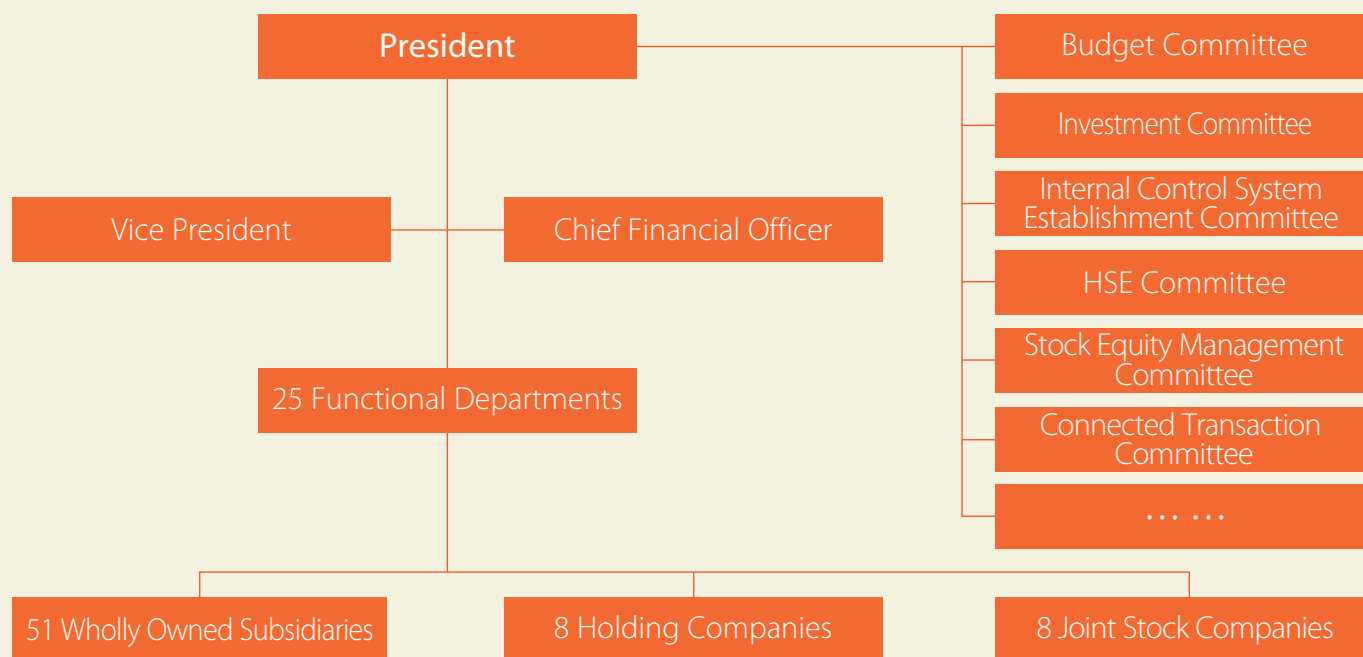


# Corporate Governance



CNPC is a state-authorized investment agency incorporated in line with the State Council Institutional Reform Plan in 1998. CNPC has established an effective organizational structure based on the president accountability system, and a centralized management system in which the president is the legal representative. CNPC has a two-level administrative management structure: headquarters and subsidiaries, and a three-level business management structure: headquarters, branches, and subsidiaries. The headquarters is in charge of executing and reviewing corporate policies and strategic plans. The State-owned Assets Supervision and Administration Commission (SASAC) of the State Council execute the shareholder's supervision rights over CNPC on behalf of the central government. In addition, discipline inspection and supervision, audit and financial supervision, and employee supervision are also in place to ensure the regulated operation of the company.

In order to build an integrated international energy corporation, CNPC is dedicated to forming a modern managerial system in line with international practices. By integrating the roles of an investment, decision-making and capital operation center, we have established the two-level contributory administrative system based on *Shareholder*

*Value Management Interim Measures*. Our corporate governance structure is operating according to the provisions of the *Guidelines for the Constitutions and Guidelines for Rules for Discussing Official Business* promulgated by CNPC. Moreover, the managerial functions of CNPC headquarters and the managerial system of parent corporations and their subsidiaries have been further improved with strengthened management capability over secondary subsidiaries.

Adhering to democratic centralism, we have standardized business discussion rules and improved decision-making procedures to ensure scientific, democratic and legal decision-making. We strengthened anti-corruption work by focusing on the improvement of the punishment and prevention system to reinforce supervision. We made efforts to complete the legal risk prevention and controlling system and assisted the State Auditing Administration in its financial audit of the company. We also carried out efficiency supervision focused on assets and resources management, and improved patrol inspection and carried out an anti-corruption culture program to form a long-lasting anti-corruption mechanism.

## Promoting Excellent Corporate Governance

To promote excellent corporate governance, we steadily promoted enterprise reform in 2007 through the construction of a comprehensive internal control system, HSE management system, and corruption punishment and prevention systems.

### Actively promoting enterprise reform

To leverage our corporate advantage, improve management and operational efficiency and enhance scientific decision-making, we optimized resource allocation in the group and actively pushed forward specialized restructuring and business integration in 2007. The functions of headquarters departments were adjusted and integrated, leading to the establishment of the Budgeting Management Office, Safety and Environmental Protection Dept., Quality Management and Energy Conservation Dept., Internal Control Dept., Procurement Dept., Mining Zone Service Dept., Comprehensive Treatment Office, and IT Service Center. The restructuring and integration of our refining and marketing business, as well as some oil and gas fields, was basically completed, while a mining zone service system reform was underway. Internal equity adjustment and mergers and acquisitions were effectively realized, and China Textile Industrial Engineering Institute joined CNPC upon the decision of SASAC.

### Constructing an internal control system

To further standardize management, improve corporate governance and effectively prevent operational risks, CNPC compiled an internal control system implementation scheme and completed fundamentals such as guidelines, standards and the template of the internal control system at headquarters level in 2007. The internal control system of PetroChina Company Limited, CNPC's biggest subsidiary, has passed the audit of PricewaterhouseCoopers with zero defects and is fully operational, making it one of the first US-listed Chinese companies to pass Section 404 of the *Sarbanes-Oxley Act*.

### Improving the HSE System

To realize safe, clean, energy-saving and harmonious development, CNPC reinforced its HSE system construction, compiled an HSE system plan and issued the *HSE Management System Guide*. The new guide brought an end to the different HSE models of listed

companies and non-listed companies and formed a unified, standard HSE system. The guide is applicable to CNPC and its subsidiaries and affiliates, employees, contractors, and suppliers.

For more information about CNPC's HSE system construction in 2007, please refer to Chapter 2 "Safety and Environment".

### Establishing the corruption punishment and prevention system

In 2007, we included the corruption punishment and prevention system into CNPC's general development strategy, integrating it with the construction of our enterprise management system, internal control mechanism and risk prevention system. In building the system, we reinforced anti-corruption education and supervision, carefully investigated all rule-breaching cases, and seriously punished those guilty of corruption. The accountability safeguards and assessment mechanisms of the anti-corruption system were basically formed. In 2007, we compiled and amended 47 management systems and 25 supervision systems covering planning, finance, human resources, and marketing and various CNPC subsidiaries and affiliates issued and modified 1,088 and 1,398 management rules respectively, which substantially enhanced our management and supervisory capabilities.