

CNOOC LTD  
Form 20-F  
May 08, 2009

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2008

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report \_\_\_\_\_

Commission File Number 1-14966

CNOOC LIMITED  
(Exact name of Registrant as specified in its charter)

Hong Kong  
(Jurisdiction of incorporation or organization)

65th Floor, Bank of China Tower  
One Garden Road, Central  
Hong Kong  
(Address of principal executive offices)

Zongwei Xiao  
65th Floor, Bank of China Tower  
One Garden Road, Central  
Hong Kong  
Tel +852 2213 2500  
Fax +852 2525 9322  
(Name, telephone, e-mail and/or facsimile number and address of company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
American depositary shares, each representing 100 shares of par value HK\$0.02 per share	New York Stock Exchange, Inc.

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Shares of par value HK\$0.02 per share

New York Stock Exchange, Inc.\*

Securities registered or to be registered pursuant to Section 12(g) of the Act. None  
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act. None  
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Shares, par value HK\$0.02 per share

44,669,199,984

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant is required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the Registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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\* Not for trading, but only in connection with the registration of American depositary shares.

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TERMS AND CONVENTIONS

Definitions

Unless the context otherwise requires, references in this annual report to:

- “CNOOC” are to our controlling shareholder, China National Offshore Oil Corporation, a PRC state-owned enterprise, and its affiliates, excluding us and our subsidiaries;
- “CNOOC Limited” are to CNOOC Limited, a Hong Kong limited liability company and the registrant of this annual report;
  - “Our company”, “we”, “our” or “us” are to CNOOC Limited and its subsidiaries;
- “China” or “PRC” are to the People’s Republic of China, excluding for purposes of geographical reference in this annual report, the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan;
  - “Hong Kong Stock Exchange” or “HKSE” are to The Stock Exchange of Hong Kong Limited;
  - “HK\$” are to the Hong Kong dollar, the legal currency of the Hong Kong Special Administrative Region;
    - “HKICPA” are to the Hong Kong Institute of Certified Public Accountants;
- “HKFRS” are to all Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards and Interpretations approved by the Council of the HKICPA;
  - “IASB” are to the International Accounting Standards Board;
- “IFRS” are to all International Financial Reporting Standards, including International Accounting Standards and Interpretations, as issued by the International Accounting Standards Board;
  - “Rmb” are to the Renminbi, the legal currency of the PRC; and
  - “US\$” are to the U.S. dollar, the legal currency of the United States of America.

Conventions

We have translated amounts from Renminbi into U.S. dollars solely for the convenience of the reader at the noon buying rate for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2008 of US\$1.00=Rmb 6.8225. We have also translated amounts in Hong Kong dollars solely for the convenience of the reader at the noon buying rate for cable transfers in Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2008 of US\$1.00=HK\$7.7499. We make no representation that the Renminbi amounts or Hong Kong dollar amounts could have been, or could be, converted into U.S. dollars at those rates on December 31, 2008, or at all. For further information on exchange rates, see “Item 3—Key Information—Selected Financial Data.”

Totals presented in this annual report may not total correctly due to rounding of numbers.

Except as otherwise noted, all information in this annual report relating to our oil and natural gas reserves is based upon estimates prepared by us. In calculating barrels-of-oil equivalent amounts, we have assumed that 6,000 cubic feet of natural gas equals one BOE, with the exception of natural gas from certain fields which is converted using the actual heating value of the natural gas.

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Glossary of Technical Terms

Unless otherwise indicated in the context, references to:

- “API gravity” means the American Petroleum Institute’s scale for specific gravity for liquid hydrocarbons, measured in degrees.
- “appraisal well” means an exploration well drilled after a successful wildcat well to gain more information on a newly discovered oil or gas reserve.
- “condensate” means light hydrocarbon liquids separated from natural gas in the field through condensation when natural gas is exposed to surface temperature and pressure.
  - “crude oil” means crude oil and liquids, including condensate, natural gas liquids and liquefied petroleum gas.
  - “LNG” means liquefied natural gas.
  - “exploration well” means a wildcat or appraisal well.
- “natural gas liquids” means light hydrocarbons that can be extracted in liquid form from natural gas through special separation plants.
  - “net wells” means a party’s working interest in wells.
- “proved developed reserves” means reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery are included as “proved developed reserves” only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.
- “proved reserves” means the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.
  - (i) Reservoirs are considered proved if economic producibility is supported by either actual production or conclusive formation test. The area of a reservoir considered proved includes:
    - (A) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any; and
    - (B) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.
  - (ii) Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are included in the “proved” classification when successful testing by a pilot project, or the operation of an installed program in the reservoir, provides support for the engineering analysis on which the project or program was based.



(iii) Estimates of proved reserves do not include the following:

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(A) oil that may become available from known reservoirs but is classified separately as “indicated additional reserves;”

(B) crude oil, natural gas, and natural gas liquids, the recovery of which is subject to reasonable doubt because of uncertainty as to geology, reservoir characteristics, or economic factors;

(C) crude oil, natural gas, and natural gas liquids, that may occur in undrilled prospects; and

(D) crude oil, natural gas, and natural gas liquids that may be recovered from oil shales, coal, gilsonite and other such sources.

• “proved undeveloped reserves” means reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage is limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Estimates for proved undeveloped reserves are not attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir.

• “PSC” means production sharing contract.

• “share oil” means the portion of production that must be allocated to the relevant government entity or company under our PSCs in the PRC.

For further definitions relating to reserves:

• “reserve replacement ratio” means, for a given year, total additions to proved reserves, which consist of additions from purchases, discoveries and extensions and revisions of prior reserve estimates, divided by production during the year. Reserve additions used in this calculation are proved developed and proved undeveloped reserves; unproved reserve additions are not used. Data used in the calculation of reserve replacement ratio is derived directly from the reserve quantity reconciliation prepared in accordance with paragraph 11 of U.S. Statement of Financial Accounting Standards No. 69, which reconciliation is included in “Supplementary Information on Oil and Gas Producing Activities” beginning on page S-1 of this annual report. However, the reserve replacement ratios of 2006 and 2007 also include the reserve additions and production of an investee company accounted for by us using the equity method, which were not included in the reconciliation found in “Supplementary Information on Oil and Gas Producing Activities.” In 2006 and 2007, including the reserve additions and production of this investee company did not have a material impact on our reserve replacement ratio.

Our reserve replacement ratio reflects our ability to replace proved reserves. A rate higher than 100% indicates that more reserves were added than produced in the period. However, this measure has limitations, including its predictive and comparative value. Reserve replacement ratio measures past performance only and fluctuates from year to year due to differences in the extent and timing of new discoveries and acquisitions. It is also not an indicator of profitability because it does not reflect the cost or timing of future production of reserve additions. It does not distinguish between reserve additions that are developed and those that will require additional time and funding to develop. As such, reserve replacement ratio is only one of the indices used by our management in formulating its acquisition, exploration and development plans.



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- “reserve-to-production ratio” means the ratio of proved reserves to annual production of crude oil or, with respect to natural gas, to wellhead production excluding flared gas.
- “seismic data” means data recorded in either two-dimensional (2D) or three-dimensional (3D) form from sound wave reflections off of subsurface geology.
- “success” means a discovery of oil or gas by an exploration well. Such an exploration well is a successful well and is also known as a discovery. A successful well is commercial, which means there are enough hydrocarbon deposits discovered for economical recovery.
- “wildcat well” means an exploration well drilled in an area or rock formation that has no known reserves or previous discoveries.

References to:

- bbls means barrels, which is equivalent to approximately 0.134 tons of oil (33 degrees API);
  - mmbbls means million barrels;
  - BOE means barrels-of-oil equivalent;
  - mcf means thousand cubic feet;
  - mmcf means million cubic feet;
- bcf means billion cubic feet, which is equivalent to approximately 283.2 million cubic meters; and
  - BTU means British Thermal Unit, a universal measurement of energy.

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FORWARD-LOOKING STATEMENTS

This annual report includes “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995. The words “believe”, “intend”, “expect”, “anticipate”, “project”, “estimate”, “plan”, “predict” and similar expressions are also intended to identify such forward-looking statements.

These forward-looking statements address, among others, such issues as:

- the amount and nature of future exploration, development and other capital expenditures,
- wells to be drilled or reworked,
- development projects,
- exploration prospects,
- estimates of proved oil and gas reserves,
- potential reserves,
- development and drilling potential,
- expansion and other development trends of the oil and gas industry,
- business strategy,
- production of oil and gas,
- development of undeveloped reserves,
- expansion and growth of our business and operations,
- oil and gas prices and demand,
- future earnings and cash flow, and
- our estimated financial information.

These statements are based on assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual results and developments will meet our expectations and predictions depend on a number of risks and uncertainties which could cause our actual results, performance and financial condition to differ materially from our expectations, including those associated with fluctuations in crude oil and natural gas prices, our exploration or development activities, our capital expenditure requirements, our business strategy, the highly competitive nature of the oil and natural gas industries, our foreign operations, environmental liabilities and compliance requirements, and economic and political conditions in the PRC. For a description of these and other risks and uncertainties, see “Item 3—Key Information—Risk Factors.”

Consequently, all of the forward-looking statements made in this annual report are qualified by these cautionary statements. We cannot assure that the results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected effect on us, our business or our operations.

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SPECIAL NOTE ON THE FINANCIAL INFORMATION AND CERTAIN STATISTICAL INFORMATION PRESENTED IN THIS ANNUAL REPORT

Our consolidated financial statements as of and for the years ended December 31, 2007 and 2008 included in this annual report on Form 20-F have been prepared in accordance with International Financial Reporting Standards, or IFRS, which includes all International Accounting Standards and Interpretations, as issued by the International Accounting Standards Board, or the IASB. These financial statements also comply with Hong Kong Financial Reporting Standards, or HKFRS, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants and accounting principles generally accepted in Hong Kong, or Hong Kong GAAP. HKFRS is consistent with IFRS in all material respects. Pursuant to the requirement under IFRS 1: First-Time Adoption of International Financial Reporting Standards, or IFRS 1, the date of our transition to IFRS was determined to be January 1, 2007, which is the beginning of the earliest period for which we present full comparative information in our consolidated financial statements. With due regard to our accounting policies in previous periods and the requirements of IFRS 1, we have concluded that no adjustments were required to the amounts reported under HKFRS as of January 1, 2007 or in respect of the year ended December 31, 2007. As such, we make an explicit and unreserved statement of compliance with IFRS, as issued by the IASB, with respect to our consolidated financial statements as of and for the years ended December 31, 2007 and 2008 included in this annual report on Form 20-F. Ernst & Young, our independent registered public accounting firm, has issued an unqualified auditors' report on these consolidated financial statements.

In accordance with rule amendments adopted by the U.S. Securities and Exchange Commission, or the SEC, which became effective on March 4, 2008, we are not required to provide a reconciliation to generally accepted accounting principles in the United States, or U.S. GAAP. Furthermore, pursuant to the transitional relief granted by the SEC in respect of the first-time application of IFRS, no audited financial statements and financial information prepared under IFRS for the year ended December 31, 2006 have been included in this annual report on Form 20-F.

The consolidated financial statements included in our annual reports on Form 20-F previously filed with the SEC in respect of the years ended December 31, 2007, 2006, 2005 and 2004 were prepared in accordance with HKFRS and Hong Kong GAAP. The consolidated financial statements included in our annual reports on Form 20-F previously filed with the SEC in respect of the years ended December 31, 2003 and before were prepared in accordance with Hong Kong GAAP. For additional information, please refer to our annual reports on Form 20-F previously filed with the SEC.

The statistical information set forth in this annual report on Form 20-F relating to China is taken or derived from various publicly available government publications that have not been prepared or independently verified by us. This statistical information may not be consistent with other statistical information from other sources within or outside China.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable, but see “Item 6—Directors, Senior Management and Employees—Directors and Senior Management.”

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following tables present selected historical financial data of our company as of and for the years ended December 31, 2007 and 2008. Except for amounts presented in U.S. dollars, the selected historical consolidated balance sheet data and consolidated income statement data as of and for the years ended December 31, 2007 and 2008 set forth below are derived from, should be read in conjunction with, and are qualified in their entirety by reference to, our consolidated financial statements and their notes under “Item 18—Financial Statements” and “Item 5—Operating and Financial Review and Prospects” in this annual report. As disclosed above under Special Note on the Financial Information and Certain Statistical Information Presented in this annual report, our consolidated financial statements as of and for the years ended December 31, 2007 and 2008 have been prepared and presented in accordance with IFRS.



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Year ended December 31,  
2007                      2008                      2008  
Rmb                      Rmb                      US\$  
(in millions, except per share and per ADS data)

## Income Statement Data:

## Operating revenues:

Oil and gas sales	73,037	100,831	14,779
Marketing revenues	17,397	22,967	3,366
Other income	290	2,179	319
<b>Total operating revenues</b>	<b>90,724</b>	<b>125,977</b>	<b>18,464</b>

## Expenses:

Operating expenses	(8,040)	(9,990)	(1,464)
Production taxes	(3,497)	(4,889)	(717)
Exploration expenses	(3,432)	(3,410)	(500)
Depreciation, depletion and amortization	(7,936)	(10,058)	(1,474)
Special oil gain levy	(6,837)	(16,238)	(2,380)
Impairment losses related to property, plant and equipment	(614)	(1,541)	(226)
Crude oil and product purchases	(17,083)	(22,675)	(3,324)
Selling and administrative expenses	(1,741)	(1,743)	(255)
Others	(345)	(1,568)	(230)
	<b>(49,525)</b>	<b>(72,112)</b>	<b>(10,570)</b>

Interest income	673	1,091	160
Finance costs	(2,032)	(415)	(61)
Exchange gains/ (losses), net	1,856	2,551	374

Investment income	902	476	70
Share of profits of associates	719	374	55
Non-operating income/ (expenses), net	(7)	(62)	(9)

Profit before tax	43,310	57,880	8,483
Tax	(12,052)	(13,505)	(1,979)
<b>Profit for the year</b>	<b>31,258</b>	<b>44,375</b>	<b>6,504</b>

Earnings per share (basic)(a)	0.72	0.99	0.15
Earnings per share (diluted) (b)	0.72	0.99	0.15
Earnings per ADS (basic) (a)	71.68	99.44	14.58
Earnings per ADS (diluted) (b)	71.48	99.08	14.52

## Dividend per share

Interim	0.122	0.175	0.026
Proposed final	0.159	0.176	0.026

As of December 31,  
2007                      2008                      2008  
Rmb                      Rmb                      US\$

(in millions)

## Balance Sheet Data:

Cash and cash equivalents	23,357	19,762	2,897
Available-for sale financial assets/Short term investments	6,688	11,661	1,709
Current assets	55,732	63,770	9,347
Property, plant and equipment, net	118,880	138,358	20,280
Investments in associates	2,031	1,785	262
Intangible assets	1,331	1,206	177
Long term available-for-sale financial assets	1,819	1,550	227
Total assets	179,793	206,669	30,293
Current liabilities	21,402	18,799	2,754
Long term bank loans, net of current portion	2,720	7,115	1,043
Long term guaranteed notes	8,326	6,749	989
Total long term liabilities	24,077	27,632	4,050
Total liabilities	45,479	46,431	6,806
Capital stock	41,986	43,078	6,314
Shareholders' equity	134,315	160,238	23,487

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- (a) Earnings per share (basic) and earnings per ADS (basic) for each year from 2007 to 2008 have been computed, without considering the dilutive effect of the shares underlying our share option schemes and, as applicable, convertible bonds, by dividing profit by the weighted average number of shares and the weighted average number of ADSs of 43,605,437,212 and 436,054,372, respectively, for 2007 and 44,623,856,311 and 446,238,563, respectively, for 2008, in each case based on a ratio of 100 shares to one ADS.
- (b) Earnings per share (diluted) and earnings per ADS (diluted) for each year from 2007 to 2008 have been computed, after considering the dilutive effect of the shares underlying our share option schemes and, as applicable, convertible bonds, by using 43,731,936,869 shares and 437,319,369 ADSs for 2007 and 44,786,097,516 shares and 447,860,975 ADSs for 2008. For 2007, the convertible bonds had an anti-dilutive effect on the basic earnings per share and were ignored in the calculation of diluted earnings per share.
- (c) For the purposes of this chart, the exchange rate used for the conversion of dividends from Renminbi into U.S. Dollars is the noon buying rate for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York on the last business day of the year for which the applicable dividend was issued.

	Year ended December 31,		
	2007 Rmb	2008 Rmb	2008 US\$
	(in millions, except percentages and ratios)		
Other Financial Data:			
Capital expenditures paid(1)	26,942	36,410	5,337
Cash provided by (used for):			
Operating activities	41,301	55,738	8,170
Investing activities	(21,374)	(48,984)	(7,180)
Financing activities	(10,799)	(10,129)	(1,485)
Ratio of total debt to total capitalization(2)	7.6%	8.0%	8.0%

(1) Capital expenditures paid excludes acquisition capital expenditures.

(2) Total capitalization excludes current portion of long-term debt.

We publish our financial statements in Renminbi. Unless otherwise indicated, all translations from Renminbi to U.S. dollars have been made at a rate of Rmb 6.8225 to US\$1.00, the noon buying rate for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2008. We do not represent that Renminbi or U.S. dollar amounts could be converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, the rate above or at all.

The following table sets forth the noon buying rates for U.S. dollars for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

Period	End	Noon Buying Rate		
		Average(1)	High	Low
2004	8.2765	8.2768	8.2774	8.2764

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2005	8.0702	8.1998	8.2765	8.0702
2006	7.8041	7.9723	8.0702	7.8041
2007	7.2946	7.5806	7.8127	7.2946
2008	6.8225	6.9477	7.2946	6.7800
November 2008	6.8254	—	6.8373	6.8220
December 2008	6.8225	—	6.8842	6.8225
January 2009	6.8392	—	6.8403	6.8225
February 2009	6.8395	—	6.8470	6.8241
March 2009	6.8315	—	6.8600	6.8212
April 2009	6.8180	—	6.8361	6.8180

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(1) Determined by averaging the noon buying rates on the last business day of each month during the relevant period.

As of April 30, 2009, the noon buying rate for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York was Rmb 6.8180 to US\$1.00.

Unless otherwise indicated, all translations from Hong Kong dollars to U.S. dollars have been made at a rate of HK\$7.7499 to US\$1.00, the noon buying rate for cable transfers in Hong Kong dollars

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as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2008. We do not represent that Hong Kong dollar or U.S. dollar amounts could be converted into U.S. dollars or Hong Kong dollars, as the case may be, at any particular rate, the rate above or at all.

The following table sets forth the noon buying rates for U.S. dollars for cable transfers in Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated.

Period	End	Noon Buying Rate		
		Average(1) (HK\$ per US\$1.00)	High	Low
2004	7.7723	7.7891	7.8010	7.7632
2005	7.7533	7.7755	7.7999	7.7514
2006	7.7771	7.7681	7.7928	7.7506
2007	7.7984	7.8008	7.8289	7.7497
2008	7.7499	7.7862	7.8159	7.7497
November 2008	7.7501	—	7.7560	7.7497
December 2008	7.7499	—	7.7522	7.7497
January 2009	7.7544	—	7.7618	7.7504
February 2009	7.7551	—	7.7551	7.7511
March 2009	7.7503	—	7.7592	7.7500
April 2009	7.7500	—	7.7508	7.7495

(1) Determined by averaging the noon buying rates on the last business day of each month during the relevant period.

As of April 30, 2009, the noon buying rate for cable transfers in Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York was HK\$7.7500 to US\$1.00.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

We urge you to consider carefully the risks described below. Although we have established the Enterprise Risk Management system to identify, evaluate and manage risks, our business activities are subject to the following risks, each of which could have a material adverse effect on our operations and financial condition.

Our business, revenues and profits fluctuate with changes in oil and gas prices

Prices for crude oil fluctuate widely in response to relatively minor changes in the supply and demand for oil, market uncertainty and various other factors that are beyond our control, including, but not limited to overall economic conditions, consumer demand for oil, natural gas and LNG, political developments, the ability of petroleum producing nations to set and maintain production levels and prices, the price and availability of other energy sources, domestic and foreign government regulations, and weather conditions.

In addition, our typical contracts with gas buyers include provisions for periodic resets and adjustment formulas that depend on a basket of crude oil prices and inflation as well as various other factors. These resets and adjustment formulas can result in natural gas price fluctuations.

Even relatively modest declines in crude oil and/or natural gas prices may adversely affect our business, revenues and profits. Lower oil and gas prices may result in the write-off of higher cost reserves and other assets and may lower our earnings or cause losses. Lower oil and gas prices may also reduce the

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amount of oil and natural gas we can produce economically and render existing contracts that we have entered into uneconomical.

The oil and gas reserve estimates in this annual report may require substantial revision as a result of future drilling, testing, production and oil and gas price changes

The reliability of reserve estimates depends on a number of factors, including the quality and quantity of technical and economic data, the prevailing oil and gas prices for our production, the production performance of reservoirs, extensive engineering judgments, and the royalty and share oil policies in the PRC and fiscal regime in foreign countries and regions where we have operations or assets.

Many of the factors, assumptions and variables involved in estimating reserves are beyond our control and may prove to be incorrect over time. Consequently, the results of drilling, testing and production may require substantial upward or downward revisions in our initial reserves data.

Any failure to replace reserves and develop our proved undeveloped reserves could adversely affect our business and our financial position

Exploring for, developing and acquiring reserves is highly risky and capital intensive. Our exploration and development activities involve inherent risks, including the risk that we will not encounter commercially productive oil or gas reservoirs. In addition, approximately 59.9% of our proved reserves were undeveloped as of December 31, 2008. Our future success will depend on our ability to develop these reserves in a timely and cost-effective manner. There are various risks in developing reserves, including construction, operational, geophysical, geological and regulatory risks.

Our future prospects largely depend on our capital expenditure plans, which are subject to various risks

Our ability to maintain and increase our revenues, profit and cash flows depends upon continued capital spending, which is subject to a number of contingencies, some of which are beyond our control. These variables include: cash flows from operations, the availability and terms of external financing, our ability to execute our project plans and commence production on time, approvals required from foreign governments for certain capital expenditures and investments outside the PRC, and economic, political and other conditions in the PRC and in foreign countries and regions where we have operations.

Therefore, our actual capital expenditures and investments in the future may differ significantly from our current planned amounts. If we are unable to obtain sufficient funding for our operations or development plans, our business, revenues, profit and cash flows could be adversely affected.

Any failure to implement our natural gas business strategy may adversely affect our business and financial position

As part of our business strategy and to meet increasing market demand in China, we continue to expand our natural gas business. In addition to the risks that affect our business generally, this strategy involves a number of risks and uncertainties, including: our limited experience in the natural gas business; the underdeveloped natural gas transmission and supply infrastructure and market in China; and the lack of preferential rights with respect to our overseas natural gas businesses. We are evaluating the options to invest in CNOOC's LNG projects in China. However, we have not decided whether to exercise these options. The options are subject to various conditions, including the receipt of certain governmental approvals.

CNOOC largely controls us and we regularly enter into related party transactions with CNOOC and its affiliates

CNOOC indirectly owned 64.41% of our shares as of March 31, 2009. As a result, CNOOC is able to control the composition of the board of directors of our company, or our Board, determine the timing and amount of our dividend payments and otherwise control us. If CNOOC takes actions that favor its interests over ours, our results of operations and financial position may be adversely affected.



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In addition, we regularly enter into transactions with CNOOC and its affiliates, such as China Oilfield Services Limited, or COSL, and Offshore Oil Engineering Co., Ltd., or CNOOC Engineering. Some of our transactions with CNOOC and its affiliates constitute connected transactions under the Hong Kong Stock Exchange Listing Rules. Furthermore, these connected transactions are subject to review by the Hong Kong Stock Exchange and may also be subject to the prior approval of our independent shareholders. If we do not obtain these approvals, we will not be allowed to effect these transactions and our business operations and financial condition could be adversely affected.

Under current PRC law, CNOOC has the exclusive right to enter into PSCs with foreign oil and gas companies for oil exploration and production offshore China. Although CNOOC has undertaken to us that it will transfer all of its rights and obligations under any new PSCs to us, except those relating to its administrative functions. The interests of CNOOC in entering into PSCs with international oil and gas companies may differ from our interests, especially with respect to the criteria for determining whether, and on what terms, to enter into PSCs. Our future business development may be adversely affected if CNOOC does not enter into new PSCs on terms that are acceptable to us.

Our business performance relies heavily on our sales to large domestic customers and a substantial drop in such sales could have a material adverse effect on our results of operations

We sell a significant proportion of our production to CNOOC-affiliated companies and China Petroleum & Chemical Corporation, or Sinopec, and PetroChina Company Limited, or PetroChina. However, we do not have any long-term crude oil sales contracts with CNOOC and its affiliates or Sinopec, or PetroChina. Our business, results of operations and financial condition could be adversely affected if any of them significantly reduced their crude oil purchases from us.

We have limited control over our investments in joint ventures and our operations with partners

Many of our operations are conducted with partners or in joint ventures in which we have limited ability to influence or control their operation or future development. For instance, we acquired a 45% interest in the offshore oil mining lease, or the OML130, in Nigeria, in April 2006. Our limited ability to influence or control the operation or future development of such joint venture could materially and adversely affect the realization of our target returns on capital and lead to unexpected future costs.

The oil and natural gas industries are very competitive

We compete in the PRC and international markets for customers, capital financing and business opportunities, including desirable oil and gas prospects. Our principal competitors in the PRC market are PetroChina and Sinopec. The performance of our competitors may also affect the international market price for comparable crude oil, which in turn would likely affect the price of our crude oil.

Exploration, development and production risks and natural disasters may affect our operations and could result in losses that are not covered by insurance

Our oil exploration, development and production operations are subject to various risks, including pipeline ruptures and spills, fires, explosions, encountering formations with abnormal pressures, blowouts, cratering and natural disasters, any of which could result in loss of hydrocarbons, environmental pollution and other damage to our properties and the properties of operators under PSCs. The costs of drilling, completing and operating wells also are uncertain and are subject to numerous factors beyond our control, including: weather conditions, natural disasters, availability of equipment and services, equipment shortages and delays, and lack of adequate transportation facilities.

We maintain insurance coverage against some, but not all, potential losses. We do not maintain business interruption insurance for all of our oil and gas fields. We may suffer material losses resulting from uninsurable or uninsured risks or insufficient insurance coverage.

We are exposed to operating risks in some foreign countries and regions in which we have operations

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We currently have operations and assets in various foreign countries and regions, including Indonesia, Myanmar, Australia and Nigeria, and may expand our operations into other countries to further enhance our reserve base and diversify our geographic risk profile. Our non-PRC interests may be adversely affected by changes in governmental policies or social instability or other political, economic or diplomatic developments in or affecting these foreign nations which are not within our control, including, among other things, a change in crude oil or natural gas pricing policy, the risks of war and terrorism, expropriation, nationalization, renegotiation or nullification of existing concessions and contracts, taxation policies, foreign exchange and repatriation restrictions, changing political conditions, foreign exchange rate fluctuations and currency controls.

Some foreign countries and regions in which we have operations or may have operations in the future may not have diplomatic or trade relations with other countries and may be subject to trade or economic sanctions imposed by such other countries

While the foreign countries and regions in which we have operations or may have operations in the future may maintain an amicable relationship with China, some of them may not have diplomatic or trade relations with other countries and may be subject to trade or economic sanctions imposed from time to time by such other countries. See “Item 4—Information on the Company—Business Overview—Overseas Activity—Asia—Myanmar.” We will endeavor to limit investment and scale of operations in these foreign jurisdictions to minimize our exposure, but we cannot assure that the operations and assets that we currently have or in the future may have in foreign countries and regions will not be affected by trade or economic sanctions that may be imposed by other countries due to their deteriorated relations with each other. Our business and results of operations may be adversely affected if such sanctions are imposed and result in interruption of our overseas operations or non-accessibility of our overseas assets for a significant period of time.

Our controlling shareholder, CNOOC, or its affiliates’ activities in certain countries that are the subject of U.S. sanctions could result in negative media and investor attention

We cannot predict the interpretation or implementation of government policy at the U.S. federal, state or local levels with respect to any current or future activities by CNOOC or its affiliates in countries that are the subject of U.S. sanctions. It is possible that the United States could subject CNOOC to sanctions due to these activities. Certain U.S. states and colleges that have restrictions on the investment of public funds or endowment funds, respectively, in companies that are members of corporate groups with activities in certain countries that are the subject of U.S. sanctions, such as Iran or Sudan. It is also possible that the activities by CNOOC or its affiliates may affect the investment in our shares by such U.S. states and colleges.

It is possible that, as a result of activities by CNOOC or its affiliates in these countries, we may be subject to negative media or investor attention, which may distract management, consume internal resources and affect investors’ perception of our company. Nonetheless, if such events were to occur, we do not believe that enforcement of U.S. sanctions (including the imposition of the maximum sanctions permissible under current law and regulations on CNOOC) would have a material adverse effect on our results of operations or financial condition.

We may be penalized if we fail to comply with existing or future environmental laws and regulations

Our business is subject to environmental protection laws and regulations in the PRC, as well as other jurisdictions where we operate. Our compliance with such laws or regulations may require us to incur significant capital expenditures or other obligations or liabilities, which could create a substantial financial burden on us. Furthermore, these jurisdictions may impose fees and fines for the discharge of waste substances or serious environmental pollution, and authorize a government, at its discretion, to close or suspend any facility which fails to comply with orders requiring it to cease or cure operations causing environmental damage.

A change in PRC petroleum industry regulations could have an adverse effect on our operations

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The PRC government exercises control over the PRC petroleum industry, including with respect to licensing, exploration, production, distribution, pricing, taxation, imports and exports and allocation of various resources. We have benefited from various favorable PRC government policies, laws and regulations that have been enacted to encourage the development of the offshore petroleum industry. We cannot assure that the legal and fiscal regimes affecting our businesses will remain substantially unchanged or that we will continue to benefit from favorable PRC government policies. For detailed information on the Special Oil Gain Levy, see “Item 4—Information on the Company—Business Overview—Regulatory Framework—Special Policies Applicable to the Offshore Petroleum Industry in China.”

In addition, existing PRC regulations require us to obtain various PRC government licenses and other approvals, including in some cases approvals for amendments and extensions of existing licenses and approvals, to conduct exploration and development activities offshore China. If we are unable to obtain any necessary approvals, our reserves and production would be adversely affected.

Government control of currency conversion and future movements in exchange rates may adversely affect our operations and financial condition

A portion of our Renminbi revenue may need to be converted into other currencies by our wholly owned principal operating subsidiary in the PRC, CNOOC China Limited, to meet our substantial requirements for foreign currency, including: debt service on foreign currency denominated debt, overseas acquisitions of oil and gas properties, purchases of imported equipment, and payment of dividends declared in respect of shares held by international investors.

Foreign exchange transactions under the capital account, including principal payments with respect to foreign currency denominated obligations, are subject to the approval requirements of the State Administration for Foreign Exchange.

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China’s political and economic conditions. The appreciation of the Renminbi against the U.S. dollar may cause a decrease in our oil sales, since the benchmark oil prices are usually in U.S. dollars.

Certain legal restrictions on dividend distribution may have a material adverse effect on our cash flows

We are a holding company. Our businesses are owned and conducted through various wholly owned subsidiaries, including CNOOC China Limited, our wholly foreign-owned enterprise in the PRC. Accordingly, our future cash flows will consist principally of dividends from our subsidiaries. Our PRC subsidiary’s ability to pay dividends to us is subject to PRC laws and regulations. Therefore, there is a risk that we may not be able to maintain sufficient cash flows due to these restrictions on dividend distribution.

The current financial crisis and deteriorating economic conditions may have a material adverse impact on our business and financial condition

The economies around the world have been deteriorating recently. Global markets have experienced significant turmoil and upheavals characterized by extreme volatility and declines in prices of securities and commodities, diminished credit availability, inability to access capital markets, waves of bankruptcies, rising unemployment rates, and declining consumer and business confidence. We cannot predict the short- and long-term impacts of these events on our business and financial condition, which could be materially and adversely affected. For example, the economic crisis has affected the ability of our vendors, suppliers and customers to continue their normal operations and has led and could continue to lead to reduced market demand for our oil and natural gas.



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ITEM 4. INFORMATION ON THE COMPANY

A. History and Development

Our legal and commercial name is CNOOC Limited. We were incorporated with limited liability on August 20, 1999 in Hong Kong under the Hong Kong Companies Ordinance. Our business registration number in Hong Kong is 685974. Under our memorandum of association, we may do anything which we are permitted to do by any enactment or rule of law. Our head office is located at 65th Floor, Bank of China Tower, One Garden Road, Central, Hong Kong, and our telephone number is 852-2213-2500.

The PRC government established CNOOC, our controlling shareholder, as a state-owned offshore petroleum company in 1982 under the Regulation of the People's Republic of China on the Exploitation of Offshore Petroleum Resources in Cooperation with Foreign Enterprises. CNOOC assumed overall responsibility for the administration and development of PRC offshore petroleum operations with foreign oil and gas companies.

Prior to CNOOC's reorganization in 1999, CNOOC and its various affiliates performed both commercial and administrative functions relating to oil exploration and development offshore China.

In 1999, CNOOC transferred all of its then current operational and commercial interests in its offshore petroleum business, including the related assets and liabilities, to us. As a result, we and our subsidiaries are the only vehicles through which CNOOC engages in oil exploration, development, production and sales activities both in and outside the PRC.

CNOOC retained its commercial interests in operations and projects not related to oil and gas exploration and production, as well as all of the administrative functions it performed prior to the reorganization.

CNOOC has undertaken to us that:

- we will enjoy the exclusive right to exercise all of CNOOC's commercial and operational rights under PRC laws and regulations relating to the exploration, development, production and sales of oil and natural gas offshore China;
- it will transfer to us all of its rights and obligations under any new PSCs and geophysical exploration operations, except those relating to its administrative functions;
  - it will not engage or be interested, directly or indirectly, in oil and natural gas exploration, development, production and sales in or outside the PRC;
- we will be able to participate jointly with CNOOC in negotiating new PSCs and to set out our views to CNOOC on the proposed terms of new PSCs;
- we will have unlimited and unrestricted access to all data, records, samples and other original data owned by CNOOC relating to oil and natural gas resources;
- we will have an option to invest in LNG projects in which CNOOC invested or proposed to invest, and CNOOC will at its own expense help us to procure all necessary government approvals needed for our participation in these projects; and
- we will have an option to participate in other businesses related to natural gas in which CNOOC invested or proposed to invest, and CNOOC will procure all necessary government approvals needed for our participation in

such business.

The undertakings from CNOOC will cease to have any effect:

- if we become a wholly owned subsidiary of CNOOC;

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- if our securities cease to be listed on any stock exchange or automated trading system; or
- 12 months after CNOOC or any other PRC government-controlled entity ceases to be our controlling shareholder.

For information on our capital expenditures, see “Item 5—Operating and Financial Review and Prospects—Liquidity and Capital Resources—Capital Expenditures and Investments.”

B. Business Overview

Overview

We are an oil and gas company engaged in the exploration, development and production of crude oil and natural gas primarily offshore China. We are the dominant producer of crude oil and natural gas offshore China and, in terms of reserves, are one of the largest independent oil and natural gas exploration and development companies in the world. As of December 31, 2008, we owned net proved reserves of 2.52 billion BOE, including 1.58 billion barrels of crude oil and 5,623.3 billion cubic feet of natural gas. In 2008, we produced an average of 422,068 barrels of crude oil and 621.1 million cubic feet of natural gas daily, with a total net oil and gas production of 530,728 BOE per day.

Competitive Strengths

We believe that our historical success and future prospects are directly related to a combination of our strengths, including the following:

- large proved reserve base with significant exploitation opportunities;
- sizable operating areas with demonstrated exploration potential;
- successful independent exploration and development record;
- competitive cost structure;
- access to capital and technology and reduced risks through PSCs; and
- experienced management team.

Large proved reserve base with significant exploitation opportunities

Based on net proved reserves as of December 31, 2008 and net production for the year ended December 31, 2008, we had a reserve-to-production ratio of 13.0 years. As of December 31, 2008, approximately 59.9% of our net proved reserves were classified as net proved undeveloped. Our large proved reserve base gives us the opportunity to achieve substantial production growth.

Sizable operating area with demonstrated exploration potential

Since CNOOC’s inception in 1982 through 2008, we and our foreign partners have together drilled a total of 1,011 exploration wells in China’s sizable offshore exploration area, including 634 wildcat wells with a success rate of approximately 35%. For the year ended December 31, 2008, we and our foreign partners made 13 discoveries and one discovery, respectively, offshore China.

Successful independent exploration and development record.

From the inception of CNOOC in 1982 to December 31, 2008, we achieved a success rate of approximately 41% on our 327 offshore China independent wildcat wells. As of December 31, 2008, independent properties accounted for 64.0% of our total net proved reserves. In 2008, we, acting as operator, completed four of our major development projects.

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### Competitive cost structure

For the year ended December 31, 2008, our total offshore China lifting costs, also known as production costs, were US\$10.37 per BOE. Total lifting costs for independent operations offshore China were US\$10.63 per BOE during the same period. Lifting costs consist of operating expenses and production taxes. We have minimized our offshore China lifting costs through various measures, including more efficient use of existing offshore facilities, linking employee bonuses to cost reduction and adopting of new technologies in our operations. We believe that such a cost structure allows us to compete effectively even when crude oil prices are low.

### Reduced risks and access to capital and technology through PSCs

PSCs help us minimize our offshore China finding costs, exploration risks and capital requirements because our foreign partners are responsible for all costs associated with exploration. Our foreign partners recover their exploration costs only if a commercially viable discovery is made.

### Experienced management team

Our senior management team has extensive experience in the oil and gas industry, and most of our executives have been with the CNOOC group since its inception in 1982. We evolved from a company heavily reliant on production sharing contracts with foreign partners to a company with a balance of both independent and production sharing contract operations. Our management team and staff have had the opportunity to work closely with foreign partners both within and outside China. We have implemented international management practices, including incentive compensation arrangements such as share option schemes. See “Item 6—Directors, Senior Management and Employees—Share Ownership.”

### Business Strategy

We intend to continue expanding our oil and gas exploration and production activities and, where appropriate, to continue making strategic investments in natural gas businesses. While our expansion strategy will continue to focus primarily on offshore China, we may also consider overseas acquisition opportunities. The principal components of our strategy are as follows:

- increase production primarily through the development of our net proved undeveloped reserves;
  - add to our reserves through independent exploration and PSCs;
  - capitalize on the growing demand for natural gas in China;
- selectively pursue acquisitions to ensure long-term production growth, geographical reserves risk diversification, and to further our natural gas strategy;
  - maintain operational efficiency and low production costs; and
  - maintain financial flexibility through prudent financial practices.

### Increase production primarily through the development of our net proved undeveloped reserves

As of December 31, 2008, approximately 59.9% of our proved reserves were classified as net proved undeveloped, which gives us the opportunity to achieve substantial production growth even without additional reserve discoveries,

assuming that we will be able to develop these reserves more quickly than we deplete our currently producing reserves.

Add to our reserves through independent exploration and PSCs

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We plan to concentrate our independent exploration efforts in existing operating areas, especially in our major areas offshore China. We plan to increase independent exploration efforts while continuing to enter into PSCs with foreign partners to lower capital requirements and exploration risks.

### Capitalize on the growing demand for natural gas in China

We plan to capitalize on the growth potential of the PRC natural gas market through the following initiatives:

- continue to explore and develop natural gas fields;
- evaluate whether to exercise the options to invest in CNOOC's LNG projects in China; and
- evaluate investment opportunities in related natural gas businesses that will help develop markets for our natural gas production.

To the extent we invest in businesses and geographic areas where we have limited experience and expertise, we plan to structure our investments as alliances or partnerships with parties possessing the relevant experience and expertise.

Selectively pursue acquisitions to ensure long-term production growth and geographical reserves risk diversification, and to further our natural gas strategy

We plan to make selective acquisitions that will meet one or more of our strategic objectives of enhancing our production profile, diversifying our reserve base and geographic risk profile and furthering our natural gas strategy. We evaluate acquisition opportunities based on our expected economic return.

### Maintain operational efficiency and low production costs

We will continue to maintain our low cost structure and operational efficiency through the following initiatives:

- apply up-to-date drilling, production and offshore engineering technology to our operations through our oilfield service providers;
- proactively manage service contracts and cooperate with our oilfield service providers to improve exploration efficiency and reduce exploration costs; and
- maintain high production volume levels for each well basis and increase the productivity of producing wells.

### Maintain financial flexibility through prudent financial practices

Currently, we have a strong financial profile with a low leverage ratio. We intend to maintain our financial strength by managing key measures such as capital expenditures, cash flows and fixed charge coverage. We intend to actively manage our trade receivable and inventory positions to enhance liquidity and improve profitability. We will continue to monitor our foreign currency denominated debt and to minimize our exposure to foreign exchange rate fluctuations.

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## Selected Operating and Reserves Data

The following table sets forth our operating data and our net proved reserves as of the date and for the periods indicated.

	Year ended December 31,		
	2006	2007	2008
Net Production:			
Oil (daily average bbls/day)	372,720	371,827	422,068
Gas (daily average mmcf/day)	490.9	559.6	621.1
Oil equivalent (BOE/day)	457,482	469,407	530,728
Net Proved Reserves (end of period):			
Oil (mmbbls)	1,489.8	1,564.1	1,578.2
Gas (bcf)	6,231.6	6,222.8	5,623.3
Total (million BOE)	2,528.5	2,601.2	2,515.4
Proved developed reserves (million BOE)			
	1,136.7	1,058.8	1,009.1
Annual reserve replacement ratio(1)	199%	142%	60%
Estimated reserves life (years)	15.1	15.2	13.0
Standardized measure of discounted future net cash flow (million Rmb)			
	196,614	313,926	111,277

(1) For information on the calculation of this ratio, see “Terms and Conventions—Glossary of Technical Terms—reserve replacement ratio.” For more information regarding our reserve replacement, see “Item 4—Information on the Company—Business Overview—Exploration, Development and Production.”

At our request, Ryder Scott Company, an independent petroleum engineering consulting company, carried out an independent evaluation of the reserves of all our properties as of December 31, 2006, 2007 and 2008, except for certain reserves of the OML130 project in Nigeria in 2006, which we evaluated. For further information regarding our reserves, see “Item 3—Key Information—Risk Factors—The oil and gas reserve estimates in this annual report may require substantial revision as a result of future drilling, testing, production and oil and gas prices” and “Item 4—Information on the Company—Business Overview—Exploration, Development and Production.”

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The following table sets forth summary information with respect to our estimated net proved reserves of crude oil and natural gas as of the dates indicated.

	Net proved reserves at December 31,		Net proved reserves at December 31, 2008		Total
	2006	2007	Developed	Undeveloped	
<b>Bohai Bay:</b>					
Crude oil (mmbbls)	933.4	951.3	410.8	522.8	933.6
Natural gas (bcf)	765.0	761.5	252.3	536.9	789.2
Total (million BOE):	1,060.9	1,078.2	452.8	612.3	1,065.1
Independent (million BOE)	669.4	720.9	287.6	447.5	735.1
PSCs (million BOE)	391.5	357.3	165.3	164.7	330.0
<b>Western South China Sea:</b>					
Crude oil (mmbbls)	190.5	208.9	116.4	129.4	245.8
Natural gas (bcf)	2,648.1	2,539.2	853.2	1,358.4	2,211.7
Total (million BOE):	631.9	632.1	258.6	355.8	614.4
Independent (million BOE)	545.8	558.0	204.7	349.5	554.2
PSCs (million BOE)	86.0	74.1	53.9	6.28	60.2
<b>Eastern South China Sea:</b>					
Crude oil (mmbbls)	200.2	226.6	133.7	68.7	202.4
Natural gas (bcf)	792.0	779.4	24.5	848.8	873.3
Total (million BOE):	332.3	356.5	137.8	210.1	347.9
Independent (million BOE)	226.2	249.9	69.8	176.3	246.1
PSCs (million BOE)	106.1	106.6	68.0	33.8	101.8
<b>East China Sea:</b>					
Crude oil (mmbbls)	20.4	20.5	0.1	17.7	17.8
Natural gas (bcf)	390.0	373.8	9.9	332.3	342.2
Total (million BOE):	85.4	82.8	1.7	73.1	74.8
Independent (million BOE)	85.4	82.8	1.7	73.1	74.8
PSCs (million BOE)	—	—	—	—	—
<b>Overseas:</b>					
Crude oil (mmbbls)	145.3	156.7	74.3	104.4	178.7
Natural gas (bcf)	1,636.5	1,768.9	503.1	903.8	1,406.9
Total (million BOE):	418.0	451.6	158.1	255.1	413.2
Independent (million BOE)	—	—	—	—	—
PSCs (million BOE)(a)	418.0	451.6	158.1	255.1	413.2
<b>Total:</b>					
Total crude oil (mmbbls)	1,489.8	1,564.1	735.3	842.9	1,578.2
Total natural gas (bcf)	6,231.6	6,222.8	1,643.1	3,980.3	5,623.3
Total (million BOE):	2,528.5	2,601.2	1,009.1	1,506.3	2,515.4
Independent (million BOE)	1,526.9	1,611.6	563.7	1,046.4	1,610.2
PSCs (million BOE)	1,001.6	989.6	445.4	459.9	905.2

(a)

These amounts include our net proved reserves in Australia, in which the petroleum regime adopted is a royalty/tax system. See “Item 4—Information on the Company—Business Overview—Fiscal Regimes—Overseas.”

The following tables set forth net proved crude oil reserves, net proved natural gas reserves and total net proved reserves, as of the dates indicated, for our independent and PSC operations in each of our operating areas.



Table of ContentsTotal Net Proved Crude Oil Reserves  
(mmbbls)

	As of December 31,		As of December 31, 2008		
	2006	2007	Developed	Undeveloped	Total
Offshore China					
Independent					
Bohai Bay	541.9	594.0	245.5	358.1	603.6
Western South China Sea	170.5	189.6	100.9	127.0	227.9
Eastern South China Sea	100.4	124.1	69.8	34.8	104.6
East China Sea	20.4	20.5	0.1	17.7	17.8
Total	833.2	928.2	416.3	537.6	953.9
PSCs					
Bohai Bay	391.5	357.3	165.3	164.7	330.0
Western South China Sea	20.1	19.3	15.5	2.3	17.8
Eastern South China Sea	99.9	102.4	64.0	33.8	97.8
East China Sea	—	—	—	—	—
Total	511.4	479.0	244.8	200.8	445.6
Combined					
Bohai Bay	933.4	951.3	410.8	522.8	933.6
Western South China Sea	190.5	208.9	116.4	129.3	245.8
Eastern South China Sea	200.2	226.6	133.7	68.7	202.4
East China Sea	20.4	20.5	0.1	17.7	17.8
Total	1,344.6	1,407.3	661.0	738.5	1,399.5
Overseas					
Asia	79.7	55.2	60.5	4.3	64.8
Oceania	24.5	29.1	13.8	11.0	24.8
Africa	41.0	72.5	—	89.1	89.1
Total	145.3	156.7	74.3	104.4	178.7
Total	1,489.8	1,564.1	735.3	842.9	1,578.2

Total Net Proved Natural Gas Reserves  
(bcf)

	As of December 31,		As of December 31, 2008		
	2006	2007	Developed	Undeveloped	Total
Offshore China					
Independent					
Bohai Bay	765.0	761.5	252.3	536.9	789.2
Western South China Sea	2,252.4	2,210.5	622.6	1,334.8	1,957.4
Total	754.7	754.7	—	848.8	848.8

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Eastern South China Sea					
East China Sea	390.0	373.8	9.9	332.3	342.2
Total	4,162.1	4,100.5	884.8	3,052.8	3,937.6
PSCs					
Bohai Bay					
Western South China Sea					
Eastern South China Sea	395.7	328.7	230.6	23.7	254.3
East China Sea	37.3	24.7	24.5	—	24.5
Total	433.1	353.4	255.1	23.7	278.8
Combined					
Bohai Bay	765.0	761.5	252.3	536.9	789.2
Western South China Sea					
Eastern South China Sea	2,648.1	2,539.1	853.2	1,358.4	2,211.6
East China Sea	792.0	779.4	24.5	848.8	873.3
Total	4,595.1	4,453.8	1,139.9	3,076.5	4,216.4
Overseas					
Asia	985.1	1,009.3	220.3	579.5	799.8
Oceania	651.4	759.6	282.8	324.3	607.1
Total	1,636.5	1,768.9	503.1	903.8	1,406.9
Total	6,231.6	6,222.8	1,643.0	3,980.3	5,623.3

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## Total Net Proved Reserves

(million BOE)

	As of December 31,		As of December 31, 2008		Total
	2006	2007	Developed	Undeveloped	
Offshore China					
Independent					
Bohai Bay	669.4	720.9	287.6	447.5	735.1
Western South China Sea	545.8	558.0	204.7	349.5	554.2
Eastern South China Sea	226.2	249.9	69.7	176.4	246.1
East China Sea	85.4	82.8	1.7	73.1	74.8
Total	1,526.9	1,611.6	563.7	1,046.5	1,610.2
PSCs					
Bohai Bay	391.5	357.3	165.3	164.7	330.0
Western South China Sea	86.0	74.1	53.9	6.3	60.2
Eastern South China Sea	106.1	106.5	68.0	33.8	101.8
East China Sea	—	—	—	—	—
Total	583.6	537.9	287.2	204.8	492.0
Combined					
Bohai Bay	1,060.9	1,078.2	452.8	612.3	1,065.1
Western South China Sea	631.9	632.1	258.6	355.8	614.4
Eastern South China Sea	332.3	356.5	137.8	210.1	347.9
East China Sea	85.4	82.8	1.7	73.1	74.8
Total	2,110.5	2,149.6	850.9	1,251.3	2,102.2
Overseas					
Asia	243.9	223.5	97.2	100.9	198.1
Oceania	133.1	155.6	60.9	65.0	125.9
Africa	41.0	72.5	—	89.1	89.1
Total	418.0	451.6	158.1	255.0	413.2
Total	2,528.5	2,601.2	1,009.1	1,506.3	2,515.4

## Exploration, Development and Production

## Summary

We carry out exploration and development activities through independent exploration and through PSCs with partners. In recent years, we have increased our reserves and production through independent exploration and development. As of December 31, 2008, approximately 64.0% of our net proved reserves were sourced from independent exploration and approximately 52.2% of production was sourced from independent projects. CNOOC, our controlling shareholder, has the exclusive right to explore and develop offshore oil and natural gas in China with foreign parties through PSCs. As of December 31, 2008, 38 PSCs and agreements with our 28 partners were being implemented.

Our exploration and development activities are mainly concentrated in offshore China, including Bohai Bay, the Western South China Sea, the Eastern South China Sea and the East China Sea. In addition, we hold interests in oil and gas blocks overseas, including Indonesia, Australia and Nigeria. As of December 31, 2008, our net proved reserves and net production in offshore China accounted for approximately 83.6% and approximately 87.9% of the total levels, respectively.

### Exploration

In 2008, we continued to achieve positive results in independent exploration, with 13 new discoveries and 11 successful appraisals. The table below sets out the details of our independent exploration projects.

	Exploration Wells		New Discoveries	Successful Appraisals	Seismic Data	
	Wildcat	Appraisal			2D (Km)	3D (Km2)
Offshore China						
Bohai	16	21	7	4	-	3,789
Eastern South China Sea	5	5	-	2	7,008	1,575
Western South China Sea	17	10	6	5	9,503	2,013
East China Sea	-	-	-	-	2,305	56
Total	38	36	13	11	18,816	7,433

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In 2008, we continued to strengthen our exploration activities and achieved certain breakthroughs, which mainly include: the successful appraisal of the largest light crude oilfield in offshore China - Jinzhou 25-1; the progress made in the exploration of Yellow River mouth trough, where Bozhong 29-5, Bozhong 35-2 and Kenli 3-2 were discovered; the enhanced explorations in both the shallow and the deep stratum in Laizhou Bay frontier area, where two discoveries, Kenli 10-1 and Kenli 12-2, were made. In addition, breakthroughs in frontier areas in Bozhong, Weixi'nan and Zhushan troughs have also been achieved.

## Development and Production

In 2008, we encountered significant challenges in our development and production. Firstly, offshore China experienced a large number of typhoons, 22 of which significantly affected our operations in the South China Sea. Secondly, the supply of services for oil development and production were tight due to the high oil prices during the first three quarters which adversely affected our development and production either directly or indirectly. Several of our projects that were scheduled to come on stream in 2008 were delayed. Thirdly, some of our leased ships were tied up and unable to arrive at their operational sites on time due to the delays in projects of other companies. As a result, Ledong 22-1/15-1 and Huizhou 25-3's development were delayed.

Despite these difficulties, we met our annual production target. Our net production in 2008 reached 194.2 million BOE, representing a growth of 14.3%.

Our achievements in development and production in 2008 primarily include maintaining a higher production time efficiency of exceeding 95% in producing fields, achieving a production increase in certain producing fields by adopting new oil production techniques and measures after research and on-site testing, applying the improved testing and inspection procedures for new oilfields to bring Penglai 19-3 phase II platform B, Xijiang 23-1 and Wenchang oilfields on stream, and maintaining the production capacity of mature fields at high levels through infill wells and enhanced water injection efficiency.

Our net production and acreage of major exploration areas as of December 31, 2008 are set out in the table below.

	2008 Net Production			Major Exploration Area Acreage (Km <sup>2</sup> )	
	Subtotal (BOE/day)	Oil (Bbls/day)	Gas (Mmcf/day)		
<b>Offshore China</b>					
Bohai Bay	230,896	218,478	74.5	42,973	
Western South China Sea	106,764	56,761	284.7	73,388	
Eastern South China Sea	127,490	122,813	28.1	55,424	
East China Sea	1,225	85	6.8	85,413	
	Subtotal	466,375	398,137	394.1	257,198
<b>Overseas</b>					
Asia	42,632	19,262	140.2	132,190	
Oceania	21,721	4,669	86.8	54,884	
Africa	-	-	-	4,380	
	Subtotal	64,353	23,931	227.0	191,454
	Total	530,728	422,068	621.1	448,651



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### Principal Oil and Gas Regions Offshore China

#### Bohai Bay

With its rich oil and gas resources, Bohai Bay is our most important oil and gas producing area. As of December 31, 2008, approximately 42.3% of reserves and 43.5% of our production were located in Bohai Bay. The waters in our operations area in Bohai Bay are relative shallow with depths ranging from 10 to 30 meters.

In recent years, we have had a number of commercial discoveries in Bohai Bay, and we expect it to remain our primary area of exploration in the future. In 2008, we independently drilled 16 wildcat wells in Bohai Bay, seven of which were successful, namely Kenli 10-1, Kenli 3-2, Qinhuangdao 35-2, Bozhong 29-5, Bozhong 29-4 South, Jinzhou 32-4 and Bozhong 35-2. In Bohai Bay, we also drilled 21 independent appraisal wells, 15 of which were successful, and appraised such oil and gas fields as Kenli 3-2, Jinzhou 25-1, Bozhong 29-5 and Qinhuangdao 35-2.

In 2008, we drilled 10 appraisal wells in the Jinzhou 25-1 structure and achieved positive results. A number of wells were rated as highly productive after testing, of which JZ25-1-10D recorded a daily crude oil production of over 6,000 barrels. With large reserves, light crude oil, high production capacity and concentrated oil layers, Jinzhou 25-1 is expected to become the largest light oilfield offshore China. The successful appraisal of Jinzhou 25-1 demonstrated that the Liaodong Bay area has significant exploration potential and is expected to become another major exploration area of ours.

In 2008, we have also achieved positive results in the exploration of the trough in the mouth of the Yellow River, with the discovery of Kenli 3-2. Exploration in the new areas of Laizhou Bay also led to the discovery of Kenli 10-1. Qinhuangdao 35-2 became the first discovery in the Bozhong trough in the last decade.

In 2008, we also achieved positive results in development and production in Bohai Bay. Through more effective management, Penglai 19-3 Phase II Platform B commenced production ahead of schedule.

In 2009, Bozhong 28-2S oilfield commenced production. In addition, Bozhong 2-1 and Qinhuangdao 29-2 were discovered.

Since heavy oil accounts for the majority of the oil production in Bohai Bay, we conducted in-depth researches on new techniques for heavy oil extraction and on-site implementation, in addition to adopting regular measures to increase production. These measures enabled us to maintain stable production in some mature oilfields.

#### Western South China Sea

The Western South China Sea has been our most important natural gas producing area. Typical water depths in our operating area in this region range from 40 to 120 meters. The crude oil produced is of medium to light gravity.

In 2008, we independently drilled in this area 17 wildcat wells, six of which were successful, namely Weizhou 6-8 North, Weizhou 11-1 East, Wenchang 19-1 North, Wenchang 13-6 North, Wenchang 13-6 South and Ledong 22-1 South. Wenchang 19-1 North was discovered under a producing

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oilfield and is expected to help expand the scope of our exploration scale in the area. 10 independent appraisal wells were drilled, eight of which were successful. Weizhou 11-2 and Weizhou 6-8 North were successfully appraised.

In 2008, despite of the tight supply of services for oil development and production, we were able to commence the operations of the Wenchang oilfields through equipment leasing arrangements. As a result, the Wenchang oilfield group commenced production ahead of schedule and contributed to our production growth. With expected peak production capacity of 45,000 barrels per day, Wenchang oilfields are expected to become an important source of production growth for us in 2009 and beyond.

Besides regular maintenance, we also adopted additional measures based on the geological conditions in this area to grow the production volumes beyond our original expectations.

In 2009, the Ledong 22-1/15-1 Project in the Western South China Sea, a relatively large natural gas project, is expected to commence production. We believe that this project will help grow our natural gas production in this area.

### Eastern South China Sea

The Eastern South China Sea is one of our most important crude oil producing regions. The typical depths of our operating area in this region range from 100 to 300 meters. The crude oil produced is of medium to light gravity.

In 2008, we independently drilled in this area five wildcat wells and five appraisal wells. Three appraisal wells were successful. Liuhua 4-1 Oilfield and Panyu 35-2 Oilfield were successfully appraised. Proved reserves of Liuhua 4-1 Oilfield increased significantly upon appraisal.

In 2008, due to our effective production planning and efficient resource allocation, Xijiang 23-1 Oilfield commenced production. Subsequently, we drilled infill wells based on the geological conditions and increased our production capacity. We own 100% interests of the oilfield, which has a peak production volume of approximately 40,000 barrels per day.

In addition, upon monitoring weather patterns and our operation resources, we revised maintenance plans for Liuhua 11-1 and other major projects, which reduced downtime and increased production volumes.

In early 2009, Panyu 30-1 gas field in the region commenced production. To develop resources more efficiently and reduce the operating cost, we have implemented a joint development plan for Panyu 30-1 and Huizhou 21-1 oil and gas field. In order to increase our oil reserves, we plan to continue to focus on exploring in oil rich areas such as the Huizhou area.

In 2009, our partner has completed the first appraisal well at Liwan3-1 on Block 29/26. The drilling activities started in November 2008. The productivity of this well is expected to reach over 150 million cubic feet of natural gas per day. We have the right to participate in up to 51% working interest during the development period of Liwan 3-1.

### East China Sea

The East China Sea is the least explored area of our four principal areas offshore China. Typical water depth in our operating area in this region approximately 90 meters, and the crude oil produced is of light gravity.

In 2008, to ensure stable gas supply to downstream customers and to increase production on a timely basis, we adopted new production enhancement measures in this region. As a result, our oil and gas production in 2008 exceeded our expectations at the beginning of 2008.





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### Overseas

#### Asia

Due to our significant interests in Indonesia, Asia is a major overseas region for the production of both crude oil and natural gas.

#### Indonesia

In 2002, we acquired a portfolio of interests in Indonesia. Such interests included the South East Sumatra Production Sharing Contract, the Offshore North West Java Production Sharing Contract, the West Madura Production Sharing Contract, the Poleng Technical Assistance Contract and the BLORA Production Sharing Contract. Among these interests, we operate and own approximately 56.54% interest of South East Sumatra. In addition, we relinquished from the BLORA Production Sharing Contract in 2008.

We also own a 13.9% interest in the Tangguh LNG Project. Located in Papua, Indonesia, the project includes three major areas, namely Berau, Muturi and Wiriagar, covered by three PSCs. The project is operated by BP Berau Ltd, a subsidiary of BP p.l.c., and expected to begin production in 2009. Tangguh LNG is expected to be our second overseas LNG project in addition to the North West Shelf project in Australia, and will further enhance our overseas natural gas production. Our partners for the project have entered into LNG sales and purchase agreements with various buyers for almost all of the project's planned production capacity. The project's sales commitment includes deliveries to Fujian in China, Korea and North America.

In addition, we are the operator and hold an 87% working interest in the Batanghari Production Sharing Contract, which is located in the southern central region of Sumatra Island. We also hold a 39.51% participating interest in the Malacca Strait Production Sharing Contract.

In May 2008, we entered into a PSC with the Indonesia government for the Southeast Palung Aru Block, which is located in the southeast offshore of Tanimbar Island, eastern Indonesia. We are the operator and hold a 66.7% working interest.

During 2008, we signed a purchase and sales agreement with Husky Oil Madura Partnership, or the HOMP, and acquired a 50% equity interests in Husky Oil Madura Ltd, or the HOML, a wholly-owned subsidiary of the HOMP that holds 100% interest in Madura Strait Production Sharing Contract offshore Indonesia.

In 2008, we drilled three wildcats in the Southeast Sumatra Block, one of which is a discovery well named Mila-3.

Although the majority of our oil and gas producing property in Indonesia are mainly mature oilfields, we exceeded the annual production target for 2008 in Southeast Sumatra Block through enhanced management over the major wells and implementation of other production enhancement measures.

#### Other Asian Regions

Currently, we own interests in and act as the operator for five PSCs in Myanmar. These blocks are still in the exploration stage.

#### Oceania

Currently, our oil and gas resources in Oceania are all located in Australia.



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## Australia

In May 2003, we acquired an approximately 5.3% interest in the reserves and upstream production and exploration of Australia's North West Shelf project. We also acquired a 25% interest in the China LNG Joint Venture, a joint venture established to supply LNG from the North West Shelf project to a LNG terminal in Guangdong Province, China developed by CNOOC, our controlling shareholder, and various partners. The partners of the project have signed a supply agreement to supply gas to China Guangdong Dapeng LNG Terminal. The project started commercial production in 2006.

In addition, we own interests in one exploration block in Australia.

## Africa

Africa holds our largest overseas net proved reserves. Our interests in Africa are primarily located in Nigeria.

## Nigeria

In April 2006, we acquired a 45% interest in the offshore oil mining lease, or the OML130, in Nigeria. The OML130 is located in deep water. The phase I of OML130, AKPO, commenced production in March 2009 and is expected to be the main driving force of our overseas production growth in 2009.

## Other Areas in Africa

Outside of Nigeria, we own interests in several blocks in Kenya and Equatorial Guinea. These projects are still at the exploration stage.

## Other Oil and Gas Data

## Production Cost Data

The following table sets forth average sales prices per barrel of crude oil, condensate and natural gas liquids sold, average sales prices per thousand cubic feet of natural gas sold and production costs per BOE produced for each of our independent, PSCs and combined operations for the periods indicated.

	Year ended December 31,	
	2007	2008
	(US\$)	(US\$)
Average Sales Prices of Petroleum Produced		
Per Barrel of Crude Oil, Condensate and Natural Gas Liquids Sold	66.26	89.39
Per Thousand Cubic Feet of Natural Gas Sold	3.30	3.83
Offshore China Average Lifting Costs per BOE Produced		
Independent	8.39	10.63
PSCs	8.83	10.02
Offshore China Average	8.60	10.37
Overseas Average Lifting Costs per BOE Produced		

Net Entitlement	13.98	14.71
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#### Drilling and Productive Wells

The following table sets forth our exploratory and productive wells drilled as of December 31, 2008 by independent and PSC operations in each of our operating areas. It includes exploratory and productive wells drilled offshore China prior to our inception in 1982.

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	As of December 31, 2008					
	Total	Bohai Bay	Western South China Sea	Eastern South China Sea	East China Sea	Overseas
<b>Independent</b>						
Net Exploratory Wells	696	412	222	46	16	—
Net Productive Wells	803	608	151	44	—	—
Crude Oil	746	581	121	44	—	—
Natural Gas	57	27	30	—	—	—
<b>PSCs</b>						
Net Exploratory Wells	37.4	5.8	1.2	0.5	2.6	27.3
Net Productive Wells*	1,083.5	286.6	23.6	92.9	12.6	667.8
Crude Oil	1,036.3	286.6	18.0	89.3	5.4	637.0
Natural Gas	47.2	—	5.6	3.6	7.2	30.8
<b>Totals</b>						
Net Exploratory Wells	733.4	417.8	223.2	46.5	18.6	27.3
Net Productive Wells	1,886.5	894.6	174.6	136.9	12.6	667.8
Crude Oil	1,782.3	867.6	139.0	133.3	5.4	637.0
Natural Gas	104.2	27.0	35.6	3.6	7.2	30.8

\*Excluding abandoned wells.

## Drilling Activity

The following tables set forth our net exploratory and development wells broken down by independent and PSC operations in each of our operating areas for the years ended December 31, 2008 and 2007, respectively.

	Year ended December 31, 2008					
	Total	Bohai Bay	Western South China Sea	Eastern South China Sea	East China Sea	Overseas
<b>Independent</b>						
Net Exploratory Wells Drilled	74	37	27	10	—	—
Successful	39	22	14	3	—	—
Dry	35	15	13	7	—	—
Net Development Wells Drilled	77	49	13	15	—	—
Successful	77	49	13	15	—	—
Dry	—	—	—	—	—	—
<b>PSCs</b>						
Net Exploratory Wells Drilled	6.0	—	—	—	—	6.0
Successful	1.1	—	—	—	—	1.1
Dry	4.9	—	—	—	—	4.9
Net Development Wells Drilled	37.6	27.2	—	1.5	—	8.9
Successful	37.6	27.2	—	1.5	—	8.9
Dry	—	—	—	—	—	—

Year ended December 31, 2007

	Total	Bohai Bay	Western South China Sea	Eastern South China Sea	East China Sea	Overseas
Independent						
Net Exploratory Wells						
Drilled	58	36	14	8	—	—
Successful	31	18	10	3	—	—
Dry	27	18	4	5	—	—
Net Development Wells						
Drilled	88	46	42	—	—	—
Successful	86	45	41	—	—	—
Dry	2	1	1	—	—	—
PSCs						
Net Exploratory Wells						
Drilled	6.4	2	—	—	—	4.4
Successful	2.5	2	—	—	—	0.5
Dry	3.9	—	—	—	—	3.9
Net Development Wells						
Drilled	30.8	29.5	—	1.0	0.3	—
Successful	30.8	29.5	—	1.0	0.3	—
Dry	—	—	—	—	—	—

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## Segment Information

The following table shows the breakdown of our total consolidated operating revenues for each of the periods indicated and the percentage contribution of each revenue component to our total operating revenues:

	Year ended December 31,			
	2007		2008	
	Rmb'000	%	Rmb'000	%
Independent operations	34,586,214	38.1	54,682,326	43.4
PSCs	45,815,712	50.5	56,019,745	44.5
Trading businesses	17,397,338	19.2	22,966,752	18.2
Unallocated and elimination	(7,075,433)	(7.8)	(7,691,441)	(6.1)
Total operating revenues	90,723,831	100.0	125,977,382	100.0

Note: Our total consolidated operating revenues for the year ended December 31, 2006, which was prepared in conformity with accounting principles generally accepted in Hong Kong, was Rmb 88,947.3 million, including revenue from independent operations of Rmb 32,303.4 million, revenue from PSCs of Rmb 47,542.0 million and revenue from trading businesses of Rmb 20,964.1 million, partially offset by unallocated and eliminated revenue of Rmb 11,862.2 million.

We are mainly engaged in the exploration, development and production of crude oil and natural gas primarily offshore China. For the year ended December 31, 2008, approximately 73% of our total revenue was contributed by PRC customers. Our overseas activities are mainly conducted in Indonesia, Australia and Nigeria.

## Sales and Marketing

## Sales of Crude Oil

We sell crude oil produced offshore China to the PRC market through our wholly owned PRC subsidiary, CNOOC China Limited. We sell crude oil produced overseas to the international market through our wholly owned subsidiary, China Offshore Oil (Singapore) International Pte Ltd.

The price of crude oil is determined based on prices for crude oil of similar quality in the international market, with certain premiums or discounts depending on supply and demand. Although prices are quoted in U.S. dollars, customers in China will pay in Renminbi. We currently market three types of crude oil from offshore China: light crude, medium crude and heavy crude. The refinery and chemical factories of CNOOC, Sinopec and PetroChina are our major customers in China.

The table below sets forth the sales and marketing volumes in offshore China for each of these three types of crude oil for the periods indicated.

	Year ended December 31,	
	2007	2008
Sales and Marketing Volumes (benchmark) (mmbbls)(1)		
Light Crude (APPI(2) Tapis(3))	17.6	19.4
Medium Grade (Daqing OSP(4))	74.4	81.1
Heavy Crude (ICP Duri(5))	89.4	94.3



- (1) Includes the sales volumes of us and our foreign partners under production sharing contracts.
- (2) Asia Petroleum Price Index.
- (3) Tapis is a light crude oil produced in Malaysia.
- (4) Daqing official selling price. Daqing is a medium crude oil produced in northeast China.
- (5) Duri is a heavy crude oil produced in Indonesia. The Indonesian crude price (“ICP”) Duri has been the sole benchmark price for heavy crude since 2006.

In the first half of 2008, along with the increase in international oil prices, our realized prices also increased significantly. However, in the second half of the year, the oil market was affected by the deteriorating global economy. International oil prices decreased significantly and rapidly in the fourth quarter to as low as less than US\$40 per barrel, which had a significant negative impact on the prices of crude oil we sold. In 2008, we achieved an average realized oil price of US\$89.39 per barrel, representing an increase of 34.9% year over year.

The table below sets forth the average realized prices for our crude oil and natural gas for the periods indicated.

	Year ended December	
	2007	2008
Average Realized Prices		
Crude Oil (US\$/bbl)	66.26	89.39
Natural Gas (US\$/mcf)	3.30	3.83
West Texas Intermediate (US\$/bbl)	72.23	100.10

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The international benchmark crude oil price, West Texas Intermediate, was US\$39.25 per barrel as of December 31, 2008 and US\$51.12 per barrel as of April 30, 2009.

The following table presents, for the periods indicated, our revenues sourced in and outside the PRC:

	Year ended December 31,	
	2007	2008
	(Rmb in millions, except percentages)	
Revenues sourced in the PRC	78,468	91,040
Revenues sourced outside the PRC	12,256	34,937
Total revenues	90,724	125,977
% of revenues sourced outside the PRC	13.5%	27.7%

Note: Our total revenues for the year ended December 31, 2006, which was prepared in conformity with accounting principles generally accepted in Hong Kong, was Rmb 88,947 million, including revenue sourced in the PRC of Rmb 75,280 million and revenue sourced outside the PRC of Rmb 13,667 million.

#### Sales of Natural Gas

At present, the selling prices of our natural gas are determined by our negotiations with customers. Generally, the natural gas sales agreements are long-term contracts. Contracts typically consist of a base price with provisions for periodic resets and adjustment formulas which depend on a basket of crude oil prices, inflation and various other factors. In recent years, volatile oil prices have caused fluctuation in gas prices.

Our major clients for natural gas are mainly located in Guangdong, Hainan, Zhejiang and Hong Kong, including Castle Peak Power Company Limited, CNOOC Kingboard Chemical Limited and China BlueChemical Ltd.

#### Procurement of Services

We usually outsource work in connection with the acquisition and processing of seismic data, well drilling services, well logging and perforating services and well control and completion service to independent third parties, or CNOOC and its affiliates.

In addition, we normally employ, on a contract basis, independent third parties for single point mooring, or SPM, services. Besides building floating production storage and offloading, or FPSO, with our partners, we employ independent third parties or CNOOC and/or its affiliates for FPSO services and other services. We conduct a bidding process to determine who we employ to construct platforms, terminals and pipelines, to drill production wells and to install offshore production facilities. Both independent third parties and CNOOC affiliates participate in the bidding process. We are closely involved in the design and management of services by contractors and exercise extensive control over their performance, including their costs, schedule, quality and health, safety, and environment, or HSE, measures.

#### Competition

##### Domestic Competition

The petroleum industry is very competitive. We compete in the PRC and in international markets for customers as well as capital to finance our exploration, development and production activities. Our principal competitors in the PRC market are PetroChina and Sinopec.

We price our crude oil on the basis of comparable crude oil prices in the international market. The majority of our customers for crude oil are refineries affiliated with CNOOC, Sinopec and

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PetroChina to which we have been selling crude oil, from time to time. Based on our dealings with these refineries, we believe that we have established a stable business relationship with them.

We are the dominant player in the oil and gas industry offshore China and, through CNOOC, are the only company permitted to engage in oil and gas exploration and production offshore China in cooperation with foreign parties. We may face increasing competition in the future from other petroleum companies in obtaining new PRC offshore oil and gas properties, or, as a result of changes in current PRC laws or regulations permitting an expansion of existing companies' activities or new entrants into the industry.

As part of our business strategy, we intend to expand our natural gas business to meet rapidly increasing domestic demand. Our competitors in the PRC natural gas market are PetroChina and, to a lesser extent, Sinopec. We believe that our extensive natural gas resources base, the proximity of these resources to the markets in China and our experienced management team will enable us to compete effectively in the domestic natural gas market.

### Foreign Competition

Imports of crude oil are subject to import licenses, handling fees and other restrictions. The PRC government also restricts the availability of foreign exchange with which the imports must be purchased. The combination of licenses and restrictions on foreign exchange has, to some extent, limited the competition from imported crude oil.

As a result of China joining the World Trade Organization as a full member on December 11, 2001, it is required to further reduce its import tariffs and other trade barriers over time, including with respect to certain categories of petroleum and crude oil. At present, CNOOC, Sinopec, PetroChina and several other domestic state-owned enterprises have received permission to import crude oil on their own. Foreign owned or foreign invested entities and other non-state-owned enterprises are subject to certain import quotas.

### Fiscal Regimes

#### Offshore China

We conduct exploration and production operations either independently or jointly with foreign partners under our production sharing contracts. The PRC government has established different fiscal regimes for crude oil and natural gas production from our independent operations and from the operations under our PSCs.

#### Fiscal regimes for independent operations

Royalties paid to the PRC government are based on our gross production from both independent operations and oil and gas fields under PSCs. The amount of the royalties varies up to 12.5% based on the annual production of the relevant property. The PRC government has provided companies such as us with a royalty exemption for up to one million tons, or approximately seven million BOE, per year for our crude oil production and for up to 70.6 billion cubic feet, or approximately 11.8 million BOE, per year for our natural gas production. The limits in these exemptions apply to our total production from both independent properties and properties under PSCs. In addition, we pay production taxes to the PRC government equal to 5% of our crude oil and gas produced independently and under PSCs.

#### Fiscal regimes for PSC operations

Under our PSCs, production of crude oil and gas is allocated among us, the foreign partners and the PRC government according to a formula contained in the contracts. Under this formula, a percentage of production under our PSCs is

allocated to the PRC government as its share oil. For more information about the allocation of production under the PSCs, see “Item 4—Information on the Company—Business Overview—Fiscal Regimes—Offshore China—Production Sharing Formula.”

When exploration and production operations offshore China are conducted through a PSC, the operator of the oil or gas field must submit a detailed evaluation report and an overall development plan to a joint management committee established under the contract upon the discovery of commercially viable oil reserves. The plan must be subsequently confirmed by CNOOC and approved by the PRC government before the parties to the PSC begin the commercial development of the oil and gas field.

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Under PRC law, only a state-owned company, such as CNOOC, may negotiate a PSC. CNOOC assigned to us all of its rights and obligations under then-existing PSCs in 1999 and has undertaken to assign to us its future PSCs except for those relating to CNOOC's administrative functions.

**Bidding Process**

CNOOC and foreign partners enter into new PSCs primarily through bidding organized by CNOOC and direct negotiation. During a typical bidding process, CNOOC determines which blocks are open for bidding and invites foreign enterprises to bid. Potential bidders are required to provide information, including estimates of minimum work commitments, exploration costs and percentages of share oil payable to the PRC government; and CNOOC evaluates each bid and negotiates a PSC with the successful bidder. CNOOC has agreed to allow us to participate in all negotiations for new PSCs.

**Terms of PSCs**

**Term of Length.** PSCs typically last for 30 years and have three phases: (1) during the exploration period, exploratory and appraisal work is conducted in order to discover petroleum and to enable the parties to determine the commercial viability of any petroleum discovery; (2) the development period begins when the relevant PRC regulatory authorities have approved the overall development plan and ends when the design, construction, installation, drilling and related research work for the realization of petroleum production as planned have been completed; and (3) the production period begins when commercial production commences and usually lasts for 15 years.

**Minimum Work Commitment.** The foreign partners must complete a minimum amount of work during the exploration period, generally including: drilling a minimum number of exploration wells; acquiring a fixed amount of seismic data; and incurring a minimum amount of exploration expenditures. Foreign partners are required to pay all exploration costs, which can be recovered according to the production sharing formula after commercial discoveries are made and production begins. Foreign partners are required to relinquish 25% of the contract area, excluding the development and production areas, to CNOOC at the end of each phase of the exploration period and to relinquish all areas, excluding the development areas, production areas and areas under evaluation, to CNOOC at the end of the exploration period.

**Participating Interests.** We have the right to take participating interests up to 51% in any oil or gas field discovered in the contract area and may exercise this right after the foreign partners have made commercially viable discoveries. The foreign partners retain the remaining participating interests.

**Production Sharing Formula.** A chart illustrating the production sharing formula under our PSCs is shown below.

Percentage of annual gross production	Allocation
5.0%	Production tax payable to the PRC government(1)
0.0% — 12.5%(2)	Royalty oil payable to the PRC government
50.0% — 62.5%(2)	Cost recovery oil allocated according to the following priority: 1. recovery of current year operating costs by us and foreign partner(s); 2. recovery of earlier exploration costs by foreign partner(s);

3. recovery of development costs and deemed interest by us and foreign partner(s) based on participating interests; and
4. any excess, allocated to the remainder oil.

32.5%(3)

Remainder oil allocated according to the following formula:

1.  $(1-X)$  multiplied by 32.5% represents share oil payable to the PRC government; and
2.  $X$  multiplied by 32.5% represents remainder oil distributed according to each partner's participating interest.(4)

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- (1) In this annual report and in our consolidated financial statements included elsewhere in this annual report, references to production tax on oil and gas produced offshore China are to the value-added tax set out in our PSCs offshore China.
- (2) Assumes annual gross production of more than four million metric tons, approximately 30 million BOE. For lower amounts of production, the royalty rate will be lower and the cost recovery will be greater than 50.0% by the amount that the royalty rate is less than 12.5%.
- (3) The ratio “X” is agreed in each PSC based on commercial considerations and ranges from 8% to 100%.
- (4) See “Item 4—Information on the Company—Business Overview—Principal Oil and Gas Regions Offshore China” for our participating interest percentage in our PSCs.

The first 5.0% of the annual gross production is paid to the PRC government as production tax. The PRC government is also entitled to a royalty payment equal to the next 0% to 12.5% of the annual gross production as follows:

Annual gross production of oil(1)	Royalty rate
Less than 1 million tons	0.0%
1–1.5 million tons	4.0%
1.5–2.0 million tons	6.0%
2.0–3.0 million tons	8.0%
3.0–4.0 million tons	10.0%
Above 4 million tons	12.5%

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- (1) The royalties for natural gas reach a maximum at 3.0%.

We calculate and pay oil and gas production tax and royalty to the PRC government on a monthly basis and make adjustments for any overpayment or underpayment at the end of the year. The foreign partners have the right to either take possession of their allocable remainder oil for sale in the international market, or sell such crude oil to us for resale in the PRC market.

**Management and Operator.** A party will be designated as an operator to undertake the execution of the PSC which includes: preparing work programs and budgets; procuring equipment and materials relating to operations; establishing insurance programs; and issuing cash-call notices to the parties to the PSC to raise funds.

A joint management committee will be set up to perform supervisory functions. Each of us and the foreign partners has the right to appoint an equal number of representatives to form the joint management committee. We designate the chairman of the committee and the foreign partners as a group designate the vice chairman. The joint management committee has the authority to make decisions on matters including: reviewing and approving operational and budgetary plans; determining the commercial viability of each petroleum discovery; reviewing and adopting the overall development plan; and approving significant procurements and expenditures, and insurance coverage.

After the foreign partner has fully recovered its exploration and development costs under PSCs in which the foreign partner is the operator, we have the exclusive right to take over the operation of the particular oil or gas field. With the consent of the foreign partner, we may also take over the operation before the foreign partner has fully recovered its exploration and development costs.

**Ownership of Data and Assets.** All data, records, samples, vouchers and other original information obtained by foreign partners in the process of exploring, developing and producing offshore petroleum become the property of CNOOC as a state-owned oil company under PRC law. Through CNOOC, we have unlimited and unrestricted access



to the data.

Our foreign partners and we have joint ownership in all of the assets purchased, installed or constructed under the PSC until either the foreign partners have fully recovered their development costs, or upon the expiration of the PSC. After that, CNOOC will assume ownership of all of the assets under the PSCs; our foreign partners and we retain the exclusive right to use the assets during the production period.

Abandonment Costs. Any party to our PSCs must give prior written notice to the other party or parties if it plans to abandon production of the oil or gas field within the contracted area. If the other

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party or parties agree to abandon production from the oil or gas field, all parties pay abandonment costs in proportion to their respective percentage of participating interests in the field. If we decide not to abandon production upon notice from a foreign partner, all of such foreign partner's rights and obligations under the PSC in respect of the oil or gas field, including the responsibilities for payment of abandonment costs, terminate automatically. We bear the abandonment costs if we decide to abandon production after an initial decision to proceed with production.

### Overseas

In addition to our PSCs in the PRC, we are subject to other fiscal regimes in the foreign countries and regions where we conduct operations, including Indonesia, Australia and Nigeria. See "Item 4—Information on the Company—Business Overview—Overseas."

In countries including Indonesia, Nigeria and Myanmar, we conduct our operations through PSCs. Our OML130 project in Nigeria also involves a production sharing arrangement. We and the other partners to overseas PSCs are required to bear all exploration, development and operating costs according to our respective participating interests. Exploration, development and operating costs which qualify for recovery can be recovered according to the production sharing formula after commercial discoveries are made and production begins.

Our net interest in the PSCs overseas consists of our participating interest in the properties covered under the relevant PSCs, less oil and gas distributed to the local government and/or the domestic market obligation, as applicable.

In Australia, we conduct our operations through exploration and production permits or licenses. We, as one of the title owners under these licenses or permits, are required to bear all exploration, development and operating costs together with other co-owners. Once production occurs, a certain percentage of the annual production or revenue will first be distributed to the local government, in most of cases in the form of a royalty, and the rest of the annual production or revenue will be allocated among the co-owners. Exploration, development and operating costs are deductible for the purpose of income tax calculation in accordance with local tax regulations.

### Operating Hazards and Uninsured Risks

Our operations are subject to hazards and risks inherent in the drilling, production and transportation of crude oil and natural gas, including pipeline ruptures and spills, fires, explosions, encountering formations with abnormal pressures, blowouts, cratering and natural disasters, any of which can result in loss of hydrocarbons, environmental pollution and other damage to our properties and the properties of operators under PSCs. In addition, certain of our crude oil and natural gas operations are located in areas that are subject to tropical weather disturbances such as typhoons, some of which can be severe enough to cause substantial damage to facilities and interrupt production.

As protection against operating hazards, we maintain insurance coverage against some, but not all, potential losses, including the loss of wells, blowouts, pipeline leakage or other damage, certain costs of pollution control and physical damages on certain assets. Our insurance coverage includes oil and gas field properties and construction insurance, marine hull insurance, protection and indemnity insurance, drilling equipment insurance, marine cargo insurance and third party and comprehensive general liability insurance. The operators of the projects in which we participate overseas are required by local law to purchase insurance policies customarily taken out by international petroleum companies. As of December 31, 2008, we paid an annual insurance premium of approximately US\$31.1 million and US\$63.9 million for operational insurance and all risk construction insurance, respectively, to maintain our insurance coverage. We believe that our level of insurance is adequate and customary for the PRC petroleum industry and international practices. However, we may not have sufficient coverage for some of the risks we face, either because insurance is not available or because of high premium costs. See "Item 3—Key Information—Risk Factors—Exploration, development and production risks and natural disasters may affect our operations and could result in losses that are

not covered by insurance.”

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### Research and Development

In 2008, we continued to focus our scientific research on exploration and development. Certain research findings were applied in our operations and have yielded positive results. One of our technologies won second prize at the National Science and Technology Progress Awards in 2008.

### Major Projects

We have been improving our selection and planning of technological research projects. We established major projects to cover new areas of exploration technologies, including new technologies in enhanced offshore oil recovery, offshore marginal field development, deep water oilfield development, heavy oilfield development and overseas exploration and development.

In addition, we have undertaken a few National Scientific Research projects, such as the 2008 project for “key technologies and facilities for deep water exploration and development in South China Sea.” Research for this project went smoothly in 2008.

### Critical Technological Research

In 2008, a number of research findings led to major breakthroughs in our operations. Exploration guided by recent research on the formation of rich oil and gas areas in Bohai Bay achieved success in several new areas. We strengthened our research in the exploration technologies for the small oil and gas fields, which had supported our growth of oil and gas reserves in 2008. Additional new research developments include recovery technologies of polymers in Bohai Bay, Suizhong 36-1 and other oilfields. The Weixinan oilfield electricity network, a large-scale, long distance offshore oil platform electricity network, commenced operations. This is the first implementation and commercial operation of such electricity network in China, which strengthens production safety, enhances operational efficiencies, and reduces pollution, energy consumption and production cost.

### Regulatory Framework

#### Government Control

The PRC government owns all of China’s petroleum resources and exercises regulatory control over oil exploration and production activities in China. We are required to obtain various governmental approvals, including those from the Ministry of Land and Resources, the State Oceanic Administration, the National Development and Reform Commission and the Ministry of Commerce before we are permitted to conduct production activities. Our sales are coordinated by the National Development and Reform Commission. For joint exploration and production with foreign enterprises, we are required to obtain various governmental approvals, through CNOOC, including permit for exploration blocks, approval of a reserve report, the PSCs between CNOOC and the foreign enterprises, environmental impact report submitted through CNOOC, overall development plan, and extraction permit.

We explore and develop our offshore China reserves under exploration and production licenses granted by the PRC government. Exploration licenses, which are generally granted for individual blocks, require holders to make an annual minimum exploration investment and pay an annual exploration license fee. The annual minimum investment and license fees are based on the area under license and increase over the life of the exploration license. Production licenses, which are generally granted for individual fields, require holders to pay an annual production right usage fee based on the area under license. All of our proved reserves offshore China are under production licenses granted by the PRC government.

Special Policies Applicable to the Offshore Petroleum Industry in China

Since the early 1980s, the PRC government has adopted policies and measures to encourage the development of the offshore petroleum industry. These policies and measures, which were applicable to CNOOC's operations prior to the reorganization, became applicable to our operations in accordance with an undertaking agreement between us and CNOOC. As approved by the relevant PRC government, these policies and measures have provided us with benefits mainly including the exclusive right to explore for,

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develop and produce petroleum in designated areas offshore China in cooperation with international oil and gas companies and to sell petroleum in China, and the flexibility to set our prices in accordance with international market prices and determine where to sell our crude oil, with only minimal supervision from the PRC government.

Although we historically have benefited from the foregoing special policies, we cannot assure that such policies will continue in the future.

In March 2006, the State Council issued the Decision to Impose a Special Oil Gain Levy and the Ministry of Finance promulgated the Management Rules on the Administration of Special Oil Gain Levy, effective March 26, 2006. According to the rules, the Ministry of Finance imposes a special oil gain levy at progressive rates from 20% to 40% on any income derived from sales by an oil exploration and production company of locally produced crude oil at a price which exceeds US\$40 per barrel. The special oil gain levy is collected on a quarterly basis. For the years ended December 31, 2007 and 2008, we incurred approximately Rmb 6.8 billion and Rmb 16.2 billion (US\$2.4 billion) in connection with the Special Oil Gain Levy. As international oil prices, the exchange rate of Renminbi and our crude oil production fluctuate, we cannot ascertain the full impact of the Special Oil Gain Levy going forward.

In addition, the PRC government imposed an export tariff of 5% on crude oil in November 2006.

### Policies Applicable to International Oil and Gas Companies Operating Offshore China

The PRC government encourages foreign participation in offshore oil exploration and production. Currently, international oil and gas companies can only undertake offshore oil exploration and production activities in China after they have entered into a PSC with CNOOC.

### Environmental Regulation

Our operations are required to comply with various applicable environmental laws and regulations, including PRC laws and regulations administered by the central and local government environmental protection bureaus for our operations in China. We are also subject to the environmental rules introduced by governments in whose jurisdictions our logistical support facilities are located.

Government agencies set national or local environmental protection standards. The relevant environment protection bureau must approve or review each stage of a project. We must file an environmental impact statement or, in some cases, an environmental impact assessment outline before an approval can be issued. The filing must demonstrate that the project conforms to applicable environmental standards. The relevant environmental protection bureau generally issues approvals and permits for projects using modern pollution control measurement technology.

The PRC national and local environmental laws and regulations impose fees for the discharge of waste substances above prescribed levels, require the payment of fines for serious violations and provide that the PRC national and local governments may at their own discretion close or suspend any facility which fails to comply with orders requiring it to cease or cure operations causing environmental damage.

The PRC environmental laws require offshore petroleum developers to pay abandonment costs. Our financial statements include provisions for costs associated with the dismantlement of oil and gas fields as of December 31, 2007 and 2008 of approximately Rmb 6,737.3 million and Rmb 8,340.0 million (US\$1,222.4 million), respectively.

Environmental protection and prevention costs and expenses in connection with the operation of offshore petroleum exploitation are covered either under PSCs, or by us for independent operations. Each platform has its own environmental protection and safety staff responsible for monitoring and operating the environmental protection

equipment. However, no assurance can be given that the PRC government will not impose new or stricter regulations which would require additional environmental protection expenditures.

We believe that our environmental protection systems and facilities comply with applicable national and local environmental protection regulations.

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### Patents and Trademarks

We own or have licenses to use two trademarks which are of value in the conduct of our business. CNOOC is the owner of the two trademarks. Under two non-exclusive license agreements between CNOOC and us, we have obtained the right to use the two trademarks for a nominal consideration.

### Real Properties

Our corporate headquarters is located in Hong Kong. We lease several other properties from CNOOC in China and Singapore. The rental payments under these lease agreements are determined with reference to market rates. See “Item 7—Major Shareholders and Related Party Transactions—Related Party Transactions.”

We own the following main property interests in the PRC:

- 51% interest in land, various buildings and structures at Yacheng 13-1 Processing Plants, Hainan Province and Hong Kong;
- land, various buildings and structures at Xingcheng JZ 20-2 Natural Gas Separating Plant, Liaoning Province;
  - land, various buildings and structures located at Boxi Processing Plant, Tianjin;
- land, various buildings and structures at Weizhou Terminal Processing Plant, Guangxi Zhuang Autonomous Region;
  - land, various buildings and structures at Suizhong 36-1 Base, Liaoning Province;
  - land, various buildings and structures located at Bonan Processing Plant, Shandong Province;
  - land, various buildings and structures located at Dongfang 1-1 Processing Plant, Hainan Province;
- land, various buildings and structures located at Panyu Huizhou Gas Processing Plant, Guangdong Province; and
  - land, various buildings and structures located at a Gas Processing Plant, Ningbo, Zhejiang Province.

### Employees and Employee Benefits

During the years ended December 31, 2006, 2007 and 2008, we employed 2,929 persons, 3,288 persons and 3,584 persons, respectively. Of the 3,584 employees we employed as of December 31, 2008, approximately 90.4% were involved in oil exploration, development and production activities, approximately 6.5% were involved in accounts and finance work and the remainder were senior management, coordinators of PSCs and safety and environmental supervisors. Workers for the operation of the oil and gas fields, maintenance personnel and ancillary service workers are hired on a contract basis.

We have a union that protects employees’ rights, organizes educational programs, assists in the fulfillment of economic objectives, encourages employee participation in management decisions, and assists in mediating disputes between us and individual employees.

We have not been subject to any strikes or other labor disturbances and believe that relations with our employees are good.





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The total remuneration of employees includes salary, bonuses and allowances. Bonus for any given period is based primarily on individual and our performance. Employees also receive health benefits and other miscellaneous subsidies.

We have implemented an occupational health and safety program similar to that employed by other international oil and gas companies. Under this program, we closely monitor and record health and safety incidents and promptly report them to government agencies and organizations. On March 15, 2000, we finalized and implemented our occupational health and safety program. We believe this program is broadly in line with the United States government's Occupational Safety & Health Administration guidelines.

All full-time employees in the PRC are covered by a government-regulated pension. The PRC government is responsible for the pension of these retired employees. We are required to contribute monthly approximately 10% to 22% of our employees' salaries, with each employee contributing 8% of his or her salary for retirement. The contributions vary from region to region.

Our Indonesian subsidiaries employ approximately 815 employees, including approximately 38 expatriates. We provide benefits to expatriates that we believe to be in line with customary international practices. Our local staff in Indonesia enjoy welfare benefits mandated by Indonesian labor laws.

For further details regarding retirement benefits, see note 31 to our consolidated financial statements included elsewhere in this annual report.

As an oil and gas exploration and production company operating in highly competitive markets, we depend in large part on our employees for effective and efficient operations. We devote significant resources to train our employees. During 2008, we held 4,458 training workshops, which were attended by 41,686 participants. To ensure smooth implementation of our overseas strategy, we have established an international human resources system to attract and retain talent in the international market. In order to enhance the planning and budget control of our labor costs, we have installed target benchmarks in performance appraisals to guide various business units to cut their labor costs and to increase the accuracy of their budgets.

### Health, Safety and Environmental Policy, or HSE

We promote the concepts and culture of HSE among our staff. We have established a comprehensive management system to facilitate our fulfillment of social obligations, improve our staff's awareness of HSE protection during operations, and strengthen their risk management skills. We have also adopted the HSE management standards for our contractors.

In 2008, we continued to reinforce and develop our HSE system. We undertook employee health improvement initiatives, environmental protection management and HSE training for onsite workers and contractors. In addition, we introduced a set of safety compliance standards to enhance the awareness of work-place safety, protect the environment, and strengthen the crisis management skills.

There were no death cases recorded in 2008. There were also no safety-related accidents of losses over Rmb 1 million. Our Occupational Safety and Health Administration Statistics continued to exceed the industry average.

We published our amended Crisis Management Plan in 2008. Through multi-level emergency drills and cooperation with contractors and local governments, we have enhanced our emergency-management capabilities.

We have continued to cooperate with China Offshore Environmental Service Ltd to prevent oil spills. Oil spill response bases have been established in Tangguh, Suizhong, Huizhou, Longkou, Zhuhai, Shenzhen and Weizhou Island. Such initiatives further strengthened our capability in handling oil spill emergencies.

In 2008, we issued our Regulations on Underwater Pipelines Management, which lists detailed

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requirements on safe production of underwater pipelines. This is expected to decrease the number of accidents.

We have continued to focus on safe production practices by our contractors by hiring professional assessors to conduct management audits and safety checks on helicopter contractors and diving operations contractors. The contractors were required to rectify all problems identified.

We have provided a number of HSE training sessions following our annual safety training plan. Through issuing safety warnings and releasing environmental protection information to our staff regularly, we have improved their awareness of HSE standards.

In accordance with the “Temporary Regulation for Safety Expense Financial Management of High Risk Industry” and the implementation guidance issued by the Ministry of Finance, a safety fund has been accrued for our oil and gas exploration and production activities within the PRC. The accrued safety fund will be utilized for improving the safety of production conditions.

C. ORGANIZATIONAL STRUCTURE

CNOOC indirectly owned or controlled an aggregate of approximately 64.41% of our shares as of March 31, 2009. Accordingly, CNOOC continues to be able to exercise all the rights of a controlling shareholder, including electing our directors and voting to amend our articles of association. Although CNOOC has retained a controlling interest in us, the management of our business will be our directors’ responsibility.

The following chart sets forth our controlling entities and our directly-held subsidiaries as of March 31, 2009 and notes our significant indirectly-held subsidiaries.

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- (1) Overseas Oil & Gas Corporation, Ltd also directly owns five shares of our company.
  - (2) Owner of our overseas interests in oil exploration and production businesses and operations, including our indirect wholly-owned subsidiaries CNOOC Southeast Asia Limited (Bermuda), CNOOC Exploration & Production Nigeria Limited (Nigeria), CNOOC Africa Holding Ltd. (British Virgin Islands) and CNOOC Africa Ltd. (British Virgin Islands).
  - (3) Owner of substantially all of our PRC oil exploration and production businesses, operations and properties.
  - (4) Business vehicle through which we engage in sales and marketing activities in the international markets.
  - (5) Includes CNOOC Finance (2002) Limited, the financing vehicle through which we issued our US\$500 million 6.375% guaranteed notes due 2012, and CNOOC Finance (2003) Limited, the financing vehicle through which we issued our US\$200 million 4.125% guaranteed notes due 2013 and US\$300 million 5.5% guaranteed notes due 2033. These finance companies are our wholly owned subsidiaries with our company as their sole corporate director.

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## D. PROPERTY, PLANTS AND EQUIPMENT

See “Item 4—Information on the Company—Business Overview.”

ITEM 4A. unresolved staff comments

None.

## ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

## A. OPERATING RESULTS

You should read the following discussion and analysis in conjunction with our consolidated financial statements, selected historical consolidated financial data and operating and reserves data, in each case together with the accompanying notes, contained in this annual report. Since these are our first consolidated financial statements prepared in accordance with IFRS, pursuant to the transitional relief granted by the SEC in respect of the first-time application of IFRS, the following is limited to a discussion of our financial condition and results of operations for the years ended December 31, 2008 and 2007, and no comparative information for the year ended December 31, 2006 has been included. For further details, please see “Special Note on Our Financial Information and Certain Statistical Information Presented in This Annual Report.” Certain statements set forth below constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995. See “Forward-Looking Statements.”

## Overview

Our revenues and profitability are largely determined by our production volume and the prices we realize for our crude oil and natural gas, as well as the costs of our exploration and development activities. Although crude oil prices depend on various market factors and have been volatile historically, our total net production volume has increased over the past few years.

The following table sets forth our net production and profit for the periods indicated.

	Year ended December 31,	
	2007	2008
Net production of crude oil, condensate and natural gas liquids (BOE/day)	371,827	422,068
Net production of natural gas (mmcf/day)	559.6	621.1
Profit for the year (Rmb in millions)	31,258.3	44,375.3

For a description of certain factors affecting our financial performance, see “Item 3—Key Information—Risk Factors.”

## Production from Independent Operations Offshore China Versus Production from PSCs Offshore China

Historically we have cooperated with foreign partners under PSCs, which have provided us with the expertise to undertake our independent operations more effectively. The percentage of our net production arising from independent operations offshore China was 53.5% and 59.0%, for the years ended December 31, 2007 and 2008, respectively. Although we will continue to focus on independent operations, we plan to continue seeking appropriate

opportunities to cooperate with foreign partners under PSCs.

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Our cost structures for PSCs and for independent operations are different. The total expenses per unit under PSCs are generally higher due to our foreign partners' use of expatriate staff, who generally command higher wages, as well as administrative and overhead costs that may be allocated by the operators and a larger proportion of imported equipment, which is more expensive.

### Provision for Dismantlement

We estimate future dismantlement costs for oil and gas properties with reference to the estimates provided from either internal and external engineers after taking into consideration the anticipated method of dismantlement required in accordance with then current legislation and industry practice. Provisions are made for present obligations, either legal or constructive. The associated cost is capitalized and the liability is discounted and accretion expense is recognized using the credit adjusted risk-free rate in effect when the liability is initially recognized. The dismantlement costs for the years ended December 31, 2007 and 2008 were Rmb 561.7 million and Rmb 667.2 million (US\$97.8 million), respectively. The accrued liability is reflected in our consolidated balance sheet under "provision for dismantlement." See note 27 to our consolidated financial statements included elsewhere in this annual report.

### Production Imbalance

We account for oil overlifts and underlifts using the entitlement method, under which we record overlifts as liabilities and underlifts as assets. An overlift occurs when we sell more than our percentage interest of oil from a property subject to a PSC. An underlift occurs when we sell less than our participating interest of oil from a property under a PSC.

### Allowances for Doubtful Accounts

We evaluate our trade receivables by considering the financial condition of our customers, their past payment history and credit standing and other specific factors, including whether the trade receivable in question are under dispute. We make provisions for trade receivables when we are concerned about our ability to collect them. For the years ended December 31, 2007 and 2008, allowances for doubtful accounts were not material in the context of total operating expenses and did not have a material effect on our results of operations or financial condition.

### Critical Accounting Policies

We prepare our consolidated financial statements in accordance with IFRS issued by the IASB, HKFRS issued by the HKICPA, accounting principles generally accepted in Hong Kong, and the Hong Kong Companies Ordinance. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of our assets and liabilities, the disclosure of our contingent assets and liabilities as of the date of our financial statements, if any, and the reported amounts of our revenues and expenses during the periods reported. Management makes these estimates and judgments based on historical experience and other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. We believe that the following significant accounting policies may involve a higher degree of judgment in the preparation of our consolidated financial statements. For additional discussion of our significant accounting policies, see note 3 to our consolidated financial statements included elsewhere in this annual report.

### Oil and Gas Properties

For oil and gas exploration, we have adopted the successful efforts method of accounting. As a result, we capitalize initial acquisition costs of oil and gas properties. Impairment of initial acquisition costs is recognized based on

exploratory experience and management judgment. Upon discovery of commercial reserves, we transfer acquisition costs to proved properties and capitalize the costs of drilling and equipping successful exploratory wells, all development expenditure on construction, installation or completion of infrastructure facilities such as platforms, pipelines, processing plants and the drilling of development wells, including those renewals and betterments that extend the economic lives of the assets, and the related borrowing costs. We treat the costs of unsuccessful exploratory wells and all other related



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exploration costs as expenses when incurred. Productive oil and gas properties and other tangible and intangible costs of producing properties are amortized using the unit-of-production method on a property-by-property basis under which the ratio of produced oil and gas to the estimated remaining proved developed reserves is used to determine the provision of depreciation, depletion and amortization. Common facilities that are built specifically to service production directly attributed to designated oil and gas properties are amortized based on the proved developed reserves of the respective oil and gas properties on a pro-rata basis. Generally, common facilities that are not built specifically to service identified oil and gas properties are depreciated using the straight-line method over their estimated useful lives. Costs associated with significant development projects are not depreciated until commercial production commences and the reserves related to those costs are excluded from the calculation of depreciation. We amortize capitalized acquisition costs of proved properties by the unit-of-production method on a property-by-property basis based on the total estimated units of proved reserves.

We recognized the amount of the estimated cost of dismantlement and discounted the amount to its present value using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Changes in the estimated timing of dismantlement cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. We included the unwinding of the discount on the dismantlement provision as a finance cost.

### Impairment of Assets

We make an assessment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, or when there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. In any event, we would make an estimate of the asset's recoverable amount, which is calculated as the higher of the asset's value in use or its net selling price. We recognize an impairment loss only if the carrying amount of an asset exceeds its recoverable amount. We charge an impairment loss to the consolidated income statement in the period in which it arises. A reversal of an impairment loss is credited to the income statement in the period in which it arises.

### Provisions

We recognize a provision when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation provided that a reliable estimate can be made of the amount of the obligation. When the effect of discounting is material, the amount recognized for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated income statement. We make provisions for dismantlement based on the present value of our future costs expected to be incurred, on a property-by-property basis, in respect of our expected dismantlement and abandonment costs at the end of the related oil exploration and recovery activities.

### Deferred Tax

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

### Recognition of Revenue from Oil and Gas Sales and Marketing

We recognize revenue when it is probable that the economic benefits will flow to us and when the revenue can be measured reliably. For oil and gas sales, our revenues represent the invoiced value of sales of oil and gas attributable to our interests, net of royalties and any government share oil that is lifted and sold on behalf of the

government. Sales are recognized when the significant risks and rewards of ownership of oil and gas have been transferred to customers. Oil and gas lifted and sold by us above or below our participating interests in any PSC result in overlifts and underlifts. We record these transactions in accordance with the entitlement method under which overlifts are recorded as liabilities and underlifts are recorded as assets at year-end oil prices. Settlement will be in kind or in cash when the

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liftings are equalized or in cash when production ceases. We enter into gas sales contracts with customers which often contain take-or-pay clauses. Under these contracts, we make a long term supply commitment in return for a commitment from the buyer to pay for minimum quantities, whether or not it takes delivery. These commitments contain protective provisions, such as force majeure provision, and adjustment provisions. If a buyer has a right to get a “make up” delivery at a later date, revenue recognition is deferred. If no such option exists according to the contract terms, revenue is recognized when the take-or-pay penalty is triggered.

Our marketing revenues represent sales of oil purchased from the foreign partners under our PSCs and revenues from the trading of oil through our subsidiary in Singapore. The title, together with the risks and rewards of the ownership of such oil purchased from the foreign partners, are transferred to us from the foreign partners and other unrelated oil and gas companies before we sell such oil to our customers. The cost of the oil sold is included in crude oil and product purchases.

## Results of Operations

## Overview

The following table summarizes the components of our revenues and net production as percentages of our total revenues and total net production for the periods indicated:

	Year ended December 31,			
	2007		2008	
	(Rmb in millions, except percentages, production data and prices)			
Revenues:				
Oil and gas sales:				
Crude oil	68,039	75.0%	94,779	75.2%
Natural gas	4,998	5.5%	6,052	4.8%
Total oil and gas sales	73,037	80.5%	100,831	80.0%
Marketing revenues	17,397	19.2%	22,967	18.2%
Other income	290	0.3%	2,179	1.7%
Total revenues	90,724	100.0%	125,977	100.0%
Net production (million BOE):				
Crude oil	135.7	79.2%	154.4	79.5%
Natural gas	35.6	20.8%	39.8	20.5%
Total net production	171.3	100.0%	194.2	100.0%
Average net realized prices:				
Crude oil (US\$ per bbl)	66.26		89.39	
Natural Gas (US\$ per mcf)	3.30		3.83	

The following table sets forth, for the periods indicated, certain income and expense items in our consolidated income statements as a percentage of total revenues:

	Year ended December 31,	
	2007	2008

Operating Revenues:		
Oil and gas sales	80.5%	80.0%
Marketing revenues	19.2%	18.2%
Other income	0.3%	1.7%
Total revenues	100.0%	100.0%
Expenses:		
Operating expenses	(8.9)%	(7.9)%
Production taxes	(3.9)%	(3.9)%
Exploration costs	(3.8)%	(2.7)%
Depreciation, depletion and amortization	(8.7)%	(7.9)%
Special oil gain levy	(7.5)%	(12.9)%
Impairment losses related to property, plant and equipment	(0.7)%	(1.2)%
Crude oil and product purchases	(18.8)%	(18.0)%
Selling and administrative expenses	(1.9)%	(1.4)%
Other	(0.4)%	(1.2)%
	(54.6)%	(57.2)%
Interest income	0.7%	0.9%
Finance costs	(2.2)%	(0.3)%
Exchange gain, net	2.0%	2.0%
Investment income	1.0%	0.4%
Share of profits of associates	0.8%	0.3%
Non-operating income (expenses), net	0.0%	0.0%
Profit before tax	47.7%	45.9%
Tax	(13.3)%	(10.7)%
Profit for the year	34.4%	35.2%

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Calculation of Revenues

China

We report total revenues, which consist of oil and gas sales, marketing revenues and other income, in our consolidated financial statements included elsewhere in this annual report. With respect to revenues derived from our offshore China operations, oil and gas sales represent gross oil and gas sales less royalties and share oil payable to the PRC government.

The gross oil and gas sales consist of our percentage interest in total oil and gas sales, comprised of (i) a 100% interest in our independent oil and gas properties and (ii) our participating interest in the properties covered under our PSCs, less an adjustment for production allocable to foreign partners under our PSCs as reimbursement for exploration costs attributable to our participating interest.

Marketing revenues represent our sales of our foreign partners' oil and gas produced under our PSCs and purchased by us from our foreign partners under such contracts as well as from international oil and gas companies through our wholly owned subsidiary in Singapore. Net marketing revenues represent the marketing revenues net of the cost of purchasing oil and gas from foreign partners and from international oil and gas companies. Our foreign partners have the right to either take possession of their oil and gas for sale in the international market or to sell their oil and gas to us for resale in the PRC market.

Other income mainly represents project management fees charged to our foreign partners and handling fees charged to end customers—both fees are recognized when the services are rendered. Reimbursement of insurance claims is recognized when the compensation becomes receivable.

Our share of the oil and gas sales of an unconsolidated investee is not included in our revenues, but our share of the profit or loss of this company is included in our consolidated statements of income under “share of profit of associates.”

Indonesia

The oil and gas sales from our subsidiaries in Indonesia consist of our participating interest in the properties covered under the relevant PSCs, less adjustments for oil and gas distributable to the Indonesian government under our Indonesian PSCs and for a domestic market obligation under which the contractor must sell a specified percentage of its crude oil to the local Indonesian market at a reduced price.

Other income includes gain from disposal of our participating interest in the properties.

Australia

The oil and gas sales from our subsidiaries in Australia consist of our participating interest in the properties of the North West Shelf project.

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### 2008 versus 2007

#### Consolidated net profit

Our consolidated net profit increased 42.0% to Rmb 44,375.3 million (US\$6,504.3 million) in 2008 from Rmb 31,258.3 million in 2007.

#### Revenue

Our oil and gas sales increased 38.1% to Rmb 100,831.3 million (US\$14,779.2 million) in 2008 from Rmb 73,036.9 million in 2007, primarily as a result of both higher average realized oil prices and increases in volume produced and sold in 2008. The average realized price for our crude oil increased US\$23.13 per barrel, or 34.9%, to US\$89.39 per barrel in 2008 from US\$66.26 per barrel in 2007. We sold 152.7 million barrels of crude oil in 2008, representing an increase of 13.4% from 134.6 million barrels in 2007. The average realized price for our natural gas increased US\$0.53 per thousand cubic feet, or 16.1%, to US\$3.83 per thousand cubic feet in 2008 from US\$3.30 per thousand cubic feet in 2007. Sales volume of our natural gas increased 14.7% to 39.8 million BOE in 2008 from 34.7 million BOE in 2007.

Our net marketing profit, which is marketing revenue less purchase costs, decreased 7.3% to Rmb 291.7 million (US\$42.8 million) from Rmb 314.7 million in 2007. Our realized marketing profit margin, which is our net marketing profit as a percentage of marketing revenues, decreased from 1.8% in 2007 to 1.3% in 2008, due to fast increasing crude oil purchase costs and relatively constant level of trading profit per barrel.

#### Operating expenses

Our operating expenses increased 24.3% to Rmb 9,990.4 million (US\$1,464.3 million) in 2008 from Rmb 8,039.6 million in 2007. Operating expenses per BOE increased 8.7% to Rmb 51.4 (US\$7.53) per BOE in 2008 from Rmb 47.3 per BOE in 2007. Operating expenses per BOE offshore China increased 15.8% to Rmb 44.7 (US\$6.55) per BOE in 2008 from Rmb 38.6 per BOE in 2007, primarily as a result of more maintenance, higher service fees and higher raw material prices. Operating expenses per BOE overseas decreased 4.2% to Rmb 100.3 (US\$14.70) per BOE in 2008 from Rmb 104.7 per BOE in 2007, primarily as a result of the appreciation of Renminbi against the U.S. dollar.

#### Production taxes

Our production taxes increased 39.8% to Rmb 4,889.3 million (US\$716.6 million) in 2008 from Rmb 3,497.4 million in 2007, primarily as a result of both higher average realized oil prices and increases in volume produced and sold in 2008.

#### Exploration costs

Our exploration costs decreased 0.7% to Rmb 3,409.5 million (US\$499.7 million) in 2008 from Rmb 3,432.4 million in 2007. In 2008, we continued to enhance our exploration activities and due to improved drilling efficiencies, our exploration expenditure in 2008 did not change significantly from 2007.

#### Depreciation, depletion and amortization

Our depreciation, depletion and amortization other than dismantlement expenditures increased 27.2% to Rmb 9,380.5 million (US\$1,374.9 million) in 2008 from Rmb 7,374.5 million in 2007. Our average depreciation, depletion and amortization per barrel increased 11.3% to Rmb 48.3 (US\$7.08) per BOE in 2008 from Rmb 43.4 per BOE in 2007, primarily as a result of the commencement of production in certain oil and gas fields in 2007 and 2008.

The depreciation, depletion and amortization related to our dismantlement provisions increased 20.6% to Rmb 677.2 million (US\$99.3 million) in 2008 from Rmb 561.7 million in 2007. Apart from the

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commencement of production in the relevant oil and gas fields, the increase is also attributable to higher estimated future dismantlement obligations arising from re-evaluation of expected work commitments together with higher projected service fees and raw material prices. Our average dismantling costs increased to Rmb 3.49 (US\$0.51) per BOE in 2008 from Rmb 3.30 per BOE in 2007.

### Special Oil Gain Levy

Our Special Oil Gain Levy increased 137.5% to Rmb 16,238.2 million (US\$2,380.1 million) in 2008 from Rmb 6,837.2 million in 2007, primarily as a result of our higher realized oil price, the corresponding progressive rates imposed by the levy and increase in volume sold in 2008.

### Impairment losses related to property, plant and equipment

Our impairment losses increased 150.4% to Rmb 1,536.0 million (US\$225.1 million) in 2008 from Rmb 613.5 million in 2007. The impairment loss was primarily due to the adverse changes of crude oil prices at the end of 2008, which in turn, adversely changed expected future crude oil prices and reduced the estimates of the quantities of oil and gas commercially recoverable from certain oilfields in Indonesia.

### Selling and administrative expenses

Our selling and administrative expenses increased only 0.1% to Rmb 1,742.6 million (US\$255.4 million) in 2008 from Rmb 1,741.2 million in 2007, primarily due to our strict control of expenses in 2008.

### Finance costs, net

Our net finance costs decreased 79.6% to Rmb 415.3 million (US\$60.9 million) in 2008 from Rmb 2,031.8 million in 2007, as we renounced a cash settlement option relating to our convertible bonds in 2007, there were no further fair value changes in derivative component to be realized in finance costs in 2008. Our interest income increased 62.1% to Rmb 1,091.0 million (US\$159.9 million) in 2008 from Rmb 673.0 million in 2007, primarily as a result of transferring our financial investments into cash and deposits in banks to avoid exposure to both capital market risks and exchange-rate risks.

### Exchange gains/losses, net

Our net exchange gains increased 37.5% to Rmb 2,551.3 million (US\$374.0 million) in 2008 from Rmb 1,856.0 million in 2007, primarily as a result of revaluation of dividends receivable from a subsidiary and active changes in currency structure of our assets portfolio in response to the appreciation of the Renminbi in 2008.

### Investment income

Our investment income decreased 47.3% to Rmb 475.9 million (US\$69.8 million) in 2008 from Rmb 902.4 million in 2007, primarily as a result of lower gains realized and redemptions to curb further losses resulting from the unstable financial markets. Nonetheless, the decrease was partially offset by the management's profitable investments in money market and bond market funds.

### Share of profits of associates

Our share of profits of associates decreased 48.0% to Rmb 374.1 million (US\$54.8 million) in 2008 from Rmb 719.0 million in 2007, primarily as a result of the adverse impact of the deteriorating economic environment on the



associates.

#### Income tax

Our income tax expense increased 12.1% to Rmb 13,505.0 million (US\$1,979.5 million) in 2008 from Rmb 12,052.3 million in 2007, primarily as a result of the higher revenue and profit from the higher average realized oil price. Our effective tax rate decreased to 23.3% in 2008 from 27.8% in 2007,

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primarily as a result of the decrease in the income tax rate applicable to our major subsidiary in China from 30% in 2007 to 25% in 2008 under the prevailing tax rules and regulations.

## B. LIQUIDITY AND CAPITAL RESOURCES

Our primary source of cash during 2008 was cash flow from operating activities. We used cash primarily to fund capital spending programs and dividends. The following table summarizes our cash flows for the periods presented:

	Year ended December 31,	
	2007	2008
	(Rmb in millions)	
Cash generated from (used for):		
Operating activities	41,301	55,738
Investing activities	(21,374)	(48,984)
Financing activities	(10,799)	(10,129)
Net increase/(decrease) in cash and cash equivalents	9,128	(3,375)

### Cash Generated from Operating Activities

In 2008, our cash flow from operating activities increased to Rmb 55,738.4 million (US\$8,169.8 million) as compared to Rmb 41,300.5 million in 2007, representing an increase of 35.0% from 2007. The increase in our cash flow from operating activities in 2008 was mainly due to increases in crude oil and gas prices and volumes sold coupled with accelerated collection of trade receivable during the year. The increase was partially offset by increases in costs, expenses and net increases in other working capital, including Special Oil Gain Levy payments of Rmb 18,246.4 million (US\$2,674.4 million) and income tax payments of Rmb 15,442.9 million (US\$2,263.5 million).

### Capital Expenditures and Investments

Net cash outflow from investing activities in 2008 was Rmb 48,984.3 million (US\$7,179.8 million), representing an increase of Rmb 27,610.3 million, or 129.2% from Rmb 21,374.0 million in 2007.

Our capital expenditures and investments primarily include exploration and development expenditures and purchases of oil and gas properties. Our capital expenditures increased 38.9% to Rmb 37,414.1 million (US\$5,483.9 million) in 2008 from Rmb 26,942.1 million in 2007, primarily as a result of the increase in exploratory efforts and the continuous development of projects under construction. The increase was also driven by higher service fees and raw material costs in 2008. Our development expenditures in 2008 primarily related to the development of the OML130, Penglai 19-3 Phase II, Jinzhou25-1S, Bozhong28-2S, Ledong 15-1/22-1, Liuhua 11-1 and Wenchang oilfields. We did not have any significant merger and acquisition activity during 2008.

In addition, our cash outflow was attributable to the placement of Rmb 14,100.0 million (US\$2,066.7 million) in time deposits with a maturity of over three months and purchases of available-for-sale financial assets of Rmb 6,490.8 million (US\$951.4 million). On the other hand, our cash inflow was mainly from the proceeds from sale of available-for-sale financial assets and sales of held-to-maturity financial assets, which amounted to Rmb 1,920.3 million (US\$281.5 million) and Rmb 3,000.0 million (US\$439.7 million), respectively.

For 2009, we have budgeted approximately US\$6.6 billion for capital expenditures. The following table sets forth actual or budgeted capital expenditures on an accrual basis for our key operating areas for the periods indicated.



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	Year ended December 31,			
	2007(1)	2008(1)	2008(1)	2009(2)
	(Rmb million)		(US\$ million)	
Operating Area:				
Bohai Bay				
Development	9,044.2	13,701.1	2,008.2	3,586.2
Exploration	1,771.5	2,049.1	300.3	387.9
Western South China Sea				
Development	4,970.9	3,570.8	523.4	506.4
Exploration	1,162.5	2,063.3	302.4	175.3
East China Sea				
Development	61.1	117.2	17.2	63.3
Exploration	85.0	102.7	15.1	52.5
East South China Sea				
Development	2,817.7	3,476.3	509.5	461.0
Exploration	689.4	1,064.3	156.0	143.9
Other Offshore China				
Development	—	—	—	168.2
Exploration	112.5	179.7	26.3	47.2
Subtotal	20,714.8	26,324.5	3,858.5	5,591.8
Overseas				
Development	8,662.2	8,616.6	1,263.0	718.1
Exploration	1,625.6	917.3	134.5	298.7
Subtotal	10,287.8	9,533.9	1,397.4	1,016.8
Total	31,002.6	35,858.4	5,255.9	6,608.6

(1) Figures for 2007 and 2008 represent our actual spending for capital expenditure purposes, including expensed exploration costs.

(2) Figures for 2009 represent our budgeted capital expenditures.

Our capital expenditures on an accrual basis for the year ended December 31, 2006, which was prepared in conformity with accounting principles generally accepted in Hong Kong, was Rmb 24,997.9 million, including Rmb 9,217.1 million in Bohai Bay, Rmb 4,520.8 million in Western South China Sea, Rmb 125.6 million in East China Sea, Rmb 3,045.6 million in East South China Sea, Rmb 61.8 million in other areas offshore China, and Rmb 8,027.0 million in overseas. In addition to the budgeted development and exploration expenditures relating to the oil and gas properties described above, we may make additional capital expenditures and investments consistent with our business strategy. See “Item 4—Information on the Company—Business Overview—Business Strategy.” We expect to fund our capital expenditures with our cash flows from operations and our borrowings.

Our ability to maintain and grow our revenues, profit and cash flows depends upon continued capital spending. Generally, we adjust our capital expenditure and investment budget on an annual basis. Our capital expenditure plans are subject to a number of risks, contingencies and other factors, some of which are beyond our control. Therefore, our actual future capital expenditures and investments will likely be different from our current planned amounts, and such differences may be significant. See “Item 3—Key Information—Risk Factors—Our future prospects largely depend on our capital expenditure plans, which are subject to various risks.”

## Financing Activities

Net cash outflow from financing activities in 2008 was Rmb 10,129.0 million (US\$1,484.6 million), representing a minor decrease of Rmb 669.9 million (US\$98.2 million), or 6.2% from Rmb 10,798.9 million in 2007. In 2008, our net cash outflow was mainly due to the distribution of dividends of Rmb 14,651.8 (US\$2,147.6 million). It was partially offset by cash inflows primarily consisting of bank borrowings of Rmb 4,803.8 million (US\$704.1 million).

During 2008, we redeemed all our outstanding convertible bonds of Rmb 2,196.6 million by exercising an early redemption option. As of December 31, 2008, our total debt was Rmb 13,880.6 million (US\$2,034.5 million), as compared to Rmb 11,534.3 million as of December 31, 2007. The increase in debt in 2008 was primarily due to borrowings associated with the OML130 and the Tangguh

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LNG projects. Our gearing ratio, was 8.0%, which is defined as interest bearing debt divided by the sum of interest bearing debt plus equity.

On February 21, 2008, CNOOC Finance (2004) Limited extinguished all its outstanding convertible bonds by exercising an early redemption option. The delisting of the convertible bonds on the Hong Kong Stock Exchange was effective at the close of business on March 6, 2008. We currently have no convertible bond liability.

We have debt service obligations consisting of principal and interest payments on our outstanding indebtedness. The following table summarizes the maturities of our long-term debt outstanding as of December 31, 2008. As of the date this annual report is filed, we have not incurred any material long-term debt since December 31, 2008.

Due by December 31,	Debt maturities (principal only)			Total US\$ equivalents
	Original currency US\$	Rmb	Total Rmb equivalents	
	(in millions, except percentages)			
2009	2.4		16.6	2.4
2010-2012	571.7	500.0	4,400.8	645.0
2013-2014	275.4		1,878.9	275.4
2015 and beyond	1,109.1		7,566.6	1,109.1
Total	1,958.6	500.0	13,862.9	2,031.9
Percentage of total debt	96.4%	3.6%	100.0%	100.0%

As of March 31, 2009, we had total foreign currency debt of US\$2,183.2 million, all of which is in U.S. dollars.

As of December 31, 2008, we had unutilized banking facilities amounting to approximately Rmb 39,262.9 million (US\$5,754.9 million) as compared to Rmb 46,997.1 million as of December 31, 2007.

In 2007 and 2008, we paid dividends totaling Rmb 11,523.7 million and Rmb 14,651.8 million (US\$2,147.6 million), respectively. The payment and the amount of any dividends in the future will depend on our results of operations, cash flows, financial condition, the payment by our subsidiaries of cash dividends to us, future prospects and other factors which our directors may consider relevant. The amount of dividends we paid historically is not indicative of the dividends that we will pay in the future.

We believe our future cash flows from operations, borrowing capacity and funds raised from our debt offerings will be sufficient to fund planned capital expenditures and investments, debt maturities and working capital requirements through at least 2009. However, our ability to obtain adequate financing to satisfy our capital expenditures and debt service requirements may be limited by our financial condition and results of operations and the liquidity of international and domestic financial markets. See "Item 3—Key Information—Risk Factors—Our future prospects largely depend on our capital expenditure plans, which are subject to various risks."

#### Employee Benefits

All of our full-time employees in the PRC are covered by a government-regulated pension plan and are entitled to an annual pension at their retirement dates. The PRC government is responsible for the pension liabilities to these retired employees under this government pension plan. The actual pension payable to each retiree is subject to a formula based on the status of the individual pension account, general salary and inflation movements. We are required to make annual contributions to the government pension plan at rates ranging from 10% to 22% of our employees' salaries. The related pension costs are expensed as incurred.

The expenses attributable to mandatory contributions under the current government pension plan are included in our historical consolidated income statements under either operating expenses for our production staff or selling and administrative expenses for our administrative staff. We expect that, under

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the current PRC laws and regulations regarding employee retirement benefits, the future costs of the current government pension plan will be comparable to our historical costs, subject to customary increases largely in line with salary increases of our employees.

We are required to make contributions to a mandatory provident fund at a rate of 5% of the base salaries for full-time employees in Hong Kong. The costs are expensed as incurred.

Our Indonesian subsidiaries employ 815 employees, including 38 expatriates. We provide benefits to expatriates that we believe to be in line with customary international practices. Our local staff in Indonesia enjoy welfare benefits mandated by Indonesia labor laws.

## Holding Company Structure

We are a holding company. Our entire oil exploration, development, production and sales business in the PRC is owned and conducted by CNOOC China Limited, our wholly foreign-owned enterprise in the PRC. Our entire oil exploration, development and production business outside the PRC is owned and conducted by CNOOC International Limited, our wholly owned subsidiary incorporated in the British Virgin Islands. International sales of crude oil are conducted by China Offshore Oil (Singapore) International Pte Ltd, our wholly owned subsidiary incorporated in Singapore. Accordingly, our future cash flows will consist principally of dividends from our subsidiaries. The subsidiaries' ability to pay dividends to us is subject to various restrictions, including legal restrictions in their jurisdictions of incorporation. For example, legal restrictions in the PRC permit payment of dividends only out of profit determined in accordance with PRC accounting standards and regulations. In addition, under PRC law, CNOOC China Limited is required to set aside a portion of its profit each year to fund certain reserve funds. These reserves are not distributable as cash dividends.

## Inflation/Deflation

According to the China Statistical Bureau, as represented by the general consumer price index, China experienced an overall inflation rate of 4.8% in 2007, and an overall inflation rate of 5.9% in 2008. Neither deflation nor inflation has had a significant impact on our results of operations in the respective years.

## Taxation

We are subject to income taxes on an entity basis on income arising in or derived from the tax jurisdictions in which we and each of our subsidiaries are domiciled and operate. We were subject to profit tax at the rate of 17.5% and 16.5% for the period from January 1, 2008 to March 31, 2008 and the fiscal year beginning from April 1, 2008, respectively, on profits arising in or derived from Hong Kong.

Our PRC subsidiary, as a wholly foreign owned enterprise, is subject to an enterprise income tax rate of 25%, which was 30% in 2007, under the prevailing tax rules and regulations.

The PRC enterprise income tax is levied based on taxable income, including income from both operations and other components of earnings, as determined in accordance with the generally accepted accounting principles in the PRC, or PRC GAAP.

Under the New China Corporate Income Tax Law, which became effective on January 1, 2008, and the tax treaty between China and Hong Kong, dividend income related to our earnings derived from CNOOC China Limited's net profit generated after January 1, 2008 is subject to a reduced withholding tax rate of 5%.



Besides income taxes, our PRC subsidiary also pays certain other taxes, including:

- production taxes of 5% on independent production and production under PSCs;
- export tariffs of 5% on petroleum oil beginning on November 1, 2006; and

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- business tax of 3% to 5% on other income.

Our subsidiaries domiciled outside of the PRC are subject to income tax rates ranging from 10% to 51.875%.

Certain of our oil and gas interests in Indonesia are held through Labuan incorporated companies, which enjoy certain current reduced tax rates provided by the tax treaty between Indonesia and Malaysia, pursuant to which our subsidiaries owning oil and gas property interests in Indonesia are subject to combined corporate and dividend tax at rates ranging from 43.125% to 51.875%. In May 2006, the ministers of both countries agreed to certain proposed amendments to the tax treaty, which proposes to increase the tax rates will increase from a range from 43.125% to 51.875% and from 48% to 56%. The proposed amendments need to be ratified by the two countries and will take effect in two months after the ratification. As at December 31, 2008, It was uncertain when it would be ratified by the two countries.

We calculate our deferred tax to account for the temporary differences between our tax bases, which is used for income tax reporting and prepared in accordance with applicable tax guidelines, and our accounting bases, which is prepared in accordance with applicable financial reporting requirements. The temporary differences include accelerated amortization allowances for oil and gas properties, which are partially offset by provisions for dismantlement and for impairment of property, plant and equipment and write-off of unsuccessful exploratory drilling. As of December 31, 2007 and 2008, we had Rmb 6,293.6 million and Rmb 5,428.3 million (US\$795.6 million), respectively, in net deferred tax liabilities. See note 11 to our consolidated financial statements included elsewhere in this annual report.

Impact of Recently Issued Accounting Standards

IFRS and HKFRS

We have adopted the IFRS as issued by the IASB since January 1, 2008. Therefore, our consolidated financial statements for 2008 have been prepared in due compliance with both IFRS and HKFRS.

Both the IASB and the HKICPA have issued a number of new and revised IFRS and HKFRS, some of which were mandatory for financial statements for fiscal years beginning on or after January 1, 2008. The adoption of the new and revised IFRS, HKFRS, amendments and interpretations have no impact on our results of operations or financial position for the year ended December 31, 2008.

A number of the new and revised IFRS and HKFRS become effective for fiscal years beginning on or after January 1, 2009. We have not early applied these IFRS and HKFRS to our consolidated financials statements included elsewhere in this annual report. We are in the process of making an assessment of the impact of these new and revised IFRS and HKFRS upon application. We conclude that, while certain new or revised IFRS and HKFRS may result in future changes of our financial results or disclosures, other new and revised IFRS and HKFRS are unlikely to have a significant impact on our results of operations and financial position.

For details, please refer to note 2.1 and 2.2 to our consolidated financial statements included elsewhere in this annual report.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.

See “Item 4—Information on the Company—Business Overview—Research and Development” and “Item 7—Major Sharehol and Related Party Transactions—Related Party Transactions.”

D.

TREND INFORMATION

Crude oil prices are a major driver of our results of operations. We price our crude oil with reference to the international crude oil prices, which have fluctuated considerably over the years. In 2008, oil prices increased significantly to a record high of US\$147 per barrel and subsequently decreased rapidly to less than US\$40 per barrel. For more information about crude oil prices, see “Item 3—Key Information—Risk Factors—Our business, revenues and profits fluctuate with changes in oil and gas prices,” “Item 4—Information on the Company—Business Overview—Sales and Marketing—Sales of Crude Oil—Pricing,” and “Item 5—Operating and Financial Review and Prospects—Operating Results—Results of Operations—2008 versus 2007.”

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In addition to crude oil, natural gas is becoming an increasingly important part of our business. The Chinese government promotes the use of natural gas as a clean and efficient fuel. Demand for natural gas in the PRC is likely to increase significantly. We have expanded and will continue to expand our natural gas business and intend to exploit our natural gas reserves to meet growing demand for natural gas. For more information about our natural gas business, see “Item 3—Key Information—Risk Factors—Any failure to implement our natural gas business strategy may adversely affect our business and financial position.”

## E. OFF-BALANCE SHEET ARRANGEMENTS

None.

## F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table sets forth information regarding our contractual obligations for the periods indicated.

Contractual Obligations	Total Rmb'000	Payments due by period			More than 5 years Rmb'000
		Less than 1 year Rmb'000	1-3 years Rmb'000	3-5 years Rmb'000	
Long-term debt obligations	13,966,631	16,623	282,589	5,733,037	7,934,382
Operating lease obligations	2,235,655	507,644	875,878	769,709	82,424
Provision for dismantlement(1)	8,339,734	49,231			8,290,503
Total	24,542,020	573,498	1,158,467	6,502,746	16,307,309

(1)Provision for dismantlement represents the discounted present value of retirement obligations in connection with upstream assets, which primarily relate to asset removal costs at the completion date of the relevant project.

As of December 31, 2007 and 2008, we had the following capital commitments, principally for the construction and purchase of property, plant and equipment:

Capital Commitments	2007 Rmb'000	2008 Rmb'000
Contracted, but not provided for	8,655,830	12,293,984
Authorized, but not contracted for	24,498,130	30,093,605

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## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

## A. DIRECTORS AND SENIOR MANAGEMENT

In accordance with Hong Kong law and our Articles of Association, our affairs are managed by our Board, which has 11 members, including three executive directors, three non-executive directors and five independent non-executive directors.

The table below sets forth information about our directors and senior officers:

Name	Year of Birth	Position
Chengyu Fu	1951	Chairman of our Board, Executive Director and Chief Executive Officer
Hua Yang	1961	Executive Director, President and Chief Financial Officer
Guangqi Wu	1957	Executive Director and Compliance Officer
Han Luo	1953	Non-executive Director (retired, effective March 31, 2009)
Shouwei Zhou	1950	Non-executive Director (re-designated from Executive Director to Non-executive Director, effective March 31, 2009)
Xinghe Cao	1949	Non-executive Director
Zhenfang Wu	1952	Non-executive Director
Edgar W. K. Cheng	1943	Independent Non-executive Director
Sung Hong Chiu	1947	Independent Non-executive Director
Evert Henkes	1943	Independent Non-executive Director (retired on May 29, 2008)
Lawrence J. Lau	1944	Independent Non-executive Director
Aloysius Hau Yin Tse	1948	Independent Non-executive Director
Tao Wang	1931	Independent Non-executive Director (since May 29, 2008)
Guangyu Yuan	1959	Executive Vice President
Weilin Zhu	1956	Executive Vice President
Bi Chen	1961	Executive Vice President and General Manager of CNOOC China Limited, Tianjin Branch

Wei Chen	1958	Senior Vice President and General Director of CNOOC China Limited, Beijing Research Center
Guohua Zhang	1960	Senior Vice President and General Manager of CNOOC China Limited, Shanghai Branch
Mingcai Zhu	1956	Vice President and President of CNOOC International Limited
Zhi Fang	1962	Vice President and President of CNOOC Southeast Asia Limited
Xin Kang	1974	Company Secretary and Senior Counsel (resigned on November 25, 2008)
Zongwei Xiao	1965	Joint Company Secretary (since November 25, 2008)
May Sik Yu Tsue	1973	Joint Company Secretary (since November 25, 2008)

We have a management team with extensive experience in the oil and gas industry. As a result of our cooperation with international oil and gas companies, the management team and staff have had the opportunity to work closely with foreign partners both within and outside China. Such opportunities, in conjunction with management exchange programs with foreign partners, have provided valuable training to our personnel in international management practices. A description of the business experience and present position of each director and executive officer is provided below. Our principal executive offices are located at 65th Floor, Bank of China Tower, One Garden Road, Central, Hong Kong.

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## Executive Directors

Chengyu Fu received a Bachelor of Science degree in geology from the Northeast Petroleum Institute in China and a Master's degree in petroleum engineering from the University of Southern California in the United States. He has over 30 years of experience in the petroleum industry in the PRC. He previously worked in China's Daqing, Liaohe and Huabei oilfields. He joined CNOOC, our controlling shareholder in 1982 and served as the Chinese Deputy Chief Representative, the Chief Representative, Secretary to the Management Committees and the Chairman of the Management Committees formed through joint ventures between CNOOC and Amoco, Chevron, Texaco, Phillips Petroleum, Shell and Agip respectively. From 1994 to 1999, Mr. Fu was the Deputy General Manager of CNOOC Nanhai East Corporation, a subsidiary of CNOOC, the Vice President of Phillips China Inc., the General Manager of the Xijiang Development Project and later the General Manager of CNOOC Nanhai East Corporation. In 2000, Mr. Fu became the Vice President of CNOOC. Subsequently, he became our Executive Vice President, President and Chief Operating Officer in 2001. Mr. Fu became the President of CNOOC in October 2003 and the Chairman of our Board and Chief Executive Officer, effective October 16, 2003. He also serves as the Chairman of the Board of Directors of CNOOC China Limited and CNOOC International Limited, both being our subsidiaries. Mr. Fu is the Chairman of China Oilfield Services Limited, a company listed on HKSE and Shanghai Stock Exchange, and a subsidiary of CNOOC. He was an independent director of Suntech Power Holdings Co., Ltd., a NYSE-listed company from December 2005 to October 2007. He is also a Chairman of the Presidium of China Federation of Industrial Economics and the Vice-chairman of China Chamber of International Commerce. Mr. Fu was appointed as an Executive Director, effective August 23, 1999.

Hua Yang is a senior engineer and graduated from Petroleum University with a Bachelor of Science degree in Petroleum Engineering. He also received an MBA degree from the Sloan School of Management at MIT as a Sloan Fellow. Mr. Yang joined CNOOC in 1982 and has over 26 years experience in petroleum exploration and production. From 1982 to 1992, Mr. Yang served in a number of positions in CNOOC Research Center including the Director of Field Development Department, the Manager of Reservoir Engineering Department and the Project Manager. Mr. Yang then mainly was involved in international business, corporate finance and capital market in our company and its subsidiaries. From 1993 to 1999, he served as our Deputy Chief Geologist, the Deputy Director and the Acting Director for Overseas Development Department and the Vice President of CNOOC International Limited, our subsidiary. In 1999, he became our Senior Vice President. From 2002 to 2003, he was Director and President of CNOOC Southeast Asia Limited, our subsidiary. Mr. Yang was appointed as our Chief Financial Officer, effective January 1, 2005 as well as our Executive Vice President from December 2005 to March 2009. Mr. Yang was appointed as our President, effective March 31, 2009. He also serves as Assistant President of CNOOC and Director of CNOOC Finance Corporation Limited, and Director of CNOOC China Limited and CNOOC International Limited, both being our subsidiaries. Mr. Yang was appointed as an Executive Director, effective August 31, 2005.

Guangqi Wu is a geologist, senior economist and Certified Senior Enterprise Risk Manager and graduated with a Bachelor of Science degree from the Ocean University of China, majoring in Marine Geology. He also holds a master's degree in Management from the China Petroleum University. Mr. Wu joined CNOOC in 1982. From 1994 to 2001, he served as the Deputy General Manager of CNOOC Oil Technical Services Company, a subsidiary of CNOOC, the Director of the Administration Department of CNOOC and the Director of the Ideology Affairs Department of CNOOC successively. Mr. Wu was appointed as Assistant President in 2003, and has been the Vice President of CNOOC since 2004. Mr. Wu has also served as an Independent Non-executive Director of China Yangtze Power Limited, a company listed on the Shanghai Stock Exchange, since May 2003, and our Compliance Officer since June 1, 2005. Mr. Wu also serves as the Director of CNOOC China Limited and CNOOC International Limited, both being our subsidiaries. Mr. Wu was appointed as an Executive Director, effective June 1, 2005.





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Non-executive Directors

Han Luo received a doctorate degree from the Petroleum University in China. He has over 30 years of experience in the petroleum industry in the PRC. He joined CNOOC in 1982. From 1993 to 1999, Mr. Luo served as the Vice President of CNOOC Nanhai East Corporation, a subsidiary of CNOOC, and concurrently as the Chairman of the CACT (CNOOC-AGIP-Chevron-Texaco) operators group, and the Executive Vice President of CNOOC Nanhai East Corporation. In 1999, he served as the General Manager of CNOOC China Limited, Shanghai Branch. From 2000 to 2009, Mr. Luo served as a Vice President of CNOOC. He also served as Chairman of the board of directors of CNOOC and Shell Petrochemical Co., Ltd., the Chairman of the board of directors of Zhonghai Trust Co., Ltd. and CNOOC Finance Corporation Limited, both being subsidiaries of CNOOC, and the Director of CNOOC China Limited, our subsidiary. Mr. Luo was appointed as an Executive Director, effective December 20, 2000 and was re-designated from Executive Director to Non-executive Director, effective September 1, 2006. Mr. Luo retired as our Non-executive Director, effective March 31, 2009.

Shouwei Zhou received a doctorate degree from the Southwest Petroleum Institute in China and is a senior engineer. He joined CNOOC in 1982. Mr. Zhou served as the Deputy General Manager of CNOOC Bohai Corporation, a subsidiary of CNOOC and the General Manager of CNOOC China Limited, Tianjin Branch. He was appointed as our Executive Vice President in September 1999 and served as our President from July 2002 to March 2009. Since 2000, Mr. Zhou has been the Vice President of CNOOC. Mr. Zhou serves as the Director and the General Manager of CNOOC China Limited and the Director of CNOOC International Limited, both being our subsidiaries. He also serves as the Chairman of CNOOC Southeast Asia Limited, our subsidiary since April 2003. Mr. Zhou became the Chairman of Offshore Oil Engineering Co., Ltd., a listed company on the Shanghai Stock Exchange and a subsidiary of CNOOC, on December 6, 2003. Mr. Zhou was appointed as an Executive Director, effective August 23, 1999 and was re-designated from Executive Director to Non-executive Director, effective March 31, 2009.

Xinghe Cao graduated from Tianjin Politics and Law Management College majoring in Economic Laws and later studied MBA in Capital University of Economics and Business. Mr. Cao has over forty years of experience in the petroleum industry since he started work in 1965. He worked for Shengli oilfield and Dagang oilfield before he joined CNOOC in 1982. From 1985 to 2003, Mr. Cao worked as the Manager of Bohai Oil Commercial Company, later as the Manager of Bohai Oil Transportation Company, both being subsidiaries of CNOOC, and Deputy General Manager and General Manager of CNOOC Bohai Corporation, a subsidiary of CNOOC, successively. From April 2003 to July 2004, Mr. Cao worked as Assistant President of CNOOC and became Vice President of CNOOC in August 2004. Mr. Cao also serves as the Chairman of the Board of Directors of CNOOC Energy Technology & Services Limited (CNOOC Base Group Limited was restructured as CNOOC Energy Technology & Services Limited in 2008) and the Chairman of the Board of Directors of China Ocean Oilfields Services (Hong Kong) Limited, both being subsidiaries of CNOOC. Mr. Cao was appointed as an Executive Director, effective August 31, 2005 and was re-designated from Executive Director to Non-executive Director, effective September 1, 2006.

Zhenfang Wu is a senior engineer and graduated with a bachelor's degree from Dalian University of Technology, majoring in Offshore Petroleum Engineering and Construction. He later studied EMBA in Shanghai Jiao Tong University. Mr. Wu joined the petroleum industry in 1971. He joined CNOOC in 1980 when it was still in the pre-establishment stage. From 1993 to 2000, he was Deputy General Manager of CNOOC Nanhai West Corporation, a subsidiary of CNOOC and the President of CNOOC Chemical Limited, a subsidiary of CNOOC. He was also the Chairman of the Board of Directors of Fudao Fertilizer Limited and CNOOC Chemical Limited, both being subsidiaries of CNOOC, from 2001 to 2003 and from 2003 to 2005 respectively. From 2003 to 2004, Mr. Wu was Assistant President of CNOOC and then Vice President of CNOOC. Mr. Wu also served as the Chairman and President of CNOOC Gas and Power Group (formerly known as CNOOC Gas and Power Limited) as well as the Chairman of a number of subsidiaries of CNOOC. Mr. Wu also serves as the Chairman and General Manager of CNOOC Oil & Petrochemicals Co., Ltd., a subsidiary of CNOOC, and Chairman of CNOOC and Shell Petrochemical

Co. Ltd. Mr. Wu was appointed as an Executive Director, effective August 31, 2005 and was re-designated from Executive Director to Non-executive Director, effective September 1, 2006.

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Independent Non-executive Directors

Edgar W. K. Cheng was a graduate from the University of Notre Dame and the Medical College of Wisconsin, USA. He was Clinical Associate Professor of Medicine at Cornell University Medical College and practiced medicine and conducted clinical research at the Memorial Sloan-Kettering Cancer Centre in New York. Dr. Cheng was a former Chairman of the University Grants Commission in Hong Kong, and a member of the Education Commission. He is at present Chairman of the Council of The Chinese University of Hong Kong. In addition to his academic experience, Dr. Cheng is currently the Chairman of the World-Wide Investment Co. Ltd. and had been in many other financial market positions such as Chairman of the Stock Exchange of Hong Kong, Vice-Chairman and non-executive director of the Hang Seng Bank Ltd., Vice President of the International Federation of Stock Exchange, Founding Chairman of the Hong Kong Securities Institute, Chairman of the Steering Committee on the Feasibility Study on the Financial Services Institute, Member of the Board of Directors of the Hong Kong Futures Exchange Ltd., Member of the Conference Board's Global Advisory Council, an independent non-executive director of the Standard Chartered Bank (Hong Kong) Ltd and a member of the Board of Directors of the Hong Kong Institute for Monetary Research. He is currently an independent non-executive director of American International Assurance Co. Ltd. and an independent non-executive director of Shui On Land Limited. In his other public service capacity, Dr. Cheng served as the Head of the Central Policy Unit of the Government of Hong Kong Special Administrative Region from 1999 to 2001. He was a member of the Greater Pearl River Delta Business Council, a member of the Commission on Strategic Development and Chairman of the Council for Sustainable Development. He is currently a member of the Judicial Officers Recommendation Commission. Dr. Cheng also plays an active role in Hong Kong-China affairs. He was appointed by the Chinese Government as a Hong Kong Affairs Advisor (1991-1997). He became a Member of the Preparatory Committee and also the Selection Committee for the Hong Kong Special Administrative Region of the National People's Congress (1996-1997). At present, he is a member of the 11th Chinese People's Political Consultative Conference National Committee. Dr. Cheng was appointed as Independent Non-executive Director, effective May 24, 2006.

Sung Hong Chiu received an LL.B. degree from the University of Sydney. He was admitted as a solicitor of the Supreme Court of New South Wales and the High Court of Australia. He has over 30 years' experience in legal practice and had been a director of a listed company in Australia. Mr. Chiu is the founding member of the Board of Trustees of the Australian Nursing Home Foundation and served as the General Secretary of the Australian Chinese Community Association of New South Wales. Mr. Chiu is also an independent non-executive director of Yunnan Enterprises Holdings Limited since April 2008, a company listed on The Stock Exchange of Hong Kong Limited. Mr. Chiu was appointed as our Independent Non-executive Director, effective September 7, 1999.

Evert Henkes served as the CEO of Shell global chemical business from 1998 to 2003. Since joining Shell in 1973, he held various executive positions worldwide, including Managing Director of Shell Chemicals UK Ltd., Managing Director of Shell UK, President of Billiton Metals, Shell's Metals Coordinator, Shell's Chemical Coordinator, and Director of Strategy & Business Services of Shell International Chemicals Ltd. He also served as directors in regional and global industrial bodies, including CEFIC and ICCA. He is also a director of Tate & Lyle Plc, SembCorp Industries Ltd. and Outokumpu Oy, and became a non-executive director of Air Products and Chemicals Inc since July 7, 2006. Mr. Henkes served as Independent Non-executive Director with effect from September 16, 2003 and retired from our Board on May 29, 2008. Mr. Henkes became a member of our International Advisory Board, effective May 29, 2008.

Lawrence J. Lau is currently Vice-Chancellor (President) of The Chinese University of Hong Kong. Professor Lau graduated with a Bachelor of Science degree (with Great Distinction) in Physics and Economics from Stanford University in 1964, and received his M.A. and Ph.D. degrees in Economics from the University of California at Berkeley in 1966 and 1969 respectively. He joined the faculty of the Department of Economics at Stanford University in 1966, becoming Professor of Economics in 1976, the first Kwoh-Ting Li Professor in Economic Development in

1992, and Kwoh-Ting Li Professor in Economic Development, Emeritus in 2006. He is concurrently the Ralph and Claire Landau Professor of Economics at The Chinese University of Hong Kong. Professor Lau specializes in economic development, economic growth, and the economies of East Asia, including that of China. He has authored, co-authored, or edited five books and published more than 160 articles and notes in professional journals. A member of the 11th National Committee of the Chinese People's Political Consultative Conference, Professor Lau also serves as a non-official member of the HKSAR Government's Executive Council, and as a member of the Task Force on Economic Challenges, the Commission on Strategic Development, the Advisory Committee on Corruption of the Independent Commission Against Corruption, the Steering Committee on Innovation and Technology, the Exchange Fund Advisory Committee and its Governance Sub-Committee and Currency Board Sub-Committee, and the Honours Committee. He was appointed a Justice of the Peace in Hong Kong in July 2007. He also serves on the Board of Directors of the Hong Kong Science and Technology Parks Corporation and as an Independent Director of the Far Eastone Telecommunications Co. Ltd. in Taiwan. Professor Lau was appointed as an Independent Non-executive Director, effective August 31, 2005.

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Aloysius Hau Yin Tse is a fellow of The Institute of Chartered Accountants in England and Wales, and the HKICPA. Mr. Tse is a past president of the HKICPA. He joined KPMG in 1976, became a partner in 1984 and retired in March 2003. Mr. Tse was a non-executive Chairman of KPMG's operations in the PRC and a member of the KPMG China advisory board from 1997 to 2000. Mr. Tse is currently an independent non-executive director of China Construction Bank Corporation, China Telecom Corporation Limited, Wing Hang Bank Limited, Linmark Group Limited, SJM Holdings Limited and Sinofert Holdings Limited, companies listed on HKSE. Mr. Tse is also the chairman of the International Advisory Council of the People's Municipal Government of Wuhan. Mr. Tse was appointed as an Independent Non-executive Director, effective June 8, 2005.

Tao Wang studied at the Moscow Institute of Oil in the former Soviet Union from 1954 to 1963, where he obtained his Deputy Doctoral degree in Geological Mineralogy. Mr. Wang is the Chairman of the Chinese National Committee for World Petroleum Council and the Chairman of the Chinese-Saudi Arabia Friendship Association. He also serves as adjunct professor and/or doctoral advisor in several institutions, including China University of Petroleum. Mr. Wang has been working in the oil and gas sector for more than fifty years and served as the Chief Geologist in Beijing Research Institute of Petroleum Science, the Deputy Commander and Chief Geologist of the North China Oil Exploration Command Office, the Deputy Director-General and Chief Geologist of Liao River Petroleum Exploration Bureau and the Principal of the Preparation and Construction Office for the Pearl River Mouth Project in the Command Office of South China Sea Oil Exploration. He became the General Manager of CNOOC Nanhai East Corporation in June 1983, the Minister and Secretary of the Party Leadership Group of the Ministry of Petroleum Industry in June 1985 and the General Manager and Secretary of the Party Leadership Group of China National Petroleum Corporation in May 1988 successively. He was also a Member of the 12th, 13th and 14th Central Committees of the Communist Party of China, a Member of the Standing Committee of the 9th National People's Congress and the Vice-chairman of the Environmental Protection and Resources Conservation Committee of the National People's Congress. He also served successively as the Vice Chairman and Senior Vice Chairman of the World Petroleum Council from 1994 to 2005. Mr. Wang is the Honorary Chairman and an Executive Director of Sino Union Petroleum & Chemical International Limited, a company listed on HKSE. Mr. Wang was appointed as Independent Non-executive Director, effective May 29, 2008.

Other Members of Senior Management

Guangyu Yuan is our Executive Vice President. He is responsible for HSE, engineering and drilling and completion well operation. Mr. Yuan is a senior engineer. He graduated from Petroleum University (formerly the East China Petroleum Institute) with a bachelor's degree in drilling engineering. He obtained a master's degree from the Capital University of Economics and Business in 2001. He graduated from the CEO Class and the EMBA program of China Europe International Business School in 2004 and 2007, respectively. Mr. Yuan joined CNOOC in 1982 and has over 27 years of experience in the oil and gas industry. During his tenure at CNOOC, he served as the Deputy Manager of CNOOC Bohai Drilling Company, Deputy General Manager of CNOOC China Offshore Oil Northern Drilling Company, Deputy General Manager of CNOOC Operational Department, General Manager of CNOOC China Offshore Oil Northern Drilling Company, Chairman of the Board of Directors and General Manager of CNOOC China Oilfield Services Limited, and Vice Chairman of the Board of Directors, Executive Director, Chief Executive Officer and President of China Oilfield Services Limited. In November 2006, Mr. Yuan was appointed as an Assistant President of CNOOC.

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Weilin Zhu is the Chief Geologist of CNOOC, our Executive Vice President and General Manager of Exploration Department. Mr. Zhu graduated from Shanghai Tongji University with a Ph.D. degree. Mr. Zhu studied at Norwegian Institute of Technology during 1986 and 1987. He joined CNOOC in 1982. Prior to 1999, he was responsible for the research work at CNOOC Research Centre and served as the Deputy Director and Director of Research, and Deputy Chief Geologist and Chief Geologist of the Research Center. From 1999 to 2007, Mr. Zhu served as the Deputy Manager of Exploration Department of CNOOC, Vice President, our Deputy General Manager and General Manager of Exploration Department, and General Manager of our Zhanjiang Branch and Vice President. Mr. Zhu has extensive experience in exploration research and management in offshore China. He was granted the special stipend from the PRC government, nominated as a candidate for the “National Hundred, Thousand, and Ten Thousand Talent Project”, named as an Excellent Science and Technology Worker of the Nation and awarded the Li Siguang Award for Geosciences, the most prestigious award in geosciences in China. In August 2007, Mr. Zhu was appointed as the Chief Geologist of CNOOC and our Executive Vice President, responsible for our exploration activities.

Bi Chen is our Executive Vice President and General Manager of CNOOC China Limited –Tianjin Branch. He is responsible for our development, production and sales. Mr. Chen graduated from the Southwest Petroleum University (formerly the Southwest Petroleum Institute) and received a bachelor’s degree in oil production. He received a master’s degree of Petroleum Engineering from Edinburgh Heriot-Watt University in 1988 and an MBA degree from Tsinghua University in 2000. Mr. Chen joined CNOOC in 1982 and has over 27 years of experience in the oil and natural gas industry. He served as the Deputy Manager of CNOOC Nanhai West Corporation Oil Production Company, our Director of Production Section, Deputy Manager and General Manager of Development & Production Department, and General Manager of CNOOC China Limited-Tianjin Branch. In December 2005, Mr. Chen was appointed as our Vice President and General Manager of CNOOC China Limited –Tianjin Branch.

Wei Chen is our Senior Vice President and the General Manager of the Scientific Development Department, and the General Director of CNOOC China Limited,, Beijing Research Center. Mr. Chen is a senior engineer. He received his Bachelor of Science degree from Petroleum University of China and holds an MBA degree from Tsinghua University. He has over 25 years of experience in oil exploration. Mr. Chen joined CNOOC in 1984 and previously served as the Deputy Manager of the Exploration and Development Department, the Deputy Manager of the Overseas Research Department, the Manager of the Information Department, and the Deputy Director of CNOOC Research Center. He has also served as General Manager of Human Resources Department of CNOOC, and the Senior Vice President and General Manager of the Administration Department of our company.

Guohua Zhang is our Senior Vice President and the General Manager of CNOOC China Limited Shanghai Branch. He graduated from Qingdao Oceanographic Institute with a Bachelor degree. He studied in the Business Institute of University of Alberta in Canada in 2001. He joined CNOOC in 1982 and served as the Deputy Chief Geologist and Manager of the Exploration Department of CNOOC Nanhai West Corporation, a subsidiary of CNOOC, Chief Geologist of CNOOC Research Center, Assistant to General Manager of CNOOC China Limited and the General Manager of the Exploration Department of our company.

Mingcai Zhu is our Vice President and the General Manager of the International Affairs Department of our company, and the General Manager of CNOOC International Limited. He graduated from Southwest Petroleum Institute with a Bachelor degree in Engineering and received a MBA degree from Lancaster University in the United Kingdom. Mr. Zhu joined CNOOC in 1985. He served as the Vice President of CNOOC Bohai Corporation, a subsidiary of CNOOC, and the General Manager of CNOOC China Limited, Tianjin Branch and Shenzhen Branch.

Zhi Fang is our Vice President and the President of CNOOC Southeast Asia Limited and is responsible for our businesses in Indonesia. He graduated from Zhejiang University with a Bachelor degree in science and received a MBA degree from the University of Birmingham in 1995. Mr. Fang joined CNOOC in 1982. He served as Deputy Director of the Research Center of CNOOC Nanhai East Corporation, a subsidiary of CNOOC, Deputy General

Manager of CNOOC-AMOCO Lihua Joint Operating Group, the Deputy General Manager of the Exploration and Development Department of CNOOC Nanhai East Corporation, and the Deputy General Manager and General Manager of CNOOC China Limited, Shenzhen Branch.

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## Joint Company Secretaries

Zongwei Xiao is our Joint Company Secretary. He is a senior engineer graduated from Daqing Petroleum Institute with a Bachelor of Science degree in Petroleum Engineering. Mr. Xiao also studied petroleum engineering in Imperial College in the UK from 1987 to 1988. Joined CNOOC in 1984, Mr. Xiao has over 24 years of experience in petroleum exploration, development and production. In the first 10 years of his career, he worked in CNOOC Research Center as an engineer, senior engineer and head of Reservoir Engineering division in Field Development Department. Mr. Xiao then worked mainly in the international business of CNOOC, serving as a production manager of CNOOC Jakarta from 1994 to 1998. After coming back to China, he served as a senior engineer and head of West Asia/North Africa division of the Overseas Development Department of CNOOC successively before he started to work in the field of capital market in 2001. He accumulated experience in financial market from our initial public offering in 2001 as the head of Investor Relations Group. He became the Deputy General Manager of Investor Relations Department in 2001 and the General Manager of the Investor Relations Department in 2003. Mr. Xiao was appointed as our Joint Company Secretary, effective November 25, 2008.

May Sik Yu Tsue is our Joint Company Secretary. Ms. Tsue graduated from Curtin University of Technology in Australia with a Bachelor of Commerce in Accounting. Ms. Tsue furthered her education at The Hong Kong Polytechnic University in Master of Corporate Governance from 2004 to 2006. She is an associate member of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries since 2007. Furthermore, she is also a fellow member and certified risk trainer of the Institute of Crisis and Risk Management and an associate member of CPA Australia. From August 1998 to March 1999, Ms. Tsue worked in LG International (HK) Ltd. as a senior accounts clerk. Ms. Tsue joined China Ocean Oilfield Services (HK) Limited in 1999 as an accountant. She helped to manage the finance of the CNOOC Insurance Limited since 2000 and became its employee in 2004 as a manager of finance department. She serves as company secretary of CNOOC Insurance Limited since March 2007. Ms. Tsue was appointed as our Joint Company Secretary, effective November 25, 2008.

B. COMPENSATION

The aggregate amount of fees, salaries, housing allowances, other allowances and benefits in kind paid to our directors for the year ended December 31, 2008 was approximately Rmb 18.1 million (US\$2.7 million), while the amount paid to our other senior management for the same period was approximately Rmb 4.5 million (US\$0.7 million). In addition, under our pension plan for 2008, we set aside an aggregate amount of Rmb 571,568 (US\$82,300) for pension and similar benefits for our directors (other than independent non-executive directors) and senior management. Our directors (other than independent non-executive directors) and senior management contributed an additional Rmb 571,568 (US\$82,300) to the pension plan for 2008. Each director's annual compensation, including fees, salaries, allowances, benefits in kind, pension benefits and share option benefits, is disclosed in note 9 to our consolidated financial statements included elsewhere in this annual report. For further details regarding share options granted to our directors, officers and employees, see "Item 6—Directors, Senior Management and Employees—Share Ownership". For further details regarding our employee compensation, see "Item 4—Information on the Company—Business Overview—Employees and Employee Benefits."



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C. BOARD PRACTICE

Committees

We have established an audit committee, a remuneration committee and a nomination committee. Our audit committee meets at least twice a year and is responsible for reviewing the completeness, accuracy and fairness of our accounts, evaluating our auditing scope and procedures, as well as its internal control systems. Our audit committee is also responsible for overseeing the operation of the internal monitoring systems, so as to ensure our Board is able to monitor our overall financial position, to protect our assets, and to prevent major errors or losses resulting from financial reporting. Our Board is responsible for these systems and appropriate delegations and guidance have been made. Our audit committee regularly reports to our Board. Our audit committee consists of Mr. Aloysius Hau Yin Tse as the audit committee financial expert for the purposes of U.S. securities laws and chairman of the audit committee, Mr. Sung Hong Chiu and Professor Lawrence J. Lau.

The primary responsibilities of our remuneration committee are to review and approve all our executive directors' salaries, bonuses, share option packages, performance appraisal systems and retirement plans. In 2008, our remuneration committee consisted of three independent non-executive directors (Mr. Sung Hong Chiu as chairman, Mr. Evert Henkes and Mr. Aloysius Hau Yin Tse) and one non-executive director (Mr. Xinghe Cao). Mr. Evert Henkes retired from our Board on May 29, 2008 and is no longer a member of our remuneration committee.

The primary responsibilities of our nomination committee include nominating candidates for directors subject to our Board's approval, conducting routine examination of the structure, scale and composition of our Board, and review the leadership capabilities of our directors in order to ensure that we remain competitive. In 2008, our nomination committee consisted of Mr. Han Luo, Dr. Edgar W. K. Cheng and Professor Lawrence J. Lau. Mr. Tao Wang joined our nomination committee, effective May 29, 2008. Mr. Luo retired on March 31 2009 and Mr. Zhou Shouwei was appointed as chairman of our nomination committee on the same day.

For information on our audit committee financial expert and our code of ethics, see "Item 16A—Audit Committee Financial Expert," and "Item 16B—Code of Ethics."

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## International Advisory Board

On October 29, 2001, we announced the establishment of an International Advisory Board with globally well-respected political figures and corporate leaders as members. The purpose of the International Advisory Board is to provide the management with strategic advice on world events and macro issues that may impact our development. Chengyu Fu, Chairman of our Board, is the Chairman of the International Advisory Board.

Set forth below is information on the current members of our International Advisory Board.

Name	Biographical Information
Chengyu Fu	See “Item 6—Directors, Senior Management and Employees—Directors and Senior Management—Executive Directors.”
Erwin Schurtenberger	The Ambassador of Switzerland to the People's Republic of China, the Democratic People's Republic of Korea and the Republic of Mongolia from 1988 to 1995. He joined the Swiss Foreign Services in 1969. Over the years, he held various diplomatic positions in Bangkok, Hong Kong, Beijing and Tokyo. He also served as the Ambassador of Switzerland to Iraq. He has been an independent business advisor to various European multinationals, American groups and humanitarian aid organizations. He was the President of the Swiss-Asia Foundation. He serves on the Boards of ROBERT BOSCH RBint and its International Advisory Board, BUHLER GROUP Switzerland, FIRMENICH-China, TAIKANG Life Insurance. Dr. Schurtenberger is also a senior advisor to the China Training Center for Senior Personnel Management Officials. He is a graduate in both political science and philosophy of the University of Paris and received a Ph.D. Degree in Economics. Dr. Schurtenberger was a director on our Board from November 11, 2002 to April 1, 2005.
Simon Murray	Chairman of General Enterprise Management Services (International) Limited (GEMS Ltd.), a private equity fund management company. Formerly he was the Executive Chairman of Asia Pacific for the Deutsche Bank Group, and the Group Managing Director of Hutchison Whampoa Ltd. He is currently a director of a number of companies that include Arnhold Holdings Ltd., Cheung Kong Holdings Ltd., Orient Overseas (International) Limited, USI Holding Ltd., Compagnie Financiere Richemont SA, Sino-Forest Corporation and Vodafone Group plc.
Edward S. Steinfeld	Associate Professor, Department of Political Science, Massachusetts Institute of Technology. He received both his undergraduate and doctoral training at Harvard University. As a China specialist, he has conducted extensive firm-level research in China. Steinfeld also directs the China Energy Program at the MIT Industrial Performance Center.
Chas Freeman	Became Chairman of Projects International, Inc. in 1995, after an extensive career in the U.S. Government spanning three decades and numerous senior positions, including U.S. Ambassador to Saudi Arabia and Assistant Secretary of Defense for International Security Affairs. In February 2009, he resigned his positions as president of the Middle East Policy Council, co-chair of the U.S. China Policy

Foundation, vice-chair of the Atlantic Council, and a trustee of the Institute for Defense Analyses, among numerous other positions, in order to become chairman of the United States National Intelligence Council. Ambassador Freeman attended the National Autonomous University of Mexico and received his A.B. from Yale University as well as a J.D. from the Harvard Law School. He is the author of two widely circulated books on statecraft and diplomacy: *The Diplomat's Dictionary and Arts of Power*. He resigned from our International Advisory Board on February 1, 2009.

Evert Henkes

See “Item 6—Directors, Senior Management and Employees—Directors and Senior Management—Independent Non-executive Directors.”

#### Directors Service Contracts

Our executive directors and non-executive directors have entered into directors service contracts with us and under such contracts, there is no severance pay arrangements for our directors.

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### Summary of Significant Differences in Corporate Governance Practices for Purposes of Section 303A.11 of the New York Stock Exchange Listed Company Manual

We are incorporated under the laws of Hong Kong. The principal trading market for our shares is the Hong Kong Stock Exchange. In addition, because our shares are registered with the United States Securities and Exchange Commission and are listed on the New York Stock Exchange, or the NYSE, we are subject to certain corporate governance requirements. However, many of the corporate governance rules in the NYSE Listed Company Manual, or the NYSE Standards, do not apply to us as a "foreign private issuer" and we are permitted to follow the corporate governance practices in Hong Kong in lieu of most corporate governance standards contained in the NYSE Standards. Section 303A.11 of the NYSE Standards requires NYSE-listed foreign private issuers to describe the significant differences between their corporate governance practices and the corporate governance standards applicable to U.S. domestic companies listed on the NYSE, or U.S. domestic issuers. We set forth below a brief summary of such significant differences.

#### 1. Board and Committee Independence

While NYSE Standards require U.S. domestic issuers to have a majority of independent directors, we are not subject to this requirement. Five of our eleven directors are independent non-executive directors.

NYSE Standards require U.S. domestic issuers to schedule an executive session at least once a year to be attended by only independent directors. We are not subject to such requirement and our independent directors attend all board meetings where possible. We also schedule meetings between our chairman and our independent non-executive directors.

NYSE Standards require U.S. domestic issuers to disclose a method for interested parties to communicate directly with the presiding director or with non-management directors as a group. We are not subject to such requirement and we have not adopted such a method yet.

#### 2. Audit Committee

If an audit committee member simultaneously serves on the audit committees of more than three public companies, and the listed company does not limit the number of audit committees on which its audit committee members serve to three or less, then in each case, the boards of directors of U.S. domestic issuers are required to determine that such simultaneous service would not impair the ability of such member to effectively serve on its audit committee and disclose such determination in its annual proxy statement or annual report. We are not subject to such requirement and we have not addressed this in our audit committee charter.

NYSE Standards require audit committees of U.S. domestic issuers to discuss guidelines and policies that govern the process by which risk assessment and risk management are handled and include such responsibilities in their audit committee charters. We are not subject to such requirement and our audit committee charter does not have such provision. Our audit committee charter only provides that our audit committee shall review with our auditors and the Director of Internal Audit the scope, adequacy and effectiveness of our corporate accounting and financial controls, internal control and risk management systems, and any related significant findings regarding risks or exposures and consider recommendations for improvement of such controls according to the Hong Kong Stock Exchange Listing Rules.

NYSE Standards require audit committees of U.S. domestic issuers to produce an audit committee report annually and include such report in their annual proxy statements. We are not subject to such requirement and we have not

addressed this in our audit committee charter.

### 3. Remuneration Committee

NYSE Standards require U.S. domestic issuers to have a compensation committee composed entirely of independent directors. We are not subject to such requirement and have a remuneration committee that consists of two independent non-executive directors and one non-executive director.

NYSE Standards require U.S. domestic issuers to address in their remuneration committee charters matters regarding committee member removal and committee structure and operations (including authority to delegate to subcommittees). We are not subject to such requirement and we have not addressed this in our remuneration committee charter.

NYSE Standards require remuneration committees of U.S. domestic issuers to produce a remuneration committee report annually and include such report in their annual proxy statements or annual reports on Form 10-K. We are not subject to such requirement and we have not addressed this in our remuneration committee charter. We disclose the amounts of compensation of our directors on a named basis and the five highest paid employees in our annual reports according to the requirements of Hong Kong Stock Exchange Listing Rules.

### 4. Nomination Committee

While NYSE Standards require U.S. domestic issuers to have only independent directors on their nomination committee, we are not subject to such requirement and our nomination committee consists of three independent non-executive directors and one non-executive director.

NYSE Standards require U.S. domestic issuers to address in their nomination committee charters matters regarding committee member removal and committee structure and operations (including authority to delegate to subcommittees). We are not subject to such requirement and we have not addressed this in our nomination committee charter.

NYSE Standards require U.S. domestic issuers to adopt and disclose corporate governance guidelines. They must state in their annual proxy statements or annual reports that such corporate governance guidelines are available on their website and in print form to any shareholder who requests it. We are not subject to such requirement. We have adopted a set of corporate governance guidelines in accordance with the Hong Kong Stock Exchange Listing Rules, including the CNOOC Limited Code of Ethics for Directors and Senior Officers (the "Code of Ethics"), to govern various aspects of our corporate governance. We have posted the Code of Ethics on our website.

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## D. EMPLOYEES

See “Item 4—Information on the Company—Business Overview—Employees and Employee Benefits.”

## E. SHARE OWNERSHIP

As of March 31, 2009, our directors and employees had the following personal interests in options to subscribe for shares granted under our share option schemes:

Name of Grantee	Number of shares involved in the options outstanding as of January 1, 2008	Number of shares involved in the options outstanding as of March 31, 2009	Date of Grant	Date of Expiration*	Closing price per share immediately before the date of grant (HK\$)	Exercise Price (HK\$)
Executive Directors:						
Chengyu Fu	1,750,000	1,750,000	March 12, 2001	March 12, 2011**	1.23	1.19
	1,750,000	1,750,000	August 27, 2001	August 27, 2011	1.46	1.232
	1,150,000	1,150,000	February 24, 2003	February 24, 2013	2.09	2.108
	2,500,000	2,500,000	February 5, 2004	February 5, 2014	3.13	3.152
	3,500,000	3,500,000	August 31, 2005	August 31, 2015	5.75	5.62
	3,850,000	3,850,000	June 14, 2006	June 14, 2016	5.30	5.56
	4,041,000	4,041,000	May 25, 2007	May 25, 2017	7.43	7.29
	—	4,041,000	May 29, 2008	May 29, 2018	14.20	14.828
Shouwei Zhou	1,400,000	1,400,000	March 12, 2001	March 12, 2011**	1.23	1.19
	1,750,000	1,750,000	August 27, 2001	August 27, 2011	1.46	1.232
	1,750,000	1,750,000	February 24, 2003	February 24, 2013	2.09	2.108
	1,750,000	1,750,000	February 5, 2004	February 5, 2014	3.13	3.152
	2,450,000	2,450,000	August 31, 2005	August 31, 2015	5.75	5.62
	2,700,000	2,700,000	June 14, 2006	June 14, 2016	5.30	5.56
	2,835,000	2,835,000	May 25, 2007	May 25, 2017	7.43	7.29
	—	2,835,000	May 29, 2008	May 29, 2018	14.20	14.828
Guangqi Wu	1,610,000	1,610,000	August 31, 2005	August 31, 2015	5.75	5.62
	1,770,000	1,770,000	June 14, 2006	June 14, 2016	5.30	5.56
	1,857,000	1,857,000	May 25, 2007	May 25, 2017	7.43	7.29
	—	1,857,000	May 29, 2008	May 29, 2018	14.20	14.828
Hua Yang	1,150,000	1,150,000	March 12, 2001	March 12, 2011**	1.23	1.19
	1,150,000	1,150,000	August 27, 2001	August 27, 2011	1.46	1.232
	1,150,000	1,150,000			2.09	2.108

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	1,150,000	1,150,000	February 24, 2003	February 24, 2013		
	1,610,000	1,610,000	February 5, 2004	February 5, 2014	3.13	3.152
	1,770,000	1,770,000	August 31, 2005	August 31, 2015	5.75	5.62
	1,857,000	1,857,000	June 14, 2006	June 14, 2016	5.30	5.56
	—	1,857,000	May 25, 2007	May 25, 2017	7.43	7.29
	—	1,857,000	May 29, 2008	May 29, 2018	14.20	14.828
Non-executive Directors:						
Han Luo	1,400,000	1,400,000	March 12, 2001	March 12, 2011**	1.23	1.19
	1,150,000	1,150,000	August 27, 2001	August 27, 2011	1.46	1.232
	1,150,000	1,150,000	February 24, 2003	February 24, 2013	2.09	2.108
	1,150,000	1,150,000	February 5, 2004	February 5, 2014	3.13	3.152
	1,610,000	1,610,000	August 31, 2005	August 31, 2015	5.75	5.62
	1,770,000	1,770,000	June 14, 2006	June 14, 2016	5.30	5.56
	1,857,000	1,857,000	May 25, 2007	May 25, 2017	7.43	7.29
	—	1,857,000	May 29, 2008	May 29, 2018	14.20	14.828
Xinghe Cao	800,000	800,000	August 31, 2005	August 31, 2015	5.75	5.62
	1,770,000	1,770,000	June 14, 2006	June 14, 2016	5.30	5.56
	1,857,000	1,857,000	May 25, 2007	May 25, 2017	7.43	7.29
	—	1,857,000	May 29, 2008	May 29, 2018	14.20	14.828
Zhenfang Wu	800,000	800,000	August 31, 2005	August 31, 2015	5.75	5.62
	1,770,000	1,770,000	June 14, 2006	June 14, 2016	5.30	5.56
	1,857,000	1,857,000	May 25, 2007	May 25, 2017	7.43	7.29
	—	1,857,000	May 29, 2008	May 29, 2018	14.20	14.828
Independent Non-executive Directors:						
Sung Hong Chiu	1,150,000	1,150,000	February 5, 2004	February 5, 2014	3.13	3.152
Evert Henkes***	1,150,000		—February 5, 2004	February 5, 2014	3.13	3.152
Other Employees In Aggregate:						
	6,250,000	4,000,000	March 12, 2001	March 12, 2011**	1.23	1.19
	16,200,000	11,650,000	August 27, 2001	August 27, 2011	1.46	1.232
	18,883,300	15,850,000	February 24, 2003	February 24, 2013	2.09	2.108
	26,533,267	24,199,900	February 5, 2004	February 5, 2014	3.13	3.152
	40,563,333	39,340,000	August 31, 2005	August 31, 2015	5.75	5.62
	56,913,333	54,250,000	June 14, 2006	June 14, 2016	5.30	5.56
	68,961,000	65,487,000	May 25, 2007	May 25, 2017	7.43	7.29
	—	70,932,000	May 29, 2008	May 29, 2018	14.20	14.828
Total	303,795,233	370,210,900				

\* Except for share options granted under the Pre-Global Offering Share Option Scheme, all share options granted are subject to a vesting schedule pursuant to which one third of the options granted vest on the first, second and third anniversaries of the date of grant, respectively, such that the options granted are fully vested on the third anniversary

of the date of grant.

\*\*50% of the share options granted are vested 18 months after the date of grant, the remaining 50% are vested 30 months after the date of grant.

\*\*\*Mr. Evert Henkes retired as an Independent Non-executive Director, effective May 29, 2008. Mr. Evert Henkes exercised his right to subscribe for 1,150,000 shares of options granted under our 2002 Share Option Scheme and the allotment was completed on August 22, 2008. After that, Mr. Evert Henkes does not hold any of our share options.

For the year ended December 31, 2008, 1,483,333 share options granted under our share option schemes were exercised. For the period from January 1, 2009 to March 31, 2009, no share options were exercised.

As of December 31, 2008, we had 376,084,233 share options outstanding under our share option schemes, which represented approximately 0.84% of our shares in issue as of that date.

For further details about our share option schemes, see note 9 and 28 to our consolidated financial statements included elsewhere in this annual report.

As of March 31, 2009, none of our directors or employees owned 1% or more of our shares including the shares underlying the share options granted as of that date.



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## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

## A. MAJOR SHAREHOLDERS

The following table sets forth information regarding the ownership of our outstanding shares by major shareholders as of March 31, 2009.

Shareholder	Number of Shares Owned	Percentage
CNOOC(1)	28,772,727,273	64.41%

(1)CNOOC owns our shares indirectly through its wholly owned subsidiaries, CNOOC (BVI) Limited and Overseas Oil & Gas Corporation, Ltd.

Our major shareholder listed above does not have voting rights different from our other shareholders. Except as set forth in the above table, we are not aware of any shareholders that hold more than 5% of our shares. Except as disclosed above, we are not aware of any significant changes in the percentage ownership of our major shareholder over the course of the past three years. To our knowledge, no arrangements are currently in place that could lead to a change of control of our company.

As of March 31, 2009, 12,440,689 American depositary shares were outstanding in the United States, representing approximately 2.8% of our then outstanding shares. At such date, the number of registered American depositary share holders in the United States was 29.

## B. RELATED PARTY TRANSACTIONS

## Overview

We regularly enter into transactions with related parties, including CNOOC and its associates, as defined under the Hong Kong Stock Exchange Listing Rules. Since CNOOC indirectly owns an aggregate of approximately 64.41% of our issued share capital, some of these transactions constitute connected transactions under the Hong Kong Stock Exchange Listing Rules, and are regulated by the Hong Kong Stock Exchange.

Under the Hong Kong Stock Exchange Listing Rules, many of these connected transactions normally would require full disclosure and the prior approval of our independent shareholders. However, since the connected transactions are carried out in the ordinary and usual course of business and occur on a regular basis on normal commercial terms and on terms that are fair and reasonable as far as our shareholders are concerned, the Hong Kong Stock Exchange granted us a waiver from strict compliance with requirements of the Hong Kong Stock Exchange Listing Rules for the period from April 3, 2001 through December 31, 2002, after which this waiver was renewed to cover the period from January 1, 2003 to December 31, 2005. Following the amendments to the Hong Kong Stock Exchange Listing Rules in March 2004, waivers for connected transactions from the Hong Kong Stock Exchange are no longer required, and we are only required to obtain our independent shareholders' approval for such continuing connected transactions. Accordingly, we obtained independent shareholders' approval at the extraordinary general meetings held on December 31, 2005 and on December 6, 2007 for our continuing connected transactions with CNOOC and/or its associates for the period from January 1, 2006 to December 31, 2007 and for the period from January 1, 2008 to December 31, 2010, respectively. The continuing connected transactions are categorized into different categories, and each category of connected transactions is subject to annual caps and other conditions as specified below.



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Categories of Continuing Connected Transactions

In order to present a more coherent, logical and understandable picture to shareholders, and also to enable our company to monitor the status of connected transactions as defined under the Hong Kong Stock Exchange Listing Rules more effectively going forward, we adopted a revised categorization for our continuing connected transactions with CNOOC and/or its associates. We entered into four comprehensive framework agreements with each of CNOOC, COSL, CNOOC Engineering and China BlueChemical Ltd., or China BlueChem, on November 8, 2007, respectively for the provision of a range of products and services which may be required and requested from time to time by either party and/or its associates in respect of the continuing connected transactions. The term of each of the comprehensive framework agreements is for a period of three years from January 1, 2008. The continuing connected transactions and relevant annual caps were approved by our independent shareholders on December 6, 2007. The approved continuing connected transactions are set out below:

- (1) Provision of exploration, oil and gas development, oil and gas production as well as marketing, management and ancillary services by CNOOC and/or its associates to us
  - (a) Provision of exploration and support services
  - (b) Provision of oil and gas development and support services
  - (c) Provision of oil and gas production and support services
  - (d) Provision of marketing, management and ancillary services
  - (e) FPSO vessel leases
- (2) Provision of management, technical, facilities and ancillary services, including the supply of materials by us to CNOOC and/or its associates
  - (3) Sales of petroleum and natural gas products by us to CNOOC and/or its associates
    - (a) Sales of petroleum and natural gas products (other than long term sales of natural gas and LNG)
    - (b) Long term sales of natural gas and LNG

Pricing principles

The continuing connected transactions referred to in paragraphs (1)(a) to (1)(d) provided by CNOOC and/or its associates to us and in paragraph (2) above provided by us to CNOOC and/or its associates are based on negotiations with CNOOC and/or its associates on normal commercial terms, or on terms no less favorable than those available to us from independent third parties, under prevailing local market conditions, including considerations such as volume of sales, length of contracts, package of services, overall customer relationship and other market factors.

If, for any reason, the above pricing principle for a particular service ceases to be applicable or there is no open market for services, whether due to a change in circumstances or otherwise, such services must then be provided in accordance with the following general pricing principles:

- (i) state-prescribed prices; or
- (ii) where there is no state-prescribed price, market prices, including the local, national or international market prices; or
- (iii) when neither (i) nor (ii) is applicable, the cost for providing the relevant services (including the cost of sourcing or purchasing from third parties) plus a margin of not more than 10%, before any applicable taxes.

The continuing connected transactions referred to in paragraph (1)(e) above provided by CNOOC and/or its associates to us are at market prices on normal commercial terms which are calculated on a daily basis.

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The continuing connected transactions referred to in paragraphs (3)(a) above provided by us to CNOOC and/or its associates are at state-prescribed prices or local, national or international market prices and on normal commercial terms.

The continuing connected transactions referred to in paragraphs (3)(b) above provided by us to CNOOC and/or its associates are at state-prescribed prices or local, national or international market prices and on normal commercial terms, which is subject to adjustment in accordance with movements in international oil prices as well as other factors such as the term of the sales agreement and the length of the relevant pipeline.

A detailed discussion of significant related party transactions entered into in the ordinary course of business between us and our related parties during 2008 and the balances arising from related party transactions at the end of 2008 is included in note 30 to our consolidated financial statements included elsewhere in this annual report.

Disclosure and/or Independent Shareholders' approval requirements

Under the Hong Kong Stock Exchange Listing Rules, the following categories of continuing connected transactions are exempted from the independent shareholders' approval requirement but are subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Hong Kong Stock Exchange Listing Rules, because the percentage ratios for these categories under the Hong Kong Stock Exchange Listing Rules (other than the profits ratio) are expected to be less than 2.5% on an annual basis:

- Provision of marketing, management and ancillary services by CNOOC and/or its associates to us; and
- Provision of management, technical, facilities and ancillary services, including the supply of materials from us to CNOOC and/or its associates.

Under the Hong Kong Stock Exchange Listing Rules, the following categories of continuing connected transactions, or the non-exempt continuing connected transactions, are subject to the reporting, announcement and independent shareholders' approval requirements:

- Provision of exploration, oil and gas development, oil and gas production as well as marketing, management and ancillary services by CNOOC and/or its associates to us
  - (a) Provision of exploration and support services;
  - (b) Provision of oil and gas development and support services;
  - (c) Provision of oil and gas production and support services; and
  - (d) FPSO vessel leases.
- Sales of petroleum and natural gas products by us to CNOOC and/or its associates
  - (a) Sales of petroleum and natural gas products; and
  - (b) Long term sales of natural gas and LNG.

We obtained independent shareholders' approval at the extraordinary general meetings held on December 31, 2005 and on December 6, 2007 for our continuing connected transactions and the annual caps with CNOOC and/or its associates for the period from January 1, 2006 to December 31, 2007 and for the period from January 1, 2008 to December 31, 2010, respectively. The annual caps and the conditions are specified as follows:

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Category of continuing connected transactions	Caps
Provision of exploration, oil and gas development, oil and gas production as well as marketing, management and ancillary services by CNOOC and/or its associates to us	
(a) Provision of exploration and support services	For the three years ended December 31, 2008, Rmb 2,117 million, Rmb 3,500 million* and Rmb 6,296 million, respectively, and for the two years ending December 31, 2010, Rmb 7,555 million and Rmb 9,066 million, respectively
(b) Provision of oil and gas development and support services	For the three years ended December 31, 2008, Rmb 7,628 million, Rmb 10,458 million and Rmb 18,608 million, respectively, and for the two years ending December 31, 2010, Rmb 22,879 million and Rmb 26,759 million, respectively
(c) Provision of oil and gas production and support services	For the three years ended December 31, 2008, Rmb 3,935 million, Rmb 4,132 million and Rmb 5,124 million, respectively, and for the two years ending December 31, 2010, Rmb 6,147 million and Rmb 7,253 million, respectively
(d) Provision of marketing, management and ancillary services	For the three years ended December 31, 2008, Rmb 478 million, Rmb 504 million and Rmb 789 million, respectively, and for the two years ending December 31, 2010, Rmb 854 million and Rmb 967 million, respectively
(e) FPSO vessel leases	For the three years ended December 31, 2008, Rmb 453 million, Rmb 463 million and Rmb 1,908 million, respectively, and for the two years ending December 31, 2010, Rmb 3,182 million and Rmb 3,250 million, respectively
Provision of management, technical, facilities and ancillary services, including the supply of materials from us to CNOOC and/or its associates	
Provision of management, technical, facilities and ancillary services, including the supply of materials to CNOOC and/or its associates	For the three years ended December 31, 2008, Rmb 50 million, Rmb 100 million and Rmb 100 million, respectively, and for the two years ending December 31, 2010, Rmb 100 million and Rmb 100 million,

respectively

Sales of petroleum and natural gas products by us to CNOOC and/or its associates

(a) Sales of petroleum and natural gas products

For the three years ended December 31, 2008, Rmb 48,806 million, Rmb 63,251 million and Rmb 94,440 million, respectively\*\*, and for the two years ending December 31, 2010, Rmb 156,692 million and Rmb 181,782 million, respectively

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(b) Long term sales of natural gas and LNG	For the three years ended December 31, 2008, Rmb 1,960 million, Rmb 3,599 million and Rmb 4,844 million, respectively, and for the two years ending December 31, 2010, Rmb 7,118 million and Rmb 8,763 million, respectively
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\* At the extraordinary general meeting held on December 31, 2005, our independent shareholders approved an annual cap of Rmb 2,293 million for 2007. Our independent shareholders subsequently approved the above revised annual cap at the extraordinary general meeting held on December 6, 2007.

\*\* At the extraordinary general meeting held on December 31, 2005, our independent shareholders approved annual caps of Rmb 33,469 million and Rmb 44,199 million for 2006 and 2007, respectively. Our independent shareholders subsequently approved the above revised annual caps at the extraordinary general meeting held on September 29, 2006.

The non-exempt continuing connected transactions for the year ended December 31, 2008 to which any member of us was a party were entered into by us:

- (i) in the ordinary and usual course of our business;
- (ii) either (a) on normal commercial terms, or (b) if there is no available comparison, on terms no less favorable to us than terms available from independent third parties; and
- (iii) in accordance with the relevant agreements governing them on terms that were fair and reasonable so far as our shareholders were concerned and in the interests of our company and shareholders as a whole.

We confirmed that the annual amount of each category of the non-exempt continuing connected transactions for the year ended December 31, 2008 did not exceed the applicable annual caps; and we have complied with other relevant provisions of the Hong Kong Stock Exchange Listing Rules in relation to each category of the non-exempt continuing connected transactions.

Transactions with CNOOC Finance Corporation Limited

In addition to the related party transactions above, we also entered into a framework agreement with CNOOC Finance Corporation Limited, or CNOOC Finance, on April 8, 2004. Under the framework agreement, we utilized the financial services provided by CNOOC Finance, our 31.8% owned associate and a subsidiary of CNOOC. On October 14, 2008, we entered into a new financial services framework agreement with CNOOC Finance pursuant to which CNOOC Finance provides us with settlement, depository, discounting, loans and entrustment loans services. The depository services were exempt from independent shareholders' approval requirements and the settlement, discounting, loans and entrustment loans services were exempt from the reporting, announcement and independent shareholders' approval requirements under the Hong Kong Stock Exchange Listing Rules.

For the years ended December 31, 2007 and 2008, the maximum daily outstanding balance of deposits (including accrued interest) placed with CNOOC Finance amounted to approximately Rmb 6,501.8 million and Rmb 4,412.0 million (US\$646.7 million), respectively.

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

ITEM 8. FINANCIAL INFORMATION



A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

See pages beginning on page F-1 following Item 19.

Legal Proceedings

We are not a defendant in any material litigation, claim or arbitration, and we know of no pending or threatened proceeding which would have a material adverse effect on our financial condition.

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## Dividend Distribution Policy

The payment of any future dividends will be determined by our Board, subject to shareholders' approval for all dividends other than interim dividends, based upon, among other things, our future earnings, capital requirements, financial conditions, future prospects and other factors which our Board may consider relevant. Our ability to pay dividends will also depend on the cash flows determined by the dividends, if any, received by us from our subsidiaries and associates. Holders of our shares will be entitled to receive such dividends declared by our Board pro rata according to the amounts paid up or credited as paid up on the shares. Subject to the factors described above, we currently intend to pursue a dividend policy consistent with other international oil and gas exploration and production companies.

Dividends may be paid only out of our distributable profits as permitted under Hong Kong law, which does not restrict the payment of dividends to nonresident holders of our securities. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations.

Holders of our ADSs will be entitled to receive dividends, subject to the terms of the deposit agreement, to the same extent as holders of our shares, less the fees and expenses payable under the deposit agreement. Cash dividends will be paid to the depositary in Hong Kong dollars and will be converted by the depositary into U.S. dollars and paid to holders of ADSs. Stock dividends, if any, will be distributed to the depositary and will be distributed by the depositary, in the form of additional ADSs, to holders of the ADSs.

In 2007, we declared and paid dividends totaling Rmb 11,523.7 million. In 2008, we declared and paid dividends totaling Rmb 14,651.8 million (US\$2,147.6 million). The amount of dividends we paid historically is not indicative of the dividends that we will pay in the future.

Substantially all our dividend payments result from dividends paid to us by CNOOC China Limited. CNOOC China Limited must follow the laws and regulations of the PRC and its articles of association in determining its dividends. As a wholly foreign owned enterprise in China, CNOOC China has to provide for a reserve fund and staff and workers' bonus and welfare fund, each of which is appropriated from net profit after taxation but before dividend distribution according to the prevailing accounting rules and regulations in the PRC. CNOOC China Limited is required to allocate at least 10% of its net profit to the reserve fund until the balance of this fund has reached 50% of its registered capital, which amount was reached in 2008. Appropriations to the staff and workers' bonus and welfare fund, which are determined at the discretion of the directors of CNOOC China Limited, are charged to expense as incurred in our consolidated financial statements, which were prepared under IFRS. In accordance with the "Temporary Regulation for Safety Expense Financial Management of High Risk Industry" and the implementation guidance issued by the Ministry of Finance of the PRC, a safety fund has been accrued for our oil and gas exploration and production activities within the PRC. The accrued safety fund will be utilized for improving the safety conditions of our production. Included in other reserves was a provision for safety fund under the PRC regulation amounting to Rmb 34 million (US\$5.0 million), which was nil in 2007. None of the contributions of CNOOC China Limited to these statutory funds may be used for dividend purposes.

For the years ended December 31, 2007 and 2008, CNOOC China Limited made the following appropriations to the statutory reserves:

For the year ended December 31, 2007		For the year ended December 31, 2008	
Percentage of Net Profits	Rmb (in millions)	Percentage of Net Profits	Rmb (in millions)

Reserve fund	2%	539.4	0.0%	0
Staff and workers' bonus and welfare fund	—	—	0.0%	0

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### Contingent Liabilities

On January 8, 2006, we signed a definitive agreement with South Atlantic Petroleum Limited, or SAPETRO, to acquire a 45% working interest in the OML130 in Nigeria, or the OML130 Transaction, and the OML130 Transaction was completed on April 20, 2006.

In 2007, a local tax authorities in Nigeria conducted a tax audit on SAPETRO. According to the preliminary tax audit results, the Nigeria local tax office has raised a disagreement in the tax filings made for the OML130 Transaction.

The tax audit assessment made by the Nigeria local tax authorities has been contested by us in accordance with Nigerian laws. After seeking legal and tax advice, our management believes that we have reasonable grounds in making the contest. Consequently, no provision has been made for any expenses which might arise as a result of the dispute.

## B. SIGNIFICANT CHANGES

### First Quarter 2009 Financial and Operating Results

Comparing with the first quarter of 2008, our oil and gas production rose substantially in the first quarter of 2009, however, the total unaudited revenue decreased 41.9% year over year to Rmb 14.0 billion. Our daily average crude oil production was 468,535 barrels per day during this period, compared to 391,399 barrels per day (excluding our interests in an unconsolidated investee) during the same period in 2008, while our daily average natural gas production was 563 million cubic feet per day, compared to 586 million cubic feet per day (excluding our interests in an unconsolidated investee) during the same period in 2008. The average net realized price of our crude oil was US\$41.56 per barrel during the first quarter of 2009, compared to US\$88.76 per barrel during the same period in 2008, while the average net realized price of our natural gas was US\$3.89 per thousand cubic feet, compared to US\$3.65 per thousand cubic feet during the same period in 2008.

### Changes of Directors and Senior Management

On May 29, 2008, Mr. Evert Henkes retired as our Independent Non-executive Director.

On November 25, 2008, Ms. Xin Kang tendered her resignation as our Company Secretary and Mr. Zongwei Xiao and Ms. May Sik Yu Tsue were appointed as our Joint Company Secretaries.

On March 31, 2009, Mr. Han Luo retired as our Non-executive Director and Mr. Shouwei Zhou was re-designated from Executive Director to Non-executive Director effective from the same day.

Effective from March 31, 2009, Mr. Hua Yang was appointed as our President and CFO; Mr. Guangyu Yuan and Mr. Bi Chen were appointed as our Executive Vice Presidents; Mr. Jian Liu was no longer our Executive Vice President.

## ITEM 9. THE OFFER AND LISTING

Not applicable, except for Item 9.A.4 and Item 9.C.

We listed our shares on the Hong Kong Stock Exchange and our ADSs on the New York Stock Exchange in February 2001. Our shares are listed on the Hong Kong Stock Exchange under the stock code "883" and our ADSs are listed on the New York Stock Exchange under the symbol "CEO." On March 17, 2004, our shareholders approved a five-for-one stock split of our shares. The stock split was effected by dividing each of our issued and unissued shares of HK\$0.10

each into five shares of HK\$0.02 each. The ratio of our American depositary shares listed on the New York Stock Exchange also changed such that each ADS now represents 100 subdivided shares of HK\$0.02 each, as opposed to 20 shares of HK\$0.10 each prior to the stock split. The following table sets forth, for the periods indicated, the high and low closing prices per share, as reported on the Hong Kong Stock Exchange and adjusted retroactively to reflect the stock split, and per ADS, as reported on the New York Stock Exchange.

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Period	Hong Kong Stock Exchange		New York Stock Exchange	
	High (HK\$ per share)	Low	High (US\$ per ADS)	Low
2004	4.53	2.75	58.73	35.00
2005	6.05	3.80	76.73	48.16
2006	7.39	5.25	94.63	67.19
2007	16.92	6.16	216.49	78.18
2008	15.90	4.24	203.00	56.04
<b>2007 Financial Quarters</b>				
1st Quarter	7.48	6.16	94.27	78.18
2nd Quarter	9.13	6.71	116.95	85.57
3rd Quarter	13.06	7.53	166.43	97.02
4th Quarter	16.92	11.76	216.49	151.67
<b>2008 Financial Quarter</b>				
1st Quarter	14.12	9.65	183.36	134.75
2nd Quarter	15.90	11.50	203.00	152.78
3rd Quarter	14.06	8.16	174.91	104.91
4th Quarter	8.85	4.24	112.90	56.04
<b>2009 Financial Quarter</b>				
1st Quarter	8.39	6.08	108.50	76.63
<b>Last Six Months</b>				
November 2008	6.61	5.06	87.79	61.79
December 2008	8.00	5.82	99.99	73.76
January 2009	8.20	6.43	105.93	80.77
February 2009	7.55	6.58	96.16	84.71
March 2009	8.39	6.08	108.50	76.63
April 2009	9.20	7.87	119.00	103.19

## ITEM 10. ADDITIONAL INFORMATION

## A. SHARE CAPITAL

Not applicable.

## B. MEMORANDUM AND ARTICLES OF ASSOCIATION

We were incorporated with limited liability on August 20, 1999 in Hong Kong under the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), or the Hong Kong Companies Ordinance. Our company registration number in Hong Kong is 685974. Under section three of our memorandum of association, we have the capacity and the rights, powers and privileges of a natural person and we may also do anything which we are permitted or required to do by any enactment or rule of law. The following are summaries of provisions of our memorandum and articles of association and the Hong Kong Companies Ordinance. For further details, you should read our memorandum of association, which was filed as an exhibit to our registration statement on Form F-1 (Registration No.333-10862) and our articles of association, as amended, which was filed as an exhibit to our annual report on Form 20-F for the fiscal year of 2005.

## Issue of Shares

Under the Hong Kong Companies Ordinance our directors may, without obtaining the prior approval of our shareholders, offer to allot new shares in our company to existing shareholders on a pro rata basis. Our directors may not allot new shares of our company in any other manner without the prior approval of our shareholders at a general meeting. Any approval given at a general meeting granting our directors power to allot shares or securities convertible into shares generally shall continue in force from the date of the passing of the resolution until the earliest of:

- the conclusion of the next annual general meeting;

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- the expiration of the period within which the next annual general meeting is required by any applicable laws or our articles of association to be held; or
- the revocation or variation of the authority given under an ordinary resolution of the shareholders, in a general meeting of our company.

If such an approval for a general mandate to issue shares is given, the unissued shares of our company shall be at the disposal of our Board. Our directors may offer, allot, grant options over or otherwise dispose of the unissued shares to persons at such times and for such consideration and upon such terms and conditions as our directors may determine, subject to the restrictions under the Hong Kong Stock Exchange Listing Rules.

In accordance with Hong Kong Stock Exchange Listing Rules, any such approval of the shareholders must be limited to shares not exceeding 20% of our share capital in issue as of the date of granting such approval plus the share capital repurchased by us since the granting of such approval.

## Dividends

Subject to the Hong Kong Companies Ordinance, the shareholders at a general meeting may declare dividends to be paid to shareholders. However, under our articles of association, dividends cannot be declared in excess of the amount recommended by our Board.

In addition to dividends declared at a general meeting, our Board may declare and pay to the shareholders interim dividends as our Board deems justified by our financial position. Our Board may also pay any fixed dividend on any shares of our company semi-annually or at other suitable intervals, whenever our financial position, in their opinion, justifies such payment.

## Winding Up

If we are wound up, the surplus assets remaining after payment to all creditors are to be divided among our shareholders in proportion to the capital paid up on the shares held by them respectively, and if such surplus assets are insufficient to repay the whole of the paid-up capital, they are to be distributed so that the losses are borne by our shareholders in proportion to the capital paid up on the shares held by them respectively. The liquidator may, with the sanction of a special resolution, divide among our shareholders in specie or in kind the whole or any part of our assets or vest any part of our assets in trustees upon such trusts for the benefit of our shareholders or any of them as the resolution shall provide.

## Voting Rights

Under the Hong Kong Companies Ordinance, any action to be taken by the shareholders at a general meeting requires the affirmative vote of either an ordinary or a special resolution passed at such meeting.

- An ordinary resolution is a resolution passed by the majority of shareholders that are entitled to, and do, vote in person or by proxy at a general meeting;
- A special resolution is a resolution passed by not less than 75% of shareholders that are entitled to, and do, vote in person or by proxy at a general meeting.

Generally, resolutions of shareholders are passed by ordinary resolution. However, the Hong Kong Companies Ordinance provides that certain specified matters may only be approved by shareholders by way of special



resolutions. These matters include, for example:

- alteration of the object clause;
- alteration of the articles;

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- change of a company's name;
- reduction of share capital; and
- voluntary winding up.

Subject to the requirement of the Hong Kong Stock Exchange Listing Rules, voting at any general meeting is by a show of hands unless a poll is demanded. If voting is by a show of hands, every shareholder who is present at the meeting in person or by proxy has one vote. On a poll, every shareholder who is present in person or by proxy has one vote for every share held or represented by him. A poll may be demanded by:

- the chairman of the meeting;
- at least three members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote at the meeting;
- any member or members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and representing in the aggregate not less than 10% of the total voting rights of all members having the right to attend and vote at the meeting; or
- any member or members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than 10% of the total sum paid up on all shares conferring that right.

Any action to be taken by the shareholders requires the affirmative vote of the requisite majority of the shares at a general meeting. There are no cumulative voting rights. Accordingly, the holders of a majority of the shares voting for the election of directors can elect all the directors if they choose to do so.

Under Hong Kong law and our memorandum and articles of association, shareholders who are not residents of Hong Kong may hold, vote and transfer their shares in our company in the same manner as our shareholders who are Hong Kong residents.

General Meetings

We are required to hold an annual general meeting each year within fifteen months from the date of our last annual general meeting. We may also hold extraordinary general meetings from time to time. Our Board may convene an extraordinary general meeting at will, and shall on requisition in accordance with the Hong Kong Companies Ordinance, proceed to convene an extraordinary general meeting. Our annual general meeting and a meeting called for the purpose of passing a special resolution require at least twenty-one days' prior notice, and any other general meeting requires at least fourteen days' prior notice. The notice must specify the place, day and time of the meeting and, in the case of special business, the general nature of that business. The quorum for a general meeting is two shareholders present in person or by proxy. If within thirty minutes from the time appointed for the meeting a quorum is not present, the meeting, if convened upon requisition in accordance with the Hong Kong Companies Ordinance, must be dissolved; but in any other case it must stand adjourned to the same day in the next week at the same time and place, or to such other day, time and place as the chairman of the meeting may determine. If at such adjourned meeting a quorum is not present within thirty minutes from the time appointed for the meeting, the member or members present in person or by proxy shall be a quorum and may transact the business for which the meeting is called.

At each annual general meeting one third of our directors are to retire from office by rotation, save any director holding office as chairman or chief executive officer. The directors to retire every year are to be those who have been longest in office since their last election and the retiring directors will be eligible for re-election.

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### Modification of Rights

Subject to the Hong Kong Companies Ordinance, any of the rights attaching to any class of shares, unless otherwise provided for by the terms of issue of the shares of that class, may be varied or abrogated with the written consent of the holders of not less than 75% of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of shares of that class.

### Borrowing Powers

Our Board may exercise all the powers of our company to borrow money and to mortgage or charge all or any part of our undertaking, property and assets, whether present or future, and uncalled capital. Our Board may issue debentures, debenture stock, bonds or other securities of our company, whether outright or as collateral security for any debt, liability or obligation of our company or of any third party. These borrowing powers are subject to variation by a special resolution of our company.

### Interested Transactions

Subject to the exceptions described below, none of our directors may vote on any contract, arrangement or proposal in which the director or any of his or her associates is materially interested. For this purpose, existence of material interest is presumed if a company, in which the director and/or his or her associates beneficially own 5% or more of any class of its shares or voting rights, is materially interested in the transaction. Our directors may, however, vote on the following matters:

- any contract or arrangement to give security or indemnity to the director or his or her associates for money lent or obligations undertaken by such director or his or her associates at the request of or for the benefit of our company or subsidiaries;
- any contract or arrangement to give security or indemnity to a third party for our debts or debts of our subsidiaries for which such director or his or her associates assumed responsibility by giving guarantee or security;
- any contract or arrangement concerning offering of securities by us (or any company which we may promote or be interested in purchasing) for which the director or his or her associates participate in the underwriting or sub-underwriting;
- any contract or arrangement in which the director or his or her associates are interested only by virtue of their interest in our securities;
- any contract or arrangement concerning any other company in which the director or his or her associates are interested as an officer or executive or a shareholder in which the director or his or her associates are beneficially interested in shares of that company other than a company in which they in aggregate beneficially own more than 5% of the issued shares of any class or voting rights;
- any proposal or arrangement concerning employee benefits that do not provide privileges to our directors or their associates not generally accorded to the class of persons to whom such scheme or fund relates, including pension fund or retirement, death or disability benefits schemes; and
-

any proposal or arrangement concerning the adoption, modification or operation of any employees' share scheme involving the issue or grant of options over shares or other securities by us to, or for the benefit of, our employees or employees of our subsidiaries under which the director or his or her associates may benefit.

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C. MATERIAL CONTRACTS

We have not entered into any material contracts in the last two years other than in the ordinary course of business and other than those described in “Item 7 Major Shareholders and Related Party Transactions Related Party Transactions.”

D. EXCHANGE CONTROLS

For information on foreign exchange controls in the PRC, foreign exchange rates, hedging activities and related foreign exchange risks, see “Item 3—Key Information—Selected Financial Data,” “Item 3—Key Information—Risk Factors—Government control of currency conversion and future movements in exchange rates may adversely affect our operations and financial condition” and “Item 11—Qualitative and Quantitative Disclosure about Market Risk.”

E. TAXATION

The taxation of income and capital gains of holders of our shares or ADSs is subject to the laws and practices of Hong Kong and of jurisdictions in which holders of our shares or ADSs are resident or otherwise subject to tax. The following is a summary of taxation provisions that are anticipated to be material based on current law and practice. This summary is subject to change and does not constitute legal or tax advice. The discussion does not deal with all possible tax consequences relating to an investment in our shares or ADSs. In particular, the discussion does not address the tax consequences under state, local or other laws, such as non-Hong Kong or non-U.S. federal laws. Accordingly, we urge you to consult your tax adviser regarding the tax consequences of an investment in our shares and ADSs. The discussion is based upon laws and relevant interpretations in effect as of the date of this annual report, all of which are subject to changes. There is no reciprocal tax treaty in effect between Hong Kong and the United States.

Hong Kong

Tax on Dividends

Under the current practices of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in connection with dividends paid by us.

Profits Tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of property, such as the shares and ADSs. Trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax which is currently imposed at the rate of 16.5% on corporations and at a maximum rate of 15% on individuals. Gains from sales of the shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of shares realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong stamp duty, currently charged at the rate of HK\$1.00 per HK\$1,000 or part thereof on the higher of the consideration for, or the value of, the shares, will be payable by the purchaser on every purchase and by the seller on every sale of shares. A total of HK\$2.00 per HK\$1,000 or part thereof is currently payable on a typical sale and purchase transaction involving shares. In addition, a fixed duty of HK\$5.00 is currently payable on any instrument of transfer of shares. The withdrawal of shares upon the surrender of ADRs, and the issuance of ADRs upon the deposit

of shares, will also attract stamp duty at the rate described above for sale and purchase transactions unless the withdrawal or deposit does not result in a change in the beneficial ownership of the shares under Hong Kong law. The issuance of the ADRs upon the deposit of shares issued directly to the depository or for the account of the

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depository does not incur stamp duty if it does not involve a change of beneficial ownership in the shares. No Hong Kong stamp duty is payable upon the transfer of ADSs outside Hong Kong.

### United States

#### U.S. Federal Income Tax Considerations

The following is a discussion of the material U.S. federal income tax consequences of owning and disposing of ADSs or shares by U.S. Holders (as defined below), but it does not purport to be a comprehensive description of all the tax considerations that may be relevant to a particular person's decision to hold such ADSs or shares. This discussion does not address U.S. state, local and non-U.S. tax consequences. The discussion applies only to U.S. Holders who hold ADSs or shares as capital assets for U.S. federal income tax purposes and it does not address special classes of holders, such as:

- certain financial institutions;
- dealers or traders in securities who use a mark-to-market method of tax accounting;
- persons holding ADSs or shares as part of a hedge, straddle, conversion, integrated transaction or similar transaction;
  - persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
  - partnerships or other entities classified as partnerships for U.S. federal income tax purposes;
    - persons liable for the alternative minimum tax;
    - tax-exempt organizations;
  - persons that own or are deemed to own 10% or more of our voting stock;
- persons who acquired our ADSs or shares pursuant to the exercise of an employee stock option or otherwise as compensation; or
- persons holding shares in connection with a trade or business conducted outside of the United States.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds ADSs or shares, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships holding ADSs or shares and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of holding and disposing of the ADSs or shares.

This discussion is based on the Internal Revenue Code of 1986, as amended, administrative pronouncements, judicial decisions and final, temporary and proposed U.S. Treasury regulations, all as of the date hereof. These laws are subject to change, possibly on a retroactive basis. It is also based in part on representations by the Depository and assumes that each obligation under the Deposit Agreement and any related agreement will be performed in accordance with its terms. U.S. Holders should consult their tax advisers concerning the U.S. federal, state, local and non-U.S. tax consequences of holding and disposing of ADSs or shares in their particular circumstances.

As used herein, a "U.S. Holder" is a beneficial owner of ADSs or shares that is, for U.S. federal income tax purposes: (i) a citizen or resident of the United States; (ii) a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States or any political subdivision thereof; or (iii) an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

In general, a U.S. Holder who owns ADSs should be treated as the owner of the underlying shares represented by those ADSs for U.S. federal income tax purposes. Accordingly, no gain or loss should be recognized if a U.S. Holder exchanges ADSs for the underlying shares represented by those ADSs.



The U.S. Treasury has expressed concerns that parties to whom American depository shares are released before delivery of shares to the depository (“pre-release”), or intermediaries in the chain of ownership between holders and the issuer of the securities underlying the American depository shares, may be taking actions that are inconsistent with the claiming of foreign tax credits by holders of American depository shares. Such actions would also be inconsistent with the claiming of the reduced

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rate of tax, described below, applicable to dividends received by certain non-corporate holders. Accordingly, the availability of the reduced tax rate for dividends received by certain non-corporate holders, described below, could be affected by actions taken by such parties or intermediaries.

This discussion assumes that we were not, and will not become, a passive foreign investment company, or PFIC, as described below.

### Taxation of Distributions

Distributions received by a U.S. Holder on ADSs or shares, other than certain pro rata distributions of common shares to all shareholders, will constitute foreign source dividend income to the extent paid out of our current or accumulated earnings and profits (as determined for U.S. federal income tax purposes). Because we do not maintain calculations of our earnings and profits under U.S. federal income tax principles, it is expected that distributions generally will be reported to U.S. Holders as dividends. The amount of the dividend a U.S. Holder will be required to include in income will equal the U.S. dollar value of the Hong Kong dollar distribution, calculated by reference to the exchange rate in effect on the date the payment is received by the depositary (or, in the case of shares, received by the holder), regardless of whether the payment is converted into U.S. dollars on the date of receipt. If the dividend is converted into U.S. dollars on the date of receipt, a U.S. Holder should not be required to recognize foreign currency gain or loss in respect of the dividend income. A U.S. Holder may have foreign currency gain or loss if the dividend is converted into U.S. dollars after the date of receipt. Corporate U.S. Holders will not be entitled to claim the dividends-received deduction with respect to dividends paid by us.

Subject to applicable limitations and the discussion above regarding concerns expressed by the U.S. Treasury, dividends paid by “qualified foreign corporations” to certain non-corporate U.S. Holders in taxable years beginning before January 1, 2011, are taxable at a maximum rate of 15%. A foreign corporation is treated as a qualified foreign corporation with respect to dividends paid on stock that is readily tradable on an established securities market in the United States, such as the New York Stock Exchange where our ADSs are traded. Non-corporate U.S. Holders should consult their own tax advisers to determine whether these favorable rates may apply to dividends they receive from us and whether they are subject to any special rules that limit their ability to be taxed at this favorable rate.

### Sale or Other Disposition of ADSs or Shares

A U.S. Holder will generally recognize capital gain or loss on the sale or other disposition of ADSs or shares, which will be long-term capital gain or loss if the holder has held such ADSs or shares for more than one year. The amount of the U.S. Holder’s gain or loss will be equal to the difference between the amount realized on the sale or other disposition (as determined in U.S. dollars) and such holder’s tax basis in the ADSs or shares (as determined in U.S. dollars). Any gain or loss will generally be U.S. source gain or loss for foreign tax credit purposes.

### Passive Foreign Investment Company Considerations

We believe that we were not a PFIC for U.S. federal income tax purposes for our taxable year ended December 31, 2008. In general, a non-U.S. company will be considered a PFIC for U.S. federal income tax purposes for any taxable year in which (i) 75% or more of its gross income consists of passive income (such as dividends, interest, rents and royalties) or (ii) 50% or more of the average quarterly value of its assets consists of assets that produce, or are held for the production of, passive income. As PFIC status depends upon the composition of our income and assets and the market value of our assets (including, among other things, any equity investments in less than 25%-owned entities) from time to time, and since there are uncertainties in the manner of application of the PFIC rules, there can be no assurance that we will not be considered a PFIC for any taxable year.

If we were to be treated as a PFIC for any taxable year during which a U.S. Holder held ADSs or shares, certain adverse U.S. federal income tax rules would apply on a disposition (including a pledge) of ADSs or shares by the U.S. Holder. In general, under those rules, gain recognized by the U.S. Holder on a sale or other disposition of ADSs or shares would be allocated ratably over the U.S. Holder's holding

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period for the ADSs or shares. The amounts allocated to the taxable year of the sale or other disposition and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for such taxable year, and an interest charge would be imposed on the amount allocated to each such taxable year. Further, any distribution in respect of ADSs or shares in excess of 125% of the average of the annual distributions on ADSs or shares received by the U.S. Holder during the preceding three years or the U.S. Holder's holding period, whichever is shorter, would be subject to taxation as described above. Certain elections may be available (including a mark-to-market election) to U.S. Holders that may mitigate the adverse tax consequences resulting from PFIC status.

In addition, if we were to be treated as a PFIC in a taxable year in which we pay a dividend or the prior taxable year, the 15% dividend rate discussed above with respect to dividends received by certain non-corporate U.S. Holders would not apply.

Information Reporting and Backup Withholding

Payment of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting, and may be subject to backup withholding, unless the U.S. Holder is a corporation or other exempt recipient or, in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the holder's U.S. federal income tax liability and may entitle such holder to a refund, provided that the required information is furnished to the Internal Revenue Service.

F. DIVIDENDS AND PAYING AGENTS

Not applicable.

G. STATEMENT BY EXPERTS

Not applicable.

H. DOCUMENTS ON DISPLAY

We are subject to the informational requirements of the Exchange Act and accordingly file reports and other information with the Securities and Exchange Commission. You may inspect and copy our reports and other information we file with the Securities and Exchange Commission at the public reference facilities maintained by the Securities and Exchange Commission. Copies of such material may also be obtained at prescribed rates by writing to the Public Reference Section of the Securities and Exchange Commission at 100 F Street, NE, Washington, D.C. 20549. Please call 1-800-SEC-0330 for information on the location and operation of the Securities and Exchange Commission's public reference facilities. Our filings with the Securities and Exchange Commission are also available to the public over the internet at its website at <http://www.sec.gov>.

I. SUBSIDIARY INFORMATION

Not applicable.

ITEM 11. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Our market risk exposures primarily consist of fluctuations in oil and gas prices, exchange rates and interest rates.

Commodity Price Risks

We are exposed to fluctuations in prices of crude oil. International oil prices are volatile and this volatility has a significant effect on our net sales and profit. We do not hedge market risk resulting from

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fluctuations in oil prices. See “Item 4—Information on the Company—Business Overview—Overview” and “Item 3—Key Information—Risk Factors—Our business, revenues and profits fluctuate with changes in oil and gas prices.”

### Currency Risk

Our foreign exchange exposure gives rise to market risk associated with exchange rate movements.

Substantially all of our oil and gas sales are denominated in Renminbi and U.S. dollars. In the last ten years, the PRC government’s policy of maintaining a stable exchange rate and China’s ample foreign reserves has contributed to the stability of the Renminbi. On July 21, 2005, China reformed its foreign exchange regime by moving into a managed floating exchange rate system based on market supply and demand with reference to a basket of currencies. The Renminbi is no longer pegged to the U.S. dollar. From January 1, 2008 to March 31, 2009, the Renminbi appreciated approximately 6.86% against the U.S. dollar. However, the Chinese government has not yet determined if or when the exchange rate will be deregulated.

Our management has assessed our exposure to foreign currency risk using a sensitivity analysis. Based on a five percent change in the value of the U.S. dollar occurring on December 31, 2008, the exposure of our results of operations, monetary assets and liabilities and investments in foreign subsidiaries would each be less than 0.22% of our profit for the year.

The appreciation of the Renminbi against the U.S. dollar may have the following impact on us:

- Our oil and gas sales may decrease, because the benchmark oil and gas prices are usually in U.S. dollars;
- Our cost for imported equipment and materials will decrease, because most of these costs are denominated in U.S. dollars; and
- Our debt repayment burden will decrease, since approximately 96% of our debt is denominated in U.S. dollars.

For further information on our currency risk, see “Item 3—Key Information—Risk Factors—Government control of currency conversion and future movements in exchange rates may adversely affect our operations and financial condition.”

### Interest Rate Risk

We are exposed to interest rate risk arising from our loans. An upward fluctuation in interest rates increases the cost of new debt and the cost of servicing our floating rate debt. We may use interest rate swap transactions, from time to time, to hedge our interest rate exposure when considered appropriate, based on existing and anticipated market conditions.

As of December 31, 2008, the interest rates for 53% of our outstanding debts were fixed. The term of the weighted average balance was approximately 8.0 years. A fixed interest rate can reduce the volatility of finance costs in uncertain markets. We do not currently engage in any interest rate hedging activities.

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The following table sets forth additional information about the expected maturity dates of our outstanding debt as of December 31, 2008.

	2009	2010	2011	2012	2013	2014 and after	Total	Fair value as of December 31, 2008
(Rmb in millions, except percentages)								
Long-term debt, including current portion								
Fixed rate	-	-	-	500.0	-	-	500.0	510.1
Average interest rate	4.050%	4.050%	4.050%	4.050%	-	-		
Long-term debt, including current portion								
Floating rate	16.6	108.0	174.5	207.8	241.0	5,884.0	6,632.0	6,718.7
Interest rate	LIBOR+	LIBOR+	LIBOR+	LIBOR+	LIBOR+	LIBOR+		
	0.23%	0.23%	0.23%	0.23%	0.23%	0.23%		
	~4%	~4%	~4%	~4%	~4%	~4%		
Long-term guaranteed notes								
Fixed rate	-	-	-	3,417.3	1,366.9	2,050.4	6,834.6	6,481.4
Average interest rate	5.663%	5.663%	5.663%	5.154%	5.215%	5.5%		

For additional discussions of our market risks, see “Item 3—Key Information—Risk Factors.”

## ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

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PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

A. MATERIAL MODIFICATIONS TO THE INSTRUMENTS DEFINING THE RIGHTS OF SECURITY HOLDERS

None.

B. MATERIAL MODIFICATIONS TO THE RIGHTS OF REGISTERED SECURITIES BY ISSUING OR MODIFYING ANY OTHER CLASS OF SECURITIES

None.

C. WITHDRAWAL OR SUBSTITUTION OF A MATERIAL AMOUNT OF THE ASSETS SECURING ANY REGISTERED SECURITIES

Not applicable.

D. CHANGE OF TRUSTEES OR PAYING AGENTS FOR ANY REGISTERED SECURITIES

Not applicable.

E. USE OF PROCEEDS

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

An evaluation was carried out under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness, as of December 31, 2008, of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act).

Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2008, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported as and when required by the SEC's rules and forms and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Management's annual report on internal control over financial reporting



Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2008 using the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, our management has concluded that our internal control over financial reporting as of December 31, 2008 was effective.

### (c) Attestation Report of the Registered Public Accounting Firm

Our independent auditors have issued an audit report on the effectiveness of our internal control over financial reporting. This report appears on page F-4.

### (d) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2008 that have materially affected, or that were reasonably likely to materially affect, our internal control over financial reporting.

## ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Mr. Aloysius Hau Yin Tse has been designated by our Board as an audit committee financial expert. Mr. Tse is independent as defined in the listing standards of the New York Stock Exchange.

## ITEM 16B. CODE OF ETHICS

Our Board adopted a code of ethics on August 28, 2003 to provide guidelines to our senior management and directors in legal and ethical matters as well as the sensitivities involved in reporting illegal and unethical matters. Such code of ethics covers such areas as supervisory rules, insider dealing, market malpractices, conflict of interests, company opportunities, protection and proper use of our assets as well as reporting requirements. We reviewed our code of ethics and adopted a revised code of ethics in 2005, as part of our continuing efforts to improve our corporate governance standards. The revised code of ethics clarified the scope of senior management, and expanded the applicability of prohibitions against insider trading and other market misconduct.

We have provided all our directors and senior officers with a copy of the revised code of ethics and require them to comply with the revised code of ethics, so as to ensure our operations are proper and lawful. We will take disciplinary actions towards any act which is in breach of the revised code of ethics. Any change or waiver, explicit or implicit, with respect to our revised code of ethics, must be disclosed to our shareholders either in our annual report or on our internet website, [www.cnooltd.com](http://www.cnooltd.com).

## ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

### Audit Fees

The aggregate fees billed for professional services rendered by our principal accountants for the audit of our annual financial statements or services that are normally provided by the accountants in connection with statutory and regulatory filings or engagements were Rmb 14.4 million for 2007 and Rmb 23.4 million (US\$3.4 million) for 2008.

### Audit-Related Fees

The aggregate fees billed for assurance and related services by our principal accountants that are reasonably related to the performance of the audit or review of our financial statements and are not reported under “Audit Fees” were Rmb

1.6 million for 2007 and nil for 2008. The audit-related services provided in 2007 included assistance in the implementation of Section 404 of the Sarbanes-Oxley Act.

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Tax Fees

The aggregate fees billed for professional service rendered by the principal accountant for tax compliance, tax advice and tax planning were Rmb 0.3 million for 2007 and Rmb 1.2 million (approximately US\$0.2 million) for 2008.

All other fees

The aggregate fees billed for professional services rendered by our principle accountant for risk management advisory services and information systems reviews were Rmb 1.1 million for 2007 and Rmb 0.5 million (US\$0.1 million) for 2008.

The aggregate fees billed for products and services provided by our principal accountant, other than the services reported above, were nil for fiscal years 2007 and 2008.

Audit Committee's pre-approval policies and procedures

Our audit committee under our Board is responsible for the appointment, compensation and oversight of the work of our principal accountant. In 2003, our audit committee adopted a policy calling for the audit committee's pre-approval for the engagement of our principal accountant for audit and permitted non-audit services. Our Board has also ratified the policy and procedures. Under this audit committee policy, proposed services may be pre-approved by our audit committee either on an annual basis or on a case-by-case basis. Appendices to the audit committee policy set forth (1) the audit, audit-related, tax and other services that may be subject to the general annual pre-approval of the audit committee; (2) non-audit services of a routine and recurring nature that may be subject to specific pre-approval from the audit committee on a case-by-case basis; and (3) a list of prohibited non-audit services. Our audit committee will periodically review and revise these appendices based on its subsequent determinations. The audit committee policy also provides for procedures to establish annual fee levels or budgets for pre-approved services and ratios between different categories of pre-approved services. In addition, the audit committee policy contains provisions that deal with compliance, monitoring, reporting and other related matters.

During 2008, all fees for audit-related services, tax services and all other services paid to our principal accountant were approved by our audit committee.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

None.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

See "Item 6—Directors, Senior Management and Employees—Board Practice—Summary of Significant Differences in Corporate Governance Practices for Purposes of Section 303A.11 of the New York Stock Exchange Listed Company Manual."



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## PART III

## ITEM 17. FINANCIAL STATEMENTS

Not applicable.

## ITEM 18. FINANCIAL STATEMENTS

See pages beginning on page F-1 following Item 19.

## ITEM 19. EXHIBITS

The following documents are filed as part of this annual report:

Exhibit  
Number

Document

1.1	Articles of Association of the Registrant, as amended in 2005, incorporated by reference to Exhibit 1.1 to our Annual Report on Form 20-F for fiscal year 2005 filed with the Securities and Exchange Commission (File Number: 1-14966).
1.2	Memorandum of Association of the Registrant, incorporated by reference to Exhibit 3.2 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
2.1	Form of Indenture, incorporated by reference to Exhibit 2.1 to our annual report on Form 20-F for fiscal year 2002 filed with the Securities and Exchange Commission (File Number: 1-14966).
2.2	Trust Deed dated December 15, 2004 among CNOOC Limited, CNOOC Finance (2004) Limited and J.P. Morgan Corporate Trustee Services Limited, incorporated by reference to Exhibit 2.2 to our annual report on Form 20-F for fiscal year 2004 filed with the Securities and Exchange Commission (File Number: 1-14966).
4.1	The Asset Swap Agreement dated July 20, 1999 between CNOOC and Offshore Oil Company Limited, incorporated by reference to Exhibit 10.1 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
4.2	The Asset Allocation Agreement dated July 20, 1999 between CNOOC and Offshore Oil Company Limited, incorporated by reference to Exhibit 10.2 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
4.3	The Reorganization Agreement dated September 13, 1999 between CNOOC, Offshore Oil Company Limited and CNOOC Limited, incorporated by reference to Exhibit 10.3 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
4.4	Form of the Equity Transfer Agreement between CNOOC and CNOOC Limited, incorporated by reference to Exhibit 10.4 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).

4.5 Form of the Transfer Agreement dated October 1, 1999 between CNOOC and Offshore Oil Company Limited regarding the transfer of the rights and obligations of CNOOC under the 37 PSCs and one geophysical exploration agreement, incorporated by reference to Exhibit 10.5 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).

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- 4.6 Form of Equity Transfer Agreement between China Offshore Oil East China Sea Corporation and Offshore Oil Company Limited regarding the transfer of the rights and obligations under Joint Venture Contract of Shanghai Petroleum and Natural Gas Company Limited dated July 28, 1992 to Offshore Oil Company Limited, incorporated by reference to Exhibit 10.6 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.7 Transfer Agreement dated September 9, 1999 between CNOOC and Offshore Oil Company Limited regarding the transfer of the rights and obligations of CNOOC under the Natural Gas Sale and Purchase Contract dated December 22, 1992 to Offshore Oil Company Limited, incorporated by reference to Exhibit 10.7 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.8 Transfer Agreement dated September 9, 1999 between CNOOC and Offshore Oil Company Limited regarding the transfer of the rights and obligations of CNOOC under the Natural Gas Sale and Purchase Contract dated November 7, 1992 to Offshore Oil Company Limited, incorporated by reference to Exhibit 10.8 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.9 Transfer Agreement dated September 9, 1999 among CNOOC, Offshore Oil Company Limited, the four PRC subsidiaries and CNOOC's affiliates regarding the transfer of the rights and obligations of the technical services agreements to Offshore Oil Company Limited, incorporated by reference to Exhibit 10.9 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.10 Nanshan Terminal Leasing Agreement dated September 9, 1999 between CNOOC, Hainan China Oil and Offshore Natural Gas Company and Offshore Oil Company Limited, incorporated by reference to Exhibit 10.10 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.11 Trademark License Agreement dated September 9, 1999 between CNOOC, Offshore Oil Company Limited and CNOOC Limited, incorporated by reference to Exhibit 10.11 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.12 Trademark License Agreement dated September 9, 1999 between China Offshore Oil Marketing Company, CNOOC Limited and Offshore Oil Company Limited, incorporated by reference to Exhibit 10.12 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.13 Trademark License Agreement between CNOOC, CNOOC Limited and CNOOC China Limited.
- 4.14 Trademark License Agreement between CNOOC, CNOOC Limited and CNOOC China Limited.
- 4.15 Property Leasing Agreement dated September 9, 1999 between Wui Hai Enterprise Company Limited and Offshore Oil Company Limited in respect of the office premises at 6th, 7th and 8th Floors, CNOOC Plaza, No. 6 Dong Zhi Men Wai Xiao Jie, Beijing, incorporated by reference to Exhibit 10.18 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.16



Property Leasing Agreement dated September 9, 1999 between China Offshore Oil Western South China Sea Corporation and Offshore Oil Company Limited in respect of the office premises at 1st to 9th Floors, Nantiao Road, Potou District Zhangjiang, Guangdong, incorporated by reference to Exhibit 10.19 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).

4.17 Property Leasing Agreement dated September 9, 1999 between China Offshore Oil Bohai Corporation and Offshore Oil Company Limited in respect of the office premises at 1st to 7th Floors and 9th Floor, 2-37 He Kou Jie, Tanggu District, Tianjin, incorporated by reference to Exhibit 10.20 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).

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- 4.18 Property Leasing Agreement dated September 9, 1999 between China Offshore Oil East China Sea Corporation and Offshore Oil Company Limited in respect of the office premises at 20th, 22nd and 23rd Floors, 583 Ling Ling Road, Shanghai, the PRC, incorporated by reference to Exhibit 10.21 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.19 Property Leasing Agreement dated September 9, 1999 between China Offshore Oil Eastern South China Sea Corporation and Offshore Oil Company Limited in respect of the office premises at 3rd Floor and 6th to 11th Floors, 1 Second Industrial Road, Shekou, Shenzhen, the PRC, incorporated by reference to Exhibit 10.22 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.20 Property Leasing Agreement dated September 9, 1999 between China Offshore Oil Bohai Corporation and Offshore Oil Company Limited in respect of the Chengbei Warehouse, Chengbei Road, Tanggu District, Tianjin City, the PRC, incorporated by reference to Exhibit 10.23 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.21 Property Leasing Agreement dated September 9, 1999 between Overseas Oil & Gas Corporation Ltd. and China Offshore Oil (Singapore) International Pte Ltd in respect of the residential premises at 10-01 and 17-002 Aquamarine Tower, 50 Bayshore Road, 13-05 Jade Tower, 60 Bayshore Road, Singapore, incorporated by reference to Exhibit 10.24 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.22 Suizhong Pier Agreement dated September 9, 1999 between Offshore Oil Company Limited and China Offshore Bohai Corporation, incorporated by reference to Exhibit 10.25 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.23 Form of Novation Agreement among CNOOC, CNOOC China Limited, the Banks and other financial institution and the Fuji Bank Limited Hong Kong Branch, as agent, in respect of the transfer of the US\$110 million syndicated loan, incorporated by reference to Exhibit 10.26 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.24 Form of the Undertaking Agreement between CNOOC and CNOOC Limited, incorporated by reference to Exhibit 10.27 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.25 Form of Pre-Global Offering Share Option Scheme for the Senior Management of CNOOC Limited, incorporated by reference to Exhibit 10.31 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.26 Form of Share Option Scheme for the Senior Management of CNOOC Limited, incorporated by reference to Exhibit 10.32 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.27 CNOOC Limited Share Option Scheme adopted on December 31, 2005, incorporated by reference to Exhibit 4.37 to our Annual Report on Form 20-F for fiscal year 2005 filed with the Securities and Exchange Commission (File Number: 1-14966).
- 4.28

Subscription Agreement dated March 17, 2000 among CNOOC Limited, CNOOC (BVI) Limited, Overseas Oil & Gas Corporation, Ltd., et al., incorporated by reference to Exhibit 10.33 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).

4.29 Subscription Agreement dated May 31, 2000 among CNOOC Limited, CNOOC (BVI) Limited, Overseas Oil & Gas Corporation, Ltd. and Hutchison International Limited, incorporated by reference to Exhibit 10.34 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).

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- 4.30 Subscription Agreement dated May 31, 2000 among CNOOC Limited, CNOOC (BVI) Limited, Overseas Oil & Gas Corporation, Ltd. and Hong Kong Electric Holdings Limited, incorporated by reference to Exhibit 10.35 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.31 Subscription Agreement dated June 28, 2000 among CNOOC Limited, CNOOC (BVI) Limited, Overseas Oil & Gas Corporation, Ltd., et al., incorporated by reference to Exhibit 10.36 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.32 Corporation Placing Agreement dated February 6, 2001 among CNOOC Limited, China National Offshore Oil Corporation, Shell Eastern Petroleum (Pte) Limited and Merrill Lynch Far East Limited, incorporated by reference to Exhibit 10.37 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.33 Equity Transfer Agreement dated September 5, 2003 between CNOOC China Limited and CNOOC (Summary Translation), incorporated by reference to Exhibit 4.38 to our annual report on Form 20-F for fiscal year 2003 filed with the Securities and Exchange Commission (File Number: 1-14966).
- 4.34 Framework Agreement dated April 8, 2004 with CNOOC Finance Corporation Limited (Summary Translation), incorporated by reference to Exhibit 4.39 to our annual report on Form 20-F for fiscal year 2003 filed with the Securities and Exchange Commission (File Number: 1-14966).
- 4.35 Framework Agreement dated December 8, 2005 with CNOOC (Summary Translation), incorporated by reference to Exhibit 4.45 to our Annual Report on Form 20-F for fiscal year 2005 filed with the Securities and Exchange Commission (File number: 1-14966).
- 4.36 Framework Agreement dated December 8, 2005 with China Oilfield Services Limited (Summary Translation), incorporated by reference to Exhibit 4.46 to our Annual Report on Form 20-F for fiscal year 2005 filed with the Securities and Exchange Commission (File number: 1-14966).
- 4.37 Framework Agreement dated December 8, 2005 with Offshore Oil Engineering Co., Ltd. (Summary Translation), incorporated by reference to Exhibit 4.47 to our Annual Report on Form 20-F for fiscal year 2005 filed with the Securities and Exchange Commission (File number: 1-14966).
- 4.38 Sale and Purchase Agreement, dated January 8, 2006 between CNOOC Exploration & Production Limited and South Atlantic Petroleum Limited (certain statements, marked with an asterisk in brackets [\*], have been omitted from this agreement pursuant to a request for confidential treatment pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended, and the omitted materials have been filed separately in paper form with the Securities and Exchange Commission), incorporated by reference to Exhibit 4.49 to our Annual Report on Form 20-F for fiscal year 2005 filed with the Securities and Exchange Commission (File number: 1-14966).
- 4.39 Framework Agreement dated November 8, 2007 with China BlueChemical Ltd. (Summary Translation), incorporated by reference to Exhibit 4.37 to our Annual Report on Form 20-F for fiscal year 2007 filed with the Securities and Exchange Commission (File number: 1-14966).
- 4.40 Framework Agreement dated November 8, 2007 with CNOOC (Summary Translation), incorporated by reference to Exhibit 4.38 to our Annual Report on Form 20-F for fiscal year 2007 filed with the

Securities and Exchange Commission (File number: 1-14966).

- 4.41 Framework Agreement dated November 8, 2007 with China Oilfield Services Limited (Summary Translation), incorporated by reference to Exhibit 4.39 to our Annual Report on Form 20-F for fiscal year 2007 filed with the Securities and Exchange Commission (File number: 1-14966).

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4.42	Framework Agreement dated November 8, 2007 with Offshore Oil Engineering Co., Ltd. (Summary Translation), incorporated by reference to Exhibit 4.40 to our Annual Report on Form 20-F for fiscal year 2007 filed with the Securities and Exchange Commission (File number: 1-14966).
8.1	List of Subsidiaries.
10.1	Letter from CNOOC Limited dated May 23, 2002 regarding receipt of certain representations from Arthur Andersen & Co pursuant to the requirements of the Securities and Exchange Commission, incorporated by reference to Exhibit 10 to our annual report on Form 20-F for fiscal year 2001 filed with the Securities and Exchange Commission (File Number: 1-14966).
11.1	Code of Ethics for Directors and Senior Officers, as amended in 2005, incorporated by reference to Exhibit 11.1 to our Annual Report on Form 20-F for fiscal year 2005 filed with the Securities and Exchange Commission (File Number: 1-14966).
12.1	Certification by the Chief Executive Officer in accordance with Section 302 of the Sarbanes-Oxley Act of 2002.
12.2	Certification by the Chief Financial Officer in accordance with Section 302 of the Sarbanes-Oxley Act of 2002.
13.1	Sarbanes-Oxley Act of 2002 Section 906 Certification furnished to (not filed with) the Securities and Exchange Commission.

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SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

CNOOC Limited

By: /s/ Zongwei Xiao  
Name: Zongwei Xiao  
Title: Joint Company  
Secretary

Date: May 8, 2009

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CNOOC LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2008

TOGETHER WITH REPORT OF INDEPENDENT PUBLIC ACCOUNTING FIRM

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENTS

To the Board of Directors and Shareholders of CNOOC Limited  
(Incorporated in Hong Kong with limited liability)

We have audited the accompanying consolidated balance sheets of CNOOC Limited (the “Company”) and its subsidiaries (the “Group”) as of December 31, 2008 and 2007, and the related consolidated income statements, changes in equity and cash flows for the two years in the period ended December 31, 2008. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States) and Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group at December 31, 2008 and 2007 and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2008, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board and Hong Kong Financial Reporting Standards as issued by the Hong Kong Institute of Certified Public Accountants.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group’s internal control over financial reporting as of December 31, 2008, based on criteria established on Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 31, 2009 expressed an unqualified opinion thereon.

/S/ Ernst & Young  
Ernst & Young  
Certified Public Accountants

Hong Kong  
March 31, 2009

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Shareholders of CNOOC Limited  
(Incorporated in Hong Kong with limited liability)

We have audited CNOOC Limited's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). CNOOC Limited's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying "Management's annual report on internal control over financial reporting". Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, CNOOC Limited maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of CNOOC Limited as of December 31, 2008 and 2007, and the related consolidated income statements, changes in equity and cash flows for each of the two years in the period ended December 31, 2008 of CNOOC Limited and our report dated March 31, 2009 expressed an unqualified opinion thereon.

/S/ Ernst & Young

Ernst & Young  
Certified Public Accountants

Hong Kong  
March 31, 2009

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CNOOC LIMITED AND ITS SUBSIDIARIES  
CONSOLIDATED INCOME STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2008

	Notes	2007 RMB'000	2008 RMB'000	2008 US\$'000
<b>REVENUE</b>				
Oil and gas sales	5	73,036,906	100,831,333	14,779,235
Marketing revenues		17,397,338	22,966,752	3,366,325
Other income		289,587	2,179,297	319,428
		90,723,831	125,977,382	18,464,988
<b>EXPENSES</b>				
Operating expenses		(8,039,603)	(9,990,368)	(1,464,327)
Production taxes	11 (ii)	(3,497,440)	(4,889,272)	(716,639)
Exploration expenses		(3,432,419)	(3,409,546)	(499,750)
Depreciation, depletion and amortization	7	(7,936,170)	(10,057,665)	(1,474,191)
Special oil gain levy	6	(6,837,213)	(16,238,234)	(2,380,100)
Impairment	14, 19	(613,505)	(1,541,458)	(225,937)
Crude oil and product purchases		(17,082,624)	(22,675,049)	(3,323,569)
Selling and administrative expenses		(1,741,161)	(1,742,597)	(255,420)
Others		(344,679)	(1,568,039)	(229,833)
		(49,524,814)	(72,112,228)	(10,569,766)
<b>PROFIT FROM OPERATING ACTIVITIES</b>		41,199,017	53,865,154	7,895,222
Interest income	7	672,987	1,091,024	159,916
Finance costs	8	(2,031,788)	(415,271)	(60,868)
Exchange gains, net	7	1,855,968	2,551,260	373,948
Investment income	7	902,378	475,925	69,758
Share of profits of associates		719,039	374,111	54,835
Non-operating expenses, net		(6,979)	(61,917)	(9,075)
<b>PROFIT BEFORE TAX</b>	7	43,310,622	57,880,286	8,483,736
Tax	11	(12,052,323)	(13,505,032)	(1,979,485)
<b>PROFIT FOR THE YEAR</b>		31,258,299	44,375,254	6,504,251
<b>EARNINGS PER SHARE</b>				
Basic	13	RMB0.72	RMB0.99	USD0.15
Diluted	13	RMB0.72	RMB0.99	USD0.15

The accompanying notes are an integral part of these financial statements.

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CNOOC LIMITED AND ITS SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
AS OF DECEMBER 31, 2007 AND 2008

	Notes	2007 RMB'000	2008 RMB'000	2008 US\$'000
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	14	118,880,204	138,358,136	20,279,683
Intangible assets	15	1,331,204	1,205,645	176,716
Investments in associates	16	2,030,999	1,785,155	261,657
Available-for-sale financial assets	18	1,818,732	1,549,797	227,160
<b>Total non-current assets</b>		<b>124,061,139</b>	<b>142,898,733</b>	<b>20,945,216</b>
<b>CURRENT ASSETS</b>				
Inventories and supplies	19	2,345,887	2,684,372	393,459
Trade receivables	20	7,129,848	3,387,910	496,579
Due from related companies	30	3,299,392	2,856,267	418,654
Held-to-maturity financial asset	21	3,000,000	–	–
Available-for-sale financial assets	18	6,687,948	11,660,649	1,709,146
Other current assets		1,625,663	2,119,465	310,658
Time deposits with maturity over three months	22	7,200,000	21,300,000	3,122,023
Cash and cash equivalents	22	23,356,569	19,761,618	2,896,536
		54,645,307	63,770,281	9,347,055
Non-current asset classified as held for sale		1,086,798	–	–
<b>Total current assets</b>		<b>55,732,105</b>	<b>63,770,281</b>	<b>9,347,055</b>
<b>CURRENT LIABILITIES</b>				
Trade payables	23	5,051,420	4,567,854	669,528
Due to the parent company	30	587,228	204,814	30,020
Due to related companies	30	1,533,424	2,921,713	428,247
Other payables and accrued liabilities	24	9,051,258	8,239,785	1,207,738
Current portion of long term bank loans	25	–	16,623	2,436
Tax payable		4,690,026	2,848,454	417,509
		20,913,356	18,799,243	2,755,478
Liabilities directly associated with a non-current asset classified as held for sale		488,322	–	–
<b>Total current liabilities</b>		<b>21,401,678</b>	<b>18,799,243</b>	<b>2,755,478</b>
<b>NET CURRENT ASSETS</b>		<b>34,330,427</b>	<b>44,971,038</b>	<b>6,591,577</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>158,391,566</b>	<b>187,869,771</b>	<b>27,536,793</b>
<b>NON-CURRENT LIABILITIES</b>				

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Long term bank loans	25	2,720,431	7,115,408	1,042,933
Long term guaranteed notes	26	8,325,519	6,748,598	989,168
Provision for dismantlement	27	6,737,319	8,339,734	1,222,387
Deferred tax liabilities	11	6,293,559	5,428,323	795,650
<b>Total non-current liabilities</b>		<b>24,076,828</b>	<b>27,632,063</b>	<b>4,050,138</b>
<b>Net assets</b>		<b>134,314,738</b>	<b>160,237,708</b>	<b>23,486,655</b>
<b>EQUITY</b>				
Equity attributable to equity holders of the Company				
Issued capital	28	942,541	949,299	139,142
Reserves	29	133,372,197	159,288,409	23,347,513
<b>Total equity</b>		<b>134,314,738</b>	<b>160,237,708</b>	<b>23,486,655</b>

The accompanying notes are an integral part of these financial statements.

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CNOOC LIMITED AND ITS SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2008

	Attributable to equity holders of the Company							
	Issued share capital	Share premium and capital redemption reserve	Cumulative translation reserve	Statutory and non-distributable reserves	Other reserves	Retained earnings	Proposed final dividend	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2007	923,653	34,965,514	(1,770,537)	19,460,631	275,045	47,915,803	6,001,819	107,771,9
Net gains on available-for-sale financial assets	-	-	-	-	3,416	-	-	3,4
Foreign currency translation	-	-	(3,861,917)	-	-	-	-	(3,861,9
Net income and expenses for the year recognized directly in equity	-	-	(3,861,917)	-	3,416	-	-	(3,858,5
Profit for the year	-	-	-	-	-	31,258,299	-	31,258,2
Total income and expenses for the year	-	-	(3,861,917)	-	3,416	31,258,299	-	27,399,7
2006 final dividend	-	-	-	-	-	25,598	(6,001,819)	(5,976,2
2007 interim dividend	-	-	-	-	-	(5,547,488)	-	(5,547,4
Proposed 2007 final dividend	-	-	-	-	-	(7,052,445)	7,052,445	-
Conversion from bonds	18,888	6,078,272	-	-	4,471,324	-	-	10,568,4
Appropriation to statutory and non-distributable reserves	-	-	-	539,369	-	(539,369)	-	-
Equity-settled share option expenses	-	-	-	-	98,237	-	-	98,2
Share of losses	-	-	-	-	-	-	-	-
At December 31, 2007	942,541	41,043,786*	(5,632,454)*	20,000,000*	4,848,022*	66,060,398*	7,052,445*	134,314,7



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At January 1, 2008	942,541	41,043,786	(5,632,454)	20,000,000	4,848,022	66,060,398	7,052,445	134,314,7
Net gains on available-for-sale financial assets	–	–	–	–	10,310	–	–	10,3
Share of reserve change in an associate	–	–	–	–	4,316	–	–	4,3
Foreign currency translation	–	–	(5,074,423)	–	–	–	–	(5,074,4
Net income and expenses for the year recognized directly in equity	–	–	(5,074,423)	–	14,626	–	–	(5,059,7
Profit for the year	–	–						