

CNOOC LTD  
Form 20-F  
April 19, 2018

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, 2017**

**OR**

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

**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)**

N/A

**(Translation of Registrant's name into English)**

**Hong Kong**

**(Jurisdiction of incorporation or organization)**

**65th Floor, Bank of China Tower**

**One Garden Road, Central**

**Hong Kong**

**(Address of principal executive offices)**

Jiewen Li

65<sup>th</sup> 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.**

<b><u>Title of each class</u></b>	<b><u>Name of each exchange on which registered</u></b>
American depositary shares, each representing 100 shares	New York Stock Exchange, Inc.
Shares	New York Stock Exchange, Inc. <sup>(1)</sup>

**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 44,647,455,984

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 was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Edgar Filing: CNOOC LTD - Form 20-F

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of “large accelerated filer”, “accelerated filer,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act.

The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

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

(1) Not for trading, but only in connection with the registration of American depositary shares.

## Table of Contents

<u>Page</u>	
	<u>TERMS AND CONVENTIONS</u> 5
	<u>SPECIAL NOTE ON THE FINANCIAL INFORMATION AND CERTAIN STATISTICAL INFORMATION PRESENTED IN THIS ANNUAL REPORT</u> 10
	<u>ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u> 11
	<u>ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE</u> 11
	<u>ITEM 3. KEY INFORMATION</u> 11
	<u>A. Selected Financial Data</u> 11
	<u>B. Capitalization and Indebtedness</u> 14
	<u>C. Reasons for the Offer and Use of Proceeds</u> 14
	<u>D. Risk Factors</u> 14
	<u>ITEM 4. INFORMATION ON THE COMPANY</u> 18
	<u>A. History and Development</u> 18
	<u>B. Business Overview</u> 20
	<u>C. Organizational Structure</u> 53
	<u>D. Property, Plants and Equipment</u> 54
	<u>ITEM 4A. unresolved staff comments</u> 54
	<u>ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u> 54
	<u>A. Operating Results</u> 54
	<u>B. Liquidity and Capital Resources</u> 66
	<u>C. Research and Development, Patents and Licenses, etc.</u> 69
	<u>D. Trend Information</u> 69
	<u>E. Off-Balance Sheet Arrangements</u> 70
	<u>F. Tabular Disclosure of Contractual Obligations</u> 70
	<u>G. Safe Harbor</u> 70
	<u>ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u> 71
	<u>A. Directors and Senior Management</u> 71
	<u>B. Compensation</u> 79
	<u>C. Board Practice</u> 80
	<u>D. Employees</u> 82
	<u>E. Share Ownership</u> 82
	<u>ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u> 83
	<u>A. Major Shareholders</u> 83
	<u>B. Related Party Transactions</u> 84
	<u>C. Interests of Experts and Counsel</u> 88
	<u>ITEM 8. FINANCIAL INFORMATION</u> 88
	<u>A. Consolidated Statements and Other Financial Information</u> 88
	<u>B. Significant Changes</u> 90
	<u>ITEM 9. THE OFFER AND LISTING</u> 90
	<u>ITEM 10. ADDITIONAL INFORMATION</u> 91
	<u>A. Share Capital</u> 91
	<u>B. Memorandum and Articles of Association</u> 91

<u>C. Material Contracts</u>	<u>94</u>
<u>D. Exchange Controls</u>	<u>94</u>
<u>E. Taxation</u>	<u>94</u>
<u>F. Dividends and Paying Agents</u>	<u>99</u>
<u>G. Statement by Experts</u>	<u>99</u>
<u>H. Documents on Display</u>	<u>99</u>
<u>I. Subsidiary Information</u>	<u>99</u>
<u>ITEM 11. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>99</u>
<u>ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	<u>100</u>
<u>A. Debt Securities</u>	<u>100</u>
<u>B. Warrants and Rights</u>	<u>100</u>
<u>C. Other Securities</u>	<u>100</u>
<u>D. American Depositary Shares</u>	<u>100</u>
<u>PART II</u>	<u>102</u>
<u>ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	<u>102</u>



Table of Contents

<u>ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	<u>102</u>
<u>A. <i>Material Modifications to the Instruments Defining the Rights of Security Holders</i></u>	<u>102</u>
<u>B. <i>Material Modifications to the Rights of Registered Securities by Issuing or Modifying any Other Class of Securities</i></u>	<u>102</u>
<u>C. <i>Withdrawal or Substitution of a Material Amount of the Assets Securing any Registered Securities</i></u>	<u>102</u>
<u>D. <i>Change of Trustees or Paying Agents for any Registered Securities</i></u>	<u>103</u>
<u>E. <i>Use of Proceeds</i></u>	<u>103</u>
<u>ITEM 15. CONTROLS AND PROCEDURES</u>	<u>103</u>
<u>ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT</u>	<u>103</u>
<u>ITEM 16B. CODE OF ETHICS</u>	<u>103</u>
<u>ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	<u>104</u>
<u>ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	<u>105</u>
<u>ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	<u>105</u>
<u>ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT</u>	<u>105</u>
<u>ITEM 16G. CORPORATE GOVERNANCE</u>	<u>105</u>
<u>ITEM 16H. MINE SAFETY DISCLOSURE</u>	<u>105</u>
<u>PART III</u>	<u>105</u>
<u>ITEM 17. FINANCIAL STATEMENTS</u>	<u>105</u>
<u>ITEM 18. FINANCIAL STATEMENTS</u>	<u>105</u>
<u>ITEM 19. EXHIBITS</u>	<u>105</u>

Table of Contents

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, or China National Offshore Oil Corporation and its subsidiaries (excluding us and our subsidiaries), as the case may be;

“CNOOC Limited” are to CNOOC Limited, a Hong Kong limited liability company and the registrant of this annual report;

· “Our company”, “Company”, “Group”, “we”, “our” or “us” are to CNOOC Limited and its subsidiaries;

· “ADRs” are to the American depositary receipts that evidence our ADSs;

· “ADSs” are to our American depositary shares, each of which represents 100 shares;

· “Cdn\$” are to Canadian dollar, the legal currency of Canada;

· “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” are to the Hong Kong Special Administrative Region of the People’s Republic of China;

· “Hong Kong Stock Exchange” or “HKSE” are to The Stock Exchange of Hong Kong Limited;

· “HK\$” are to 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;

“NYSE” are to the New York Stock Exchange;

“Rmb” are to Renminbi, the legal currency of the PRC;

“TSX” are to the Toronto Stock Exchange; and

“US\$” are to U.S. dollar, the legal currency of the United States of America.

#### Conventions

We publish our financial statements in Renminbi. Unless otherwise indicated, 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

Table of Contents

of Renminbi per U.S. dollar certified for customs purposes by the Federal Reserve Bank of New York, as set forth in the H.10 weekly statistical release of the Federal Reserve Board on December 29, 2017 of US\$1.00=Rmb 6.5063. We have translated amounts in Hong Kong dollars solely for the convenience of the reader at the noon buying rate for cable transfers of Hong Kong dollars per U.S. dollar certified for customs purposes by the Federal Reserve Bank of New York, as set forth in the H.10 weekly statistical release of the Federal Reserve Board on December 31, 2017 of US\$1.00=HK\$ 7.8128. We have also translated amounts in Canadian dollars solely for the convenience of the reader at the noon buying rate for cable transfers of Canadian dollars per U.S. dollar certified for customs purposes by the Federal Reserve Bank of New York, as set forth in the H.10 weekly statistical release of the Federal Reserve Board on December 31, 2017 of US\$1.00=Cdn\$1.2517. We make no representation that the Renminbi amounts, Hong Kong dollar amounts or Canadian dollar amounts could have been, or could be, converted into U.S. dollars at those rates on December 31, 2017, 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 add correctly due to rounding of numbers.

For the years 2015, 2016 and 2017, approximately 62%, 60% and 65% respectively, of our reserves were evaluated by our internal reserve evaluation staff, and the remaining were based upon estimates prepared by independent petroleum engineering consulting companies and reviewed by us. Our reserve data for 2015, 2016 and 2017 were prepared in accordance with the SEC’s final rules on “Modernization of Oil and Gas Reporting”, which became effective for accounting periods ended on or after December 31, 2009. Except as otherwise stated, all amounts of reserve and production in this report include our interests in equity method investees.

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 South America, Oceania, SES and Tangguh projects in Indonesia in Asia and Yacheng 13-1/13-4 gas fields in the Western South China Sea, where we have used energy equivalence for such conversion purpose.

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 exploratory well drilled after a successful wildcat well to gain more information on a newly discovered oil or gas reserve.

“developed oil and gas reserves” are reserves of any category that can be expected to be recovered:

(i) through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and

(ii) through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving any well.

“exploratory well” means a well drilled to find either a new field or a new reservoir in a field previously found to be productive of oil or gas in another reservoir. Generally, an exploratory well is any well that is not a development well, an extension well, a service well, or a stratigraphic test well.

“LNG” means liquefied natural gas.

“net wells” means a party’s working interests in wells.

“proved oil and gas reserves” means those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible—from a given date forward, from known reservoirs, and under existing economic conditions, operating

Table of Contents

methods, and government regulations— prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

(i) The area of the reservoir considered as proved includes: (A) The area identified by drilling and limited by fluid contacts, if any, and (B) Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geosciences and engineering data.

(ii) In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons (LKH) as seen in a well penetration unless geosciences, engineering, or performance data and reliable technology establishes a lower contact with reasonable certainty.

(iii) Where direct observation from well penetrations has defined a highest known oil (HKO) elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geosciences, engineering, or performance data and reliable technology establish the higher contact with reasonable certainty.

(iv) Reserves which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when: (A) Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and (B) The project has been approved for development by all necessary parties and entities, including governmental entities.

(v) Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

“PSC” means production sharing contract. For more information about PSC, see “Item 4—Information on the Company—Business Overview—Regulatory Framework in the PRC.”

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

“undeveloped oil and gas reserves” means reserves of any category 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.

(i) Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.

(ii) Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances, justify a longer time.

Table of Contents

(iii) Under no circumstances shall estimates for undeveloped reserves be 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 projects in the same reservoir or an analogous reservoir, or by other evidence using reliable technology establishing reasonable certainty.

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 U.S. Accounting Standards Codification 932-235-50, which reconciliation is included in “Supplementary Information on Oil and Gas Producing Activities” beginning on page F-79 of this annual report.

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.

“reserve life” means the ratio of proved reserves to annual production of crude oil or, with respect to natural gas, to wellhead production excluding flared gas, also known as reserve-to-production ratio.

“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 exploratory well. Such an exploratory 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.



Edgar Filing: CNOOC LTD - Form 20-F

“wildcat well” means an exploratory well drilled on any rock formation for the purpose of searching for petroleum accumulations 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 28.32 million cubic meters; and

· BTU means British Thermal Unit, a universal measurement of energy.

Table of Contents

***FORWARD-LOOKING STATEMENTS***

This annual report includes “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, including statements regarding expected future events, business prospects or financial results. The words “expect”, “anticipate”, “continue”, “estimate”, “objective”, “ongoing”, “may”, “will”, “project”, “should”, “intends” and similar expressions are 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,
- 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 analysis 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 but not limited to those associated with fluctuations in crude oil and natural gas prices, our exploration or development activities, our capital expenditure requirements, our business strategy, whether the transactions entered into by us can complete on schedule pursuant to their terms and timetable or at all, the highly competitive nature of the oil and natural gas industry, our foreign operations, environmental liabilities and compliance requirements, and economic and political conditions in the PRC and overseas. 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.

Table of Contents

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

Our consolidated financial statements for the years ended December 31, 2015, 2016 and 2017 included in this annual report on Form 20-F have been prepared in accordance with International Financial Reporting Standards, or IFRSs, as issued by the International Accounting Standards Board.

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 reconciliation to Generally Accepted Accounting Principles in the United States.

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.

Table of Contents**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, 2013, 2014, 2015, 2016 and 2017. Except for amounts presented in U.S. dollars, the selected historical consolidated statement of financial position data and consolidated statement of profit or loss and other comprehensive income data as of and for the years ended December 31, 2013, 2014, 2015, 2016 and 2017 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, 2013, 2014, 2015, 2016 and 2017 have been prepared and presented in accordance with IFRS.

	Year ended December 31,					
	2013	2014	2015	2016	2017	2017
	Rmb	Rmb	Rmb	Rmb	Rmb	US\$
	(in millions, except per share and per ADS data)					
Statement of profit or loss and other Comprehensive Income Data:						
Operating revenues:						
Oil and gas sales	226,445	218,210	146,597	121,325	151,888	23,345

Edgar Filing: CNOOC LTD - Form 20-F

Marketing revenues	55,495	50,263	21,422	20,310	28,907	4,443
Other income	3,917	6,161	3,418	4,855	5,595	860
Total operating revenues	285,857	274,634	171,437	146,490	186,390	28,648
Expenses:						
Operating expenses	(30,014 )	(31,180 )	(28,372 )	(23,211 )	(24,282 )	(3,732 )
Taxes other than income tax	(15,937 )	(11,842 )	(10,770 )	(6,941 )	(7,210 )	(1,108 )
Exploration expenses	(17,120 )	(11,525 )	(9,900 )	(7,359 )	(6,881 )	(1,058 )
Depreciation, depletion and amortization	(56,456 )	(58,286 )	(73,439 )	(68,907 )	(61,257 )	(9,415 )
Special oil gain levy	(23,421 )	(19,072 )	(59 )	-	(55 )	(8 )
Impairment and provision	45	(4,120 )	(2,746 )	(12,171 )	(9,130 )	(1,403 )
Crude oil and product purchases	(53,386 )	(47,912 )	(19,840 )	(19,018 )	(27,643 )	(4,249 )
Selling and administrative expenses	(7,859 )	(6,613 )	(5,705 )	(6,493 )	(6,861 )	(1,055 )
Others	(3,206 )	(3,169 )	(3,150 )	(4,802 )	(6,021 )	(925 )
Total expenses	(207,354)	(193,719)	(153,981)	(148,902)	(149,340)	(22,953)
Profit/(loss) from operating activities	78,503	80,915	17,456	(2,412 )	37,050	5,695
Interest income	1,092	1,073	873	901	653	100
Finance costs	(3,457 )	(4,774 )	(6,118 )	(6,246 )	(5,044 )	(775 )
Exchange gains /(losses), net	873	1,049	(143 )	(790 )	356	55
Investment income	2,611	2,684	2,398	2,774	2,409	370
Share of profits/(losses) of associates	133	232	256	(609 )	302	46
Share of (losses)/ profits of a joint venture	762	774	1,647	533	553	85
Non-operating income, net	334	560	761	574	78	12
Profit/(loss) before tax	80,851	82,513	17,130	(5,275 )	36,357	5,588
Income tax (expense)/credit	(24,390 )	(22,314 )	3,116	5,912	(11,680 )	(1,795 )
Profit for the year	56,461	60,199	20,246	637	24,677	3,793
Earnings per share (basic) <sup>(2)</sup>	1.26	1.35	0.45	0.01	0.55	0.09
Earnings per share (diluted) <sup>(3)</sup>	1.26	1.35	0.45	0.01	0.55	0.09
Earnings per ADS (basic) <sup>(2)</sup>	126.46	134.83	45.35	1.43	55.40	8.51
Earnings per ADS (diluted) <sup>(3)</sup>	126.07	134.57	45.31	1.43	55.40	8.51
Dividend per share						
Interim	0.198	0.198	0.205	0.105	0.170	0.03
Proposed final	0.252	0.254	0.210	0.204	0.243	0.04

Table of Contents

	As of December 31,					
	2013 Rmb	2014 Rmb	2015 Rmb	2016 Rmb	2017 Rmb	2017 US\$
	(in millions)					
Statement of Financial Position Data:						
Cash and cash equivalents	14,318	14,918	11,867	13,735	12,572	1,932
Available-for sale financial assets <sup>(1)</sup>	51,103	54,030	-	-	-	-
Other financial assets <sup>(1)</sup>	-	-	71,806	52,889	74,344	11,426
Current assets	146,552	140,708	140,211	122,045	138,838	21,339
Property, plant and equipment, net	419,102	463,222	454,141	432,465	395,868	60,844
Investments in associates	4,094	4,100	4,324	3,695	4,067	625
Investments in a joint venture	20,303	21,150	24,089	26,300	25,079	3,855
Intangible assets	17,000	16,491	16,423	16,644	15,070	2,316
Available-for-sale financial assets	6,798	5,337	-	-	-	-
Equity investments <sup>(1)</sup>	-	-	3,771	4,266	3,540	544
Total assets	621,473	662,859	664,362	637,681	617,219	94,865
Current loans and borrowings	49,841	31,180	33,585	19,678	13,892	2,136
Current liabilities	128,948	103,498	84,380	67,090	61,412	9,439
Long term loans and borrowings	82,011	105,383	131,060	130,798	118,358	18,191
Total non-current liabilities	150,905	179,751	193,941	188,220	175,832	27,025
Total liabilities	279,853	283,249	278,321	255,310	237,244	36,464
Capital stock	43,081	43,081	43,081	43,081	43,081	6,621
Shareholders' equity	341,620	379,610	386,041	382,371	379,975	58,401

From January 1, 2015, the Company early adopted IFRS/HKFRS 9 (2009) - Financial Instruments. Certain (1) financial assets have been classified into new categories. For details, please refer to notes 2.2 to our consolidated financial statements included elsewhere in this annual report.

Earnings per share (basic) and earnings per ADS (basic) for each year from 2013 to 2017 have been computed, without considering the dilutive effect of the shares underlying our share option schemes by dividing profit by the (2) weighted average number of shares and the weighted average number of ADSs of 44,646,825,847 and 446,468,258, respectively, for 2013, and 44,647,455,984 and 446,474,560, respectively, for 2014, 44,647,455,984 and 446,474,560, respectively, for 2015, 44,647,455,984 and 446,474,560, respectively, for 2016, and 44,647,455,984 and 446,474,560, respectively, for 2017, in each case based on a ratio of 100 shares to one ADS.

Earnings per share (diluted) and earnings per ADS (diluted) for each year from 2013 to 2017 have been computed, after considering the dilutive effect of the shares underlying our share option schemes by using 44,787,119,089 (3) shares and 447,871,191 ADSs for 2013, 44,734,774,504 shares and 447,347,745 ADSs for 2014, 44,684,819,053 shares and 446,848,191 ADSs for 2015, 44,659,140,488 shares and 446,591,405 ADSs for 2016, and 44,651,557,953 shares and 446,515,580 ADSs for 2017.

Edgar Filing: CNOOC LTD - Form 20-F

	2013 Rmb	Year ended December 31,					2017 US\$
		2014 Rmb	2015 Rmb	2016 Rmb	2017 Rmb	2017 US\$	
(in millions, except percentages and ratios)							
Other Financial Data:							
Capital expenditures paid <sup>(1)</sup>	79,716	95,673	67,674	51,347	47,734	7,337	
Cash provided by/(used for):							
Operating activities	110,891	110,508	80,095	72,863	94,734	14,561	
Investing activities	(170,032)	(90,177)	(76,495)	(27,953)	(64,411)	(9,901)	
Financing activities	18,601	(19,486)	(6,893)	(43,240)	(31,271)	(4,806)	
Gearing ratio <sup>(2)</sup>	27.8 %	26.5 %	29.9 %	28.2 %	25.8 %	25.8 %	

(1) Capital expenditures paid exclude those relating to acquisition of oil and gas properties.

(2) Interest bearing debt divided by the sum of interest bearing debt and equity



Table of Contents

The following table sets forth the noon buying rates between U.S. dollars and Renminbi as set forth in the H.10 weekly statistical release of the Federal Reserve Board for the periods indicated:

Period	Noon Buying Rate			
	End	Average <sup>(1)</sup>	High	Low
	(Rmb per US\$1.00)			
2013	6.0537	6.1412	6.2438	6.0537
2014	6.2046	6.1704	6.2591	6.0402
2015	6.4778	6.2869	6.4896	6.1870
2016	6.9430	6.6549	6.9580	6.4480
2017	6.5063	6.7350	6.9575	6.4773
October 2017	6.6328	—	6.6533	6.5712
November 2017	6.6090	—	6.6385	6.5967
December 2017	6.5063	—	6.6210	6.5063
January 2018	6.2841	—	6.5263	6.2841
February 2018	6.3280	—	6.3471	6.2649
March 2018	6.2726	—	6.3565	6.2685

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

On March 30, 2018, the noon buying rate between U.S. dollars and Renminbi as set forth in the H.10 weekly statistical release of the Federal Reserve Board was Rmb 6.2726 to US\$1.00.

The following table sets forth the noon buying rates between U.S. dollars and Hong Kong dollars as set forth in the H.10 weekly statistical release of the Federal Reserve Board for the periods indicated.

Period	Noon Buying Rate			
	End	Average <sup>(1)</sup>	High	Low
	(HK\$ per US\$1.00)			
2013	7.7539	7.7565	7.7654	7.7503
2014	7.7531	7.7554	7.7669	7.7495
2015	7.7507	7.7529	7.7686	7.7495
2016	7.7534	7.7618	7.8270	7.7505
2017	7.8128	7.7950	7.8267	7.7540
October 2017	7.8015	—	7.8106	7.7996

November 2017	7.8093	—	7.8118	7.7955
December 2017	7.8128	—	7.8228	7.8050
January 2018	7.8210	—	7.8230	7.8161
February 2018	7.8262	—	7.8267	7.8183
March 2018	7.8484	—	7.8486	7.8275

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

On March 30, 2018, the noon buying rate between U.S. dollars and Hong Kong dollars as set forth in the H.10 weekly statistical release of the Federal Reserve Board was HK\$7.8484 to US\$1.00.

The following table sets forth the noon buying rates between U.S. dollars and Canadian dollars as set forth in the H.10 weekly statistical release of the Federal Reserve Board for the periods indicated.

Table of Contents

Period	Noon Buying Rate			
	End	Average <sup>(1)</sup>	High	Low
	(Cdn\$ per US\$1.00)			
2013	1.0637	1.0347	1.0697	0.9839
2014	1.1601	1.1083	1.1644	1.0612
2015	1.3839	1.2906	1.3989	1.1725
2016	1.3426	1.3229	1.4592	1.2544
2017	1.2517	1.2963	1.3745	1.2131
October 2017	1.2894	—	1.2894	1.2470
November 2017	1.2884	—	1.2890	1.2693
December 2017	1.2517	—	1.2900	1.2517
January 2018	1.2293	—	1.2534	1.2293
February 2018	1.2806	—	1.2806	1.2280
March 2018	1.2891	—	1.3096	1.2822

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

On March 30, 2018, the noon buying rate between U.S. dollars and Canadian dollars as set forth in the H.10 weekly statistical release of the Federal Reserve Board was Cdn\$1.2891 to US\$1.00.

**B. Capitalization and Indebtedness**

Not applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not applicable.

**D. Risk Factors**

Although we have established the risk management system to identify, analyze, evaluate and respond to risks, our business activities may be subject to the following risks, which could have material effects on our strategy, operations, compliance and financial condition. We urge you to carefully consider the risks described below.

***Our business, cash flows and profits fluctuate with volatility in oil and gas prices.***

Prices for crude oil, natural gas and oil products may fluctuate widely in response to relative changes in the supply and demand for oil and natural gas, market uncertainty and various other factors beyond our control, including, but not limited to overall economic conditions, political instability, armed conflict and acts of terrorism, economic conditions and actions by major oil-producing countries, the price and availability of other energy sources, domestic and foreign government regulations, natural disasters and weather conditions. Changes in oil and gas prices could have a material effect on our business, cash flows and earnings.

Despite the mild recovery of international oil prices, low oil and natural gas prices may adversely affect our business, revenue and earnings. Lower oil and natural gas prices may result in the write-off of higher cost reserves and other assets, reduction of the amount of oil and natural gas we can produce economically and termination of existing contracts that have become uneconomic. The prolonged slump in oil and natural gas prices may also impact our long-term investment strategy and operation capability for our projects.

***Our business and strategy may be substantially affected by complex macro economy, political instability, war and terrorism and changes in policy and fiscal and tax regimes.***

Despite the global economy has been recovering, some of the countries in which we operate may be considered politically and economically unstable. As a result, our financial condition and operating results could be adversely affected by associated international activities, domestic civil unrest and general strikes, political instability, war and acts of terrorism. Any changes in regime or social instability, or other political, economic or diplomatic developments, or changes in fiscal and tax regime are not within our control. Our operations, existing assets or future investments may be materially and adversely affected by these changes as well as potential trade and economic sanctions due to deteriorated relations between different countries.

Table of Contents

Our financial performance is affected by the tax and fiscal regimes of host countries in which we operate. Any changes in these regimes may result in increased costs, including the potential for additional or double taxation being imposed on our company in some circumstances. For example, the Organization for Economic Co-operation and Development (OECD)'s "Base Erosion and Profit Shifting Project" (BEPS Project) was initiated in 2015 to enhance multilateral cooperation and strengthen supervision on global corporate taxation and transfer pricing activities. Numerous countries have responded to the BEPS Project by implementing tax law changes and amending tax treaties at a rapid pace. Most recently, the U.S. has promulgated a significant tax reform with effect from January 1, 2018.

***Oil and natural gas industry are very competitive.***

We compete in the PRC and international markets with national oil companies, major integrated oil and gas companies and various other independent oil and gas companies for access to oil and gas resources, products, alternative energy, customers, capital financing, technology and equipment, personnel and business opportunities. Competition may result in shortage of these resources or over-supply of oil and gas, which could increase our cost or reduce our earnings, and adversely impact our business, financial condition and results of operations.

In addition to competition, as we need to obtain various approvals from governmental and other regulatory authorities in order to maintain our operations, we may face unfavorable results such as project delays and cost overruns, which may further impact the realization of our strategies and adversely impact our financial condition.

***Our ability to deliver competitive returns and pursue commercial opportunities depends in part on the robustness and the long-lasting accuracy of our price assumptions.***

We review the oil and natural gas price assumptions on a periodic basis when evaluating project decisions and business opportunities. We generally test projects and other business opportunities against a long-term price range. While we believe our current long-term price assumptions are prudent, if such assumptions proved to be incorrect, it could have a material adverse effect. For short-term planning purposes, we stress test the project feasibility against a wider range of prices.

***Rising climate change concerns could lead to additional regulatory measures that may result in project delays and higher costs.***

It is expected that the CO<sub>2</sub> emissions will increase as our production grows. CO<sub>2</sub> emissions from flaring will increase as long as there are no proven and reliable gas gathering systems in place. With the coming into force of the Paris Agreement and the continuing growth of the public's awareness of climate change problems, the carbon emission policies of different countries are gradually enacted. The company will be supervised by relevant agencies and organizations in the future, if we are unable to find economically viable and publicly acceptable solutions that could reduce our CO<sub>2</sub> emissions for new and existing projects, we may experience additional costs, project delays, reduced production and reduced demand for the Company's products.

***Mergers, acquisitions and divestments may expose us to additional risks and uncertainties, and we may not be able to realize the anticipated benefits from acquisitions and divestments.***

Mergers and acquisitions may not succeed due to various reasons, such as difficulties in integrating activities and realising synergies, outcomes differing from key assumptions, host governments reacting or responding in a different manner from that envisaged, or liabilities and costs being underestimated. Any of these would reduce our ability to realise the anticipated benefits. We may not be able to successfully divest non-core assets at acceptable prices, resulting in increased pressure on our cash position. In the case of divestments, we may be held liable for past acts, or failures to act or perform responsibilities. We may also be subject to liabilities if a purchaser fails to fulfil all of its commitments. These risks may result in an increase in our costs and inability to achieve our business goals.

***The nature of our operations exposes us and the communities in which we work to a wide range of health, safety, security and environment risks.***

Table of Contents

Every aspect of our daily operations exposes us to health, safety, security and environmental (HSSE) risks given the geographical area, operational diversity and technical complexity of our operations. Our operations include productions and transportations of oil and gas in difficult geographic or climate zones, as well as environmentally sensitive regions, such as Canada, the basins in Uganda or offshore, especially in deep water area. Our operations expose us and the areas in which we operate to a number of risks, including major process safety incidents, natural disasters, earthquakes, social unrest, health and safety lapses and crimes. If a major HSSE risk materialises, such as an explosion or hydrocarbon spill, this could result in casualties, environmental damage disruption of business activities and, depending on their cause and severity, material damage to our reputation, exclusion from bidding on mineral rights and eventually loss of our licence to operate. In certain circumstances, liabilities could be imposed without regard to our fault in the matter. Regulatory requirements for HSSE change constantly and may become more stringent over time. In the future, we may incur significant additional costs in complying with such requirements or bear liabilities such as fines, penalties, clean-up costs and third-party claims, as a result of breach of laws and regulations relating to HSSE matter.

We maintain various insurance policies for our operations against potential losses. However, our ability to insure against our risks is subject to the availability of relevant insurance products in the market. In addition, we cannot ensure you that our insurance coverage is sufficient to cover any losses that we may incur, or that we will be able to successfully claim our losses under our existing insurance policies on a timely basis, or at all. If any of our losses are not covered by our insurance coverage, or if the insurance compensation is less than our losses or the claim is not paid on a timely basis, our business, financial condition and results of operations could be materially and adversely affected.

***Violations of anti-fraud, anti-corruption and corporate governance laws may expose us to various risks.***

Laws and regulations of the host countries or regions in which we operate, such as laws on anti-corruption, anti-fraud and corporate governance, are constantly changing and strengthening, especially in the U.S., United Kingdom, Canada, Australia, Guyana and China. The compliance with these laws and regulations may increase our cost. If the Company, our directors, executives or employees fail to comply with any of such laws and regulations, it may expose us to prosecution or punishment, damage to our brand and reputations, the ability to obtain new resources and/or access to the capital markets, and it may even expose us to civil or criminal liabilities.

***The current or future activities of our controlling shareholder, CNOOC, or its affiliates in certain countries that are the subject of U.S. sanctions could result in negative media and investor attention and possible imposition of sanctions on CNOOC, which could materially and adversely affect our shareholders.***

We cannot predict the interpretation or implementation of government policies at the U.S. federal, state or local levels with respect to any current or future activities by CNOOC or its affiliates in countries or with individuals or entities that are the subject of U.S. sanctions. As a result of such activities by CNOOC, we could be prohibited from engaging in business activities in the U.S. or with U.S. individuals or entities, and U.S. transactions in our securities and distributions to U.S. individuals and entities with respect to our securities could also be prohibited. Pension or endowment funds of certain U.S. State and local governments or universities may sell our securities due to certain restrictions on investments in companies that engage in activities in sanctioned countries, such as Iran and Sudan. We may also be subject to negative media or investor attention, which may distract management, consume internal resources and affect investors' perception of our company and investment in our company.

As required by the Iran Threat Reduction and Syria Human Rights Act of 2012, which added a disclosure requirement to the Securities Exchange Act of 1934, we are providing certain information regarding our non-controlled affiliates' activities. To our knowledge, in 2017, China Oilfield Services Limited (COSL), one of our non-controlled affiliates, provided certain drilling and other related services in Iran. We cannot predict at this time whether U.S. sanctions will be imposed on any of our affiliates.

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

Our exploration and development activities involve inherent risks, including the risk of not discovering commercially productive oil or gas reservoirs and that the wells we drill may not be able to commence production or may not be sufficiently productive to generate a return of our partial or full investments. In addition, approximately



Table of Contents

57.6% of our proved reserves were undeveloped as of 31 December 2017. Our future success depends on our ability to develop these reserves in a timely and cost-effective manner. There are various risks in developing reserves, mainly including construction, operational, geophysical, geological and regulatory risks.

The reliability of reserve estimates depends on a number of factors, including the quality and quantity of technical and economic data, the market prices of our oil and gas products, the production performance of reservoirs, extensive engineering judgments, comprehensive judgement of engineers and the fiscal and tax regime in the countries where we have operations or assets.

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

***If we fail to develop or gain access to appropriate technologies, or to deploy them effectively, the realization of our strategies as well as our competitiveness and ability to operate may be adversely affected.***

Technology and innovation are vital for us in meeting the global energy demands in a competitive environment and challenges from exploration and development. For example, we strive to rely on technologies and innovations to enhance our competitiveness in the development of unconventional oil and gas resources, including heavy oil, oil sands, shale oil and gas and coalbed methane, and deep water exploration and development, offshore enhanced oil recovery. In the context of an operating environment with stricter environmental compliance standards and requirements, although current knowledge recognise these newly developed technologies as safe to the environment, there still exists unknown or unpredictable elements that may have an impact on the environment. This may in turn harm our reputation and operation, increase our costs or even result in litigations and sanctions.

***Breach of our cyber security or break down of our IT infrastructure could damage our operations and our reputation.***

Intentional attacks on our cyber system, negligent management of our cyber security and IT system management and other factors may cause damage or break down to our IT infrastructure, which may disrupt our operations, result in loss or misuse of data or sensitive information, cause injuries, environmental harm or damages in assets, violate laws or regulations and result in potential legal liability. These actions could result in significant costs or damage to our reputational.

***CNOOC largely controls us and we regularly enter into connected party transactions with CNOOC and its affiliates.***

Currently, CNOOC indirectly owns or controls 64.44% of our shares. As a result, CNOOC is able to control our board composition, or our Board, determine the timing and amount of dividend payments, and controls us in various aspects. Under current PRC laws, CNOOC has the exclusive right to enter into PSCs with foreign enterprises for the petroleum resources exploitation in offshore China. Although CNOOC has undertaken to transfer all of its rights and obligations under any new PSCs that it enters into to us (except for those relating to administrative functions as a state-owned company), our strategies, results of operations and financial position may be adversely affected in the event CNOOC takes actions that favour its own interests over ours.

In addition, we regularly enter into connected transactions with CNOOC and its affiliates. Certain connected transactions require a review by the Hong Kong Stock Exchange and are subject to prior approvals by the independent shareholders. If these transactions are not approved, the Company may not be able to proceed with these transactions as planned and it may adversely affect our business and financial condition.

***Oil and natural gas transportation may expose us to financial loss and reputation harm.***

Our oil and gas transportation involves marine, land and pipeline transportation, which are subject to hazards such as capsizing, collision, acts of piracy and damage or loss from severe weather conditions, explosions, oil and gas spills and leakages. These hazards could result in serious personal injury or loss of human life, significant damage to property and equipment, environmental pollution, impairment of operations, risk of financial

Table of Contents

loss and reputation harm. We may not be able to arrange insurance coverage for all of these risks and uninsured losses and liabilities arising from these hazards could reduce the funds available to us for financing, exploration and investment, which may have a material adverse effect on our business, financial condition and results of operations.

***We face various risks with regard to our business and operations in North America.***

Transportation and export infrastructure in North America is limited, and without the construction of new transportation and export infrastructure, our oil and natural gas production capacity may be affected. In addition, we may be required to sell our products into the North American markets at lower prices than in other markets, which could materially and adversely affect our financial performance.

The First Nation in Canada have claimed aboriginal title and rights to the lands and mineral resources in a substantial portion of western Canada. As a result, negotiations with aboriginal people on surface activities are required and may result in timing uncertainties or delays of future development activities. Declaration by aboriginal people, if successful, could have a significant adverse effect on our business in Canada.

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

A portion of our operations are conducted in the form of partnerships or in joint ventures in which we may have limited capability to influence and control their operation or future development. Our limited ability to influence and control the operation or future development of such joint ventures could materially and adversely affect the realization of our target returns on capital investment and lead to unexpected future costs.

***If we depend heavily on key customers or suppliers, our business, results of operations and financial condition could be adversely affected.***

Key sales customers – if any of our key customers reduced their crude oil purchases from us significantly, our results of operation could be adversely affected. In order to reduce reliance on a single customer, we adopt measures including signing annual sales contracts, developing sales plans, and participating in market competition so as to maintain a stable cooperation with customers.

Key suppliers – we have strengthened our communication in business with our key suppliers in order to maintain a good working relationship. We have also established strategic partnerships through communications and a consensus in corporate cultures and win-win cooperation. Further, we actively explore new suppliers to ensure adequacy and foster competition.

***We face currency risks and liquidity risks.***

Currency risks – The Company’s oil and gas sales are substantially denominated in Renminbi and U.S. dollars. The appreciation of the Renminbi against the U.S. dollar may result in double effects. The depreciation of the U.S. dollar against the Renminbi may decrease the Company’s revenue in the sales of oil and gas, but it may decrease our costs of equipment and import of raw materials in the meantime.

Liquidity risks – Certain restrictions on dividend distribution imposed by the laws of the host countries in which we operate may adversely and materially affect our cash flows. For instance, the dividend of our wholly owned subsidiaries in the PRC shall be distributed pursuant to the laws of the PRC and the articles and association, and we may face risks of not obtaining adequate cash flows from such subsidiaries. In addition, a ratings downgrade could potentially increase financing costs and adversely impact our ability to access financing, which could put pressure on the Company’s liquidity.

***The audit reports included in this annual report have been prepared by our independent registered public accounting firm whose work are not be inspected by the Public Company Accounting Oversight Board and, as such, you are deprived of the benefits of such inspection.***

Our independent registered public accounting firm that issues the audit reports included in our annual report filed with the SEC, as auditors of companies that are traded publicly in the United States and a firm registered with the U.S. Public Company Accounting Oversight Board, or the PCAOB, is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards.

Because we have substantial operations within China and, without the approval of PRC authorities, the PCAOB is currently unable to conduct inspections of the work of our independent registered public accounting firm as it relates to those operations, our independent registered public accounting firm is not currently inspected by the PCAOB. This lack of PCAOB inspections in China prevents the PCAOB from regularly evaluating our independent registered public accounting firm’s audits and its quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

Inspections of other firms that the PCAOB has conducted outside China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our independent registered public accounting firm's audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

#### **ITEM 4. INFORMATION ON THE COMPANY**

##### **A. History and Development**

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, the predecessor to Chapter 622 of the Laws of Hong Kong, or the Hong Kong Companies Ordinance, which came into effect on March 3, 2014). Our company registration number in Hong Kong is 685974. Under the Hong Kong Companies Ordinance, we have the capacity, rights, powers and privileges of a natural person of full age and may do anything which we are permitted or required to do by our

Table of Contents

articles of association or any enactment or rule of law. Our registered office is located at 65<sup>th</sup> 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 PRC on the Exploitation of Offshore Petroleum Resources in Cooperation with Foreign Enterprises. CNOOC assumed certain 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 subsidiaries performed both commercial and administrative functions relating to oil and natural gas exploration and development in 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 and subject to the undertakings below, we and our subsidiaries are the only vehicles through which CNOOC engages in oil and gas 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 in 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;

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—Cash Used in Investing Activities.”

Table of Contents

**B. Business Overview**

Overview

We are an upstream company specializing in oil and natural gas exploration, development and production. We are the dominant oil and natural gas producer in offshore China, and in terms of reserves and production, we are one of the largest independent oil and natural gas exploration and production companies in the world. As of the end of 2017, we had net proved reserves of approximately 4.84 billion BOE (including approximately 0.37 billion BOE in our equity method investees). In 2017, we achieved a total net oil and gas production of 1,288,128 BOE per day (including net oil and gas production of approximately 47,355 BOE per day in our equity method investees).

Competitive Strengths

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

- large and diversified asset base with significant exploitation opportunities;
- sizable operating areas in offshore China with demonstrated exploration potential;
- successful independent exploration and development track record;
- access to capital and technology and reduced risks through PSCs in offshore China; and
- experienced management team and a high level of corporate governance standard.

***Large and diversified asset base with significant exploitation opportunities***



We have a large net proved reserve base spread across offshore China and globally. As of December 31, 2017, we had approximately 4.84 billion BOE of net proved reserves. Our core operating area, offshore China, contributed to approximately 54.0% of our net proved reserves, while overseas contributed to the balance of 46.0%.

In addition to offshore China, we have a diversified global portfolio which provides us with further exploration and exploitation potential. We have a strong track record of successfully acquiring and operating many quality overseas upstream assets worldwide. Currently, we have assets in resource rich countries such as Indonesia, Australia, Nigeria, Uganda, the United States, Canada, the United Kingdom and Brazil.

As of December 31, 2017, approximately 57.6% 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 areas in offshore China with demonstrated exploration potential***

We are the dominant oil and gas producer in offshore China, a region that we believe has substantial exploration upside. As of December 31, 2017, our total major exploration areas acreage in offshore China was approximately 257 thousand km<sup>2</sup>. We believe that offshore China is relatively underexplored, compared to other prolific offshore exploration areas such as the shallow water of the U.S. Gulf of Mexico, providing us with substantial exploration upside.

We have maintained an active drilling exploration program, which continues to demonstrate the exploration potential of offshore China. During 2017, we and our foreign partners have together drilled a total of 116 exploratory wells in offshore China, of which 58 were wildcat wells. During the same year, we and our foreign partners made 17 new discoveries in offshore China.

***Successful independent exploration and development track record***

We have a strong record of growing our reserves base for oil and natural gas, both independently and with our foreign partners through PSCs. In recent years, we have been adding reserves and production mainly through

Table of Contents

independent exploration and development. As of the end of 2017, in offshore China, approximately 84.1% of our net proved reserves were independent and approximately 76.0% of our production came from independent projects.

In 2017, in offshore China, our independent exploration resulted in 17 new discoveries. We also successfully appraised 14 oil and gas structures. On the development front, our major new development projects progressed smoothly with four new projects on stream in offshore China.

***Access to capital and technology and reduced risks through PSCs in offshore China***

CNOOC holds exclusive right from the PRC government to enter into PSCs with foreign enterprises relating to the petroleum resources exploitation in offshore China. CNOOC assigned 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 its administrative functions. 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 under the usual case. Our foreign partners recover their exploration costs only when a commercially viable discovery is made and production begins.

For more information about PSC, see “Item 4—Information on the Company—Business Overview—Regulatory Framework in the PRC.”

***Experienced management team and a high level of corporate governance standard***

Our senior management team has extensive experience in the oil and gas industry. Most of our executives have been with CNOOC, our controlling shareholder, since its inception in 1982. Many of our management team and staff members have worked closely with international partners both within and outside China through numerous joint operations.

The Company has always upheld and attained high standard of business ethics, for which its transparency and standard of governance have been recognized by the public and its shareholders. In 2017, we were awarded the “Best Investor Relations Company (China)” and “Asia’s Best CEO (Investor Relations (China))” by “Asian Excellence Award” organized by Corporate Governance Asia magazine and “2017 China Securities Golden Bauhinia Awards – Best Board

Secretary of Listed Companies” by Ta Kung Wen Wei Media Group.

## Business Strategy

We intend to continue expanding our oil and gas exploration and production activities. The principal components of our strategy are as follows:

- focus on reserve and production growth;
- develop natural gas business; and
- maintain a prudent financial policy.

### ***Focus on reserve and production growth***

As an upstream company specializing in the exploration, development, production and sales of oil and natural gas, we consider reserve and production growth as our top priorities. We plan to increase our reserves and production through drill bits and value-driven acquisitions. We will continue to concentrate our independent exploration efforts on major operating areas, especially offshore China. In the meantime, we will continue to cooperate with our partners through production sharing contracts to lower capital requirements and exploration risks.

We increase our production primarily through the development of proved undeveloped reserves. As of December 31, 2017, approximately 57.6% of our proved reserves were classified as proved undeveloped, which provides a solid resource base for maintaining stable production in the future.

### ***Develop natural gas business***

Table of Contents

We will continue to develop the natural gas market, and continue to explore and develop natural gas fields. In the event that we invest in businesses and geographic areas where we have limited experience and expertise, we plan to structure our investments in the form of alliances or partnerships with partners possessing the relevant experience and expertise.

***Maintain a prudent financial policy***

We will continue to maintain our prudent financial policy. As an essential part of our corporate culture, we continue to promote cost consciousness among both our management team and employees. Also, in our performance evaluation system, cost control has been one of the most important key performance indicators.

In 2017, we continued our efforts to lower costs and enhance efficiency through innovation in technology and management. All-in cost decreased for the fourth consecutive year. Under low oil price environment, we attached more importance to cash flow management and maintained a healthy financial position.

## 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.

Our reserve data for 2015, 2016 and 2017 were prepared in accordance with the SEC's final rules on "Modernization of Oil and Gas Reporting", which became effective for accounting periods ended on or after December 31, 2009.

	Year ended December 31,		
	2015	2016	2017
Net Production <sup>(2)</sup> :			
Oil (daily average bbls/day)	1,124,047	1,083,101	1,064,986
Gas (daily average mmcf/day)	1,363.6	1,276.2	1,300.6
Oil equivalent (BOE/day)	1,358,022	1,302,922	1,288,128

Net Proved Reserves (end of period):

Edgar Filing: CNOOC LTD - Form 20-F

Oil (mmbbls)	2,015.0	2,015.4	2295.0	
Gas (bcf)	6,992.9	7,486.1	7543.3	
Synthetic Oil (mmbbls)	815.3	300.5	785.9	
Bitumen (mmbbls)	0.0	0.0	118.4	
Total (million BOE)	4,016.0	3,583.4	4474.1	
Total with equity method investees (million BOE) <sup>(2)</sup>	4,315.5	3,877.6	4840.8	
Annual reserve replacement ratio <sup>(1)</sup>	65	% 6	% 297	%
Annual reserve replacement ratio <sup>(2)</sup>	67	% 8	% 305	%
Estimated reserve life (years)	8.4	7.8	9.9	
Estimated reserve life (years) <sup>(2)</sup>	8.7	8.1	10.3	
Standardized measure of discounted future net cash flow (million Rmb)	185,251	223,625	241,904	

(1) For information on the calculation of this ratio, see “Terms and Conventions—Glossary of Technical Terms—reserve replacement ratio.”

(2) Including our interest in equity method investees.

For further information regarding our reserves, see “Item 3—Key Information—Risk Factors—Risks Relating to Our Operations—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” and “Item 4—Information on the Company—Business Overview—Exploration, Development and Production.”

***Summary of Oil and Gas Reserves***

Table of Contents

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, 2017				Total (mmboe)
	2015	2016	Crude Oil	Natural Gas	Synthetic Oil	Bitumen	
	(mmboe)	(mmboe)	(mmbbls)	(bcf)	(mmbbls)	(mmbbls)	
<b>Developed</b>							
<b>Offshore China</b>							
Bohai	603.1	600.8	623.9	224.0	—	—	661.3
Western South China Sea	169.0	165.5	99.0	465.1	—	—	177.4
Eastern South China Sea	299.9	285.2	164.1	778.8	—	—	293.9
East China Sea	30.9	34.9	6.2	106.4	—	—	24.0
<b>Subtotal</b>	<b>1,102.9</b>	<b>1,086.4</b>	<b>893.3</b>	<b>1,574.3</b>	<b>—</b>	<b>—</b>	<b>1,156.6</b>
<b>Overseas</b>							
Asia (excluding China)	118.8	160.3	35.3	557.9	—	—	133.4
Oceania	63.3	62.1	8.3	229.5	—	—	53.3
Africa	52.7	40.7	36.9	0.0	—	—	36.9
North America (excluding Canada)	112.6	124.1	122.8	278.3	—	—	169.2
Canada	216.6	155.7	0.0	24.2	141.8	46.2	192.0
South America	1.6	1.5	1.3	—	—	—	1.3
Europe	95.8	81.7	83.8	4.6	—	—	84.6
<b>Subtotal</b>	<b>661.4</b>	<b>626.1</b>	<b>288.5</b>	<b>1,094.4</b>	<b>141.8</b>	<b>46.2</b>	<b>670.7</b>
<b>Total Developed</b>	<b>1,764.3</b>	<b>1,712.5</b>	<b>1,181.7</b>	<b>2,668.7</b>	<b>141.8</b>	<b>46.2</b>	<b>1,827.3</b>
<b>Undeveloped</b>							
<b>Offshore China</b>							
Bohai	368.7	349.4	426.5	81.7	—	—	440.1
Western South China Sea	503.6	653.3	97.5	3,415.0	—	—	666.7
Eastern South China Sea	215.7	220.3	207.8	191.7	—	—	239.8
East China Sea	133.4	111.3	2.2	648.0	—	—	110.2
<b>Subtotal</b>	<b>1,221.5</b>	<b>1,334.3</b>	<b>734.0</b>	<b>4,336.4</b>	<b>—</b>	<b>—</b>	<b>1,456.8</b>
<b>Overseas</b>							
Asia (excluding China)	90.1	84.7	34.7	327.1	—	—	92.1
Oceania	27.5	15.3	2.4	67.6	—	—	15.7
Africa	113.9	97.3	100.0	—	—	—	100.0
North America (excluding Canada)	172.1	194.4	159.3	143.2	—	—	183.2
Canada	618.6	144.8	—	—	644.1	72.1	716.2
South America			78.4				78.4
Europe	8.0	0.1	4.5	0.2	—	—	4.6
<b>Subtotal</b>	<b>1,030.3</b>	<b>536.6</b>	<b>379.2</b>	<b>538.2</b>	<b>644.1</b>	<b>72.1</b>	<b>1,190.1</b>

<b>Total Undeveloped</b>	<b>2,251.7</b>	<b>1,870.9</b>	<b>1,113.3</b>	<b>4,874.6</b>	<b>644.1</b>	<b>72.1</b>	<b>2,646.8</b>
<b>TOTAL PROVED</b>	<b>4,016.0</b>	<b>3,583.4</b>	<b>2,295.0</b>	<b>7,543.3</b>	<b>785.9</b>	<b>118.4</b>	<b>4,474.1</b>
<b>Equity method investees</b>	<b>299.5</b>	<b>294.2</b>	<b>244.8</b>	<b>706.8</b>	<b>—</b>	<b>—</b>	<b>366.7</b>
<b>Total with equity method investees</b>	<b>4,315.5</b>	<b>3,877.6</b>	<b>2,539.8</b>	<b>8,250.1</b>	<b>785.9</b>	<b>118.4</b>	<b>4,840.8</b>

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 non-independent operations in each of our operating areas.

Table of Contents**Total Net Proved Crude and Liquids Reserves  
(mmbbls)**

	As of December 31,		As of December 31, 2017		
	2015	2016	Developed	Undeveloped	Total
Offshore China					
Bohai	908.3	903.8	623.9	426.5	1050.4
Western South China Sea	149.3	168.3	99.0	97.5	196.5
Eastern South China Sea	357.0	363.1	164.1	207.8	371.9
East China Sea	16.1	10.6	6.2	2.2	8.5
Subtotal	1,430.6	1,445.7	893.3	734.0	1,627.3
Overseas					
Asia (excluding China)	59.8	77.3	35.3	34.7	69.9
Oceania	14.5	12.0	8.3	2.4	10.7
Africa	166.6	138.0	36.9	100.0	136.9
North America (excluding Canada)	239.5	260.3	122.8	159.3	282.1
Canada	815.3	300.5	188.0 (1)	716.2 (2)	904.3
South America	1.6	1.5	1.3	78.4	79.7
Europe	102.3	80.6	83.8	4.5	88.4
Subtotal	1,399.6	870.2	476.5	1,095.5	1,571.9
<b>Total</b>	<b>2,830.2</b>	<b>2,315.9</b>	<b>1,369.8</b>	<b>1,829.5</b>	<b>3,199.3</b>
<b>Equity method entities</b>	<b>200.1</b>	<b>195.3</b>	<b>133.3</b>	<b>111.5</b>	<b>244.8</b>
<b>Total with equity method investees</b>	<b>3,030.3</b>	<b>2,511.2</b>	<b>1,503.1</b>	<b>1,941.0</b>	<b>3,444.1</b>

(1) Including Synthetic oil 141.8 mmbbls and Bitumen 46.2 mmbbls.

(2) Including Synthetic oil 644.1 mmbbls and Bitumen 72.1 mmbbls.

**Total Net Proved Natural Gas Reserves  
(bcf)**

	As of December 31,		As of December 31, 2017		
	2015	2016	Developed	Undeveloped	Total
Offshore China					



## Edgar Filing: CNOOC LTD - Form 20-F

Bohai	381.4	278.7	224.0	81.7	305.7
Western South China Sea	3,132.6	3,896.8	465.1	3,415.0	3,880.1
Eastern South China Sea	951.6	854.9	778.8	191.7	970.5
East China Sea	889.0	813.3	106.4	648.0	754.4
Subtotal	5,354.6	5,843.7	1,574.3	4,336.4	5,910.7
Overseas					
Asia (excluding China)	845.8	952.4	557.9	327.1	885.0
Oceania	389.2	333.5	229.5	67.6	297.2
Africa	—	—	—	—	—
North America (excluding Canada)	275.2	349.6	278.3	143.2	421.5
Canada	119.3	—	24.2	—	24.2
South America	—	—	—	—	—
Europe	8.8	6.9	4.6	0.2	4.8
<b>Subtotal</b>	<b>1,638.3</b>	<b>1,642.4</b>	<b>1,094.4</b>	<b>538.2</b>	<b>1,632.6</b>
<b>Total</b>	<b>6,992.9</b>	<b>7,486.1</b>	<b>2,668.7</b>	<b>4,874.6</b>	<b>7,543.3</b>
<b>Equity method investees</b>	<b>576.9</b>	<b>574.0</b>	<b>538.8</b>	<b>168.0</b>	<b>706.8</b>
<b>Total with equity method investees</b>	<b>7,569.8</b>	<b>8,060.1</b>	<b>3,207.5</b>	<b>5,042.5</b>	<b>8,250.1</b>

Table of Contents**Total Net Proved Reserves  
(million BOE)**

	As of December 31,		As of December 31, 2017		
	2015	2016	Developed	Undeveloped	Total
Offshore China					
Bohai	971.8	950.2	661.3	440.1	1101.4
Western South China Sea	672.6	818.8	177.4	666.7	844.1
Eastern South China Sea	515.6	505.5	293.9	239.8	533.7
East China Sea	164.2	146.2	24.0	110.2	134.2
Subtotal	2,324.3	2,420.7	1,156.6	1,456.8	2,613.3
Overseas					
Asia (excluding China)	208.9	245.0	133.4	92.1	225.4
Oceania	90.8	77.4	53.3	15.7	69.0
Africa	166.6	138.0	36.9	100.0	136.9
North America (excluding Canada)	284.8	318.6	169.2	183.2	352.3
Canada	835.2	300.5	192.0	716.2	908.3
South America	1.6	1.5	1.3	78.4	79.7
Europe	103.8	81.8	84.6	4.6	89.2
<b>Subtotal</b>	<b>1,691.7</b>	<b>1,162.7</b>	<b>670.7</b>	<b>1,190.1</b>	<b>1,860.8</b>
<b>Total</b>	<b>4,016.0</b>	<b>3,583.4</b>	<b>1,827.3</b>	<b>2,646.8</b>	<b>4,474.1</b>
<b>Equity method investees</b>	<b>299.5</b>	<b>294.2</b>	<b>226.2</b>	<b>140.5</b>	<b>366.7</b>
<b>Total with equity method investees</b>	<b>4,315.5</b>	<b>3,877.6</b>	<b>2,053.5</b>	<b>2,787.3</b>	<b>4,840.8</b>

***Proved Reserves***

As of December 31, 2017, we had proved reserves of 4,840.8 million BOE, including 2,539.8 million barrels of crude oil, 785.9 million barrels of synthetic oil, 118.4 million barrels of Bitumen and 8250.1 bcf of natural gas, representing an increase of 963.2 million BOE as compared to proved reserves of 3,877.6 million BOE as of December 31, 2016.

The changes in our proved reserves mainly include:

- An increase of 881.5 million BOE due to revision of previous estimates, details of which are described below:

Offshore China: an increase of 338.6 million BOE caused either by technical factors, which were mainly due to better than expected production performance and increased reservoir recoveries from infill drilling or by changes in economic factors, primarily related to the increase in oil price;

Among them, the proved reserves in Bohai increased from 950.2 million BOE as of December 31, 2016 to 1,101.4 million BOE as of December 31, 2017, representing an increase of 318.5 million BOE (production in 2017 was 167.3 million BOE) or 73% of the total offshore China revision, such as Jinzhou 25-1, Suizhong 36-1 and Qinhuangdao 32-6, *etc.*;

Overseas: an increase of 542.9 million BOE caused either by technical factors, which were mainly due to better than expected production performance and increased reservoir recoveries from infill drilling or by changes in economic factors, primarily related to the increase in oil price;

Among them, the proved reserves in Canada increased from 300.5 million BOE as of December 31, 2016 to 908.3 million BOE as of December 31, 2017, representing an increase of 631.2 million BOE (production in 2017 was 23.4 million BOE) or 85% of the total overseas revision, such as re-booked oil sand assets in Long Lake and Hangingstone, shale gas in Horn River, *etc.*;

Table of Contents

· An increase of 470.4 million BOE due to new discoveries and extensions, details of which are described below:

Offshore China: the discoveries and extensions of oil and gas reserves in the amount of 153.6 million BOE, which are primarily attributable to fields such as Kenli16-1, Wushi23-5, Wenchang9-3S, Liuhua29-1 and Lufeng14-8, *etc.*; and

Overseas: the discoveries and extensions of oil and gas reserves in the amount of 316.9 million BOE, which are primarily attributable to Guyana, Brazil and onshore fields in the United States as well as K1C and KEN areas of re-booked Long Lake in Canada, *etc.*;

An increase of 75.9 million BOE due to purchases, which are primarily attributable to Bidas and Caofeidian 11-6/12-1S assets;

The production of 469.9 million BOE in 2017.

According to above, annual reserve replacement ratio and estimated reserve life were 305% (if excluding purchases, 289%; and if excluding purchases and re-booked reserves, 138%) and 10.3 years (if excluding purchases, 10.1 years; and if excluding purchases and re-booeed reserves, 8.6 years) respectively.

***Proved Undeveloped Reserves (PUD)***

As of December 31, 2017, we had proved undeveloped reserves of 2,787.3 million BOE, including 1,224.8 million barrels of crude oil, 644.1 million barrels of synthetic oil, 72.1 million barrels of Bitumen and 5,042.5 bcf of natural gas, representing an increase of 800.2 million BOE as compared to proved undeveloped reserves of 1,987.1 million BOE as of December 31, 2016.

The changes in our proved undeveloped reserves mainly include:

· A decrease of 174.2 million BOE due to PUD converted to Proved Developed reserves (PD);

· An increase of 502.7 million BOE due to revision of previous estimates, details of which are described below:

Offshore China: an increase of 74.1 million BOE caused either by technical factors, which were mainly due to better than expected production performance and increased reservoir recoveries from infill drilling or by changes in economic factors, primarily related to the increase in oil price;

Among them, the PUD reserves in Bohai increased from 349.4 million BOE as of December 31, 2016 to 440.1 million BOE as of December 31, 2017, representing an increase of 90.7 million BOE or 103% of the total offshore China revision, such as Kenli 16-1 and re-booked Jinzhou 20-2N, Luda 5-2N, Kenli 9-1, *etc.*;

Overseas: an increase of 428.6 million BOE caused either by technical factors, which were mainly due to better than expected production performance and increased reservoir recoveries from infill drilling or by changes in economic factors, primarily related to the increase in oil price;

Among them, the PUD reserves in Canada increased from 144.8 million BOE as of December 31, 2016 to 716.2 million BOE as of December 31, 2017, representing an increase of 571.5 million BOE or 93% of the total overseas revision, such as re-booked oil sand assets in Long Lake and Hangingstone, *etc.*;

Table of Contents

· An increase of 440.2 million BOE due to new discoveries and extensions, details of which are described below:

Offshore China: the discoveries and extensions of oil and gas reserves in the amount of 135.4 million BOE, which Ø are primarily attributable to fields such as Kenli16-1, Wushi23-5, Wenchang9-3S, Liuhua29-1 and Lufeng14-8, *etc.*; and

Ø Overseas: the discoveries and extensions of oil and gas reserves in the amount of 304.8 million BOE which are primarily attributable to onshore fields in the United States, Guyana and Brazil as well as K1C and KEN areas of re-booked Long Lake in Canada, *etc.*;

An increase of 29.6 million BOE due to purchases, which are primarily attributable to Bidas and Caofeidian 11-6/12-1S assets.

In 2017, we had in total 174.2 million BOE PUD reserves converted to PD and we spent approximately Rmb 32.8 billion on developing proved undeveloped reserves into proved developed reserves. Rmb 26.1 billion, or 80%, were spent on major development projects in Bohai, Eastern South China Sea, Western South China Sea in offshore China and Canada, Iraq, Nigeria, the United Kingdom and the U.S., *etc.* The remaining 20% was spent mainly on the infill drilling programs in offshore China, *etc.*

As of December 31, 2017, 191.8 million BOE of our proved undeveloped reserves were first booked before 2012. These proved undeveloped reserves were mainly located in East China Sea, Bohai and Western South China Sea, including (i) 7.7 million BOE in East China Sea, which are under construction; (ii) 6.9 million BOE in Bohai, including Qinhuangdao 33-1S oil field which is scheduled to come on stream in 2019; and (iii) 177.2 million BOE in Western South China Sea, including Wenchang 9-2/9-3/10-3 and Dongfang 13-2 gas fields which will be put on stream in 2018. The development of proved undeveloped reserves relating to the above projects was not completed within five years from initial booking due to the specific circumstances associated with the relevant development activities and delivery obligations. The Company books proved reserves for which development is scheduled to commence after more than five years only if these proved reserves satisfy the SEC's standards for attribution of proved status and the Company's management has reasonable certainty that these proved reserves will be produced.

***Qualifications of Reserve Technical Oversight Group and Internal Controls over Proved Reserves***

Reserve data contained in this disclosure is based on the definitions and disclosure guidelines contained in the SEC Title 17: "Code of Federal Regulations—Modernization of Oil and Gas Reporting—Final Rule" in the Federal Register (SEC regulations), released on January 14, 2009 and related accounting standards. Our proved reserves estimates were

prepared using standard geological and engineering methods generally accepted by the petroleum industry, and the definitions and standards of reserves required by the SEC. Generally accepted methods for estimating reserves include volumetric calculations, material balance techniques, production decline curves, pressure transient analysis, analogy with similar reservoirs, and reservoir simulation. The method or combination of methods used is based on professional judgment and experience.

For 2015, 2016 and 2017, approximately 62%, 60%, and 65% respectively, of our reserves were evaluated by our internal reserves evaluation staff, and the remaining were based upon estimates prepared by independent petroleum engineering consulting companies and reviewed by us. Except as otherwise stated, all amounts of reserves in this report include our interests in equity method investees.

In 2017, we engaged Ryder Scott Company, L.P., Gaffney, Cline & Associates (Consultants) Pte Ltd. and RPS as independent third party consulting firms to perform annual estimates for our net proved oil and gas reserves under our consolidated subsidiaries. For each independent third party consulting firm, a report of third party letter has been prepared which summarizes the work undertaken, the assumptions, data, methods and procedures they used and provides their reserves estimate. These reports have been included as appendices to this document.

For Nexen-managed assets, all of the total net proved oil and gas reserves were evaluated by our internal reserve evaluation staff, which accounted for 29% of the company total net proved oil and gas reserves. And we also engaged independent third party consulting firms Ryder Scott Company, L.P., McDaniel & Associates Consultants Ltd. and DeGolyer and MacNaughton to conduct audits for internally evaluated reserves to provide validation of our

Table of Contents

processes and estimates. For each independent third party consulting firm, a report of third party letter has been prepared which summarizes the work undertaken, the assumptions, data, methods and procedures they used and concludes with their opinion concerning the reasonableness of the estimated reserves quantities or reserves processes. These reports have been included as appendices to this document. Approximately 35% net proved oil and gas reserves of the Domestic China and other overseas assets were estimated by these independent third party consulting firms and the remaining 36% of the Domestic China and other overseas assets were evaluated by our internal reserves evaluation staff.

Based on the extent and expertise of our internal reserves evaluation resources, our staff's familiarity with our properties and the controls applied to the evaluation process, we believe that the reliability of our internally generated estimates of reserves and future net revenue is not materially less than that of reserves estimates conducted by an independent qualified reserves evaluator.

Besides engaging third parties to provide annual estimates and audits of our reserves, we also implement rigorous internal control systems that monitor the entire reserves estimation procedures and certain key metrics in order to ensure that the process and results of reserves estimates fully comply with the relevant SEC rules. As part of our efforts to improve the evaluation and oversight of our reserves, we established the Reserve Management Committee, or RMC, which is led by one of our Executive Vice Presidents and comprises the general managers of the relevant departments.

The RMC's main responsibilities are to:

· review our reserve policies;

· review our proved reserves and other categories of reserves; and

· select our reserve estimators and auditors.

The RMC follows certain procedures to appoint our internal reserve estimators and reserve auditors, who are required to have undergraduate degrees and at least five years and ten years of experience related to reserves estimation, respectively.



The reserves estimators and auditors are required to be members of a professional society such as China Petroleum Society (CPS), and are required to take the professional training and examinations as required by the professional society and us.

The RMC delegates its daily operation to our Reserves Office, which is led by our Chief Reserves Supervisor. The Reserves Office is mainly responsible for supervising reserves estimates and auditing. It reports to the RMC periodically and is independent from operating divisions such as the exploration, development and production departments. Our Chief Reserve Supervisor has over 30 years' experience in the oil and gas industry.

## Exploration, Development and Production

### *Summary*

In offshore China, the Company engages in oil and natural gas exploration, development and production in Bohai, Western and Eastern South China Sea, and the East China Sea, either independently or in cooperation with foreign partners through production sharing contracts ("PSCs"). As of the end of 2017, approximately 54.0% of the Company's net proved reserves and approximately 64.4% of its net production were derived from offshore China.

In its independent operations, the Company has been adding to its reserves and production mainly through independent exploration and development in offshore China. At the end of 2017, approximately 84.1% of the Company's net proved reserves and approximately 76.0% of its net production in offshore China were derived from independent projects.

In its PSC operations, China National Offshore Oil Corporation ("CNOOC"), the Company's controlling shareholder, has the exclusive right to explore and develop oil and natural gas in offshore China in cooperation with

Table of Contents

foreign partners through PSCs. CNOOC has transferred to the Company all its rights and obligations in regard to the PSCs (except those relating to its management and regulatory function as a state-owned company), including new PSCs that will be signed in the future.

After years of hard work, we have established our presence in more than 20 countries and regions. Our overseas assets account for over 50% of the Company's total assets. With its diversified portfolio of high-quality assets, the Company is an active participant in a number of world-class oil and gas projects and is regarded as a leading industry player. Currently, the Company holds interests in oil and natural gas blocks in Indonesia, Australia, Nigeria, Uganda, Argentina, the U.S., Canada, the United Kingdom, Brazil, Guyana and various other countries. As of the end of 2017, approximately 46.0% of the Company's net proved reserves and approximately 35.6% of its net production were derived from overseas.

In 2017, the recovery of the global economy remained stable on the whole. The U.S. economy recovery momentum was strong. The Eurozone economy continued to improve, and emerging markets saw rapid overall economic growth. International oil prices surged upward following initial decline. The entire oil and gas industry as well as oil and gas companies still faced an uncertain operating environment.

In 2017, the Company persisted with the operating strategies it formulated at the beginning of the year, which include balancing short-term and mid-to-long term development; maintaining a prudent financial policy and improving capital efficiency; and optimizing the assets portfolio and focusing more on assets return.

In 2017, the Company achieved its production and business targets despite being faced with a variety of challenges. The Company managed to maintain appropriate exploration expenditures and carry out an intensive exploration program, and obtained successful results while continuing to control total capital expenditure. 19 new discoveries were made and 16 successful appraisals of oil and gas structures were achieved. Five new projects planned in early 2017 all came on stream. The production target was met with a net production volume of 470.2 million BOE. To ensure its continuing sustainable development, the Company pushed ahead steadily with the construction of new projects. All-in cost per BOE was US\$32.54. The Company maintained a healthy financial position with a net profit of RMB24.7 billion for the year. Meanwhile, its performance in the areas of health, safety and environmental protection remained stable.

Looking forward to 2018, the global economy will continue its slow recovery. Despite a recovery in international oil prices, the external operating environment is filled with uncertainties. To this end, the Company remains confident of its prospects. We will further strengthen our operating strategies, which mainly include steadily increasing the Company's oil and gas reserve and production levels, continuing to reinforce quality and efficiency enhancement,

strengthening innovation and technology-driven philosophy, maintaining prudent financial policy and investment decision-making, and pursuing a green, healthy and environment-friendly development model.

In 2018, the Company's capital expenditure is anticipated to reach RMB 70-80 billion. To maintain its competitive financial position, the Company will continue to stress efficiency, enhance investment return, strengthen cost controls and focusing on cash flow management. Our production target for 2018 is 470-480 million BOE, with five new projects to commence production. Meanwhile, the Company will maintain its high standards of health, safety and environmental protection.

### *Exploration*

In 2017, the Company continued to reinforce the integration of exploration and development and enhance the ability of and shorten the cycle of reserve monetization. For offshore China, it further prioritized investment in mature areas while continuing to explore frontier areas. For overseas exploration, with its foothold on existing core projects, the Company sought to maintain a "rolling" pattern of development. It continued to maintain a reasonable proportion of exploration investment in total capital expenditure and to ensure mid-to-long term sustainable development with a relatively high level of exploration activity. In 2017, the reserve replacement ratio for the Company was 305%. Reserve life as the end of 2017 was back to over ten years.

Table of Contents

In offshore China, the Company's exploration activities remained at a high level. A total 116 exploration wells were drilled, two of which were drilled through PSC. A total of 4,417 kilometers of 2D seismic data and 11,063 square kilometers of 3D seismic data were acquired independently and through PSC. The Company made 17 new discoveries and successfully appraised 14 oil and gas structures in offshore China. The success rate for independent exploration wells in offshore China was 48-61%.

In 2017, the Company continued to follow a value-driven exploration strategy in offshore China, resulting in outstanding achievement. Meanwhile, the Company intensified natural gas exploration and achieved breakthroughs in various fields. Notable achievements include:

Firstly, we effectively completed the appraisal of four mid-to-large size oilfields, including Bozhong 36-1, Kenli 6-4/5/6, Longkou 7-6 and Wushi 16-1 West/Wushi 23-5.

Secondly, key breakthroughs were achieved in deep formation natural gas exploration in Bohai. New discovery Bozhong 19-6 is expected to be the largest gas discovery in Bohai Basin in history.

Thirdly, breakthroughs were achieved in natural gas exploration with high temperature and ultra-high pressure in South China Sea, proving the exploration potential of Ledong 10 area in Yinggehai Basin.

Fourthly, new discoveries of Lufeng 14-8 and Lufeng 8-1 South were made in Pearl River Mouth Basin, significantly increased the reserve scale of Lufeng area.

Overseas, the Company drilled 12 exploration wells and acquired approximately 3,163 square kilometers of 3D seismic data. During its overseas explorations, the Company made two new discoveries and successfully appraised two oil and gas structures. Major achievements include the following:

Firstly, successive new discoveries were made in Stabroek block in Guyana, which became one of the Company's most successful overseas exploration projects.

Secondly, Libra project in Brazil was successfully appraised, with reserve in line with expectation.

Thirdly, following the significant discovery of Owowo, the Preowei-3 well in Nigeria was successfully appraised, and reserve scale substantially increased.

In 2017, the Company focused on its overseas strategic layout and obtained new quality projects in Senegal and Brazil.

The Company's major exploration activities in 2017 are set out in the table below:

	Exploration Wells				New Discoveries		Successful Appraisal Wells		Seismic Data			
	Independent		PSC		Independent		PSC		2D (km)		3D (km2)	
	Wildcat	Appraisal	Wildcat	Appraisal	Independent	PSC	Independent	PSC	Independent	PSC	Independent	PSC
<b>Offshore</b>												
<b>China</b>												
Bohai Eastern	22	38	1	0	9	0	28	0	0	0	742	0
South China Sea												
Western South China Sea	16	7	1	0	2	0	3	1	2,248	2,169	3,545	683
Eastern South China Sea	16	12	0	0	6	0	7	0	0	0	3,131	1,028
China Sea	2	1	0	0	0	0	0	0	0	0	1,934	0
<b>Subtotal</b>	<b>56</b>	<b>58</b>	<b>2</b>	<b>0</b>	<b>17</b>	<b>0</b>	<b>38</b>	<b>1</b>	<b>2,248</b>	<b>2,169</b>	<b>3,52</b>	<b>1,711</b>
<b>Overseas</b>	<b>0</b>	<b>0</b>	<b>5</b>	<b>7</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>6</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,163</b>
<b>Total</b>	<b>56</b>	<b>58</b>	<b>7</b>	<b>7</b>	<b>17</b>	<b>2</b>	<b>38</b>	<b>7</b>	<b>2,248</b>	<b>2,169</b>	<b>3,52</b>	<b>4,874</b>

In 2018, the Company will continue to follow a value-driven exploration philosophy and target mid-to-large size oil and gas discoveries offshore China. It will make efforts on both oil and gas exploration and strengthen gas exploration activities. It will strengthen exploration in new areas to

Table of Contents

support the Company's sustainable development. Overseas, the Company will focus on strategic core areas, actively obtain quality blocks, continue to target mid-to-large size discoveries, and expand reserve base.

*Engineering Construction, Development and Production*

In 2017, the Company successfully met its operational targets, with oil and gas production exceeding the target set early in the year. The Company carefully organized its operational resources and made smooth progress in engineering construction.

In 2017, while ensuring safety, the Company achieved its development and production targets for the year through consistently maintaining high operational efficiency, refined adjustment of liquid structures, optimizing water injection and lowering the decline of oilfields. The Company's net oil and gas production reached 470.2 million BOE, fulfilling the production target of 450-460 million BOE set at the beginning of the year. The five new projects planned for 2017, namely Penglai 19-9 oilfield comprehensive adjustment, Enping 23-1 oilfields, Weizhou 12-2 oilfield phase II, BD gas field and the Hangingstone project, all came on stream during the year.

In 2017, the Company's development and production were driven by intensive and streamline management with emphasis on cost savings and efficiency enhancement, technology-driven strategy and sustainable development. Achievements in these areas included the following:

Firstly, we ensured base production level and laid solid foundation for future production profile of oilfields through refined management.

Secondly, we strictly controlled the operating cost of existing fields and encouraged conservation to improve efficiency, and further lowered the all-in cost per BOE.

Thirdly, we actively implemented infill drillings to contribute to production.

Fourthly, we strengthened technology-driven development, breaking technology bottlenecks, and promoted heavy oil thermal recovery in Bohai.

Looking forward to 2018, the workload of onshore construction and offshore installations will increase. A total of five new projects are expected to commence production, including Weizhou 6-13 oilfield, Penglai 19-3 oilfield 1/3/8/9 comprehensive adjustment project, Dongfang 13-2 gas fields and Wenchang 9-2/9-3/10-3 gas fields in offshore China, and Stampede oilfield of U.S. in the Gulf of Mexico. Among these, the Stampede oilfield commenced production in February 2018 and the Weizhou 6-13 oilfield commenced production in March 2018. It is expected that more than 20 new projects will be under construction in 2018, supporting the Company's future sustainable growth.

In 2018, the Company will promote the construction of key projects, optimize development plans of producing fields, strengthen comprehensive management and lower the decline of reserve to ensure base production level. It will arrange infill drillings based on economic evaluation and increase the contribution to production. Meanwhile, it will continue to intensify quality and efficiency enhancement and consolidate its cost competitiveness.

Table of Contents

Regional Overview

Offshore China

*Bohai*

Bohai is the most important crude oil producing area for the Company. The crude oil produced in this region is mainly heavy oil. As of the end of 2017, the reserve and daily production volume in Bohai were 1,101.4 million BOE and 458,473 BOE/day, respectively, representing approximately 22.8% of the Company's total reserves and 35.6% of its daily production. The operational area in Bohai is mainly shallow water with a depth of 10 to 30 meters.

Bohai has rich oil and gas resources and has been one of the Company's primary areas for exploration and development. In 2017, the Company made nine successful discoveries in Bohai, namely Bozhong 19-6, Bozhong 29-6, Bozhong 29-6 South, Bozhong 13-1 South, Penglai 19-1, Bozhong 29-1 East, Bozhong 26-3 West, Kenli 3-2 South and Kenli 4-1. The Company also successfully appraised eight oil and gas structures, including Bozhong 36-1/36-2, Bozhong 19-6, Bozhong 29-6 South, Bozhong 26-3, Longkou 7-6, Kenli 6-4/6-5, Bozhong 29-1 and Luda 27-2 South. Among these, three mid- to-large size oilfields, namely Bozhong 36-1, Kenli 6-4/5/6 and Longkou 7-6, were successfully appraised, laying reserve foundations for the sustainable development of Bohai. The newly discovered Bozhong 19-6 marks a significant breakthrough in the natural gas exploration in deep formation in Bohai. The rolling exploration in Bohai also made some remarkable achievements.

These new discoveries and successful appraisals further demonstrated Bohai's potential as a core production region for the Company.

For development and production, Penglai 19-9 comprehensive adjustment project commenced production during the year. Penglai 19-3 oilfield 1/3/8/9 comprehensive adjustment project is expected to commence production in 2018. Currently a number of new projects are under construction, including Luda 16-3 oilfield, Caofeidian 6-4 oilfield and Qinhuangdao 33-1 South oilfield.

*Western South China Sea*



Western South China Sea is one of the Company's most important natural gas production areas. Currently, the typical water depth of the Company's operational area in the region ranges from 40 to 120 meters. As of the end of 2017, the reserves and daily production volume in Western South China Sea reached 844.1 million BOE and 142,870 BOE/day, respectively, representing approximately 17.4% of the Company's total reserves and 11.1% of its daily production.

In 2017, the Company made six successful discoveries in Western South China Sea, namely Weizhou 11-2 East, Weizhou 11-12, Wenchang 9-3 South, Wenchang 19-9, Wushi 22-8, Wushi 23-5/23-5 South. Four successful appraisals were made, namely Weizhou 11-12, Wushi 16-1 West, Wushi 22-8, Wushi 23-5/23-5 South. Among these, the mid-to-large size oil and gas fields Wushi 16-1 West and Wushi 23-5 were successfully appraised, which will greatly promote the Phase II development of Wushi oilfields. Breakthroughs were made in high temperature and ultra-high pressure natural gas exploration, which proved the exploration potential of Ledong 10 area in Yinggehai Basin. The concept of integrated exploration and development was further developed in the Weixinan oilfields and many new discoveries were obtained.

For development and production, Weizhou 12-2 oilfield Phase II commenced production during the year. Weizhou 6-13 oilfield commenced production in March 2018. Dongfang 13-2 gas fields and Wenchang 9-2/9-3/10-3 gas fields are planned to commence production in 2018. Wenchang 13-2 comprehensive adjustment and other new projects are under construction.

Table of Contents

*Eastern South China Sea*

Eastern South China Sea is the Company's another important crude oil producing area. Currently, the typical water depth of the Company's operational area in the region ranges from 100 to 300 meters. The crude oil produced is mostly of light to medium gravity. As of the end of 2017, reserves and daily production volume in Eastern South China Sea reached 533.7 million BOE and 212,895 BOE/day, respectively, representing approximately 11.0% of the Company's total reserves and 16.5% of its daily production.

In 2017, new discoveries of Lufeng 14-8 and Lufeng 8-1 South were made in Pearl River Mouth basin, significantly increased the reserve scale of Lufeng area. Two oil and gas structures, namely Lufeng 8-1 and Lufeng 14-8, were successfully appraised.

For development and production, Enping 23-1 oilfields commenced production during the year. Currently, Huizhou 32-5 comprehensive adjustment and other new projects are under construction.

*East China Sea*

The typical water depth of the Company's operational area in the East China Sea region is approximately 90 meters. As of the end of 2017, reserves and daily production volume in the region represented approximately 2.8% and 1.0% of the Company's total reserves and daily production, respectively

*Others*

In 2017, integrated model of "exploration, development, production and sale" was successfully implemented in 8/9 Area of Shanxi Linxing Block. Drilling, testing, construction and startup of tight gas project was completed within the same year and achieved first production.

Overseas

*Asia (excluding China)*

Asia (excluding China) was the first overseas region entered into by the Company, and it has become one of its major overseas oil and gas producing areas. Currently, the Company holds oil and gas assets mainly in Indonesia and Iraq. As of the end of 2017, reserves and daily production volume derived from Asia (excluding China) reached 225.4 million BOE and 82,958 BOE/day, respectively, representing approximately 4.7% of the Company's total reserves and 6.4% of its daily production.

*Indonesia*

At the end of 2017, the Company's asset portfolio in Indonesia consisted of four development and production blocks. Among these, the Company acted as the operator for the Southeast Sumatra block, the Madura Strait PSC was a joint operation block, in which the BD gas field commenced production in 2017, and other gas fields were under appraisal and construction. The Company, as a non-operator, also holds working interests in the production sharing contracts of Malacca PSC.

The Company owns an interest of approximately 13.90% in the Tangguh LNG Project in Indonesia. In 2017, production volume of Phase I of the Project remained stable. Currently, construction of the third LNG train of Phase II is in progress as planned, and is expected to reach completion and commence production in 2020.

*Iraq*

Table of Contents

The Company holds a 63.75% participating interest in the technical service contract of Missan oilfields in Iraq and acts as the oilfields' lead contractor.

In 2017, the Company continuously drilled development wells and adopted production enhancement measures of Missian project, resulting in a steady increase in daily net production to approximately 42,000 barrels per day.

*Oceania*

Currently, the Company's oil and gas assets in Oceania are mainly located in Australia and Papua New Guinea. As of the end of 2017, reserves and daily production volume derived from Oceania reached 69.0 million BOE and 22,598 BOE/day, respectively, representing approximately 1.4% of the Company's total reserves and 1.8% of its daily production.

*Australia*

The Company owns a 5.3% interest in the Australian North West Shelf LNG Project. The project has commenced production and is currently supplying gas to end-users including the Dapeng LNG Terminal in Guangdong, China.

In 2017, the North West Shelf LNG Project generated stable production and achieved favorable economic returns.

The Company also owns one exploration block in Australia which is currently under appraisal.

*Other Regions in Oceania*

The Company owns interests in four blocks which are still under exploration in Papua New Guinea.

## *Africa*

Africa is a relatively large oil and gas reserve and production base for the Company. The Company's assets in Africa are primarily located in Nigeria and Uganda. As of the end of 2017, reserves and daily production volume in Africa reached 136.9 million BOE and 73,625 BOE/day, respectively, representing approximately 2.8% of the Company's total reserves and 5.7% of its daily production.

## *Nigeria*

The Company owns a 45% interest in the OML130 block in Nigeria. OML130 is a deepwater project comprising four oilfields, namely Akpo, Egina, Egina South and Preowei.

In 2017, the Akpo oilfield maintained stable production, with net production reaching approximately 56,000 barrels per day. The Egina project is in the engineering construction stage. During the year, the Preowei-3 well was successfully appraised.

The Company also holds a 20% non-operating interest in Usan oilfield in the OML138 block in offshore Nigeria, and an 18% non-operating interest in the OPL 223 and OML 139 PSC respectively.

We will continue to utilize the synergy of Usan and OML130 projects to establish an oil and gas production base in west Africa.

## *Uganda*

Table of Contents

The Company owns one-third of the interest in each of EA 1, EA 2 and EA 3A in Uganda. EA 1, EA 2 and EA 3A are located at the Lake Albert Basin, one of the most promising basins for oil and gas resources in Africa.

In 2017, the Company, as the operator of EA 3A, completed the front end engineering design (FEED) for ground construction and drilling.

In 2017, development and production licenses for eight oilfields in the EA1 and EA2 blocks were issued by the government and the FEED initiated. The intergovernmental agreement (IGA) for an oil pipeline was signed and the FEED was completed.

*Other Regions in Africa*

Apart from Nigeria and Uganda, the Company owns interests in several blocks in the Republic of the Congo, Algeria and the Gabonese Republic. In 2017, the Company also obtained a 65% operating interest in AGC Profond block in offshore Senegal and Guinea-Bissau.

*North America*

North America has become the Company's largest overseas reserves and production region. The Company holds interests in oil and gas assets in the U.S., Canada and Trinidad and Tobago, as well as shares in MEG Energy Corporation in Canada. As of the end of 2017, the Company's reserves and daily production volume in North America reached 1,260.6 million BOE and 132,675 BOE/day, respectively, representing approximately 26.0% of the Company's total reserves and 10.3% of its daily production.

*The U.S.*

The Company currently holds an average of 27% and 12% interests in the Eagle Ford and Niobrara shale oil and gas projects in the U.S. respectively.

In 2017, net production of the Eagle Ford project remained stable and averaged 53,000 BOE/day.

Additionally, the Company owns interests in two major deepwater development projects, Stampede and Appomattox, and a number of other exploration blocks in the US Gulf of Mexico through its wholly-owned subsidiary, Nexen Energy ULC (“Nexen”). Among these, Stampede commenced production in February 2018.

### *Canada*

Canada is one of the world’s richest place of oil sands resources, and participation in the country’s oil sands development will make a major contribution to the Company’s sustainable growth. Through its Nexen subsidiary, the Company owns a 100% working interest in the oil sands project located at Long Lake, as well as three other oil sands leases in the Athabasca region of northeastern Alberta. In 2017, the production of Long Lake project ramp up to approximately 40,000 BOE/day.

The Company holds a 25% interest in the Hangingstone oil sands project. The project commenced production in 2017. We also hold a 7.23% interest in the Syncrude project and non-operating interests in several other exploration and development leases.

The Company holds a 100% interest in two exploration blocks in offshore Newfoundland.

In addition, the Company holds approximately 12.39% of shares in the MEG Energy Corporation, a listed company on the Toronto Stock Exchange.

Table of Contents

*Other Regions in North America*

The Company owns 12.5% interest in the 2C block and a 17.12% interest in the 3A block in Trinidad and Tobago, respectively, of which the 2C block is in production. Phase III of the natural gas project yielded stable production and achieved favorable economic returns. The Company also owns a 100% exploration interest in the deepwater exploration block 1 and block 4 of the CINTURON PLEGADO PERDIDO in Mexico respectively.

*South America*

In South America, the Company's major holdings consist of a 50% interest in the Bidas Corporation ("Bidas") and a 10% interest in the PSC for the Libra oilfield in Brazil. The Company's 50% interest in Bidas is accounted for by equity methods. As of the end of 2017, the Company's reserves and daily production volume derived from South America reached 444.8 million BOE and 46,770 BOE/day, respectively, representing approximately 9.2% of the Company's total reserves and 3.6% of its daily production.

*Argentina*

The Company holds a 50% interest in Bidas and makes joint management decisions. Bidas holds a 40% interest in Pan American Energy ("PAE") in Argentina and a 100% interest in AXION Refinery. In December 2017, Bidas exchanged the 10% interest in PAE held by BP with the 50% interest in AXION. After the settlement of the upstream and downstream asset swap, Bidas holds 50% interest in PAE and AXION respectively.

Under the low oil price environment in 2017, the Company sought to strike a balance between production and return, enhanced its operating efficiency, optimized operating plans and created innovative development plans. Daily net production for Bidas averaged approximately 46,000 BOE/day.

*Brazil*



The Company holds a 10% interest in Libra PSC, a deepwater pre-salt project in Brazil. The oilfield is located in the Santos Basin, with a block area of about 1,550 square kilometers and a water depth of approximately 2,000 meters.

Ten appraisal wells have been drilled as of the end of 2017 under the Libra project. In November 2017, the Libra Consortium declared the commerciality of the northwest area and named it as the Mero field, which includes 4 production units of Mero 1, Mero 2, Mero 3 and Mero 4. Extended well test has been implemented to test Mero 2 and Mero 3 and started production. Final Investment Decision (FID) of Mero 1 has been approved and it has entered the construction phase.

Brazil is one of the world's most important deepwater oil and gas development regions. The Company will fully leverage on the development opportunities of the Libra project to seek new drivers for production growth.

The Company additionally holds a 100% interest in the 592 block and a 20% interest in the ACF Oeste block.

*Guyana*

Table of Contents

The Company holds a 25% interest in Stabroek block in offshore Guyana. Seven exploration discoveries have been made in the block. In 2017, the Liza and Payara reservoirs were successfully appraised and two new discoveries, namely Snoek and Turbot, were obtained, which further confirmed the reserve scale. FID was approved for Liza oilfield Phase I and production is planned to commence in 2020.

*Other Regions in South America*

The Company also holds interests in several exploration and production blocks in Colombia.

*Europe*

The Company holds interests in several oil and gas fields such as Buzzard and Golden Eagle in the North Sea. As of the end of 2017, the Company's reserves and daily production volume derived from Europe reached 89.2 million BOE and 100,046 BOE/day, respectively, representing approximately 1.8% of the Company's total reserves and 7.8% of its daily production.

*United Kingdom*

The Company's asset portfolio in the North Sea includes projects under production, development and exploration, mainly including: 43.2% interest in the Buzzard oilfield, one of the largest oilfields in the North Sea, and a 36.5% interest in the Golden Eagle oilfield. These make the Company the largest crude oil operator in the North Sea.

The United Kingdom is one of the Company's key overseas development areas, with key projects such as Buzzard and Golden Eagle substantially contributing to the Company's production. In 2017, the Buzzard oilfield's net production averaged approximately 63,000 barrels per day. We will continue to intensify our oil and gas development efforts in the UK, and actively seek out exploration and development blocks with potential in order to achieve stable and sustainable development in the region.

*Other Regions in Europe*

The Company holds a licence issued by the government of Iceland for undertaking oil exploration operations in the Norwegian Sea, northeast Iceland. In addition, the Company holds several frontier exploration licenses offshore Ireland.

#### Other Oil and Gas Data

#### *Oil and Gas Production, Production Prices and Production Costs*

The following table sets forth our net production, average sales price and average production cost (excluding ad valorem and severance taxes) in the years of 2015, 2016 and 2017.

	Net Production			Average Sales Price		Average Production Cost
	Total (BOE/day)	Crude and Liquids (Bbbls/day)	Gas (Mmcf/day)	Crude and Liquids (US\$/bbl)	Gas (US\$/Mmcf)	(US\$/BOE)
2017						
Offshore China						
Bohai	458,473	433,591	149.3	—	—	—
Western South China Sea	142,870	96,543	273.5	—	—	—
Eastern South China Sea	212,895	173,192	238.2	—	—	—
East China Sea	13,016	3,629	56.3	—	—	—
Other	688		4.1	—	—	—
Subtotal	827,941	706,955	721.4	55.04	6,810	7.57
Overseas						
Asia (excluding China)	82,958	57,395	141.4	47.83	6,658	12.19
Oceania	22,598	3,691	96.5	58.39	3,167	8.61
Africa	73,625	73,625	-	53.32	—	5.90
North America (excluding Canada)	68,507	46,785	130.3	45.99	2,995	6.27
Canada	64,167	57,711	38.7	32.56	1,702	20.08
South America	929	929	-	43.70	—	10.63
Europe	100,046	95,750	25.8	52.57	4,757	5.89
Subtotal	412,832	335,887	432.8	47.63	4,220	9.59
<b>Total</b>	<b>1,240,773</b>	<b>1,042,842</b>	<b>1,154.2</b>	<b>52.65</b>	<b>5,838</b>	<b>8.24</b>
<b>Equity method investees</b>	<b>47,355</b>	<b>22,144</b>	<b>146.4</b>	<b>—</b>	<b>—</b>	<b>—</b>
2016						
Offshore China						
Bohai	477,380	455,002	134.3	—	—	—

## Edgar Filing: CNOOC LTD - Form 20-F

Western South China Sea	144,835	98,351	273.9	—	—	—
Eastern South China Sea	213,835	182,848	185.9	—	—	—
East China Sea	12,273	3,177	54.6	—	—	—
Subtotal	848,322	739,378	648.7	42.88	6,663	6.36
Overseas						
Asia (excluding China)	75,780	48,577	150.2	33.17	6,243	11.45
Oceania	26,107	4,278	111.4	40.97	3,176	7.57
Africa	80,297	80,297	—	42.90	—	5.72
North America (excluding Canada)	69,290	48,078	127.3	34.81	2,390	4.63
Canada	48,448	40,304	48.9	28.24	1,345	24.24
South America	926	926	—	32.48	—	8.14
Europe	104,473	98,672	34.8	41.78	4,061	6.83
Subtotal	405,320	321,131	472.5	38.00	3,815	9.23
<b>Total</b>	<b>1,253,643</b>	<b>1,060,509</b>	<b>1,121.2</b>	<b>41.40</b>	<b>5,463</b>	<b>7.29</b>
<b>Equity method investees</b>	<b>49,280</b>	<b>22,592</b>	<b>155.0</b>	<b>—</b>	<b>—</b>	<b>—</b>

Table of Contents

2015							
Offshore China							
Bohai	500,719	477,904	136.9	—	—	—	
Western South China Sea	143,676	89,958	314.3	—	—	—	
Eastern South China Sea	229,679	190,525	234.9	—	—	—	
East China Sea	10,271	2,632	45.8	—	—	—	
Subtotal	884,346	761,019	731.9	53.05	8,175	7.64	
Overseas							
Asia (excluding China)	70,987	45,640	140.0	46.82	7,615	15.19	
Oceania	21,673	3,350	93.5	53.40	3,166	8.19	
Africa	83,677	83,677	—	51.01	—	6.42	
North America (excluding Canada)	76,915	54,692	134.6	34.92	272	5.74	
Canada	58,115	46,712	68.4	45.14	1,704	30.96	
South America	1,110	1,110	—	40.81	—	10.73	
Europe	110,842	103,258	45.5	51.61	5,843	10.62	
Subtotal	423,319	338,440	482.1	47.21	3,704	12.38	
<b>Total</b>	<b>1,307,664</b>	<b>1,099,459</b>	<b>1,214.0</b>	<b>51.27</b>	<b>6,395</b>	<b>9.18</b>	
<b>Equity method investees</b>	<b>50,357</b>	<b>24,588</b>	<b>149.6</b>	<b>—</b>	<b>—</b>	<b>—</b>	

*Drilling and Other Exploratory and Development Activities*

The following table sets forth our net exploratory wells and development wells drilled in the years of 2015, 2016 and 2017.

	Net Exploratory Wells Drilled			Net Development Wells Drilled		
	Total	Productive	Dry	Total	Productive	Dry
2017						
Offshore China						
Independent						
Bohai	60	37	21	33	33	—
Western South China Sea	28	13	11	22	22	—
Eastern South China Sea	23	5	18	12	12	—
East China Sea	3	0	3	0	0	—
Subtotal	114	55	53	67	67	—
PSCs	—	—	—	—	—	—
Bohai	1	—	1	8.7	8.7	—
Western South China Sea	—	—	—	—	—	—
Eastern South China Sea	1	—	1	—	—	—
East China Sea	—	—	—	0.5	0.5	—

## Edgar Filing: CNOOC LTD - Form 20-F

Subtotal	2	—	2	9.2	9.2	—
Overseas	—	—	—	—	—	—
Asia (excluding China)	—	—	—	16.5	16.5	—
Oceania	—	—	—	-	—	—
Africa	0.5	0.5	—	3.6	3.6	—
North America	0.2	—	0.2	67.3	67.3	—
South America	1.6	1.6	0.1	—	—	—
Europe	0.6	—	0.6	—	—	—
Subtotal	2.9	2.1	0.9	87.4	87.4	—

## 2016

## Offshore China

## Independent

Bohai	56	41	15	87	87	—
Western South China Sea	27	9	18	24	24	—
Eastern South China Sea	24	7	17	22	22	—
East China Sea	4	1	3	—	—	—
Subtotal	111	58	53	133	133	—

## PSCs

Bohai	1	—	1	1.5	1.5	—
Western South China Sea	3	—	3	—	—	—
Eastern South China Sea	1	1	—	—	—	—
East China Sea	—	—	—	6.5	6.5	—
Subtotal	5	1	4	8.0	8.0	—

## Overseas

Asia (excluding China)	—	—	—	10.5	10.5	—
Oceania	—	—	—	—	—	—
Africa	0.9	0.9	—	4.0	4.0	—
North America	0.3	—	0.3	55.66	55.66	—
South America	1.3	0.9	0.4	0.25	0.25	—
Europe	0.4	—	0.4	2.19	2.19	—
Subtotal	2.9	1.8	1.0	72.6	72.6	—

Table of Contents

2015						
Offshore China						
Independent						
Bohai	50	35	15	129	129	—
Western South China Sea	31	12	19	32	32	—
Eastern South China Sea	27	4	23	40	39	—
East China Sea	6	4	2	—	—	—
Subtotal	114	55	59	201	200	—
PSCs						
Bohai	3	—	3	40.0	40.0	—
Western South China Sea	3	—	3	0.6	0.6	—
Eastern South China Sea	1	—	1	3.0	3.0	—
East China Sea	2	—	2	4.0	4.0	—
Subtotal	9	—	9	47.6	47.6	—
Overseas						
Asia (excluding China)	—	—	—	20.4	20.4	—
Oceania	—	—	—	—	—	—
Africa	1.2	1.2	—	5.9	5.9	—
North America	0.5	—	0.5	174.4	174.4	—
South America	0.6	0.6	—	0.4	0.4	—
Europe	0.7	—	0.7	4	3	1
Subtotal	2.9	1.7	1.1	205.1	204.1	1

***Present Activities***

The following tables set forth our present activities as of December 31, 2017.

	Wells Being Drilled GrossNet		Waterfloods Being Installed Gross Net	
Offshore China				
Bohai	2	2	758	686.9
Western South China Sea	8	8	38	38
Eastern South China Sea	2	2	—	—
East China Sea	0	0	—	—
Subtotal	12	12	796	724.9
Overseas				
Asia (excluding China)	9	7.7	4	4
Oceania	—	—	—	—

Edgar Filing: CNOOC LTD - Form 20-F

Africa	0	0	2	0.9
North America	78	16.4	2	0.5
South America	—	—	25	5
Europe	—	—	—	—
Subtotal	87	24.1	33	10.4



Table of Contents*Oil and Gas Properties, Wells, Operations, and Acreage*

The following table sets forth our productive wells, developed acreage and undeveloped acreage as of December 31, 2017.

	Productive Wells				Developed Acreage (km <sup>2</sup> )		Undeveloped Acreage (km <sup>2</sup> )	
	Crude and Liquids		Natural Gas		Gross	Net	Gross	Net
	Gross	Net	Gross	Net				
Offshore China								
Bohai	2,150	1,871.7	27	27	2,636	2,636	43,068	43,068
Western South China Sea	327	319.2	89	84.5	1,941	1,941	73,388	73,388
Eastern South China Sea	435	390.2	39	34.1	2,652	2,652	55,424	55,424
East China Sea	21	10.5	72	36.1	85	85	85,413	85,413
Subtotal	2,933	2,591.5	227	181.7	7,314	7,314	257,292	257,292
Overseas	—	—	—	—	—	—	—	—
Asia (excluding China)	571	539.5	31	25	1,566	1,204	14,334	5,670
Africa	45	14.8	—	—	909	358	25,587	9,016
Oceania	—	—	66	3	3,240	172	41,766	25,140
North America	3,013	847.1	415	144	3,023	797	8,257	7,276
South America	4,706	929.4	496	99	2,505	500	29,503	7,860
Europe	74	32.4	1	0.4	359	154	18,993	13,285
Subtotal	8,409.3	2,363.2	1,008.7	271.4	11,602	3,185	138,440	68,247
<b>Total</b>	<b>11,342.3</b>	<b>4,954.7</b>	<b>1,235.7</b>	<b>453.1</b>	<b>18,916</b>	<b>10,499</b>	<b>395,732</b>	<b>325,539</b>

The gross acreage disclosed above includes the total number of acres in major blocks that we own an interest. The net acreage includes our wholly owned interests and the sum of our fractional interests in gross acreage.

**Delivery Commitment**

We have certain delivery commitments under the take-or-pay contracts for sales of natural gas. In 2017, the annual sales from our largest gas contract contributed to only approximately 4.7% of our total oil and gas sales and the total revenues from gas sales accounted for approximately 8.9% of our total revenues in 2017. Moreover, the total gas quantities that are subject to delivery commitments under existing contracts or agreements are not significant to the Company. Therefore, we believe that we did not have any material delivery commitment as of the end of 2017.

## Sales and Marketing

### *Sales of Crude Oil*

The Company sells crude oil produced in offshore China to the PRC market mainly through CNOOC China Limited, its wholly-owned subsidiary. The Company sells crude oil produced overseas to international and domestic markets mainly through another wholly-owned subsidiary, China Offshore Oil (Singapore) International Pte Ltd. Nexen Energy ULC, a wholly-owned subsidiary of the Company, sells its crude oil and synthetic oil to international markets separately.

The Company's crude oil sales prices are mainly determined by the prices of international benchmark crude oil of similar quality, with certain premiums or discounts subject to prevailing market conditions. Although the prices are quoted in U.S. dollars, customers in China usually pay by Renminbi. The Company currently sells three types of crude oil in China: heavy crude, medium crude and light crude.

Beginning in 2017, the benchmark price for crude oil is Dated Brent. The Company's major customers in China are Sinopec, PetroChina and CNOOC. Crude oil produced overseas and sold on international markets is benchmarked at the Brent and WTI prices. In 2017, as a result of the increase in international oil prices, the Company's realized oil prices picked up. In 2017, the Company's average realized oil price was US\$52.65/barrel, representing a year-on-year increase of 27.2%.

Table of Contents

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

	Year ended December		
	31, 2015	2016	2017
Sales and Marketing Volumes (mmbbls) <sup>(1)</sup>			
Light Crude	22.9	20.8	26.3
Medium Crude	162.4	162.6	147.4
Heavy Crude	138.2	122.4	112.3

(1)Includes the sales volumes of us and our foreign partners under production sharing contracts.

*Sales of Natural Gas*

The Company's natural gas sales prices are mainly determined by negotiation with customers. Its natural gas sales agreements are generally long-term contracts, and they normally include a periodic price adjustment mechanism. The Company's natural gas customers are primarily located in the southeastern coast of China and include Hong Kong Castle Peak Power Company Limited, CNOOC Gas and Power Group, China BlueChemical Ltd, and others.

Sales of LNG sourced by the Company from the North West Shelf LNG Project in Australia and the Tangguh LNG Project in Indonesia are mainly based on long-term supply contracts with various customers in the Asia-Pacific region, including LNG Terminals in Dapeng, Guangdong and Putian, Fujian, China.

In 2017, stable and positive economic performance in China, the impact from the clean winter heating policy in northern China, as well as the policy of changing fuel from coal to gas, resulted in natural gas demand growth in China, which drove sales volume growth of high-priced natural gas. In addition, based on market condition, the Company gradually adjusted sale prices for natural gas users in certain areas through negotiation. In 2017, the Company's average realized natural gas price was US\$5.84/mcf, representing a 7.0% year-on-year increase.

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

	Year ended December 31,		
	2015	2016	2017
Average Realized Prices			
Crude and Liquids (US\$/bbl)	51.27	41.40	52.65
Natural Gas (US\$/mcf)	6.39	5.46	5.84
West Texas Intermediate (US\$/bbl)	48.68	43.35	50.80

The international benchmark crude oil price, West Texas Intermediate, was US\$60.46 per barrel as of December 29, 2017 and US\$ 64.94 per barrel as of March 29, 2018.

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

	Year ended December 31,		
	2015	2016	2017
	(Rmb in millions, except percentages)		
Revenues sourced in the PRC	124,427	102,861	121,740
Revenues sourced outside the PRC	47,010	43,629	64,650
Total revenues	171,437	146,490	186,390
% of revenues sourced outside the PRC	27.4 %	29.8 %	34.7 %

## Table of Contents

### Procurement of Services

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

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 measures.

### **Research and Development**

In 2017, the Company continued to implement its “technology-driven” strategy, focused on strengthening the management of key research and development projects, continued to improve its systems and mechanisms of technological innovation, and promoted construction of research and development platform. It continued to implement systems for research collaboration and strengthened joint project developments of core technologies of different research institutes of the Company. The Company actively carried out the “Quality and Efficiency Year 4.0” program. Through technological innovation, the Company was able to establish a solid foundation for reserve and production growth. A series of research findings have been applied to increase production efficiency.

#### *Major Scientific and Technological Project Development*

In 2017, the Company focused on core business needs and continued to carry out critical core technological projects such as deepwater oil and gas fields, offshore heavy oil fields and fields with low porosity and permeability. It made a number of technological achievements including fracture system and hydrocarbon accumulation control research in the western Bohai, and key technologies for oil and gas geology and exploration in the deepwater areas in the

epicontinental region of the Pearl River Mouth Basin. These notable developments have provided vital technical support for the sustainable development of the Company.

*Construction of Scientific and Technological Innovative System*

The Company established platforms for research and development which include an offshore low-permeability reservoir exploration and development laboratory and an unconventional oil and gas exploration and development laboratory. The “Key technologies in drilling and completion of wells in South China Sea under high temperature and high pressure and their industrial application” project won first prize at the National Science and Technology Progress Awards. The Company also led the drafting of “ISO18647, Petroleum and Natural Gas Industries – Modular Drilling Rigs for Offshore Fixed Platforms, an International Standard”, which has since been formally published.

Health, Safety and Environmental Protection (“HSE”)

As always, the Company takes safety as top priority in its works. “Safety and environmental protection come first, people oriented and well-equipped facilities” have been regarded as the core values of health, safety and environmental protection (HSE). The Company constantly improves the systematic management of HSE work and nourishes a safety culture with characteristics of the Company, striving to provide a safe working environment for the Company and contractors and establishing first class management capability in safe production.

Table of Contents

In 2017, as the Company continued to improve its HSE internal control system, it adjusted the HSE management of its construction projects in accordance with new government regulatory requirements. It continued to supervise and encourage the implementation of various management requirements by adopting management audits and reviews to control HSE risks. The Company successively organized management audits to Nexen UK and the Shenzhen and Zhanjiang branches, completed special audits on high-risk contractors in relation to diving and helicopters, organized a three-month safety production inspection, and urged the prompt rectification to the problems identified.

The Company improved its safety performance, actively conducted international benchmarking, and built a HSE management system framework which is in line with international principles of industry risk management and continuous improvement and with distinct characteristics of CNOOC Limited. As the first PRC member of the Oil Companies International Marine Forum (OCIMF), the Company actively participated marine safety management activities organized by OCIMF, developed the Maritime Safety Management Measures, launched a marine management information system, and strove to improve its marine safety management and control abilities.

The Company continued to improve its implementation of safety management. It organized a series of activities with the theme of “Last centimeter for safety management”, fostered the development of a safety culture. Mr. Hua Yang, Chairman of the Company, wrote a letter titled “YOUR SAFETY, WE CARE” to employees. The Company’s management recorded a promotional video talking about safety, and taught safety classes in order to strengthen safety leadership. Employees at base-level units actively participated in HSE knowledge quiz, essay competition and safety video making.

In China, the Company further extended its safety management risk control to front-line operation by organizing examinations on working permit to ensure that all operations are under control and effectively avoid operational risks. On drilling rigs, it vigorously rectified security risks and conducted special inspections to identify the risks relating to high falling objects and falls from height. These measures generally improved the safety management of drilling rigs.

In Overseas, the Company continued to strengthen HSE supervision and management functions for its overseas operations. It improved the safety leadership of overseas management as well as their ability to set a good example through their own conduct, arranged HSE audits of its project companies in the United Kingdom and Indonesia, and organized joint emergency drills, publicity and training aimed at improving the safety culture among employees. All these initiatives significantly contributed to a strong overseas HSE performance.

The Company kept a close eye on the impacts of international political and social changes on its overseas operations. By combining its overseas safety management and good industry practices, the Company established and improved its overseas security management mechanism and information collection channel, further clarified its requirements for

security management of overseas projects, obtained the security updates of overseas staff in a timely manner, and provided strong support of the security of its overseas operations.

In 2017, the Company acted in compliance with the climate compact advocated by the Paris Agreement. With the objective of reducing carbon emissions and energy consumption, the Company continued to push for cost reductions and efficiency improvement campaign, organized carbon investigation on domestic units, improved its carbon emissions management rules and systems, actively participated in the establishment of national low carbon-emission standards, and conducted assessments of the impact of carbon emissions on fixed assets investment projects.

During 2017, the Company maintained its good performance in safety management and upheld consistently high HSE standards. OSHA (Occupation Safety and Health Administration) statistics for the year are shown below.



Table of Contents

	Gross Man-hours (million)	Number of Recordable Cases	Rate of Recordable Cases	Number of Lost Workdays Cases	Rate of Lost Workdays Cases	Fatal Cases
Company staff	41	12	0.06	6	0.03	0
Staff of the Company and direct contractors	109	48	0.08	17	0.03	2

**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.

The Company further strengthened safety in production, intensifying its efforts to identify and eliminate potential risks, giving special attention to preventing operational accidents in key and high-risk areas. It also improved the implementation of safety standards and deepened safety awareness across all levels of the organization. In 2017, the Company completed full system safety inspections, including the special supervision of safety production, a special safety check on storage tank fields and a year-end major check on safety production. For HSE risks in particular operating units, the Company organized special examinations. Through examinations and inspections, the Company effectively met CNOOC Limited's management requirements, urged affiliated units to act in accordance with the law, and promoted the continuous improvement of HSE management.

Based on an in-depth analysis of the causes for major accidents and the key links in offshore production, the Company implemented risk-level-based management of offshore production facilities in accordance with relevant laws and regulations. It also promoted the construction of risk-level-based management information systems in downstream enterprises and established and improved risk monitoring indicators, including well-control event monitoring, major operation risk monitoring in engineering constructions, *etc.* Moreover, it established a list of post responsibilities, improved the site tour inspection system, and improved onsite safety production capabilities.

Based on hazard identification and risk analysis, the Company continued to improve its emergency management mechanisms. In 2017, the Company further refined the crisis management plan, integrated emergency management information systems, developed a mobile application for emergency management, improved the ICS system, and strengthened emergency drills to improve the system's risk resistance and reduce the effect of emergencies to the

greatest extent possible.

As part of the 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 offshore oil and gas field properties all risks insurance and construction insurance, protection and indemnity insurance, operator extra expenses insurance, marine cargo insurance and third party liabilities 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 oil and gas companies.

We also carry third-party liability insurance policies to cover (i) claims made against us by or on behalf of individuals who are not our employees in the event of personal injury or death and (ii) legal liabilities for environmental damages resulting from our onshore and offshore activities, including oil spills. In addition, we impose contractual requirements upon our contractors to purchase insurance policies that cover their liabilities for the personal injuries of their own employees. Our contractors are obligated to indemnify us against such claims.

As of December 31, 2017, we have purchased a number of insurance policies with varying policy coverage and limits to meet our risk management requirements and cover our potential liabilities arising from accidents at any of our offshore and onshore locations. We maintain insurance for costs relating to property damage to our facilities,

Table of Contents

control of well including drilling relief wells, removal of wreck, pollution clean-up, liability for bodily injury and property damage to third parties. The policy limits and other terms and conditions of these insurance policies comply with all applicable laws and regulations in the PRC and other relevant jurisdictions. 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—Risks Relating to Our Operations—Extreme weather conditions may have a material adverse impact on us and could result in losses that are not covered by insurance.”

We have maintained varied insurance policies for our domestic assets and operational insurance policies and construction insurance policies, with different policy limits and deductibles. We also purchase operator’s extra-expense up to US\$ 100 million and third-party liabilities insurance up to US\$200 million. As for deep-water wells, we are insured up to US\$250 million for costs related to control of the well. The deductible for each insurance policy mainly ranges from US\$2 million to US\$5 million for different types of insurance policies. For overseas operation and assets, we are insured for amounts up to the replacement cost value of our assets for property damage and up to US\$525 in 2017 million for operators extra expense. Additionally, we purchase insurance covering liability for bodily injury and property damage to third parties with limits of up to US\$1 billion in 2017. This cover protects against liability that arises from sudden and accidental pollution or from other causes.

For all of our offshore operations, we have conducted comprehensive environmental impact evaluations and adopted emergency plans to deal with potential oil spills. Pursuant to the requirements of the PRC government, the evaluations and plans for our offshore operations in the PRC have been reviewed and approved by the industry experts and have been filed with the PRC government. The evaluations and plans for our offshore operations overseas have complied with the legal and regulatory requirements of the relevant local jurisdictions.

In addition, we currently have seven oil spill emergency response bases, to which we have contributed land and funds for construction, separately located in eight cities in the PRC, namely Suizhong, Tanggu, Longkou, Huizhou, Shenzhen, Zhuhai, Weizhou and Gaolan. All the oil spill emergency response bases are close to our workplaces of operations, and in the event of any oil spill, explosion or other similar events, they would react promptly and assist us in coping with such accidents effectively. We have developed and established a “four-in-one” emergency management system to support our worldwide business, which includes a crisis management plan, an emergency commanding system, an emergency information system and an emergency rescue team. Through constant trainings and exercises, we have comprehensively enhanced our ability to defend risks, minimize the impact of emergency events and maintain our sustainable development.

Competition

***Domestic Competition***

The oil and gas 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 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 PetroChina to which we have been selling crude oil, from time to time. Based on our past experiences with these refineries, we believe that we have established stable business relationships with them.

We are the dominant player in the oil and gas industry in offshore China and, through CNOOC, are the only company permitted to engage in oil and gas exploration and production in offshore China with foreign parties under PSCs. We may face increasing competition in the future from other oil and gas 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 principal competitors in the PRC natural gas market are PetroChina and Sinopec.

Table of Contents*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.

## 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,		2016		2017	
	2015		Rmb in	%	Rmb in	%
	millions	%	millions	%	millions	%
Exploration and production	149,582	87.3	125,611	85.7	157,166	84.3
Trading businesses	21,438	12.5	20,310	13.9	28,881	15.5
Corporate and elimination	417	0.2	569	0.4	343	0.2
Total operating revenues	171,437	100.0	146,490	100.0	186,390	100.0

We are mainly engaged in the exploration, development, production and sales of crude oil and natural gas primarily in offshore China. For the year ended December 31, 2017, approximately 65.3% of our total revenue was sourced in the PRC. Our overseas activities are mainly conducted in Canada, the United States of America, United Kingdom, Nigeria, Argentina, Indonesia, Uganda, Iraq, Brazil and Australia, *etc.*

**Regulatory Framework in the PRC**

*Government Control*

All of China's petroleum resources are owned by the PRC state. The PRC government 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 Natural Resources, the State Oceanic Administration, the National Development and Reform Commission and Ministry of Emergency Management before we are permitted to conduct production activities. Our sales are coordinated by the National Development and Reform Commission. For independent operations and joint exploration and production with foreign enterprises, we are required to obtain various governmental approvals, through CNOOC, including permits for exploration blocks, approval of a reserve report, environmental impact reports submitted through CNOOC, extraction permits and work safety permits. Moreover, for joint exploration and production, we are required, through CNOOC, to file overall development plan with the National Development and Reform Commission, and to report the circumstances and situation of the PSCs or other cooperation contracts between CNOOC and the foreign enterprises to the Ministry of Commerce.

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 in offshore China are under production licenses granted by the PRC government.

Table of Contents

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 PRC government, these policies and measures have provided us with benefits mainly including the exclusive right to explore for, develop and produce petroleum in designated areas in offshore China in cooperation with foreign enterprises 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.

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

***Fiscal Regimes for Independent Operations***

***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. Our profits arising in or derived from Hong Kong are subject to tax at a rate of 16.5%.

We received a formal approval from the State Administration of Taxation of the PRC on October 19, 2010, confirming that we are regarded as a Chinese Resident Enterprise, or CRE. According to the formal approval, we are subject to the PRC corporate income tax at a rate of 25% starting from January 1, 2008. The corporate income tax we pay in Hong Kong can be credited against our PRC corporate income tax liability.

We are required to withhold 10% corporate income tax when we make dividend distributions to our non-Chinese resident enterprise shareholders.

Our PRC subsidiary, CNOOC China Limited, as a wholly foreign-owned enterprise, is subject to an enterprise income tax rate of 25% under the prevailing tax rules and regulations. CNOOC Deepwater Development Limited is subject to corporate income tax at the rate of 15% for the three years ending December 31, 2017, after being assessed as a high and new technology enterprise. The Company is in the process of re-applying to be assessed as a high and new

technology enterprise from 2018 to 2020.

The PRC corporate 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.

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

- Production tax at the rate of 5% on production under production sharing contracts;

VAT at the rates from 13% to 17% on taxable sales under independent oil and gas fields since May 1, 2016 under “Provisional Regulations on VAT of the PRC” and relevant detailed rules according to the “Circular on Certain Policies on the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax” (Cai Shui [2016] No.39), which replaced the production tax at the rate of 5% on production under independent oil and gas fields before May 1, 2016. According to “Notice on Simplifying the Relevant Policies on Value-added Tax Rates” (Cai Shui[2017] No.37), with effect from July 1, 2017, the 13% VAT rate shall be removed and gas sales shall be subject to the 11% tax rate;

- VAT at the rates from 3% to 17% on other income since May 1, 2016, which were subject to the business tax at rates from 3% to 5% or VAT at the rates from 3% to 17% before May 1, 2016.

The VAT payable is calculated using the taxable sales amount multiplied by the applicable tax rate less relevant deductible input VAT;



Table of Contents

Resource tax (reduced tax rates may apply to specific products and fields) on the oil and gas sales revenue (excluding production tax) derived from oil and gas fields under production sharing contracts signed after November 1, 2011 and independent offshore oil and gas fields starting from November 1, 2011, which replaced the royalties for oil and gas fields, except for those under production sharing contracts signed before November 1, 2011 which will be subject to related resource tax requirement after the expiration of such production sharing contracts. The resource tax rate was changed from 5% to 6% since December 1, 2014;

- Export tariff at the rate of 5% on the export value of petroleum oil;
- City construction tax at the rates of 1% or 7% on the production tax, business tax and VAT paid;
- Educational surcharge at the rate of 3% on the production tax, business tax and VAT paid; and
- Local educational surcharge at the rate of 2% on the production tax, business tax and VAT paid.

We calculate our deferred tax to account for the losses available for offsetting against future taxable profit and the temporary differences between our tax base, which is used for income tax reporting and prepared in accordance with applicable tax guidelines, and our accounting base, 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, 2015, 2016 and 2017, we had Rmb 1,948 million, Rmb 19,174 million and Rmb 22,206 million (US\$3,413 million) respectively, in net deferred tax assets/ (liabilities). See note 10 to our consolidated financial statements included elsewhere in this annual report.

*Royalty*

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 us, among other companies, with a royalty exemption in each field for up to one million tons, or approximately seven million BOE, per year for our crude oil production and for up to 2 billion cubic meters (approximately 70.6 billion cubic feet or 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 2011, the State Council of the PRC amended the Provisional Regulation of PRC Resource Tax. As a result, since November 1, 2011, the royalties payable to the PRC government have been replaced by resource tax, currently at 6% (5% before December 1, 2014) of the sales revenues from crude oil and natural gas. The PSCs that were signed before November 1, 2011 are not affected by the amendment of the Provisional Regulation of PRC Resource Tax and we continue to pay royalties to the PRC government for these PSCs.

*Special Oil Gain Levy*

In March 2006, the PRC government imposed a special oil gain levy at progressive rates from 20% to 40% on any income derived from sales of locally produced crude oil by an oil exploration and production company at a price that exceeds US\$40 per barrel. In December 2011, the PRC government increased the threshold of the special oil gain levy from US\$40 per barrel to US\$55 per barrel, with effect from November 1, 2011. In December 2014, the PRC government has decided to increase the threshold of the special oil gain levy from US\$55 per barrel to US\$65 per barrel, with effect from January 1, 2015. The special oil gain levy is collected on a quarterly basis. For the years ended December 31, 2015, 2016 and 2017 we incurred approximately Rmb 59 million, nil and Rmb 55 million for 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.

Table of Contents

The current rates of the special oil gain levy are shown in the table below:

Realized Oil Price (US\$/bbl)	Rate of the Levy
65-70 (Include 70)	20%
70-75 (Include 75)	25%
75-80 (Include 80)	30%
80-85 (Include 85)	35%
Above 85	40%

***Fiscal Regimes for PSC Operations***

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

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.

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

Under PRC law, only a state-owned company, such as CNOOC, may negotiate a PSC with foreign enterprises. 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 as a state-owned oil company.

***Bidding Process***

CNOOC and foreign enterprises enter into new PSCs primarily through bidding process 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 minimum work commitments, exploration expenditures 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: (1) the *exploration* period is generally divided into three phases, with three years, two years and two years, respectively. 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 program 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 for oil and 20 years for natural gas.

*Minimum Work Commitment.* The foreign partners must complete a minimum amount of work during the exploration period, generally including: drilling a minimum number of wildcat(s); acquiring a fixed amount of seismic data; and incurring a minimum amount of exploration expenditures. Foreign partners may be 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.

Table of Contents

*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 <sup>(1)</sup>
62.5%	For the payment of resource tax and recovery: <ol style="list-style-type: none"> <li>1. Resource tax<sup>(2)</sup> payable to the PRC government</li> <li>2. Cost recovery oil allocated according to the following priority:                             <ol style="list-style-type: none"> <li>(1) recovery of current year operating costs by us and foreign partner(s);</li> <li>(2) recovery of current year abandonment costs accrued by us and foreign partner(s) ;</li> <li>(3) recovery of earlier exploration costs by foreign partner(s) or us (if any); and</li> <li>(4) recovery of development costs and deemed interest by us and foreign partner(s) based on participating interests.</li> </ol> </li> <li>3. Any excess after the payment of resource tax and recovery of costs mentioned above allocated to the remainder oil.</li> </ol>
32.5% <sup>(3)</sup>	Remainder oil allocated according to the following formula: <ol style="list-style-type: none"> <li>1. (1-X) multiplied by 32.5% represents share oil payable to the PRC government; and</li> </ol>

2. X multiplied by 32.5% represents remainder oil distributed according to each partner's participating interest.

In this annual report and in our consolidated financial statements included elsewhere in this annual report, (1) references to production tax on oil and gas produced offshore China are the value-added tax set out in our PSCs offshore China.

For PSCs that came into effect prior to November 1, 2011, instead of resource tax, royalties (with the rate ranging (2) from 0.0%-12.5% of the annual gross production, depending on the annual gross production of the oilfield) shall be paid to the PRC government.

(3) The ratio "X" is agreed in each PSC based on commercial considerations and ranges from 8% to 100%.

We calculate and pay oil and gas production tax and royalty (or resource tax) 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 entrust us to sell such crude oil on their behalf in the PRC market.

*Management and Operator.* A party will be designated as the operator to undertake the execution of the petroleum operations 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 program; and approving significant procurements and expenditures as well as insurance coverage.

Table of Contents

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 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 such information.

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

*Abandonment Costs.* Any party to our PSCs shall monthly pay the abandonment cost to the designated bank accounts managed by the operator and jointly owned by the parties in proportion to their participating interests in the development of such oil field and/or gas field in accordance with relevant laws, decrees, and other rules and regulations then existing with respect to the abandonment of offshore facilities of the PRC.

Regulatory Framework Overseas

We are subject to other fiscal regimes in the foreign countries and regions where we conduct operations, including Indonesia, Iraq, Australia, Nigeria, Uganda, Argentina, the United States, Canada, United Kingdom and certain other countries. See “Item 4—Information on the Company—Business Overview—Overseas.”

In countries including Indonesia, Nigeria, Trinidad and Tobago and certain other countries, we conduct our operations through PSCs. For example, the OML130 block in Nigeria 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, the U.S., Canada, United Kingdom, Argentina and certain other countries, we conduct our operations through exploration and production permits, licenses or leases. We, as one of the title owners under these permits, licenses or leases, 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 landowner, in most of cases in the form of royalty, severance tax and other payments, 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.

In Iraq, we operate our project under a technical service contract. We provide technology of developing oil & gas and invest capital to assist the host country to achieve the production goals. According to the technical service contract, we have the rights to recover all the investments and receive remuneration fee as defined in the contract as a return from the incremental production.

## **Taxation**

Taxes paid and payable by our non-PRC subsidiaries and jointly controlled entities include royalties, duties and export tariffs, as well as taxes levied on petroleum related income, profits and budgeted operating and capital expenditures.



Table of Contents

Our subsidiaries domiciled outside of the PRC are subject to income tax rates ranging from 10% to 50%. The U.S. government enacted comprehensive tax legislation in December 2017 that took effect as of January 1, 2018. A one-time non-cash deferred tax charge was recorded due to the impact of the reduction of U.S. federal corporate income tax rate from 35% to 21%.

Environmental Regulation

Our operations are required to comply with various applicable environmental laws and regulations, including PRC laws and regulations administered by the State Oceanic Administration and national and local environmental protection agencies for our operations in China. The Marine Environment Protection Law of PRC was amended and came into effect on November 7, 2016. Such amended Marine Environment Protection Law strengthens the marine environment protection regulation system including but not limited to the regional restricted approval system of environmental impact assessment, provides marine ecological protection compensation system. We therefore face more stringent environmental supervision and law enforcement environment.

Government agencies set national or local environmental protection standards. The relevant State Oceanic Administration and/or environmental protection agencies 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 State Oceanic Administration and/or relevant environmental protection agencies generally issues approvals and permits for projects using modern pollution control measurement technology.

Pursuant to the Environmental Protection Tax Law of PRC which came into effect on January 1, 2018, enterprises, public institutions and other producers/operators that discharge taxable pollutants directly to the environment within the territorial areas of PRC and other sea areas under the jurisdiction of PRC shall pay environmental protection tax in accordance with the provisions of such law. State Oceanic Administration or national and local environmental protection agencies 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 and overseas environmental laws require offshore petroleum investors to pay abandonment costs. Our financial statements include provisions for costs associated with the dismantlement of oil and gas fields as of December 31, 2015, 2016 and 2017 of approximately Rmb 50,063 million, Rmb 50,888 million and Rmb 54,073 million (US\$8,311 million), respectively.

According to the Notice of the National Development and Reform Commission, National Energy Administration, Ministry of Finance, State Administration of Taxation, and State Oceanic Administration on Issuing the Interim Provisions on Administration over the Abandonment and Disposal of Offshore Oil and Gas Production Facilities, investors of the offshore oil and gas fields shall take responsibility for abandonment of the offshore oil and gas production facilities and perform the obligation in relation to environmental protection and ecological restoration, and shall provide and allocate special fund for the aforesaid purpose in accordance with the relevant laws and regulations. The investors include us and the foreign parties to our PSCs.

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 are also subject to the environmental rules introduced by governments in whose jurisdictions our logistical support facilities are located.

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

## **Patents and Trademarks**

Table of Contents

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

**Employees and Employee Benefits**

During the years ended December 31, 2015, 2016 and 2017, we employed 20,585 persons, 19,718 persons and 19,030 persons, respectively. Of the 19,030 employees we employed as of December 31, 2017, approximately 82.7% were involved in oil exploration, development and production activities, approximately 5.5% were involved in accounting and finance work and the remainder were senior management and others. Part of the workers for the operation of the oil and gas fields, maintenance and ancillary service 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.

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. 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 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 monthly contributions to the government pension plan at rates ranging from 15% to 20% of our employees' salaries, with each employee contributing 8% of his or her salary for retirement. The contributions vary from region to region.

We are required to make monthly contributions to the government pension plan at rates ranging from 15% to 20% of our employees' salaries, with each employee contributing 8% of his or her salary for retirement. The contributions vary from region to region.

For further details regarding retirement benefits, see note 29 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 2017, we held 40 core training workshops, which were attended by approximately 1,680 person-times of 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.

### **C. Organizational Structure**

CNOOC indirectly owned or controlled an aggregate of approximately 64.44% of our shares as of March 31, 2018. 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.

Table of Contents

The following chart sets forth our controlling entities and our directly wholly-owned subsidiaries as of March 31, 2018 and notes our significant indirectly-held subsidiaries.

- 
- (1) Overseas Oil & Gas Corporation, Ltd. also directly owns five shares of our company.

Owner of our overseas interests in oil exploration and production businesses and operations, including our indirect wholly-owned subsidiaries CNOOC Southeast Asia Limited, CNOOC SES Ltd. , CNOOC Muturi Limited, CNOOC NWS Private Limited, CNOOC Exploration & Production Nigeria Limited, CNOOC Iraq Limited, (2)CNOOC Canada Energy Ltd., CNOOC Uganda Ltd, Nexen Energy ULC, Nexen Petroleum U.K. Limited, Nexen Petroleum Nigeria Limited, OOGC America LLC, Nexen Petroleum Offshore U.S.A. Inc., Nexen Oil Sands Partnership, CNOOC PETROLEUM BRASIL LTDA, CNOOC Nexen Finance (2014) ULC, CNOOC Finance (2015) U.S.A. LLC and CNOOC Finance (2015) Australia Pty Ltd.

- (3) Owner of substantially all of our PRC oil exploration and production businesses, operations and properties, including our indirect wholly-owned subsidiary CNOOC Deepwater Development Limited.

- (4) Business vehicle through which we engage in sales and marketing activities in the international markets.

Includes CNOOC Finance (2003) Limited, CNOOC Finance (2011) Limited, CNOOC Finance (2012) Limited and (5)CNOOC Finance (2013) Limited, all of which are our financing vehicles. These finance companies are our wholly owned subsidiaries with the Company as their sole corporate director.

**D. Property, Plants and Equipment**

For our property, plants and equipment relating to our business activities, see “Item 4—Information on the Company—Business Overview.” We also have some other real properties, including land, buildings and facilities in our onshore processing plants for our gas fields, oil and gas pipelines in both offshore China and overseas, and the upgrader facilities for our oil sands projects in Canada.

**ITEM 4A. unresolved staff comments**

None.

**ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

**A. Operating Results**

54

## Table of Contents

*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. 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 on 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.

### **Factors Affecting Our Results of Operations**

There are many factors that affect our results of operations and financial condition, mainly including the following:

#### Oil and Gas Prices

Substantially all of our revenues are from the sales of oil and natural gas. Therefore, one of the primary factors affecting our revenues is the prices for crude oil and natural gas. Crude oil prices are subject to fluctuations due to market uncertainty and various other factors that are beyond our control, including, but not limited to overall economic conditions, supply and demand dynamics for crude oil and natural gas, political developments, the ability of petroleum producing nations to set and maintain production levels and prices, the price and availability of other energy sources and weather conditions.

In addition, our typical contracts with natural gas buyers include provisions for periodic resets and adjustment formulas which may result in selling price fluctuations.

In addition to directly affecting our revenues and earnings, declines in crude oil and/or natural gas prices may also result in the write-off of higher cost reserves and other assets. Furthermore, lower crude oil and natural gas prices may reduce the amount of crude oil and natural gas we can produce economically and render existing contracts that we have entered into uneconomical.

Sustained lower commodity prices may reduce revenue, earnings and liquidity, negatively impact the economics of estimated proved reserves quantities, and result in impairment. When the oil price forecasts of authoritative and independent institutions are revised to a significantly lower level than the Company's projection, the Company's oil and gas properties may face the risk of impairment. If oil and natural prices did not rise to the prices used in the Company's internal price forecasts, there would be potential impact on the economics of the estimated proved reserves. Since the negative effect of lower oil price may be partially or completely offset by effective cost controls and efficiency enhancement, the estimated proved reserves quantities may not decrease proportionately with the decline in commodity prices. However, the price is not the sole or determining factor affecting the liquidity, capital resources and operating results of the Company. In particular, the Company believes that it has adequate resources of short- and long-term funding because (i) the Company has sufficient cash and cash equivalents, readily realizable financial assets and time deposits on hand, and (ii) the Company also enjoys a sound credit rating and has the ability to access financing.

The following table sets forth our average net realized prices for crude oil and natural gas for the periods indicated:

	Year ended December 31,		
	2015	2016	2017
Average net realized prices:			
Crude oil (US\$ per bbl)	51.27	41.40	52.65
Natural gas (US\$ per mcf)	6.39	5.46	5.84



Table of Contents

## Production and Sales Volumes

Our revenues are also greatly affected by our production and sales volume as well as our product mix. Our crude oil and natural gas production volumes depend primarily on our ability to keep a high reserve replacement ratio and to develop currently undeveloped reserves in a timely and cost-effective manner.

We produce and sell different mixes of crude oil and natural gas, each having different market prices. Therefore, in any given period, our product mix is subject to change, which will also affect our results of operations.

The following table sets forth our average daily net production of crude oil and natural gas for the periods indicated.

	Year ended December 31,		
	2015	2016	2017
Net production of crude oil (bbl/day) <sup>(1)</sup>	1,124,047	1,083,101	1,064,986
Net production of natural gas (mmcf/day) <sup>(1)</sup>	1,363.6	1,276.2	1,300.6

(1) Including our interest in equity method investees.

For a description of other factors affecting our results of operations, see “Item 3—Key Information—Risk Factors.”

## Critical Accounting Policies

We prepare our consolidated financial statements in accordance with IFRS issued by the IASB and HKFRS issued by the HKICPA. 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 as exploration expenses based on exploratory experience and management judgment which includes, but is not limited to, that any dry hole has been drilled on the property; that the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale; and that the period during which we have the right to explore in the specific area has expired or will expire in the near future and is not expected to be renewed. 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, and the building of enhanced recovery facilities, including those renewals and betterments that extend the economic lives of the assets, and the related borrowing costs.

The costs incurred in installing enhanced recovery facilities are capitalized together with the development costs of the relevant oil and gas properties. We treat the costs of unsuccessful exploratory wells and all other exploration costs as expenses when incurred. Productive oil and gas properties and other tangible and intangible costs of producing properties are depreciated 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

Table of Contents

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. 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 proved reserves.

We recognized the amount of the estimated cost of dismantlement discounted 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 or 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.

***Reserves Estimation***

Oil and gas properties are depreciated on a unit-of-production basis at a rate calculated by reference to proved reserves. Commercial reserves are determined using estimates of oil in place, recovery factors and future oil prices, the latter having an impact on the proportion of the gross reserves which are attributable to the host government under the terms of the production sharing contracts. The level of estimated commercial reserves is also a key determinant in assessing whether the carrying value of any of the Company's oil and gas properties has been impaired.

Pursuant to the oil and gas reserve estimation requirements under US SEC rules, the Company uses the average, first-day-of-the-month oil price during the 12-month period before the ending date of the period covered by the consolidated financial statements to estimate its proved oil and gas reserves.

***Impairment of Non-Financial Assets other than Goodwill***

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 fair value less costs to sell. 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 statement of profit or loss and other comprehensive income in the period in which it arises. A reversal of an impairment loss is credited to the consolidated statement of profit or loss and other comprehensive income in the period in which it arises.

The calculations of the recoverable amount of assets require the use of estimates and assumptions. The key assumptions include, but are not limited to, future commodity prices, future production estimates, estimated future capital expenditures, estimated future operating expenses and the discount rate.

Changes in the key assumptions used, which could be significant, include updates to future pricing estimates, updates to future production estimates to align with our anticipated drilling plan, changes in our capital costs and operating expense assumptions, and the discount rate. There is a significant degree of uncertainty with the assumptions used to estimate future cash flows due to, but are not limited to, the risk factors referred to in “Item 3.D. Risk Factors.” The complex economic outlook may also materially and adversely affect the Company’s key assumptions. Changes in economic conditions can also affect the discount rates applied in assessments of impairment.

Although it is not reasonably practicable to quantify the impact of future impairment charges at this time, our results of operations could be materially and adversely affected for the period in which impairment charges are incurred.

The sensitivity analysis for the impairment testing involves estimates and judgments to consider numerous assumptions comprehensively. Those assumptions interact on each other and interrelate with each other complexly and do not have fixed patterns along with the changes in price. Accordingly, the Company believes that the

## Table of Contents

preparation of the sensitivity analysis for the impairment testing will be impracticable. Changes in assumptions could affect impairment charges and reversals in income statement, and the carrying amounts of assets in balance sheet.

### ***Business Combinations and Goodwill***

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Company, liabilities assumed by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. For each business combination, the Company elects whether it measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition costs incurred are included in profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Company's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss as a gain on bargain purchase.

### ***Joint Arrangements***

Certain of the Company's activities are conducted through joint arrangements. Joint arrangements are classified as either a joint operation or joint venture, based on the rights and obligations arising from the contractual obligations between the parties to the arrangement.

### ***Joint Operations***

Some arrangements have been assessed by the Company as joint operations as both parties to the contract are responsible for the assets and obligations in proportion to their respective interest, whether or not the arrangement is structured through a separate vehicle. This evaluation applies to both the Company's interests in production sharing arrangements and certain jointly-controlled entities.

### ***Joint Venture***

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The Company's investments in joint ventures are stated in the consolidated statement of financial position at the Company's share of net assets under the equity method of accounting, less any impairment losses.

### ***Fair Value***

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

### ***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 reporting 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 profit or loss.

## Table of Contents

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.

The ultimate dismantlement costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

### ***Deferred Tax***

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit or loss nor taxable profit or loss; and

in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in a joint venture, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

A typical example of transactions that are not business combinations and, at the time of the transaction, affect neither accounting profit or loss nor taxable profit or loss is the acquisition of an asset, such as an exploration license or concession, where no previous activity has taken place, whereby the consideration paid is higher than its tax base.

### ***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 obligations to governments and other mineral interest owners. We have adopted a net basis of reporting for royalties and government share oil when we have no legal rights to the underlying reserves. As such, we act as an agent for the relevant governments or royalty holders when we sell the portion of oil and gas on their behalves. 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 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 principally represent the sales of oil and gas from the foreign partners under our PSCs and revenues from the trading of oil and gas through our subsidiaries. The cost of the oil and gas sold is included in crude oil and product purchases.



Table of Contents

## 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,					
	2015		2016		2017	
	(Rmb in millions, except percentages and production data )					
Revenues:						
Oil and gas sales:						
Crude oil	128,929	75.2 %	106,448	72.7 %	135,256	72.6 %
Natural gas	17,668	10.3 %	14,877	10.1 %	16,632	8.9 %
Total oil and gas sales	146,597	85.5 %	121,325	82.8 %	151,888	81.5 %
Marketing revenues	21,422	12.5 %	20,310	13.9 %	28,907	15.5 %
Other income	3,418	2.0 %	4,855	3.3 %	5,595	3.0 %
Total revenues	171,437	100 %	146,490	100 %	186,390	100.0 %
Net production (million BOE) <sup>(1)</sup> :						
Crude oil	410.3	82.8 %	396.4	83.1 %	388.7	82.7 %
Natural gas	85.4	17.2 %	80.5	16.9 %	81.5	17.3 %
Total net production	495.7	100 %	476.9	100 %	470.2	100 %

(1) Including our interest in equity method investees.

The following table sets forth, for the periods indicated, certain income and expense items in our consolidated statement of profit or loss and other comprehensive income as a percentage of total revenues:

	Year ended December 31,		
	2015	2016	2017

Edgar Filing: CNOOC LTD - Form 20-F

Operating Revenues:					
Oil and gas sales	85.5 %	82.8 %	81.5 %		
Marketing revenues	12.5 %	13.9 %	15.5 %		
Other income	2.0 %	3.3 %	3.0 %		
Total revenues	100.0%	100.0 %	100.0 %		
Expenses:					
Operating expenses	(16.5 )%	(15.8 )%	(13.0)%		
Taxes other than income tax	(6.3 )%	(4.7 )%	(3.9) %		
Exploration expenses	(5.8 )%	(5.0 )%	(3.7) %		
Depreciation, depletion and amortization	(42.8 )%	(47.0 )%	(32.9)%		
Special oil gain levy	0.0 %	0.0 %	0.0 %		
Impairment and provision	(1.6 )%	(8.3 )%	(4.9) %		
Crude oil and product purchases	(11.6 )%	(13.0 )%	(14.8)%		
Selling and administrative expenses	(3.3 )%	(4.4 )%	(3.7) %		
Others	(1.8 )%	(3.3 )%	(3.2) %		
Total expenses	(89.8 )%	(101.6)%	(80.1)%		
Interest income	0.5 %	0.6 %	0.4 %		
Finance costs	(3.6 )%	(4.3 )%	(2.7) %		
Exchange gain, net	(0.1 )%	(0.5 )%	0.2 %		
Investment income	1.4 %	1.9 %	1.3 %		
Share of profits of associates	0.1 %	(0.4 )%	0.2 %		
Share of profits/(losses) of a joint venture	1.0 %	0.4 %	0.3 %		
Non(operating income/(expenses), net	0.4 %	0.4 %	0.0 %		
Profit before tax	10.0 %	(3.6 )%	19.5 %		
Income tax expense	1.8 %	4.0 %	(6.3) %		
Profit for the year	11.8 %	0.4 %	13.2 %		

Table of Contents

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. 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 foreign partners, handling fees charged to customers, the sales of diluents to third parties and gains from disposal of oil and gas properties and is recognised when the services have been rendered or the properties have been disposed of. Reimbursement of insurance claims is recognised when the compensation becomes receivable.

*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.

*Iraq*

The oil sales from Iraq consist of our participating interest in the Missan project.

*Australia*

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

*Nigeria*

The oil and gas sales from our subsidiaries in Nigeria consist of our participating interest in the properties covered under the relevant PSCs. We record revenue from oil sales in accordance with the entitlement method. The revenue is calculated based on our participating interest less the rental concession, royalty, and oil and gas distributable to the host country. The royalty rates applicable to deepwater properties are zero.

*Trinidad and Tobago*

Table of Contents

The oil and gas sales from our subsidiaries in Trinidad and Tobago consist of our participating interest in the properties covered under the relevant PSCs.

*The U.S. and Canada*

The oil and gas sales from the U.S. consist of our participating interest in the properties of the Eagle Ford project, Niobrara project and properties in the Gulf of Mexico.

In respect of oil and gas products derived from Canada, our share of sales is primarily recognized when the ownership of products is transferred at the delivery point of the pipeline. The revenue is calculated net of royalties.

*United Kingdom*

The oil and gas sales from the United Kingdom consist of our participating interests in the Buzzard, Scott/Telford/Rochelle and Ettrick/Blackbird properties.

*Unconsolidated Investees*

Our share of the oil and gas sales of unconsolidated investees is not included in our revenues, but our share of the profits or losses of these investees is included as part of our share of profits or losses of associates and a joint venture as shown in our consolidated statements of profit or loss and other comprehensive income.

*2017 versus 2016*

*Consolidated net profit*

Our consolidated net profit increased significantly to Rmb 24,677 million (US\$3,792.8 million) in 2017 from Rmb 637 million in 2016, primarily as a result of the increase in profitability due to higher international oil price environment, as well as the combined effects of increased reserve and reduced costs as a result of adoption of efficient measures by the Company.

### Revenues

Our oil and gas sales, realized prices and sales volume in 2017 are as follows:

	2017	2016	Amount	Change (%)
Oil and gas sales (Rmb million)	151,888	121,325	30,563	25.2%
Crude and liquids	135,256	106,448	28,808	27.1%
Natural gas	16,632	14,877	1,755	11.8%
Sales volume (million BOE)*	452.4	458.3	(5.9 )	(1.3 %)
Crude and liquids (million barrels)	380.1	387.6	(7.5 )	(1.9 %)
Natural gas (bcf)	421.5	410.5	11.0	2.7 %
Realized prices				
Crude and liquids (US\$/barrel)	52.65	41.40	11.25	27.2%
Natural gas (US\$/mcf)	5.84	5.46	0.38	7.0 %
Net production (million BOE)	470.2	476.9	(6.7 )	(1.4 %)
China	302.8	311.1	(8.3 )	(2.7 %)
Overseas	167.4	165.8	1.6	1.0 %

\* Excluding our interest in equity-accounted investees.

In 2017, our net production was 470.2 million BOE (including our interest in equity-accounted investees), representing a decrease of 1.4% from 476.9 million BOE in 2016. The increase in crude and liquids sales was primarily due to higher realised oil prices in 2017. The increase in natural gas sales was primarily due to the gradual release of production capacity of high-priced gas fields arising from natural gas demand growth in China, which pulled up the gas price and sales volume simultaneously.

Table of Contents

*Operating expenses*

Our operating expenses increased 4.6% to Rmb 24,282 million (US\$3,732.1 million) in 2017 from Rmb 23,211 million in 2016, the operating expenses per BOE increased 6.0% to Rmb 53.6 (US\$8.24) per BOE in 2017 from Rmb 50.6 (US\$7.29) per BOE in 2016, Operating expenses per BOE offshore China increased 11.6% to Rmb 49.2 (US\$7.57) per BOE in 2017 from Rmb 44.1 (US\$6.36) per BOE in 2016, mainly attributable to the increase in workload as the result of the Company adopting optimisation measures to increase production efficiency, as well as prices of refined oil, chemicals and other materials rose with oil price. Overseas operating expenses per BOE decreased 2.7% to Rmb 62.4 (US\$9.59) per BOE in 2017 from Rmb 64.1 (US\$9.23) per BOE in 2016.

*Taxes other than income tax*

Our taxes other than income tax increased 3.9% to Rmb 7,210 million (US\$1,108.2 million) in 2017 from Rmb 6,941 million in 2016, mainly due to the increase in oil and gas sales.

*Exploration expenses*

Our exploration expenses decreased 6.5% to Rmb 6,881 million (US\$1,057.6 million) in 2017 from Rmb 7,359 million in 2016, mainly because of less costs of uncertain wells from previous years being written off according to subsequent reserve evaluation as well as the decrease in write-off of expired leases in North American.

*Depreciation, depletion and amortization*

Our depreciation, depletion and amortization decreased 11.1% to Rmb 61,257 million (US\$ 9,415.0 million) in 2017 from Rmb 68,907 million in 2016.

The dismantlement-related depreciation, depletion and amortization costs decreased 75.6 % to Rmb 383 million (US\$58.9 million) in 2017 from Rmb 1,569 million in 2016. Our average dismantling costs per BOE decreased 75.1% to Rmb 0.85 (US\$ 0.13) per BOE in 2017 from Rmb 3.42 (US\$0.49) per BOE in 2016, primarily due to the decrease

of the present value of asset retirement obligations brought by the increase of interest rate in the China market. Our depreciation, depletion and amortisation, excluding the dismantlement-related depreciation, depletion and amortization, decreased 9.6% to Rmb 60,874 million (US\$9,356.2 million) in 2017 from Rmb 67,338 million in 2016. Our average depreciation, depletion and amortization per BOE, excluding the dismantlement-related depreciation, depletion and amortization, decreased 8.4% to Rmb 134.4 (US\$20.66) per BOE in 2017 from Rmb 146.8 (US\$21.14) per BOE in 2016, primarily due to the increase of reserve in producing oil and gas fields by taking effective measures to improve production performance and recovery rate as well as the decrease in amortization rate resulting from the recognized impairment of oil and gas assets in 2016.

#### *Impairment and provision*

Our impairment and provision decreased 25.0% to Rmb 9,130 million (US\$1,403.3 million) in 2017 from Rmb 12,171 million in 2016, mainly due to the decrease of oil and gas assets impairment. The impairment loss of oil and gas assets recognized in 2017 mainly related to oil and gas fields located in China, Africa and North America and it was primarily due to the revision of the oil and gas price forecast and revision of reserve. In 2016, certain oil and gas properties located in North America, Europe and Africa were impaired, which was reflected by the revision of the oil price forecast and the adjustment in operating plan for the oil sand assets in Canada. Please refer to Note 13 to the Consolidated Financial Statement of this annual report.

#### *Selling and administrative expenses*

Our selling and administrative expenses increased 5.7% to Rmb 6,861 million (US\$1,054.5 million) in 2017 from Rmb 6,493 million in 2016. Our selling and administrative expenses per BOE increased 7.1% to Rmb 15.15 (US\$2.33) per BOE in 2017 from Rmb 14.15 (US\$2.04) per BOE in 2016, due to the increase in transportation costs in Canada resulting from increased production and sales volume.

#### *Finance costs/Interest income*



Table of Contents

Our finance costs decreased 19.2% to Rmb 5,044 million (US\$775.2 million) in 2017 from Rmb 6,246 million in 2016, primarily due to the increased capitalized interest cost arising from the increase in the scale of oil and gas assets under construction. Our interest income decreased 27.5% to Rmb 653 million (US\$100.4 million) in 2017 from Rmb 901 million in 2016, primarily due to the decreased proportion of deposits with higher interest rates.

*Exchange gains/losses, net*

Our net exchange gains changed to Rmb 356 million (US\$54.7 million) in 2017, while accounted net exchange losses of Rmb 790 million in 2016, primarily as a result of the increase in exchange gains arising from Rmb fluctuation against the U.S. dollars and Hong Kong dollars.

*Investment income*

Our investment income decreased 13.2% to Rmb 2,409 million (US\$370.3 million) in 2017 from Rmb 2,774 million in 2016, primarily attributable to the decreased proportion of corporate wealth management products with higher interest rates.

*Share of profits/losses of associates and a joint venture*

Our share of profits of associates and a joint venture changed to Rmb 855 million (US\$131.4 million) in 2017, while in 2016 we shared losses of Rmb 76 million, primarily attributable to losses from the sale of shares of Northern Cross (Yukon) Limited located in Canada in 2016.

*Income tax expense/credit*

Our income tax expense changed to Rmb 11,680 million (US\$1,795.2 million) in 2017, while accounted income tax credit of Rmb 5,912 million in 2016, mainly because income tax expense increased as Company's profitability increased in 2017, in addition, the U.S. government decreased the federal corporate income tax rate from 35% to 21% and resulted in a one-time write-off of net deferred tax asset and increased income tax expense.

**2016 versus 2015***Consolidated net profit*

Our consolidated net profit decreased 96.9% to Rmb 637 million in 2016 from Rmb 20,246 million in 2015, primarily as a result of the decrease in profitability under the low international oil price environment and impairment charge.

*Revenues*

Our oil and gas sales, realized prices and sales volume in 2016 are as follows:

	2016	2015	Amount	Change (%)
Oil and gas sales (Rmb million)	121,325	146,597	(25,272)	(17.2)%
Crude and liquids	106,448	128,929	(22,481)	(17.4)%
Natural gas	14,877	17,668	(2,791 )	(15.8)%
Sales volume (million BOE)*	458.3	480.1	(21.8 )	(4.5 )%
Crude and liquids (million barrels)	387.6	404.0	(16.4 )	(4.1 )%
Natural gas (bcf)	410.5	444	(34 )	(7.5 )%
Realized prices				
Crude and liquids (US\$/barrel)	41.40	51.27	(9.87 )	(19.3)%
Natural gas (US\$/mcf)	5.46	6.39	(0.93 )	(14.6)%
Net production (million BOE)	476.9	495.7	(18.8 )	(3.8 )%
China	311.1	323.4	(12.3 )	(3.8 )%
Overseas	165.8	172.3	(6.5 )	(3.8 )%

\*

Excluding our interest in equity-accounted investees.

Table of Contents

In 2016, our net production was 476.9 million BOE (including our interest in equity-accounted investees), representing a decrease of 3.8% from 495.7 million BOE in 2015, mainly due to the quality improvement and efficiency enhancement, and the optimization of production plan under the low oil price environment. In addition, the wildfire in Canada caused production suspension brought further decrease in production. The decrease in crude and liquids sales was primarily due to lower realized oil prices and sales volume in 2016 compared to 2015. The decrease in natural gas sales was primarily due to lower China government state-prescribed price and decrease in downstream demand.

*Operating expenses*

Our operating expenses decreased 18.2% to Rmb 23,211 million in 2016 from Rmb 28,372 million in 2015, attributable from effective cost control. The operating expenses per BOE decreased 14.9% to Rmb 50.6 per BOE in 2016 from 59.4 per BOE in 2015. Operating expenses per BOE offshore China decreased 10.9% to Rmb 44.1 per BOE in 2016 from Rmb 49.5 per BOE in 2015. Overseas operating expenses per BOE decreased 20.1% to Rmb 64.1 per BOE in 2016 from Rmb 80.2 per BOE in 2015.

*Taxes other than income tax*

Our taxes other than income tax decreased 35.6% to Rmb 6,941 million in 2016 from Rmb 10,770 million in 2015. The decrease was mainly due to the decrease in oil and gas revenue. In addition, the transfer from 5% production tax to regular VAT in independent oil and gas fields in China brought further decrease.

*Exploration expenses*

Our exploration expenses decreased 25.7% to Rmb 7,359 million in 2016 from Rmb 9,900 million in 2015, due to the dry hole expense decreased significantly compared to 2015 under strengthening intensify of exploration appraisal during the year and reducing the proportion of high risk and high cost wells. Meanwhile, the seismic expense decreased as compared to 2015 under the circumstance of increasing workload of 3D seismic data collection, resulting from continued strengthening of geological research and improvement in the operation standards.

*Depreciation, depletion and amortization*

Our depreciation, depletion and amortization decreased 6.2% to Rmb 68,907 million in 2016 from Rmb 73,439 million in 2015, resulting from the decrease of production volume. Our average depreciation, depletion and amortization per BOE, excluding the dismantlement-related depreciation, depletion and amortization, increased 0.2% to Rmb 146.8 per BOE in 2016 from Rmb 146.4 per BOE in 2015.

The dismantlement-related depreciation, depletion and amortization costs decreased 55.7 % to Rmb 1,569 million in 2016 from Rmb 3,545 million in 2015. Our average dismantling costs per BOE decreased 54.0% to Rmb 3.42 per BOE in 2016 from Rmb 7.43 per BOE in 2015, primarily due to the fact that the expected dismantlement costs in independent oil and gas fields no longer included the relevant taxes after the replacement of business tax with VAT in China.

*Impairment, provision and write off*

Our impairment and provision increased 343.2% to Rmb 12,171 million in 2016 from Rmb 2,746 million in 2015. In 2016, certain oil and gas properties located in North America, Europe and Africa were impaired, which was reflected by the revision of the estimation for the oil price forecast and the adjustment in operating plan for oil sand assets in Canada. Meanwhile, the Company wrote off certain oil and gas assets in North America due to the expired lease contracts. Approximately Rmb 823 million was included in the exploration expenses, and Rmb 605 million was included in the depreciation, depletion and amortization charge, respectively. Please refer to Note 14 to the Consolidated Financial Statement of this annual report. In addition, the Company had an approximately Rmb 1,403 million bad debt provision, which was classified as impairment and provision due to risk associated with the collection of Nigeria trade receivable. Please refer to Note 7 to the Consolidated Financial Statement of this annual report.

Table of Contents

*Selling and administrative expenses*

Our selling and administrative expenses increased 13.8 % to Rmb 6,493 million in 2016 from Rmb 5,705 million in 2015 due to the increasing of transportation costs in North America resulting from technology improvement of some production facilities. Our selling and administrative expenses per BOE increased 18.4% to Rmb 14.15 per BOE in 2016 from 11.95 per BOE in 2015.

*Exchange losses, net*

Our net exchange losses increased 452.4% to Rmb 790 million in 2016 from Rmb 143 million in 2015, primarily as a result of the increase in exchange losses as a result of Rmb, GBP and CAD fluctuation against the U.S. dollars.

*Investment income*

Our investment income increased 15.7% to Rmb 2,774 million in 2016 from Rmb 2,398 million in 2015, primarily attributable to the increase in return on corporate wealth management products and money market funds held by the Company.

*Share of (losses)/profits of associates and a joint venture*

Our share of losses of associates and a joint venture changed 104.0% to Rmb 76 million in 2016, while in 2015 we shared profits of Rmb 1,903 million, primarily attributable to losses from sales of shares of Northern Cross (Yukon) Limited located in Canada and decreases in profitability of some associates and a joint venture due to continuous decline in oil price.

*Income tax credit*

Our income tax credit increased 89.7% to Rmb 5,912 million in 2016 from Rmb 3,116 million in 2015, mainly because of an increase in deferred tax credit recognized on temporary differences and tax losses in overseas and a decrease in income tax expense due to decreased profit in China. In addition the UK government reduced the combined income tax rate on North Sea oil and gas activities from 50% to 40% and resulted in a one-time reversal of net deferred tax liability.

## B. Liquidity and Capital Resources

Our primary source of cash during 2017 was cash flows from operating activities. We used cash primarily to fund capital expenditure and dividends. The following table summarizes our cash flows for the periods presented:

	Year ended December 31,		
	2015	2016	2017
	(Rmb in millions)		
Cash generated from (used for):			
Operating activities	80,095	72,863	94,734
Investing activities	(76,495)	(27,953)	(64,411)
Financing activities	(6,893 )	(43,240)	(31,271)
Net increase/(decrease) in cash and cash equivalents	(3,293 )	1,670	(948 )

### Cash Generated from Operating Activities

The cash inflow from operating activities increased 30.0% to Rmb 94,734 million (US\$14,560.3 million) in 2017 from Rmb 72,863 million in 2016, primarily attributable to the increase in oil and gas sales cash inflows caused by the increase in international oil price partially offset by the increase in the income tax expense for the current period.

Table of Contents

Cash Used in Investing Activities

In 2017, our capital expenditure payment (excluding acquisition) decreased 7.0% to Rmb 47,734 million (US\$7,336.6 million) from 2016. Our development expenditures in 2017 were primarily related to the capital expenditure of OML130 project, deep-water Gulf of Mexico and shale oil and gas in U.S., as well as the expenses incurred for improving recovery factors of the oil and gas fields in production. The Company had no significant expenditure incurred for acquisition during the year.

In addition, our cash used in investing activities was also attributable to the purchase of other financial assets of Rmb 122,267 million (US\$18,792.1 million) this year. Our cash generated from investing activities was mainly from the proceeds from the sales of other financial assets in the amount of Rmb 101,396 million (US\$15,584.3 million), and the decrease in our time deposits with maturity over three months in the amount of Rmb 1,450 million (US\$222.9million).

Cash Used in Financing Activities

In 2017, the increase in net cash outflow from financing activities was mainly due to the repayment of bank loans of Rmb 13,052 million (US\$2,006.1 million), repayment of financial notes of Rmb 8,869 million (US\$1,363.1 million) and the cash outflow of the distribution of dividends of Rmb 16,448 million (US\$2,528.0 million), partially offset by the proceeds of bank loans of Rmb 12,252 million (US\$1,883.1 million).

At the end of 2017, our total interest-bearing outstanding debt was Rmb 132,250 million (US\$20,326.5 million), compared to Rmb 150,476 million at the end of 2016. The decrease in debt in 2017 was primarily attributable to the repayment of financial notes and impact of changes in the exchange rate of the U.S. dollar and Rmb. Our gearing ratio, which is defined as interest-bearing debts divided by the sum of interest-bearing debts plus equity, was 25.8%, lower than that of 28.2% in 2016. The main reason was the decreased scale of interest-bearing debts.

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 (including the current portion) outstanding as of December 31, 2017.

Due by December 31,	Debt maturities (principal only)			
	Original currency US\$	Total Rmb equivalents	Total US\$ equivalents	
	(in millions, except percentages)			
2018	785.8	5,112.5	785.8	
2019-2020	1,872.8	12,185.2	1,872.8	
2021-2022	3,038.9	19,772.2	3,038.9	
2023 and beyond	12,438.9	80,931.3	12,438.9	
Total	18,136.4	118,001.2	18,136.4	
Percentage of total debt	93.5	%	93.5	%

As of December 31, 2017, we had total foreign currency debt of US\$19,403million, all of which is in U.S. dollars. As of March 31, 2018, we had total foreign currency debt of US\$19,579 million, all of which is in U.S. dollars.

As of December 31, 2017, we had unutilized banking facilities amounting to approximately Rmb 53,749 million (US\$8,261 million) as compared to Rmb 60,697 million as of December 31, 2016.

In 2015, 2016 and 2017, we paid dividends totaling Rmb 20,419 million, Rmb 14,245 million and Rmb 16,448 million (US\$2,528 million) (before PRC withholding tax deducted), 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.



Table of Contents

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 2018. 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—Risks Relating to Our Operations—Our future prospects largely depend on our capital expenditures, which are subject to various risks.”

**Capital Expenditures**

For 2018, we have budgeted Rmb 70-80 billion for capital expenditures for exploration and development. The following table sets forth the Company’s actual or budgeted capital expenditures on an accrual basis for the periods indicated.

	<b>Year ended December 31,</b>				
	<b>2015<sup>(1)</sup></b>	<b>2016<sup>(1)</sup></b>	<b>2017<sup>(1)</sup></b>	<b>2018<sup>(1)</sup></b>	<b>2017<sup>(1)</sup></b>
	<b>(Rmb million)</b>			<b>(2)</b>	<b>(US\$ million)</b>
<b>China</b>					
Development	25,187	15,048	16,762	32,815	2,576
Exploration	9,515	6,205	7,978	9,979	1,226
					<b>3,802</b>
<b>Subtotal</b>	<b>34,702</b>	<b>21,253</b>	<b>24,740</b>	<b>42,794</b>	
<b>Overseas</b>					
Development	25,957	24,516	21,891	32,095	3,365
Exploration	5,201	2,964	3,085	3,921	474
<b>Subtotal</b>	<b>31,158</b>	<b>27,480</b>	<b>24,976</b>	<b>36,051</b>	<b>3,839</b>
<b>Total</b>	<b>65,860</b>	<b>48,733</b>	<b>49,716</b>	<b>78,845</b>	<b>7,641</b>

(1) Capitalized interests were not included, and it was Rmb 1,385 million, Rmb 1,430 million and Rmb2,495 million in 2015, 2016 and 2017, respectively.

(2) Figures for 2018 represent our budgeted capital expenditures.

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 external financing.

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—Risks Relating to Our Operations—Our future prospects largely depend on our capital expenditures, which are subject to various risks.”

### **Holding Company Structure**

We are a holding company. Our entire oil and gas exploration, development, production and sales business in the PRC is owned and conducted by CNOOC China Limited, our wholly owned subsidiary in the PRC. Our oil and gas 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, or owned and conducted by Nexen Energy ULC, a wholly-owned subsidiary of the Company located in Canada, or directly owned by our company itself. International sales of crude oil and natural gas are conducted by China Offshore Oil

## Table of Contents

(Singapore) International Pte Ltd, our wholly owned subsidiary incorporated in Singapore. Nexen Energy ULC sells its crude oil and synthetic oil to international markets separately. 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 should set aside a portion of its profit each year to fund certain reserve funds until the total amount of such funds is up to 50% of the registered capital of CNOOC China Limited. 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 1.4%, 3.0% and 1.6% in 2015, 2016 and 2017, respectively. Neither deflation nor inflation has had a significant impact on our results of operations in the respective years.

### 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 2017 have been prepared in due compliance with both IFRS and HKFRS. The accounting policies adopted are consisted with those of the year ended December 31, 2016, except for the first time adoption of the amendments to IFRS/HKFRS effective for the Company's financial year beginning on January 1, 2017 (the "Amendments"). The adoption of those Amendments upon their effective dates has had no material impact on the accounting policies, the disclosures or the amounts recognized in the consolidated financial statements of the Company.

Besides, a number of new and revised IFRSs and HKFRSs have been issued and would become effective for annual periods beginning on or after January 1, 2018. For details, please refer to notes 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”, “Item 4—Information on the Company—Business Overview—Patents and Trademarks”.

### **D. Trend Information**

Looking forward to 2018, the global economy will continue its slow recovery. Despite a recovery in international oil prices, the external operating environment is filled with uncertainties. To this end, the Company remains confident of its prospects. We will further strengthen our operating strategies, which mainly includes: steadily increase the Company’s oil and gas reserve and production levels, continue to reinforce quality and efficiency enhancement, strengthen innovation and technology-driven philosophy, maintain prudent financial policy and investment decision making, and pursue a green, healthy and environment friendly development model.

In 2018, the Company’s capital expenditure is anticipated to reach RMB 70-80 billion. To maintain its competitive financial position, the Company will continue to stress efficiency, enhance investment return, strengthen cost controls and focus on cash flow management. Our production target for 2018 is 470-480 million BOE, with five new projects to commence production. Meanwhile, the Company will maintain its high standards of health, safety and environmental protection.

As an upstream company specializing in the exploration, development, production and sales of oil and natural gas, we consider reserve and production growth as our top priorities. We plan to increase our reserves and production through drill bits and value-driven acquisitions. We will continue to concentrate our independent exploration efforts on major operating areas, especially offshore China. In the meantime, we will continue to cooperate with our partners through production sharing contracts to lower capital requirements and exploration risks.

Table of Contents

We will continue to develop the natural gas market, and continue to explore and develop natural gas fields. In the event that we invest in businesses and geographic areas where we have limited experience and expertise, we plan to structure our investments in the form of alliances or partnerships with partners possessing the relevant experience and expertise.

We will continue to maintain our prudent financial policy. As an essential part of our corporate culture, we continue to promote cost consciousness among both our management team and employees. Also, in our performance evaluation system, cost control has been one of the most important key performance indicators

Other than as disclosed in the paragraphs above under Item 5.D, we are not aware of any trends that are reasonably likely to have a material effect on our net sales or revenues, income from continuing operations, profitability, liquidity or capital resources, or that would cause reported financial information not necessarily to be indicative of future operating results or financial conditions. You are urged to read the forward-looking statements contained elsewhere in this annual report, the cautionary statement on page 9 and the Risk factors on pages 14, which describe the risks and uncertainties that may cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. The Company provides no commitment to update the forward-looking statements or to publish financial projections for forward-looking statements in the future.

**E. Off-Balance Sheet Arrangements**

None.

**F. Tabular Disclosure of Contractual Obligations**

The following table sets forth information regarding our contractual obligations as of December 31, 2017.

Contractual Obligations	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	Rmb million	Rmb million	Rmb million	Rmb million	Rmb million
Long-term debt obligations <sup>(1)</sup>	118,001	5,113	12,185	19,772	80,931

Operating lease obligations	12,895	2,902	3,217	1,596	5,180
Provision for dismantlement <sup>(2)</sup>	54,073	1,180	-	-	52,893
<b>Total</b>	<b>184,969</b>	<b>9,195</b>	<b>15,402</b>	<b>21,368</b>	<b>139,004</b>

(1) The amount of long-term debt obligations represents the principal of the long-term debt obligations.

(2) 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, 2015, 2016 and 2017, we had the following capital commitments, principally for the construction and purchase of property, plant and equipment:

Capital Commitments	2015	2016	2017
	Rmb	Rmb	Rmb
	million	million	million
Contracted, but not provided for	51,296	46,515	46,704

### G. Safe Harbor

The safe harbor provided in Section 27A of the Securities Act and Section 21E of the Exchange Act, or the statutory safe harbors, shall apply to forward-looking information provided pursuant to Item 5.F above. For our cautionary statement on the forward looking statement in this annual report, see the section “Forward-Looking Statements” on page 9 of this annual report.

Table of Contents**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 nine members, including two executive directors, three non-executive directors and four independent non-executive directors as of March 31, 2018. Hua Yang was re-designated from an Executive Director to a Non-executive Director and resigned as the Chief Executive Officer with effect from April 18, 2017. Guangyu Yuan was appointed as the Chief Executive Officer and resigned as the President with effect from April 18, 2017. Keqiang Xu was appointed as an Executive Director and the President of the Company with effect from April 18, 2017.

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

Name	Year of Birth	Position
Guangyu Yuan	1959	Executive Director and Chief Executive Officer (appointed as Chief Executive Officer and resigned as President effective April 18, 2017)
Keqiang Xu	1971	Executive Director and President (effective April 18, 2017)
Hua Yang	1961	Chairman of the Board and Non-executive Director (re-designated as Non-executive Director and resigned as Chief Executive Officer effective April 18, 2017)
Jian Liu	1958	Vice Chairman and Non-executive Director
Guangqi Wu	1957	Non-executive Director
Sung Hong Chiu	1947	Independent Non-executive Director
Lawrence J. Lau	1944	Independent Non-executive Director
Aloysius Hau Yin Tse	1948	Independent Non-executive Director
Kevin G. Lynch	1951	Independent Non-executive Director

Edgar Filing: CNOOC LTD - Form 20-F

Wei Chen	1958	Executive Vice President, General Counsel and Compliance Officer (retired as Executive Vice President, the General Counsel and Compliance Officer of the Company effective March 2018)
Yuhong Xie	1961	Executive Vice President and General Manager of Exploration Department (effective May 2016)
Yong Li	1963	Executive Vice President and General Manager of CNOOC China Limited Tianjin Branch (effective June 2016)
Xinjia Cao	1966	Executive Vice President and General Manager of CNOOC China Limited Tianjin Branch (appointed as Executive Vice President effective August 2017 and served as General Manager of CNOOC China Limited Tianjin Branch effective March 2017)
Weizhi Xie	1964	Chief Financial Officer (effective August 2017)
Guohua Zhang	1960	Senior Vice President and General Manager of CNOOC China Limited Zhanjiang Branch



Table of Contents

Name	Year of Birth	Position
Hua Zhong	1960	Chief Financial Officer (ceased to be Chief Financial Officer effective August 2017)
Yunhua Deng	1963	Deputy Chief Exploration Engineer and Deputy Director of Beijing Research Center of CNOOC China Limited
Lisong Song	1957	Chief Safety Official and General Manager of the Quality, Health, Safety and Environmental Protection Department (retired as Chief Safety Official effective April 2017)  Vice President (effective February 2017);
Zaisheng Liu	1962	Director of Beijing Research Center of CNOOC China Limited, General Manager of CNOOC China Limited Beijing Branch, Director of CNOOC Energy Technology Development Research Institute and General Manager of CNOOC Energy Technology Development Research Institute Company Limited (from April 2016 to November 2016)
Zongjie Qiu	1958	Vice President and General Manager of Development and Production Department (retired as Vice President and General Manager of Development and Production Department effective March 2018)
Jiewen Li	1965	Joint Company Secretary and General Manager (Director) of Investor Relations Department (Office for the Board of Directors)
May Sik Yu Tsue	1973	Joint Company Secretary

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 opportunities 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 senior officer is provided below. Our registered office is located at 65<sup>th</sup> Floor, Bank of China Tower, One Garden Road, Central, Hong Kong.

**Executive Directors**

**Guangyu Yuan** Born in 1959, Mr. Yuan is a professor-level senior engineer. He graduated from China University of Petroleum with a bachelor's degree in drilling engineering. He graduated from the EMBA program of China Europe International Business School in 2007 with an MBA degree. Mr. Yuan joined China National Offshore Oil Corporation ("CNOOC") in 1982 and has over 30 years of experience in the oil and gas industry. From February 1993 to October 2001, Mr. Yuan served as Deputy Manager of CNOOC Bohai Drilling Company, Deputy General Manager of CNOOC China Offshore Oil Northern Drilling Company, Deputy General Manager of the Operational Department of CNOOC, General Manager of CNOOC China Offshore Oil Northern Drilling Company. From October 2001 to January 2009, Mr. Yuan served as General Manager and President of CNOOC Services, and Vice Chairman of the

Board of Directors, Chief Executive Officer and President of China Oilfield Services Limited (a company listed on The Stock Exchange of Hong Kong Limited and Shanghai Stock Exchange). From November 2006 to May 2016, Mr. Yuan served as the Assistant President of CNOOC. Since July 2016, Mr. Yuan was appointed as the Vice President of CNOOC. In January 2009, Mr. Yuan was appointed as the

Table of Contents

Executive Vice President of the Company. In April 2013, Mr. Yuan was appointed as Director of Bohai Petroleum Administrative Bureau of CNOOC and General Manager of CNOOC China Limited Tianjian Branch, a subsidiary of the Company. Mr. Yuan also serves as the Director and General Manager of CNOOC China Limited and the Director of CNOOC International Limited, both subsidiaries of the Company. From June 15, 2016 to May 5, 2017, he was appointed as the Chairman of CNOOC International Limited. From June 15, 2016 to April 18, 2017, Mr. Yuan served as President of the Company and Mr. Yuan was appointed as an Executive Director of the Company with effect from June 15, 2016. Mr. Yuan was appointed as the Chief Executive Officer of the Company with effect from April 18, 2017.

**Keqiang Xu** Born in 1971, Mr. Xu is a professor-level senior engineer. He graduated from Northwest University with a Bachelor of Science degree in Oil and Gas Geology. He received a master's degree in Coalfield Oil and Gas Geology from Northwest University in 1996. Mr. Xu joined China National Petroleum Corporation in 1996 and served different positions. From April 2003 to April 2005, he served as Deputy General Manager of Sinopetro Investment Company Ltd. From April 2005 to September 2008, he served as Deputy General Manager of CNPC International (Kazakhstan) Ltd. and concurrently General Manager of CNPC Ai-Dan Munai Joint Stock Company. From September 2008 to March 2014, he served as Deputy General Manager of CNPC International (Kazakhstan) Ltd. and concurrently General Manager of Joint Stock Company CNPC International Aktobe Petroleum. From March 2014 to March 2017, he served as General Manager of PetroChina Tuha Oilfield Company, and Director of Tuha Petroleum Exploration & Development Headquarters. In March 2017, Mr. Xu was appointed as a Vice President of CNOOC. In April 2017, Mr. Xu was appointed as the Chairman of Nexen Energy ULC, a subsidiary of the Company. He was appointed as the Chairman of CNOOC International Limited and as a Director of CNOOC China Limited, both subsidiaries of the Company, with effect from May 2017. Mr. Xu was appointed as an Executive Director and the President of the Company with effect from April 18, 2017.

**Non-executive Directors**

**Hua Yang** Born in 1961, Mr. Yang is a professor-level senior economist and graduated from China University of Petroleum with a B.S. 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 30 years of 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. Thereafter, Mr. Yang was mainly involved in international business, M&A, corporate finance and capital market operations. From 1993 to 1999, he served as the Deputy Chief Geologist, the Deputy Director and the Acting Director for Overseas Development Department of CNOOC and the Vice President of CNOOC International Limited. From 1999 to 2011, Mr. Yang served in a number of positions in the Company including Senior Vice President, Chief Financial Officer, Executive Vice President, President and Chief Executive Officer. Mr. Yang also served as an Assistant President of CNOOC from November 2006 to April 2010 and as Vice President of CNOOC from April 2010 to August 2011. Mr. Yang served as Director and President of CNOOC from August 2011 to April 2015. He was appointed as Chairman of CNOOC in April 2015. From June 15, 2016 to April

18, 2017, he was appointed as the Chairman and a Director of Nexen Energy ULC, a subsidiary of the Company. He also served as Chairman, Director and President of CNOOC Southeast Asia Limited, Chairman, Director and General Manager of CNOOC China Limited and Chairman and Director of CNOOC International Limited, all being subsidiaries of the Company. He also served as Director of CNOOC Finance Corporation Limited, a subsidiary of CNOOC. Mr. Yang was appointed as an Executive Director of the Company with effect from August 31, 2005 and was the Vice Chairman of the Board of the Company from September 16, 2010 to May 19, 2015, and was re-designated from an Executive Director to a Non-Executive Director of the Company with effect from November 23, 2011. Mr. Yang was appointed as Chairman of the Board and Chairman of the Nomination

Table of Contents

Committee of the Company with effect from May 19, 2015. From June 15, 2016 to April 18, 2017, Mr. Yang was re-designated from a Non-executive Director to an Executive Director and served as the Chief Executive Officer of the Company. Mr. Yang was re-designated from an Executive Director to a Non-Executive with effect from April 18, 2017.

**Jian Liu** Born in 1958, Mr. Liu is a professor-level senior engineer. He graduated from Huazhong University of Science and Technology with a Bachelor degree and he received his MBA degree from Tianjin University. Mr. Liu first joined CNOOC in 1982 and has over 35 years of experience in the oil and gas industry. He served as the manager of CNOOC Bohai Corporation Oil Production Company, a subsidiary of CNOOC, Deputy General Manager of the Tianjin Branch and the General Manager of the Zhanjiang Branch of CNOOC China Limited, a subsidiary of the Company. From 2003 to 2009, Mr. Liu served as Senior Vice President and General Manager of the Development and Production Department and Executive Vice President of the Company, primarily responsible for the offshore oil and gas fields development and production of the Company. Mr. Liu served as an Assistant President of CNOOC from November 2006 to April 2010 and as a Vice President of CNOOC from April 2010 to August 2015. In August 2015, Mr. Liu was appointed as the President of CNOOC. Mr. Liu also served as the director of CNOOC China Limited, CNOOC International Limited and CNOOC Southeast Asia Limited, all being subsidiaries of the Company. Besides, Mr. Liu served as the Chief Executive Officer, Vice Chairman and Chairman of China Oilfield Services Limited (a company listed on The Stock Exchange of Hong Kong Limited and Shanghai Stock Exchange) from March 2009 to December 2016 and Chairman of Offshore Oil Engineering Co. Ltd. (a company listed on the Shanghai Stock Exchange) from December 2010 to November 2016. He was appointed as Chairman and Director of CNOOC China Limited, a subsidiary of the Company, with effect from February 28, 2017. Mr. Liu was appointed as the Vice Chairman and a Non-executive Director of the Company with effect from December 20, 2016.

**Guangqi Wu** Born in 1957, Mr. Wu is a geologist, professor-level senior economist, Certified Senior Enterprise Risk Manager and Certified Internal Auditor and graduated with a B.S. degree from the Ocean University of China, majoring in Marine Geology. He also holds a master degree in Management from China University of Petroleum and a doctor degree in Management from Huazhong University of Science and Technology. 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 an Assistant President of CNOOC in 2003, and has been the Vice President of CNOOC since 2004. Mr. Wu also serves as the Chairman of CNOOC Marine Environment and Ecology Protection Foundation, and served as the Vice Chairman of China Association of Risk Professionals, the Vice Chairman of China Association of Oceanic Engineering, the Director-General of National Energy Deepwater Oil & Gas Engineering Technology Research Centre Council. Mr. Wu served as an Independent Non-executive Director of China Yangtze Power Limited, a company listed on the Shanghai Stock Exchange, from May 2003 to July 2010. Mr. Wu has served as the Compliance Officer of the Company from June 1, 2005 to June 15, 2016 and since June 1, 2005 he also serves as a Director of CNOOC International Limited and served as a Director of CNOOC China Limited, all being the subsidiaries of the Company. Mr. Wu was appointed as an Executive Director of the Company with effect from June 1, 2005. Mr. Wu has been re-designated from an Executive Director to a Non-executive Director of the Company with effect from June 15, 2016.

**Independent Non-executive Directors**

***Sung Hong Chiu*** Born in 1947, Mr. 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 was 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

Table of Contents

Non-executive Director of Tianda Pharmaceuticals Limited (formerly Yunnan Enterprises Holdings Limited, Tianda Holdings Limited) since April 2008, a company listed on The Stock Exchange of Hong Kong Limited. Mr. Chiu is also an Independent Non-executive Director of Bank of China (Australia) Limited (a wholly subsidiary of Bank of China Limited). Mr. Chiu was appointed as an Independent Non-executive Director of the Company with effect from September 7, 1999.

**Lawrence J. Lau** Born in 1944, Professor Lau graduated with a B.S. (with Great Distinction) in Physics 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. From 2004 to 2010, Professor Lau served as the Vice-chancellor (President) of The Chinese University of Hong Kong. From September 2010 to September 2014, Professor Lau served as Chairman of CIC International (Hong Kong) Co., Limited. From March 2008 to February 2018, Professor Lau served as a member of the 11th and 12th National Committee of the Chinese People's Political Consultative Conference (and a Vice-Chairman of its Economics Subcommittee). 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 twelve books and published 190 articles and notes in professional journals. Professor Lau serves as a member of the Hong Kong Special Administrative Region Exchange Fund Advisory Committee and Chairman of its Governance Sub-Committee, and member of its Currency Board Sub-committee and Investment Sub-Committee, and a member of the Hong Kong Trade Development Council (HKTDC) Belt and Road Committee. In addition, he also serves as the Chairman of the Board of Directors of the Chinese University of Hong Kong (Shenzhen) Advanced Finance Institute, aka Shenzhen Finance Institute, a member and Chairman of the Prize Recommendation Committee of the LUI Che Woo Prize Company, as well as a Vice-Chairman of Our Hong Kong Foundation. He was appointed a Justice of the Peace in Hong Kong in July 2007. He currently serves as the Ralph and Claire Landau Professor of Economics at the Lau Chor Tak Institute of Global Economics and Finance, The Chinese University of Hong Kong, an Independent Non-executive Director of AIA Group Limited and Hysan Development Company Limited, both listed on the Hong Kong Stock Exchange, and an Independent Non-executive Director of Far EasTone Telecommunications Company Limited, Taipei, which is listed on the Taiwan Stock Exchange. Professor Lau was appointed as an Independent Non-executive Director of the Company with effect from August 31, 2005.

**Aloysius Hau Yin Tse** Born in 1948, Mr. Tse is a fellow of The Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Mr. Tse is a past president and a former member of the Audit Committee 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 Telecom Corporation Limited, SJM Holdings Limited, Sinofert Holdings Limited and China Huarong Asset Management Company, Limited, companies listed on The Stock Exchange of Hong Kong Limited. From 2004 to 2010, he was an independent non-executive director of China Construction Bank Corporation, which is listed on the HKSE Main Board. From 2005 to 2016, Mr. Tse was also an independent non-executive director of Daohe Global Group Limited (formerly known as Linmark Group Limited), which is listed on the HKSE Main Board, Mr. Tse is currently an independent non-executive director of CCB International (Holdings) Limited, a wholly owned subsidiary

of China Construction Bank Corporation and OCBC Wing Hang Bank Limited (formerly named as Wing Hang Bank Limited whose shares were delisted from The Stock Exchange of Hong Kong Limited with effect from October 16, 2014). Mr. Tse is also a member of the International Advisory Council of the People's Municipal Government of Wuhan. Mr. Tse was appointed as an Independent Non-executive Director of the Company with effect from June 8, 2005.



Table of Contents

**Kevin G. Lynch** Born in 1951, Mr. Lynch obtained a B.A. degree from Mount Allison University, a M.A. degree in Economics from the University of Manchester, and a doctorate degree in Economics from McMaster University. He also holds 11 honorary degrees. Mr. Lynch was made a life Member of the Privy Council for Canada, and an Officer of the Order of Canada. He is the Vice Chairman of BMO Financial Group and also a distinguished former public servant with 33 years of service with the Government of Canada. Mr. Lynch served as Deputy Minister of Industry of Canada from 1995 to 2000, Deputy Minister of Finance of Canada from 2000 to 2004, Executive Director at the International Monetary Fund from 2004 to 2006 and was appointed as Clerk of the Privy Council for Canada, Secretary to the Cabinet and Head of the Public Service from 2006 to 2009. Mr. Lynch is the Chancellor of the University of King's College, Senior Fellow of Massey College, former Chair of the Board of Governors of the University of Waterloo, former Chair of the Canadian Ditchley Foundation, and past Chair of the World Economic Forum's Global Policy Council on the Global Financial System. He also serves on other boards including the Killam Trusts, Communitech, the Governor General's Rideau Hall Foundation, the Asia Pacific Foundation of Canada. Mr. Lynch is currently a director of Canadian National Railway Company listed on the Toronto Stock Exchange and New York Stock Exchange, and a director and chairman of the Board of Directors of SNC Lavalin Group Inc. listed on the Toronto Stock Exchange. Mr. Lynch was appointed as an Independent Non-executive Director of the Company on November 27, 2013, and such appointment took effect from March 1, 2014.

**Other Members of Senior Management**

**Wei Chen** Born in 1958, Mr. Chen is an Executive Vice President, the General Counsel and Compliance Officer of the Company. He is a professor-level senior engineer. He received his B.S. degree from East China Petroleum Institute (now China University of Petroleum) and MBA degree from Tsinghua University. He has over 30 years of experience in the oil and gas industry. Mr. Chen joined CNOOC in 1984 and previously served as the Deputy Manager for the Development Department of CNOOC Exploration and Development Research Center, 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 and General Manager of Science and Technology Development Department of CNOOC, and a Senior Vice President of the Company and General Manager of Administration Department of the Company. In July 2003, Mr. Chen was appointed as the Director of CNOOC Research Center (later became President of CNOOC Research Institute). In February 2012, Mr. Chen was appointed as the Worker's Director of CNOOC. In March 2013, Mr. Chen was appointed as the Assistant President of CNOOC and the Executive Vice President of the Company. In May 2016, Mr. Chen was appointed as the General Counsel of CNOOC, the General Counsel and Compliance Officer of the Company. In March 2018, Mr. Chen retired as Executive Vice President, the General Counsel and Compliance Officer of the Company.

**Yuhong Xie** Born in 1961, Mr. Xie is an Executive Vice President and General Manager of Exploration Department of the Company as well as a professor-level senior engineer. Mr. Xie obtained a Ph.D. degree from China University of Geosciences in 2005. From 1982 to 1995, Mr. Xie served as an engineer of Research Institute and Exploration Department of CNOOC Naihui West Corporation. From 1995 to 1996, he served as the Deputy Manager of

Exploration Department of CNOOC Naihui West Corporation. From 1996 to 1999, he served as Manager of Tepu Company of CNOOC Naihui West Corporation, Deputy Chief Earth Physicist and Manager of Exploration Department of Naihui West Corporation. From 2001 to 2005, he was Deputy Chief Manager of CNOOC China Limited Zhanjiang Branch. From 2005 to 2013, he served as the Chief Manager of CNOOC China Limited Zhanjiang Branch. From 2013 to 2015, he was appointed as the Director of Naihui West Petroleum Administrative Bureau of CNOOC. In July 2015, he was appointed as Deputy Chief Geologist of CNOOC, Deputy Chief Geologist and General Manager of Exploration Department of the Company. In May 2016, he was appointed as the Chief Geologist of CNOOC, an Executive Vice President and General Manager of Exploration Department of the Company.

**Yong Li** Born in 1963, Mr. Li is an Executive Vice President of the Company and General Manager of CNOOC China Limited Tianjin Branch. He is a senior engineer. He received his B.S. degree from Southwest Petroleum University, master of Petroleum Economics from Scuola E Mattei of Italy and MBA from Peking University. He has over 30 years of experience in the oil and gas industry. Mr. Li joined CNOOC in 1984 and previously served as Comprehensive Technology Manager and Drilling Manager of Exploration Department of CNOOC, Director of Drilling Office of Exploration and Development Department of the Company. In April 2003, he was appointed as Deputy General Manager of Tianjin Branch of CNOOC (China) Limited. In October 2005, he was appointed as Executive Vice President and Chief Operating Officer of COSL. In April 2009, he was appointed

Table of Contents

as Executive Director and President of COSL. In September 2010, he served as Executive Director, Chief Executive Officer and President of COSL. From June 2016 to August 2017, he served as Assistant President of CNOOC, Executive Vice President of the Company, Director of CNOOC Bohai Petroleum Administration Bureau and General Manager of CNOOC China Limited Tianjin Branch.

***Xinjian Cao*** Born in 1966, Mr. Cao is an Executive Vice President and the General Manager of CNOOC China Limited Tianjin Branch as well as a professor-level senior economist. Mr. Cao obtained a master degree of Business Administration from the University of Wales in 2003. From 1989 to 1999, Mr. Cao served as a geological delegate of the Contract Area of CNOOC Donghai Company & Caltex and the deputy manager of Exploration Department of CNOOC Donghai Company. From 1999 to 2004, he served as Exploration Manager of Exploration Department, Assistant Manager, Acting Manager and Manager of Human Resources Department of CNOOC China Limited Shanghai Branch. From 2004 to 2006, he served as Deputy Director of the CNOOC Talent Work Leading Group's Office. From 2006 to 2013 he served as Deputy General Manager of CNOOC China Limited Shanghai Branch. From 2009 to 2013, he also served as Deputy Director of Donghai Petroleum Administration Bureau of CNOOC. From 2013 to 2017, he served as Deputy General Manager and General Manager of Human Resources Department of CNOOC and the Company. From March 2017, he has served as the Director of Bohai Petroleum Administration Bureau of CNOOC and General Manager of CNOOC China Limited Tianjin Branch. From August 2017, he was appointed as an Executive Vice President of the Company. In September 2017, he was appointed as Assistant President of CNOOC.

***Weizhi Xie*** Born in 1964, Mr. Xie is the Chief Financial Officer of the Company. Mr. Xie is a Senior Accountant. He graduated from Guanghua School of management of Peking University with a master's degree in Business Administration. Mr. Xie joined CNOOC in 1986. Mr. Xie served as Deputy Manager of Finance Department of CNOOC Nanhai West Corporation, Deputy Manager and Manager of Controllers' Department and General Manager of Finance Department of CNOOC. From January 2002 to February 2011, Mr. Xie served as General Manager of CNOOC Finance Corporation Ltd. From February 2011 to May 2016, Mr. Xie served as Assistant President of CHINALCO, Executive Director of CHINALCO Finance Company Limited, President of CHINALCO Offshore Holding Company, Vice President & CFO of CHALCO, President of CHALCO (Hong Kong), Chairman of CHINALCO Finance Company Limited, Controller General & Director of Audit Department CHINALCO. From May 2016, Mr. Xie was appointed as General Manager of Finance Department of CNOOC. From August 2017, Mr. Xie was appointed as the Chief Financial Officer of the Company.

***Guohua Zhang*** Born in 1960, Mr. Zhang is a Senior Vice President of the Company and the General Manager of CNOOC China Limited Zhanjiang Branch. He is a professor-level senior engineer. He graduated from Shandong Oceanographic Institute (now Ocean University of China) 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 Deputy Chief Geologist and Manager of Exploration Department of CNOOC Naihai 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 Exploration Department of the Company. In March 2003, he was appointed as Senior Vice President of the Company.

In October 2005, Mr. Zhang was appointed as Senior Vice President of the Company and General Manager of CNOOC China Limited Shanghai Branch. In July 2009, he was appointed as Director of Donghai Petroleum Administrative Bureau of CNOOC. In July 2015, he was appointed as Director of Nanhai West Petroleum Administrative Bureau of CNOOC and General Manager of CNOOC China Limited Zhanjiang Branch.

**Hua Zhong** Born in 1960, Mr. Zhong is Chief Financial Officer of the Company. Mr. Zhong is a professor-level senior economist and senior engineer and graduated from Southwest Petroleum Institute (now Southwest Petroleum University) with a bachelor's degree in Oil Exploitation. He received a master's degree in Petroleum Engineering from Heriot-Watt University in the United Kingdom. He joined CNOOC in 1982, and has been working in the oil and gas industry for over 30 years. From 1982 to 1999, Mr. Zhong served as Petroleum Engineer of China Offshore Oil Nanhai West Corporation ("COONWC"), Expro Northsea Staff in UK, Deputy Manager of Downhole Services Company of Oil Production Company of COONWC, Manager of Wei 10-3 Oilfield, Oilfield Superintendent of CNOOC Indonesia Project, Supervisor of Ya 2-1-3 HTHP Well Testing Project, Deputy Manager of Drilling and Exploitation Institute, Manager of Science and Technology Development Department and Manager of Administration Department of COONWC. From September 1999 to October 2005, Mr. Zhong was General Manager of Administration Department and General Manager and Director of Development and Planning Department of the Company. From August 2005 to September 2010, Mr. Zhong served as Vice President,

Table of Contents

Executive Vice President and Chief Financial Officer of China Oilfield Services Limited, a company listed on The Stock Exchange of Hong Kong Limited and Shanghai Stock Exchange, a subsidiary of CNOOC. On September 16, 2010, Mr. Zhong was appointed as Chief Financial Officer of the Company. From March 2012 to November 2015, Mr. Zhong served as Joint Company Secretary of the Company. In August 2017, Mr. Zhong ceased to serve as Chief Financial Officer of the Company.

***Yunhua Deng*** Born in 1963, Mr. Deng is an academician of the Chinese Academy of Engineering and the Deputy Chief Exploration Engineer of the Company. Mr. Deng graduated from the Scientific Research Institute of Petroleum Exploration and Development with a major in Petroleum Geology and Exploration and received a master's degree in Engineering in 1988. He was assistant geologist and then geologist in the Exploration Department of CNOOC Bohai Corporation Institute from 1988 to 1989; and served as the Team Leader of the Comprehensive Petroleum Geological Research Team, Project Manager, Deputy Principal of Geologist, Deputy Principal Geologist and Director of the Exploration Department and Deputy Chief Geologist in the CNOOC Bohai Corporation Institute from 1989 to 1999. Mr. Deng became Deputy Chief Geology Engineer and Deputy General Manager of CNOOC China Limited Tianjian Branch from 1999 to 2005. He was Deputy Director of CNOOC Research Center from 2005 to 2006. He served as the Deputy Chief Exploration Engineer of the Company and the Deputy Director of CNOOC Research Center from 2006 to 2007. Mr. Deng served as Deputy Chief Geology Engineer of CNOOC, Deputy Chief Exploration Engineer of the Company and Deputy Director of CNOOC Research Center from 2007 to 2009; and Deputy Chief Geology Engineer of CNOOC, Deputy Chief Exploration Engineer of the Company and Deputy General Director of CNOOC Research Institute from 2009 to 2015. In November 2015, he was appointed as the Deputy Chief Geology Engineer of CNOOC, Deputy Chief Exploration Engineer of the Company and Deputy Director of Beijing Research Center of CNOOC China Limited.

***Lisong Song*** Born in 1957, he is a professor-level senior engineer. He graduated in 1982 with a bachelor's degree from the Department of Petroleum Development of East China Petroleum Institute (now China University of Petroleum), majoring in Drilling Engineering. In 1999, he graduated with a master's degree in management from Department of Economic Management of School of Management, TianJin University. From 1982 to 1994, he served as Supervisor and Platform Manager for Bohai Oil Corporation, and a staff member of the offshore division of the Technology Safety Department and the head of the offshore safety division of the Technical Safety and Environmental Protection Department respectively. From 1994 to 1999, Mr. Song served as Director of the Safety Production Division and head of the Safety Office of the HSE Department of CNOOC. From 1999 to 2001, he served as Deputy Manager of the HSE Department of the Company. From 2001 to 2003, he served as Director of operational safety of the HSE Department of CNOOC. From 2003 to 2013, he served as the General Manager of the HSE Department of CNOOC and the Company. From March 2013 to September 2016, he served as the Deputy Chief Safety Official of CNOOC, the Chief Safety Official and General Manager of the QHSE Department of the Company. From September 2016 to now, he has been serving as the Deputy Chief Safety Official of CNOOC and the Chief Safety Official of the Company. In April 2017, Mr. Song retired as the Chief Safety Official of the Company.

**Zaisheng Liu** Born in 1962, Mr. Liu is a Vice President of the Company and Director of Beijing Research Center of CNOOC China Limited, General Manager of CNOOC China Limited Beijing Branch, Director of CNOOC Energy Technology Development Research Institute and General Manager of CNOOC Energy Technology Development Research Institute Company Limited. Mr. Liu graduated from Southwest Petroleum Institute (now Southwest Petroleum University) with a bachelor's degree. From 1983 to 1994, he served as Deputy Manager of District Research First Team of Exploration and Development Department Research Institute of Nanhai East Oil Corporation of CNOOC. From 1994 to 1997, he served as Principal of Seismic Engineer and Principal of Geologist of Exploration and Development Department of Nanhai East Oil Corporation of CNOOC. From 1997 to 1999, he served as Deputy Manager of Exploration and Development Department of Nanhai East Oil Corporation of CNOOC. From 1997 to 2001, he served as Deputy Director of Scientific and Technology Research Institute of Nanhai East Oil Corporation of CNOOC. From 2001 to 2004, he served as Director of Nanhai East Institute of the Research Center of CNOOC China Limited. From 2004 to 2009, he served as Manager, Assistant to General Manager, Deputy General Manager and Acting General Manager of Technology Department of CNOOC China Limited Shenzhen Branch respectively. From 2009 to 2016, he served as General Manager of CNOOC China Limited Shenzhen Branch and Director of Nanhai East Petroleum Administrative Bureau of CNOOC and General Manager of CNOOC Deepwater Development Limited respectively. From April to November 2016, he served as Director of Beijing Research Center of CNOOC China Limited, General Manager of CNOOC China Limited Beijing Branch, and General Director of CNOOC Energy Technology Development Research Institute and General Manager of CNOOC Energy Technology Development Research Institute Company Limited. In February 2017, Mr. Liu was appointed as a Vice President of the Company.

Table of Contents

**Zongjie Qiu** Born in 1958, Mr. Qiu is a Vice President and General Manager of Development and Production Department of the Company. He graduated from China University of Petroleum with a master's degree. From 1982 to 1993, he served as Cadre and Deputy Manager of Oil Testing Company of CNOOC Nanhai West Corporation Oil Production Company. From 1993 to 1999, he served as Manager of Weizhou 11-4 oilfield, head of the operation division, Principal Engineer, Deputy Manager, Manager (and Manager of Oilfield Development Department) of CNOOC Nanhai West Corporation Oil Production Company respectively. From 1999 to 2001, he served as Manager of Petroleum Production Department of CNOOC Nanhai West Corporation. From 2001 to 2005, he served as Deputy General Manager of CNOOC China Limited Zhanjiang Branch. From 2005 to 2007, he served as Deputy General Manager of CNOOC China Limited Shenzhen Branch. From 2007 to 2016, he served as General Manager of Development and Production Department of the Company. In February 2017, Mr. Qiu was appointed as Vice President and General Manager of Development and Production Department of the Company. In May 2017, he was appointed as Vice President, Chief Safety Official, and General Manager of Development and Production Department of the Company. In March 2018, Mr. Qiu retired as Vice President, Chief Safety Official and General Manager of Development and Production Department of the Company.

**Joint Company Secretaries**

**Jiewen Li** Born in 1965, Ms. Li Jiewen is the Joint Company Secretary and the General Manager (Director) of the Investor Relations Department (Office for the Board of Directors). Ms. Li is a senior economist and Certified Senior Enterprise Risk Manager and a member of CPA Australia. Ms. Li graduated from Shanghai Jiao Tong University with a bachelor's degree in Naval Architecture and Ocean Engineering in 1987. She received a master's degree in Management from Zhejiang University in 2001. Ms. Li joined CNOOC in 1987 and has been working in the oil and gas industry for over 30 years. From 1987 to 1989, Ms. Li was a Assistant Engineer in Nanhai East Oil Corporation of CNOOC. From 1990 to 2003, she worked as the Assistant Engineer, Budget and Planning Engineer, Budget Supervisor, Assistant Finance Manager of CACT (CNOOC-AGIP-Chevron-Texaco) Operators Group. From February 2004 to October 2006, she served as the Finance Manager of CNOOC China Limited Shenzhen Branch. From October 2006 to November 2010, Ms. Li was the Deputy General Manager of the Controllers Department of the Company. Ms. Li served as the General Manager of the Controllers Department of the Company from November 2010 to June 2016. Ms. Li also served as the Director of Nexen Energy ULC, a subsidiary of the Company. Ms. Li has been also appointed as the General Manager (Director) of the Investor Relations Department (Office for the Board of Directors) of the Company since October 2015. Ms. Li was appointed as Joint Company Secretary of the Company with effective from November 27, 2015.

**May Sik Yu Tsue** Born in 1973, Ms. Tsue Sik Yu, May is the Joint Company Secretary of the Company. She 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, and MBA from The University of Hong Kong from 2014 to 2016. She is a fellow member of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries since 2012 and became a member of Company Secretaries Panel and Advisor for Academy of Professional Certification in the same

year, and became a member of ACCA since 2016. 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. Furthermore, she was granted a Practitioner's Endorsement (PE) 2017/2018 under The Hong Kong Institute of Chartered Secretaries and accredited a General Mediator under Hong Kong Mediation Accreditation Association Limited (HKMAAL) since August 2017. 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 Joint Company Secretary of the Company with effect from November 25, 2008.

## **B. Compensation**

The aggregate amount of fees, salaries, bonus, housing allowances, other allowances and benefits in kind paid to our directors for the year ended December 31, 2017 was Rmb 4,552,000 (US\$699,630), while the amount paid to our other senior management for the same period was Rmb 8,851,515 (US\$1,360,453). In addition, under our pension plan for 2017, we set aside an aggregate amount of Rmb 1,159,398 (US\$178,196) for pension and



## Table of Contents

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 174,166 (US\$57,508) to the pension plan for 2017. 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. Note 10 to our consolidated financial statements included elsewhere in this annual report discloses our five highest paid employees during 2017. 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."

### **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 (both internal and external) 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 omissions resulting from financial reporting. In addition, our audit committee reviews our Company's business ethics and compliance policies, related reports and performs other corporate governance functions. 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 Aloysius Hau Yin Tse as the audit committee financial expert for the purposes of U.S. securities laws and chairman of the audit committee, Sung Hong Chiu and Professor Lawrence J. Lau. Our audit committee charter is available on our website, [www.cnooltd.com](http://www.cnooltd.com).

The main responsibilities and authorities of our remuneration committee include making recommendations to our Board on our policy and structure of the remuneration of our directors and senior management, determining the service contracts and specific remuneration packages for all executive directors and senior management, such as benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and making recommendations to our Board on the remuneration of non-executive directors and independent non-executive directors. Our remuneration committee consisted of two independent non-executive directors (Sung Hong Chiu as chairman and Aloysius Hau Yin Tse) and one non-executive director (Guangqi Wu). Our remuneration committee charter is available on our website, [www.cnooltd.com](http://www.cnooltd.com).

The main authorities and responsibilities of our nomination committee include nominating candidates to serve as our directors and senior management for approval by our Board, reviewing the structure and composition of our Board, and evaluating the leadership abilities of our executive directors so as to ensure our competitive position. Our nomination committee is also responsible for reviewing and monitoring the training and continuous professional development of directors and senior management and make recommendations to our Board in this regard. Our nomination committee consists of Hua Yang as chairman, Professor Lawrence J. Lau and Kevin G. Lynch. Our nomination committee charter is available on our website, [www.cnooc ltd.com](http://www.cnooc ltd.com).

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.”

### **Directors Service Contracts**

Our executive directors and non-executive directors have entered into director’s service contracts with us and the terms of appointment of our independent non-executive directors are governed by appointment letters. There is no severance pay arrangement for our directors.

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

## Table of Contents

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. Four of our nine directors are independent non-executive directors.

NYSE Standards require U.S. domestic issuers to schedule regular executive sessions of non-management directors, or regular executive sessions of independent directors only. NYSE Standards also require that, if a U.S. domestic issuer chooses to hold regular meetings of all non-management directors, it should hold an executive session at least once a year to be attended by only independent directors. We are not subject to such requirements 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 of the executive sessions, or with the non-management or independent 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 board of directors of the U.S. domestic issuer is 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 on or through the U.S. domestic issuer’s website or 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 external auditors and the general managers of internal audit and risk management departments 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.

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 also require the board of directors of U.S. domestic issuers to consider additional factors in evaluating the independence of compensation committee members, including the source of compensation of the director, including any consulting, advisory or other

Table of Contents

compensatory fee paid by the issuer to such director and whether such director is affiliated with the issuer, a subsidiary of the issuer or an affiliate of a subsidiary of the issuer. We are not subject to such requirement and we have not considered such additional factors in evaluating the independence of compensation committee members.

NYSE Standards require U.S. domestic issuers to address in their compensation 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 compensation committees of U.S. domestic issuers to produce a compensation 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, senior management by band and the five highest paid employees in our annual reports according to the requirements of the Hong Kong Stock Exchange Listing Rules.

NYSE Standards require compensation committees of U.S. domestic issuers may, in its sole discretion, retain or obtain the advice of compensation consultants or other advisers, only after taking into consideration all factors relevant to such advisers' independence from management, including the various factors as specified in the NYSE Standards, and issuers must provide funding for the retention of such advisers. Also, compensation committees shall be directly responsible for the appointment, compensation and oversight of the advisers they retain. We are not subject to these requirements and we have not applied such requirements and addressed them in our remuneration committee charter.

#### 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 two 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.

## 5. Corporate Governance Guidelines

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 websites and provide the website addresses. 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, [www.cnoccltd.com](http://www.cnoccltd.com). See “Item 16B—Code of Ethics.”

### **D. Employees**

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

### **E. Share Ownership**

As of March 31, 2018, our directors and employees had the following personal interests in options to subscribe for shares granted under our share option schemes:

Table of Contents

Name of Grantee	Number of shares involved in the options outstanding as of January 1, 2017	Number of shares involved in the options outstanding as of March 1, 2018	Date of Grant	Date of Expiration <sup>(1)</sup>	Closing price per share immediately before the date of grant (HK\$)	Exercise Price (HK\$)
Executive Director:						
Guangyu Yuan <sup>(2)</sup>	1,857,000	1,857,000	May 27, 2009	May 27, 2019	9.33	9.93
	1,899,000	1,899,000	May 20, 2010	May 20, 2020	12.22	12.696
Non-executive Directors:						
Hua Yang <sup>(2)</sup>	1,857,000	-	May 25, 2007	May 25, 2017	7.43	7.29
	1,857,000	1,857,000	May 29, 2008	May 29, 2018	14.20	14.828
	2,835,000	2,835,000	May 27, 2009	May 27, 2019	9.33	9.93
	2,000,000	2,000,000	May 20, 2010	May 20, 2020	12.22	12.696
Guangqi Wu	1,857,000	-	May 25, 2007	May 25, 2017	7.43	7.29
	1,857,000	1,857,000	May 29, 2008	May 29, 2018	14.20	14.828
	1,857,000	1,857,000	May 27, 2009	May 27, 2019	9.33	9.93
	1,857,000	1,857,000	May 20, 2010	May 20, 2020	12.22	12.696
Other Employees In Aggregate:						
Total	31,390,000	-	May 25, 2007	May 25, 2017	7.43	7.29
	38,226,000	28,251,000	May 29, 2008	May 29, 2018	14.20	14.828
	44,823,000	34,236,000	May 27, 2009	May 27, 2019	9.33	9.93
	53,357,000	41,355,000	May 20, 2010	May 20, 2020	12.22	12.696
Total	187,529,000	119,861,000				

<sup>(1)</sup> 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.

<sup>(2)</sup>

*With effect from April 18, 2017, Mr. Hua Yang was re-designated from an Executive Director to a Non-executive Director of the Company and resigned as the Chief Executive Officer of the Company. Mr. Guangyu Yuan was appointed as the Chief Executive Officer of the Company and resigned as the President of the Company.*

For the year ended December 31, 2017, no share options granted under our share option schemes were exercised. For the period from January 1, 2017 to March 31, 2018, no share options were exercised.

As of December 31, 2017, we had 129,919,000 share options outstanding under our share option schemes, which represented approximately 0.29% of our shares in issue as of that date.

For further details about our share option schemes, see notes 9 and 27 to our consolidated financial statements included elsewhere in this annual report.

As of April 19, 2018, 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.

## **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, 2018.



Table of Contents

Shareholder	Number of Shares Owned	Percentage
CNOOC <sup>(1)</sup>	28,772,727,273	64.44 %

<sup>(1)</sup> 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 1, 2018, 10,429,785 ADSs, representing approximately 2.3% of our then outstanding shares, were held of record in the form of ADSs. At such date, the number of registered ADS holders in the United States was 59.

**B. Related Party Transactions**

## Overview

We regularly enter into transactions with related parties, including CNOOC and its associates. Since CNOOC indirectly owns an aggregate of approximately 64.44% of our outstanding shares, some of these transactions constitute connected transactions under the Hong Kong Stock Exchange Listing Rules, and are regulated by the Hong Kong Stock Exchange.

Apart from transactions with CNOOC and its associates, we have transactions with other state-owned enterprises, including, but not limited to, the following:

- Sales and purchase of goods and services;

- Purchases of assets, goods and services;
- Leases of assets; and
- Bank deposits.

These transactions are conducted in the normal course of business on terms comparable to those with other non-state-owned enterprises.

### **Categories of Continuing Connected Transactions**

As we are controlled by CNOOC, transactions with CNOOC, its subsidiaries and associates are deemed to be related party transactions. The connected transactions or continuing connected transactions defined in Chapter 14A of the Hong Kong Stock Exchange Listing Rules in respect of items listed below also constitute related party transactions. We entered into a comprehensive framework agreement with CNOOC on November 15, 2016 for the provision (1) by us to CNOOC and/or its associates and (2) by CNOOC and/or its associates to us, 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 the comprehensive framework agreement is for a period of three years from January 1, 2017. The comprehensive framework agreement is substantially on the same terms as the terms contained in the comprehensive framework agreement entered into by the Company on November 6, 2013, with more details about the pricing principles. The continuing connected transactions under such comprehensive framework agreement and the relevant annual caps for the three years from January 1, 2017 were approved by our independent shareholders on December 1, 2016. The approved continuing connected transactions are as follows:

Table of Contents

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 liquefied natural gas)

(b) Long-term sales of natural gas and liquefied natural gas

*Pricing principles*

The basic pricing principle for the continuing connected transactions between the Company and CNOOC is based on arm's length negotiations, on normal commercial terms or better and with reference to the prevailing local market conditions (including the volume of sales, length of contracts, the volume of services, overall customer relationship and other market factors).

On the basis of the above basic pricing principle, each type of products or services must be charged in accordance with the following pricing mechanism and in the following sequential order:

(a) government-prescribed price; or

(b) where there is no government-prescribed price, in accordance with market prices, including the local, national or international market prices.

The continuing connected transactions referred to in paragraph 1(a)-1(b) above provided by CNOOC to the Company and 3(a)-3(b) above provided by the Company to CNOOC, on the basis of the above pricing principle, are based on market prices (as defined in the comprehensive framework agreement).

The continuing connected transactions referred to in paragraph 1(c)-1(d) above provided by CNOOC to the Company, on the basis of the above pricing principle, are based on government-prescribed price or market prices.

The continuing connected transactions referred to in paragraph 1(e) on the basis of the above pricing principle, are unanimously determined with CNOOC which provides the FPSO vessel leases after arm's length negotiation in accordance with normal commercial terms.

The continuing connected transactions referred to in paragraph 2 above provided by the Company to CNOOC on the basis of the above pricing principle, are determined through arm's length negotiation between both parties with reference market price.

#### **Disclosure and/or Independent Shareholders' Approval Requirements**

Table of Contents

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 announcement, annual report and annual review requirements set out in the Hong Kong Stock Exchange Listing Rules, because each of the percentage ratios for these categories under the Hong Kong Stock Exchange Listing Rules (other than the profits ratio), where applicable, is expected to be less than 5% on an annual basis:

- (a) Provision of marketing, management and ancillary services by CNOOC and/or its associates to us;
- (b) Provision of management, technical, facilities and ancillary services, including the supply of materials from us to CNOOC and/or its associates; and
- (c) FPSO vessel leases from CNOOC and/or its associate to us.

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 connected transaction requirements:

- (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) Sales of petroleum and natural gas products (other than long-term sales of natural gas and liquefied natural gas); and
- (e) Long term sales of natural gas and liquefied natural gas.

We obtained independent shareholders' approval at the extraordinary general meetings held on December 1, 2016 for the non-exempt continuing connected transactions and relevant annual caps for the period from January 1, 2017 to December 31, 2019, respectively. The annual caps for our continuing connected transactions with CNOOC and/or its associates are specified as follows:

**Categories of Continuing Connected Transactions**

**Relevant Annual 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*

For the three years ending December 31, 2019,

Rmb 9,969 million,

(a) Provision of exploration and support services

Rmb 10,579 million and

Rmb 11,590 million respectively

For the three years ending December 31, 2019

Rmb 31,670 million,

(b) Provision of oil and gas development and support services

Rmb 38,289 million and

Rmb 43,745 million, respectively

For the three years ending December 31, 2019,

Rmb12,625 million,

(c) Provision of oil and gas production and support services

Rmb 14,678 million and

Rmb 16,877 million, respectively

For the three years ending December 31, 2019,

(d) Provision of marketing, management and ancillary services

Rmb 1,620 million,

Rmb 1,786 million and

Rmb 1,970 million, respectively

Table of Contents

	For the three years ending December 31, 2019,
(e) FPSO vessel leases	Rmb 2,880 million,  Rmb 3,120 million and  Rmb 3,360 million, respectively
<i>Provision of management, technical, facilities and ancillary services, including the supply of materials from us to CNOOC and/or its associates</i>	For the three years ending December 31, 2019,
Provision of management, technical, facilities and ancillary services, including the supply of materials to CNOOC and/or its associates	Rmb 100 million,  Rmb 100 million and  Rmb 100 million, respectively
<i>Sales of petroleum and natural gas products by us to CNOOC and/or its associates</i>	For the three years ending December 31, 2019,
(a) Sales of petroleum and natural gas products (other than long-term sales of natural gas and liquefied natural gas)	Rmb263,893 million,  Rmb 314,371 million and  Rmb 437,773 million, respectively
	For the three years ending December 31, 2019,
(b) Long-term sales of natural gas and liquefied natural gas	Rmb 25,654 million,  Rmb 33,386 million and  Rmb 43,649 million, respectively

A detailed discussion of significant connected transactions entered into in the ordinary course of business between us and our related parties during 2017 and the balances arising from connected transactions at the end of 2017 is included in note 28 to our consolidated financial statements included elsewhere in this annual report.

The non-exempt continuing connected transactions for the year ended December 31, 2017 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) on normal commercial terms or better; and

in accordance with the relevant agreements (including pricing principles and guidelines set out therein) governing (iii) the transactions on terms that were fair and reasonable and in the interests of the shareholders of our company 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, 2017 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**

On December 1, 2016, we entered into a financial services framework agreement (“Financial Services Framework Agreement”) with CNOOC Finance Corporation Limited (“CNOOC Finance”), our 31.8% owned affiliate and a subsidiary of CNOOC, pursuant to which CNOOC Finance provides a range of financial services as may be required and requested by the Company, for a term of three years from January 1, 2017 to December 31, 2019. Apart from the duration of the Financial Services Framework Agreement, more details about the pricing policy for the depositary services and update of the address and relevant dates, the Financial Services Framework Agreement is substantially on the same terms as the terms contained in the financial services framework agreement (as renewed on August 20, 2010 and November 27, 2013) entered into by the Company on October 14, 2008. The



Table of Contents

continuing connected transactions in respect of the depositary services under the Financial Services Framework Agreement are exempted from independent shareholders' approval requirement, but subject to the annual reporting, annual review and announcement requirements.

The maximum daily outstanding balance of deposits (including accrued interest) (excluding funds placed for the purpose of extending entrustment loans pursuant to the entrustment loan services) placed by the Company with CNOOC Finance should not exceed Rmb19.5 billion for the period from January 1, 2017 to December 31, 2019.

We confirmed that the maximum daily outstanding balance of deposits (including accrued interests but excluding funds placed for the purpose of extending entrustment loans pursuant to the entrustment loan services) placed by us with CNOOC Finance did not exceed Rmb 19.5 billion from January 1, 2017 to December 31, 2017.

**Borrowings from CNOOC**

In September 2014, CNOOC provided CNOOC International Limited, a wholly-owned subsidiary of us a five-year uncommitted revolving loan facility for general purposes, with the principal amount of US\$ 135 million of 0.95% per annum. As at March 31, 2018, the withdrawal amount of the loan was US\$ 130 million; In December 2014, CNOOC provided us a five-year uncommitted revolving loan facility for general purposes, with the principal amount of US\$ 600 million of 0.95% per annum. As at March 31, 2018, the withdrawal amount of the loan was US\$ 564 million. All the loans above are unsecured.

**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

As at December 31, 2017, the Company was not involved in any material litigation or arbitration and no material litigation or arbitration were pending or threatened or made against the Company so far as the Company is aware.

## 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 and withholding taxes of 10%. 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.

Table of Contents

In 2015, we declared and paid dividends totaling Rmb 20,419 million. In 2016, we declared and paid dividends totaling Rmb 14,244 million. In 2017, we declared and paid dividends totaling Rmb16,449 million (US\$2,528 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 Limited 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. The general reserve fund, which is determined at the discretion of the board of directors of CNOOC China Limited, can only be used, upon approval by the relevant authority, to offset against accumulated losses or to increase capital. 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. None of the contributions of CNOOC China Limited to these statutory funds may be used for dividend purposes.

For the years ended December 31, 2015, 2016 and 2017, CNOOC China Limited made the following appropriations to the statutory reserves:

	For the year ended December 31, 2015		For the year ended December 31, 2016		For the year ended December 31, 2017	
	Percentage of Net Profits	Rmb (in millions)	Percentage of Net Profits	Rmb (in millions)	Percentage of Net Profits	Rmb (in millions)
Reserve fund	—	—	—	—	202.6%	50,000.0
Staff and workers' bonus and welfare fund	—	—	—	—	—	—
Safety fund	3.6%	733.7	110.7%	705.1	2.7%	670.4

**Contingencies**

Two oil spill accidents ( the “Penglai 19-3 Oilfield Oil Spill Accidents”) occurred on June 4 and June 17, 2011 respectively at Platforms B and C of Penglai 19-3 oilfield, which is being operated under a production sharing (a) contracts (the “PSC”) among CNOOC China Limited, a subsidiary of the Company, and two subsidiaries of ConocoPhillips, a US based oil company, among which ConocoPhillips China Inc. (the “COPC”) was the operator and responsible for the daily operations of the oilfield when the Penglai 19-3 Oilfield Oil Spill Accidents occurred.

On August 10, 2015, the Company received a Notice Calling for Responses from the Qingdao Maritime Court of the People’s Republic of China the “Qingdao Maritime Court” for a public interest action filed by China Biodiversity Conservation and Green Development Foundation (the “Plaintiff”) in relation to the Penglai 19-3 Oilfield Oil Spill Accidents (the “Lawsuit”). The Lawsuit is lodged against COPC and CNOOC China Limited. On February 2, 2018, CNOOC China Limited received a ruling dated 28 December 2017 issued by Qingdao Maritime Court (the “Ruling”). Pursuant to the Marine Environment Protection Law of the People’s Republic of China amended in 2016, Qingdao Maritime Court ruled that the Plaintiff was not an appropriate entity to file the Lawsuit, and rejected it. As none of the parties to the Lawsuit appealed within the time limit, the Ruling came into effect. Therefore, CNOOC China Limited bears no liability for the Lawsuit.

The Company is of the view that there was no material impact of the Penglai 19-3 Oilfield Oil Spill Accidents on the Company.

Table of Contents

(b) As a Chinese Resident Enterprise, the Company may be liable to pay taxes on the deemed interest income for the funding provided to its overseas subsidiaries starting from January 1, 2008. The Company has prepared contemporaneous documentation in accordance with applicable PRC tax laws and regulations and is currently awaiting confirmation from its in-charge tax authority.

The Company is subject to tax in numerous jurisdictions around the world. There are audits in progress and items under review. Difference in positions taken by taxation authorities over the interpretation and application of tax laws and regulations may increase the Company's tax liability. Management has assessed the possible future outcome of matters that are currently under dispute. The Company believes that an adequate provision for future tax liability has been included in the consolidated financial statements based on available information.

In addition to the matters mentioned above, the Company is dealing with a number of other lawsuits and arbitrations that arise in the ordinary course of business. While the results of these legal proceedings cannot be ascertained at this stage, the Company believes these proceedings are not expected to have a material effect on the consolidated financial statements.

**B. Significant Changes**

The Company has no other subsequent events needed to be disclosed except those disclosed in note 37 to our consolidated financial statements included elsewhere in this annual report.

**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 "00883" and our ADSs are listed on the New York Stock Exchange under the symbol "CEO." Pursuant to certain undertakings in connection with our acquisition of Nexen, we listed our ADSs on the Toronto Stock Exchange in September 2013 under the symbol "CNU". The listing of our ADSs on the Toronto Stock Exchange is not a new issuance of equity securities and does not generate additional funds for us. 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 and the Toronto Stock Exchange.

Period	Hong Kong Stock Exchange		New York Stock Exchange		Toronto Stock Exchange	
	High	Low	High	Low	High	Low
	(HK\$ per share)	(US\$ per ADS)	(US\$ per ADS)	(US\$ per ADS)	(Cdn\$ per ADS)	(Cdn\$ per ADS)
2013	17.34	11.54	226.60	159.19	217.78	196.50
2014	15.68	9.80	201.50	126.70	219.15	151.57
2015	13.42	7.44	174.88	98.91	210.01	135.00
2016	10.7	6.42	138.11	85.34	168.95	137.00
2017	11.3	8.5	144.51	108.48	182.74	138.61
2016 Financial Quarter						
1st Quarter	9.26	6.42	121.86	85.34	157.50	139.00
2nd Quarter	10.18	8.59	129.94	110.58	159.00	150.00
3rd Quarter	9.96	8.85	128.35	115.23	163.00	150.00
4th Quarter	10.70	9.51	138.11	121.64	183.15	164.00
2017 Financial Quarter						
1st Quarter	10.04	8.81	129.00	113.25	169.78	160.00
2nd Quarter	9.54	8.5	122.44	108.48	161.43	145
3rd Quarter	10.08	8.52	129.7	109.08	147	138.61
4th Quarter	11.3	9.89	144.51	126.4	182.74	144.6
2018 Financial Quarter						
1st Quarter	12.9	10.82	165.85	140.41	199.5	175.97
Last Six Months						
October 2017	10.62	9.89	134.3	126.4	172.47	144.6
November 2017	11.14	10.56	143.36	134.48	182.74	172.22
December 2017	11.3	10.48	144.51	133.02	181.33	172
January 2018	12.9	11.22	165.85	143.56	199.5	181.33
February 2018	12.66	10.92	158.06	140.41	199.5	175.97
March 2018	11.74	10.82	152.86	140.54	192.85	183.74

Table of Contents

**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, the predecessor to the Hong Kong Companies Ordinance). Our company registration number in Hong Kong is 685974. Under the Hong Kong Companies Ordinance, we have the capacity, rights, powers and privileges of a natural person of full age and may do anything which we are permitted or required to do by our articles of association or any enactment or rule of law.

The following are summaries of provisions of our articles of association and the Hong Kong Companies Ordinance. By operation of this Ordinance, provisions that were previously contained in our memorandum of association are deemed to be incorporated into our articles of association except for those provisions which conflict with 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 2010. We are required by the Hong Kong Stock Exchange Listing Rules to upload, among other things, our memorandum and articles of association on our website and on the website of the Hong Kong Stock Exchange. We have complied with such requirement and as such, our memorandum and articles of association were further filed as an exhibit to the Form 6-K filed with the SEC on March 30, 2012 (File Number: 1-14966).

**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 or grant rights to subscribe for, or to convert any security into, 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 or to grant rights to subscribe for shares generally shall continue in force from the date of the passing of the resolution until the earlier

of:

- the conclusion of the next annual general meeting following the passing of the resolution; and

- the date on which the authority given under the resolution is revoked or varied by an ordinary resolution of our shareholders in a general meeting.

If such an approval for a general mandate to issue shares is given, our Board shall have the discretion to issue such number of shares as are approved pursuant to such general mandate, and our directors may offer, allot, grant options or other rights of subscription or conversion over, or otherwise issue, such number of 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 total number of shares in issue as of the date of granting such approval plus the number of shares repurchased by us since the granting of such approval.

91



## Table of Contents

### 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. Further, all dividends unclaimed for one year after having become payable may be invested or otherwise made use of by the directors for the benefit of our company until claimed, and all dividends unclaimed for six years after having become payable may be forfeited by the directors and shall revert to our company.

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 amount paid on the shares held by them respectively, and if such surplus assets are insufficient to repay the whole of the paid-up share capital, they are to be distributed so that the losses are borne by our shareholders in proportion to the amount 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 a 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 articles;
- change of a company's name;
- reduction of share capital; and
- voluntary winding up.

The Hong Kong Stock Exchange Listing Rules require that voting at any general meeting must be taken by way of poll, except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. On a poll, every shareholder who is present in person or by proxy has one vote for every share held or represented by him or her.

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.

## Table of Contents

Under Hong Kong law and our 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 six months from the end of our financial year. 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, shall be dissolved; but in any other case it shall 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.

### 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. Subject to provision of the Hong Kong Companies Ordinance, our directors may vote at a board meeting or by way of written resolution of directors 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 incurred or 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 for the giving by us of any security or indemnity to a third party for our debts or obligations or debts or obligations of our subsidiaries for which such director or his or her associates assumed responsibility, or guaranteed or secured in whole or in part whether alone or jointly;

## Table of Contents

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 is/are or is/are to be interested as a participant in the underwriting or sub-underwriting;

any contract or arrangement in which the director or his or her associates are interested in the same manner as other holders of our securities by virtue only of their interest in our securities;

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.

### **C. Material Contracts**

We have not entered into any material contracts in the last two years other than in the ordinary course of business, 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—Relating to the PRC—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 the PRC, Hong Kong and the 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-PRC, non-Hong Kong or non-U.S. laws. Accordingly, we urge you to consult your tax adviser regarding the tax consequences of owning 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 change. There is no reciprocal tax treaty in effect between Hong Kong and the United States.

## The PRC

On April 22, 2009, the State Administration of Taxation of the PRC (the “SAT”) issued the “Notice regarding Matters on Determination of Tax Residence Status of Chinese-controlled Offshore Incorporated Enterprises under Rules of Effective Management” (the “Notice”).

Pursuant to the “Enterprise Income Tax Law of the PRC” (the “New EIT Law”) and the Notice, enterprises established outside of China whose “de facto management bodies” are located in China are considered Chinese Resident Enterprises, or CREs.

We are considered a PRC resident enterprise for purposes of the Notice. In Accordance with the Notice and the PRC income tax law as well as the formal approval from the SAT in October 2010, we are regarded as a CRE pursuant to the provisions of the New EIT Law and the Notice. Accordingly, we are required to withhold 10% corporate income tax when we make dividend distributions to the ADS depository and to our non-Chinese resident enterprise shareholders, whose names appear on our register of members, as of the record date for such dividend, and who are not individuals. The 10% dividend withholding tax rate will not be reduced under the 1984 Agreement between the United States and the People’s Republic of China for the Avoidance of Double Taxation, or the PRC Treaty. In the past, we did not withhold any tax in respect of dividends payable to any natural person shareholders whose names appeared on our register of members on the relevant record dates.

## Table of Contents

Currently, gains realized by foreign individual investors upon the sale of overseas-listed shares or American depositary shares are not subject to tax on capital gains. In accordance with the New EIT Law, capital gains realized by foreign enterprises which are non-resident enterprises in China upon the sale of overseas-listed shares or American depositary shares are generally subject to a PRC enterprise income tax levied at a rate of 10%, unless exempted or reduced pursuant to an applicable double-taxation treaty or other exemption.

### Hong Kong

#### Tax on Dividends

Under the current practices of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong on 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 subject to Hong Kong profits tax which is currently imposed at a rate of 16.5% on corporations and at a standard rate of 15% on individuals. Gains from sales of 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 will therefore 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 ADSs, and the issuance of ADSs 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 ADSs upon the deposit of shares issued directly to the depository or for the account of the 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.

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

The following is a discussion of material U.S. federal income tax consequences of owning and disposing of ADSs or shares by the U.S. Holders described 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 own such ADSs or shares. This discussion does not address any alternative minimum tax considerations or the potential application of the Medicare contribution tax to "net investment income" of non-corporate U.S. Holders. In addition, 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 does not address all of the U.S. federal income tax consequences that may be relevant to U.S. Holders that are subject to special rules, such as:

· certain financial institutions;

· dealers or traders in securities who use a mark-to-market method of tax accounting;



Table of Contents

persons holding ADSs or shares as part of a straddle, conversion transaction, 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;
  - tax-exempt entities, “individual retirement accounts” or “Roth IRAs”;
- persons that own or are deemed to own 10% or more of our stock, by vote or value;

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 owns 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 owning ADSs or shares and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of owning and disposing of the ADSs or shares.

This discussion is based on the Internal Revenue Code of 1986, as amended (the “Code”), administrative pronouncements, judicial decisions, final, temporary and proposed U.S. Treasury regulations and the PRC Treaty, 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 Depositary 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 owning and disposing of ADSs or shares in their particular circumstances.

As used herein, a “U.S. Holder” is a person that for U.S. federal income tax purposes is a beneficial owner of ADSs or shares and is: (i) a citizen or individual 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, any state therein or the District of Columbia; 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 depositary shares are released before delivery of shares to the depositary (a pre-release), or intermediaries in the chain of ownership between holders and the issuer of the securities underlying the American depositary shares, may be taking actions that are inconsistent with the claiming of foreign tax credits by holders of American depositary shares. Such actions would also be inconsistent with the claiming of the favorable tax rates, described below, applicable to dividends received by certain non-corporate holders. Accordingly, the creditability of foreign taxes and the availability of the favorable tax rates for dividends received by certain non-corporate holders, described below, could be affected by actions taken by such parties or intermediaries.

## Table of Contents

Except as specifically described below, this discussion assumes that we were not, and will not become, a passive foreign investment company, or PFIC, for any taxable year.

### 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. Dividends will be included in a U.S. Holder's income on the date of the U.S. Holder's or, in the case of ADSs, the Depositary's receipt of the dividend. The amount of the dividend 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 of receipt, 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 a dividends-received deductions 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. shareholders are taxable at rates applicable to long-term capital gains. 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. A foreign corporation may also be treated as a qualified foreign corporation if it is eligible for benefits of a comprehensive income tax treaty with the United States determined by the U.S. Treasury to be satisfactory for these purposes and that includes an exchange of information program. Non-corporate U.S. Holders should consult their 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 these favorable rates.

As described in "—Taxation—The PRC," we are regarded as a CRE pursuant to the provisions of the New EIT Law and the Notice. Accordingly, dividends paid with respect to our ordinary shares or ADSs generally will be subject to PRC withholding taxes. For U.S. federal income tax purposes, the amount of a dividend would include any amounts withheld by us in respect of PRC taxes. Subject to applicable limitations, any PRC income taxes withheld from dividends on ADSs or shares (in the case of a U.S. Holder that is eligible for the benefits of the PRC Treaty, at a rate not exceeding the rate provided by the PRC Treaty) may be creditable against the U.S. Holder's U.S. federal income tax liability. Where a U.S. Holder is eligible for the benefits of the PRC Treaty, PRC taxes withheld in excess of the rate applicable under the PRC Treaty will not be eligible for credit against the U.S. Holder's U.S. federal income tax

liability. The rules governing foreign tax credits are complex, and U.S. Holders should consult their tax advisers regarding the creditability of foreign taxes in their particular circumstances. Instead of claiming a credit, a U.S. Holder may, at the U.S. Holder's election, deduct such PRC taxes in computing taxable income, subject to applicable limitations. An election to deduct foreign taxes instead of claiming foreign tax credits must apply to all foreign taxes paid or accrued in the taxable year.

#### 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 U.S. 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 and the U.S. Holder's tax basis in the ADSs or shares (each determined in U.S. dollars).

Table of Contents

As described in “—Taxation —The PRC,” gains from dispositions of our ADSs or shares may be subject to PRC tax. A U.S. Holder’s amount realized would include the gross amount of the disposition proceeds before any withholding or deduction of PRC tax. Although under the Code any such gain of a U.S. Holder would generally be characterized as U.S.-source income, a U.S. Holder that is eligible for the benefits of the PRC Treaty may be able to elect to treat the gain as foreign-source gain for foreign tax credit purposes. The rules governing foreign tax credits are complex and the creditability of foreign taxes is subject to limitations. U.S. Holders should consult their tax advisers regarding their eligibility for benefits under the PRC Treaty and the creditability of any PRC tax paid with respect to dispositions in their particular circumstances.

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, 2017. In general, a non-U.S. company will be 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 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 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 a PFIC for any taxable year.

If we were 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 certain pledges) 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 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 resulting tax liability for each such taxable year. 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 in the same manner. Certain elections (such as a mark-to-market election) may be available to U.S. Holders and may result in alternative tax treatment.

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 favorable rates discussed above with respect to dividends received by certain non-corporate U.S. Holders would not apply.

If we are a PFIC for any taxable year during which a U.S. Holder owned our ADSs or shares, the U.S. Holder will generally be required to file annual reports on IRS Form 8621.

#### Information Reporting and Backup Withholding

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries may be subject to information reporting and backup withholding, unless the U.S. Holder is an 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 U.S. Holder's U.S. federal income tax liability and may entitle such U.S. Holder to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

Table of Contents

Subject to certain exceptions, U.S. Holders who are individuals or certain specified entities may be required to securities of non-U.S. companies, or non-U.S. accounts through which they are held. U.S. Holders should consult their tax advisers regarding the effect, if any, of this requirement on the ownership and disposition of our ADSs or shares.

**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 fluctuations in oil prices. See “Item 4—Information on the Company—Business Overview—Overview” and “Item 3—Key Information—Risk Factors—Risks Relating to Our Operations—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. China adopted a managed floating exchange rate approach based on market supply and demand and with reference to a basket of currencies. From January 1, 2017 to December 31, 2018, Renminbi appreciated approximately 10.32% against U.S. dollar.

Management has assessed the Company’s exposure to foreign currency risk by using a sensitivity analysis on the change in foreign exchange rate of the U.S. dollars, to which the Company is mainly exposed to as at December 31, 2017 and 2016. Based on management’s assessment at December 31, 2017, a 5% strengthening/weakening of RMB against U.S. dollars would have increased/decreased the profit for the year of the Company by 0.06% (2016: 6.63%) and the equity of the Company by 0.31% (2016: 0.46%). This analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to the foreign currency balances to which the Company has significant exposure with all other variables held constant. The analysis is performed on the same basis for 2016.

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

- Our oil and gas sales may increase, because the benchmark oil and gas prices are usually in U.S. dollars;



Table of Contents

Our cost for imported equipment and materials will increase, because most of these costs are denominated in U.S. dollars; and

Our debt repayment burden will increase, since all of our debt is denominated in U.S. dollars.

For further information on our currency risk, see “Item 3—Key Information—Risk Factors—Risks Relating to the PRC—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 debts. 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, 2017, the interest rates for 95.5% of our outstanding debts were fixed. The term of the weighted average balance was approximately 9.35 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.

As of December 31, 2017, the interest rates for 98.8% of our total outstanding long-term debts were fixed. The following table sets forth additional information about the expected maturity dates of our outstanding long-term debt (including the current portion) as of December 31, 2017.

	2018	2019	2020	2021	2022	2023 and after	Total	Fair value as of December 31, 2017
(Rmb in millions, except percentages)								
Long-term loans, including current								

portion Floating rate	210.9	210.9	210.9	107.9	60.9	623.3	1,424.9	1,428.7
Interest rate-	Libor + 0.19%	Libor + 0.19%	Libor + 0.19%	Libor + 0.19%	Libor + 0.19%	Libor + 0.19%		
Tanggung	~0.335%	~0.335%	~0.335%	~0.335%	~0.335%	~0.335%		
Interest rate-	Libor + 1.37%	Libor + 1.37%	Libor + 1.37%	Libor + 1.37%	Libor + 1.37%	Libor + 1.37%		
Tanggung III	~3.45%	~3.45%	~3.45%	~3.45%	~3.45%	~3.45%		
Long-term guaranteed notes, including current portion								
Fixed rate	4,879.7	1,951.9	9,759.5	9,759.5	9,759.5	79,962.4	116,072.4	127,766.8
Average interest rate	4.45	% 4.48	% 4.57	% 4.68	% 4.74	% 4.99	%	

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

## Item 12. Description of Securities other than equity securities

### A. Debt Securities

Not applicable.

### B. Warrants and Rights

Not applicable.

### C. Other Securities

Not applicable.

**D.American Depositary Shares**

100

Table of Contents

JPMorgan Chase Bank, N.A. is our Depositary. The depositary's office is located at 4 New York Plaza, New York, NY 10004. Each of our ADSs represents 100 shares.

**ADR Fees Payable by Investors**

The Depositary may charge each person to whom ADRs are issued, including, without limitation, issuances against deposits of shares, issuances in respect of share distributions, rights and other distributions, issuances pursuant to a stock dividend or stock split declared by us, or issuances pursuant to a merger, exchange of securities or any other transaction or event affecting the ADSs or the deposited securities, and each person surrendering ADSs for withdrawal of deposited securities or whose ADSs are cancelled or reduced for any other reason, US\$5.00 for each 100 ADSs (or portion thereof) issued, delivered, reduced, cancelled or surrendered, as the case may be.

The following additional charges shall be incurred by the ADR holders, by any party depositing or withdrawing shares or by any party surrendering ADSs and/or to whom ADSs are issued (including, without limitation, issuances pursuant to a stock dividend or stock split declared by us or an exchange of stock regarding the ADSs or the Deposited Securities or a distribution of ADSs), whichever is applicable:

- a fee of up to US\$0.05 per ADS for any cash distribution made pursuant to the deposit agreement;

- a fee of US\$1.50 per ADR for transfers of certificated or direct registration ADRs;

a fee of up to US\$0.05 per ADS per calendar year (or portion thereof) for services performed by the Depositary in administering the ADRs (which fee may be charged on a periodic basis during each calendar year and shall be assessed against holders of ADRs as of the record date or record dates set by the Depositary during each calendar year shall be payable in the manner described in the next succeeding provision);

- a fee for the reimbursement of such fees, charges and expenses as are incurred by the Depositary or any of its agents (including, without limitation, the custodian and expenses incurred on behalf of holders in connection with compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in connection with the servicing of the shares or other deposited securities, the sale of securities (including, without limitation, deposited securities), the delivery of deposited securities or otherwise in connection with the Depositary's or its custodian's compliance with applicable law, rule or regulation (which fees and charges shall be assessed on a proportionate basis against holders as of the record date or dates set by the Depositary and shall be payable at the sole discretion of the Depositary by billing such holders or by deducting such charge from one or more cash dividends or

other cash distributions);

stock transfer or other taxes and other governmental charges;

cable, telex and facsimile transmission and delivery charges incurred at the request of an ADR holder in connection with the deposit or delivery of shares;

transfer or registration fees for the registration of transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities;

in connection with the conversion of foreign currency into U.S. dollars, the fees, expenses and other charges charged by the Depositary or its agent (which may be a division, branch or affiliate) so appointed in connection with such conversion; and

fees of any division, branch or affiliate of the Depositary utilized by the Depositary to direct, manage or execute any public or private sale of securities under the deposit agreement.

Table of Contents**Payments Received by Foreign Private Issuer**

The Depositary has agreed to reimburse certain company expenses related to our ADS program and incurred by us in connection with the program. The Depositary reimbursed us, or paid amounts on our behalf to third parties, or waived its fees and expenses, of US\$480,759.92 for the year ended December 31, 2017.

***Direct Payments***

The table below sets forth the types of expenses that the Depositary has agreed to reimburse, and the invoices relating to the year ended December 31, 2017 that were reimbursed:

Category of Expenses	Amount Reimbursed for Fiscal Year Ended December 31, 2017 (US\$) <sup>(3)</sup>
Investor relations <sup>(1)</sup>	134,308.96
Broker reimbursements <sup>(2)</sup>	114,335.34
NYSE annual listing fees	85,000.00
TSX annual listing fees	89,285.71
ADR related legal fees	57,829.91
<b>Total</b>	<b>480,759.92</b>

(1) Includes investor relation service fees and investor relations expenses for road show in 2018.

Broker reimbursements are fees payable to Broadridge and other service providers for the distribution of hard copy (2) material to beneficial ADR holders in the Depositary Trust Company. Corporate material includes information related to shareholders' meetings and related voting instruction cards. These fees are SEC approved.

(3) Includes the 30% withholding tax paid to the U.S. government.

***Indirect Payments***

The Depositary has also agreed to waive fees for standard costs associated with the administration of the ADS program and has paid certain expenses directly to third parties on our behalf. The table below sets forth those expenses that the Depositary waived or paid directly to third parties relating to the year ended December 31, 2017:

Category of Expenses	Amount Reimbursed for Fiscal Year Ended December 31, 2017 (US\$)
Fees waived	150,000

**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.

102



Table of Contents

**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, 2017, 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, 2017, 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.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2017 using the criteria set forth in Internal Control – Integrated Framework (2013) 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, 2017 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, 2017 that have materially affected, or that were reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

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 in 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. The Code of Ethics covers areas such as supervisory rules, insider dealing, market malpractices, conflict of interests, company opportunities, protection and proper use of our assets as well as reporting requirements. As part of the continued efforts to improve our corporate governance standards, our Board conducted an annual review to the Code of Ethics

since 2009, and the current version of the Code of Ethics was reviewed and adopted in August 2017.

Table of Contents

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

We have posted our Code of Ethics on our website. To request a copy of our Code of Ethics free of charge, please contact our investor relations manager, by email to [ir@cnooc.com.cn](mailto:ir@cnooc.com.cn).

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

**Audit Fees**

The aggregate fees billed for professional services rendered by our principal accountant for the audit of our annual financial statements were Rmb 46.7 million for 2016 and Rmb 50.9 million (US\$7.8 million) for 2017.

**Audit-Related Fees**

The aggregate fees billed for services that are normally provided by the accountants in connection with statutory and regulatory filings or engagements and assurance and related services by our principal accountant that are reasonably related to the performance of the audit or review of financial statements and are not reported under “Audit Fees” were Rmb 6.0 million for 2016 and Rmb4.5 million (US\$0.7 million) for 2017.

**Tax Fees**

The aggregate fees billed for professional service rendered by the principal accountant for tax compliance, tax advice and tax planning were nil for 2016 and nil for 2017.

## **All Other Fees**

The aggregate fees billed for professional services rendered by our principal accountant for risk management advisory services and information systems reviews were nil for 2016 and Rmb 250,000 (USD\$38,424)for 2017.

There are no other fees payable to our principal accountant for products and/or services provided by our principal accountant, other than the services reported above, for the financial year ended December 31, 2016 and for the financial year ended December 31, 2017.

## **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. 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; and (2) 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 2017, all fees for audit-related services, tax services and all other services paid to our principal accountant were approved by our audit committee.

Table of Contents

**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.”

**ITEM 16H. MINE SAFETY DISCLOSURE**

Not applicable.

**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 | <u>Articles of Association of the Registrant, as amended in 2009, incorporated by reference to Exhibit 1.1 to our Annual Report on Form 20-F for fiscal year 2010 filed with the Securities and Exchange Commission (File number: 1-14966) and Exhibit 99.1 to Form 6-K furnished with the Securities and Exchange Commission on March 30, 2012 (File number: 1-14966).</u> |
| 1.2 | <u>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) and Exhibit 99.1 to Form 6-K furnished with the Securities and Exchange Commission on March 30, 2012 (File number: 1-14966).</u>                              |
| 2.1 | <u>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).</u>   |
| 2.2 | <u>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).</u>   |
| 2.3 | <u>Indentures dated January 26, 2011 among CNOOC Finance (2011) Limited, as Issuer, CNOOC Limited, as Guarantor, and The Bank of New York Mellon, as Trustee*.</u>  |

\* Pursuant to Instruction 2(b)(i) to Item 19 of Form 20-F, we undertake to furnish this document upon request of the Securities and Exchange Commission.





Table of Contents

- Indentures dated May 2, 2012 among CNOOC Finance (2012) Limited, as Issuer, CNOOC Limited, as
- 2.4 Guarantor, Citicorp International Limited, as Trustee, Citibank, N.A., London Branch, as Paying Agent, and Citigroup Global Markets Deutschland AG, as Registrar\*.
- Fourth Supplemental Indenture dated March 22, 2013 to the Senior Debt Indenture dated May 4, 2007 among CNOOC Limited, Deutsche Bank Trust Company Americas and Nexen Inc., incorporated by reference to Exhibit 4.1 to Form 6-K furnished with the Securities and Exchange Commission on March 22, 2013 (File number: 1-14966).
- 2.5
- Seventh Supplemental Indenture dated March 22, 2013 to the Trust Indenture dated April 28, 1998 among CNOOC Limited, CIBC Mellon Trust Company, The Bank of New York Mellon and Nexen Inc., incorporated by reference to Exhibit 4.2 to Form 6-K furnished with the Securities and Exchange Commission on March 22, 2013 (File number: 1-14966).
- 2.6
- Form of Indenture among CNOOC Finance (2013) Limited, CNOOC Limited and The Bank of New York Mellon, incorporated by reference to Exhibit 4.1 to Form F-3 filed with the Securities and Exchange Commission on May 1, 2013 (File number: 333-188261)
- 2.7
- Form of 1.125% Guaranteed Note due 2016, incorporated by reference to Exhibit 4.2 to Form 6-K furnished with the Securities and Exchange Commission on May 9, 2013 (File number: 1-14966)
- 2.8
- Form of 1.750% Guaranteed Note due 2018, incorporated by reference to Exhibit 4.3 to Form 6-K furnished with the Securities and Exchange Commission on May 9, 2013 (File number: 1-14966)
- 2.9
- Form of 3.000% Guaranteed Note due 2023, incorporated by reference to Exhibit 4.4 to Form 6-K furnished with the Securities and Exchange Commission on May 9, 2013 (File number: 1-14966)
- 2.10
- Form of 4.250% Guaranteed Note due 2043, incorporated by reference to Exhibit 4.5 to Form 6-K furnished with the Securities and Exchange Commission on May 9, 2013 (File number: 1-14966)
- 2.11
- Form of Indenture among CNOOC Nexen Finance (2014) ULC, CNOOC Limited and The Bank of New York Mellon, incorporated by reference to Exhibit 4.3 to Post-Effective Amendment No. 1 to Form F-3 filed with the Securities and Exchange Commission on April 22, 2014 (File number: 333-188261)
- 2.12
- Form of 1.625% Guaranteed Note due 2017, incorporated by reference to Exhibit 4.2 to Form 6-K furnished with the Securities and Exchange Commission on May 1, 2014 (File number: 1-14966)
- 2.13
- Form of 4.250% Guaranteed Note due 2024, incorporated by reference to Exhibit 4.3 to Form 6-K furnished with the Securities and Exchange Commission on May 1, 2014 (File number: 1-14966)
- 2.14
- Form of 4.875% Guaranteed Note due 2044, incorporated by reference to Exhibit 4.4 to Form 6-K furnished with the Securities and Exchange Commission on May 1, 2014 (File number: 1-14966)
- 2.15
- Form of Indenture among CNOOC Finance (2015) Australia Pty Ltd, CNOOC Limited and The Bank of New York Mellon, incorporated by reference to Exhibit 4.5 to Post-Effective Amendment No.2 to Form F-3 filed with the Securities and Exchange Commission on April 27, 2015 (File number: 333-188261)
- 2.16
- Form of Indenture among CNOOC Finance (2015) U.S.A. LLC, CNOOC Limited and The Bank of New York Mellon, incorporated by reference to Exhibit 4.7 to Post-Effective Amendment No. 2 to Form F-3 filed with the Securities and Exchange Commission on April 27, 2015 (File number: 333-188261)
- 2.17
- Form of 2.625% Guaranteed Note due 2020, incorporated by reference to Exhibit 4.1 to Form 6-K furnished with the Securities and Exchange Commission on May 5, 2015 (File number: 1-14966)
- 2.18

\* Pursuant to Instruction 2(b)(i) to Item 19 of Form 20-F, we undertake to furnish this document upon request of the Securities and Exchange Commission.

Table of Contents

- 2.19 Form of 3.500% Guaranteed Note due 2025, incorporated by reference to Exhibit 4.2 to Form 6-K furnished with the Securities and Exchange Commission on May 5, 2015 (File number: 1-14966)
- 2.20 Form of 4.200% Guaranteed Note due 2045, incorporated by reference to Exhibit 4.3 to Form 6-K furnished with the Securities and Exchange Commission on May 5, 2015 (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).
- 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).



Table of Contents

- Trademark License Agreement dated September 9, 1999 between CNOOC, Offshore Oil Company Limited and  
 4.11 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).
- Trademark License Agreement dated September 9, 1999 between China Offshore Oil Marketing Company,  
 4.12 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).
- Trademark License Agreement between CNOOC, CNOOC Limited and CNOOC China Limited, incorporated by  
 4.13 reference to Exhibit 4.13 to our Annual Report on Form 20-F for fiscal year 2008 filed with the Securities and  
Exchange Commission (File Number: 1-14966).
- Trademark License Agreement between CNOOC, CNOOC Limited and CNOOC China Limited, incorporated by  
 4.14 reference to Exhibit 4.14 to our Annual Report on Form 20-F for fiscal year 2008 filed with the Securities and  
Exchange Commission (File Number: 1-14966).
- 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 6<sup>th</sup>, 7<sup>th</sup> and 8<sup>th</sup> Floors, CNOOC Plaza, No. 6  
 4.15 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).
- Property Leasing Agreement dated September 9, 1999 between China Offshore Oil Western South China Sea  
 4.16 Corporation and Offshore Oil Company Limited in respect of the office premises at 1<sup>st</sup> to 9<sup>th</sup> 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).
- Property Leasing Agreement dated September 9, 1999 between China Offshore Oil Bohai Corporation and  
 4.17 Offshore Oil Company Limited in respect of the office premises at 1<sup>st</sup> to 7<sup>th</sup> Floors and 9<sup>th</sup> 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).
- Property Leasing Agreement dated September 9, 1999 between China Offshore Oil East China Sea Corporation  
 4.18 and Offshore Oil Company Limited in respect of the office premises at 20<sup>th</sup>, 22<sup>nd</sup> and 23<sup>rd</sup> 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).
- 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 3<sup>rd</sup> Floor and 6<sup>th</sup> to 11<sup>th</sup>  
 4.19 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).
- Property Leasing Agreement dated September 9, 1999 between China Offshore Oil Bohai Corporation and  
 4.20 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).

Table of Contents

- 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
- 4.21 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).
- Suizhong Pier Agreement dated September 9, 1999 between Offshore Oil Company Limited and China Offshore
- 4.22 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).
- 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
- 4.23 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).
- Form of the Undertaking Agreement between CNOOC and CNOOC Limited, incorporated by reference to
- 4.24 Exhibit 10.27 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- Form of Pre-Global Offering Share Option Scheme for the Senior Management of CNOOC Limited, incorporated
- 4.25 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).
- Form of Share Option Scheme for the Senior Management of CNOOC Limited, incorporated by reference to
- 4.26 Exhibit 10.32 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- CNOOC Limited Share Option Scheme adopted on December 31, 2005, incorporated by reference to Exhibit 4.37
- 4.27 to our Annual Report on Form 20-F for fiscal year 2005 filed with the Securities and Exchange Commission (File Number: 1-14966).
- Subscription Agreement dated March 17, 2000 among CNOOC Limited, CNOOC (BVI) Limited, Overseas Oil &
- 4.28 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).
- Subscription Agreement dated May 31, 2000 among CNOOC Limited, CNOOC (BVI) Limited, Overseas Oil &
- 4.29 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).
- Subscription Agreement dated May 31, 2000 among CNOOC Limited, CNOOC (BVI) Limited, Overseas Oil &
- 4.30 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).
- Subscription Agreement dated June 28, 2000 among CNOOC Limited, CNOOC (BVI) Limited, Overseas Oil &
- 4.31 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).
- Corporation Placing Agreement dated February 6, 2001 among CNOOC Limited, China National Offshore Oil
- 4.32 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).

Table of Contents

- 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).
- 4.33 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).
- 4.34 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).
- 4.35 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).
- 4.36 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).
- 4.37 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).
- 4.38 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).
- 4.39 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).
- 4.40 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).
- 4.41 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).
- 4.42 Framework Agreement dated November 1, 2010 with CNOOC (Summary Translation), incorporated by reference to Exhibit 4.43 to our Annual Report on Form 20-F for fiscal year 2010 filed with the Securities and Exchange Commission (File number: 1-14966).
- 4.43 Arrangement Agreement dated July 23, 2012 among CNOOC Limited, CNOOC Canada Holding Ltd. and Nexen Inc., incorporated by reference to Exhibit 4.44 to our Annual Report on Form 20-F for fiscal year 2012 filed with the Securities and Exchange Commission (File number: 1-14966).
- 4.44 Framework Agreement dated November 6, 2013 with CNOOC (Summary Translation), incorporated by reference to Exhibit 4.45 to our Annual Report on Form 20-F for fiscal year 2014 filed with the Securities and Exchange Commission (File number: 1-14966).
- 4.45

Table of Contents

- 4.46 Framework Agreement dated November 15, 2016 with CNOOC (Summary Translation), incorporated by reference to Exhibit 4.46 to our Annual Report on Form 20-F for fiscal year 2016 filed with the Securities and Exchange Commission (File number: 1-14966).
- 4.47 Framework Agreement dated December 1, 2016 with CNOOC Finance (Summary Translation), incorporated by reference to Exhibit 4.47 to our Annual Report on Form 20-F for fiscal year 2016 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 2017.
- 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.
- 15.1 2017 Reserves Reports of Ryder Scott Company, L.P.
- 15.2 2017 Reserves Reports of Gaffney, Cline & Associates (Consultants) Pte Ltd.
- 15.3 2017 Reserves Report of RPS
- 15.4 2017 Reserves Audit Report of Ryder Scott Company, L.P.
- 15.5 2017 Reserves Audit Report of McDaniel & Associates Consultants Ltd.
- 15.6 2017 Reserves Audit Report of DeGolyer and MacNaughton
- 15.7 Letter from Ernst & Young (incorporated by reference to Exhibit 15.7 of our Annual Report on Form 20-F (file No. 001-14966) filed with the Securities and Exchange Commission on April 17, 2014).
- 15.8 Consent from Ryder Scott Company, L.P.
- 15.9 Consent from Gaffney, Cline & Associates (Consultants) Pte Ltd.
- 15.10 Consent from RPS
- 15.11 Consent from McDaniel & Associates Consultants Ltd.
- 15.12 Consent from DeGolyer and MacNaughton



Table of Contents

**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/ Jiewen Li  
Name: Jiewen Li  
Title: Joint Company Secretary

Date: April 19, 2018

Table of Contents

**CNOOC LIMITED**

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017

TOGETHER WITH REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

F-1

Table of Contents

**INDEX TO FINANCIAL STATEMENTS**

	Page
<b>CNOOC LIMITED</b>	
<u>Report of independent registered public accounting firm on financial statements for the years ended December 31, 2015, 2016 and 2017</u>	<u>F-3</u>
<u>Report of independent registered public accounting firm on internal control over financial reporting as of December 31, 2017</u>	<u>F-4</u>
<u>Consolidated statements of profit or loss and other comprehensive income for the years ended December 31, 2015, 2016 and 2017</u>	<u>F-5</u>
<u>Consolidated statements of financial position as of December 31, 2016 and 2017</u>	<u>F-6</u>
<u>Consolidated statements of changes in equity for the years ended December 31, 2015, 2016 and 2017</u>	<u>F-7</u>
<u>Consolidated statements of cash flows for the years ended December 31, 2015, 2016 and 2017</u>	<u>F-9</u>
<u>Notes to the consolidated financial statements</u>	<u>F-10</u>

Table of Contents

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To Shareholders and the Board of Directors of CNOOC Limited

**Opinion on the Financial Statements**

We have audited the accompanying consolidated statements of financial position of CNOOC Limited (the "Company") and subsidiaries (collectively referred to as "the Group") as of December 31, 2017 and 2016, the related consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity, and consolidated statements of cash flows, for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with International Financial Reporting Standards issued by the International Accounting Standards Board and Hong Kong Financial Reporting Standards 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) (PCAOB), the Group's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 29, 2018 expressed an unqualified opinion on the Group's internal control over financial reporting.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to

those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

**/s/ Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

March 29, 2018

We have served as the Company's auditor since 2013.

F-3

Table of Contents

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To Shareholders and the Board of Directors of CNOOC Limited

**Opinion on Internal Control over Financial Reporting**

We have audited the internal control over financial reporting of CNOOC Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as of December 31, 2017, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control —Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2017 of the Group and our report dated March 29, 2018 expressed an unqualified opinion on those financial statements.

**Basis for Opinion**

The Company'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 Group's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

## **Definition and Limitations of Internal Control over Financial Reporting**

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.

**/s/ Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

March 29, 2018

F-4



Table of Contents**CNOOC LIMITED****CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME****FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017***(All amounts expressed in millions of Renminbi/US\$, except per share data)*

	Notes	2015 RMB million	2016 RMB	2017 RMB	2017 US\$
<b>REVENUE</b>					
Oil and gas sales	4	146,597	121,325	151,888	23,345
Marketing revenues		21,422	20,310	28,907	4,443
Other income		3,418	4,855	5,595	860
		171,437	146,490	186,390	28,648
<b>EXPENSES</b>					
Operating expenses		(28,372 )	(23,211 )	(24,282 )	(3,732 )
Taxes other than income tax	10(ii)	(10,770 )	(6,941 )	(7,210 )	(1,108 )
Exploration expenses		(9,900 )	(7,359 )	(6,881 )	(1,058 )
Depreciation, depletion and amortization	6	(73,439 )	(68,907 )	(61,257 )	(9,415 )
Special oil gain levy	10 (iii)	(59 )	-	(55 )	(8 )
Impairment and provision	6, 13	(2,746 )	(12,171 )	(9,130 )	(1,403 )
Crude oil and product purchases		(19,840 )	(19,018 )	(27,643 )	(4,249 )
Selling and administrative expense		(5,705 )	(6,493 )	(6,861 )	(1,055 )
Others		(3,150 )	(4,802 )	(6,021 )	(925 )
		(153,981)	(148,902)	(149,340)	(22,953 )
<b>PROFIT/(LOSS) FROM OPERATING ACTIVITIES</b>		17,456	(2,412 )	37,050	5,695
Interest income	6	873	901	653	100
Finance costs	7	(6,118 )	(6,246 )	(5,044 )	(775 )
Exchange (losses)/gains, net		(143 )	(790 )	356	55
Investment income	6	2,398	2,774	2,409	370
Share of profits/(losses) of associates	15	256	(609 )	302	46
Share of profit of a joint venture		1,647	533	553	85
Non-operating income, net		761	574	78	12
<b>PROFIT/(LOSS) BEFORE TAX</b>	6	17,130	(5,275 )	36,357	5,588
Income tax credit/(expense)	10(i)	3,116	5,912	(11,680 )	(1,795 )
<b>PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT</b>		20,246	637	24,677	3,793

**OTHER COMPREHENSIVE INCOME/(EXPENSE)**

Edgar Filing: CNOOC LTD - Form 20-F

Items that may be subsequently reclassified to profit or loss					
Exchange differences on translation of foreign operations		7,979	10,422	(10,121 )	(1,556 )
Share of other comprehensive income/(expense) of associates		74	(127 )	36	6
Other items that will not be reclassified to profit or loss					
Fair value change on equity investments designated as at fair value through other comprehensive income	17(ii)	(1,573 )	(461 )	(542 )	(83 )
Others		134	12	54	8
<b>OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR, NET OF TAX</b>		6,614	9,846	(10,573 )	(1,625 )
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT</b>		26,860	10,483	14,104	2,168
<b>EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT</b>					
Basic (RMB Yuan)	11	0.45	0.01	0.55	US\$0.09
Diluted (RMB Yuan)	11	0.45	0.01	0.55	US\$0.09

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

Table of Contents**CNOOC LIMITED****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION****AS OF DECEMBER 31, 2016 AND 2017***(All amounts expressed in millions of Renminbi/US\$)*

	Notes	2016 RMB million	2017 RMB	2017 US\$
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	13	432,465	395,868	60,844
Intangible assets	14	16,644	15,070	2,316
Investments in associates	15	3,695	4,067	625
Investment in a joint venture	16	26,300	25,079	3,855
Equity investments	17, 32	4,266	3,540	544
Deferred tax assets	10(i)	24,844	25,509	3,921
Other non-current assets	18	7,422	9,248	1,421
Total non-current assets		515,636	478,381	73,526
<b>CURRENT ASSETS</b>				
Inventories and supplies	19	8,709	7,354	1,130
Trade receivables	20	10,199	8,386	1,289
Due from related companies		13,263	12,914	1,985
Derivative financial assets	32	428	-	-
Equity investments	17, 32	15	14	2
Other financial assets	17, 32	52,889	74,344	11,426
Other current asset		5,977	7,874	1,211
Time deposits with maturity over three month	21	16,830	15,380	2,364
Cash and cash equivalent	21	13,735	12,572	1,932
Total current assets		122,045	138,838	21,339
<b>CURRENT LIABILITIES</b>				
Loans and borrowings	24	14,867	9,360	1,439
Borrowings from the parent company	28	4,811	4,532	697
Trade and accrued payables	22	10,254	10,062	1,547
Due to the parent company	28	215	193	30
Due to related companies	28	15,091	16,651	2,559
Derivative financial liabilities	32	426	-	-
Other payables and accrued liabilities	23	14,651	13,913	2,137
Taxes payable		6,775	6,701	1,030
Total current liabilities		67,090	61,412	9,439
NET CURRENT ASSETS		54,955	77,426	11,900
TOTAL ASSETS LESS CURRENT LIABILITIES		570,591	555,807	85,426
<b>NON-CURRENT LIABILITIES</b>				

Edgar Filing: CNOOC LTD - Form 20-F

Loans and borrowings	24	130,798	118,358	18,191
Provision for dismantlement	25	50,426	52,893	8,130
Deferred tax liabilities	10(i)	5,670	3,303	508
Other non-current liabilities		1,326	1,278	196
Total non-current liabilities		188,220	175,832	27,025
Net assets		382,371	379,975	58,401

EQUITY

Equity attributable to owners of the parent

Issued capital	26	43,081	43,081	6,621
Reserves	27	339,290	336,894	51,780
Total equity		382,371	379,975	58,401

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

F-6

Table of Contents**CNOOC LIMITED****CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY****FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017***(All amounts expressed in millions of Renminbi)*

	Issued capital	Cumulative translation reserve	Statutory and non- distributable reserves	Other reserves	Retained earnings	Proposed final dividend	Total
Balance at January 1, 2015	43,081	(20,918 )	20,000	6,497	319,625	11,325	379,610
Profit for the year	-	-	-	-	20,246	-	20,246
Other comprehensive income/(expense), net of income tax	-	7,979	-	(1,365 )	-	-	6,614
Total comprehensive income/(expense)	-	7,979	-	(1,365 )	20,246	-	26,860
2014 final dividend	-	-	-	-	58	(11,325 )	(11,267 )
2015 interim dividend	-	-	-	-	(9,162 )	-	(9,162 )
Proposed 2015 final dividend	-	-	-	-	(9,397 )	9,397	-
Balance at December 31, 2015	43,081	(12,939 )*	20,000 *	5,132 *	321,370*	9,397 *	386,041
Balance at January 1, 2016	43,081	(12,939 )	20,000	5,132	321,370	9,397	386,041
Profit for the year	-	-	-	-	637	-	637
Other comprehensive income/(expense), net of income tax	-	10,422	-	(576 )	-	-	9,846
Total comprehensive income/(expense)	-	10,422	-	(576 )	637	-	10,483
2015 final dividend	-	-	-	-	(143 )	(9,397 )	(9,540 )
2016 interim dividend	-	-	-	-	(4,613 )	-	(4,613 )
Proposed 2016 final dividend	-	-	-	-	(9,096 )	9,096	-
Balance at December 31, 2016	43,081	(2,517 )*	20,000 *	4,556 *	308,155*	9,096 *	382,371

F-7

Table of Contents**CNOOC LIMITED****CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY****FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017 (continued)***(All amounts expressed in millions of Renminbi)*

	Issued capital	Cumulative translation reserve	Statutory and non-distributable reserves	Other reserves	Retained earnings	Proposed final dividend	Total
Balance at January 1, 2017	43,081	(2,517 )	20,000	4,556	308,155	9,096	382,371
Profit for the year	-	-	-	-	24,677	-	24,677
Other comprehensive expense, net of income tax	-	(10,121 )	-	(452 )	-	-	(10,573 )
Total comprehensive (expense)/income	-	(10,121 )	-	(452 )	24,677	-	14,104
2016 final dividend	-	-	-	-	183	(9,096 )	(8,913 )
2017 interim dividend	-	-	-	-	(7,587 )	-	(7,587 )
Proposed 2017 final dividend	-	-	-	-	(10,830 )	10,830	-
Appropriation to reserve**	-	-	50,000	-	(50,000 )	-	-
Balance at December 31, 2017	43,081	(12,638 )*	70,000	* 4,104 *	264,598*	10,830*	379,975

\* These reserve accounts constitute the consolidated reserves of approximately RMB336,894 million (December 31, 2016: RMB339,290 million ) in the consolidated statement of financial position.

\*\* During the year ended December 31, 2017 , CNOOC China Limited (the "CNOOC China"), the Company's wholly-owned subsidiary, appropriated RMB50,000 million of the general reserve fund.

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

Table of Contents**CNOOC LIMITED****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017***(All amounts expressed in millions of Renminbi/US\$)*

	Notes	2015 RMB million	2016 RMB	2017 RMB	2017 US\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash generated from operations	30	96,095	82,137	110,625	17,003
Income taxes paid		(16,000 )	(9,274 )	(15,891 )	(2,442 )
Net cash flows from operating activities		80,095	72,863	94,734	14,561
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Capital expenditure		(67,674 )	(51,347)	(47,734 )	(7,337 )
Additions to investments in associates		(9 )	(221 )	(161 )	(25 )
Decrease in time deposits with maturity over three months		4,825	1,180	1,450	223
Dividends received from an associate		164	135	116	18
Dividends received from a joint venture		32	-	243	37
Interest received		812	1,010	666	102
Investment income received		2,177	2,013	1,821	280
Purchase of other financial assets		(122,030)	(62,900)	(122,267)	(18,792)
Purchase of equity investments		(236 )	(63 )	(51 )	(8 )
Proceeds from sale of other financial assets		104,900	81,675	101,396	15,584
Proceeds from disposal of property, plant and equipment		544	532	110	17
Proceeds from disposal of an associate		-	33	-	-
Net cash flows used in investing activities		(76,495 )	(27,953)	(64,411 )	(9,901 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from issuance of guaranteed notes		23,184	-	-	-
Repayment of guaranteed notes		(789 )	(4,866 )	(8,869 )	(1,363 )
Proceeds from bank loans		20,541	4,293	12,252	1,883
Repayment of bank loans		(24,127 )	(23,412)	(13,052 )	(2,006 )
Dividends paid		(20,419 )	(14,153)	(16,448 )	(2,528 )
Interest paid		(5,283 )	(5,102 )	(5,154 )	(792 )
Net cash flows used in financing activities		(6,893 )	(43,240)	(31,271 )	(4,806 )
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>					
Cash and cash equivalents at beginning of year		14,918	11,867	13,735	2,111

Edgar Filing: CNOOC LTD - Form 20-F

Effect of foreign exchange rate changes, net	242	198	(215 )	(33 )	
CASH AND CASH EQUIVALENTS AT END OF YEAR	21	11,867	13,735	12,572	1,932

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

F-9



Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***1. CORPORATE INFORMATION**

CNOOC Limited (the "Company") was incorporated in the Hong Kong Special Administrative Region ("Hong Kong") of the People's Republic of China (the "PRC") on August 20, 1999 to hold the interests in certain entities thereby creating a group comprising the Company and its subsidiaries (hereinafter collectively referred to as the "Group"). During the year, the Group was principally engaged in the exploration, development, production and sale of crude oil, natural gas and other petroleum products.

The registered office address of the Company is 65/F, Bank of China Tower, 1 Garden Road, Hong Kong.

In the opinion of the directors of the Company (the "Directors"), the parent and the ultimate holding company of the Company is China National Offshore Oil Corporation ("CNOOC"), a company established in the PRC. In November 2017, CNOOC changed its registered company name which is registered in Chinese pursuant to relevant laws and regulations of China to " ".

Particulars of the principal subsidiaries at the end of the reporting period are as follows:

Name of entity	Place of establishment	Nominal value of ordinary shares issued and paid-up/ registered capital	Percentage of equity attributable to the Group	Principal activities
<b>Directly held subsidiaries:</b>				
CNOOC China Limited	Tianjin, PRC	RMB20 billion	100%	Offshore petroleum exploration, development, production and sales, and shale gas exploration in the PRC
China Offshore Oil (Singapore)	Singapore	SG\$3 million	100%	Sales and marketing of petroleum products outside the PRC

International Pte Ltd CNOOC International Limited	British Virgin Islands	US\$20,000,000,002	100%	Investment holding
CNOOC Finance (2003) Limited	British Virgin Islands	US\$1,000	100%	Bond issuance
CNOOC Finance (2011) Limited	British Virgin Islands	US\$1,000	100%	Bond issuance
CNOOC Finance (2012) Limited	British Virgin Islands	US\$1,000	100%	Bond issuance
CNOOC Finance (2013) Limited	British Virgin Islands	US\$1,000	100%	Bond issuance

**Indirectly held  
subsidiaries(1):**

CNOOC Deepwater Development Limited	Zhuhai, PRC	RMB20.3 billion	100%	Deepwater and low-grade oil and gas fields exploitation in the PRC and exploration, development, production and sales of oil and gas in the oil and gas fields of South China Sea
CNOOC Southeast Asia Limited	Bermuda	US\$12,000	100%	Investment holding
CNOOC SES Ltd.	Malaysia	US\$1	100%	Petroleum exploration, development and production in Indonesia
CNOOC Muturi Limited	Isle of Man	US\$7,780,770	100%	Petroleum exploration, development and production in Indonesia
CNOOC NWS Private Limited	Singapore	SG\$2	100%	Offshore petroleum exploration, development and production in Australia
CNOOC Exploration & Production Nigeria Limited	Nigeria	NGN10 million	100%	Petroleum exploration, development and production in Africa

F-10

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***1. CORPORATE INFORMATION (continued)**

Name of entity	Place of establishment	Nominal value of ordinary shares issued and paid-up/ registered capital	Percentage of equity attributable to the Group	Principal activities
<b>Indirectly held subsidiaries (continued)(1):</b>				
CNOOC Iraq Limited	British Virgin Islands	US\$1	100%	Providing services of petroleum exploration and development in the Republic of Iraq
CNOOC Canada Energy Ltd.	Canada	100 common shares without a par value 103,000 preferred shares without a par value	100%	Oil sands exploration, development and production in Canada
CNOOC Uganda Ltd	Uganda	1 million Uganda Shilling	100%	Petroleum exploration, development and production in Africa
Nexen Energy ULC	Canada	13,671,421,700 common shares without a par value	100%	Petroleum exploration, development and production in Canada
Nexen Petroleum U.K. Limited	England and Wales	GBP98,009,131	100%	Petroleum exploration, development and production in the UK
Nexen Petroleum Nigeria Limited	Nigeria	NGN30 million	100%	Petroleum exploration, development and production in Nigeria
OOGC America LLC	USA	N/A	100%	Petroleum exploration, development and production in the USA
Nexen Petroleum Offshore U.S.A. Inc.	USA	US\$15,830	100%	Petroleum exploration, development and production in the USA
Nexen Oil Sands Partnership	Canada	N/A	100%	Petroleum exploration, development and production in Canada
CNOOC PETROLEUM BRASIL LTDA(2)	Brazil	R\$2,965,600,000	100%	Petroleum exploration, development and production in Brazil
CNOOC Nexen Finance (2014) ULC	Canada	100 common shares without a par value	100%	Bond issuance
CNOOC Finance (2015) U.S.A. LLC	USA	N/A	100%	Bond Issuance

CNOOC Finance (2015) Australia Pty Ltd	Australia	US\$1	100%	Bond Issuance
--	-----------	-------	------	---------------

(1) All subsidiaries are indirectly held through CNOOC International Limited, except CNOOC Deepwater Development Limited which is indirectly held through CNOOC China Limited.

(2) The registered capital of CNOOC PETROLEUM BRASIL LTDA increased from R\$2,436,000,000 to R\$2,965,600,000 on 20 June 2017.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the total assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

Table of Contents

**CNOOC LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(All amounts expressed in millions of Renminbi unless otherwise stated)*

**2.1 STATEMENT OF COMPLIANCE**

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"), Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Hong Kong Companies Ordinance (Cap. 622). A summary of the significant accounting policies adopted by the Group is set out below.

**2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES**

The IASB has issued a number of new and revised IFRSs that are first effective for the current accounting year commencing January 1, 2017 or later but available for early adoption. The equivalent new and revised HKFRSs consequently issued by the HKICPA have the same effective dates as those issued by the IASB and are in all material aspects identical to the pronouncements issued by the IASB.

The accounting policies adopted are consistent with those of the year ended December 31, 2016, except for the first time adoption of the amendments to IFRSs/HKFRSs effective for the Group's financial year beginning on January 1, 2017. The adoption of the amendments had no material impact on the accounting policies, the disclosures or the amounts recognized in the consolidated financial statements of the Group. IFRS 9/HKFRS 9 (2009) Financial Instruments has been early adopted by the Company from year 2015.

The Group has not applied the following new and revised IFRSs/HKFRSs, which may be relevant to the Group and have been issued but are not yet effective, in these consolidated financial statements:

IFRS 9/HKFRS 9	Financial Instruments <sup>1</sup>
IFRS 15/ HKFRS 15	Revenue from Contracts with Customers and the related Amendments <sup>1</sup>
IFRS 16/HKFRS 16	Leases <sup>2</sup>

IFRS 17/HKFRS 17	Insurance Contracts <sup>4</sup>
IFRIC 22/HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration <sup>1</sup>
IFRIC 23/HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments <sup>2</sup>
Amendments to IFRS 2/HKFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to IFRS 4/HKFRS 4	Applying IFRS 9/HKFRS 9 Financial Instruments with IFRS 4/HKFRS 4 Insurance Contracts <sup>1</sup>
Amendments to IFRS 9/HKFRS 9	Prepayment Features with Negative Compensation <sup>2</sup>
Amendments to IFRS 10/HKFRS 10 and IAS 28/HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement <sup>2</sup>
Amendments to IAS 28/HKAS 28	Long-term Interests in Associates and Joint Ventures <sup>2</sup>
Amendments to IAS 28/HKAS 28	As part of the Annual Improvements to IFRS Standards/HKFRSs 2014-2016 Cycle <sup>1</sup>
Amendments to IAS 40/HKAS 40	Transfers of Investment Property <sup>1</sup>
Amendments to IFRSs/HKFRSs	Annual Improvements to IFRS Standards/HKFRSs 2015-2017 Cycle <sup>2</sup>

<sup>1.</sup> Effective for annual periods beginning on or after 1 January 2018, except for the 2009 version of IFRS 9/HKFRS 9, which the Group adopted in advance

2. Effective for annual periods beginning on or after 1 January 2019

3. Effective for annual periods beginning on or after a date to be determined

4. Effective for annual periods beginning on or after 1 January 2021

Table of Contents

**CNOOC LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(All amounts expressed in millions of Renminbi unless otherwise stated)*

**2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)**

**IFRS 15/HKFRS 15 Revenue from Contracts with Customers**

IFRS 15/HKFRS 15 Revenue from Contracts with Customers provides a single model for accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligations, and is effective for annual periods beginning on or after 1 January 2018. IFRS 15/HKFRS 15 will supersede IAS 18/HKAS 18 Revenue.

The Company expects to adopt the new revenue standard as of 1 January 2018 using the modified retrospective transition method. Based on our assessment, the Company does not expect the implementation of the standard to have a material effect on its consolidated financial statements.

**IFRS 16/HKFRS 16 Leases**

IFRS 16/HKFRS 16, which upon the effective date will supersede IAS 17/HKAS 17 Leases, introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under IFRS 16/HKFRS 16, a lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognize depreciation of the right-of-use asset and interest on the lease liability, and also classify cash payments of the lease liability into a principal portion and an interest portion and present them in the consolidated statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under IAS 17/HKAS 17.

In respect of the lessor accounting, IFRS 16/HKFRS 16 substantially carries forward the lessor accounting requirements in IAS 17/HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for these two types of leases differently.

The Group is in the process of assessing the impact of application of IFRS 16/HKFRS 16. For the moment, it is not practicable to provide a reasonable estimate of the effect of the application of IFRS 16/HKFRS 16 until the Group completes a detail review.

The Group anticipates that the application of other new and revised IFRSs/HKFRSs that have been issued but are not yet effective will have no material effect on the Group's consolidated financial statements.



Table of Contents

**CNOOC LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(All amounts expressed in millions of Renminbi unless otherwise stated)*

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of preparation

These consolidated financial statements have been prepared under the historical cost convention, except for as detailed in the accounting policies notes hereafter. These consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest million except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended December 31, 2017.

The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

The results of subsidiaries are included in the Company's statement of profit or loss and other comprehensive income to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

All intra-group balances, income and expenses and unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.



Table of Contents

**CNOOC LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(All amounts expressed in millions of Renminbi unless otherwise stated)*

**3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition related costs incurred are included in profit or loss.

When the Group acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at subsequent reporting dates in accordance with IFRS 9/HKFRS 9 (2009) or IAS 39/HKAS 39, with the corresponding gain or loss being recognized in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of the Group's previously held equity interests in the

acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the business acquired, the difference is recognized in profit or loss as a gain on bargain purchase.

F-15

Table of Contents

**CNOOC LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(All amounts expressed in millions of Renminbi unless otherwise stated)*

**3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Business combinations and goodwill (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the exploration and production ("E&P") segment, using value in use, to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss on goodwill is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Subsidiaries

Subsidiaries are all those entities over which the Group has power over the investee such that the Group is able to direct the relevant activities, has exposure or rights to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect the amount of the investor's returns.

Associates

Based on the Group's ownership percentage (considering its direct ownership as well as potentially exercisable or convertible shares) and other contractual rights, the Group has significant influence over its associates, rather than the power to control.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. Unrealized gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealized losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment.

Joint arrangements

Certain of the Group's activities are conducted through joint arrangements. Joint arrangements are classified as either a joint operation or joint venture, based on the rights and obligations arising from the contractual obligations between the parties to the arrangement.

Joint control

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Table of Contents

**CNOOC LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(All amounts expressed in millions of Renminbi unless otherwise stated)*

**3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Joint arrangements (continued)

Joint operations

Some arrangements have been assessed by the Group as joint operations as both parties to the contract are responsible for the assets and obligations in proportion to their respective interest, whether or not the arrangement is structured through a separate vehicle. This evaluation applies to both the Group's interests in production sharing arrangements and certain joint operation.

The Group entered into numerous production sharing arrangements or similar agreements in China and overseas countries. The Group's participating interest may vary in each arrangement. The Group, as one of the title owners under certain exploration and/or production licenses or permits, is required to bear exploration (with some exceptions in China), development and operating costs together with other co-owners based on each owner's participating interest. Once production occurs, a certain percentage of the annual production or revenue is first distributed to the local government, which, in most cases, with the nature of royalty and other taxes or expenses, and the rest of the annual production or revenue is allocated among the co-owners.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs/HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

Joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The Group's investments in joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. Under the equity method, an investment in a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the joint venture. Where the profit sharing ratios are different to the Group's equity interest, the share of post-acquisition results of the joint ventures is determined based on the agreed profit sharing ratio. Unrealized gains and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Group's investments in the joint ventures, except where unrealized losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of joint ventures is included as part of the Group's investments in joint ventures and is not individually tested for impairment.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control of the Group;
  - (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;



Table of Contents

**CNOOC LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(All amounts expressed in millions of Renminbi unless otherwise stated)*

**3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Related parties (continued)

- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

#### Property, plant and equipment

Property, plant and equipment comprise oil and gas properties, and vehicles and office equipment and others.

(a) Oil and gas properties

For oil and gas properties, the successful efforts method of accounting is adopted. The Group capitalizes the initial acquisition costs of oil and gas properties. Impairment of initial acquisition costs is recognized based on exploratory experience and management judgement and charged to profit and loss as exploration expenses. Upon discovery of commercial reserves, acquisition costs are transferred to proved properties. The costs of drilling and equipping successful exploratory wells, all development expenditures on construction, installation or completion of infrastructure facilities such as platforms, pipelines, processing plants and the drilling of development wells and the building of enhanced recovery facilities, including those renewals and betterments that extend the economic lives of the assets, and the related borrowing costs are capitalized. The costs of unsuccessful exploratory wells and all other exploration costs are expensed as incurred.

Table of Contents

**CNOOC LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(All amounts expressed in millions of Renminbi unless otherwise stated)*

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Property, plant and equipment (continued)

(a) Oil and gas properties (continued)

The Group carries exploratory well costs as an asset when the well has found a sufficient quantity of reserves to justify its completion as a producing well and where the Group is making sufficient progress assessing the reserves and the economic and operating viability of the project. Exploratory well costs not meeting these criteria are charged to expenses. Exploratory wells that discover potentially economic reserves in areas where major capital expenditure will be required before production would begin and when the major capital expenditure depends upon the successful completion of further exploratory work remain capitalized and are reviewed periodically for impairment.

Producing oil and gas properties are depreciated on a unit-of-production basis over the proved developed reserves. Common facilities that are built specifically to service production directly attributed to designated oil and gas properties are depreciated based on the proved developed reserves of the respective oil and gas properties on a pro-rata basis. 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.

Capitalized acquisition costs of proved properties are depreciated on a unit-of-production method over the total proved reserves of the relevant oil and gas properties.

(b) Vehicles, office equipment and others

Vehicles, office equipment and others are stated at cost less accumulated depreciation and impairment losses. The straight-line method is adopted to depreciate the cost less any estimated residual value of these assets over their

expected useful lives. The useful lives of vehicles, office equipment and other assets are in line with their beneficial periods.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a recoverable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed and, adjusted if appropriate, at each reporting date.

Any gains and losses on disposals of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) are recognized in profit or loss.

#### Intangible assets (other than goodwill)

The intangible assets of the Group comprise software, gas processing rights of the NWS Project, marketing transportation and storage contracts, drilling rig contracts and seismic data usage rights. Intangible assets with finite lives are carried at cost, less accumulated amortization and accumulated impairment losses. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Intangible assets with finite lives except for gas processing rights, are amortized on the straight-line basis over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Table of Contents

**CNOOC LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(All amounts expressed in millions of Renminbi unless otherwise stated)*

**3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Intangible assets (other than goodwill) (continued)

The intangible assets regarding software have been amortized on the straight-line basis over their respective useful lives. The intangible asset regarding the gas processing rights has been amortized upon the commercial production of the liquefied natural gas on a unit-of-production basis over the total proved reserves of the relevant asset. The intangible assets regarding the marketing transportation and storage contracts and drilling rig contracts are amortized over the life of the contracts on the straight-line basis. The intangible assets related to the seismic data usage rights are amortized over the estimated useful life of the seismic data.

Major maintenance and repairs

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets and overhaul costs. Where an asset or part of an asset that was separately depreciated and is replaced, and it is probable that future economic benefits associated with the item will flow to the Group, the replacement expenditure is capitalized. Where part of the asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced assets which is immediately written off. All other maintenance costs are expensed as incurred.

Research and development costs

All research costs are expensed as incurred.

Expenditure (other than that relating to oil and gas properties discussed above) incurred on projects to develop new products is capitalized and deferred only when the Group can demonstrate the technical feasibility of completing the

intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

### Financial assets

All recognized financial assets are subsequently measured in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

(a) Financial assets at amortized cost

Debt instruments and hybrid contracts that meet the following conditions are subsequently measured at amortized cost less impairment loss:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value.

Table of Contents

**CNOOC LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(All amounts expressed in millions of Renminbi unless otherwise stated)*

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

(a) Financial assets at amortized cost (continued)

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest income for debt instruments measured subsequently at amortized cost is recognized in profit or loss in accordance with the policies set out for "Revenue Recognition" below.

(b) Financial assets at fair value through profit or loss (FVTPL)

Investments in equity instruments are classified as at FVTPL, unless the Group designates such investment that is not held for trading as at FVTOCI on initial recognition.

A financial asset is held for trading if it has been acquired principally for the purpose of selling it in the near term or it is a derivative that is not designated and effective as a hedging instrument.

Debt instruments that do not meet the amortized cost criteria (see (a) above) are measured at FVTPL. In addition, debt instruments that meet the amortized cost criteria but are designated as at FVTPL are measured at FVTPL. A debt instrument may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognized in profit or loss.

(c) Financial assets at fair value through other comprehensive income (FVTOCI)

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. The Group has investments in certain equity instruments (publicly traded or non-publicly traded), the purpose of which are not held for trading, but held for medium or long-term strategic purpose. Therefore, those investments in equity securities are designated as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the other reserves. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the investments.

Dividends on these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established in accordance with IAS 18/HKAS 18 Revenue, unless the dividends clearly represent a recovery of part of the cost of the investment.



Table of Contents

**CNOOC LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(All amounts expressed in millions of Renminbi unless otherwise stated)*

**3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Fair value

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 32.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset, other than those at FVTPL and FVTOCI, or a group of financial assets may be impaired.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice.

If there is objective evidence that an impairment loss on financial assets measured at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognized in profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced either directly or by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed amortized cost at the reversal date.

#### Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- (i) The contractual rights to receive cash flows from the asset have expired; or

the Group has transferred its rights to receive cash flows from the asset, or the Group retains the contractual rights to receive the cash flows from the asset, but has assumed an obligation to pay the received cash flows in full (ii) without material delay to a third party under a "pass-through" arrangement; and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has no control of the asset.

Table of Contents

**CNOOC LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(All amounts expressed in millions of Renminbi unless otherwise stated)*

**3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Derecognition of financial assets (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Financial liabilities at amortized cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and accrued payables, other payables and accrued liabilities, and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortized cost, using the effective interest method. The related interest expense is recognized in profit or loss.

Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

Financial guarantee contracts

A financial guarantee contract is recognized initially at its fair value including transaction costs that are directly attributable to the issue of the guarantee. Subsequent to initial recognition, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount

recognized less cumulative amortization.

#### Derecognition of financial liabilities

Financial liabilities are derecognized when the obligations under the liabilities are discharged, cancelled, or have expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in profit or loss.

#### Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position, if and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

#### Inventories and supplies

Inventories primarily consist of oil and supplies, including items for repairs and maintenance of oil and gas properties. Inventories are stated at the lower of cost and net realizable value. Costs of inventories and supplies represent purchase or production cost of goods and are determined on a weighted average basis.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand and short term deposits with an original maturity of three months or less.

Table of Contents

**CNOOC LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(All amounts expressed in millions of Renminbi unless otherwise stated)*

**3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Provisions

(a) General

A provision is recognized 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 reporting 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 profit or loss.

(b) Dismantlement liability

Dismantlement liability is recognized when the Group has a present legal or constructive obligation as a result of the past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. A corresponding amount equivalent to the provision is also recognized as part of the cost of the related property, plant and equipment. The amount recognized is the estimated cost of dismantlement, discounted 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 or dismantlement cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. The unwinding of the discount on the dismantlement provision is included as a finance cost.

Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated statement of profit or loss and other comprehensive income, either as an expense as it relates to operating activities or as a component of the

applicable categories of other comprehensive income or expense.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted, by the reporting date, in the countries where the Group operates and generates taxable income.

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Table of Contents

**CNOOC LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(All amounts expressed in millions of Renminbi unless otherwise stated)*

**3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Income tax (continued)

Deferred tax assets are recognized for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses to the extent that it is probable that taxable profit and taxable temporary differences will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilized, except:

when the deferred tax assets relating to the deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it is probable that sufficient taxable profit and taxable temporary differences will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) Oil and gas sales

Oil and gas sales represent the invoiced value of sales of oil and gas attributable to the interests of the Group, net of royalties, obligations to governments and other mineral interest owners. Revenue from the sale of oil and gas is recognized when the significant risks and rewards of ownership have been transferred, which is when title passes to the customer. Revenue from the production of oil and gas in which the Group has a joint interest with other producers is recognized based on the Group's working interest and the terms of the relevant production sharing contracts. Differences between production sold and the Group's share of production are not significant.



Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Revenue recognition (continued)

## (a) Oil and gas sales (continued)

Oil and gas lifted and sold by the Group above or below the Group's participating interests in the production sharing contracts results in overlifts and underlifts. The Group records 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 liftings are equalised or in cash when production ceases.

The Group has entered into gas sale contracts with customers, which contain take-or-pay clauses. Under these contracts, the Group makes 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 (force majeure) 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.

## (b) Marketing revenues

Marketing revenues principally represent the sales of oil and gas from the foreign partners under the production sharing contracts and revenues from the trading of oil and gas through the Company's subsidiaries. The cost of the oil and gas sold is included in "Crude oil and product purchases" in the consolidated statement of profit or loss and other comprehensive income. In addition, the Group's marketing activities in North America involves entering into contracts to purchase and sell crude oil, natural gas and other energy commodities, and use derivative contracts, including futures, forwards, swaps and options for hedging and trading purposes (collectively derivative contracts). Any change in the fair value is also included in marketing revenue.

(c) Other income

Other income mainly represents project management fees charged to foreign partners, handling fees charged to customers, the sales of diluents to third parties and gains from disposal of oil and gas properties and is recognized when the services have been rendered or the properties have been disposed of. Reimbursement of insurance claims is recognized when the compensation becomes receivable.

(d) Dividend income

Dividend income is recognized when the Group's right to receive payment is established.

(e) Interest income

Interest income is recognized as it accrues using the effective interest method.

The Group presents taxes collected from customers in the consolidated statement of profit or loss and other comprehensive income on a net basis.

Table of Contents

**CNOOC LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(All amounts expressed in millions of Renminbi unless otherwise stated)*

**3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Share-based payment transactions

Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using the Black-Scholes option pricing model, further details of which are given in note 26.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at the end of the each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest for the Group.

No equity-settled award was cancelled or modified during the years ended December 31, 2015, 2016 and 2017.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Retirement and termination benefits

The Group participates in defined contribution plans in accordance with local laws and regulations for full-time employees in the PRC and other countries in which it operates. The Group's contributions to these defined contribution plans are charged to profit or loss in the year to which they relate.

Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs directly relating to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they are incurred.

Foreign currencies

These consolidated financial statements are presented in RMB. Each entity in the Group maintains its books and records in its own functional currency. Foreign currency transactions recorded by the entities of the Group are initially recorded using their respective exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated consistently with the recognition of the gain or loss on change in fair value of the item.

Table of Contents

**CNOOC LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(All amounts expressed in millions of Renminbi unless otherwise stated)*

**3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Foreign currencies (continued)

The functional currencies of certain entities within the Group are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Group at the exchange rates ruling at the reporting date, and their statement of profit or loss and other comprehensive income are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are included in the cumulative translation reserve. On disposal of a foreign operation, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in profit or loss.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases in China are initially stated at cost and subsequently amortized on the straight-line basis over the lease terms.

Contingencies

A contingent liability is disclosed when the existence of an obligation will only be confirmed by future events or when the amount of the obligation cannot be measured reliably.

A contingent asset is not recognized in the financial statements, but is disclosed when an inflow of economic benefits is probable.

Significant accounting judgements, estimates and assumptions

The preparation of the consolidated financial statements in accordance with IFRSs and HKFRSs requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and judgements are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

In the process of applying the Group's accounting policies, the Directors have made the following judgements, estimates and assumptions, which have the most significant effect on the amounts recognized in the consolidated financial statements.

(a) Reserve base

Oil and gas properties are depreciated on a unit-of-production basis at a rate calculated by reference to proved reserves. Commercial reserves are determined using estimates of oil in place, recovery factors and future oil prices, the latter having an impact on the proportion of the gross reserves which are attributable to the host government under the terms of the production sharing contracts. The level of estimated commercial reserves is also a key determinant in assessing whether the carrying value of any of the Group's oil and gas properties has been impaired.

Pursuant to the oil and gas reserve estimation requirements under US Securities and Exchange Commission's rules, the Group uses the average, first-day-of-the-month oil price during the 12-month period before the ending date of the period covered by the consolidated financial statements to estimate its proved oil and gas reserves.

Table of Contents

**CNOOC LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(All amounts expressed in millions of Renminbi unless otherwise stated)*

**3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Significant accounting judgements, estimates and assumptions (continued)

(b) Carrying value of oil and gas properties

The calculation of the unit-of-production rate for oil and gas properties amortization could be impacted to the extent that actual production in the future is different from current forecast production based on proved reserves. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves. These factors could include changes in proved reserves, the effect on proved reserves of differences between actual oil and gas prices and oil and gas price assumptions and unforeseen operational issues.

(c) Recoverable amount of oil and gas properties

The Company makes 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, the Company would make an estimate of the asset's recoverable amount, which is calculated at the higher of the asset's value in use and its fair value less costs of disposal. The Company recognizes an impairment loss only if the carrying amount of an asset exceeds its recoverable amount. The Company charges an impairment loss to the profit or loss in the period in which it arises. A reversal of an impairment loss is credited to the profit or loss in the period in which it arises.

The calculations of the recoverable amount of assets require the use of estimates and assumptions. The key assumptions include, but are not limited to, future oil and gas prices, future production estimates, estimated future capital expenditures, estimated future operating expenses and the discount rate.

Changes in the key assumptions used, which could be significant, include updates to future pricing estimates, updates to future production estimates to align with the Company's anticipated drilling plan, changes in the Company's capital

costs and operating expense assumptions, and discount rate. There is a significant degree of uncertainty with the assumptions used to estimate future cash flows due to various risk factors. The complex economic outlook may also materially and adversely affect the Company's key assumptions. Changes in economic conditions can also affect the discount rates applied in assessments of impairment.

Actual cash flows are likely to be different from those estimated or forecast since anticipated events frequently do not occur as expected and unforeseen events may arise. The Company's results of operations could be materially and adversely affected for the period in which future impairment charges are incurred.

The sensitivity analysis for the impairment testing involves estimates and judgments to consider numerous assumptions comprehensively. Those assumptions interact on each other and interrelate with each other complexly and do not have fixed patterns along with the changes in price. Accordingly, the Company believes that the preparation of the sensitivity analysis for the impairment testing will be impracticable. Changes in assumptions could affect impairment charges and reversals in the consolidated statement of profit or loss and other comprehensive income, and the carrying amounts of assets in the consolidated statement of financial position.



Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Significant accounting judgements, estimates and assumptions (continued)

## (d) Dismantlement costs

Dismantlement costs will be incurred by the Group at the end of the operating life of certain of the Group's facilities and properties. The ultimate dismantlement costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

## (e) Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations (including those applicable to tax credits) and the amount and timing of future taxable income. Given the wide range of international business relationships and the long term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on best estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as the Group's experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective group company's domicile.

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***4. OIL AND GAS SALES**

	2015	2016	2017
Gross sales	150,618	124,648	156,304
Less: Royalties	(2,646 )	(2,398 )	(3,226 )
PRC government's share of oil	(1,375 )	(925 )	(1,190 )
Oil and gas sales	146,597	121,325	151,888

**5. SEGMENT INFORMATION****(a) Segment results**

The Group is engaged worldwide in the upstream operating activities of the conventional oil and gas, shale oil and gas, oil sands and other unconventional oil and gas business. The Group reports the business through three operating and reporting segments: E&P, trading business and corporate. These segments are operating segments whose financial information are reviewed by the Group's chief operating decision maker when making decisions regarding allocating resources and assessing performance. The geographical information is separately disclosed in (b).

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***5 SEGMENT INFORMATION (continued)**

(a) Segment results (continued)

The following table presents the segment financial information for the Group for the years ended December 31, 2015, 2016 and 2017.

	E&P			Trading business			Corporate			Eliminated
	2015	2016	2017	2015	2016	2017	2015	2016	2017	
External revenue	137,243	114,935	142,429	33,777	30,986	43,618	417	569	343	-
Intersegment revenue*	12,339	10,676	14,737	(12,339)	(10,676)	(14,737)	85	113	84	(85)
Total revenue	149,582	125,611	157,166	21,438	20,310	28,881	502	682	427	(85)
Segment profit/(loss) for the year	15,695	(346)	23,863	879	656	808	6,048	30,701	6,391	(2,391)
Amounts included in the measure of segment profit or loss										
Operating expenses	(28,372)	(23,220)	(24,282)	-	-	-	-	-	-	-
Taxes other than income tax	(10,748)	(6,901)	(7,169)	7	-	-	(29)	(40)	(41)	-
Exploration expenses	(9,973)	(7,393)	(6,896)	-	-	-	-	-	-	73
Depreciation, depletion and amortization	(72,665)	(68,333)	(60,834)	(324)	(144)	(67)	(509)	(470)	(423)	59
Impairment and provision	(2,690)	(12,180)	(9,161)	(56)	9	-	-	-	31	-
Selling and administrative expenses	(3,644)	(4,920)	(4,966)	(340)	(296)	(269)	(1,733)	(1,307)	(1,654)	12

Edgar Filing: CNOOC LTD - Form 20-F

Interest income	147	217	315	-	1	-	1,028	1,805	1,571	(30
Finance costs	(3,407 )	(3,384 )	(3,274 )	(1 )	(1 )	(1 )	(3,369 )	(4,183 )	(3,011 )	659
Share of profits/(losses) of associates and a joint venture	(117 )	(63 )	(88 )	-	-	-	2,020	(13 )	943	-
Income tax (expense)/credit	44	3,811	(11,236 )	(8 )	(24 )	(3 )	3,080	2,125	(441 )	-
Other segment information										
Investments in associates and a joint venture	800	737	655	-	-	-	27,613	29,258	28,491	-
Others	532,765	497,413	457,780	3,336	1,898	3,588	344,037	342,810	340,329	(24
Segment assets	533,565	498,150	458,435	3,336	1,898	3,588	371,650	372,068	368,820	(24
Segment liabilities	(364,056)	(331,339)	(301,167)	(2,243 )	(947 )	(2,375 )	(145,475)	(138,352)	(124,794)	233
Capital expenditure	66,122	49,122	52,790	11	-	-	386	395	421	-

\* Certain oil and gas produced by the E&P segment are sold via the trading business segment. For the Group's chief operating decision maker's assessment of segment performance, these revenues are reclassified back to E&P segment.

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***5. SEGMENT INFORMATION (continued)****(b) Geographical information**

The Group mainly engages in the exploration, development, production and sale of crude oil, natural gas and other petroleum products in offshore China. Activities outside the PRC are mainly conducted in Canada, the United States of America, the United Kingdom, Nigeria, Argentina, Indonesia, Uganda, Iraq, Brazil and Australia etc.

In presenting the Group's geographical information, revenues from external customers are based on the location of the Group's customers, and non-current assets are attributed to the segments based on the location of the Group's assets. 65% (2016: 70%, 2015: 73%) of the Group's revenues are generated from PRC customers, and revenues generated from customers in other locations are individually less than 10%.

The following table presents certain non-current assets information for the Group's geographical information for the years ended December 31, 2015, 2016 and 2017.

	PRC			Canada			Others			Consolidated	
	2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016
Property, plant and equipment	193,359	174,853	162,027	105,383	103,173	95,552	155,399	154,439	138,289	454,141	443,965
Investments in associates and a joint venture	3,499	3,451	3,680	816	-	-	24,098	26,544	25,466	28,413	29,589
Other non-current assets	7,087	6,593	8,502	694	731	605	47	98	141	7,828	7,967

(c) Information about major customers

The current year's revenue of approximately RMB15,488 million (2016: approximately RMB9,659 million, 2015: approximately RMB14,692 million ) was derived from sales by the E&P segment and the trading business segment to China Petroleum & Chemical Corporation. Sales to CNOOC Group are included in Note 28 (iii).

F-33

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***6. PROFIT/(LOSS) BEFORE TAX**

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	2015	2016	2017
<b>Crediting:</b>			
Interest income from bank deposits	(873 )	(901 )	(653 )
<b>Investment income:</b>			
– Fair value changes on other financial assets	(2,398 )	(2,774 )	(2,409 )
Insurance compensation on disposal of property, plant and equipment	(560 )	(520 )	(110 )
<b>Charging:</b>			
<b>Auditors' remuneration:</b>			
– Audit fee	45	47	51
– Other fees	12	6	5
	57	53	56
Employee wages, salaries, allowances and social security costs	6,924	6,403	6,517
<b>Impairment and provision:</b>			
- Property, plant and equipment	2,358	10,768	8,639
- Trade receivables	4	1,439	212
- Others	384	(36 )	279
	2,746	12,171	9,130
<b>Depreciation, depletion and amortization:</b>			
– Property, plant and equipment	72,293	68,303	60,802
– Intangible assets	1,306	1,020	854
– Less: Net amount capitalized	(160 )	(416 )	(399 )
	73,439	68,907	61,257

Edgar Filing: CNOOC LTD - Form 20-F

Operating lease rentals:			
– Office properties	438	485	639
– Plant and equipment	2,448	1,747	1,560
	2,886	2,232	2,199
Repairs and maintenance	5,034	4,052	4,800
Research and development costs	1,629	1,424	1,739
Loss on disposal of property, plant and equipment	718	78	116

F-34



Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***7. FINANCE COSTS**

	2015	2016	2017
Interest on bank loans	291	217	169
Interest on other loans	4,701	5,249	5,207
Other borrowing costs	76	25	18
Total borrowing costs	5,068	5,491	5,394
Less: Amount capitalized in property, plant and equipment (note 13)	(1,385)	(1,430)	(2,495)
	3,683	4,061	2,899
Other finance costs:			
Unwinding of discount on provision for dismantlement (note 25)	2,435	2,185	2,145
	6,118	6,246	5,044

The effective interest rates used to determine the amount of related borrowing costs for capitalization varied from 0.95% to 7.875% (2016: from 0.7566% to 7.875% , 2015: from 0.735% to 7.875%) per annum during the year ended at December 31, 2017.

**8. KEY MANAGEMENT PERSONNEL'S REMUNERATION**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of the Company.

**(i) Directors' remuneration**

Edgar Filing: CNOOC LTD - Form 20-F

	Fees (1) RMB'000	Salaries allowances and benefits in kind (1) RMB'000	Performance related bonuses (1) RMB'000	Pension scheme contributions RMB'000	Total paid/payable during the year RMB'000
2015					
Executive directors:					
Li Fanrong(4)	-	170	470	117	757
Wu Guangqi(5)(7)	-	170	470	117	757
Subtotal	-	340	940	234	1,514
Non-executive directors:					
Wang Yilin(2)	-	-	-	-	-
Yang Hua(2)(4)(10)	-	-	-	-	-
Lv Bo(7)	-	-	-	-	-
Wang Jiaxiang(3)	-	-	-	-	-
Subtotal	-	-	-	-	-
Independent non-executive directors:					
Chiu Sung Hong	899	-	-	-	899
Lawrence J. Lau	763	-	-	-	763
Tse Hau Yin, Aloysius	899	-	-	-	899
Kevin G. Lynch	763	-	-	-	763
Subtotal	3,324	-	-	-	3,324
Total	3,324	340	940	234	4,838

F-35

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***8. KEY MANAGEMENT PERSONNEL'S REMUNERATION (continued)****(i) Directors' remuneration (continued)**

	Fees (1) RMB'000	Salaries allowances and benefits in kind (1) RMB'000	Performance related bonuses (1) RMB'000	Pension scheme contributions RMB'000	Total paid/payable during the year RMB'000
2016					
Executive directors:					
Yang Hua(2)(4)(10)	-	-	-	-	-
Yuan Guagnyu(4)(8)	-	94	78	70	242
Li Fanrong(4)	-	92	454	59	605
Subtotal	-	186	532	129	847
Non-executive directors:					
Liu Jian(6)	-	-	-	-	-
Wu Guangqi(5)(7)	-	92	454	59	605
Lv Bo(7)	-	-	-	-	-
Subtotal	-	92	454	59	605
Independent non-executive directors:					
Chiu Sung Hong	957	-	-	-	957
Lawrence J. Lau	812	-	-	-	812
Tse Hau Yin, Aloysius	957	-	-	-	957
Kevin G. Lynch	812	-	-	-	812
Subtotal	3,538	-	-	-	3,538
Total	3,538	278	986	188	4,990

**2017**

## Executive directors:

Yuan Guangyu(4)(8)	-	197	455	134	786
Xu Keqiang(9)	-	146	162	94	402
Subtotal	-	343	617	228	1,188

## Non-executive directors:

Yang Hua(2)(4)(10)	-	-	-	-	-
Liu Jian(6)	-	-	-	-	-
Wu Guangqi(5)(7)	-	-	-	-	-
Subtotal	-	-	-	-	-

## Independent non-executive directors:

Chiu Sung Hong	972	-	-	-	972
Lawrence J. Lau	824	-	-	-	824
Tse Hau Yin, Aloysius	972	-	-	-	972
Kevin G. Lynch	824	-	-	-	824
Subtotal	3,592	-	-	-	3,592
Total	3,592	343	617	228	4,780

F-36

Table of Contents

**CNOOC LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(All amounts expressed in millions of Renminbi unless otherwise stated)*

**8. KEY MANAGEMENT PERSONNEL'S REMUNERATION (continued)**

**(i) Directors' remuneration (continued)**

**Notes:**

(1) Fees, salaries, allowances, benefits in kind and performance related bonuses represent the gross amount (before applicable individual salary tax) paid/payable to individual directors.

On May 19, 2015, Mr. Yang Hua was appointed as Chairman of the Board and Chairman of the Nomination Committee of the Company and has no longer served as Vice-chairman of the Board. Mr. Wang Yilin resigned as Chairman of the Board, Chairman of the Nomination Committee and non-executive director of the Company.

(3) On September 23, 2015, Mr. Wang Jiexiang retired as a non-executive director of the Company.

On 15 June 2016, Mr. Yang Hua was re-designated as an Executive Director and appointed as the Chief Executive Officer of the Company. Mr. Yuan Guangyu was appointed as an Executive Director and the President of the Company. Mr. Li Fanrong resigned as an Executive Director, the Chief Executive Officer and the President of the Company.

(5) On 15 June 2016, Mr. Wu Guangqi was re-designated as a Non-executive Director of the Company and resigned as the Compliance Officer of the Company.

(6) On 20 December 2016, Mr. Liu Jian was appointed as the Vice Chairman and a Non-executive Director of the Company.

On 20 December 2016, Mr. Wu Guangqi was appointed as a member of the Remuneration Committee of the Company. Mr. Lv Bo resigned as a Non-executive Director and a member of the Remuneration Committee of the Company.

(8) On 18 April 2017, Mr. Yuan Guangyu was appointed as the Chief Executive Officer of the Company. Mr. Yuan Guangyu resigned as the President of the Company.

(9) On 18 April 2017, Mr. Xu Keqiang was appointed as an Executive Director and the President of the Company.

(10) On 18 April 2017, Mr. Yang Hua was re-designated as a Non-executive Director of the Company. Mr. Yang Hua resigned as the Chief Executive Officer of the Company and he remains as the Chairman of the Board.

The Company has adopted the share option schemes for the grant of options to the Company's directors. The fair value of share options for the directors measured according to the Group's accounting policy as set out in note 3. No Directors exercised any share option in 2015, 2016 or 2017. No new share option was granted to Directors in respect of their services to the Group under the applicable share option schemes of the Company in 2015, 2016 or 2017. Further details of share option scheme and valuation techniques are set out in note 26.

Save as disclosed above, there was no arrangement under which a director waived or agreed to waive any remuneration during the year. In 2017, the executive directors' remuneration shown above were for their services in connection with the management of the affairs of the Company. The other directors' remuneration shown above were for their services as directors of the Company.

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***8. KEY MANAGEMENT PERSONNEL'S REMUNERATION (continued)****(ii) Other key management personnel's (excluding Directors') remuneration**

	2015	2016	2017
Short term employee benefits	8	7	9
Pension scheme contributions	1	1	1
Amount paid/payable during the year	9	8	10
Share options*	-	-	-
	9	8	10

The bands of the remuneration of other key management personnel (excluding Directors) and the related number of members of other key management personnel (excluding Directors) are as follows:

	Number of employees		
	2015	2016	2017
Nil to RMB 2,000,000	10	10	12
	10	10	12

\* This item represents the fair value of share options measured according to the Group's accounting policy as set out in note 3. No other key management personnel exercised any share option in 2015, 2016 or 2017.

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***9. FIVE HIGHEST PAID EMPLOYEES**

During the year, none (2016: none; 2015: none) of the Directors, details of whose remuneration are disclosed in note 8 (i) above, received an amount which falls within the category of the five highest paid employees. Details of the remuneration of the five (2016: five; 2015: five) highest paid employees, for the year are as follows:

	2015	2016	2017
Basic salaries, allowances and benefits in kind(1)	22	23	21
Performance-related bonuses	17	14	19
Pension scheme contributions	1	1	1
Amount paid/payable during the year	40	38	41

(1) Salaries, allowances, and benefits in kind represent the gross amount (before applicable individual salary tax) paid/payable to individual employees.

The remuneration of the five (2016: five, 2015: five) highest paid employees, falls within the following bands:

	2015	2016	2017
RMB5,500,001 to RMB6,000,000	-	1	-
RMB6,000,001 to RMB6,500,000	-	-	1
RMB7,000,001 to RMB7,500,000	3	-	1
RMB7,500,001 to RMB8,000,000	-	3	-
RMB8,000,001 to RMB8,500,000	-	-	1
RMB9,000,001 to RMB9,500,000	2	1	1
RMB10,000,001 to RMB10,500,000	-	-	1
	5	5	5





Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***10. TAX****(i) Income tax**

The Company and its subsidiaries are subject, on an entity basis, to income taxes on profits arising in or derived from the tax jurisdictions in which the entities of the Group are domiciled and operate. The Company is subject to profits tax at a rate of 16.5 % (2016: 16.5%, 2015: 16.5%) on profits arising in or derived from Hong Kong.

The Company is regarded as a Chinese Resident Enterprise (as defined in the "Enterprise Income Tax Law of the People's Republic of China") by the State Administration of Taxation of the PRC. As a result, the Company is subject to the PRC corporate income tax at the rate of 25% starting from January 1, 2008. The corporate income tax which is subjected in Hong Kong is qualified as a foreign tax credit to offset the PRC corporate income tax starting from January 1, 2008.

The Company's subsidiary in Mainland China, CNOOC China Limited, is a wholly-owned foreign enterprise. It is subject to corporate income tax at the rate of 25% under the prevailing tax rules and regulations. CNOOC Deepwater Development Limited, a wholly-owned subsidiary of CNOOC China Limited, is subject to corporate income tax at the rate of 15% for the three years ended December 31, 2017, after being assessed as a high and new technology enterprise. The company is in the process of re-applying to be assessed as a high and new technology enterprise from 2018 to 2020.

Subsidiaries of the Group domiciled outside the PRC are subject to income tax at rates ranging from 10% to 50% (2016: 10% to 50%, 2015: 10% to 56%). The U.S. government enacted comprehensive tax legislation in December 2017 that took effect as of January 1, 2018. A one-time non-cash deferred tax charge was recorded due to the impact of the reduction of U.S. federal corporate income tax rate from 35% to 21%. The U.K. government decreased the combined income tax rate on North Sea oil and gas activities from 50% to 40% with effect from January 1, 2016.

As of December 31, 2017, deferred tax liabilities related to undistributed earnings of the Company's overseas subsidiaries have not been provided since the timing of the reversal of the taxable temporary differences can be

controlled by the Company and it is probable that the temporary differences would not reverse in the foreseeable future.

F-40

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***10. TAX (continued)****(i) Income tax (continued)**

An analysis of the tax (credit)/expense in the Group's consolidated statement of profit or loss and other comprehensive income is as follows:

	2015	2016	2017
Current tax			
Provision for PRC enterprise income tax on the estimated taxable profits for the year	9,990	7,547	11,472
Provision for overseas enterprise income tax on the estimated taxable profits for the year	3,501	2,983	4,390
Deferred tax			
Temporary differences in the current year	(12,585)	(14,595)	(7,558)
Effect of changes in tax rates	(4,022)	(1,847)	3,376
Income tax (credit)/expense for the year	(3,116)	(5,912)	11,680

A reconciliation of the PRC statutory corporate income tax rate to the effective income tax rate of the Group is as follows:

	2015	2016	2017
	%	%	%
PRC statutory enterprise income tax rate	25.0	25.0	25.0
Effect of different tax rates for overseas subsidiaries	(5.8)	34.8	(1.6)
Effect of changes in tax rates	(23.5)	35.0	9.4
Tax credit from the government	(11.5)	8.3	(2.7)
Tax reported in equity-accounted entities	(0.4)	1.0	(0.2)
Tax losses previously not recognized	(1.9)	5.3	-
Others	(0.1)	2.7	2.2
Group's effective income tax rate	(18.2)	112.1	32.1

The movements of deferred tax liabilities net of deferred tax assets are as follows:

	2015	2016	2017
At January 1	14,312	(1,948 )	(19,174)
Credit to the profit or loss	(12,585)	(14,595)	(7,558 )
Changes in tax rates	(4,022 )	(1,847 )	3,376
Charge to equity	141	(226 )	7
Exchange differences	206	(558 )	1,143
At December 31	(1,948 )	(19,174)	(22,206)

F-41

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***10.****TAX (continued)****(i)****Income tax (continued)**

Principal components of deferred tax balances are as follows:

	2016	2017
Deferred tax assets		
Property, plant and equipment	1,681	7,312
Provision for dismantlement	9,325	9,669
Losses available for offsetting against future taxable profit	21,163	16,529
Fair value of long term borrowings	1,969	1,771
Others	1,389	1,178
	35,527	36,459
Deferred tax liabilities		
Property, plant and equipment	(16,208)	(13,670)
Fair value changes on other financial assets	(139 )	(232 )
Others	(6 )	(351 )
	(16,353)	(14,253)
Net deferred tax assets	19,174	22,206
Of which – deferred tax assets	24,844	25,509
deferred tax liabilities	(5,670 )	(3,303 )

As at December 31, 2017, the Group had approximately RMB87,623 million (December 31, 2016: RMB82,288 million) of carry-forward tax losses, predominantly in North America, that would be available to offset against future taxable profits of the subsidiaries in which the tax losses arose. Most of the US and Canadian tax losses will expire in 8 to 20 years.

Deferred tax assets in respect of tax losses are recognized only to the extent of the anticipated future taxable profits or reversal of existing taxable temporary differences.

As at December 31, 2017, the Group's recognized deferred tax assets on tax losses amounted to RMB75,018 million (December 31, 2016: RMB68,061 million). Unrecognized tax losses, where recovery is not currently expected, amounted to RMB12,605 million (December 31, 2016: RMB14,227 million). This includes RMB3,181 million (2016: RMB3,207 million) of unrecognized tax loss arising from Uganda which has no fixed expiry date. The remainder expires between 5 to 20 years.

As at December 31, 2017, the Group's unrecognized deferred tax assets related to unused tax credits amounted to RMB4,990 million (2016: RMB5,761 million). This includes RMB4,587 million (2016: RMB4,807 million) of unrecognized deferred tax assets related to unused tax credits from Nigeria which has no fixed expiry date. The remainder expires between 2026 and 2036.

The realisability of the deferred tax assets recognized mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In case where the actual future taxable profits generated are less than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, the balance of deferred tax assets may be significantly revised.

Table of Contents

**CNOOC LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(All amounts expressed in millions of Renminbi unless otherwise stated)*

**10.**

**TAX (continued)**

**(ii) Other taxes**

The Company's PRC subsidiaries pay the following other taxes and dues:

- i. Production tax at the rate of 5% on production under production sharing contracts;

VAT at the rates from 13% to 17% on taxable sales under independent oil and gas fields since May 1 2016 according to "Provisional Regulations on VAT of the PRC" and relevant detailed rules according to the "Circular on Certain Policies on the Pilot Program of the Collection of VAT in Lieu of Business Tax" (Cai Shui [2016] No.39), ii. which replaced the production tax at the rate of 5% on production under independent oil and gas fields before May 1 2016. According to "Notice on Simplifying the Relevant Policies on Value-added Tax Rates" (Cai Shui [2017] No.37), with effect from 1 July 2017, the 13% VAT rate shall be removed and gas sales shall be subject to the 11% tax rate.

VAT at the rates from 3% to 17% on other income since May 1 2016, which were subject to the business tax at rates of 3% to 5% or VAT at the rates of 3% to 17% before May 1 2016.

The VAT payable is calculated using the taxable sales amount multiplied by the applicable tax rate less relevant deductible input VAT;

Resource tax (reduced tax rates may apply to specific products and fields) on the oil and gas sales revenue (excluding production tax) derived by oil and gas fields under production sharing contracts signed after November 1, 2011 and independent offshore oil and gas fields starting from November 1, 2011, which replaced the royalties iii. for oil and gas fields, except for those under production sharing contracts signed before November 1, 2011 which will be subject to related resource tax requirement after the expiration of such production sharing contracts. The resource tax rate was changed from 5% to 6% since December 1, 2014;



- iv. Export tariff at the rate of 5% on the export value of petroleum oil;
- v. City construction tax at the rates of 1% or 7% on the production tax, business tax and VAT paid;
- vi. Educational surcharge at the rate of 3% on the production tax, business tax and VAT paid; and
- vii. Local educational surcharge at the rate of 2% on the production tax, business tax and VAT paid.

In addition, other taxes paid and payable by the Company's non-PRC subsidiaries include royalty as well as taxes levied on petroleum-related income, budgeted operating and capital expenditure.

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***10. TAX (continued)****(iii) Special Oil Gain Levy**

In 2006, a Special Oil Gain Levy ("SOG Levy") was imposed by the Ministry of Finance of the PRC ("MOF") at the progressive rates from 20% to 40% on the portion of the monthly weighted average sales price of the crude oil lifted in the PRC exceeding US\$40 per barrel. The MOF has decided to increase the threshold of the SOG Levy to US\$65 with effect from January 1, 2015. Notwithstanding this adjustment, the SOG Levy continues to have five levels and is calculated and charged according to the progressive and valorem rates on the excess amounts. The SOG Levy paid can be claimed as a deductible expense for corporate income tax purposes and is calculated based on the actual volume of the crude oil entitled.

**11. EARNINGS PER SHARE**

	2015	2016	2017
Earnings			
Profit for the purpose of basic and diluted earnings per share calculation	20,246	637	24,677
Number of shares			
Number of ordinary shares for the purpose of basic earnings per share calculation	44,647,455,984	44,647,455,984	44,647,455,984
Effect of dilutive potential ordinary shares under the share option schemes	37,363,069	11,684,504	4,101,969
Weighted average number of ordinary shares for the purpose of diluted earnings per share	44,684,819,053	44,659,140,488	44,651,557,953
Earnings per share:			
Basic (RMB Yuan)	0.45	0.01	0.55
Diluted (RMB Yuan)	0.45	0.01	0.55

F-44

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***12. DIVIDENDS**

	2015	2016	2017
Dividend per ordinary share:			
2017 interim dividend - HK\$0.20 (2016: interim dividend HK\$0.12, 2015: interim dividend HK\$0.25) per ordinary share	9,145	4,673	7,601
2016 final dividend - HK\$0.23 (2015: final dividend HK\$0.25, 2014: final dividend HK\$0.32) per ordinary share	11,274	9,571	8,847
2017 final dividend proposed at HK\$0.3 (2016: final dividend proposed at HK\$0.23, 2015: final dividend proposed at HK\$0.25) per ordinary share by the Board of Directors - not recognized as a liability as at the end of the year	9,397	9,096	10,830

Pursuant to the Enterprise Income Tax Law of the People's Republic of China and related laws and regulations, the Company is regarded as a Chinese Resident Enterprise, and thus is required to withhold corporate income tax at the rate of 10% when it distributes dividends to its non-resident enterprise (as defined in the "Enterprise Income Tax Law of the People's Republic of China") shareholders, with effect from the distribution of the 2008 final dividend. In respect of all shareholders whose names appear on the Company's register of members and who are not individuals (including HKSCC Nominees Limited, corporate nominees or trustees such as securities companies and banks, and other entities or organizations, which are all considered as non-resident enterprise shareholders), the Company will distribute the dividend after deducting corporate income tax of 10%.

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***13. PROPERTY, PLANT AND EQUIPMENT**

	Oil and gas properties	Vehicles and office equipment and others	Total
Cost:			
At January 1, 2016	803,986	5,296	809,282
Additions	44,302	236	44,538
Disposals and write-offs	(6,365 )	(37 )	(6,402 )
Exchange differences	25,703	205	25,908
At December 31, 2016	867,626	5,700	873,326
At January 1, 2017	867,626	5,700	873,326
Additions	48,937	99	49,036
Disposals and write-offs	(2,577 )	(914 )	(3,491 )
Exchange differences	(24,985 )	(148 )	(25,133 )
At December 31, 2017	889,001	4,737	893,738
Accumulated depreciation, depletion and amortization and impairment:			
At January 1, 2016	(353,824)	(1,317 )	(355,141)
Depreciation charge for the year	(67,906 )	(397 )	(68,303 )
Impairment	(10,768 )	-	
Disposals and write-offs	3,532	34	3,566
Exchange differences	(10,157 )	(58 )	(10,215 )
At December 31, 2016	(439,123)	(1,738 )	(440,861)
At January 1, 2017	(439,123)	(1,738 )	(440,861)
Depreciation charge for the year	(60,442 )	(360 )	
Impairment	(8,639 )	-	(8,639 )
Disposals and write-offs	1,185	258	1,443
Exchange differences	10,932	57	10,989

At December 31, 2017	(496,087)	(1,783 )	(497,870)
Net book value:			
At December 31, 2016	428,503	3,962	432,465
At December 31, 2017	392,914	2,954	395,868

Included in the current year's additions was an amount of approximately RMB2,495 million (2016: approximately RMB1,430 million, 2015: approximately RMB1,385 million) in respect of interest capitalized in property, plant and equipment (note 7). Included also in the depreciation charge for the year was an amount of approximately RMB636 million (2016: approximately RMB1,609 million, 2015: approximately RMB3,465 million) in respect of a depreciation charge on dismantlement cost capitalized in oil and gas properties.

Table of Contents

**CNOOC LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(All amounts expressed in millions of Renminbi unless otherwise stated)*

**13. PROPERTY, PLANT AND EQUIPMENT (continued)**

Impairment and provision recognized during the year included the impairment loss to reduce the carrying amount of certain oil and gas properties to the recoverable amount. In 2017, the impairment loss was mainly related to fields in China, Africa and North America which was primarily due to the revision of the oil and gas price forecast and revision of reserves. In 2016, the impairment loss was mainly related to fields in North America, Europe and Africa primarily due to the revision of the oil price forecast and an adjustment in operating plan for oil sand assets in Canada.

For both years, the recoverable amount was calculated based on the assets' value in use and was determined at the cash-generating unit level. The Company identifies a field or the group of fields that could generate cash inflows independently as a cash-generating unit. The principal parameters used in determining the recoverable amount of the Group's assets include estimates of proved and unproved reserves, future commodity prices that come from the price forecast of respected and independent institutions, combined with internal analysis and judgment of the international market environment, as well as best estimates of drilling and development costs.

The discount rate is derived from the Company's weighted average cost of capital ("WACC") and is adjusted, where applicable, to take into account any specific risks relating to the country where the asset is located as well as the asset specific characteristics, such as specific tax treatments, cash flow profiles and economic life. The discount rate used for value in use calculations is 8%-12% in 2017 after tax (2016: 8%-11% after tax). A derived pre-tax discount rate would be in the range of 8%-15% (2016: 9%-11% pre-tax).

For 2016, included in impairment was RMB7,358 million recognized on the Long Lake project, due to the revision of the oil price forecast and adjustments to operating plans caused by the pipeline rupture and the explosion accident. Specifically, the operating plan was changed to defer the timing of when to bring the Long Lake upgrader back online, to make the timing concurrent with the most recent expectation of when sufficient feedstock will be produced from Long Lake assets to maximize the utilization and cash generating potential of the upgrader. The Company also updated the yield assumptions based on the most recent operating performance of the upgrader. The asset was written down to an estimated recoverable amount of RMB33,902 million in June 2016. As at 31 December 2017, the future operating plan of Long Lake assets is still under assessment by management, which may significantly impact the recoverable amount of the oil sands properties of Long Lake assets in the future.

During 2017, the Group wrote off certain oil and gas assets in the North America mainly due to the expiration of lease contracts. Approximately RMB71 million was included in the exploration expenses, and approximately RMB1,588 million was included in the depreciation, depletion and amortisation charge, respectively.

F-47



Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***14. INTANGIBLE ASSETS**

	Gas processing rights under NWS Project	Drilling rig contracts and seismic data usage rights	Marketing transportation and storage contracts	Software and others	Goodwill	Total
Cost:						
At January 1, 2016	1,191	1,596	1,527	2,861	13,805	20,980
Additions	-	-	-	197	-	197
Disposal	-	-	-	(387 )	-	(387 )
Exchange differences	82	109	104	67	943	1,305
At December 31, 2016	1,273	1,705	1,631	2,738	14,748	22,095
At January 1, 2017	1,273	1,705	1,631	2,738	14,748	22,095
Additions	-	-	-	206	-	206
Disposal	-	(1,662 )	(54 )	(199 )	-	(1,915 )
Exchange differences	(74 )	(43 )	(93 )	(57 )	(856 )	(1,123 )
At December 31, 2017	1,199	-	1,484	2,688	13,892	19,263
Accumulated amortization:						
At January 1, 2016	(621 )	(958 )	(1,096 )	(1,882 )	-	(4,557 )
Amortization charge for the year	(51 )	(326 )	(135 )	(508 )	-	(1,020 )
Disposal	-	-	-	386	-	386
Exchange differences	(57 )	(80 )	(81 )	(42 )	-	(260 )
At December 31, 2016	(729 )	(1,364 )	(1,312 )	(2,046 )	-	(5,451 )
At January 1, 2017	(729 )	(1,364 )	(1,312 )	(2,046 )	-	(5,451 )
Amortization charge for the year	(46 )	(332 )	(57 )	(419 )	-	(854 )
Disposal	-	1,662	54	199	-	1,915
Exchange differences	43	34	76	44	-	197

At December 31, 2017	(732 ) -	(1,239 )	(2,222 ) -	(4,193 )		
Net book value:						
At December 31, 2016	544	341	319	692	14,748	16,644
At December 31, 2017	467	-	245	466	13,892	15,070

Goodwill represents the excess of the purchase price over the estimated fair value of the assets acquired and liabilities assumed in a business combination.

According to the accounting policies as set out in note 3, goodwill is acquired in the acquisition of Nexen Inc., and from the acquisition date, allocated to the entire E&P assets, which are the groups of cash-generating units that are expected to benefit from the synergies of the acquisition.

Impairment is determined by assessing the recoverable amount of the entire E&P assets to which the goodwill relates. Where the recoverable amount of the entire E&P assets is less than the carrying amount of the assets and the goodwill together, an impairment loss on goodwill is recognized.

In assessing value in use of E&P segment, the key assumptions include, but are not limited to, future commodity prices, future production estimates, estimated future capital expenditures, estimated future operating expenses and the discount rate. The discount rate used for value in use is derived from the Company's WACC and is adjusted, where applicable, to take into account any specific risks relating to the country where the asset is located as well as the asset specific characteristics, such as specific tax treatments, cash flow profiles and economic life. However, actual results could differ from those estimates.

The intangible asset regarding the gas processing rights has been amortized upon the commercial production of the liquefied natural gas on a unit-of -production basis over the total proved reserves of the relevant asset. The intangible assets regarding the marketing transportation and storage contracts are amortized on a straight-line basis over the life of the contracts which is less than 20 years. Other identifiable intangible assets are amortized on a straight-line basis over a period ranging from 3 to 5 years.

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***15. INVESTMENTS IN ASSOCIATES**

Particulars of the principal associates at the end of the reporting period are as follows:

Name of associates	Place of establishment	Nominal value of ordinary shares issued and paid-up/registered capital	Percentage of equity attributable to the Group	Principal activities
Shanghai Petroleum Corporation Limited	Shanghai, PRC	RMB900 million	30 %	Production, processing and technology consultation of oil, gas and relevant products in the PRC
CNOOC Finance Corporation Limited	Beijing, PRC	RMB4 billion	31.8 %	Provision of deposit, transfer, settlement, loan, discounting and other financing services to CNOOC and its member entities

To give details of other associate would, in the opinion of the Directors, result in particulars of excessive length.

The Group's investments in associates represent:

	2016	2017
Share of net assets	3,695	4,067

None of the Group's associates are considered to be individually material. The following table illustrates the summarized financial information of the Group's associates in the consolidated financial statements:

2015 2016 2017

Profit/(loss) for the year	256	(609)	302
Other comprehensive income/(expense)	74	(127)	36
Total comprehensive income/(expense)	330	(736)	338

Dividend of RMB116 million was received from the associates in 2017 (2016: RMB135 million).

## 16. INVESTMENT IN A JOINT VENTURE

Particulars of the joint venture at the end of the reporting period are as follows:

Name of entity	Place of establishment	Nominal value of ordinary shares issued and paid-up/registered capital		Percentage of equity attributable to the Group	Principal activities
Bridas Corporation	British Virgin Islands	US\$	102,325,582	50 %	Investment holding

F-49

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***16. INVESTMENT IN A JOINT VENTURE (continued)**

Summarized financial information of the joint venture is disclosed below:

	2016	2017
Current assets	9,201	11,614
Non-current assets	66,992	63,660
Current liabilities	(6,866 )	(6,630 )
Non-current liabilities	(16,727)	(18,486)

	2015	2016	2017
Revenue	31,231	28,371	29,879
Depreciation, depletion and amortization	(3,535 )	(3,988 )	(3,742 )
Interest income	288	388	313
Finance costs	(799 )	(704 )	(550 )
Profit before tax	4,194	1,226	2,215
Income tax expense	(900 )	(160 )	(1,109 )
Profit after tax	3,294	1,066	1,106
Total comprehensive income	3,294	1,066	1,106

Dividend of US\$36 million (equivalent to RMB243 million) was received from the joint venture in 2017, no dividend was received from the joint venture in 2016 and dividend of US\$5 million (equivalent to RMB32 million) was received from the joint venture in 2015.

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***17. EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS****(i) Equity investments**

	2016	2017
Current:		
Non-publicly traded investments		
Private equity funds classified at FVTOCI	15	14
	15	14
Non-current:		
Publicly traded investments		
Equity investment in MEG Energy Corporation (“MEG”) classified at FVTOCI(1)	1,356	766
Other equity investment classified at FVTPL	35	15
	1,391	781
Non-publicly traded investments		
Private equity fund in Kerogen Energy Fund classified at FVTOCI (2)	2,875	2,759
	4,266	3,540

MEG is principally engaged in the exploitation and production of oil sands. The investment in MEG is designated (1) by the Group as at FVTOCI. As at December 31, 2017, the investment in MEG was stated at the quoted market price.

Kerogen Energy Fund is principally engaged in the investment in the oil and gas industry. The equity investment in (2) Kerogen Energy Fund is designated by the Group as at FVTOCI. The cost of this non-publicly traded equity investment represents an appropriate estimate of its fair value as at January 1, 2017 and December 31, 2017, as sufficient information is not available recently to measure its fair value.

F-51

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***17. EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS (Continued)****(ii) Other financial assets**

	2016	2017
Current:		
Non-publicly traded investments classified at FVTPL:		
Corporate wealth management products (1)	46,958	66,229
Money market funds (2)	5,931	8,115
	52,889	74,344

(1) The corporate wealth management products will mature from January 8, 2018 to November 6, 2018 (2016: January 10, 2017 to December 5, 2017).

(2) The money market funds can be redeemed at any time.

The gains of the Group's other financial assets recognized in the profit or loss for the year was RMB2,409 million (2016: RMB2,774 million, 2015: RMB2,398 million).

During the year, the fair value changes on the Group's equity investments recognized directly in other comprehensive expense amounted to RMB542 million (2016: RMB461 million, 2015: RMB1,573 million).

None of the equity investments and other financial assets above is past due or impaired.





Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***18. OTHER NON-CURRENT ASSETS**

Included in the other non-current assets were restricted deposits for future dismantlement. Pursuant to the Provisional Regulations on the Dismantlement of Offshore Oil and Gas Production Facilities of the People's Republic of China, the Group accrues dismantlement costs for all the oil and gas fields under production sharing contracts in the PRC, and makes monthly cash contributions to the specified dismantlement fund accounts supervised by the PRC government. The deposit cannot be withdrawn or utilized for any other purposes but the dismantlement of oil and gas production facilities in the future. As of December 31, 2017, the balance of the specified dismantlement fund accounts was RMB7,555 million (December 31, 2016: RMB6,088 million).

**19. INVENTORIES AND SUPPLIES**

	2016	2017
Materials and supplies	7,288	6,278
Oil in tanks	1,594	1,540
Less: Provision for inventory obsolescence	(173 )	(464 )
	8,709	7,354

**20. TRADE RECEIVABLES**

The credit terms of the Group are generally within 30 days after the delivery of oil and gas. Payment in advance or collateral may be required from customers, depending on credit rating. Trade receivables are non-interest-bearing.

All customers have good credit quality with good repayment history and no significant receivables are past due. As at December 31, 2017 and December 31, 2016, the age of substantially all the trade receivables was within one year.

**21. CASH AND CASH EQUIVALENTS AND TIME DEPOSITS WITH MATURITY OVER THREE MONTHS**

The Group's cash and cash equivalents mainly consist of current deposits and time deposits with maturity within seven days. The bank balances are deposited with creditworthy banks with no recent history of default.

The weighted average effective interest rates of the Group's bank deposits were 2.23% per annum for the year ended December 31, 2017 (2016: 2.95% per annum, 2015: 2.61% per annum).

**22. TRADE AND ACCRUED PAYABLES**

As at December 31, 2017 and 2016, substantially all the trade and accrued payables were aged within six months. The trade and accrued payables are non-interest-bearing.

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***23. OTHER PAYABLES AND ACCRUED LIABILITIES**

	2016	2017
Accrued payroll and welfare payable	1,509	1,490
Provision for retirement benefits	683	630
Accrued expenses	449	381
Advances from customers	3,272	3,096
Special oil gain levy payable	-	55
Royalties payable	240	75
Provision for dismantlement (note 25)	462	1,180
Other payables	8,251	7,199
	14,866	14,106

**24. LOANS AND BORROWINGS****Current**

	Effective interest rate and final maturity	2016			2017		
		Loans	Notes	Total	Loans	Notes	Total
Short-term loans and borrowings							
General loans****	LIBOR+0.35% to 0.75% per annum with maturity within one year	10,361	-	10,361	8,779	-	8,779
		10,361	-	10,361	8,779	-	8,779
Loans and borrowings due within one year							
For Tangguh LNG Project**	LIBOR+0.19% to 0.335% per annum with maturity within one year	215	-	215	212	-	212
Notes*		-	9,102	9,102	-	4,901	4,901
		215	9,102	9,317	212	4,901	5,113
		10,576	9,102	19,678	8,991	4,901	13,892



Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***24. LOANS AND BORROWINGS (continued)****Non-current**

	Effective interest rate and final maturity	2016			2017		
		Loans	Notes	Total	Loans	Notes	Total
For Tangguh LNG Project**	LIBOR+0.19% to 0.335% per annum with maturity through to 2021	758	-	758	502	-	502
For Tangguh LNG III Project ***	LIBOR+1.37% to 3.45% per annum with maturity through 2021 to 2029	327	-	327	777	-	777
Notes*		-	129,713	129,713	-	117,079	117,079
		1,085	129,713	130,798	1,279	117,079	118,358

F-55

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***24. LOANS AND BORROWINGS (continued)**

\* The details of notes are as follows:

Issued by	Maturity	Coupon Rate	Outstanding Principal Amount	
			December 31, 2017	December 31, 2016
USD million				
CNOOC Finance (2003) Limited	Due in 2033	5.500 %	300	300
CNOOC Finance (2011) Limited	Due in 2021	4.25 %	1,500	1,500
CNOOC Finance (2011) Limited	Due in 2041	5.75 %	500	500
CNOOC Finance (2012) Limited	Due in 2022	3.875 %	1,500	1,500
CNOOC Finance (2012) Limited	Due in 2042	5.000 %	500	500
CNOOC Finance (2013) Limited	Due in 2018	1.750 %	750	750
CNOOC Finance (2013) Limited	Due in 2023	3.000 %	2,000	2,000
CNOOC Finance (2013) Limited	Due in 2043	4.250 %	500	500
CNOOC Nexen Finance (2014) ULC	Matured in 2017	1.625 %	-	1,250
CNOOC Nexen Finance (2014) ULC	Due in 2024	4.25 %	2,250	2,250
CNOOC Nexen Finance (2014) ULC	Due in 2044	4.875 %	500	500
Nexen	Matured in 2017	5.65 %	-	62
Nexen	Due in 2019	6.2 %	300	300
Nexen	Due in 2028	7.4 %	200	200
Nexen	Due in 2032	7.875 %	500	500
Nexen	Due in 2035	5.875 %	790	790
Nexen	Due in 2037	6.4 %	1,250	1,250
Nexen	Due in 2039	7.5 %	700	700
CNOOC Finance (2015) U.S.A. LLC	Due in 2025	3.500 %	2,000	2,000
CNOOC Finance (2015) Australia Pty Ltd	Due in 2020	2.625 %	1,500	1,500
CNOOC Finance (2015) Australia Pty Ltd	Due in 2045	4.200 %	300	300

All the notes issued mentioned above were fully and unconditionally guaranteed by the Company.

F-56



Table of Contents

**CNOOC LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(All amounts expressed in millions of Renminbi unless otherwise stated)*

**24. LOANS AND BORROWINGS (continued)**

In connection with the Tangguh LNG Project in Indonesia, the Company delivered a guarantee dated October 29, 2007, in favor of Mizuho Corporate Bank, Ltd., which acts as the facility agent for and on behalf of various \*\*international commercial banks under a US\$884 million commercial loan agreement. The Company guarantees the payment obligations of the trustee borrower under the subject loan agreement and is subject to a maximum cap of approximately US\$135,163,308.28.

A letter of credit agreement was signed between the Company and Talisman Energy Inc. (“Talisman”) with execution of the agreement in respect of the sale of a 3.05691% interest of the Company in the Tangguh LNG Project to Talisman. Accordingly, Talisman has delivered valid and unexpired standby letters of credit to the Company (as the beneficiary) as a counter-guarantee to offset the exposure of the Company’s guarantee for the aforesaid interest of 3.05691% in respect of the Tangguh LNG Project financing. The amount of the standby letters of credit was US\$30 million. In February 2017, the standby letters of credit were withdrawn as the Company transferred the 3.05691% guarantee obligations to BP Corporation North America Inc..

In connection with the financing for the third LNG process train of Tangguh LNG Project in Indonesia, the Company delivered two guarantees dated August 3, 2016, in favor of Mizuho Bank, Ltd., which acts as the facility \*\*\*agent for and on behalf of various international commercial banks and Indonesian local commercial banks under two commercial loan agreements with aggregate loan amount of US\$2,145 million. The Company guarantees the payment obligations of the trustee borrower under the subject loan agreements and is subject to an aggregate maximum cap of approximately US\$573 million.

\*\*\*\* As at December 31, 2017, US\$650 million bank loans (2016: US\$800 million) were guaranteed by the Company.

As at December 31, 2017, US\$694 million shareholder loans (2016: US\$694 million) of the Group were included in general loans. For details please refer to Note 28(v).

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***24. LOANS AND BORROWINGS (continued)**

The maturities of the long term bank loans are as follows:

	2016	2017
Repayable:		
Within one year	215	212
After one year but within two years	225	212
After two years but within three years	225	212
After three years but within four years	225	108
After four years but within five years	97	61
After five years	313	686
	1,300	1,491
Amount due within one year shown under current liabilities	(215 )	(212 )
	1,085	1,279

Supplemental information with respect to the long term bank loans:

For the year ended December 31	Balance at year end	Weighted average interest rate at year end	Maximum amount outstanding during the year	Average amount outstanding during the year (1)	Weighted average interest rate during the year (2)
2016	1,300	1.74 %	1,369	1,199	1.29 %
2017	1,491	2.52 %	1,491	1,396	2.13 %

(1) The average amount outstanding is computed by averaging the outstanding principal balances as at January 1, and December 31, of each year.

(2) The weighted average interest rate is computed by averaging the interest rates as at January 1, and December 31, of each year.

There was no default of principal, interest or redemption terms of the loans and borrowings during the year.

F-58

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***25. PROVISION FOR DISMANTLEMENT**

	2016	2017
At January 1	50,063	50,888
New projects(1)	1,395	1,244
Revision(1)	(2,072 )	421
Utilization	(398 )	(440 )
Deletions	(33 )	-
Unwinding of discount(2) (note 7)	2,185	2,145
Exchange differences	(252 )	(185 )
At December 31	50,888	54,073
Current portion of dismantlement included in other payables and accrued liabilities (note 23)	(462 )	(1,180 )
At December 31	50,426	52,893

(1) The amounts are included in the additions of oil and gas properties in note 13.

(2) The discount rates used for calculating the provision for dismantlement are within the range of 4% to 5% (2016: 4% to 5%, 2015: 4% to 5%).

**26.****SHARE CAPITAL**

	Number of shares	Issued share capital equivalent of RMB million
Issued and fully paid:	44,647,455,984	43,081

Ordinary shares with no par value as at January 1, 2016, as at  
December 31, 2016 and as at December 31, 2017  
F-59

Table of Contents

**CNOOC LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(All amounts expressed in millions of Renminbi unless otherwise stated)*

**26.SHARE CAPITAL (continued)**

**Share option schemes**

The Company has adopted the share option schemes for the grant of options to the Company's directors, senior management and other eligible grantees.

- (1) Pre-Global Offering Share Option Scheme (expired in 2011);
- (2) 2001 Share Option Scheme (expired in 2011);
- (3) 2002 Share Option Scheme (expired in 2015); and
- (4) 2005 Share Option Scheme (as defined below).

Under these share option schemes, the Remuneration Committee of the Board will from time to time propose for the Board's approval the grant of share options and the number of share options to be granted to the relevant grantees. The maximum aggregate number of shares (including those that could be subscribed for under the Pre-Global Offering Share Option Scheme, the 2001 Share Option Scheme, the 2002 Share Option Scheme and the 2005 Share Option Scheme) which may be issued upon exercise of all options granted shall not exceed 10% of the total issued share capital of the Company as at December 31, 2005, being the date on which the shareholders of the Company approved the 2005 Share Option Scheme, excluding shares under options which have lapsed.

**2005 Share Option Scheme**

On December 31, 2005, the Company adopted a new share option scheme (the "2005 Share Option Scheme"). Under the 2005 Share Option Scheme, the Board has the authority to grant options to subscribe for shares to the directors, officers and employees of the Company and its subsidiaries, and any other persons who in the sole discretion of the Board, have contributed or will contribute to the Group. Unless approved by the shareholders, the total number of shares issued and to be issued upon exercise of the options granted to each individual (including exercised and unexercised options) under the 2005 Share Option Scheme or any other share option scheme adopted by the Company, in any 12-month period, must not exceed 1% of the shares in issue of the Company.

F-60

Table of Contents

**CNOOC LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(All amounts expressed in millions of Renminbi unless otherwise stated)*

**26. SHARE CAPITAL (continued)**

**Share option schemes (continued)**

**2005 Share Option Scheme (continued)**

According to the 2005 Share Option Scheme, the consideration payable by a grantee for the grant of options will be HK\$1.00. The exercise price for such options will be determined by the Board at its discretion at the date of grant, except that such price shall be at least the higher of:

- (1) the nominal value of a share of the Company on the date of grant;
- (2) the average closing price of the shares as stated in the HKSE's daily quotation sheets for the five trading days immediately preceding the date of grant; and
- (3) the closing price of the shares as stated in the HKSE's daily quotation sheet on the date of grant.

The period within which the options must be exercised, as well as any minimum holding period or performance targets which apply to the options, will be specified by the Board of the Company at the time of grant. The exercise periods for options granted under the 2005 Share Option Scheme shall end not later than 10 years from the date of grant. No options may be granted under the 2005 Share Option Scheme after the date of the 10th anniversary of the adoption of the 2005 Share Option Scheme.

No new share option was granted during the year (2016 and 2015: nil) and the Group recognized an equity-settled share option expense of nil (2016 and 2015: nil) during the year.



Edgar Filing: CNOOC LTD - Form 20-F

The fair value of equity-settled share options granted was estimated as at the date of grant if any, using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted.

Details of the share options outstanding are as follows:

	2016		2017	
	Number of share options	Weighted average exercise price HK\$	Number of share options	Weighted average exercise price HK\$
Outstanding at the beginning of the year	262,592,000	10.56	187,529,000	11.40
Granted during the year	-	-	-	-
Forfeited during the year	(37,893,000 )	11.30	(22,506,000 )	12.43
Expired during the year	(37,170,000 )	5.56	(35,104,000 )	7.29
Exercised during the year	-	-	-	-
Outstanding at the end of the year	187,529,000	11.40	129,919,000	12.34
Exercisable at the end of the year	187,529,000	11.40	129,919,000	12.34

No share options had been cancelled or modified during the years ended December 31, 2015, 2016 or 2017.

Table of Contents

**CNOOC LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(All amounts expressed in millions of Renminbi unless otherwise stated)*

**26. SHARE CAPITAL (continued)**

At the date of approval of these consolidated financial statements for issuance, the share options outstanding under these share option schemes represented approximately 0.29% of the Company's shares in issue as at that date (2016: 0.42%, 2015: 0.59%). The weighted average remaining contractual life of share options outstanding at the end of the year was 1.52 years (2016: 2.11 years, 2015: 2.74 years). The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 129,919,000 (2016: 187,529,000 ) additional ordinary shares of the Company and additional share capital of RMB1,339,702,913 (2016: RMB1,912,814,087 ).

**27. RESERVES**

According to the laws and regulations of the PRC and the articles of association of CNOOC China Limited, CNOOC China Limited is required to provide for certain statutory funds, namely, the general reserve fund and the staff and workers' bonus and welfare fund, which are appropriated from net profit (after making up for losses from previous years), but before dividend distribution.

The general reserve fund, which is determined at the discretion of the board of directors of CNOOC China Limited, can only be used, upon approval by the relevant authority, to offset against accumulated losses or to increase capital.

Appropriation to the staff and workers' bonus and welfare fund, which is determined at the discretion of the board of directors of CNOOC China Limited, is expensed as incurred under IFRSs/HKFRSs. The staff and workers' bonus and welfare fund can only be used for special bonuses or collective welfare of employees.

As at December 31, 2017, the general reserve fund amounted to RMB60,000 million (December 31, 2016: RMB10,000 million).

In accordance with the "Temporary Regulation for Safety Expense Financial Management of Higher Risk Industry" and the implementation guidance issued by the MOF of the PRC, the Group is required to accrue a safety fund for its oil and gas exploration and production activities within the PRC by appropriating a portion of its net profit to other reserves based on its annual production from offshore China. Such reserve is reduced for expenses incurred to improve the safety conditions of oil and gas production. When the safety fund is fully utilized, additional expenses incurred for safety production purposes are charged directly to the profit or loss for the year. As of December 31, 2017, the Group's safety fund reserve under the PRC regulations amounted to nil (December 31, 2016: nil).

F-62

Table of Contents

**CNOOC LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(All amounts expressed in millions of Renminbi unless otherwise stated)*

**28. RELATED PARTY TRANSACTIONS**

As disclosed in note 1, the Company is a subsidiary of CNOOC, which is a state-owned enterprise subject to the control of the State Council of the PRC. The State Council of the PRC directly and indirectly controls a significant number of state-owned entities and organizations.

**Comprehensive framework agreement with CNOOC in respect of a range of products and services**

As the Group is controlled by CNOOC, transactions with CNOOC, its subsidiaries and associates (the "CNOOC Group") are disclosed as related party transactions. The connected transactions or continuing connected transactions defined in Chapter 14A of the Listing Rules in respect of items listed below also constitute related party transactions. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules for continuing connected transactions listed below. The Company entered into a comprehensive framework agreement with CNOOC on November 15, 2016 for the provision (1) by the Group to the CNOOC Group and (2) by the CNOOC Group to the Group, 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 the comprehensive framework agreement is for a period of three years from January 1, 2017. The continuing connected transactions under the comprehensive framework agreement and the relevant annual caps for the three years from January 1, 2017 were approved by the independent shareholders of the Company on December 1, 2016. The approved continuing connected transactions are as follows:

(1) Provision of exploration, oil and gas development, oil and gas production as well as marketing, management and ancillary services by the CNOOC Group to the Group:

- (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) Floating production, storage and offloading ("FPSO") vessel leases

(2) Provision of management, technical, facilities and ancillary services, including the supply of materials by the Group to the CNOOC Group; and

(3) Sales of petroleum and natural gas products by the Group to the CNOOC Group:

(a) Sales of petroleum and natural gas products (other than long-term sales of natural gas and liquefied natural gas)

(b) Long-term sales of natural gas and liquefied natural gas

Table of Contents

**CNOOC LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(All amounts expressed in millions of Renminbi unless otherwise stated)*

**28. RELATED PARTY TRANSACTIONS (continued)**

**Pricing principles**

The basic pricing principle for the continuing connected transactions between the Group and the CNOOC Group is based on arm's length negotiations, on normal commercial terms or better and with reference to the prevailing local market conditions (including the volume of sales, length of contracts, the volume of services, overall customer relationship and other market factors).

On the basis of the above basic pricing principle, each type of products or services must be charged in accordance with the following pricing mechanism and in the following sequential order:

(a) government-prescribed prices; or

(b) where there is no government-prescribed price, in accordance with market prices, including the local, national or international market prices.

The continuing connected transactions referred to in paragraph (1)(a)-(1)(b) above provided by the CNOOC Group to the Group and (3)(a)-(3)(b) above provided by the Group to the CNOOC Group, on the basis of the above pricing principle, are based on market prices (as defined in the comprehensive framework agreement).

The continuing connected transactions referred to in paragraph (1)(c)-(1)(d) above provided by the CNOOC Group to the Group, on the basis of the above pricing principle, are based on government-prescribed price or market prices.

The continuing connected transactions referred to in paragraph (1)(e), on the basis of the above pricing principle, are unanimously determined with the CNOOC Group which provides the FPSO vessel leases after arm's length

negotiation in accordance with normal commercial terms.

The continuing connected transactions referred to in paragraph (2) above provided by the Group to the CNOOC Group, on the basis of the above pricing principle, are determined through arm's length negotiation between both parties with reference market price.

F-64

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***28. RELATED PARTY TRANSACTIONS (continued)**

The following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties during the year and the balances arising from related party transactions at the end of the year:

**(i) Provision of exploration, oil and gas development, oil and gas production as well as marketing, management and ancillary services by the CNOOC Group to the Group**

	2015	2016	2017
Provision of exploration and support services	7,457	4,357	5,912
- Inclusive of amounts capitalized under property, plant and equipment	4,158	2,364	3,392
Provision of oil and gas development and support services	22,733	14,214	16,317
Provision of oil and gas production and support services (note a)	8,384	7,250	8,894
Provision of marketing, management and ancillary services (note b)	954	994	1,450
FPSO vessel leases (note c)	1,770	1,551	1,383
	41,298	28,366	33,956

**(ii) Provision of management, technical, facilities and ancillary services, including the supply of materials by the Group to the CNOOC Group**

The Group did not enter into any transactions in the above category for the years ended December 31, 2015, 2016 or 2017.

**(iii) Sales of petroleum and natural gas products by the Group to the CNOOC Group**

2015	2016	2017
105,401	88,682	109,518



Edgar Filing: CNOOC LTD - Form 20-F

Sales of petroleum and natural gas products (other than long-term sales of natural gas and liquefied natural gas) (note d)

Long term sales of natural gas and liquefied natural gas (note e)

10,557	8,663	9,837
115,958	97,345	119,355

F-65

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***28. RELATED PARTY TRANSACTIONS (continued)****(iv) Transactions and balances with CNOOC Finance Corporation Limited (“CNOOC Finance”) (note f)****(a) Interest income received by the Group**

	2015	2016	2017
Interest income from deposits in CNOOC Finance	629	564	360

**(b) Deposits balances made by the Group**

	2016	2017
Deposits in CNOOC Finance	19,437	19,465

**(v) Balances with the CNOOC Group**

	2016	2017
Amount due to CNOOC		
- included in other payables and accrued liabilities	215	193
Amount due to other related parties		
- included in trade and accrued payables	15,091	16,651
	15,306	16,844
Borrowings from CNOOC (note g)	4,811	4,532
Amounts due from other related parties		

– included in trade receivables	13,090	12,401
– included in other current assets	173	513
	13,263	12,914

(vi)

**Balance with a joint venture**

2016 2017

Amount due from a joint venture		
– included in other current assets	135	126

F-66

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***28. RELATED PARTY TRANSACTIONS (continued)****(vii) Transactions and balances with other state-owned enterprises**

The Group enters into extensive transactions covering sales of crude oil and natural gas, purchase of property, plant and equipment and other assets, receiving of services, and making deposits with state-owned enterprises, other than the CNOOC Group, in the normal course of business on terms comparable to those with other non-state-owned enterprises. The purchases of property, plant and equipment and other assets, and receipt of services from these state-owned enterprises are individually not significant. The individually significant sales transactions with these state-owned enterprises are disclosed in note 33. In addition, the Group had certain of its cash in bank and time deposits with certain state-owned banks in the PRC as at December 31, 2017, as summarized below:

	2016	2017
Cash and cash equivalents	6,612	3,824
Time deposits with maturity over three months	108	13
Specified dismantlement fund accounts (note 18)	6,088	7,555
	12,808	11,392

Interest rates for the above time deposits and specified dismantlement fund accounts are at prevailing market rates.

**(viii) Key management personnel's remuneration**

Key management personnel's remuneration is disclosed in note 8.

**(ix) Coalbed Methane Resources Exploration and Development Cooperation Agreement with China United Coalbed Methane Corporation Limited**

2016 2017

Accumulated investment 1,647 1,940

The amount due to the parent company and amounts due from/to related parties are unsecured, interest-free and are repayable on demand, unless otherwise disclosed.

F-67

Table of Contents

**CNOOC LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(All amounts expressed in millions of Renminbi unless otherwise stated)*

**28. RELATED PARTY TRANSACTIONS (continued)**

Notes:

a) These represent the services for production operations, the provision of various facilities and ancillary services, such as provision of different types of materials, medical and employee welfare services, maintenance and repair of major equipment and supply of water, electricity and heat to the Group, some of which may not be available from independent third parties or available on comparable terms.

b) These include marketing, administration and management, management of oil and gas operations and integrated research services as well as other ancillary services relating to exploration, development, production and research activities of the Group. In addition, the CNOOC Group leased certain premises to the Group for use as office premises and staff quarters out of which they provided management services to certain properties.

c) CNOOC Energy Technology & Services Limited leased FPSO vessels to the Group for use in oil production operations.

d) The sales include crude oil, condensate oil, liquefied petroleum gas, natural gas and liquefied natural gas to the CNOOC Group. Individual sales contracts were entered into from time to time between the Group and the CNOOC Group.

e) It is the market practice for sales terms to be determined based on the estimated reserves and production profile of the relevant gas fields. The long term sales contracts usually last for 5 to 20 years.

f) CNOOC Finance is a 31.8% owned associate of the Company and also a subsidiary of CNOOC. Under the financial services framework agreement with CNOOC Finance dated December 1, 2016, CNOOC Finance continues to provide to the Group settlement, depository, discounting, loans and entrustment loans services. The agreement is effective from January 1, 2017 to December 31, 2019. The depository services were exempted from independent shareholders' approval requirements under the Listing Rules. The Group's maximum daily outstanding balance for deposits stated in CNOOC Finance (including accrued interest but excluding funds placed for the purpose of extending entrustment loans pursuant to the entrustment loan services) in 2017 was RMB19,500 million (2016:

RMB22,000 million).

In September 2014, CNOOC provided CNOOC International Limited, a wholly-owned subsidiary of the Company a five-year uncommitted revolving loan facility for general purposes, with the principal amount of US\$135 million of 0.95% per annum. As at December 31, 2017, the withdrawal amount of the loan was US\$130 million (December 31, 2016: US\$130 million); In December 2014, CNOOC provided the Company a five-year uncommitted revolving loan facility for general purposes, with the principal amount of US\$600 million of 0.95% per annum. As at December 31, 2017, the withdrawal amount of the loan was US\$564 million (December 31, 2016: US\$564 million).

F-68

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***29. RETIREMENT BENEFITS**

All the Group's full-time employees in the PRC are covered by a state-managed retirement benefit plan operated by the government of the PRC, and are entitled to an annual pension. The PRC government is responsible for the pension liabilities to these retired employees. The Group is required to make annual contributions to the state-managed retirement benefit plan at rates ranging from 11% to 22% of the employees' base salaries.

The Company is required to make contributions to a defined contribution mandatory provident fund at a rate of 5% of the salaries of all full-time employees in Hong Kong. The related pension costs are expensed as incurred.

The Group provides retirement benefits for all local employees in overseas locations in accordance with relevant labor law, and provides employee benefits to expatriate staff in accordance with the relevant employment contracts.

During the year, the Group's pension costs charged to the consolidated statement of profit or loss and other comprehensive income amounted to RMB651 million (2016: RMB695 million, 2015: RMB613 million).

**30. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS****Reconciliation of profit/(loss) before tax to cash generated from operations**

	2015	2016	2017
Profit/(loss) before tax	17,130	(5,275 )	36,357
Adjustments for:			
Interest income	(873 )	(901 )	(653 )
Finance costs	6,118	6,246	5,044



Edgar Filing: CNOOC LTD - Form 20-F

Exchange losses/(gains), net	143	790	(356 )
Share of (profits)/losses of associates	(256 )	609	(302 )
Share of profit of a joint venture	(1,647 )	(533 )	(553 )
Investment income	(2,398 )	(2,774 )	(2,409 )
Impairment and provision	2,746	12,171	9,130
Depreciation, depletion and amortization	73,439	68,907	61,257
Loss on disposal and write-off of property, plant and equipment	2,115	2,304	1,937
Others	70	-	-
Subtotal	96,587	81,544	109,452
Decrease/(increase) in trade receivables and other current assets	7,932	(2,820 )	(1,073 )
Decrease in inventories and supplies	1,427	922	1,464
(Decrease)/increase in trade and accrued payables and other payables	(9,851 )	2,491	782
Cash generated from operations	96,095	82,137	110,625

F-69

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***30. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)****Reconciliation of liabilities arising from financing activities**

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Loans and borrowings (Note 24)	Interest payable (Note 23)	Dividend payable	Total
At January 1, 2017	150,476	1,244	-	151,720
Financing cash flows	(9,669 )	(5,154)	(16,448)	(31,271 )
Foreign exchange translation	(8,911 )	51	(52 )	(8,912 )
Finance costs	354	5,040	-	5,394
Dividends declared	-	-	16,500	16,500
At December 31, 2017	132,250	1,181	-	133,431

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***31. COMMITMENTS AND CONTINGENCIES****(i) Capital commitments**

As at December 31, 2017, the Group had the following capital commitments, principally for the construction of property, plant and equipment:

	2016	2017
Contracted, but not provided for (1)	46,515	46,704

(1) The capital commitments contracted, but not provided for, include the estimated payments to the Ministry of Land and Resources of the PRC for the next five years with respect to the Group's exploration and production licenses.

The above table includes a commitment of approximately RMB4,030 million (December 31, 2016: RMB2,482 million) contracted with the CNOOC Group.

Capital commitments of a joint venture:

	2016	2017
Contracted, but not provided for	360	691

As at December 31, 2017, the Group had unutilized banking facilities amounting to approximately RMB53,749 million (December 31, 2016: RMB60,697 million).

**(ii) Operating lease commitments****a. Office properties**

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 6 months to 20 years.

As at December 31, 2017, the Group had total minimum lease payments under non-cancellable operating leases falling due as follows:

	2016	2017
Commitments due:		
No later than one year	1,317	1,630
Later than one year and not later than two years	896	1,048
Later than two years and not later than five years	1,534	1,274
Later than five years	1,963	1,774
	5,710	5,726

The above table includes minimum lease payments of approximately RMB1,218 million (December 31, 2016: RMB639 million) to the CNOOC Group.

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***31. COMMITMENTS AND CONTINGENCIES (continued)****(ii) Operating lease commitments (continued)****a. Office properties (continued)**

Office properties commitments of a joint venture:

	2016	2017
Commitments due:		
No later than one year	25	18
Later than one year and not later than two years	17	12
Later than two years and not later than five years	26	16
Later than five years	51	23
	119	69

**b. Plant and equipment**

The Group leases certain of its plant and equipment under operating lease arrangements for a term from 1 year to 25 years.

As at December 31, 2017, the Group had total minimum lease payments under non-cancellable operating leases falling due as follows:

	2016	2017
--	------	------

Commitments due:

Edgar Filing: CNOOC LTD - Form 20-F

No later than one year	1,378	1,272
Later than one year and not later than two years	734	875
Later than two years and not later than five years	1,316	1,616
Later than five years	3,878	3,406
	7,306	7,169

The above table includes a commitment of approximately RMB3,366 million (December 31, 2016: RMB3,211 million) to the CNOOC Group.

F-72

Table of Contents

**CNOOC LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(All amounts expressed in millions of Renminbi unless otherwise stated)*

**31. COMMITMENTS AND CONTINGENCIES (continued)**

**(iii) Contingencies**

Two oil spill accidents ( the “Penglai 19-3 Oilfield Oil Spill Accidents”) occurred on June 4, and June 17, 2011 respectively at Platforms B and C of the Penglai 19-3 oilfield, which is being operated under a production sharing (i)contract (the “PSC”) among CNOOC China Limited, a subsidiary of the Company, and two subsidiaries of ConocoPhillips, a U.S. based oil company, among which ConocoPhillips China Inc. (the “COPC”) was the operator and responsible for the daily operations of the oilfield when the Penglai 19-3 Oilfield Oil Spill Accidents occurred.

On August 10, 2015, the Company received a Notice Calling for Responses from the Qingdao Maritime Court of the People’s Republic of China (the “Qingdao Maritime Court”) for a public interest action filed by China Biodiversity Conservation and Green Development Foundation (the “Plaintiff”) in relation to the Penglai 19-3 Oilfield Oil Spill Accidents (the “Lawsuit”). The Lawsuit is lodged against COPC and CNOOC China Limited. On February 2, 2018, CNOOC China Limited received a ruling dated December 28, 2017 issued by Qingdao Maritime Court (the "Ruling"). Pursuant to the Marine Environment Protection Law of the People’s Republic of China amended in 2016, Qingdao Maritime Court ruled that the Plaintiff was not an appropriate entity to file Lawsuit, and rejected it. As none of the parties to the Lawsuit appealed within the time limit, the Ruling came into effect. Therefore, CNOOC China Limited bears no liability for the Lawsuit.

The Company is of the view that there was no material financial impact of the Penglai 19-3 Oilfield Oil Spill Accidents on the Company.

(ii) As a Chinese Resident Enterprise, the Company may be liable to pay taxes on the deemed interest income for the funding provided to its overseas subsidiaries starting from January 1, 2008. The Company has prepared contemporaneous documentation in accordance with applicable PRC tax laws and regulations and is currently awaiting confirmation from its in-charge tax authority.

The Group is subject to tax in numerous jurisdictions around the world. There are audits in progress and items under review. Difference in positions taken by taxation authorities over the interpretation and application of tax laws and regulations may increase the Group's tax liability. Management has assessed the possible future outcome of matters that are currently under dispute. The Company believes that an adequate provision for future tax liability has been included in the consolidated financial statements based on available information.

In addition to the matters mentioned above, the Group is dealing with a number of other lawsuits and arbitrations that arise in the ordinary course of business. While the results of these legal proceedings cannot be ascertained at this stage, the Company believes these proceedings are not expected to have a material effect on the consolidated financial statements.

F-73



Table of Contents

**CNOOC LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(All amounts expressed in millions of Renminbi unless otherwise stated)*

**32. FINANCIAL INSTRUMENTS**

**Fair value of financial instruments**

The Group enters into contracts to purchase and sell crude oil, natural gas and other energy commodities, and use derivative contracts, including futures, forwards, swaps and options for hedging and trading purposes (collectively derivative contracts). The Group also uses derivatives to manage foreign currency risk for non-trading purposes.

For purposes of estimating the fair value of the derivative contracts, wherever possible, the Group utilizes quoted market price and, if not available, estimates from third-party brokers. These brokers' estimates are corroborated with multiple sources and/or other observable market data utilizing assumptions that market participants would use when pricing the assets or liabilities, including assumptions about risk and market liquidity.

The carrying values of the Group's cash and cash equivalents, time deposits, trade receivables, other current assets, short-term loans, trade and accrued payables, other payables and accrued liabilities approximated to their fair values at the reporting date due to the short maturity of these instruments.

The carrying amount of the Group's non-current non-publicly traded equity investments represents an appropriate estimate of their fair values, as sufficient information is not available recently to measure their fair values as at December 31, 2017 and 2016.

The fair value of the Group's long term bank loans with floating interest rates approximated to the carrying amount as at December 31, 2017 and 2016.

The estimated fair value of the Group's long term guaranteed notes was approximately RMB128,315 million as at December 31, 2017 (2016: RMB140,135 million), which was determined by reference to the market price as at December 31, 2017.

F-74

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***32. FINANCIAL INSTRUMENTS (continued)****Fair value hierarchy**

The Group uses the following hierarchy that reflects the significance of the inputs used in making the fair value measurement:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities. Active markets are those in which transaction occur in sufficient frequency and volume to provide pricing information on an on-going basis.

Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Instruments in this category include non-exchange traded derivatives such as over-the-counter physical forwards and options, including those that have prices similar to quoted market prices, private equity funds and corporate wealth management products. The Group obtains information from sources of independent price publications, over-the-counter broker quotes and the fund management's quotations as at the reporting date.

Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs), or where the observable data does not support the majority of the instruments fair value.

As at December 31, 2017 and December 31, 2016, the Group held the following financial instruments measured at fair value for each hierarchy respectively:

Assets measured at fair value	December 31	Level 1	Level 2	Level 3
-------------------------------	-------------	---------	---------	---------

2017

Other financial assets-current				
Corporate wealth management products	66,229	-	66,229	-
Money market funds	8,115	8,115	-	-
Derivative financial assets – current	-	-	-	-
Equity investments				
Non-publicly traded investments- current	14	-	14	-
Publicly traded investments-non current	781	781	-	-
	75,139	8,896	66,243	-
Liabilities measured at fair value				
Derivative financial liabilities – current	-	-	-	-

F-75

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***32. FINANCIAL INSTRUMENTS (continued)****Fair value hierarchy (continued)**

Assets measured at fair value	December 31 2016	Level 1	Level 2	Level 3
Other financial assets-current				
Corporate wealth management products	46,958	-	46,958	-
Money market funds	5,931	5,931	-	-
Derivative financial assets – current	428	-	428	-
Equity investments				
Non-publicly traded investments- current	15	-	15	-
Publicly traded investments-non current	1,391	1,391	-	-
	54,723	7,322	47,401	-
Liabilities measured at fair value				
Derivative financial liabilities – current	(426 )	-	(426 )	-

For financial assets and liabilities arising from derivative contracts, inputs may be readily observable, market-corroborated or generally unobservable. The Group utilizes valuation techniques that seek to maximize the use of observable inputs and minimize the use of unobservable inputs. To value longer term transactions and transactions in less active markets for which pricing information is not generally available, unobservable inputs may be used.

No amounts have been transferred between the different levels of the fair value hierarchy for the year.

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***33. CONCENTRATION OF CUSTOMERS**

A substantial portion of the Group's oil and gas commodities sales to third-party customers is made to a small number of customers on credit. Details of the gross sales to these top five third party customers are as follows:

	2015	2016	2017
China Petroleum & Chemical Corporation*	14,692	9,659	15,488
PetroChina Company Limited*	5,502	6,923	11,957
BP p.l.c.	3,093	2,843	3,108
Phillips 66	N/A	N/A	2,631
Royal Dutch Shell PLC	6,917	3,661	2,627
EOG Resources, Inc.	3,746	2,660	N/A

\* These transactions are with other state-owned enterprises.

**34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's principal financial instruments comprise bank loans, long term guaranteed notes, equity investment and other financial assets, cash and short term deposits. The Group has various other financial assets and liabilities such as trade receivables, trade and accrued payables, which arise directly from its operations.

The Group is exposed to credit risk, oil and gas price risk, currency risk, interest rate risk and liquidity risk.

The Group's senior management oversees the management of these risks. The Group's senior management is supported by various departments that advise on financial risks and the appropriate financial risks governance framework for the Group. Those departments provide assurance to the Group's senior management that the Group's

financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with group policies and group risk appetite.

F-77

Table of Contents

**CNOOC LIMITED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(All amounts expressed in millions of Renminbi unless otherwise stated)*

**34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

(i) Credit risk

The carrying amounts of the Group's cash and cash equivalents, time deposits, money market funds and corporate wealth management products, trade receivables and other receivables, and other current assets except for prepayments represent the Group's maximum exposure to credit risk in relation to its financial assets.

The significant portion of the Group's trade receivables is related to the sale of oil and natural gas to third party customers. The Group performs ongoing credit evaluations of the customers' financial condition and collateral may be required from customers. The Group made an impairment allowance on doubtful receivables and actual losses have been within management's expectation.

Concentrations of credit risk are managed by customer/counterparty and by geographical region. At December 31, 2017, the Group has certain concentrations of credit risk as 0.16% (2016: 1%) and 7.63% (2016: 5%) of the Group's trade receivables were due from the Group's largest third-party customer and the five largest third-party customers, respectively.

No other financial assets carry a significant exposure to credit risk.

(ii) Oil and gas price risk

Since the Group makes reference to international oil prices to determine its realized oil price, fluctuations in international oil price would have a significant impact on the Group's sales revenue, profit, assets value and cashflow. In addition, certain of the Group's natural gas sales contracts contain price adjustment provisions. Any changes in international oil prices, inflation rate and domestic natural gas price policies may result in changes in natural gas prices, which will affect the Group's profitability. In North America, the majority of the Group's oil and gas production is sold under short-term contracts, exposing the Group to the risk of price movements. Other energy



contracts the Group enters into also expose the Group to oil and gas price risk between the time the Group purchases and sells contracted volumes.

(iii)

Currency risk

Substantially all of the Group's oil and gas sales are denominated in Renminbi and United States dollars ("US dollars"). Starting from July 21, 2005, China reformed the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. Renminbi would no longer be pegged to the US dollars. From January 1, 2017 to December 31, 2017 (the last working day in 2017), Renminbi has appreciated by approximately 6.16% (December 31, 2016: depreciated by approximately 6.39%) against the US dollars. At December 31, 2017, approximately 82% (December 31, 2016: 88%, December 31, 2015: 89%) of the Group's cash and cash equivalents and time deposits with maturity over three months were denominated in Renminbi, and the remaining amounts were substantially denominated in US dollars and Hong Kong dollars. The Group also has exposures to currencies other than the US dollars, such as Canadian dollar and British Pounds as such exposures are considered insignificant.

F-78

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****(iii) Currency risk (continued)**

Management has assessed the Group's exposure to foreign currency risk by using a sensitivity analysis on the change in foreign exchange rate of the US dollars, to which the Group is mainly exposed to as at December 31, 2017 and 2016. Based on management's assessment at December 31, 2017, a 5% strengthening/weakening of RMB against US dollars would have increased/decreased the profit for the year of the Group by 0.06% (December 31, 2016: 6.63%) and the equity of the Group by 0.31% (December 31, 2016: 0.46%). This analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to the foreign currency balances to which the Group has significant exposure with all other variables held constant. The analysis is performed on the same basis for 2016.

Senior management is closely monitoring the Group's net exposure to foreign currency risk. The appreciation of Renminbi against the US dollars may have the following impact on the Group. On one hand, since the benchmark oil and gas prices are usually in US dollars against Renminbi, the Group's oil and gas sales may decrease due to the depreciation of the US dollars against Renminbi. On the other hand, the depreciation of the US dollars against Renminbi will also decrease the Group's costs for imported equipment and materials, most of which are denominated in the US dollars. In addition, the debt repayment by the Group will decrease since all of the Group's interest-bearing debts are also denominated in the US dollars.

**(iv) Interest rate risk**

The interest rate risk is closely monitored by the Group's senior management. As at the end of 2017, the interest rates for 95.5% of the Group's debts were fixed. Apart from borrowing for Tangguh LNG Project, all of the Group's long term debts are fixed rate. The weighted average term of the Group's debt balance outstanding was approximately 9.35 years. The fixed interest rates can reduce the volatility of finance costs under uncertain environments and the Group's exposure to changes in interest rates is not expected to be material.

**(v) Liquidity risk**

The Group manages its liquidity risk by regularly monitoring its liquidity requirements and its compliance with debt covenants to ensure that it maintains sufficient cash and cash equivalents, and readily realizable equity investments and other financial assets, and adequate time deposits to meet its liquidity requirements in the short and long term. In addition, bank facilities have been put in place for contingency purposes.

The Group's trade and accrued payables, other payables and accrued liabilities are all due for settlement within six months after the reporting date.

F-79

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

(vi)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may return capital to shareholders, raise new debt or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years end December 31, 2015, 2016 and 2017.

The Group monitors capital on the basis of the debt to capital ratio, which is calculated as interest-bearing debts divided by total capital (equity attributable to owners of the parent plus interest-bearing debts).

	2015	2016	2017
Interest-bearing debts	164,645	150,476	132,250
Equity attributable to owners of the parent	386,041	382,371	379,975
Total capital	550,686	532,847	512,225
Gearing ratio	29.9 %	28.2 %	25.8 %

**35.****CHARGE OF ASSETS**

CNOOC NWS Private Limited, a wholly-owned subsidiary of the Group, together with the other joint venture partners and the operator of the NWS Project, signed a Deed of Cross Charge and an Extended Deed of Cross Charge whereby certain liabilities incurred or to be incurred, if any, by the Company in respect of the NWS Project are secured by its interest in the NWS Project.

**36. SUBSEQUENT EVENTS**

The Group has no significant subsequent events needed to be disclosed in the consolidated financial statements.

**37. APPROVAL OF THE FINANCIAL STATEMENTS**

The consolidated financial statements were approved and authorized for issue by the Board of Directors on March 29, 2018.

F-80