

**Public Companies Operating in Sudan:
The Relationship of PetroChina Company Ltd. to China
National Petroleum Corporation**

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Notices

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Peter D. Kinder
KLD Research & Analytics, Inc.
4th Floor
250 Summer Street
Boston, MA 02210
(617) 426-5270 (vox)
(617) 426-5299 (fax)
PKKinder@KLD.com (EMail)

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PetroChina Company Ltd. operates mainly in the domestic Chinese oil and chemical industries. 11.79% of its shares are publicly traded. China National Petroleum Corporation (CNPC) owns the balance (88.21%) of the company.¹ PetroChina has no direct operations in Sudan. However, CNPC has major oil interests in Sudan. KLD Research & Analytics, Inc. considers any publicly traded company that is majority-owned by another company a consolidated subsidiary of the parent. Therefore, KLD includes PetroChina on its Targeted Sudan Divestment List.²

PetroChina's history

The Chinese government created CNPC in the late 1980s during a restructuring process to create a more integrated state-owned oil and gas industry in China.³ In 1998, during a further restructuring, CNPC assumed nearly all of China's state-owned international oil operations. At this time, CNPC and the China Petroleum & Chemical Company, the other major state-owned Chinese oil company, accounted for 90% of China's petroleum and chemical assets. Both companies were entirely owned by the government of China.⁴

During the 1990s, CNPC's international and domestic operations incurred large debt obligations.⁵ In early 1999, CNPC announced plans to raise capital by going partially public and selling \$10 billion worth of its shares on the Hong Kong, London, and New York stock exchanges. This offering represented approximately 25% of the company's capital.⁶ In preparation for this initial public offering (IPO), CNPC restructured its operations into five business segments: exploration and development, refining and petrochemicals, sales, pipeline operations, and foreign cooperation.⁷

However, in September and October 1999, CNPC's planned IPO received negative publicity from activists and investors concerned about the environmental and human rights impact of its international operations.⁸ In response, CNPC decided to float only a small percentage of its domestic oil and chemical operations. In November 1999,

¹ PetroChina Form 6-K, as filed with the United States Securities and Exchange Commission, 16 April, 2007.

² The Sudan Divestment Task Force developed the Targeted Sudan Divestment criteria for involvement. For more information, please visit www.sudandivestment.org. For information on KLD's Sudan Compliance screening service, please visit www.kld.com/compliance/sudan.html.

³ "History" CNPC company website, accessed 20 April, 2007, <http://www.cnpc.com.cn/eng/company/presentation/history/>.

⁴ "China Restructuring - Principles into Practice," *Asian Chemical News*, 25 February, 1999.

⁵ "China CNPC Petro Firms Pledge Profit," *Reuters*, 2 June, 1999.

⁶ "Petrochemicals - CNPC Prepares to Sell Shares on the Stock Exchange," *Informations Chimie Hedbo*, 5 July, 1999.

⁷ "China National Petroleum Corp is Restructuring," *Oil & Gas Journal*, 19 July, 1999.

⁸ "CNPC Drops Sudan From IPO," *Oil Daily*, 4 November, 1999.

CNPC created PetroChina Company Ltd. as a publicly traded holding company for those operations. PetroChina successfully staged its initial public offering on April 6 in New York and on April 7 in Hong Kong.⁹

Indicators of CNPC's control of PetroChina

CNPC created PetroChina as a publicly traded subsidiary with separate operations,¹⁰ but the two companies have overlapping financial interests and corporate governance.

- CNPC's website lists PetroChina's ticker and share price, without indicating that it is a separate company.¹¹
- PetroChina publicly reports that it distributes approximately 50% of its net income to its shareholders, including CNPC.¹² A company that owns greater than 50% of another company typically consolidates the subsidiary's operations into its overall financial reporting.

Although controlling over 50% of the voting stock is enough to guarantee operational control of a company, KLD reviews board membership and the senior line executive overlap to estimate the actual level of control exerted by a parent company.

As of April 2007,

- CNPC owned 88.21% of PetroChina Company Ltd.¹³
- 58% (7/12) of PetroChina's board members were senior line employees of CNPC.¹⁴

⁹ "Company Profile" PetroChina company website, accessed 20 April, 2007, <http://www.petrochina.com.cn/english/gsjs/gsjs.htm>.

¹⁰ Several reports have demonstrated that the operations are in fact not separate according to the role that CNPC originally defined for PetroChina. For further information, see The Sudan Divestment Task Force, "PetroChina, CNPC, and Sudan: Perpetuating Genocide," 15 April 2007. Also see *Harvard University Gazette*, "Statement by the Harvard Corporation Committee on Shareholder Responsibility (CCSR) Regarding Stock in PetroChina Company Limited," 4 April 2005.

¹¹ "Our Managements" CNPC company website, accessed 20 April, 2007, <http://www.cnpc.com.cn/eng/company/presentation/management/>.

¹² PetroChina FY 2005 Form 20-F, as filed with the United States Securities and Exchange Commission, 20 June, 2006.

¹³ PetroChina Form 6-K, as filed with the United States Securities and Exchange Commission, 16 April, 2007.

¹⁴ "Our Managements" CNPC company website, accessed 20 April, 2007, <http://www.cnpc.com.cn/eng/company/presentation/management/>, as compared to "Executive Profiles" PetroChina company website, accessed 20 April, 2007, <http://www.petrochina.com.cn/english/gsjs/ldjs.htm>, accessed 20 April, 2007.

- 75% (18/24) of PetroChina's management team were either current or former employees of CNPC.¹⁵
- The president of CNPC served as the president of PetroChina.¹⁶

Conclusion

The dominant ownership position of CNPC and the substantial overlap between CNPC's and PetroChina's board of directors and executive leadership indicate that CNPC exercises a considerable level of control over PetroChina. Therefore, KLD concludes that investors should treat CNPC and PetroChina as if they were a single entity.

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For questions regarding this report, please contact Darragh Gallant at dgallant@kld.com or at 617-426-5270 ex. 228.

¹⁵ *Id.*

¹⁶ *Id.*