collectively owned land. The Directors of the Company confirm that the use of, and the conduct of the relevant activities at the above-mentioned parcels of land, service stations and buildings are not affected by the fact that the relevant land use right certificates or individual building ownership certificates have not been obtained, or the fact that the relevant governmental procedures have not been completed. In the management's opinion, the outcome of the above events will not have a material adverse effect on the results of operations or the financial position of the Group.

(photo)

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- Group insurance

Except for limited insurance coverage for vehicles and certain assets subject to significant operating risks, the Group does not carry any other insurance for property, facilities or equipment with respect to its business operations. In addition, the Group does not carry any third-party liability insurance against claims relating to personal injury, property and environmental damages or business interruption insurance since such insurance coverage is not customary in the PRC. While the effect of under-insurance on future incidents cannot be reasonably assessed at present, management believes that it may have a material impact on the results of operations but will not have a material adverse effect on the financial position of the Group.

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- Others

On November 13, 2005, explosions occurred at the dianil plant of a branch of the Company located in the Jilin Province. The impact of the accident is undergoing government investigation. The incident shows that the Company needs further strengthening of its operational safety and environmental protection. The Company has realized the seriousness of the issue and has stepped up its efforts in securing operational safety and environmental protection. The Company will bear resultant liabilities caused by the explosions based on the results of the investigation.

(photo)

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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

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Appendix 14 of the Listing Rules. The Company has already

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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 Bernabe	100 (25 of which by proxy)

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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.

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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

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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

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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.

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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.

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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".

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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

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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.

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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 Bernabe	100
Member	Chee-Chen Tung	67
Member	Liu Hongru	100
Member	Gong Huazhang	100

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The following are the work reports prepared by the Audit Committee in respect of the performance of its responsibilities relating to the interim and

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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.

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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

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participated actively in major matters of the Company including production, operation and investment projects and made constructive recommendations.

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DIRECTORS' REPORT

The Board of Directors of the Company is pleased to present its directors' report together with the audited financial statements of the Group for the year ended December 31, 2005.

KEY ACTIVITIES OF THE GROUP AND GEOGRAPHICAL ANALYSIS

The Group is engaged in a broad range of petroleum-related activities, including:

- the exploration, development, production and sales of crude oil and natural gas;
- the refining, transportation, storage and marketing of crude oil and petroleum products;
- the production and sales of basic petrochemical products, derivative petrochemical products and other chemical products; and
- the transmission of natural gas, crude oil and refined products, and sales of natural gas.

The operating segment information on the above areas is set out in note 40 to the financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

The businesses of the principal subsidiaries in which the Company had material interest and which could significantly affect the results or assets of the Group are set out in note 18 to the financial statements prepared in accordance with IFRS.

SHARE CAPITAL STRUCTURE

The Company issued 15,824,176,200 H shares (including H shares underlying ADSs) in April 2000. At the same time, CNPC offered 1,758,241,800 shares held by it in the Company to the public. After the issue and offer, the public held 17,582,418,000 shares in the Company, representing 10% of the total share capital of the Company immediately after the issue. The net proceeds from the share issue amounting to RMB20,337 million were intended to fund the Company's capital expenditures and investments, to provide additional funds for general corporate purposes, and to repay short-term loans borrowed from third party financial institutions. The Company's ADSs and H shares were listed on The New York Stock Exchange, Inc. and the HKSE on April 6, 2000 and April 7, 2000 respectively.

The Company issued 3,196,801,818 new H shares at a price of HK\$6.00 per share in September 2005. The net proceeds from the issue of new H shares were approximately RMB19,692 million. CNPC also sold 319,680,182 state-owned shares it held concurrently with the Company's issue of new H shares in September 2005.

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The share capital of the Company in issue as fully paid or credited as fully paid as at December 31, 2005 was 179,020,977,818 shares, with a par value of RMB1.00 each. As at December 31, 2005, the share capital structure of the Company was as follows:

SHARES	NUMBER OF SHARES AS AT DECEMBER 31, 2005	PERCENTAGE OF THE TOTAL SHARES IN ISSUE AS AT DECEMBER 2005 (%)
State-owned shares	157,922,077,818	88.21
Foreign-invested shares (H shares and ADSs)	21,098,900,000	11.79
Total	179,020,977,818	100
	=====	=====

Changes in the share capital of the Company are set out in note 29 to the financial statements in this annual report prepared in accordance with IFRS.

RESULTS AND DISTRIBUTION

The results for the year are set out in the Consolidated Profit and Loss Account on page 87.

The financial condition of the Group as at December 31, 2005 are set out in the Consolidated Balance Sheet on page 88.

The consolidated cashflow of the Group for the year is set out in the statement on page 90.

DIVIDENDS

The Board of Directors recommends to pay a final dividend of RMB0.180325 per share (inclusive of applicable tax) from the balance of 45% of the net profit for the twelve months ended December 31, 2005 less the interim dividend for 2005 paid on September 30, 2005. The proposed final dividend is subject to shareholders' approval at the annual general meeting to be held on May 26, 2006. The final dividend will be paid to shareholders whose names appear on the register of members of the Company at the close of business on May 26, 2006. The register of members will be closed from April 26, 2006 to May 26, 2006 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfer documents must be lodged, together with the relevant share certificates, at Hong Kong Registrars Limited no later than 4 p.m. on April 25, 2006.

In accordance with Article 149 of its Articles of Association, dividends payable to the Company's shareholders shall be declared in Renminbi. Dividends payable to the holders of State-owned shares shall be paid in Renminbi while dividends payable to the holders of H shares shall be paid in Hong Kong Dollars. The amount of Hong Kong Dollars payable shall be calculated on the basis of the average of the closing

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exchange rates for Renminbi to Hong Kong Dollar as published by the People's Bank of China for the week prior to the declaration of the dividend at the shareholders' meeting to be held on May 26, 2006.

Final dividend will be paid on or around June 9, 2006.

FIVE-YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 10 and 11.

BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Company and the Group as at December 31, 2005 are set out in note 28 to the financial statements prepared in accordance with IFRS in this annual report.

INTEREST CAPITALISATION

Interest capitalisation for the Group for the year ended December 31, 2005 was RMB1,065 million.

FIXED ASSETS

Changes to the fixed assets of the Company and the Group during the year are summarised in note 15 to the financial statements prepared in accordance with IFRS in this annual report.

LAND VALUE APPRECIATION TAX

No land value appreciation tax was payable by the Group during the year.

RESERVES

Details of changes to the reserves of the Company and the Group for the year ended December 31, 2005 are set out in note 30 to the financial statements prepared in accordance with IFRS in this annual report.

DISTRIBUTABLE RESERVES

As at December 31, 2005, the reserves of the Company that can be distributed as dividend were RMB175,165 million (2004: RMB121,184 million).

STATUTORY COMMON WELFARE FUND

Details of the statutory welfare fund, such as the nature, application and movements and the basis of calculation (including the percentage and profit figure used for calculating the amounts) are set out in note 30 to the financial statements prepared in accordance with IFRS in this annual report.

MANAGEMENT CONTRACT

During the year, the Company did not enter into any management contracts concerning the management or administration of its overall business or any of its material business, nor did any such management contract exist.

EMPLOYEES' RETIREMENT SCHEME

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Details of the Company's employees' retirement scheme are set out in note 34 to the financial statements prepared in accordance with IFRS in this annual report.

MAJOR SUPPLIERS AND CUSTOMERS

CNPC is the Group's largest supplier of goods and services and the aggregate purchase attributable to CNPC was 35% of the total purchase of the Group for 2005. The aggregate purchase attributable to the five largest suppliers of the Group was 45% of the Group's total purchase.

The aggregate revenue derived from the major customers is set out in note 38 to the financial statements prepared in accordance with IFRS in this annual report. The aggregate revenue derived from the five largest customers was less than 30% of the Group's total sales.

None of the Directors, Supervisors and their associates or any shareholder (who to the knowledge of the Directors were holding 5% or more of the Company's share capital) had any interest in any of the above-mentioned suppliers and customers.

REPURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company or any of its subsidiaries did not sell any other types of securities of the Company, nor did it repurchase or redeem any of the securities of the Company during the twelve months ended December 31, 2005.

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TRUST DEPOSITS AND IRRECOVERABLE OVERDUE TIME DEPOSITS

As at December 31, 2005, the Company did not have any trust deposits or irrecoverable overdue time deposits.

PRE-EMPTIVE RIGHTS

There is no provision regarding pre-emptive rights under the Articles of Association of the Company or the PRC laws.

MATERIAL LITIGATION

The Group was not involved in any material litigation or dispute in 2005.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the company and within the knowledge of its directors, the Directors confirm that the Company has maintained the amount of public float as required under the Listing Rules during the financial period.

ANNUAL GENERAL MEETING

At the 2004 annual general meeting held on May 26, 2005, the following resolutions were passed:

- (a) the Report of the Board of Directors for the year 2004 was approved;
- (b) the Report of the Supervisory Committee for the year 2004 was

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approved;

- (c) the Audited Financial Statements of the Company for the year 2004 was approved;
- (d) the proposal for the declaration and payment of a final dividend for the year ended December 31, 2004 was approved;
- (e) the proposal for the authorisation of the Board of Directors to determine the distribution of the interim dividend for the year 2005 was approved;
- (f) the proposal for the appointment of domestic and international accounting firms as accountants of the Company and to authorise the Board of Directors to determine their remuneration for the year 2005 was approved;
- (g) the proposal for the amendments of the Company's Articles of Association was approved; and
- (h) the proposal for the authorisation of the Board of Directors to issue shares of the Company was approved.

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DIRECTORS

As at the date of this annual report, the Directors of the Company are as follows:

- Chairman	Mr Chen Geng	
- Vice Chairman	Mr Jiang Jiemin	
- Executive Directors	Mr Su Shulin	Mr Duan Wende
- Non-executive Directors	Mr Zheng Hu	Mr Zhou Jiping
- Mr Wang Yilin	Mr Zeng Yukang	
- Mr Gong Huazhang	Mr Jiang Fan	
- Independent Non-executive Directors	Mr Chee-Chen Tung	Mr Liu Hongru
	Mr Franco Bernabe	

CHANGES IN BOARD OF DIRECTORS AND SUPERVISORY COMMITTEE DURING THE REPORTING PERIOD

Changes in Board of Directors and Supervisory Committee during the reporting period can be found in the section headed "Board of Directors and Supervisory Committee" in the Chairman's Report.

BRIEF BIOGRAPHY OF DIRECTORS, SECRETARY TO THE BOARD OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

- Directors

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- Chairman

CHEN GENG, aged 59, is Chairman of the Board of Directors of the Company and the General Manager of CNPC. Mr Chen is a senior economist. He graduated from the Beijing Economics Institute (now renamed as the Capital University of Economics and Trade) in 1968, majoring in labour economics. He has over 30 years of working experience in China's oil and gas industry. Mr Chen was appointed Deputy Director of Changqing Petroleum Exploration Bureau in October 1983, Deputy Director of the Labour Department under the Ministry of Petroleum Industry in April 1985, Director of the Labour Bureau of China National Petroleum Company from August 1988, Assistant to the President of China National Petroleum Company in December 1993, Vice President of China National Petroleum Company in September 1997, Deputy Director of the State Petroleum and Chemical Industry Bureau in March 1998, and Vice President of CNPC in February 2001. Mr Chen was appointed as a Director of the Company in June 2001. He was the President of the Company from December 2002 to May 2004. Mr Chen became President of CNPC in April 2004. He became the Chairman of the Company in May 2004.

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- Vice Chairman

JIANG JIEMIN, aged 50, is the Vice Chairman and President of the Company. Mr Jiang is a senior economist and is a degree holder. Mr Jiang has nearly 30 years of working experience in China's oil and gas industry. He was made Deputy Director of the Shengli Petroleum Administration Bureau in March 1993, the main person in charge of the Qinghai Petroleum Administration Bureau in June 1994, Director of the Qinghai Petroleum Administration Bureau in November 1994, and Assistant to the President and Team Leader for the Restructuring and Listing Preparatory Team of CNPC in February 1999, and a Director and Vice President of the Company from November 1999 to June 2000. Mr Jiang was appointed as Deputy Provincial Governor of the Qinghai Province since June 2000, was made a member of the provincial party committee of the Qinghai Province and Deputy Provincial Governor of Qinghai since November 2000, and the deputy secretary of the provincial party committee of Qinghai Province and Deputy Provincial Governor of Qinghai since June 2003. Mr Jiang has been the Vice Chairman and President of the Company since May 2004.

- Executive Directors

SU SHULIN, aged 43, is a Director and Senior Vice President of the Company. Mr Su has a Master's degree and is a senior engineer. He graduated from Daqing Petroleum Institute in 1983 majoring in oil geology (Bachelor's degree) and Harbin University of Engineering in March 1999 in Project Management (Master's degree). He has over 20 years of working experience in China's oil and gas industry. Since 1996, Mr Su has worked as Director Assistant of Daqing Petroleum Administration Bureau and concurrently the Department Head of the First Oil and Natural Gas Development Department, and then Executive Deputy Director and later Director of Daqing Petroleum Administration Bureau. He was appointed Vice President of the Company on November 5, 1999, and was concurrently the Chairman and General Manager of the Company's subsidiary Daqing Oilfield Company Limited. Mr Su ceased to act as the Chairman and the General Manager of Daqing Oilfield Company Limited in December 2003. Mr Su has been a Director of the Company since November 2002, and has been Senior Vice President of the Company since December 3, 2002.

DUAN WENDE, aged 54, is a Director and Senior Vice President of the Company. Mr Duan is a senior engineer and a degree holder. He graduated from the

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Postgraduate School of the Chinese Academy of Social Sciences in Investment Economics. He has over 30 years of working experience in China's petrochemical industry. From April 1975 to May 1999, Mr Duan was the Deputy Factory Manager of Fushun No. 628 Factory and of the chemical fibers factory, the Commander of the Fushun Ethylene Project Command Division, Deputy Factory Manager of the ethylene factory, the Factory Manager of the acrylic fibers factory and the detergent factory and Deputy Manager of Fushun Petrochemical Corporation. He has been the Manager of Fushun Petrochemical Corporation since May 1999; he has been appointed as

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the General Manager of Fushun Petrochemical Branch Company since October 1999. He has been an Assistant to the President of CNPC since August 2001. He has been a Vice President of the Company since March 2002. He has been appointed as a Director of the Company since May 2004. He has been appointed as Senior Vice President of the Company since November 28, 2005.

- Non-executive Directors

ZHENG HU, aged 59, is a Director of the Company and a Vice President of CNPC. Mr Zheng is a senior engineer and graduated from Beijing Petroleum Institute. He has over 30 years of working experience in China's oil and gas industry. From 1990 to 1992, Mr Zheng was the Vice Chancellor of Beijing Petroleum Managers Training Institute. From 1992 to 1999, Mr Zheng worked as Deputy General Manager and General Manager of China Petroleum Technology Development Corporation, China Petroleum Materials and Equipment (Group) Corporation, and as Director of Personnel and Labour Department of CNPC. Since August 2000, Mr Zheng has been a Vice President of CNPC. He has been a Director of the Company since June 30, 2000.

ZHOU JIPING, aged 53, is a Director of the Company and a Vice President of CNPC. Mr Zhou is a senior engineer and a Masters student in marine geologic structure from Nanhai Marine Research Institute of the Chinese Academy of Sciences. He has over 30 years of working experience in China's oil and gas industry. Mr Zhou was the Exploration Manager of the Exploration and Development Department of China National Offshore Oil Corporation, Manager of the Overseas Department of the International Co-operation Bureau of China National Petroleum Company, President of China National Oil & Gas Exploration and Development Corporation in Vanuatu and President of China National Oil & Gas Exploration and Development Corporation in Papua New Guinea. Since November 1996, he was Deputy Director