

CNOOC LTD
Form 20-F
April 21, 2017
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, 2016

OR

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

For the transition period from _____ to _____

OR

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

Date of event requiring this shell company report _____

Commission File Number 1-14966

CNOOC LIMITED

(Exact name of Registrant as specified in its charter)

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)

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(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.

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

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

Yes No

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

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Large accelerated filer Accelerated filer Non-accelerated filer

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

U.S. GAAP

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

Other

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

Item 17 Item 18

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

Yes No

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

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TERMS AND CONVENTIONS

Definitions

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

“CNOOC” are to our controlling shareholder, China National Offshore Oil Corporation, a PRC state-owned enterprise, 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;

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

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

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

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

1 “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;

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

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

1 “HK\$” are to Hong Kong dollar, the legal currency of the Hong Kong Special Administrative Region;

1 “HKICPA” are to the Hong Kong Institute of Certified Public Accountants;

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“HKFRS” are to all Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards and Interpretations approved by the Council of the HKICPA;

1 “IASB” are to the International Accounting Standards Board;

1 “IFRS” are to all International Financial Reporting Standards, including International Accounting Standards and Interpretations, as issued by the International Accounting Standards Board;

1 “Nexen” are to Nexen Energy ULC and the companies under its management, unless otherwise expressly provided or the context of this annual report otherwise requires;

1 “NYSE” are to the New York Stock Exchange;

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

1 “TSX” are to the Toronto Stock Exchange; and

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

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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 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 31, 2016 of US\$1.00=Rmb 6.9430. 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, 2016 of US\$1.00=HK\$ 7.7534. 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, 2016 of US\$1.00=Cdn\$1.3426. 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, 2016, 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 2014, 2015 and 2016, approximately 52%, 62% and 60%, 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 2014, 2015 and 2016 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:

¹ “API gravity” means the American Petroleum Institute’s scale for specific gravity for liquid hydrocarbons, measured in degrees.

¹ “appraisal well” means an exploratory well drilled after a successful wildcat well to gain more information on a newly discovered oil or gas reserve.

1 “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.

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1 “LNG” means liquefied natural gas.

1 “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 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.

¹“PSC” means production sharing contract. For more information about PSC, see “Item 4—Information on the Company—Business Overview—Regulatory Framework in the PRC.”

¹“share oil” means the portion of production that must be allocated to the relevant government entity under our PSCs in the PRC.

¹“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.

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(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.

(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.

¹ 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.

¹ “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.

¹ “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.

“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:

1 bbls means barrels, which is equivalent to approximately 0.134 tons of oil (33 degrees API);

1 mmbbls means million barrels;

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1 BOE means barrels-of-oil equivalent;

1 mcf means thousand cubic feet;

1 mmcf means million cubic feet;

1 bcf means billion cubic feet, which is equivalent to approximately 28.32 million cubic meters; and

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

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FORWARD-LOOKING STATEMENTS

This annual report includes “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, 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.

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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, 2014, 2015 and 2016 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.

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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, 2012, 2013, 2014, 2015 and 2016. 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, 2012, 2013, 2014, 2015 and 2016 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, 2012, 2013, 2014, 2015 and 2016 have been prepared and presented in accordance with IFRS.

	Year ended December 31,					
	2012	2013	2014	2015	2016	2016
	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	194,774	226,445	218,210	146,597	121,325	17,475
Marketing revenues	50,771	55,495	50,263	21,422	20,310	2,925
Other income	2,082	3,917	6,161	3,418	4,855	699

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Total operating revenues	247,627	285,857	274,634	171,437	146,490	21,099
Expenses:						
Operating expenses	(21,445)	(30,014)	(31,180)	(28,372)	(23,211)	(3,343)
Taxes other than income tax	(15,632)	(15,937)	(11,842)	(10,770)	(6,941)	(1,000)
Exploration expenses	(9,043)	(17,120)	(11,525)	(9,900)	(7,359)	(1,060)
Depreciation, depletion and amortization	(32,903)	(56,456)	(58,286)	(73,439)	(68,907)	(9,925)
Special oil gain levy	(26,293)	(23,421)	(19,072)	(59)	—	—
Impairment and provision	(31)	45	(4,120)	(2,746)	(12,171)	(1,753)
Crude oil and product purchases	(50,532)	(53,386)	(47,912)	(19,840)	(19,018)	(2,739)
Selling and administrative expenses	(3,377)	(7,859)	(6,613)	(5,705)	(6,493)	(935)
Others	(1,230)	(3,206)	(3,169)	(3,150)	(4,802)	(691)
Total expenses	(160,486)	(207,354)	(193,719)	(153,981)	(148,902)	(21,446)
Profit/(loss) from operating activities	87,141	78,503	80,915	17,456	(2,412)	(347)
Interest income	1,002	1,092	1,073	873	901	130
Finance costs	(1,603)	(3,457)	(4,774)	(6,118)	(6,246)	(900)
Exchange gains /(losses), net	359	873	1,049	(143)	(790)	(114)
Investment income	2,392	2,611	2,684	2,398	2,774	399
Share of profits/(losses) of associates	284	133	232	256	(609)	(88)
Share of (losses)/ profits of a joint venture	(311)	762	774	1,647	533	77
Non-operating income, net	908	334	560	761	574	83
Profit/(loss) before tax	90,172	80,851	82,513	17,130	(5,275)	(760)
Income tax (expense)/credit	(26,481)	(24,390)	(22,314)	3,116	5,912	852

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	Year ended December 31,					
	2012	2013	2014	2015	2016	2016
	Rmb	Rmb	Rmb	Rmb	Rmb	US\$
	(in millions, except per share and per ADS data)					
Profit for the year	63,691	56,461	60,199	20,246	637	92
Earnings per share (basic) ⁽²⁾	1.43	1.26	1.35	0.45	0.01	0.002
Earnings per share (diluted) ⁽³⁾	1.42	1.26	1.35	0.45	0.01	0.002
Earnings per ADS (basic) ⁽²⁾	142.66	126.46	134.83	45.35	1.43	0.21
Earnings per ADS (diluted) ⁽³⁾	142.14	126.07	134.57	45.31	1.43	0.21
Dividend per share						
Interim	0.122	0.198	0.198	0.205	0.105	0.02
Proposed final	0.259	0.252	0.254	0.210	0.204	0.03
	As of December 31,					
	2012	2013	2014	2015	2016	2016
	Rmb	Rmb	Rmb	Rmb	Rmb	US\$
	(in millions)					
Statement of Financial Position Data:						
Cash and cash equivalents	55,024	14,318	14,918	11,867	13,735	1,978
Available-for sale financial assets ⁽¹⁾	61,795	51,103	54,030	—	—	—
Other financial assets ⁽¹⁾	—	—	—	71,806	52,889	7,618
Current assets	170,894	146,552	140,708	140,211	122,045	17,578
Property, plant and equipment, net	252,132	419,102	463,222	454,141	432,465	62,288
Investments in associates	3,857	4,094	4,100	4,324	3,695	532
Investments in a joint venture	20,160	20,303	21,150	24,089	26,300	3,788
Intangible assets	973	17,000	16,491	16,423	16,644	2,397
Available-for-sale financial assets	7,051	6,798	5,337	—	—	—
Equity investments ⁽¹⁾	—	—	—	3,771	4,266	615
Total assets	456,070	621,473	662,859	664,362	637,681	91,845
Current loans and borrowings	28,830	49,841	31,180	33,585	19,678	2,834
Current liabilities	82,437	128,948	103,498	84,380	67,090	9,663
Long term loans and borrowings	29,056	82,011	105,383	131,060	130,798	18,839
Total non-current liabilities	63,853	150,905	179,751	193,941	188,220	27,109
Total liabilities	146,290	279,853	283,249	278,321	255,310	36,772
Capital stock	43,078	43,081	43,081	43,081	43,081	6,205
Shareholders' equity	309,780	341,620	379,610	386,041	382,371	55,073

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 2012 to 2016 have been computed, without considering the dilutive effect of the shares underlying our share option schemes by dividing profit by the weighted average number of shares and the weighted average number of ADSs of 44,646,305,984 and (2) 446,463,060, respectively, for 2012, 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, and 44,647,455,984 and 446,474,560, respectively, for 2016, 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 2012 to 2016 have been computed, after considering the dilutive effect of the shares underlying our share option schemes by using 44,808,042,330 (3) shares and 448,080,423 ADSs for 2012, 44,787,119,089 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, and 44,659,140,488 shares and 446,591,405 ADSs for 2016.

	Year ended December 31,					
	2012	2013	2014	2015	2016	2016
	Rmb	Rmb	Rmb	Rmb	Rmb	US\$
	(in millions, except percentages and ratios)					
Other Financial Data:						
Capital expenditures paid ⁽¹⁾	54,331	79,716	95,673	67,674	51,347	7,396
Cash provided by/(used for):						
Operating activities	92,574	110,891	110,508	80,095	72,863	10,494
Investing activities	(63,797)	(170,032)	(90,177)	(76,495)	(27,953)	(4,026)
Financing activities	2,584	18,601	(19,486)	(6,893)	(43,240)	(6,228)
Gearing ratio ⁽²⁾	15.7	% 27.8	% 26.5	% 29.9	% 28.2	% 28.2

(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.

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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	<u>Average⁽¹⁾</u>	High	Low
	(Rmb per US\$1.00)			
2012	6.2301	6.2990	6.3879	6.2221
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
October 2016	6.7735	—	6.7819	6.6685
November 2016	6.8837	—	6.9195	6.7534
December 2016	6.9430	—	6.9580	6.8771
January 2017	6.8768	—	6.9575	6.8360
February 2017	6.8665	—	6.8821	6.8517
March 2017	6.8832	—	6.9132	6.8687

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

On March 31, 2017, 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 6.8832 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	<u>Average⁽¹⁾</u>	High	Low
	(HK\$ per US\$1.00)			
2012	7.7507	7.7556	7.7699	7.7493
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
October 2016	7.7549	—	7.7600	7.7536
November 2016	7.7566	—	7.7581	7.7546
December 2016	7.7534	—	7.7674	7.7534
January 2017	7.7579	—	7.7580	7.7540
February 2017	7.7627	—	7.7627	7.7575
March 2017	7.7714	—	7.7714	7.7611

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

On March 31, 2017, 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\$7.7714 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.

Period	Noon Buying Rate			
	End	<u>Average⁽¹⁾</u>	High	Low
	(Cdn\$ per US\$1.00)			
2012	0.9958	0.9994	1.0417	0.971
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
October 2016	1.3403	—	1.3403	1.3105
November 2016	1.3425	—	1.3581	1.3335
December 2016	1.3426	—	1.3555	1.3119
January 2017	1.3030	—	1.3437	1.3030
February 2017	1.3247	—	1.3247	1.3003
March 2017	1.3321	—	1.3504	1.3278

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

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On March 31, 2017, 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\$1.3321 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 are 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 changes 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.

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.

Economic conditions, energy costs, geopolitical issues and the availability and cost of credit resulted in a severe and prolonged global economic downturn period. The complex economic outlook may materially and adversely affect our business and financial conditions.

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.

Our financial performance is subject to the tax and fiscal regime of host countries in which we operate. Any changes in the tax and fiscal regime in these countries may increase our tax burden and have

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an adverse effect on our financial performance. For example, in October 2015, Organization for Economic Co-operation and Development (OECD) published the “Base Erosion and Profit Shifting Project” (BEPS Project) final report with 15 action items, to enhance multilateral cooperation, pursuant to which the participating countries will amend their tax laws and tax treaties and strengthen their supervision on the corporate taxation planning and transfer pricing activities, which may cause risks to the Company on global transfer pricing activities. Global changes to tax laws may result in additional or double taxation being imposed on the Company in some circumstances.

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. For example, the over-supply of natural gas in China may negatively impact our development, operation and revenue of natural gas projects.

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 assumption.

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 CO₂ emissions will increase as our production grows. CO₂ emissions from flaring will increase as long as there are no gas gathering systems in place. Over time, we expect that a growing share of our CO₂

emissions will be subject to supervision and result in an increase in our costs. Furthermore, the public's continued and increased attention to climate changes, including activities organized by non-governmental and political organizations, is likely to lead to implementation of additional regulations on reducing greenhouse gas emissions. If we are unable to find economically viable and publicly acceptable solutions that could reduce our CO₂ 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.

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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.

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. Our reputation may be adversely affected.

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, 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 United States, United Kingdom, Canada and China. The compliance with these laws and regulations may increase our cost. If the Company, our employees, executives or directors 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 2016, China Oilfield Services

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Limited (COSL), one of our non-controlled affiliates, provided certain drilling and other related services in Iran and another non-controlled affiliate of ours was engaged in submarine cable installation and trenching 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 51.2% of our proved reserves were undeveloped as of December 31, 2016. 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. For example, we strive to rely on technologies and innovations to enhance our competitiveness in the development of unconventional oil and gas resources, including oil sands, shale oil and gas and coalbed methane, and deep water exploration and development. 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. We may face risks in failing to meet the required environmental standards if our technologies in unconventional oil and gas operations are not sophisticated.

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 time and amount in dividend payments, and

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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 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 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 loss and reputation harm. We may not be insured against 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.

Aboriginal people in Canada have claimed aboriginal title and rights to the lands and mineral resources in 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 forms of partnerships or in joint ventures in which we may have limited ability 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.

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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 depreciation of the Renminbi against the U.S. dollar may result in double effects. The appreciation of the U.S. dollar against the Renminbi may increase the Company’s revenue in the sales of oil and gas, but it may increase 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, as 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 may not be inspected fully by the Public Company Accounting Oversight Board and, as such, you may be 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 fully 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 full 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 articles of association or any enactment or rule of law. Our registered office is located at 65th Floor, Bank of China Tower, One Garden Road, Central, Hong Kong, and our telephone number is 852-2213-2500.

The PRC government established CNOOC, our controlling shareholder, as a state-owned offshore petroleum company in 1982 under the Regulation of the PRC on the Exploitation of Offshore Petroleum Resources in Cooperation with Foreign Enterprises. CNOOC assumed certain responsibility for the

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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.”

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B. Business Overview

Overview

We are an upstream company specializing in the exploration, development and production of oil and natural gas. We are the dominant oil and natural gas producer in offshore China and, in terms of reserves and production, we are also one of the largest independent oil and natural gas exploration and production companies in the world. As of the end of 2016, we had net proved reserves of approximately 3.9 billion BOE (including approximately 0.3 billion BOE in our equity method investees). In 2016, we had a total net oil and gas production of 1,302,922 BOE per day (including net oil and gas production of approximately 49,280 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, 2016, we had approximately 3.9 billion BOE of net proved reserves. Our core operating area, offshore China, contributed to approximately 62.5% of our net proved reserves, while overseas contributed to the balance of 37.5%.

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, 2016, approximately 51.2% 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, 2016, our total major exploration areas acreage in offshore China was approximately 257,000 thousand km². 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 2016, we and our foreign partners have together drilled a total of 116 exploratory wells in offshore China, of which 53 were wildcat wells. During the same year, we and our foreign partners made 12 new discoveries in offshore China.

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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 independent exploration and development. As of the end of 2016, in offshore China, approximately 84.4% of our net proved reserves were independent and approximately 75.3% of our production came from independent projects.

In 2016, in offshore China, our independent exploration resulted in 12 new discoveries. We also successfully appraised 18 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.

We have a proven track record of complying with a high level of corporate governance standard, which was recognized by the industry. For example, we were awarded “2016 Corporate Governance awards – Platinum” and “2016

Corporate Awards - Best Initiatives in Environmental Responsibility” by The Asset magazine and the “Asia’s Best CSR (China)” and “Best Investor Relations Company (China)” by Corporate Governance Asia magazine.

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.

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We increase our production primarily through the development of proved undeveloped reserves. As of December 31, 2016, approximately 51.2% 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

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 2016, we continued our efforts to lower costs and enhance efficiency through innovation in technology and management. Operating expenses per BOE decreased for the third 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 2014, 2015 and 2016 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,		
2014	2015	2016

Net Production⁽²⁾:

Oil (daily average bbls/day)	955,647	1,124,047	1,083,101
Gas (daily average mmcf/day)	1,330.1	1,363.6	1,276.2
Oil equivalent (BOE/day)	1,184,977	1,358,022	1,302,922
Net Proved Reserves (end of period):			
Oil (mmbbls)	2,258.5	2,015.0	2,015.4
Gas (bcf)	6,730.8	6,992.9	7,486.1
Synthetic Oil (mmbbls)	749.9	815.3	300.5
Bitumen (mmbbls)	31.4	0.0	0.0
Total (million BOE)	4,185.0	4,016.0	3,583.4
Total with equity method investees (million BOE) ⁽²⁾	4,478.0	4,315.5	3,877.6
Annual reserve replacement ratio ⁽¹⁾	111	% 65	% 6
Annual reserve replacement ratio ⁽²⁾	112	% 67	% 8
Estimated reserve life (years)	10.1	8.4	7.8
Estimated reserve life (years) ⁽²⁾	10.4	8.7	8.1
Standardized measure of discounted future net cash flow (million Rmb)	401,098	185,251	223,625

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(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

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“Item 4—Information on the Company—Business Overview—Exploration, Development and Production.”

Summary of Oil and Gas Reserves

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		Net proved reserves			
	at December 31,		at December 31, 2016			
	2014	2015	Crude Oil	Natural Gas	Synthetic Oil	Total
	(mmbbls)	(mmbbls)	(mmbbls)	(bcf)	(mmbbls)	(mmbbls)
Developed						
Offshore China						
Bohai	583.7	603.1	564.2	219.9	—	600.8
Western South China Sea	173.5	169.0	84.8	478.0	—	165.5
Eastern South China Sea	279.8	299.9	157.8	764.4	—	285.2
East China Sea	20.5	30.9	8.1	160.5	—	34.9
Subtotal	1,057.5	1,102.9	814.9	1,622.8	—	1,086.4
Overseas						
Asia (excluding China)	90.9	118.8	51.3	618.0	—	160.3
Oceania	80.0	63.3	9.7	267.5	—	62.1
Africa	47.1	52.7	40.7	0.0	—	40.7
North America (excluding Canada)	121.4	112.6	87.7	218.8	—	124.1
Canada	258.2	216.6	0.0	0.0	155.7	155.7
South America	1.8	1.6	1.5	0.0	—	1.5
Europe	124.6	95.8	80.5	6.9	—	81.7
Subtotal	724.1	661.4	271.3	1,111.2	155.7	626.1
Total Developed	1,781.6	1,764.3	1,086.2	2,733.9	155.7	1,712.5
Undeveloped						
Offshore China						
Bohai	608.1	368.7	339.6	58.8	—	349.4
Western South China Sea	425.2	503.6	83.5	3418.8	—	653.3
Eastern South China Sea	243.7	215.7	205.3	90.5	—	220.3
East China Sea	152.2	133.4	2.5	652.8	—	111.3
Subtotal	1,429.2	1,221.5	630.8	4,220.9	—	1,334.3
Overseas						
Asia (excluding China)	108.5	90.1	26.0	334.4	—	84.7
Oceania	25.9	27.5	2.4	66.0	—	15.3
Africa	95.5	113.9	97.3	0.0	—	97.3

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North America (excluding Canada)	154.5	172.1	172.6	130.8	—	194.4
Canada	562.0	618.6	0.0	0.0	144.8	144.8
Europe	27.9	8.0	0.1	0.0	—	0.1
Subtotal	974.2	1,030.3	298.4	531.2	144.8	536.6
Total Undeveloped	2,403.4	2,251.7	929.2	4,752.1	144.8	1,870.9
TOTAL PROVED	4,185.0	4,016.0	2,015.4	7,486.1	300.5	3,583.4
Equity method investees	293.0	299.5	195.3	574.0	—	294.2
Total with equity method investees	4,478.0	4,315.5	2,210.7	8,060.1	300.5	3,877.6

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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.

Total Net Proved Crude and Liquids Reserves
(mmbbls)

	As of December 31,		As of December 31, 2016		
	2014	2015	Developed	Undeveloped	Total
Offshore China					
Bohai	1,111.7	908.3	564.2	339.6	903.8
Western South China Sea	210.0	149.3	84.8	83.5	168.3
Eastern South China Sea	351.9	357.0	157.8	205.3	363.1
East China Sea	18.0	16.1	8.1	2.5	10.6
Subtotal	1,691.6	1,430.6	814.9	630.8	1,445.7
Overseas					
Asia (excluding China)	47.4	59.8	51.3	26.0	77.3
Oceania	16.6	14.5	9.7	2.4	12.0
Africa	142.5	166.6	40.7	97.3	138.0
North America (excluding Canada)	209.3	239.5	87.7	172.6	260.3
Canada	781.4	815.3	155.7 (1)	144.8 (2)	300.5
South America	1.8	1.6	1.5	0.0	1.5
Europe	149.1	102.3	80.5	0.1	80.6
Subtotal	1,348.2	1,399.6	427.0	443.2	870.2
Total	3,039.8	2,830.2	1,241.9	1,074.0	2,315.9
Equity method entities	200.4	200.1	102.6	92.7	195.3
Total with equity method investees	3,240.1	3,030.3	1,344.6	1,166.6	2,511.2

(1) Including Synthetic oil 155.7 mmbbls.

(2) Including Synthetic oil 144.8 mmbbls.

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(bcf)**

	As of December 31,		As of December 31, 2016		
	2014	2015	Developed	Undeveloped	Total
Offshore China					
Bohai	480.8	381.4	219.9	58.8	278.7
Western South China Sea	2,318.1	3,132.6	478.0	3,418.8	3,896.8
Eastern South China Sea	1,029.6	951.6	764.4	90.5	854.9
East China Sea	928.3	889.0	160.5	652.8	813.3
Subtotal	4,756.8	5,354.6	1,622.8	4,220.9	5,843.7
Overseas					
Asia (excluding China)	861.2	845.8	618.0	334.4	952.4
Oceania	455.7	389.2	267.5	66.0	333.5
Africa	—	—	—	—	—
North America (excluding Canada)	403.9	275.2	218.8	130.8	349.6
Canada	233.0	119.3	—	—	—
South America	—	—	—	—	—
Europe	20.2	8.8	6.9	—	6.9
Subtotal	1,974.0	1,638.3	1,111.2	531.2	1,642.4
Total	6,730.8	6,992.9	2,733.9	4,752.1	7,486.1
Equity method investees	537.3	576.9	437.7	136.3	574.0
Total with equity method investees	7,268.1	7,569.8	3,171.6	4,888.5	8,060.1

**Total Net Proved Reserves
(million BOE)**

	As of December 31,		As of December 31, 2016		
	2014	2015	Developed	Undeveloped	Total
Offshore China					
Bohai	1,191.8	971.8	600.8	349.4	950.2
Western South China Sea	598.7	672.6	165.5	653.3	818.8
Eastern South China Sea	523.5	515.6	285.2	220.3	505.5
East China Sea	172.7	164.2	34.9	111.3	146.2
Subtotal	2,486.8	2,324.3	1,086.4	1,334.3	2,420.7
Overseas					
Asia (excluding China)	199.4	208.9	160.3	84.7	245.0
Oceania	106.0	90.8	62.1	15.3	77.4
Africa	142.5	166.6	40.7	97.3	138.0
North America (excluding Canada)	275.9	284.8	124.1	194.4	318.6

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Canada	820.2	835.2	155.7	144.8	300.5
South America	1.8	1.6	1.5	0.0	1.5
Europe	152.5	103.8	81.7	0.1	81.8
Subtotal	1,698.3	1,691.7	626.1	536.6	1,162.7
Total	4,185.0	4,016.0	1,712.5	1,870.9	3,583.4
Equity method investees	293.0	299.5	178.0	116.2	294.2
Total with equity method investees	4,478.0	4,315.5	1,890.6	1,987.1	3,877.6

Proved Reserves

As of December 31, 2016, we had proved reserves of 3,877.6 million BOE, including 2,210.7 million barrels of crude oil, 300.5 million barrels of synthetic oil and 8,060.1 bcf of natural gas, representing a decrease of 437.9 million BOE as compared to proved reserves of 4,315.5 million BOE as of December 31, 2015.

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The changes in our proved reserves mainly include:

1 An increase of 383.8 million BOE due to new discoveries and extensions, of which 26.8 million BOE are developed and 357.1 million BOE are undeveloped, details of which are described below:

Offshore China: the discoveries and extensions of oil and gas reserves in the amount of 316.7 million BOE, which are primarily attributable to fields such as Luda16-3, Caofeidian12-6, Lingshui25-1, Lingshui18-1 and Lufeng15-1 etc.; and

Ø Overseas: the discoveries and extensions of oil and gas reserves in the amount of 67.2 million BOE, which are primarily attributable to onshore fields in the United States.

1 A decrease of 345.8 million BOE due to revision of previous estimates;

1 The production of 476.9 million BOE in 2016.

Proved Undeveloped Reserves (PUD)

As of December 31, 2016, we had proved undeveloped reserves of 1,987.1 million BOE, including 1,021.9 million barrels of crude oil, 144.8 million barrels of synthetic oil and 4,888.5 bcf of natural gas, representing an decrease of 387.2 million BOE as compared to proved undeveloped reserves of 2,374.3 million BOE as of December 31, 2015.

The changes in our proved undeveloped reserves mainly include:

1 A decrease of 222.8 million BOE due to PUD converted to Proved Developed reserves (PD);

1 A decrease of 521.9 million BOE due to revision of previous estimates;

1 An increase of 357.1 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 298.8 million BOE, which are primarily attributable to fields such as Luda16-3, Caofeidian12-6, Lingshui25-1, Lingshui18-1 and Lufen15-1 etc.; and

Overseas: the discoveries and extensions of oil and gas reserves in the amount of 58.3 million BOE which are primarily attributable to onshore fields in the United States.

In 2016, we had in total 222.8 million BOE PUD reserves converted to PD, or the PUD conversion rate was 9%.

In 2016, we spent approximately Rmb 1.68 billion on developing proved undeveloped reserves into proved developed reserves. Rmb 1.53 billion, or 91%, were spent on major development projects in Bohai, Eastern South China Sea, Western South China Sea and Eastern South China Sea in offshore China and Indonesia, Iraq, Nigeria, the United Kingdom and the U.S., etc. The remaining 9% was spent mainly on the infill drilling programs in offshore China and Nigeria.

As of December 31, 2016, 38.8 million BOE of our proved undeveloped reserves were first booked before 2011. 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) 6.5 million BOE in Bohai, including Qinghuangdao 33-1S oil field which is scheduled to come on stream in 2019; and (iii) 24.6 million BOE in Western South China Sea, including Wenchang 9-2/9-3/10-3 gas fields whose ODP was amended due to gas market change and expected to be online in 2018. The development of proved undeveloped reserves relating to the above projects was not completed

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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 2014, 2015 and 2016, approximately 52%, 62% and 60 % 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 2016, 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. Of the total net proved oil and gas reserves evaluated by our internal reserve evaluation staff, we engaged independent third party consulting firms Ryder Scott Company, L.P. and McDaniel & Associates Consultants Ltd. to perform annual audits for over 21% of the internally evaluated reserves to provide validation of our 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.

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.

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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 South China Sea, Eastern South China Sea and East China Sea, either independently or in cooperation with foreign partners through production sharing contracts ("PSCs"). As of the end of 2016, approximately 62.5% of the Company's net proved reserves and approximately 65.2% of its net production were derived from offshore China.

In its independent operations, the Company has been adding more reserves and production mainly through independent exploration and development in offshore China. As of the end of 2016, approximately 84.4% of the Company's net proved reserves and approximately 75.3% of its net production in offshore China were derived from independent projects.

In its PSC operations, CNOOC, the Company's controlling shareholder, has the exclusive right to explore and develop oil and natural gas in offshore China in cooperation with foreign partners through PSCs. CNOOC has transferred to the Company all of its rights and obligations under all 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 actively participates in numerous world-class oil and gas projects, becoming one of the world's leading industry players. 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 and various other countries. As of the end of 2016, approximately 37.5% of the Company's net proved reserves and approximately 34.8% of its net production were derived from overseas.

In 2016, the recovery of the global economy remained slow and uneven with divergent economic trends in major economies. International oil prices stayed at low level. The entire oil and gas industry and the Company still faced severe market situation and difficult business environment.

In 2016, the Company persisted with operating strategies formulated at the beginning of the year, which includes, maintaining prudent financial policy; continuing to lower costs and increase efficiency through innovation in technology and management; ensuring operation safety and compliance; focusing on return by balancing short-term benefit and long-term development. The Company further intensified the "Year of Quality and Efficiency" program, implemented various measures to improve quality and efficiency and established mechanism with long-lasting effect; and maintained the momentum of healthy and sustainable development.

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In 2016, the Company accomplished its production and business targets in spite of all difficulties. The Company managed to maintain appropriate exploration expenditures and carry out intensive exploration program, and achieved successful results while continuing to control total capital expenditure. Four new projects planned in early 2016 all came on stream. The production target was met with a total volume of 476.9 million BOE. To ensure sustainable development in the future, the Company steadily pushed ahead the construction of new projects with a total of approximately 20 projects under construction in the year. All in cost per BOE was US\$34.67, representing a decline for the third consecutive year. The Company has maintained a healthy financial position with a net profit of Rmb 637 million for the year. Meanwhile, health, safety and environmental protection performance remained stable.

Looking forward to 2017, the global economy will continue to recover slowly and international oil prices are expected to stay at a relatively low level despite of a certain rebound. The external operating environment is likely to remain tough. In spite of this, the Company remains confident and persistent. We will further strengthen our operating strategies, which include: balancing short-term and mid- to-long term development; maintaining prudent financial policy and improving capital efficiency; and optimizing asset portfolio and focusing more on the returns of assets.

In 2017, the capital expenditure of the Company is anticipated to be Rmb 60-70 billion. To maintain its competitive financial position, the Company will continue to stress on efficiency, enhance investment return, strengthen cost controls and focus on cash flow management. Our production target for 2017 is 450-460 million BOE with five new projects to come on stream. Meanwhile, the Company will maintain its high standards in health, safety and environmental protection.

Exploration

In 2016, the Company strengthened the integration of exploration and development. We have prioritized the exploration of offshore China and struck a balance between mature areas, rolling areas and frontier areas. Overseas, we focused on high-quality blocks and conventional oil and gas. The Company strengthened value-driven exploration philosophy and mainly focused on searching for mid-to-large-sized oil and gas fields while reducing the proportion of high risk and high cost wells. In addition, the Company continued to maintain a reasonable proportion of exploration investment so as to ensure long-term sustainable development with a relatively high level of exploration activities. Due to the significant decrease in international oil prices, the reserve replacement ratio for the Company is 8% for 2016. Excluding economic revision, the reserve replacement ratio for the Company is 145%.

In offshore China, the exploration activities of the Company remained at a high level and a total of 115 exploration wells were drilled. In addition, the Company completed 17 unconventional wells onshore China. A total of 2,471 kilometers of 2D Seismic Data was acquired independently; a total of 11,347 square kilometers of 3D Seismic Data was acquired independently and through PSC. The Company made 12 new discoveries and successfully appraised 19 oil and gas structures in offshore China. The success rate of independent exploration wells in offshore China is 52-69%.

In 2016, the Company continued to implement a proactive exploration strategy in offshore China, resulting in successful achievements including the followings:

Firstly, we effectively completed the appraisal of four mid-to-large sized oilfields including Kenli 16-1, Caofeidian 12-6/6-2, Penglai 20-2/20-3 and Liuhua 21-2.

Secondly, progress was made in the deepwater natural gas exploration of Qiongdongnan Basin, with the structure of Lingshui 25-1 successfully appraised which expanded the reserve scale of the structure.

Thirdly, integration of exploration and development was realized using existing facilities and additional reserves were obtained at Jinzhou 25-1, Caofeidian 6-4, Weixinan oilfields, Wenchang 13-6, Panyu 4-1 and Xijiang 30-1.

Such achievements have further consolidated the position of offshore China as the core area of

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the Company and demonstrated the Company's unique strength in offshore China.

Overseas, the Company drilled 14 exploration wells, acquired approximately 9,613 kilometers of 2D seismic data and approximately 23,980 square kilometers of 3D seismic data. For overseas exploration, the Company made two new discoveries and successfully appraised six oil and gas structures. Main achievements include the followings:

Firstly, five appraisal wells were successfully drilled with the Libra project in Brazil which further confirmed the reserve scale.

Secondly, Liza oilfield in Guyana was successfully appraised, which expanded to new layers and escalated reserve size; success was again made in the wildcat of the Payara structure.

Thirdly, successful in the exploration of the Owowo West structure in Nigeria which proved to be a large scale oil and gas reservoir and increased the economic value of the block.

In 2016, the Company adhered to its philosophies of "exploration management" overseas and continued to optimize exploration portfolio. While acquiring new exploration opportunities, the Company also successfully farmed out the interests in some overseas blocks, resulting in better returns for the Company.

During the year, the Company made continual improvement in optimizing exploration, reducing operating costs and enhancing efficiency through management; and strengthened geological research, raised operation standards and refined operation process management, which further improved operation efficiency and lowered exploration cost.

The Company's major exploration activities in 2016 are set out in the table below:

	Exploration Wells		New Discoveries		Successful Appraisal Wells		Seismic Data		3D (km ²)			
	Independent	PSC	Independent	PSC	Independent	PSC	Independent	PSC	Independent	PSC		
Offshore												
China												
Bohai	16	40	0	1	7	0	30	0	0	0	966	0

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Eastern South China Sea	16	8	0	1	4	0	3	1	0	0	3,720	1,639
Western South China Sea	14	13	3	0	1	0	7	0	2,471	0	4,374	0
East China Sea	3	0	0	0	0	0	0	0	0	0	647	0
Subtotal	49	61	3	2	12	0	40	1	2,471	0	9,708	1,639
Overseas	0	0	2	12	0	2	0	7	0	9,613	0	23,980
Total	49	61	5	14	12	2	40	8	2,471	9,613	9,708	25,619

In 2017, the Company will continue to reinforce the integration of exploration and development, increase the ability and shorten the cycle of reserve monetization. For offshore China, it will further prioritize investment in mature areas while continuing to explore new areas. For overseas exploration, with its foothold on existing core projects, the Company will seek rolling development. It will continue to maintain a reasonable proportion of exploration investment in its total capital expenditure so as to ensure mid-and long-term sustainable development with a relatively high level of exploration activities.

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Engineering Construction, Development and Production

In 2016, the Company successfully completed its operation targets and the target of oil and gas production set early this year. The Company carefully organized its operational resources and made smooth progress in engineering construction.

In 2016, while ensuring safety in the development, production and operation, the Company took efficiency enhancement and cost reduction as the core mission and accomplished its development and production target for the year. The Company's net oil and gas production reached 476.9 million BOE, which completed the production target of 470-485 million BOE set in the beginning of the year. The four new projects planned for 2016, including Kenli 10-4 oilfield, Panyu 11-5 oilfield, Weizhou 6-9/6-10 comprehensive adjustment and Enping 18-1 oilfield, all came on stream during the year.

In 2016, the Company's development and production were driven by innovation and led by effectiveness, with emphasis on quality, performance and sustaining development. The achievements include the followings:

Firstly, we continued to maintain high production efficiency through refined management.

Secondly, we continuously conducted special programs to lower operating expenses and achieved significant result with operating expenses at US\$7.29 per BOE, which decreased for three consecutive years.

Thirdly, we made in-depth optimization in the technological plan of development projects, achieving remarkable result in cost reduction and efficiency enhancement.

Fourthly, we lowered the failure rate of equipment and facilities by comprehensively implementing integrity management.

Looking forward to 2017, the workload of onshore construction and offshore installation will increase. A total of five new projects are expected to commence production, including Penglai 19-9 comprehensive adjustment, Enping 23-1 oilfields and Weizhou 12-2 oilfield Phase II in offshore China and BD gas field and Hangingstone project overseas. Among them, Penglai 19-9 comprehensive adjustment and Enping 23-1 oilfields have commenced production in January 2017. In addition, it is expected that over 20 new projects will be under construction in 2017, supporting the Company's sustainable growth in the future.

In 2017, the Company's development and production are expected to face a harsh external environment due to continued pressure from international oil prices. We will optimize development plans, strengthen integration, effectively connect engineering construction with development and production, while steadily pushing ahead development of key overseas areas. We will select and appraise infill drilling, closely monitor the trend of oil prices and maintain the flexibility on infill drilling.

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 2016, the reserve and daily production volume in Bohai were 950.2 million BOE and 477,380 BOE/day, respectively, representing approximately 24.5% and 36.6% of the Company's total reserves and daily production, respectively. The operation 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 2016, the Company made seven successful discoveries in Bohai, namely

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Luda 29-1, Jinzhou 25-1 West, Caofeidian 12-6, Caofeidian 6-2, Bozhong 34-8, Penglai 20-2 and Qinhuangdao 31-4. In addition, the Company successfully appraised 10 oil and gas structures, including Caofeidian 12-6, Kenli 16-1, Penglai 7-6, Luda 21-2, Caofeidian 6-2, Penglai 31-3 South, Penglai 20-2, Bozhong 29-1, Caofeidian 6-4 and Penglai 20-3. Among which, Kenli 16-1, Caofeidian 12-6/6-2 and Penglai 20-2/20-3 structures were proved to be mid-to-large sized oilfields after appraisals. The Company fully implemented the integration of exploration and development and obtained new reserves around Jinzhou 25-1 and Caofeidian 6-4 oilfields.

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

For development and production, Kenli 10-4 oilfield commenced production during the year. Penglai 19-9 comprehensive adjustment commenced production in January 2017. Currently, there are a number of new projects under construction including Penglai 19-3 oilfield 1/3/8/9 comprehensive adjustment, Penglai 19-9 oilfield Phase II comprehensive adjustment and Bozhong 34-9 oilfield.

Western South China Sea

Western South China Sea is one of the most important natural gas production areas for the Company. Currently, the typical water depth of the Company's operation area in this region ranges from 40 to 120 meters. As of the end of 2016, the reserves and daily production volume in Western South China Sea reached 818.8 million BOE and 144,835 BOE/day, respectively, representing approximately 21.1% and 11.1% of the Company's total reserves and daily production, respectively.

In 2016, the Company made one new independent discovery in Western South China Sea, namely Weizhou 6-13 North. Six independent successful appraisals were made, namely Weizhou 6-8, Weizhou 12-2, Weizhou 6-13 North, Wushi 17-5, Lingshui 25-1 and Wenchang 13-6. Among which, the successfully appraisal of Lingshui 25-1 represents progress made in the deepwater natural gas exploration of Qiongdongnan Basin. In addition, a PSC project, Panyu 10-4, was successfully appraised.

For development and production, Weizhou 6-9/6-10 comprehensive adjustment commenced production during the year. Weizhou 12-2 oilfield Phase II is planned to commenced production in 2017. Currently, new projects including Wenchang 9-2/9-3/10-3 gas fields, Weizhou 6-13 oilfield and Dongfang 13-2 gas field are under construction.

Eastern South China Sea

Eastern South China Sea is one of the Company's most important crude oil producing areas. Currently, the typical water depth of the Company's operation area in this region ranges from 100 to 300 meters. The crude oil produced is mostly of light to medium gravity. As of the end of 2016, the reserves and daily production volume in Eastern South China Sea reached 505.5 million BOE and 213,835 BOE/day, respectively, representing approximately 13.0% and 16.4% of the Company's total reserves and daily production, respectively.

In 2016, the Company made four new independent discoveries in Eastern South China Sea, namely Huizhou 21-1 South, Panyu 4-1, Huizhou 19-10 and Xijiang 30-1, improving the overall efficiency of exploration and development in the region. Among which, Panyu 4-1 and Xijiang 30-1 are new reserves obtained through integrated exploration and development at the surrounding areas of the existing facilities. In addition, two successful appraisals of oil and gas structures were made, namely Lihua 21-2 and Xijiang 30-1.

For development and production, Panyu 11-5 oilfield and Enping 18-1 oilfield commenced production during the year. Enping 23-1 oilfields commenced production in January 2017. Currently, Huizhou 33-1 oilfield and other new projects are under construction.

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East China Sea

The typical water depth of the Company's operation area in the East China Sea region is approximately 90 meters. As of the end of 2016, the reserves and daily production volume in East China Sea represented approximately 3.8 % and 1.1% of the Company's total reserves and daily production, respectively.

Overseas

Asia (excluding China)

Asia (excluding China) was the first overseas region that the Company entered into and 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 2016, the reserves and daily production volume derived from Asia (excluding China) reached 245.0 million BOE and 75,780 BOE/day, respectively, representing approximately 6.3% and 5.8% of the Company's total reserves and daily production, respectively.

Indonesia

As of the end of 2016, the Company's asset portfolio in Indonesia consisted of three development and production blocks and a block under construction, among which, the Company acted as the operator for the Southeast Sumatra block, while the Madura Strait PSC was a joint operation block, in which the BD gas field is planned to commence production in 2017. In addition, the Company, as a non-operator, also holds working interests in the production sharing contracts in Malacca PSC.

The Company owns approximately 13.90% interest in the Tangguh LNG Project in Indonesia. In 2016, production volume of phase I of the Project remained stable. Currently, the investment decision for the third LNG train of phase II is completed, and the project is now in the construction stage and is expected to be completed and commence production in 2020.

Iraq

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

In 2016, the Company continuously drilled development wells, increased workload, implementing water injection plan and reinforced management of operation and maintenance under the Iraq project, resulting in a steady increase of daily net production to approximately 33,000 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 2016, the reserves and daily production volume derived from Oceania reached 77.4 million BOE and 26,107 BOE/day, respectively, representing approximately 2.0% and 2.0% of the Company's total reserves and daily production, respectively.

Australia

The Company owns 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 2016, 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.

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Other Regions in Oceania

The Company owns interests in four blocks which are still under exploration in Papua New Guinea and a joint research block in New Zealand.

Africa

Africa is one of the relatively large oil and gas reserves and production base for the Company. The Company's assets in Africa are primarily located in Nigeria and Uganda. As of the end of 2016, the reserves and daily production volume derived from Africa reached 138.0 million BOE and 80,297 BOE/day, respectively, representing approximately 3.6% and 6.2% of the Company's total reserves and daily production, respectively.

Nigeria

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

In 2016, the Akpo oilfield maintained stable production. Through infill drillings and optimization measures, its net production reached approximately 62,000 barrels per day, with record low operating cost per barrel. The Egina project is in the engineering construction stage and is currently drilling development wells and constructing production facilities such as FPSO.

In addition, Nexen Petroleum Nigeria Limited holds a 20% non-operating interest in Usan oilfield in the OML138 block in offshore Nigeria, together with a number of other discoveries and exploration targets. Nexen Petroleum Exploration & Production Nigeria Limited and Nexen Petroleum Deepwater Nigeria Limited hold an 18% non-operating interest in the OPL 223 and OML 139 PSC, respectively. In 2016, the new discovery was made in the exploration of Owowo West structure in deepwater Nigeria.

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

Uganda

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 Lake Albert Basin in Uganda, which is one of the most promising basins for oil and gas resources in Africa.

In 2016, the Company, as the operator of EA 3A, made further optimization and research on the developing plan of the Kingfisher oilfield with cost reduction and efficiency enhancement as the core mission.

In 2016, government's development and production licenses were obtained for eight oilfields in the EA1 and EA2 blocks. In 2016, the route plan of oil pipeline in Uganda was confirmed, laying the foundation for accelerated development of the oilfields.

Other Regions in Africa

Apart from Nigeria and Uganda, the Company also owns interests in several blocks in the Republic of The Congo, Algeria and the Gabonese Republic. In 2016, after drilling and appraisal, the REZ structure in Algeria was proven to be one of the major discoveries of the region in recent years.

North America

North America has become the biggest overseas reserves and production region of the Company. The Company holds interests in oil and gas assets in the U.S., Canada and Trinidad and Tobago, as well as part of the shares of MEG Energy Corporation in Canada. As of the end of 2016, the Company's reserves and daily production volume derived from North America reached 619.1 million BOE and 117,738 BOE/day, respectively, representing approximately 16.0% and 9.0% of the Company's total

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reserves and daily production, respectively.

The U.S.

The Company currently holds 27% and 13% interest in two shale oil and gas projects in the U.S., namely the Eagle Ford and Niobrara shale oil and gas projects respectively.

In 2016, as the number of wells drilled decreased under the low oil price environment, the net production of the Eagle Ford project decreased and averaged approximately 53,000 BOE/day. Under the current low oil price environment, our operators have slowed down asset development, which would impact our near-term production.

In addition, the Company owns interest in two major deepwater developments, Stampede and Appomattox, and a number of other exploration blocks in the U.S. Gulf of Mexico, through its wholly-owned subsidiary, Nexen Energy ULC (“Nexen”).

Canada

Canada is one of the world’s major regions with rich oil sands resources, participation in oil sands development will be favorable to the sustainable growth of the Company. In Canada, the Company, through its subsidiary, Nexen, owns 100% working interest in the oil sands project located at the Long Lake as well as three other oil sands leases in the Athabasca region in northeastern Alberta. We also hold a 7.23% interest in the Syncrude project and a 25% interest in several other non-operated exploration and development leases.

In 2016, the Company continued the development of the Long Lake project. Its net production averaged approximately 21,000 BOE/day. For the oil sands project in Canada, under the low oil price environment, the Company will leverage on its overall advantages, lower cost and enhance efficiency, and control the pace of investment to provide a solid resource safeguard for its long-term development.

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

Other Regions in North America

The Company owns 12.5% interest in the 2C block and a 12.75% interest in the 3A block in Trinidad and Tobago, respectively, of which the 2C block is in production. The engineering construction of phase III of the natural gas project progressed smoothly and was completed with production commenced in the second half of 2016. In addition, the Company owns 100% exploration interest in the deepwater exploration blocks 1 and 4 of the Perdido Fold Belt in Mexico.

South America

In South America, the Company mainly holds a 50% interest in Bidas Corporation (“Bidas”) and a 10% interest in the PSC of the Libra oilfield in Brazil, among which, the Company’s 50% interest in Bidas is accounted for by equity methods. As of the end of 2016, the Company’s reserves and daily production volume derived from South America reached 293.9 million BOE and 48,548 BOE/day, respectively, representing approximately 7.6% and 3.7% of the Company’s total reserves and daily production, respectively.

Argentina

The Company holds a 50% interest in Bidas and makes joint management decisions. Bidas holds 40% interest in Pan American Energy (“PAE”) in Argentina and 100% interest in AXION Refinery. Bidas engages in upstream oil and gas exploration and production activities as well as downstream refining activities in Argentina and other countries. The strength of upstream and downstream integration is gradually realized.

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In 2016, under the low oil price environment, the Company sought balance between production and returns, enhanced operating efficiency, optimized operating plans and innovated development plans. The daily net production of Bidas averaged approximately 48,000 BOE/day. The downstream refinery maintains a high level of operation capacity and is implementing quality improvement project according to clean energy requirements of the government.

Brazil

The Company holds a 10% interest in the 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 km² and water depth of about 2,000 meters.

In 2016, the Company drilled five appraisal wells in the Libra northwestern block which further increased the reserve.

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 in Brazil to seek a new driver for production growth.

Other Regions in South America

The Company also holds interests in several exploration and production blocks in Colombia and interests in Stabroek exploration block offshore Guyana.

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 2016, the Company's reserves and daily production volume derived from Europe reached 81.8 million BOE and 104,473 BOE/day, respectively, representing approximately 2.1% and 8.0% of the Company's total reserves and daily production, respectively.

United Kingdom

The Company's asset portfolio in the North Sea consists of projects under production, development and exploration, mainly including: a 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, making the Company the largest crude oil operator in the North Sea.

The United Kingdom is one of the Company's key overseas areas, as several key projects such as Buzzard and Golden Eagle have contributed considerably to the Company's production. In 2016, the net production of Buzzard oilfield averaged approximately 66,000 barrels per day. In the future, we will continue to intensify our efforts in the oil and gas development in the UK, and actively look for potential exploration and development blocks with potential in order to achieve a stable and sustainable development in the region.

Other Regions in Europe

The Company holds a license issued by the government of Iceland for carrying out oil exploration operations in the Norwegian Sea, Northeast Iceland. In 2016, the project is at exploration and appraisal stage and has preliminary completed the processing and interpretation of newly acquired 2D seismic data.

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 2014, 2015 and 2016.

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	Net Production			Average Sales Price		Average
	Total	Crude and Liquids	Gas	Crude and Gas		Production
				Liquids		Cost
(BOE/day)	(Bbls/day)	(Mmcf/day)	(US\$/bbl)	(US\$/Mmcf)	(US\$/BOE)	
2016						
Offshore China						
Bohai	477,380	455,002	134.3	—	—	—
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
Total	1,253,643	1,060,509	1,121.2	41.40	5,463	7.29
Equity method investees	49,280	22,592	155.0	—	—	—
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
Total	1,307,664	1,099,459	1,214.0	51.27	6,395	9.18
Equity method investees	50,357	24,588	149.6	—	—	—
2014						
Offshore China						

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Bohai	426,913	403,927	137.9	—	—	—
Western South China Sea	138,972	80,493	341.7	—	—	—
Eastern South China Sea	163,970	141,166	136.8	—	—	—
East China Sea	5,678	1,206	26.8	—	—	—
Subtotal	735,533	626,791	643.3	98.19	7,573	9.73
Overseas						
Asia (excluding China)	65,280	37,237	154.4	95.23	9,636	18.21
Oceania	26,092	4,297	111.2	100.08	3,163	9.41
Africa	76,838	76,838	—	96.91	—	9.19
North America (excluding Canada)	68,396	49,814	112.7	73.47	752	6.57
Canada	67,770	48,183	117.5	85.66	3,690	41.09
South America	1,058	1,058	—	86.36	5,120	14.80
Europe	96,370	87,918	50.7	97.79	7,206	12.69
Subtotal	401,804	305,345	546.6	91.62	5,120	16.45
Total	1,137,337	932,137	1,189.9	96.04	6,445	12.11
Equity method investees	47,640	23,510	140.2	—	—	—

Drilling and Other Exploratory and Development Activities

The following table sets forth our net exploratory wells and development wells drilled in the years of 2014, 2015 and 2016.

	Net Exploratory Wells Drilled			Net Development Wells Drilled		
	Total	Productive	Dry	Total	Productive	Dry
2016						
Offshore China						
Independent						
Bohai	56	41	15	87.0	87.0	—
Western South China Sea	27	9	18	24.0	24.0	—
Eastern South China Sea	24	7	17	22.0	22.0	—
East China Sea	4	1	3	—	—	—
Subtotal	111	58	53	133.0	133.0	—
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						

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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	—

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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

2014

Offshore China

Independent

Bohai	47	29	18	272	272	—
Western South China Sea	42	17	25	47	47	—
Eastern South China Sea	13	5	8	43	43	—
East China Sea	11	6	5	—	—	—
Subtotal	113	57	56	362	362	—

PSCs

Bohai	1	—	1	91.4	91.4	—
Western South China Sea	2	2	—	0.6	0.6	—
Eastern South China Sea	1	—	1	14.9	14.9	—
East China Sea	—	—	—	6.5	6.5	—
Subtotal	4	2	2	113.4	113.4	—

Overseas

Asia (excluding China)	1.3	0.1	1.2	11.1	11.1	—
Oceania	—	—	—	—	—	—
Africa	2.8	1.3	1.5	2.4	2.4	—
North America	1.0	0.1	0.9	365.8	365.8	—
South America	—	—	—	0.8	0.8	—
Europe	2.2	1.4	0.8	3.0	3.0	—
Subtotal	7.3	2.9	4.4	383.1	383.1	—

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The following tables set forth our present activities as of December 31, 2016.

	Wells Being Drilled		Waterfloods Being Installed	
	Gross	Net	Gross	Net
Offshore China				
Bohai	3.0	2.51	683	619.1
Western South China Sea	3.0	3.0	21	21
Eastern South China Sea	14.0	14.0	—	—
East China Sea	1.0	0.5	—	—
Subtotal	21.0	20.01	704	640.1
Overseas				
Asia (excluding China)	2.0	1.7	1	1
Oceania	—	—	—	—
Africa	1.0	0.45	7	3.2
North America	36.0	12.33	—	—
South America	2.0	0.35	28	5.7
Europe	—	—	1	0.4
Subtotal	41.0	14.83	37	10.3

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, 2016.

	Productive Wells				Developed Acreage (km²)		Undeveloped Acreage (km²)	
	Crude and Liquids		Natural Gas		Gross	Net	Gross	Net
	Gross	Net	Gross	Net				
Offshore China								
Bohai	2,108	1,730.1	27	27	2,636	2,636	43,068	43,068
Western South China Sea	308	287.4	81	76.5	1,941	1,941	73,388	73,388
Eastern South China Sea	421	376.7	39	22.1	2,643	2,643	55,424	55,424
East China Sea	21	8.2	69	31.8	85	85	85,413	85,413
Subtotal	2,858	2,402.2	216	157.4	7,305	7,305	257,293	257,293
Overseas								
Asia (excluding China)	552	510.9	38	23.2	1,762	1,216	14,334	5,670
Africa	45	14.8	—	—	888	354	18,897	4,668
Oceania	—	—	53	2.8	3,240	172	41,766	25,140

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North America	2,750	791.6	406	144	1,061	225	4,609	3,710
South America	4,604	909.1	429	86	5,604	1,121	29,799	7,505
Europe	70	30.8	1	0.4	89	38	18,568	12,979
Subtotal	8,021	2,257.1	927	256.1	12,643	3,125	127,973	59,672
Total	10,879	4,659.3	1,143	413.5	19,948	10,430	385,266	316,965

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 2016, the annual sales from our largest gas contract contributed to only approximately 3% of our total oil

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and gas sales and the total revenues from gas sales accounted for approximately 10.2 % of our total revenues in 2016. 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 2016.

Sales and Marketing*Sales of Crude Oil*

The Company sells its crude oil produced offshore China to the PRC market mainly through CNOOC China Limited, its wholly-owned subsidiary. The Company sells its 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, namely, heavy crude, medium crude and light crude, which are benchmarked by Duri, Daqing, and Tapis, respectively, all of which are the benchmarking crude oil prices in the Far East. Beginning in 2017, the benchmark price for crude oil sold in China is changed to Brent. The Company's major customers in China are Sinopec, PetroChina and CNOOC. The crude oil produced overseas and sold in the international markets is benchmarked at the Brent and WTI oil prices.

In 2016, affected by the sustaining low international oil prices, the Company's realized oil prices declined significantly. In 2016, the Company's average realized oil price was US\$41.40/barrel, representing a decline of 19.3% year over year.

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,		
		2014	2015	2016
Sales and Marketing Volumes (mmbbls)⁽¹⁾	Benchmark Prices			
Light Crude	PLATTS Tapis ⁽²⁾	10.6	22.9	20.8

Medium Crude	Daqing OSP ⁽³⁾	130.4	162.4	162.6
Heavy Crude	ICP Duri ⁽⁴⁾	125.2	138.2	122.4

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

(2) Tapis is a light crude oil produced in Malaysia

(3) Daqing official selling price. Daqing is a medium crude oil produced in northeast China

(4) Duri is a heavy crude oil produced in Indonesia. The Indonesian crude price (“ICP”) Duri has been the sole benchmark price for heavy crude since 2006.

Sales of Natural Gas

The Company’s natural gas sales prices are mainly determined by the Company’s negotiations with its customers. The Company’s natural gas sales agreements are generally long-term contracts, which normally include a periodic price adjustment mechanism. The Company’s natural gas customers are primarily located in the Southeastern coast of China and mainly include Hong Kong Castle Peak Power Company Limited, CNOOC Gas and Power Group, China BlueChemical Ltd, etc.

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

In 2016, the Company's average realized natural gas price was US\$5.46/mcf, representing a 14.6% decrease year over year, primarily due to the Chinese government's onshore natural gas price reform in 2015, resulting in two decreases of overall prices in the onshore natural gas market in China. The Company gradually adjusted the sale prices for its major natural gas users through negotiation.

In China, the current oversupply of natural gas adversely affects the development, operation and income of the Company's natural gas business. In view of the current natural gas market competition, the Company will coordinate the designs and approvals of relevant projects and the gas price negotiations with downstream users, with the aim of promoting the development of oil and gas fields under construction. Meanwhile, to cope with the current weak demand in specific regions, the Company will coordinate the price negotiations with downstream users to ensure the stable gas sales of producing oil and gas fields.

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

	Year ended December 31,		
	2014	2015	2016
Average Realized Prices			
Crude and Liquids (US\$/bbl)	96.04	51.27	41.40
Natural Gas (US\$/mcf)	6.44	6.39	5.46
West Texas Intermediate (US\$/bbl)	93.03	48.68	43.35

The international benchmark crude oil price, West Texas Intermediate, was US\$53.72 per barrel as of December 31, 2016 and US\$50.56 per barrel as of March 31, 2017.

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

Year ended December 31,		
2014	2015	2016
(Rmb in millions, except percentages)		

Revenues sourced in the PRC	178,822	124,427	102,861
Revenues sourced outside the PRC	95,812	47,010	43,629
Total revenues	274,634	171,437	146,490
% of revenues sourced outside the PRC	34.9 %	27.4 %	29.8 %

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.

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Research and Development

In 2016, the Company continued to implement its “technology-driven” strategy. It released and implemented the “Thirteenth Five-year” research and development plan and completed the top-level design of the “Thirteenth Five-year” key technology projects and top-level design for the establishment of research platform; continued to implement system for research coordination and strengthened the joint project development and mastering of core technology of different institutes. The Company actively initiated the “Quality and Efficiency Year 3.0” program. Through technological innovations, the Company was able to establish a solid foundation for reserve and production growth as well as cost control and efficiency enhancement. A series of research findings have been applied to increase production efficiency.

Major Scientific Project Development

In 2016, the Company focused on core business needs and undertook national oil and gas major projects and national key research and development programs. It continued to conduct core technological projects such as deep water oil and gas fields, offshore heavy oil fields and fields with low porosity and permeability. The “Geology theory and technology innovation on continental margin area in the north of South China Sea deep water and its important hydrocarbon discovery” was awarded National Scientific and Technological Progress Award (Second Class), while significant landmark achievements such as Differential Hydrocarbon Enrichment Mechanism of Active Fault Belts and the major Discovery of High Quality Oil Field Groups with Hundred Million Tons Reserves in Bohai, exploration technology and practice for large gas field in deep water area of Western South China Sea, Key Technology on infilling and optimization of clustering well pattern in offshore SZ36-1 oil fields, and key technology and application in enhanced oil recovery technology for offshore heavy oilfield by polymer flooding, which will provide technological support for the sustainable development of the Company.

Innovative Development of Key Technologies

Remarkable result was achieved in using key vector processing technologies for multi-component seismic data, with trial processing of the seismic data from two target areas of over 200 square kilometers in Bohai and Weixinan completed. Time-lapse Seismic Interpretation Technology was successfully applied in processing new data of the Xijiang 24-1 oil producing region. Operating efficiency was enhanced by key technological achievements such as intelligent zonal water injection technology on offshore oilfield and cuttings-carrying technology in highly deviated well drilling.

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.

In 2016, the Company continued to improve HSE management, adhered to systematic management, completely upgraded the HSE internal control system and converted management documents covering overseas projects HSE and public health events and accidents into internal control system. In 2016, the Company strengthened safety supervising measures, implemented management and control of offshore production facilities according to the level of risks, established complete risk monitoring and control indicators including monitoring and control of major operating risks of well control and engineering construction, which effectively prevented major incidents. The Company also strengthened base-level frontline safety management, promoted the establishment of job responsibility list, improved the site patrol and inspection system and enhanced the protection ability in respect of safety production on site.

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For offshore China, in 2016, the Company coordinated annual audit inspection to promote HSE management, organized and conducted HSE system review and special review of high risk contractors such as diving contractors and helicopter contractors. Special production safety inspections were also carried out and self-inspection was organized utilizing information system for units under the Company according to “Six Provisions on Work Safety Announcement” and the implementation of remedial measures was supervised.

In 2016, the Company comprehensively enhanced the risk prevention ability of systems by improving emergency response management mechanism, integrating emergency response management information systems, improving ICS system establishment and comprehensively strengthening emergency response training and exercises to minimize the impact of emergencies. Early warning and emergency handling were properly made all the times. There were 13 typhoons affecting the normal production during the year, and the Company successfully avoided personal injury and death by initiating typhoon emergency plan.

In 2016, the Company paid more attention to the safety management of base-level units and held an essay writing activity of “Safety Management at the Base-level.” We summed up and refined the safety management experience of base-level units, and publicized and promoted effective safety management measures.

In 2016, the Company intensified the coordinated management of energy saving and emission reduction, released “Development Plan of Energy Saving and Emission Reduction for the Next Five Year,” made a thorough survey on energy saving and emission reduction in units under the Company, developed carbon emission monitoring and verification techniques and endeavoured to reduce emission of greenhouse gases. The consolidated energy consumption was 2,710,300 tons of standard coal, consolidated energy consumption for unit oil and gas produced was 0.0470 ton standard coal/ton, and energy saving of 162,200 tons of standard coal was achieved for the year.

Overseas, the Company organized and conducted a HSE review of the Nexen headquarters in Calgary and Long Lake oil sands facilities in Canada and a safety review on the facilities and equipment evaluation of the Indonesian SES oilfield delayed project and pushed further ahead the establishment and improvement of HSE management plans for overseas projects of units under the Company.

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 2016, 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. In 2016, 539 inspection teams were organized to conduct safety inspections in 1,027 working units, during which 10,498 hazards were discovered and eliminated.

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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 2016, 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, 2016, 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, 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 for our working interests. As for deep-water wells, we are insured for our working interest 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\$400 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\$485 million. This cover protects against liability that arises from sudden and accidental pollution or from other causes. For declared deep-water wells, we are insured for our working interest share of up to US\$750 million for costs related to control of the well.

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

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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.

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.

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Segment Information

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

	Year ended December 31,		2015		2016	
	2014		2015		2016	
	Rmb in	%	Rmb in	%	Rmb in	%
	millions		millions		millions	
Exploration and production	223,741	81.5	149,582	87.3	125,611	85.7
Trading businesses	50,263	18.3	21,438	12.5	20,310	13.9
Corporate and elimination	630	0.2	417	0.2	569	0.4
Total operating revenues	274,634	100.0	171,437	100.0	146,490	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, 2016, approximately 70.2% 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 Land and Resources, the State Oceanic Administration, the National Development and Reform Commission and the State Administration of Work Safety 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 obtain approval of overall development plan from 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.

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.

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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 new technology enterprise.

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.

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;

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;

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- 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 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, 2014, 2015 and 2016, we had Rmb (14,312) million, Rmb 1,948 million and Rmb 19,174 million (US\$2,761 million) respectively, in net deferred tax assets/(liabilities). See note 11 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, 2014, 2015 and 2016 we incurred approximately Rmb 19,072 million, Rmb 59 million and nil 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.

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%

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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.

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

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

Percentage of annual gross production	Allocation
5.0%	Production tax payable to the PRC government ⁽¹⁾
62.5%	For the payment of resource tax and recovery: <ol style="list-style-type: none"> 1. Resource tax⁽²⁾ payable to the PRC government 2. Cost recovery oil allocated according to the following priority: <ol style="list-style-type: none"> (1) recovery of current year operating costs by us and foreign partner(s); (2) recovery of current year abandonment costs accrued by us and foreign partner(s) ; (3) recovery of earlier exploration costs by foreign partner(s) or us (if any); and (4) recovery of development costs and deemed interest by us and foreign partner(s) based on participating interests. 3. Any excess after the payment of resource tax and recovery of costs mentioned above allocated to the remainder oil. Remainder oil allocated according to the following formula: <ol style="list-style-type: none"> 1. (1-X) multiplied by 32.5% represents share oil payable to the PRC government; and 2. X multiplied by 32.5% represents remainder oil distributed according to each partner's participating interest.
32.5% ⁽³⁾	

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.

(2) For PSCs that came into effect prior to November 1, 2011, instead of resource tax, royalties (with the rate ranging 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.

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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.

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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.

Our subsidiaries domiciled outside of the PRC are subject to income tax rates ranging from 10% to 50%.

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

The PRC national and local environmental laws and regulations impose fees for the discharge of waste substances above prescribed levels, require the payment of fines for serious violations and provide that the PRC national and local governments, State Oceanic Administration or national and local environmental protection bureaus 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, 2014, 2015 and 2016 of approximately Rmb 52,889 million, Rmb 50,063 million and Rmb 50,888 million (US\$7,329 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.

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

Patents and Trademarks

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, 2014, 2015 and 2016, we employed 21,046 persons, 20,585 persons and 19,718 persons, respectively. Of the 19,718 employees we employed as of December 31, 2016, approximately 74.9 % were involved in oil exploration, development and production activities, approximately 3.4 % 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 11% to 22% of our employees' salaries, with each employee contributing 8% of his or her salary for retirement. The contributions vary from region to region.

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

For further details regarding retirement benefits, see note 30 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 2016, we held 64 core training workshops, which were attended by approximately 3,654 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.

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C. Organizational Structure

CNOOC indirectly owned or controlled an aggregate of approximately 64.44% of our shares as of March 31, 2017. Accordingly, CNOOC continues to be able to exercise all the rights of a controlling shareholder, including electing our directors and voting to amend our articles of association. Although CNOOC has retained a controlling interest in us, the management of our business will be our directors' responsibility.

The following chart sets forth our controlling entities and our directly wholly-owned subsidiaries as of March 31, 2017 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.

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ITEM 4A. unresolved staff comments

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Operating Results

You should read the following discussion and analysis in conjunction with our consolidated financial statements, selected historical consolidated financial data and operating and reserves data, in each case together with the accompanying notes, contained in this annual report. 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.

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

	Year ended December		
	2014	2015	2016
Average net realized prices:			
Crude oil (US\$ per bbl)	96.04	51.27	41.40
Natural gas (US\$ per mcf)	6.44	6.39	5.46

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,		
	2014	2015	2016
Net production of crude oil (bbl/day) ⁽¹⁾	955,647	1,124,047	1,083,101
Net production of natural gas (mmcf/day) ⁽¹⁾	1,330.1	1,363.6	1,276.2

(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

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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 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.

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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, which we expect to decrease further as a result of sustained lower commodity prices, 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 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 expensed and included in administrative expenses.

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.

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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 finance costs in the consolidated statement of profit or loss and other comprehensive income.

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.

Table of Contents***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 sales of oil and gas purchased 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.

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,					
	2014		2015		2016	
	(Rmb in millions, except percentages and production data)					
Revenues:						
Oil and gas sales:						
Crude oil	200,991	73.2 %	128,929	75.2 %	106,448	72.7 %
Natural gas	17,219	6.3 %	17,668	10.3 %	14,877	10.1 %

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Total oil and gas sales	218,210	79.5 %	146,597	85.5 %	121,325	82.8 %
Marketing revenues	50,263	18.3 %	21,422	12.5 %	20,310	13.9 %
Other income	6,161	2.2 %	3,418	2.0 %	4,855	3.3 %
Total revenues	274,634	100 %	171,437	100 %	146,490	100 %

Net production (million BOE)⁽¹⁾:

Crude oil	348.8	80.6 %	410.3	82.8 %	396.4	83.1 %
Natural gas	83.7	19.4 %	85.4	17.2 %	80.5	16.9 %
Total net production	432.5	100 %	495.7	100 %	476.9	100 %

(1)

Including our interest in equity method investees.

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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,		
	2014	2015	2016
Operating Revenues:			
Oil and gas sales	79.5 %	85.5 %	82.8 %
Marketing revenues	18.3 %	12.5 %	13.9 %
Other income	2.2 %	2.0 %	3.3 %
Total revenues	100.0%	100.0%	100.0 %
Expenses:			
Operating expenses	(11.4)%	(16.5)%	(15.8)%
Taxes other than income tax	(4.3)%	(6.3)%	(4.7)%
Exploration expenses	(4.2)%	(5.8)%	(5.0)%
Depreciation, depletion and amortization	(21.2)%	(42.8)%	(47.0)%
Special oil gain levy	(6.9)%	0.0 %	0.0 %
Impairment and provision	(1.5)%	(1.6)%	(8.3)%
Crude oil and product purchases	(17.4)%	(11.6)%	(13.0)%
Selling and administrative expenses	(2.4)%	(3.3)%	(4.4)%
Others	(1.2)%	(1.8)%	(3.3)%
Total expenses	(70.5)%	(89.8)%	(101.6)%
Interest income	0.4 %	0.5 %	0.6 %
Finance costs	(1.7)%	(3.6)%	(4.3)%
Exchange gain, net	0.4 %	(0.1)%	(0.5)%
Investment income	1.0 %	1.4 %	1.9 %
Share of profits of associates	0.1 %	0.1 %	(0.4)%
Share of profits/(losses) of a joint venture	0.3 %	1.0 %	0.4 %
Non-operating income/(expenses), net	0.2 %	0.4 %	0.4 %
Profit before tax	30.0 %	10.0 %	(3.6)%
Income tax expense	(8.1)%	1.8 %	4.0 %
Profit for the year	21.9 %	11.8 %	0.4 %

Calculation of Revenues

China

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

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

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

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

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.

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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

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.

2016 versus 2015

Consolidated net profit

Our consolidated net profit decreased 96.9% to Rmb 637 million (US\$91.7 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:

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	2016	2015	Change	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	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.

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 (US\$3,343.1 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 (US\$7.29) per BOE in 2016 from 59.4 (US\$9.18) per BOE in 2015. Operating expenses per BOE offshore China decreased 10.9% to Rmb 44.1 (US\$6.36) per BOE in 2016 from Rmb 49.5 (US\$7.64) per BOE in 2015. Overseas operating expenses per BOE decreased 20.1% to Rmb 64.1 (US\$9.23) per BOE in 2016 from Rmb 80.2 (US\$12.38) per BOE in 2015.

Taxes other than income tax

Our taxes other than income tax decreased 35.6% to Rmb 6,941 million (US\$999.7 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 (US\$1,059.9 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 (US\$9,924.7million) 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 (US\$21.14) per BOE in 2016 from Rmb 146.4 (US\$22.61) per BOE in 2015.

The dismantlement-related depreciation, depletion and amortization costs decreased 55.7 % to Rmb 1,569 million (US\$226.0 million) in 2016 from Rmb 3,545 million in 2015. Our average

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dismantling costs per BOE decreased 54.0% to Rmb 3.42 (US\$0.49) per BOE in 2016 from Rmb 7.43 (US\$1.15) 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 (US\$1,753.0 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.

Selling and administrative expenses

Our selling and administrative expenses increased 13.8 % to Rmb 6,493 million (US\$935.2million) 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 (US\$2.04) per BOE in 2016 from 11.95 (US\$1.85) per BOE in 2015.

Exchange losses, net

Our net exchange losses increased 452.4% to Rmb 790 million (US\$113.8 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 US dollars.

Investment income

Our investment income increased 15.7% to Rmb 2,774 million (US\$399.5 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 (US\$10.9 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 (US\$851.5 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.

Table of Contents**2015 versus 2014***Consolidated net profit*

Our consolidated net profit decreased 66.4% to Rmb 20,246 million in 2015 from Rmb 60,199 million in 2014, primarily as a result of the decrease in profitability under the low international oil price environment.

Revenues

Our oil and gas sales, realized prices and sales volume in 2015 are as follows:

	2015	2014	Change	Change (%)
Oil and gas sales (Rmb million)	146,597	218,210	(71,613)	(32.8)%
Crude and liquids	128,929	200,991	(72,062)	(35.9)%
Natural gas	17,668	17,219	449	2.6 %
Sales volume (million BOE)	480.1	415.6	64.5	15.5 %
Crude and liquids (million barrels)	404.0	340.6	63.4	18.6 %
Natural gas (bcf)	444	435	9	2.1 %
Realized prices				
Crude and liquids (US\$/barrel)	51.27	96.04	(44.77)	(46.6)%
Natural gas (US\$/mcf)	6.39	6.44	(0.05)	(0.8)%
Net production (million BOE)	495.7	432.5	63.2	14.6 %
China	323.4	269.1	54.3	20.2 %
Overseas	172.3	163.4	8.9	5.4 %

In 2015, our net production was 495.7 million BOE (including our interest in equity-accounted investees), representing an increase of 14.6% from 432.5 million BOE in 2014, benefitting from the commencement of production of new oil and gas fields in offshore China. The decrease in crude and liquids sales was primarily due to significantly lower realized oil prices in 2015, which was partially offset by the increase in sales volume.

Operating expenses

Our operating expenses decreased 9.0% to Rmb 28,372 million in 2015 from Rmb 31,180 million in 2014, and the operating expenses per BOE decreased 20.9% to Rmb 59.4 per BOE in 2015 from Rmb 75.1 per BOE in 2014, attributable from effective cost control and large increase in production. Operating expenses per BOE offshore China decreased 18.0% to Rmb 49.5 per BOE in 2015 from Rmb 60.4 per BOE in 2014. Overseas operating expenses per BOE decreased 21.4% to Rmb 80.2 per BOE in 2015 from Rmb 102.1 per BOE in 2014.

Taxes other than income tax

Our taxes other than income tax decreased 9.1% to Rmb 10,770 million in 2015 from Rmb 11,842 million in 2014. The decrease was mainly due to the decrease in oil and gas revenue.

Exploration expenses

Our exploration expenses decreased 14.1% to Rmb 9,900 million in 2015 from Rmb 11,525 million in 2014, among which dry hole expense decreased 16.7% to Rmb 4,740 million in 2015 from Rmb 5,686 million in 2014, due to the decrease of exploration expenditure, less high-cost wells and less wells expenses which were written off according to subsequent reserve evaluation. Meanwhile, the seismic expense decreased as compared to 2014, resulting from the continuing efforts in lowering costs and enhancing efficiency under the circumstance of decreasing exploration expenditure budget.

Depreciation, depletion and amortization

Our depreciation, depletion and amortization increased 26.0% to Rmb 73,439 million in 2015

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from Rmb 58,286 million in 2014. Our average depreciation, depletion and amortization per BOE, excluding the dismantlement-related depreciation, depletion and amortization, increased 11.8% to Rmb 146.4 per BOE in 2015 from Rmb 130.9 per BOE in 2014, primarily as a result of the increased proportion of production of new oil and gas fields and adjustment projects in offshore China and North Sea in UK in recent years, which were developed under the environment of increasing prices of raw materials and services over the past few years. Meanwhile, the commencement of production of new development wells of shale oil and gas in the U.S. further increased the amortization rate per BOE.

The dismantlement-related depreciation, depletion and amortization costs decreased 10.3% to Rmb 3,545 million in 2015 from Rmb 3,951 million in 2014. Our average dismantling costs per BOE decreased 22.0% to Rmb 7.43 per BOE in 2015 from Rmb 9.52 per BOE in 2014, primarily due to the decrease of the expected value of asset retirement obligations of producing oil and gas fields, which was estimated based on current services price. Under the environment of reducing capital expenditure in upstream industry, the service price of projects constructions and drilling wells decreased.

Special Oil Gain Levy

Our Special Oil Gain (SOG) Levy decreased 99.7% to Rmb 59 million in 2015 from Rmb 19,072 million in 2014, primarily as a result of our decreased realized oil price in offshore China and the Chinese government increased the threshold of the SOG levy to US\$65 with effect from 1 January 2015.

Impairment, provision and write off

Our impairment and provision decreased 33.3% to Rmb 2,746 million in 2015 from Rmb 4,120 million in 2014. In 2015, certain oil and gas properties located in China, North America, South America and Africa were impaired, which was reflected by the impact of near term lower price. In addition, the Company wrote off some shale oil and gas assets in North America and certain unproved properties in Canada. Approximately Rmb 1,400 million was included in the depreciation, depletion and amortization charge of the year, and approximately Rmb 461 million was included in the exploration expenses, respectively. The reason is that the leasehold contracts of these blocks were overdue, and the Company withdraw from these blocks by considering lower economy of the project and falling short of expectation of the exploration result. Please refer to Note 15 to the Consolidated Financial Statement of this annual report.

Selling and administrative expenses

Our selling and administrative expenses decreased 13.7% to Rmb 5,705 million in 2015 from Rmb 6,613 million in 2014. Our selling and administrative expenses per BOE decreased 24.9% to Rmb 11.95 per BOE in 2015 from Rmb 15.93 per BOE in 2014. Such decreases were primarily due to lower expense resulting from the Company's partial marketing business restructuring and Company's vigorous efforts in lowering costs and enhancing efficiency in this year.

Finance costs/Interest income

Our finance costs increased 28.2% to Rmb 6,118 million in 2015 from Rmb 4,774 million in 2014, primarily due to the increased interest expense from new issuance of guaranteed notes. Our interest income decreased 18.6% to Rmb 873 million in 2015 from Rmb 1,073 million in 2014, primarily due to the reduced deposit scale under the declining market interest rate environment.

Exchange gains, net

Our net exchange losses changed 113.6% to Rmb 143 million in 2015, compared with exchange gains Rmb 1,049 million in 2014, primarily as a result of the increase in exchange loss as a result of Rmb, GBP and CAD fluctuation against the US dollars.

Table of Contents*Investment income*

Our investment income decreased 10.7% to Rmb 2,398 million in 2015 from Rmb 2,684 million in 2014, primarily attributable to the decline in market rate of return on investment which was caused by the continuously decline interest rates promulgated by the People's Bank of China.

Share of profits of associates/a joint venture

Our share of profits of associates/a joint venture increased 89.2% to Rmb 1,903 million in 2015 from Rmb 1,006 million in 2014, primarily attributable to the increase in profitability of joint venture resulting from local finance and tax benefit.

Income tax expense

Our income tax credit changed 114.0% to Rmb 3,116 million in 2015, compared with income tax expense of Rmb 22,314 million in 2014, mainly because the UK government decreased the combined income tax rate on North Sea oil and gas activities from 62% to 50% and resulted in a one-time reversal of net deferred tax liability. In addition, the lower profitability of overseas operations due to decreased oil prices resulted in a further decline in income tax expense. The effective tax rate changed to 18.2% in 2015 from 27.0% in 2014.

B. Liquidity and Capital Resources

Our primary source of cash during 2016 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,		
	2014	2015	2016
	(Rmb in millions)		
Cash generated from (used for):			
Operating activities	110,508	80,095	72,863
Investing activities	(90,177)	(76,495)	(27,953)
Financing activities	(19,486)	(6,893)	(43,240)
Net increase/(decrease) in cash and cash equivalents	845	(3,293)	1,670

Cash Generated from operating activities

The cash inflow from operating activities decreased 9.0% to Rmb 72,863 million (US\$10,494.5 million) in 2016 from Rmb 80,095 million in 2015, primarily attributable to the decrease in oil and gas sales cash inflows caused by the decline in international oil price.

Cash Used in Investing Activities

In 2016, our capital expenditure (excluding acquisition) decreased 24.1% to Rmb 51,347 million (US\$7,395.5 million) from 2015, because the Company reduced its capital expenditure on the basis of improving quality and efficiency in response to the challenges of low oil prices. Our development expenditures in 2016 were primarily related to the capital expenditure of offshore China, block in offshore Nigeria, deep-water Gulf of Mexico and Iraq technical service contract project, as well as the expenses incurred for improving recovery factors of the oilfields in production. The Company had no significant acquisition during the year.

In addition, our cash used in investing activities was also attributable to the purchase of other financial assets of Rmb 62,900 million (US\$9,059.5 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 81,675 million (US\$11,763.6 million), and the decrease in our time deposits with maturity over three months in the amount of Rmb 1,180 million (US\$170.0 million).

Table of Contents**Cash Used in Financing Activities**

In 2016, the increase in net cash outflow from financing activities was mainly due to the repayment of bank borrowings of Rmb 23,412 million (US\$3,372.0 million) and Rmb 4,866 million (US\$700.8 million) from the repayment of guaranteed notes and the cash outflow of the distribution of dividends of Rmb 14,153 million (US\$2,038.5 million), partially offset by the proceeds from bank loans of Rmb 4,293 million (US\$618.3 million).

At the end of 2016, our total interest-bearing outstanding debt was Rmb 150,476 million (US\$21,673.1 million), compared to Rmb164,645 million at the end of 2015. The decrease in debt in 2016 was primarily attributable to repayment of bank loans and guaranteed notes. Our gearing ratio, which is defined as interest-bearing debts divided by the sum of interest-bearing debts plus equity, was 28.2%, lower than that of 29.9% in 2015. The main reason for the decrease 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, 2016.

Due by December 31,	Debt maturities (principal only)			
	Original currency US\$	Total Rmb equivalents	Total US\$ equivalents	
	(in millions, except percentages)			
2017	1,342.1	9,318.2	1,342.1	
2018-2019	1,113.9	7,733.6	1,113.9	
2020-2021	3,043.7	21,132.7	3,043.7	
2022 and beyond	13,823.2	95,974.3	13,823.2	
Total	19,322.9	134,158.8	19,322.9	
Percentage of total debt	92.8	% 92.8	% 92.8	%

As of December 31, 2016, we had total foreign currency debt of US\$20,830 million, all of which is in U.S. dollars. As of March 31, 2017, we had total foreign currency debt of US\$21,192 million, all of which is in U.S. dollars.

As of December 31, 2016, we had unutilized banking facilities amounting to approximately Rmb 60,697 million (US\$8,742 million) as compared to Rmb 60,912 million as of December 31, 2015.

In 2014, 2015 and 2016, we paid dividends totaling Rmb 20,216 million, Rmb 20,419 million and Rmb 14,245 million (US\$2,052 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.

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 2017. 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 2017, we have budgeted Rmb 60-70 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.

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	Year ended December 31,				
	2014 ⁽¹⁾	2015 ⁽¹⁾	2016 ⁽¹⁾	2017 ⁽¹⁾⁽²⁾	2016 ⁽¹⁾
	(Rmb million)				(US\$ million)
China					
Development	49,128	25,187	15,048	26,163	2,167
Exploration	13,718	9,515	6,205	8,167	894
Subtotal	62,845	34,702	21,253	34,330	3,061
Overseas					
Development	33,403	25,957	24,516	28,486	3,531
Exploration	9,455	5,201	2,964	3,848	427
Subtotal	42,858	31,158	27,480	32,334	3,958
Total	105,704	65,860	48,733	66,664	7,019

⁽¹⁾ Capitalized interests were not included, and it was Rmb 1,842 million, Rmb 1,385 million and Rmb 1,430 million in 2014, 2015 and 2016, respectively.

⁽²⁾ Figures for 2017 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 (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 2.0%, 1.4% and 3.0% in 2014, 2015 and 2016, respectively. Neither deflation nor inflation has had a significant impact on our results of operations in the respective years.

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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 2016 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, 2015, except for the first time adoption of the amendments to IFRS/HKFRS effective for the Group's financial year beginning on January 1, 2016 (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 Group.

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, 2017. 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 2017, the global economy will continue to recover slowly and international oil prices will stay low despite of a certain rebound. The external operating environment is likely to remain tough. In spite of this, the Company remains confident and persistent. We will further strengthen our operating strategies, which include: balancing short-, mid- and long-term development; maintaining prudent financial policy and improving capital efficiency; and optimizing the structure of its asset portfolio and focusing more on the returns of assets.

In 2017, the capital expenditure of the Company will be Rmb 60-70 billion. To maintain its competitive financial position, the Company will continue to stress on effectiveness, enhance investment return, strengthen cost controls and focus on cash flow management. Our production target for 2017 is 450-460 million BOE with five new projects to come on stream. Meanwhile, the Company will maintain its high standards in 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.

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

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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, 2016.

<u>Contractual Obligations</u>	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 ⁽¹⁾	134,159	9,318	7,734	21,133	95,974
Operating lease obligations	13,017	2,695	2,711	1,769	5,842
Provision for dismantlement ⁽²⁾	50,888	462			50,426
Total	198,064	12,475	10,445	22,902	152,242

(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, 2014, 2015 and 2016, we had the following capital commitments, principally for the construction and purchase of property, plant and equipment:

Capital Commitments	2014	2015	2016
	Rmb million	Rmb million	Rmb million
Contracted, but not provided for	39,630	51,296	46,515
Authorized, but not contracted for	115,269	91,112	113,223

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.

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 April 18, 2017. Hua Yang was re-designated as Executive Director and appointed as Chief Executive Officer and Guangyu Yuan was appointed as Executive Director and President both with effect from June 15, 2016. Fanrong Li resigned as Executive Director, Chief Executive Officer and President with effect from June 15, 2016. Guangqi Wu was re-designated as Non-executive Director and also resigned as the Compliance Officer of the Company with effect from June 15, 2016. Jian Liu was appointed as Vice Chairman and Non-executive Director with effect from December 20, 2016. Bo Lv resigned as Non-executive Director with effect from December 20, 2016. Guangyu Yuan resigned as the President and was appointed as the Chief Executive Officer with effect from April 18, 2017. Keqiang Xu was appointed as Executive Director and President of the Company with effect from April 18, 2017. Hua Yang resigned as Chief Executive Officer and was re-designated as Non-executive Director with effect from April 18, 2017.

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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)
Xu Keqiang	1971	Executive Director and President (effective April 18, 2017)
Fanrong Li	1963	Executive Director, Chief Executive Officer and President (resigned effective June 15, 2016)
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 (effective December 20, 2016)
Guangqi Wu	1957	Non-executive Director (re-designated as Non-executive Director and resigned as Compliance Officer effective June 15, 2016)
Bo Lv	1962	Non-executive Director (resigned effective December 20, 2016)
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
Wei Chen	1958	Executive Vice President, General Counsel and Compliance Officer (appointed as General Counsel and Compliance Officer effective May 2016)
Weilin Zhu	1956	Executive Vice President (retired effective May 2016)
Bi Chen	1961	Executive Vice President (resigned effective May 2016)
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)

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Guohua Zhang	1960	Senior Vice President and General Manager of CNOOC China Limited Zhanjiang Branch
Hua Zhong	1960	Chief Financial Officer
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 (effective September 2016)

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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 (effective February 2017)
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 65th Floor, Bank of China Tower, One Garden Road, Central, Hong Kong.

Table of Contents**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 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). In November 2006, Mr. Yuan was appointed as the Assistant President of CNOOC. In January 2009, Mr. Yuan was appointed as the 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. He was appointed as the Chairman of CNOOC International Limited with effect from June 15, 2016. Mr. Yuan was appointed as an Executive Director and President of the Company with effect from June 15, 2016. Mr. Yuan was appointed as the Chief Executive Officer of the Company and resigned as the President of the Company with effect from April 18, 2017.

Keqiang Xu Born in 1971, Mr. Xu is a 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. Mr. Xu was appointed as an Executive Director and the President of the Company with effect from April 18, 2017.

Fanrong Li Born in 1963, Mr. Li is a professor-level senior engineer. He obtained a B.S. degree majoring in oil production from Yangtze University in China, and received an MBA degree from the Business School of Cardiff University in United Kingdom. Mr. Li has been working in the oil and gas industry in China over 30 years. He joined CNOOC in 1984, and worked as Petroleum Engineer, later as Offshore Platform Supervisor, Operation Manager of CNOOC/AMOCO Joint Operating Group, Managing Director of CNOOC/STATOIL Joint Operating Group, Chief Representative of Joint Management Committee in CACT Operators Group, General Manager of Development and Production Department of the Company and President of CNOOC China Limited Shenzhen Branch. He served as an Assistant President of CNOOC from January 2009 to April 2010 and worked as President of CNOOC Energy Technology & Services Limited from February 2009 to April 2010. Mr. Li also served as Chairman and Director of CNOOC Southeast Asia Limited, a subsidiary of the Company. He has served as Vice President of CNOOC since

April 2010. He was appointed as President of the Company with effect from September 16, 2010, and was appointed as Chief Executive Officer of the Company with effect from November 23, 2011. He also serves as a Director of CNOOC China Limited and Chairman and Director of CNOOC International Limited, all being subsidiaries of the Company. He was appointed as the chairman of the board of Nexen Energy ULC with effect from February 26, 2013. Mr. Li was appointed as a Non-executive Director of the Company with effect from May 24, 2010 and was re-designated from Non-executive Director to Executive Director with effect from September 16, 2010. Mr. Li resigned from his positions as an Executive Director, the Chief Executive Officer and the President of the Company with effect from June 15, 2016.

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

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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. He was appointed as the Chairman and Director of Nexen Energy ULC, a subsidiary of the Company, with effect from June 15, 2016. 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 Committee of the Company with effect from May 19, 2015. Mr. Yang was re-designated from a Non-executive Director to an Executive Director and appointed as the Chief Executive Officer of the Company with effect from June 15, 2016. Mr. Yang was re-designated from an Executive Director to a Non-Executive Director of the Company and resigned as the Chief Executive Officer 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 30 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 General Manager 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 since June 1, 2005 and 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 and has resigned as the Compliance Officer of the Company with effect from June 15, 2016.

Bo Lv Born in 1962, Mr. Lv is a senior economist and received a Bachelor of Science degree in Management from China University of Mining and Technology and an MBA degree from China Europe International Business School. Since 1985, he worked in the Ministry of Coal Industry, the Ministry of Energy and the Organization Department of the Communist Party of China Central Committee and served in a number of positions, including a Vice-Director-level official in the Personnel and Labor Department of the Ministry of Energy, Vice Director and Director of Economic and Technology Cadre Bureau of the Organization Department of the Communist Party of China Central Committee, Directors of the Fourth and Fifth Cadre Bureaus of the Organization Department of the Communist Party of China Central Committee. Mr. Lv joined CNOOC in 2002 and served as the Director of the Human Resources Department of CNOOC. In November 2006, Mr. Lv became the Assistant President of CNOOC. In April 2010, Mr. Lv was appointed as the Vice President of CNOOC. Since December 2012, he has also served as Chairman of the Board of CNOOC Energy Technology and Services Limited, a subsidiary of CNOOC. Mr. Lv was appointed as a Non-executive Director of the Company on November 27, 2013, and such appointment took effect from January 1, 2014. Mr. Lv resigned from his position as a Non-executive Director of the Company with effect from December 20, 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 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-

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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 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. 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 seven books and published more than 180 articles and notes in professional journals. Professor Lau is a member of the 12th National Committee of the Chinese People's Political Consultative Conference and a Vice-Chairman of its Economics Subcommittee. Professor Lau also serves as a member of the Hong Kong Special Administrative Region Exchange Fund Advisory Committee and Chairman of its Governance Sub-Committee, and a member of its Currency Board Sub-committee and Investment Sub-Committee, and Chairman of Board of Directors of the Chinese University of Hong Kong (Shenzhen) Advanced Finance Institute, aka Shenzhen Finance Institute. In addition, he also serves as a Member and Chairman of the Prize Recommendation Committee, 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 Institute of Global Economics and Finance, The Chinese University of Hong Kong, an Independent Non-executive Director of AIA Group Limited, and an Independent Non-executive Director of Hysan Development Company Limited, both of which are listed on the Hong Kong Stock Exchange, and an Independent 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.

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 ten 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

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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, 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, Sobey Foundation, Communitech, the Governor General's Rideau Hall Foundation, the Asia Pacific Foundation of Canada. Mr. Lynch is currently a director of Empire Company Limited (Sobey's) listed on the Toronto Stock Exchange, a director of Canadian National Railway Company listed on the Toronto Stock Exchange and New York Stock Exchange, and Co-chair of Ontario Economic Summit. 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 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.

Weilin Zhu Born in 1956, Mr. Zhu is an Executive Vice President of the Company. Mr. Zhu is a professor-level senior engineer. He graduated from Tongji University with a Ph.D. degree. Mr. Zhu joined CNOOC in 1982. Prior to 1999, he conducted researches in CNOOC Research Center and served as the Deputy Manager of the Exploration Department, Manager of Science Management Department, and Deputy Chief Geologist and Chief Geologist of the Research Center. From 1999 to 2007, Mr. Zhu served as the Deputy Manager of Exploration Department of CNOOC, Deputy General Manager and General Manager of Exploration Department of the Company, General Manager of CNOOC China Limited Zhanjiang Branch and Vice President of the Company. Mr. Zhu also serves as the Director of CNOOC China Limited and CNOOC International Limited, the subsidiaries of the Company. Mr. Zhu has spent a long time in exploration research and management of oil and natural gas in offshore China. He was granted the Special Subsidies from the government, nominated as candidate for the "National Hundred, Thousand, and Ten Thousand Talent Project", named as an Excellent Science and Technology Worker of the Nation and awarded the Li Siguang Award for Geosciences, the highest tribute in geosciences awards level. In August 2007, Mr. Zhu was appointed as the Chief Geologist of CNOOC, Executive Vice President of the Company and the General Manager of the Exploration Department of the Company, responsible for the Company's oil and gas exploration operations. In July 2015, Mr. Zhu was appointed as the Chief Geologist of CNOOC and Executive Vice President of the Company. In

May 2016, Mr. Zhu retired as an Executive Vice President of the Company.

Bi Chen Born in 1961, Mr. Chen is an Executive Vice President of the Company and is responsible for development, production and international affairs of the Company. Mr. Chen is a professor-level senior engineer. He graduated from the Southwest Petroleum Institution (now Southwest Petroleum University) and received a bachelor degree in oil production. He received a master degree of petroleum engineering from Edinburgh Heriot-Watt University in 1989 and an MBA degree from Tsinghua University in 2001. Mr. Chen joined CNOOC in 1982 and has over 30 years of experience in the oil and natural gas industry. He served as the Deputy Manager of CNOOC Nanhai West Corporation Oil

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Production Company, Director of Production Section, Deputy General Manager of Development and Production Department of CNOOC, Deputy General Manager and General Manager of Development and Production Department of the Company, and General Manager of CNOOC China Limited Tianjin Branch. Mr. Chen also serves as the Director of CNOOC China Limited and CNOOC International Limited, both being the subsidiaries of the Company. In October 2005, Mr. Chen was appointed as Vice President of the Company and General Manager of CNOOC China Limited Tianjin Branch. In January 2009, Mr. Chen was appointed as the Executive Vice President of the Company. In May 2016, Mr. Chen ceased to serve as an Executive Vice President 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 as Executive Director and President of COSL. In September 2010, he served as Executive Director, Chief Executive Officer and President of COSL. In June 2016, he was appointed 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.

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 Naihui 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

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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, 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.

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. 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, Mr. Song is the Chief Safety Official and General Manager of the Quality, Health, Safety & Environmental Protection (QHSE) Department of the Company. 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 of 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.

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

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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.

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 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 oilfield 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. He has been a Vice President and General Manager of Development and Production Department of the Company since February 2017.

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

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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. Furthermore, she is also a fellow member and certified risk trainer of the Institute of Crisis and Risk Management and an associate member of CPA Australia. From August 1998 to March 1999, Ms. Tsue worked in LG International (HK) Ltd. as a senior accounts clerk. Ms. Tsue joined China Ocean Oilfield Services (HK) Limited in 1999 as an accountant. She helped to manage the finance of the CNOOC Insurance Limited since 2000 and became its employee in 2004 as a manager of finance department. She serves as company secretary of CNOOC Insurance Limited since March 2007. Ms. Tsue was appointed as Joint Company Secretary of the Company with effect from 25 November 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, 2016 was Rmb 4,802,831 (US\$691,752), while the amount paid to our other senior management for the same period was Rmb 6,649,703 (US\$957,756). In addition, under our pension plan for 2016, we set aside an aggregate amount of Rmb 1,177,910 (US\$169,654) for pension and similar benefits for our directors (other than independent non-executive directors) and senior management. Our directors (other than independent non-executive directors) and senior management contributed an additional Rmb 353,236 (US\$50,877) to the pension plan for 2016. 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 2016. 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.cnooc ltd.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. Bo Lv resigned as Non-executive Director with effect from December 20, 2016 and Guangqi Wu has been appointed and replaced Bo Lv as a member of our remuneration committee on the same day. Since December 20, 2016, our remuneration committee consisted of two independent non-

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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.cnooc ltd.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.

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

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.

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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 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.

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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.cnooc ltd.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 April 18, 2017, our directors and employees had the following personal interests in options to subscribe for shares granted under our share option schemes:

Name of Grantee	Number of shares involved in	Number of shares involved in	Date of Grant	Date of Expiration ⁽¹⁾	Closing price per share	Exercise Price (HK\$)
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	the options outstanding as of January 1, 2016	the options outstanding as of April 18, 2017			immediately before the date of grant (HK\$)	
Executive Director:						
Guangyu Yuan	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	1,770,000	–	June 14, 2006	June 14, 2016	5.30	5.56
	1,857,000	1,857,000	May 25, 2007	May 25, 2017	7.43	7.29
	1,857,000	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	1,770,000	–	June 14, 2006	June 14, 2016	5.30	5.56
	1,857,000	1,857,000	May 25, 2007	May 25, 2017	7.43	7.29
	1,857,000	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

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Name of Grantee	Number of shares involved in the options outstanding as of January 1, 2016	Number of shares involved in the options outstanding as of March 31, 2017	Date of Grant	Date of Expiration ⁽¹⁾	Closing price per share immediately before the date of grant (HK\$)	Exercise Price (HK\$)
Other Employees In Aggregate:						
	33,630,000	–	June 14, 2006	June 14, 2016	5.30	5.56
	39,202,000	31,390,000	May 25, 2007	May 25, 2017	7.43	7.29
	46,404,000	37,788,000	May 29, 2008	May 29, 2018	14.20	14.828
	55,002,000	43,773,000	May 27, 2009	May 27, 2019	9.33	9.93
	65,081,000	52,271,000	May 20, 2010	May 20, 2020	12.22	12.696
Total	262,592,000	184,955,000				

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.

For the year ended December 31, 2016, no share options granted under our share option schemes were exercised. For the period from January 1, 2016 to April 18, 2017, no share options were exercised.

As of December 31, 2016, we had 187,529,000 share options outstanding under our share option schemes, which represented approximately 0.42% 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 18, 2017, 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, 2017.

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

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

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

As of March 31, 2017, 10,223,160 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 56.

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B. Related Party Transactions

Overview

We regularly enter into transactions with related parties, including CNOOC and its associates, as defined under the Hong Kong Stock Exchange Listing Rules. Since CNOOC indirectly owns an aggregate of approximately 64.44% 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. We entered into a comprehensive framework agreement with CNOOC on November 6, 2013 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, 2014. The comprehensive framework agreement is substantially on the same terms as the terms contained in the comprehensive framework agreements entered into by us on November 1, 2010. The continuing connected transactions under such comprehensive framework agreement and the relevant annual caps for the three years from January 1, 2014 were approved by our independent shareholders on November 27, 2013. 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 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

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Pricing principles

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

For the continuing connected transactions referred to in paragraphs 1(a) to 1(d) above provided by CNOOC and/or its associates to us and paragraph 2 above provided by us to CNOOC and/or its associates, on the basis of the above pricing principles, such services must be charged in accordance with the following pricing mechanism and in the following sequential order:

(i) state-prescribed prices; or

(ii) where there is no state-prescribed price, market prices, including the local, national or international market prices;
or

(iii) when neither (i) nor (ii) is applicable, the costs of CNOOC and/or its associates or us and /or our associates for providing the relevant service (including the cost of sourcing or purchasing from third parties) plus a margin of not more than 10%, before any applicable taxes.

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

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

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

Disclosure and/or Independent Shareholders' Approval Requirements

Under the Hong Kong Stock Exchange Listing Rules, the following categories of continuing connected transactions are exempted from the independent shareholders' approval requirement but are subject to the 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;

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- (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 November 27, 2013 for the non-exempt continuing connected transactions and relevant annual caps for the period from January 1, 2014 to December 31, 2016, 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
<i>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</i>	For the three years ending December 31, 2016, Rmb 15,000 million, Rmb 16,100 million and Rmb 17,200 million respectively
(a) Provision of exploration and support services	For the three years ending December 31, 2016 Rmb 47,200 million, Rmb 49,600 million and Rmb 52,100 million, respectively
(b) Provision of oil and gas development and support services	For the three years ending December 31, 2016, Rmb 10,500 million, Rmb 11,600 million and Rmb 12,800 million, respectively
(c) Provision of oil and gas production and support services	For the three years ending December 31, 2016, Rmb 1,408 million,
(d) Provision of marketing, management and ancillary services	For the three years ending December 31, 2016, Rmb 1,408 million,

Rmb 1,875 million and

Rmb 2,075 million, respectively

For the three years ending December 31, 2016,

Rmb 1,450 million,

(e) FPSO vessel leases

Rmb 2,180 million and

Rmb 2,350 million, respectively

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

For the three years ending December 31, 2016,

Rmb 100 million,

Provision of management, technical, facilities and ancillary services, including the supply of materials to CNOOC and/or its associates

Rmb 100 million and

Rmb 100 million, respectively

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

For the three years ending December 31, 2016,

(a) Sales of petroleum and natural gas products (other than long-term sales of natural gas and liquefied natural gas)

Rmb 346,700 million,

Rmb 438,600 million and

Rmb 504,400 million, respectively

For the three years ending December 31, 2016,

Rmb 30,700 million,

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

Rmb 38,900 million and

Rmb 44,700 million, respectively

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A detailed discussion of significant connected transactions entered into in the ordinary course of business between us and our related parties during 2016 and the balances arising from connected transactions at the end of 2016 is included in note 30 to our consolidated financial statements included elsewhere in this annual report.

The non-exempt continuing connected transactions for the year ended December 31, 2016 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, 2016 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.

We expected to continue the continuing connected transactions contemplated under such comprehensive framework agreement after December 31, 2016. Therefore, we entered into a new comprehensive framework agreement with CNOOC on November 15, 2016. The term of the new comprehensive framework agreement is for a period of three years from January 1, 2017. The new 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 the new 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. For details of such relevant annual caps, please refer to the reports in the form of Form 6-K filed by us through EDGAR on November 15, 2016 and November 16, 2016, respectively.

Transactions with CNOOC Finance Corporation Limited

On October 14, 2008, we entered into a financial services framework agreement with CNOOC Finance Corporation Limited (“CNOOC Finance”), our 31.8% owned associate and a subsidiary of CNOOC, pursuant to which CNOOC Finance provides us with settlement, depository, discounting, loans and entrustment loans services. On August 20, 2010, we entered into a renewal agreement with CNOOC Finance to renew such financial services framework agreement.

As the financial services framework agreement (as renewed on August 20, 2010) expired on December 31, 2013, we entered into a new renewal agreement (“New Renewal Agreement”) with CNOOC Finance on November 27, 2013 to further renew the financial services framework agreement for another three years from January 1, 2014 to December 31, 2016. According to the New Renewal Agreement dated November 27, 2013, the maximum daily outstanding balance of deposits (including accrued interests)(excluding funds placed for the purpose of extending entrustment loans pursuant to the entrustment loan services) should not exceed Rmb 22 billion for the period from January 1, 2014 to December 31, 2016. The depository services were exempted from independent shareholders’ approval requirements and the settlement, discounting, loans and entrustment loans services were exempted from all the connected transaction requirements under the Hong Kong Stock Exchange Listing Rules.

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 22 billion from

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January 1, 2016 to December 31, 2016.

We expected to continue the continuing connected transactions contemplated under the New Renewal Agreement after December 31, 2016. Therefore, on December 1, 2016, we entered into a new financial services framework agreement with CNOOC Finance pursuant to which CNOOC Finance continues to provide a range of financial services as may be required and requested by us, for a term of another three years from January 1, 2017 to December 31, 2019. Apart from the duration of the new framework agreement, the pricing policy for the depositary services and update of the address and relevant dates, the new framework agreement is substantially on the same terms as the terms contained in the financial services framework agreement entered into by us on October 14, 2008 (as renewed on August 20, 2010 and November 27, 2013). The continuing connected transactions in respect of the depositary services under the new framework agreement are exempted from independent shareholders' approval requirement, but are 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 Group with CNOOC Finance should not exceed Rmb 19.5 billion for the period from January 1, 2017 to December 31, 2019.

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, 2017, 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, 2017, 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, 2016, 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

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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.

In 2014, we declared and paid dividends totaling Rmb 20,216 million. In 2015, we declared and paid dividends totaling Rmb 20,419 million. In 2016, we declared and paid dividends totaling Rmb 14,244 million (US\$2,052 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. CNOOC China Limited is required to allocate at least 10% of its net profit to the reserve fund until the balance of this fund has reached 50% of its registered capital, which amount was reached in 2009. Appropriations to the staff and workers' bonus and welfare fund, which are determined at the discretion of the directors of CNOOC China Limited, are charged to expense as incurred in our consolidated financial statements, which were prepared under IFRS. In accordance with the "Temporary Regulation for Safety Expense Financial Management of High Risk Industry" and the implementation guidance issued by the Ministry of Finance of the PRC, a safety fund has been accrued for our oil and gas exploration and production activities within the PRC. The accrued safety fund will be utilized for improving the safety conditions of our production. Included in other reserves was a provision for safety fund under the PRC regulation amounting to Rmb 701.4 million (US\$101 million) in 2016, which was Rmb 733.7 million in 2015. None of the contributions of CNOOC China Limited to these statutory funds may be used for dividend purposes.

For the years ended December 31, 2014, 2015 and 2016, CNOOC China Limited made the following appropriations to the statutory reserves:

For the year ended	For the year ended	For the year ended
<u>December 31, 2014</u>	<u>December 31, 2015</u>	<u>December 31, 2016</u>
Percentage (in millions)	Percentage (in millions)	Percentage (in millions)

	<u>of Net Profits</u>		<u>of Net Profits</u>		<u>of Net Profits</u>	
Reserve fund	—	—	—	—	—	—
Staff and workers' bonus and welfare fund	0.2%	102	—	—	—	—
Safety fund	1.1%	692	3.6%	733.7	110.7%	705.1
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) 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 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 “Claim”). The Claim is lodged against COPC and

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CNOOC China Limited (together, the “Defendants”). The Plaintiff requires the Defendants to: (1) restore the ecological environment in the Bohai Bay as damaged by the Penglai 19-3 Oilfield Oil Spill Accidents so that the environment will be brought back to its original condition before the accidents occurred; (2) if the Defendants fail to set up and implement a scientific plan to restore the ecological environment in the Bohai Bay within three months after a court judgment is granted in favor of the Plaintiff, establish a fund specifically for the restoration of the ecological environment in the Bohai Bay. Such fund shall be supervised by a professional public welfare foundation and the total amount of such fund shall be fixed based on the estimated costs for restoring the ecological environment in the Bohai Bay as determined by a professional institution; and (3) bear all litigation costs incurred by the Plaintiff in connection with the Claim. CNOOC China Limited has engaged PRC lawyers in relation to the Claim and is defending the Claim vigorously.

The Company is of the view that the Company’s obligations, if any, arising from the above mentioned accidents (including the Claim disclosed in the paragraph above) shall be determined in accordance with relevant laws and regulations, the PSC and related agreements, among others. Based on evaluations performed as of the date of these consolidated financial statements authorized for issuance, the Company believes that it is not possible to determine provisions, if any, for the Company’s obligation determined in the future arising from the above mentioned accidents (including the Claim disclosed in the paragraph above) in the consolidated financial statements. The financial impact of such oil spill accidents on the Company is still uncertain, and the Company has not made any provision for the accidents in the consolidated financial statements.

- (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 1 January 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.

(c) On July 15, 2015, an emulsion leak from a pipeline was discovered within Nexen’s Long Lake operations, located in south of Fort McMurray, Alberta, Canada. The root cause of the rupture was a thermally-driven upheaval buckling of the pipeline and the subsequent cooldown during the turnaround. This was the result of using an incompatible pipeline design for the muskeg ground conditions. Nexen has submitted investigation findings to the Alberta Energy Regulator, who is still in the process of completing their investigation. The Company is still in the process of evaluating the financial impact of the incident.

The Company places great emphasis on operation safety and has taken measures to minimize the spill’s impact on the environment and wildlife. Since the incident, the Company has been working together with relevant regulatory agencies and has completed clean up at the spill site, with one spring sampling session scheduled for 2017. Nexen is cooperating with the investigation of regulatory agencies.

On January 15, 2016, an explosion occurred at Nexen’s Long Lake site near the hydrocracker unit. Two employees died as a result of the incident. The root cause of the explosion was a result of work being performed that was outside of the scope of approved work activities. The Company is still in the process of evaluating the financial impact of the incident.

The Company maintains insurance policies that provide coverage against property damage, third party pollution clean-up and well control losses. The Company has submitted claims to its insurers on these recent Long Lake losses and each claim is being investigated.

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

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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.

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)		(Cdn\$ per ADS)	
2012	18.10	13.28	232.84	173.82	—	—
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

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2016	10.7	6.42	138.11	85.34	168.95	137.00
2015 Financial Quarter						
1 st Quarter	11.38	10.18	145.82	129.73	181.30	160.50
2 nd Quarter	13.42	10.94	174.88	140.15	210.01	184.30
3 rd Quarter	11.02	7.44	140.78	98.91	168.50	135.00
4 th Quarter	9.52	7.82	121.10	99.33	155.81	137.00
2016 Financial Quarter						
1 st Quarter	9.26	6.42	121.86	85.34	157.50	139.00
2 nd Quarter	10.18	8.59	129.94	110.58	159.00	150.00
3 rd Quarter	9.96	8.85	128.35	115.23	163.00	150.00
4 th Quarter	10.70	9.51	138.11	121.64	183.15	164.00
2017 Financial Quarter						
1 st Quarter	10.04	8.81	129.00	113.25	169.78	160.00
Last Six Months						
October 2016	10.70	9.75	138.11	124.76	183.15	165.01
November 2016	10.24	9.51	132.38	121.64	171.66	164.00
December 2016	10.38	9.57	136.33	123.32	173.70	167.08
January 2017	10.04	9.68	129.00	123.96	169.78	168.95
February 2017	9.75	9.18	125.76	118.69	164.10	160.00
March 2017	9.34	8.81	121.55	113.25	161.43	160.00

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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.

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

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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 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.

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.

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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;

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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

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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.

Currently, gains realized by foreign individual investors upon the sale of overseas-listed shares or American depository 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 depository 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 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

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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;
- 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;
- persons liable for the alternative minimum tax;
- tax-exempt entities, “individual retirement accounts” or “Roth IRAs”;
- persons that own or are deemed to own 10% or more of our voting stock;
- persons who acquired our ADSs or shares pursuant to the exercise of an employee stock option or otherwise as compensation; or
- persons holding shares in connection with a trade or business conducted outside of the United States.

If an entity that is classified as a partnership for U.S. federal income tax purposes 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.

This discussion assumes that we were not a passive foreign investment company, or PFIC, for the taxable year ended December 31, 2016, as described below, and that we will not become a PFIC.

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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 deduction with respect to dividends paid by us.

Subject to applicable limitations and the discussion above regarding concerns expressed by the U.S. Treasury, dividends paid by "qualified foreign corporations" to certain non-corporate U.S. 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).

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

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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, 2016. 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.

Certain U.S. Holders who are individuals (and certain entities closely-held by individuals) may be required to report information relating to their ownership of an interest in certain foreign financial assets, including stock of a non-U.S. entity, subject to certain exceptions (including an exception for publicly traded stock and interests held in custodial accounts maintained by a U.S. financial institution). U.S. Holders are urged to consult their tax advisers regarding the effect, if any, of this requirement on the ownership and disposition of our ADSs or shares.

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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, 2016 to March 31, 2017, Renminbi depreciated approximately 5.88% against U.S. dollar.

Our management has assessed our exposure to foreign currency risk by using a sensitivity analysis on the change in foreign exchange rate of the US dollars, to which we are mainly exposed to as at December 31, 2016. Based on our management's assessment, a 5% change in the foreign exchange rate of the US dollars at December 31, 2016 would have impacted our profit for the year by 6.63%. 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 we have significant exposure with all other variables held constant.

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

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

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, 2016, the interest rates for 95.3% of our outstanding debts were fixed. The term of the weighted average balance was approximately 9.55 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, 2016, the interest rates for 99.1% 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, 2016.

	2017	2018	2019	2020	2021	2022 and after	Total
Long-term loans, including current portion							

(Rmb in millions, except percentages)

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Floating rate Interest rate-Tanggung	215.3	225.1	225.1	225.1	96.9	313.3	1,300.8
	Libor + 0.19%~0.335%	Libor + 0.19%~0.335%	Libor + 0.19%~0.335%	Libor + 0.19%~0.335%	Libor + 0.19%~0.335%	Libor + 0.19%~0.335%	
Interest rate-Tanggung III	Libor + 1.37%~3.45%	Libor + 1.37%~3.45%	Libor + 1.37%~3.45%	Libor + 1.37%~3.45%	Libor + 1.37%~3.45%	Libor + 1.37%~3.45%	
Long-term guaranteed notes, including current portion							
Fixed rate	9,111.0	5,207.3	2,082.9	10,414.5	10,414.5	95,744.0	132,974
Average interest rate	4.31%	4.45%	4.48%	4.57%	4.68%	4.68%	

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.

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B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary shares

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

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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.

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\$350,148 for the year ended December 31, 2016.

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, 2016 that were reimbursed:

Category of Expenses	Amount Reimbursed for Fiscal Year Ended December 31, 2016
	(US\$) ⁽³⁾
Investor relations ⁽¹⁾	87,234
Broker reimbursements ⁽²⁾	10,061
NYSE annual listing fees	75,000
TSX annual listing fees	92,117
TSX Filing fees	41,457
ADR Training fees	43,450
US Representative fee	829
Total	350,148

(1) Includes investor relation service fees and investor relations expenses for road show in 2016.

Broker reimbursements are fees payable to Broadridge and other service providers for the distribution of hard copy 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, 2016:

	Amount Reimbursed for Fiscal Year Ended December 31, 2016
Category of Expenses	(US\$)
Fees waived	150,000

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

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

A. Material Modifications to the Instruments Defining the Rights of Security Holders

None.

B. Material Modifications to the Rights of Registered Securities by Issuing or Modifying any Other Class of Securities

None.

C. Withdrawal or Substitution of a Material Amount of the Assets Securing any Registered Securities

Not applicable.

D. Change of Trustees or Paying Agents for any Registered Securities

Not applicable.

E. Use of Proceeds

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

(a) **Disclosure Controls and Procedures**

An evaluation was carried out under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness, as of December 31, 2016, 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, 2016, 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, 2016 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

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assessment, our management has concluded that our internal control over financial reporting as of December 31, 2016 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, 2016 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 2016.

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.cnooclt.com.

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.

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 45.2 million for 2015 and Rmb 46.7 million (US\$6.7 million) for 2016.

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 8.5 million for 2015 and Rmb 6.0 million (US\$0.9 million) for 2016.

Tax Fees

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The aggregate fees billed for professional service rendered by the principal accountant for tax compliance, tax advice and tax planning were approximately Rmb 0.6 million for 2015 and nil for 2016.

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 Rmb 2.5 million for 2015 and nil for 2016.

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, 2015 and for the financial year ended December 31, 2016.

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 2016, all fees for audit-related services, tax services and all other services paid to our principal accountant were approved by our audit committee.

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

Not applicable.

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

None.

ITEM 16f. Change in Registrant's Certifying Accountant

Not applicable.

ITEM 16g. Corporate Governance

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

Item 16H. MINE SAFETY DISCLOSURE

Not applicable.

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PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

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

ITEM 19. EXHIBITS

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

Exhibit Number	Document
1.1	Articles of Association of the Registrant, as amended in 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).
1.2	Memorandum of Association of the Registrant, incorporated by reference to Exhibit 3.2 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862) and Exhibit 99.1 to Form 6-K furnished with the Securities and Exchange Commission on March 30, 2012 (File number: 1-14966).
2.1	Form of Indenture, incorporated by reference to Exhibit 2.1 to our annual report on Form 20-F for fiscal year 2002 filed with the Securities and Exchange Commission (File Number: 1-14966).
2.2	Trust Deed dated December 15, 2004 among CNOOC Limited, CNOOC Finance (2004) Limited and J.P. Morgan Corporate Trustee Services Limited, incorporated by reference to Exhibit 2.2 to our annual report on Form 20-F for fiscal year 2004 filed with the Securities and Exchange Commission (File Number: 1-14966).

- 2.3 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*.
- 2.4 Indentures dated May 2, 2012 among CNOOC Finance (2012) Limited, as Issuer, CNOOC Limited, as Guarantor, Citicorp International Limited, as Trustee, Citibank, N.A., London Branch, as Paying Agent, and Citigroup Global Markets Deutschland AG, as Registrar*.
- 2.5 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).
- 2.6 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).
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* 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.

* 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.

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- 2.7 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)
- 2.8 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)
- 2.9 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)
- 2.10 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)
- 2.11 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)
- 2.12 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)
- 2.13 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)
- 2.14 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)
- 2.15 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)
- 2.16 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)
- 2.17 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)
- 2.18 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)
- 2.19 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).

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- 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).
- 4.11 Trademark License Agreement dated September 9, 1999 between CNOOC, Offshore Oil Company Limited and CNOOC Limited, incorporated by reference to Exhibit 10.11 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.12 Trademark License Agreement dated September 9, 1999 between China Offshore Oil Marketing Company, CNOOC Limited and Offshore Oil Company Limited, incorporated by reference to Exhibit 10.12 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.13 Trademark License Agreement between CNOOC, CNOOC Limited and CNOOC China Limited, incorporated by 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).
- 4.14 Trademark License Agreement between CNOOC, CNOOC Limited and CNOOC China Limited, incorporated by 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).

- 4.15 Property Leasing Agreement dated September 9, 1999 between Wui Hai Enterprise Company Limited and Offshore Oil Company Limited in respect of the office premises at 6th, 7th and 8th Floors, CNOOC Plaza, No. 6 Dong Zhi Men Wai Xiao Jie, Beijing, incorporated by reference to Exhibit 10.18 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).

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- 4.16 Property Leasing Agreement dated September 9, 1999 between China Offshore Oil Western South China Sea Corporation and Offshore Oil Company Limited in respect of the office premises at 1st to 9th Floors, Nantiao Road, Potou District Zhangjiang, Guangdong, incorporated by reference to Exhibit 10.19 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.17 Property Leasing Agreement dated September 9, 1999 between China Offshore Oil Bohai Corporation and Offshore Oil Company Limited in respect of the office premises at 1st to 7th Floors and 9th Floor, 2-37 He Kou Jie, Tanggu District, Tianjin, incorporated by reference to Exhibit 10.20 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.18 Property Leasing Agreement dated September 9, 1999 between China Offshore Oil East China Sea Corporation and Offshore Oil Company Limited in respect of the office premises at 20th, 22nd and 23rd Floors, 583 Ling Ling Road, Shanghai, the PRC, incorporated by reference to Exhibit 10.21 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.19 Property Leasing Agreement dated September 9, 1999 between China Offshore Oil Eastern South China Sea Corporation and Offshore Oil Company Limited in respect of the office premises at 3rd Floor and 6th to 11th Floors, 1 Second Industrial Road, Shekou, Shenzhen, the PRC, incorporated by reference to Exhibit 10.22 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.20 Property Leasing Agreement dated September 9, 1999 between China Offshore Oil Bohai Corporation and Offshore Oil Company Limited in respect of the Chengbei Warehouse, Chengbei Road, Tanggu District, Tianjin City, the PRC, incorporated by reference to Exhibit 10.23 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.21 Property Leasing Agreement dated September 9, 1999 between Overseas Oil & Gas Corporation, Ltd. and China Offshore Oil (Singapore) International Pte Ltd in respect of the residential premises at 10-01 and 17-002 Aquamarine Tower, 50 Bayshore Road, 13-05 Jade Tower, 60 Bayshore Road, Singapore, incorporated by reference to Exhibit 10.24 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.22 Suizhong Pier Agreement dated September 9, 1999 between Offshore Oil Company Limited and China Offshore Bohai Corporation, incorporated by reference to Exhibit 10.25 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.23 Form of Novation Agreement among CNOOC, CNOOC China Limited, the Banks and other financial institution and the Fuji Bank Limited Hong Kong Branch, as agent, in respect of the transfer of the US\$110 million syndicated loan, incorporated by reference to Exhibit 10.26 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.24 Form of the Undertaking Agreement between CNOOC and CNOOC Limited, incorporated by reference to Exhibit 10.27 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.25 Form of Pre-Global Offering Share Option Scheme for the Senior Management of CNOOC Limited, incorporated by reference to Exhibit 10.31 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.26

Form of Share Option Scheme for the Senior Management of CNOOC Limited, incorporated by reference to Exhibit 10.32 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).

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- 4.27 CNOOC Limited Share Option Scheme adopted on December 31, 2005, incorporated by reference to Exhibit 4.37 to our Annual Report on Form 20-F for fiscal year 2005 filed with the Securities and Exchange Commission (File Number: 1-14966).
- 4.28 Subscription Agreement dated March 17, 2000 among CNOOC Limited, CNOOC (BVI) Limited, Overseas Oil & Gas Corporation, Ltd., et al., incorporated by reference to Exhibit 10.33 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.29 Subscription Agreement dated May 31, 2000 among CNOOC Limited, CNOOC (BVI) Limited, Overseas Oil & Gas Corporation, Ltd. and Hutchison International Limited, incorporated by reference to Exhibit 10.34 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.30 Subscription Agreement dated May 31, 2000 among CNOOC Limited, CNOOC (BVI) Limited, Overseas Oil & Gas Corporation, Ltd. and Hong Kong Electric Holdings Limited, incorporated by reference to Exhibit 10.35 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.31 Subscription Agreement dated June 28, 2000 among CNOOC Limited, CNOOC (BVI) Limited, Overseas Oil & Gas Corporation, Ltd., et al., incorporated by reference to Exhibit 10.36 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.32 Corporation Placing Agreement dated February 6, 2001 among CNOOC Limited, China National Offshore Oil Corporation, Shell Eastern Petroleum (Pte) Limited and Merrill Lynch Far East Limited, incorporated by reference to Exhibit 10.37 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.33 Equity Transfer Agreement dated September 5, 2003 between CNOOC China Limited and CNOOC (Summary Translation), incorporated by reference to Exhibit 4.38 to our annual report on Form 20-F for fiscal year 2003 filed with the Securities and Exchange Commission (File Number: 1-14966).
- 4.34 Framework Agreement dated April 8, 2004 with CNOOC Finance Corporation Limited (Summary Translation), incorporated by reference to Exhibit 4.39 to our annual report on Form 20-F for fiscal year 2003 filed with the Securities and Exchange Commission (File Number: 1-14966).
- 4.35 Framework Agreement dated December 8, 2005 with CNOOC (Summary Translation), incorporated by reference to Exhibit 4.45 to our Annual Report on Form 20-F for fiscal year 2005 filed with the Securities and Exchange Commission (File number: 1-14966).
- 4.36 Framework Agreement dated December 8, 2005 with China Oilfield Services Limited (Summary Translation), incorporated by reference to Exhibit 4.46 to our Annual Report on Form 20-F for fiscal year 2005 filed with the Securities and Exchange Commission (File number: 1-14966).
- 4.37 Framework Agreement dated December 8, 2005 with Offshore Oil Engineering Co., Ltd. (Summary Translation), incorporated by reference to Exhibit 4.47 to our Annual Report on Form 20-F for fiscal year 2005 filed with the Securities and Exchange Commission (File number: 1-14966).
- 4.38 Sale and Purchase Agreement, dated January 8, 2006 between CNOOC Exploration & Production Limited and South Atlantic Petroleum Limited (certain statements, marked with an asterisk in brackets [*], have been omitted from this agreement pursuant to a request for confidential treatment pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended, and the omitted materials have been filed separately in paper

form with the Securities and Exchange Commission), incorporated by reference to Exhibit 4.49 to our Annual Report on Form 20-F for fiscal year 2005 filed with the Securities and Exchange Commission (File number: 1-14966).

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- 4.39 Framework Agreement dated November 8, 2007 with China BlueChemical Ltd. (Summary Translation), incorporated by reference to Exhibit 4.37 to our Annual Report on Form 20-F for fiscal year 2007 filed with the Securities and Exchange Commission (File number: 1-14966).
- 4.40 Framework Agreement dated November 8, 2007 with CNOOC (Summary Translation), incorporated by reference to Exhibit 4.38 to our Annual Report on Form 20-F for fiscal year 2007 filed with the Securities and Exchange Commission (File number: 1-14966).
- 4.41 Framework Agreement dated November 8, 2007 with China Oilfield Services Limited (Summary Translation), incorporated by reference to Exhibit 4.39 to our Annual Report on Form 20-F for fiscal year 2007 filed with the Securities and Exchange Commission (File number: 1-14966).
- 4.42 Framework Agreement dated November 8, 2007 with Offshore Oil Engineering Co., Ltd. (Summary Translation), incorporated by reference to Exhibit 4.40 to our Annual Report on Form 20-F for fiscal year 2007 filed with the Securities and Exchange Commission (File number: 1-14966).
- 4.43 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).
- 4.44 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).
- 4.45 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).
- 4.46 Framework Agreement dated November 15, 2016 with CNOOC (Summary Translation).
- 4.47 Framework Agreement dated December 1, 2016 with CNOOC Finance (Summary Translation).
- 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 2016.
- 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 2016 Reserves Reports of Ryder Scott Company, L.P.
- 15.2 2016 Reserves Reports of Gaffney, Cline & Associates (Consultants) Pte Ltd.

- 15.3 2016 Reserves Report of RPS
- 15.4 2016 Reserves Audit Report of Ryder Scott Company, L.P.
- 15.5 2016 Reserves Audit Report of McDaniel & Associates Consultants Ltd.
- 15.6 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).

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- 15.7 Consent from Ryder Scott Company, L.P.
- 15.8 Consent from Gaffney, Cline & Associates (Consultants) Pte Ltd.
- 15.9 Consent from RPS
- 15.10 Consent from McDaniel & Associates Consultants Ltd.

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Signature

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

CNOOC Limited

By: /s/ Jiewen Li

Name: Jiewen Li

Title: Joint Company Secretary

Date: April 21, 2017

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CNOOC LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016

TOGETHER WITH REPORT OF INDEPENDENT PUBLIC ACCOUNTING FIRM

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of CNOOC Limited

We have audited the accompanying consolidated statements of financial position of CNOOC Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as of December 31, 2016 and 2015, and 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, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2016 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), the Group's internal control over financial reporting as of December 31, 2016, based on the criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 23, 2017 expressed an unqualified opinion on the Group's internal control over financial reporting.

/s/ Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

March 23, 2017

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of CNOOC Limited

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, 2016, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. 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 conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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 the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2016 of the Group and our report dated March 23, 2017 expressed an unqualified opinion on those financial statements.

/s/ Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

March 23, 2017

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Table of Contents**CNOOC LIMITED****CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME****FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016***(All amounts expressed in millions of Renminbi/US\$, except per share data)*

	Notes	2014 RMB million	2015 RMB million	2016 RMB million	2016 US\$ million
REVENUE					
Oil and gas sales	5	218,210	146,597	121,325	17,475
Marketing revenues		50,263	21,422	20,310	2,925
Other income		6,161	3,418	4,855	699
		274,634	171,437	146,490	21,099
EXPENSES					
Operating expenses		(31,180)	(28,372)	(23,211)	(3,343)
Taxes other than income tax	11 (ii)	(11,842)	(10,770)	(6,941)	(1,000)
Exploration expenses		(11,525)	(9,900)	(7,359)	(1,060)
Depreciation, depletion and amortization	7	(58,286)	(73,439)	(68,907)	(9,925)
Special oil gain levy	6	(19,072)	(59)	-	-
Impairment and provision	7,14	(4,120)	(2,746)	(12,171)	(1,753)
Crude oil and product purchases		(47,912)	(19,840)	(19,018)	(2,739)
Selling and administrative expenses		(6,613)	(5,705)	(6,493)	(935)
Others		(3,169)	(3,150)	(4,802)	(691)
		(193,719)	(153,981)	(148,902)	(21,446)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES		80,915	17,456	(2,412)	(347)
Interest income	7	1,073	873	901	130
Finance costs	8	(4,774)	(6,118)	(6,246)	(900)
Exchange gains/(losses), net		1,049	(143)	(790)	(114)
Investment income	7	2,684	2,398	2,774	399
Share of profits/(losses) of associates	16	232	256	(609)	(88)
Share of profit of a joint venture		774	1,647	533	77
Non-operating income, net		560	761	574	83
PROFIT/(LOSS) BEFORE TAX	7	82,513	17,130	(5,275)	(760)
Income tax (expense)/credit		(22,314)	3,116	5,912	852

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(i)

PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT		60,199	20,246	637	92
OTHER COMPREHENSIVE (EXPENSE)/INCOME					
Items that may be subsequently reclassified to profit or loss:					
Net loss on available-for-sale financial assets, net of tax	18	(2,301)	-	-	-
Exchange differences on translation of foreign operations		454	7,979	10,422	1,501
Share of other comprehensive income/(expense) of associates		92	74	(127)	(18)
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	18	-	(1,573)	(461)	(67)
Others		(268)	134	12	2
OTHER COMPREHENSIVE (EXPENSE)/INCOME FOR THE YEAR, NET OF TAX		(2,023)	6,614	9,846	1,418
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT		58,176	26,860	10,483	1,510
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT					
Basic (RMB Yuan)	13	1.35	0.45	0.01	US\$0.002
Diluted (RMB Yuan)	13	1.35	0.45	0.01	US\$0.002

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, 2015 AND 2016***(All amounts expressed in millions of Renminbi/US\$)*

	Notes	2015 RMB million	2016 RMB million	2016 US\$ million
NON-CURRENT ASSETS				
Property, plant and equipment	14	454,141	432,465	62,288
Intangible assets	15	16,423	16,644	2,397
Investments in associates	16	4,324	3,695	532
Investment in a joint venture	17	24,089	26,300	3,788
Equity investments	18, 33	3,771	4,266	615
Deferred tax assets	11 (i)	13,575	24,844	3,578
Other non-current assets	19	7,828	7,422	1,069
Total non-current assets		524,151	515,636	74,267
CURRENT ASSETS				
Inventories and supplies	20	9,263	8,709	1,254
Trade receivables	21	13,173	10,199	1,469
Due from related companies		9,173	13,263	1,910
Derivative financial assets	33	7	428	62
Equity investments	18, 33	14	15	2
Other financial assets	18, 33	71,806	52,889	7,618
Other current assets		6,898	5,977	861
Time deposits with maturity over three months	22	18,010	16,830	2,424
Cash and cash equivalents	22	11,867	13,735	1,978
Total current assets		140,211	122,045	17,578
CURRENT LIABILITIES				
Loans and borrowings	25	29,081	14,867	2,141
Borrowings from the parent company	29	4,504	4,811	693
Trade and accrued payables	23	13,301	10,254	1,477
Due to the parent company	29	144	215	31
Due to related companies	29	19,313	15,091	2,174
Derivative financial liabilities	33	-	426	61
Other payables and accrued liabilities	24	13,390	14,651	2,110
Taxes payable		4,647	6,775	976

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Total current liabilities		84,380	67,090	9,663
NET CURRENT ASSETS		55,831	54,955	7,915
TOTAL ASSETS LESS CURRENT LIABILITIES		579,982	570,591	82,182
NON-CURRENT LIABILITIES				
Loans and borrowings	25	131,060	130,798	18,839
Provision for dismantlement	26	49,503	50,426	7,263
Deferred tax liabilities	11 (i)	11,627	5,670	817
Other non-current liabilities		1,751	1,326	190
Total non-current liabilities		193,941	188,220	27,109
Net assets		386,041	382,371	55,073
EQUITY				
Equity attributable to owners of the parent				
Issued capital	27	43,081	43,081	6,205
Reserves	28	342,960	339,290	48,868
Total equity		386,041	382,371	55,073

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

Table of Contents**CNOOC LIMITED****CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY****FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016***(All amounts expressed in millions of Renminbi)*

	Attributable to owners of the parent						Proposed final dividend	Total
	Issued capital	Share premium and capital redemption reserve	Cumulative translation reserve	Statutory and non- distributable reserves	Other reserves	Retained earnings		
Balance at January 1, 2014	949	42,132	(21,372)	20,000	8,974	279,668	11,269	341,620
Profit for the year	-	-	-	-	-	60,199	-	60,199
Other comprehensive income/(expense), net of income tax	-	-	454	-	(2,477)	-	-	(2,023)
Total comprehensive income/(expense)	-	-	454	-	(2,477)	60,199	-	58,176
Transfer upon abolition of par value under the Hong Kong Companies Ordinance **	42,132	(42,132)	-	-	-	-	-	-
2013 final dividend	-	-	-	-	-	(71)	(11,269)	(11,340)
2014 interim dividend	-	-	-	-	-	(8,846)	-	(8,846)
Proposed 2014 final dividend	-	-	-	-	-	(11,325)	11,325	-
Balance at December 31, 2014	43,081	-	(20,918)	20,000	6,497	319,625	11,325	379,610
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 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*

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Table of Contents**CNOOC LIMITED****CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY****FOR THE YEARS ENDED DECEMBER 31, 2014, 2015 AND 2016 (continued)***(All amounts expressed in millions of Renminbi)*

	Attributable to owners of the parent							Proposed final dividend	Total
	Share	premium and capital redemption reserve	Cumulative translation reserve	and non- distributable reserves	Other reserves	Retained earnings			
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	

* These reserve accounts comprise the consolidated reserves of approximately RMB339,290 million (December 31, 2015: RMB342,960 million) in the consolidated statement of financial position.

** The Hong Kong Companies Ordinance (Cap. 622), becoming effective on 3 March 2014, abolishes the concept of nominal value and requirements for authorized share capital.

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, 2014, 2015 AND 2016***(All amounts expressed in millions of Renminbi/US\$)*

	Notes	2014 RMB million	2015 RMB million	2016 RMB million	2016 US\$ million
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash generated from operations	31	142,682	96,095	82,137	11,830
Income taxes paid		(32,174)	(16,000)	(9,274)	(1,336)
Net cash flows from operating activities		110,508	80,095	72,863	10,494
CASH FLOWS FROM INVESTING ACTIVITIES					
Capital expenditure		(95,673)	(67,674)	(51,347)	(7,396)
Additions to investments in associates		-	(9)	(221)	(32)
Decrease in time deposits with maturity over three months		3,383	4,825	1,180	170
Dividends received from an associate		153	164	135	19
Dividends received from a joint venture		-	32	-	-
Interest received		1,041	812	1,010	145
Investment income received		2,331	2,177	2,013	290
Purchase of current available-for-sale financial assets		(105,718)	-	-	-
Purchase of other financial assets		-	(122,030)	(62,900)	(9,059)
Purchase of equity investments		-	(236)	(63)	(9)
Proceeds from sale of current available-for-sale financial assets		102,587	-	-	-
Proceeds from sale of other financial assets		-	104,900	81,675	11,764
Proceeds from disposal of property, plant and equipment		1,719	544	532	77
Proceeds from disposal of an associate		-	-	33	5
Net cash flows used in investing activities		(90,177)	(76,495)	(27,953)	(4,026)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issuance of guaranteed notes		24,578	23,184	-	-
Repayment of guaranteed notes		-	(789)	(4,866)	(701)
Proceeds from bank loans		12,789	20,541	4,293	618
Repayment of bank loans		(32,523)	(24,127)	(23,412)	(3,372)
Dividends paid		(20,216)	(20,419)	(14,153)	(2,038)
Interest paid		(4,114)	(5,283)	(5,102)	(735)
Net cash flows used in financing activities		(19,486)	(6,893)	(43,240)	(6,228)

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NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	845	(3,293)	1,670	240	
Cash and cash equivalents at beginning of year	14,318	14,918	11,867	1,709	
Effect of foreign exchange rate changes, net	(245)	242	198	29	
CASH AND CASH EQUIVALENTS AT END OF YEAR	22	14,918	11,867	13,735	1,978

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

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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.

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

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

China Offshore Oil (Singapore) International Pte Ltd					Sales and marketing of petroleum products outside the PRC
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 ⁽²⁾	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

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
Indirectly held subsidiaries(continued)⁽¹⁾:				
CNOOC Iraq Limited	British Virgin Islands	US\$1 100 common shares	100%	Providing services of petroleum exploration and development in the Republic of Iraq
CNOOC Canada Energy Ltd.	Canada	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
	USA	US\$15,830	100%	

Nexen Petroleum Offshore U.S.A. Inc.				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 ⁽³⁾	Brazil	R\$2,436,000,000	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 Deepwater Development Limited increased from RMB8.5 billion to RMB20.3 billion on 21 November 2016.

(3) The registered capital of CNOOC PETROLEUM BRASIL LTDA increased from R\$2,186,000,000 to R\$2,436,000,000 on 30 September 2016.

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.

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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) which came into effect on March 3, 2014. A summary of the significant accounting policies adopted by the Group is set out below.

The provisions of the Hong Kong Companies Ordinance (Cap.622) regarding preparation of accounts and directors' report and audits became effective, and has been adopted by the Company for the financial year ended December 31, 2016 and 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the Hong Kong Companies Ordinance (Cap.622). Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended December 31, 2016 and 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended December 31, 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor Hong Kong Companies Ordinance (Cap. 32) or Listing Rules but not under the Hong Kong Companies Ordinance (Cap.622) or amended Listing Rules are not disclosed in these consolidated financial statements.

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, 2016 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, 2015, except for the first time adoption of the amendments to IFRSs/HKFRSs effective for the Group's financial year beginning on January 1, 2016. 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. Impact of early adoption of IFRS 9/HKFRS 9 (2009) Financial Instruments is described as below.

Early adopted before mandatory effective dates

IFRS 9/HKFRS 9 (2009) - Financial Instruments

The Group has applied IFRS 9/HKFRS 9 (2009) from year 2015. The Group has chosen January 1, 2015 as its date of initial application (i.e. the date on which the Group has reassessed the classification of its financial assets in accordance with requirements of IFRS 9/HKFRS 9 (2009)). The classification is based on the facts and circumstances as at January 1, 2015. In accordance with transition provisions set out in IFRS 9/HKFRS 9 (2009), the Group has chosen not to restate comparative information and has provided additional disclosures in accordance with IFRS 7/HKFRS 7 Financial Instruments – Disclosures in these consolidated financial statements for the year ended 31 December 2016, and any difference between the measurement under IAS 39/HKAS 39 Financial Instruments: Recognition and Measurement and IFRS 9/HKFRS 9 (2009) as at January 1, 2015 is recognized in the opening retained earnings and other reserves at the date of initial application, if any. IFRS 9/HKFRS 9 (2009) does not apply to financial assets that have already been derecognized at date of initial application. Other than the changes in classification of certain financial assets, the changes in accounting policies had no material financial impact on the amounts recognized on the consolidated statement of financial position of the Group as at January 1, 2015.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

Early adopted before mandatory effective dates (continued)

IFRS 9/HKFRS 9 (2009) - Financial Instruments (continued)

IFRS 9/HKFRS 9 (2009) introduces new classification and measurement requirements for financial assets that are within the scope of IAS 39/ HKAS 39. Specifically, IFRS 9/ HKFRS 9 (2009) requires all financial assets to be classified and subsequently measured at either amortized cost or fair value on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

As required by IFRS 9/HKFRS 9 (2009), debt instruments and hybrid contracts are subsequently measured at amortized cost only if (i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (collectively referred to as the "amortized cost criteria"). If either of the two criteria is not met, the debt instruments are classified as at fair value through profit or loss ("FVTPL").

However, the Group may choose at initial recognition to designate a debt instrument that meets the amortized cost criteria as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch. Debt instruments that are subsequently measured at amortized cost are subject to impairment.

Investments in equity instruments are classified and measured as at FVTPL except when the equity investment is not held for trading and is designated by the Group as at fair value through other comprehensive income ("FVTOCI"). If the equity investment is designated as at FVTOCI, all gains and losses are recognized in other comprehensive income and are not subsequently reclassified to profit or loss, except for dividend income that is generally recognized in profit or loss in accordance with IAS 18/ HKAS 18 Revenue.

The directors have reviewed and reassessed the Group's existing financial assets at 1 January 2015 based on the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets and concluded that the Group's financial assets, previously classified as "loans and receivables" under IAS 39/ HKAS 39 are held within a business model whose objective is to hold these financial assets in order to collect contractual cash flows that are solely payments of principal and interest. In addition, the directors concluded that the Group's investments in certain equity securities that previously classified as available-for-sale investments under IAS 39/ HKAS 39 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 under IFRS 9/ HKFRS 9 (2009) as the directors believe that this provides a more meaningful presentation than reflecting changes in fair value in profit or loss. Other equity investments are classified as FVTPL.

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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)

Early adopted before mandatory effective dates (continued)

IFRS 9/HKFRS 9 (2009) - Financial Instruments (continued)

The initial application of IFRS 9/HKFRS 9 (2009) has affected the classification of financial assets of the Group, its joint venture/ associates and the Group's other reserves and retained earnings as at January 1, 2015 as follows:

(i) the Group's publicly traded equity investments (not held for trading) of RMB 2,958 million that were previously classified as available-for-sale investments and measured at fair value at each reporting date under IAS 39/ HKAS 39 have been designated as at FVTOCI;

(ii) the Group's non-publicly traded equity investments (not held for trading) of RMB 2,258 million previously classified as available-for-sale investments and measured at fair value at each reporting date or at cost less impairment under IAS 39/HKAS 39 have been designated as at FVTOCI. The carrying amounts of the investments previously measured at cost less impairment represent an appropriate estimate of their fair values as at January 1, 2015, as insufficient more recent information is available to measure their fair values;

(iii) the Group's equity investments of RMB 134 million previously classified as available-for-sale investments and measured at fair value at each reporting date under IAS 39/ HKAS 39 have been classified as at FVTPL;

(iv) the Group's investment in liquidity funds of RMB5,453 million and corporate wealth management products of RMB48,564 million that were previously classified as available-for-sale investments and measured at fair value at each reporting date under IAS 39/ HKAS 39 have been classified as FVTPL;

(v) The investment in publicly traded investments (not held for trading) of the Group's joint venture/associates that were previously classified as available-for-sale investments and measured at fair value at each reporting date under IAS 39/ HKAS 39 have been designated as FVTOCI; and

(vi) The investment in non-publicly traded investments (not held for trading) of the Group's joint venture/associates previously classified as available-for-sale investments and measured at fair value at each reporting date or at cost less impairment under IAS 39/ HKAS 39 have been designated as at FVTOCI.

The list below illustrates the classification and measurement of the financial assets under IAS 39/HKAS 39 and IFRS 9/HKFRS 9 (2009) at January 1, 2015, the date of initial application.

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)****Early adopted before mandatory effective dates (continued)***IFRS 9/HKFRS 9 (2009) - Financial Instruments (continued)*

	Original measurement category under IAS 39/HKAS 39	New measurement category under IFRS 9/HKFRS 9 (2009)	Original carrying amount under IAS 39/HKAS 39	New carrying amount under IFRS 9/HKFRS 9 (2009)
Publicly traded equity investments-MEG Energy Corporation ("MEG") (Note 18)	Available-for-sale investments	Financial assets designated as at	2,958	2,958
Publicly traded equity investments-others (Note 18)	Available-for-sale investments	FVTOCI Financial assets at	134	134
Non-publicly traded equity investments (Note 18)	Available-for-sale investments	FVTPL Financial assets designated as at	2,258	2,258
Derivative Financial assets (Note 33)	Financial assets at FVTPL	FVTOCI Financial assets at FVTPL	303	303

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Other financial assets: liquidity funds (Note 18)	Available-for-sale investments	Financial assets at	5,453	5,453
Other financial assets: corporate wealth management products (Note 18)	Available-for-sale investments	FVTPL Financial assets at	48,564	48,564
Trade receivables (Note 21)	Loans and receivables	FVTPL Financial assets at	29,411	29,411
Time deposits with maturity over three months (Note 22)	Loans and receivables	amortized cost Financial assets at	22,835	22,835
Cash and cash equivalent (Note 22)	Loans and receivables	amortized cost Financial assets at	14,918	14,918
Other non-current assets-dismantlement fund deposits (Note 19)	Loans and receivables	amortized cost Financial assets at	3,981	3,981
Other current assets	Loans and receivables	amortized cost Financial assets at	8,573	8,573
		amortized cost		

In relation to the equity investments (not held for trading), the Group has made an irrevocable election to present subsequent changes in their fair value in other comprehensive income under IFRS 9/HKFRS 9 (2009), which will not be reclassified to profit or loss on disposal or impairment of the relevant investments. Under IAS 39/HKAS 39, when an available-for-sales equity investment is disposed of or impaired, the cumulative gain or loss is reclassified from other comprehensive income to profit or loss. Should the Group have not early adopted IFRS 9/HKFRS 9 (2009), the Group's basic and diluted earnings per share would have been RMB0.41 yuan for the year ended December 31, 2015. There is no material impact on the basic and diluted earnings per share for the year ended December 31, 2014.

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)**

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 (2014)	Financial Instruments ¹
IFRS 15/ HKFRS 15	Revenue from Contracts with Customers ²
IFRS 16/HKFRS 16	Leases ³
IFRIC 22	Foreign Currency Transactions and Advance Consideration ²
Amendments to IFRS 2/HKFRS 2	Classification and Measurement of Share-based Payment Transactions ²
Amendments to IFRS 15/HKFRS 15	Clarifications to IFRS 15/HKFRS 15 Revenue from Contracts with Customers ²
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 ⁴
Amendments to IAS 7/HKAS 7	Disclosure Initiative ⁵
Amendments to IAS 12/HKAS 12	Recognition of Deferred Tax Assets for Unrealized Losses ⁵
Amendments to IAS 40	Transfers of Investment Property ²
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014-2016 Cycle ⁶

1 Effective for annual periods beginning on or after January 1, 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 January 1, 2018

3 Effective for annual periods beginning on or after January 1 2019

4. Effective for annual periods beginning on or after a date to be determined

5 Effective for annual periods beginning on or after January 1, 2017

6 Effective for annual periods beginning on or after January 1, 2012017 or January 1 2018, as appropriate

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.

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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, 2016.

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.

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 expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets 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.

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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 cash-generating unit (group of cash-generating units) 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. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated statement of profit or loss and other comprehensive income and consolidated reserves, respectively. 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.

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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. The Group's share of the post-acquisition results and reserves of joint ventures is included in the consolidated statement of profit or loss and other comprehensive income and consolidated reserves, respectively. 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;

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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.

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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.

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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

Classification and subsequent measurement prior to January 1, 2015

Financial assets within the scope of IAS 39/HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognized initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way purchases or sales) are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and bank balances, trade and other receivables, equity and debt investments, and derivative financial instruments.

The subsequent measurement of financial assets depends on their classifications as follows:

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Classification and subsequent measurement prior to January 1, 2015 (continued)

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets designated upon initial recognition at fair value through profit or loss and financial assets classified as held-for-trading. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in profit or loss in the period. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognized in accordance with the policies set out for "Revenue recognition" below.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

(c) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments

are subsequently measured at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the investments are derecognized or impaired, as well as through the amortization process.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for a long period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial assets are measured at fair value, with unrealized gains or losses recognized as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit or loss, or until the investment is determined to be impaired, at which time the cumulative loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognized in profit or loss in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

Classification and subsequent measurement on and after January 1, 2015

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.

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 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. The Group has not designated any debt instrument as at FVTPL on initial application of IFRS 9/HKFRS 9 (2009) and during the year.

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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Classification and subsequent measurement on and after January 1, 2015 (continued)

(c) Financial assets at 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. Designation at FVTOCI is not permitted if the equity investment is held for trading.

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.

The Group has designated certain investments in equity instruments (publicly traded or non-publicly traded) that are not held for trading as at FVTOCI on initial application of IFRS 9/HKFRS 9 (2009).

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.

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 33.

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.

(a) Assets carried at amortized cost

If there is objective evidence that an impairment loss on financial assets measured at amortized loans and receivables or held-to-maturity investments carried 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

(a) Assets carried at amortized cost (continued)

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or 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.

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.

(b) Assets carried at cost

Prior to January 1, 2015, if there is objective evidence that an impairment loss has incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

(c) Available-for-sale financial assets

Prior to January 1, 2015, if an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is removed from other comprehensive income and recognized in profit or loss.

Prior to January 1, 2015, equity investments are impaired if there is a significant or prolonged decline in fair value of the investment below its cost or where other objective evidence of impairment exists. Impairment of debt instruments is assessed based on the same criteria as assets carried at amortized cost. Impairment losses on equity instruments are not reversed through profit or loss; increases in their fair value after impairments are recognized directly in equity. Impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

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.

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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 other payables 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 within "Finance costs" 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

A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or expires.

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 "Finance costs" 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.

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(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 purchased 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 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.

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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 27.

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, 2016 and 2015.

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 Renminbi ("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.

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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.

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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 as 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 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 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, which the Company expects to decrease further as a result of sustained lower oil and gas prices, and the 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 Group'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.

4. 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: exploration and production ("E&P"), trading business and corporate. These segments are determined primarily because the Group's chief operating decision maker makes key operating decisions and assesses performance of the segment separately. The Group evaluates the performance of each segment based on segment profit or loss. The geographical information is separately disclosed in (b).

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Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***4 SEGMENT INFORMATION (continued)**

(a) Segment results (continued)

The following table presents the segment financial information for the Group for the years ended December 31, 2014, 2015 and 2016.

	E&P			Trading business			Corporate			Eliminations	
	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015
External revenue	208,361	137,243	114,935	65,643	33,777	30,986	630	417	569	-	-
Intersegment revenue*	15,380	12,339	10,676	(15,380)	(12,339)	(10,676)	242	85	113	(242)	(85)
Total revenue	223,741	149,582	125,611	50,263	21,438	20,310	872	502	682	(242)	(85)
Segment profit/(loss) for the year	54,846	15,695	(346)	983	879	656	4,620	6,048	30,701	(250)	(242)
Amounts included in the measure of segment profit or loss											
Operating expenses	(31,180)	(28,372)	(23,220)	-	-	-	-	-	-	-	-
Taxes other than income tax	(11,802)	(10,748)	(6,901)	-	7	-	(40)	(29)	(40)	-	-
Exploration expenses	(11,680)	(9,973)	(7,393)	-	-	-	-	-	-	155	73
Depreciation, depletion and	(57,407)	(72,665)	(68,333)	(417)	(324)	(144)	(484)	(509)	(470)	22	59

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amortization												
Impairment and provision	(4,147)	(2,690)	(12,180)	27	(56)	9	-	-	-	-	-	-
Selling and administrative expenses	(3,651)	(3,644)	(4,920)	(862)	(340)	(296)	(2,166)	(1,733)	(1,307)	66		12
Interest income	125	147	217	1	-	1	1,801	1,028	1,805	(854)		(3
Finance costs	(2,813)	(3,407)	(3,384)	(3)	(1)	(1)	(2,997)	(3,369)	(4,183)	1,039		65
Share of profits/(losses) of associates and a joint venture	12	(117)	(63)	-	-	-	994	2,020	(13)	-		-
Income tax (expense)/credit	(24,903)	44	3,811	(114)	(8)	(24)	2,703	3,080	2,125	-		-
Other segment information												
Investments in associates and a joint venture	953	800	737	-	-	-	24,297	27,613	29,258	-		-
Others	524,702	532,765	497,413	8,671	3,336	1,898	368,648	344,037	342,810	(264,412)		(2
Segment assets	525,655	533,565	498,150	8,671	3,336	1,898	392,945	371,650	372,068	(264,412)		(2
Segment liabilities	(381,342)	(364,056)	(331,339)	(7,142)	(2,243)	(947)	(111,311)	(145,475)	(138,352)	216,546		23
Capital expenditure	106,593	66,122	49,122	16	11	-	794	386	395	-		-

* Certain oil and gas produced by the E&P segment are sold via 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)***4. 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, 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. 70% (2015: 73%, 2014: 65%) 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, 2014, 2015 and 2016.

	PRC			Canada			Others			Consolidated		
	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016
Property, plant and equipment	206,144	193,359	174,853	101,644	105,383	103,173	155,434	155,399	154,439	463,222	454,141	432,746
Investments in associates/a joint venture	3,317	3,499	3,451	783	816	-	21,150	24,098	26,544	25,250	28,413	29,403
Other non-current assets	5,246	7,087	6,593	643	694	731	85	47	98	5,974	7,828	7,401

(c) Information about major customers

The current year's revenue of approximately RMB9,659 million (2015: approximately RMB14,692 million, 2014: approximately RMB25,055 million) was derived from sales by the E&P segment and the trading business segment to China Petroleum & Chemical Corporation. Sales to CNOOC Group refer to Note 29 (iii).

5. OIL AND GAS SALES

	2014	2015	2016
Gross sales	227,544	150,618	124,648
Less: Royalties	(6,433)	(2,646)	(2,398)
PRC government's share of oil	(2,901)	(1,375)	(925)
Oil and gas sales	218,210	146,597	121,325

6. 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.

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***7. PROFIT/(LOSS) BEFORE TAX**

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	2014	2015	2016
Crediting:			
Interest income from bank deposits	(1,073)	(873)	(901)
Investment income:			
– Net gain from sale of available-for-sale financial assets	(2,684)	-	-
– Fair value changes on other financial assets	-	(2,398)	(2,774)
	(2,684)	(2,398)	(2,774)
Insurance compensation on disposal of property, plant and equipment	(334)	(560)	(520)
Charging:			
Auditors' remuneration:			
– Audit fee	47	45	47
– Other fees	18	12	6
	65	57	53
Employee wages, salaries, allowances and social security costs	8,751	6,924	6,403
Impairment and provision:			
– Property, plant and equipment	4,114	2,358	10,768
– Trade receivables	(31)	4	1,439
– Others	37	384	(36)
	4,120	2,746	12,171
Depreciation, depletion and amortization:			
– Property, plant and equipment	57,212	72,293	68,303
– Intangible assets	1,398	1,306	1,020
– Less: Net amount capitalized	(324)	(160)	(416)

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	58,286	73,439	68,907
Operating lease rentals:			
– Office properties	508	438	485
– Plant and equipment	1,741	2,448	1,747
	2,249	2,886	2,232
Repairs and maintenance	6,342	5,034	4,052
Research and development costs	1,821	1,629	1,424
(Gain)/loss on disposal of property, plant and equipment	(1,158)	718	78

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Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***8. FINANCE COSTS**

	2014	2015	2016
Interest on bank loans	415	291	217
Interest on other loans	3,813	4,701	5,249
Other borrowing costs	1	76	25
Total borrowing costs	4,229	5,068	5,491
Less: Amount capitalized in property, plant and equipment (note 14)	(1,842)	(1,385)	(1,430)
	2,387	3,683	4,061
Other finance costs:			
Unwinding of discount on provision for dismantlement (note 26)	2,387	2,435	2,185
	4,774	6,118	6,246

The effective interest rates used to determine the amount of related borrowing costs for capitalization varied from 0.7566% to 7.875% (2015: from 0.735% to 7.875% , 2014: from 0.64775% to 7.875%) per annum during the year ended at December 31, 2016.

9. 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

Salaries	Total
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	allowances and benefits	Performance related bonuses	Pension scheme contributions	paid/payable during the year
Fees ⁽¹⁾	in kind ⁽¹⁾	bonuses ⁽¹⁾		
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2014				
Executive directors:				
Li Fanrong ⁽⁷⁾	753	-	78	831
Wu Guangqi ⁽⁹⁾⁽¹⁰⁾	753	-	70	823
Subtotal	1,506	-	148	1,654
Non-executive directors:				
Wang Yilin ⁽⁵⁾	840	-	-	840
Yang Hua ⁽⁵⁾⁽⁷⁾	753	-	-	753
Lv Bo ⁽²⁾⁽¹⁰⁾	753	-	-	753
Zhang Jianwei ⁽²⁾⁽³⁾	690	-	-	690
Wang Jiaxiang ⁽²⁾⁽⁶⁾	753	-	-	753
Subtotal	3,789	-	-	3,789
Independent non-executive directors:				
Chiu Sung Hong	887	-	-	887
Lawrence J. Lau	753	-	-	753
Tse Hau Yin, Aloysius	887	-	-	887
Wang Tao ⁽⁴⁾	125	-	-	125
Kevin G. Lynch ⁽⁴⁾	628	-	-	628
Subtotal	3,280	-	-	3,280
Total	8,575	-	148	8,723

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***9. 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 ⁽¹⁾ RMB'000	Total paid/payable during the year RMB'000
2015					
Executive directors:					
Li Fanrong ⁽⁷⁾	-	170	470	117	757
Wu Guangqi ⁽⁹⁾⁽¹⁰⁾	-	170	470	117	757
Subtotal	-	340	940	234	1,514
Non-executive directors:					
Wang Yilin ⁽⁵⁾	-	-	-	-	-
Yang Hua ⁽⁵⁾⁽⁷⁾	-	-	-	-	-
Lv Bo ⁽²⁾⁽¹⁰⁾	-	-	-	-	-
Wang Jiaxiang ⁽²⁾⁽⁶⁾	-	-	-	-	-
Subtotal	-	-	-	-	-
Independent non-executive directors:					
Chiu Sung Hong	899	-	-	-	899
Lawrence J. Lau	763	-	-	-	763
Tse Hau Yin, Aloysius	899	-	-	-	899
Kevin G. Lynch ⁽⁴⁾	763	-	-	-	763
Subtotal	3,324	-	-	-	3,324
Total	3,324	340	940	234	4,838

2016

Executive directors:

Yang Hua ⁽⁵⁾⁽⁷⁾	-	-	-	-	-
Yuan Guagnyu ⁽⁷⁾	-	94	78	70	242
Li Fanrong ⁽⁷⁾	-	92	454	59	605

Subtotal	-	186	532	129	847
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Non-executive directors:

Liu Jian ⁽⁸⁾	-	-	-	-	-
Wu Guangqi ⁽⁹⁾⁽¹⁰⁾	-	92	454	59	605
Lv Bo ⁽²⁾⁽¹⁰⁾	-	-	-	-	-

Subtotal	-	92	454	59	605
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Independent non-executive directors:	957	-	-	-	957
Chiu Sung Hong	812	-	-	-	812
Lawrence J. Lau	957	-	-	-	957
Tse Hau Yin, Aloysius	812	-	-	-	812
Kevin G. Lynch ⁽⁴⁾	3,538	-	-	-	3,538
Subtotal					
Total	3,538	278	986	188	4,990

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CNOOC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

9. KEY MANAGEMENT PERSONNEL'S REMUNERATION (continued)

(i) Directors' remuneration (continued)

Notes:

Fees, salaries, allowances, benefits in kind and performance related bonuses represent the gross amount (before (1) applicable individual salary tax) paid/payable to individual directors. All the executive directors have voluntarily waived their salaries, allowances, benefits in kind and performance related bonuses in 2014.

(2) On January 1, 2014, each of Mr. Lv Bo, Mr. Zhang Jianwei and Mr. Wang Jiaxiang was appointed as a non-executive director of the Company.

(3) On November 17, 2014, Mr. Zhang Jianwei resigned as a non-executive director of the Company.

(4) On March 1, 2014, Mr. Kevin G. Lynch was appointed as an independent non-executive director of the Company and Mr. Wang Tao retired as an independent non-executive director of the Company.

(5) On May 19, 2015, Mr. Yang Hua was appointed as Chairman of the Board and Chairman of the Nomination Committee of the Company and 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.

(6) On September 23, 2015, Mr. Wang Jiaxiang retired as a non-executive director of the Company.

(7) 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.

(8) On 20 December 2016, Mr. Liu Jian was appointed as the Vice Chairman and a Non-executive Director of the Company.

(9) 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.

(10) 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.

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 2014, 2015 or 2016. 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 2014, 2015 or 2016. Further details of share option scheme and valuation techniques are set out in note 27.

Save as disclosed above, there was no arrangement under which a director waived or agreed to waive any remuneration during the year. In 2016, 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.

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	2014	2015	2016
Short term employee benefits	8	8	7
Pension scheme contributions	1	1	1
Amount paid/payable during the year	9	9	8
Share options*	-	-	-
	9	9	8

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		
	2014	2015	2016
Nil to RMB 2,000,000	10	10	10
	10	10	10

* 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 2014, 2015 or 2016.

10. FIVE HIGHEST PAID EMPLOYEES

During the year, none (2015: none; 2014: none) of the Directors, details of whose remuneration are disclosed in note 9 (i) above, received an amount which falls within the category of the five highest paid employees. Details of the remuneration of the five (2015: five; 2014: five) highest paid employees, who are not the Directors, for the year are as follows:

	2014	2015	2016
Fees ⁽¹⁾	-	-	-
Basic salaries, allowances and benefits in kind ⁽¹⁾	18	22	23
Performance-related bonuses	16	17	14
Pension scheme contributions	1	1	1
Amount paid/payable during the year	35	40	38

⁽¹⁾ Fees and salaries, allowances, and benefits in kind represent the gross amount (before applicable individual salary tax) paid/payable to individual employees.

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The remuneration of the five (2015: five, 2014: five) highest paid employees, who are not the directors, falls within the following bands:

	2014	2015	2016
RMB5,500,001 to RMB6,000,000	1	-	1
RMB6,000,001 to RMB6,500,000	1	-	-
RMB7,000,001 to RMB7,500,000	1	3	-
RMB7,500,001 to RMB8,000,000	1	-	3
RMB8,500,001 to RMB9,000,000	1	-	-
RMB9,000,001 to RMB9,500,000	-	2	1
	5	5	5

11. 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 % (2015: 16.5%, 2014: 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 ending December 31, 2017, after being assessed as a high new technology enterprise.

Subsidiaries of the Group domiciled outside the PRC are subject to income tax at rates ranging from 10% to 50% (2015: 10% to 56%, 2014: 10% to 62%). 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, 2016, 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.

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An analysis of the tax expense/ (credit) in the Group's consolidated statement of profit or loss and other comprehensive income is as follows:

	2014	2015	2016
Current tax			
Provision for PRC enterprise income tax on the estimated taxable profits for the year	16,609	9,990	7,547
Provision for overseas enterprise income tax on the estimated taxable profits for the year	14,083	3,501	2,983
Deferred tax			
Temporary differences in the current year	(8,378)	(12,585)	(14,595)
Effect of changes in tax rates	-	(4,022)	(1,847)
Income tax expense/(credit) for the year	22,314	(3,116)	(5,912)

A reconciliation of the PRC statutory corporate income tax rate to the effective income tax rate of the Group is as follows:

	2014	2015	2016
	%	%	%
PRC statutory enterprise income tax rate	25.0	25.0	25.0
Effect of different tax rates for overseas subsidiaries	7.1	(5.8)	34.8
Effect of changes in tax rates	-	(23.5)	35.0
Tax credit from the government	(2.2)	(11.5)	8.3
Tax reported in equity-accounted entities	(0.1)	(0.4)	1.0
Tax losses previously not recognized	(3.3)	(1.9)	5.3
Others	0.5	(0.1)	2.7

Group's effective income tax rate 27.0 (18.2) 112.1

The movements of deferred tax liabilities net of deferred tax assets are as follows:

	2014	2015	2016
At January 1	22,633	14,312	(1,948)
Credit to the profit or loss	(8,378)	(12,585)	(14,595)
Changes in tax rates	-	(4,022)	(1,847)
Charge to equity	(92)	141	(226)
Exchange differences	149	206	(558)
At December 31	14,312	(1,948)	(19,174)

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11. TAX (continued)

(i) Income tax (continued)

Principal components of deferred tax balances are as follows:

	2015	2016
Deferred tax assets		
Property, plant and equipment	476	1,681
Provision for dismantlement	9,891	9,325
Losses available for offsetting against future taxable profit	15,505	21,163
Fair value of long term borrowings	1,926	1,969
Others	746	1,389
	28,544	35,527
Deferred tax liabilities		
Property, plant and equipment	(26,318)	(16,208)
Fair value changes on other financial assets	(226)	(139)
Others	(52)	(6)
	(26,596)	(16,353)
Net deferred tax assets	1,948	19,174
Of which – deferred tax assets	13,575	24,844
deferred tax liabilities	(11,627)	(5,670)

As at December 31, 2016, the Group had approximately RMB82,288 million (December 31, 2015: RMB57,325 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 9 to 20 years.

Deferred tax assets in respect of tax losses are recognized only to the extent of the anticipated future taxable profits arising from the reversal of existing taxable temporary differences.

As at December 31, 2016, the Group's recognized deferred tax assets on tax losses amounted to RMB68,061 million (December 31, 2015: RMB49,327 million). Unrecognized tax losses, where recovery is not currently expected, amounted to RMB14,227 million (December 31, 2015: RMB7,998 million). This includes RMB3,207 million (2015: RMB1,343 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, 2016, the Group's unrecognized deferred tax assets related to unused tax credits amounted to RMB5,761 million (2015: RMB5,790 million). This includes RMB4,807 million (2015: RMB4,664 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 recognised 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

11.

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 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.

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 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.

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	2014	2015	2016
Dividend per ordinary share:			
2016 interim dividend - HK\$0.12 (2015: interim dividend HK\$0.25, 2014: interim dividend HK\$0.25) per ordinary share	8,846	9,145	4,673
2015 final dividend - HK\$0.25 (2014: final dividend HK\$0.32, 2013: final dividend HK\$0.32) per ordinary share	11,370	11,274	9,571
Final dividend proposed at HK\$0.23 (2015: HK\$0.25, 2014: HK\$0.32) per ordinary share by the Board of Directors - not recognized as a liability as at the end of the year	11,325	9,397	9,096

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%.

13. EARNINGS PER SHARE

	2014	2015	2016
Earnings			
Profit for the year attributable to owners of the parent for the basic and diluted earnings per share calculation	60,199	20,246	637
Number of shares			
Weighted average 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

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Effect of dilutive potential ordinary shares under the share option schemes	87,318,520	37,363,069	11,684,504
Weighted average number of ordinary shares for the purpose of diluted earnings per share	44,734,774,504	44,684,819,053	44,659,140,488
Earnings per share:			
Basic (RMB Yuan)	1.35	0.45	0.01
Diluted (RMB Yuan)	1.35	0.45	0.01

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Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***14. PROPERTY, PLANT AND EQUIPMENT**

	Oil and gas properties	Vehicles and office equipment and others	Total
Cost:			
At January 1, 2015	732,632	5,175	737,807
Additions	52,811	247	53,058
Disposals and write-offs	(2,952)	(282)	(3,234)
Exchange differences	21,495	156	21,651
At December 31, 2015	803,986	5,296	809,282
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
Accumulated depreciation, depletion and amortization and impairment:			
At January 1, 2015	(273,450)	(1,135)	(274,585)
Depreciation charge for the year	(71,933)	(360)	(72,293)
Impairment	(2,358)	-	(2,358)
Disposals and write-offs	358	217	575
Exchange differences	(6,441)	(39)	(6,480)
At December 31, 2015	(353,824)	(1,317)	(355,141)
At January 1, 2016	(353,824)	(1,317)	(355,141)
Depreciation charge for the year	(67,906)	(397)	(68,303)
Impairment	(10,768)	-	(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)
Net book value:			
At December 31, 2015	450,162	3,979	454,141
At December 31, 2016	428,503	3,962	432,465

Included in the current year's additions was an amount of approximately RMB1,430 million (2015: approximately RMB1,385 million, 2014: approximately RMB1,842 million) in respect of interest capitalized in property, plant and equipment (note 8). Included also in the depreciation charge for the year was an amount of approximately RMB1,609 million (2015: approximately RMB3,465 million, 2014: approximately RMB3,873 million) in respect of a depreciation charge on dismantlement cost capitalized in oil and gas properties.

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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. This impairment loss was mainly related to fields in North America, Europe and Africa which was primarily due to the revision of the estimation for the oil price forecast and the adjustment in operating plan for oil sand assets in Canada. The recoverable amount was calculated based on the assets value in use and was determined at the oil field(s) level. Included in the impairment loss, an amount of RMB7,358 million was recognized on Long Lake project, due to the revision of the oil price forecast and the adjustment in operating plan caused by the pipeline rupture and the explosion accident. As at 31 December 2016, there was no formal recommendation or decision from the business continuity planning work to suggest the future operating plan of Long Lake assets, which may significantly impact the recoverable amount of the oil sands properties of Long Lake assets in the future.

The base discount rate for value in use calculations is 8%-11% real after tax. The discount rate is derived from the company's weighted average cost of capital. A derived pre-tax discount rate would generally be in the range of 9%-11% depending on asset specific characteristics, such as specific tax treatments, cash flow profiles and economic life.

During current year, the Group wrote off certain oil and gas assets in North America due to the expiration of lease contracts. Approximately RMB823 million was included in the disposal and write-offs which was classified as exploration expenses, and RMB605 million was included in the depreciation, depletion and amortization charge, respectively.

15. INTANGIBLE ASSETS

Gas processing rights under NWS Project	Drilling rig contracts and seismic data	Marketing transportation and storage contracts	Software and others	Goodwill	Total
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	usage rights					
Cost:						
At January 1, 2015	1,122	1,964	1,562	2,563	13,009	20,220
Additions	-	-	-	368	-	368
Disposal	-	(467)	(125)	(137)	-	(729)
Exchange differences	69	99	90	67	796	1,121
At December 31, 2015	1,191	1,596	1,527	2,861	13,805	20,980
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
Accumulated amortization:						
At January 1, 2015	(542)	(996)	(809)	(1,382)	-	(3,729)
Amortization charge for the year	(44)	(383)	(283)	(596)	-	(1,306)
Disposal	-	467	56	137	-	660
Exchange differences	(35)	(46)	(60)	(41)	-	(182)
At December 31, 2015	(621)	(958)	(1,096)	(1,882)	-	(4,557)
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)
Net book value:						
At December 31, 2015	570	638	431	979	13,805	16,423
At December 31, 2016	544	341	319	692	14,748	16,644

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Goodwill represents the excess of the purchase price over the estimated fair value of the assets acquired and liabilities assumed in a business combination. Goodwill acquired through business combinations is held at the E&P segment.

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.

16. 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

Northern Cross (Yukon) Limited ⁽¹⁾	Canada	22,691,705 common shares without a par value	0%	Petroleum exploration, development and production in Canada
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(1) The shares of Northern Cross (Yukon) Limited indirectly held by CNOOC Limited were sold on 7 October 2016.

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:

	2015	2016
Share of net assets	4,324	3,695

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:

	2014	2015	2016
Profit/(loss) for the year	232	256	(609)
Other comprehensive income/(expense)	92	74	(127)
Total comprehensive income/(expense)	324	330	(736)

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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

Summarized financial information of the joint venture is disclosed below:

	2015	2016
Cash and cash equivalents	4,542	3,169
Other current assets	5,615	6,032
Total current assets	10,157	9,201
Non-current assets, excluding goodwill	59,767	63,066
Goodwill	3,675	3,926
Total assets	73,599	76,193
Current financial liabilities (excluding trade and other payables)	(3,214)	(2,319)
Other current liabilities	(3,906)	(4,547)
Total current liabilities	(7,120)	(6,866)
Non-current financial liabilities	(4,719)	(4,098)
Other non-current liabilities	(13,581)	(12,629)
Total non-current liabilities	(18,300)	(16,727)
Total liabilities	(25,420)	(23,593)
Net assets	48,179	52,600

Net assets, excluding goodwill 44,504 48,674

	2014	2015	2016
Revenue	32,265	31,231	28,371
Depreciation, depletion and amortization	(2,822)	(3,535)	(3,988)
Interest income	324	288	388
Finance costs	(473)	(799)	(704)
Profit before tax	2,762	4,194	1,226
Income tax expense	(1,214)	(900)	(160)
Profit after tax	1,548	3,294	1,066
Total comprehensive income	1,548	3,294	1,066

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Reconciliation of the summarized financial information of the joint venture to the carrying amount of the Group's investment in the joint venture is disclosed below:

	2015	2016
Share of net assets of a joint venture, excluding goodwill	22,252	24,337
Goodwill on acquisition less cumulative impairment	1,837	1,963
Carrying amount of investment in a joint venture	24,089	26,300

No dividend was received from the joint venture in 2016 or 2014 and dividend of US\$5 million (equivalent to RMB32 million) was received from the joint venture in 2015.

18. EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS**(i) Equity investments**

	2015	2016
Current:		
Non-publicly traded investments		
Private equity funds classified at FVTOCI	14	15
	14	15
Non-current:		
Publicly traded investments		
Equity investment in MEG Energy Corporation ("MEG") classified at FVTOCI	1,077	1,356
Other equity investment classified at FVTPL	65	35

Non-publicly traded investments	1,142	1,391
Private equity fund in Kerogen Energy Fund classified at FVTOCI ⁽²⁾	2,629	2,875
	3,771	4,266

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, 2016, 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, 2016 and December 31, 2016, as insufficient more recent information is available to measure its fair value.

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	2015	2016
Current:		
Non-publicly traded investments classified at FVTPL:		
Corporate wealth management products ⁽¹⁾	64,002	46,958
Liquidity funds ⁽²⁾	7,804	5,931
	71,806	52,889

Upon the application of IFRS 9/HKFRS 9 (2009) on January 1, 2015, the Group's other financial assets that were previously classified as available-for-sale financial assets have been classified as financial assets at FVTPL.

(1) The corporate wealth management products will mature from January 10 2017 to December 5 2017 (2015: from January 6 2016 to December 14 2016).

(2) The liquidity funds have no fixed maturity date and no coupon rate.

The gains of the Group's other financial assets recognized in the profit or loss for the year was RMB2,774 million (realized gains of other financial assets recognized for 2015: RMB2,398 million, realized gains on available-for-sale financial assets recognized for 2014: RMB2,684 million) .

During the year, the fair value changes on the Group's equity investments recognized directly in other comprehensive expense amounted to RMB461 million (the fair value changes on equity investments recognized in other comprehensive expense for 2015: RMB1,573 million, net loss on available-for-sale financial assets for 2014: RMB2,301 million).

None of the equity investments and other financial assets above is past due or impaired.

19. 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, 2016, the balance of the specified dismantlement fund accounts was RMB6,088 million (December 31, 2015: RMB6,570 million).

20. INVENTORIES AND SUPPLIES

	2015	2016
Materials and supplies	8,147	7,288
Oil in tanks	1,285	1,594
Less: Provision for inventory obsolescence	(169)	(173)
	9,263	8,709

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CNOOC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

21. 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.

As at December 31, 2016 and 2015, substantially all the trade receivables were aged within 30 days. Substantially all customers have a good repayment history and no receivables are past due.

22. 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 2.95% per annum (2015: 2.61% per annum, 2014: 2.96% per annum) for the year ended December 31, 2016.

23. TRADE AND ACCRUED PAYABLES

As at December 31, 2016 and 2015, substantially all the trade and accrued payables were aged within six months. The trade and accrued payables are non-interest-bearing.

24. OTHER PAYABLES AND ACCRUED LIABILITIES

2015 2016

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Accrued payroll and welfare payable	1,813	1,509
Provision for retirement benefits	837	683
Accrued expenses	273	449
Advances from customers	1,188	3,272
Royalties payable	233	240
Provision for dismantlement (note 26)	560	462
Other payables	8,630	8,251
	13,534	14,866

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Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***25. LOANS AND BORROWINGS****Current**

	Effective interest rate and final maturity	2015			2016		
		Loans	Notes	Total	Loans	Notes	Total
Short-term loans and borrowings							
General loans****	LIBOR+0.42% to 0.60% per annum with maturity within one year*****	28,532	-	28,532	10,361	-	10,361
		28,532	-	28,532	10,361	-	10,361
Loans and borrowings due within one year							
For Tangguh LNG Project**	LIBOR+0.19% to 0.335% per annum with maturity within one year	187	-	187	215	-	215
Notes*		-	4,866	4,866	-	9,102	9,102
		187	4,866	5,053	215	9,102	9,317
		28,719	4,866	33,585	10,576	9,102	19,678

Non-current

	Effective interest rate and final maturity	2015			2016		
		loans	Notes	Total	loans	Notes	Total
For Tangguh LNG Project**	LIBOR+0.19% to 0.335% per annum with maturity through to 2021	911	-	911	758	-	758
For Tangguh LNG III Project ***	LIBOR+1.37% to 3.45% per annum with maturity through 2021 to 2029	-	-	-	327	-	327
Notes*		-	130,149	130,149	-	129,713	129,713
		911	130,149	131,060	1,085	129,713	130,798

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Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***25. LOANS AND BORROWINGS (continued)**

* The detail of notes are as follows:

Issued by	Maturity	Coupon Rate	Outstanding Principal Amount	
			31 December	31 December
			2016 USD million	2015 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	Matured in 2016	1.125%	-	750
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	Due in 2017	1.625%	1,250	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	Due in 2017	5.65%	62	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.

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\$164,888,000.

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.

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Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***25. LOANS AND BORROWINGS (continued)**

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, 2016, US\$800 million bank loans (2015: US\$3,700 million) were guaranteed by the Company.

***** As at December 31, 2016, US\$694 million shareholder loans (2015: US\$694 million) of the Group were included in General loans. For details please refer to Note 29(v).

The maturities of the long term bank loans are as follows:

	2015	2016
Repayable:		
Within one year	187	215
After one year but within two years	201	225
After two years but within three years	211	225
After three years but within four years	211	225
After four years but within five years	211	97
After five years	77	313
	1,098	1,300
Amount due within one year shown under current liabilities	(187)	(215)
	911	1,085

Supplemental information with respect to the long term bank loans:

For the year ended	Balance	Weighted	Maximum	Average	Weighted
December 31	at year	average	amount	amount	average
	end	interest	outstanding	outstanding	interest
		rate	during the	during the	rate
		at year	year	year	during
	end	end		year ⁽¹⁾	the
					year ⁽²⁾
2015	1,098	0.85 %	1,195	1,147	0.72 %
2016	1,300	1.74 %	1,369	1,199	1.29 %

(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.

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***26. PROVISION FOR DISMANTLEMENT**

	2015	2016
At January 1	52,889	50,063
New projects ⁽¹⁾	5,874	1,395
Revision ⁽¹⁾	(11,018)	(2,072)
Utilization	(274)	(398)
Deletions	6	(33)
Unwinding of discount ⁽²⁾ (note 8)	2,435	2,185
Exchange differences	151	(252)
At December 31	50,063	50,888
Current portion of dismantlement included in other payables and accrued liabilities (note 24)	(560)	(462)
At December 31	49,503	50,426

(1) The amounts are included in the additions of oil and gas properties in note 14.

(2) The discount rates used for calculating the provision for dismantlement are within the range of 4% to 5% (2015: 4% to 5%, 2014: 4% to 5%).

27.**SHARE CAPITAL**

Number of shares	Issued share capital equivalent of RMB million
---------------------	--

Issued and fully paid:

Ordinary shares with no par value as at 1 January 2015, as at 31 December 2015 and as at 31 December 2016 44,647,455,984 43,081

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 (as defined below); 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.

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CNOOC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

27.SHARE CAPITAL (continued)

Share option schemes (continued)

2002 Share Option Scheme

In June 2002, the Company adopted a share option scheme (the "2002 Share Option Scheme") for the purpose of recognizing the contribution that certain individuals had made to the Company and for attracting and retaining the best available personnel to the Company.

Under the 2002 Share Option Scheme, the Board may, at its discretion, offer to grant to the directors and employees of the Company or any of its subsidiaries options to subscribe for shares of the Company. The maximum number of shares in respect of which options may be granted under the 2002 Share Option Scheme to any individual in any 12-month period up to the date of the latest grant shall not exceed 1% of the total issued share capital of the Company from time to time.

According to the 2002 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 not less than 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 quotation sheets of the Stock Exchange of Hong Kong Limited (the "HKSE") for the five trading days immediately preceding the date of grant; and
- (3) the closing price of the shares as stated in the quotation sheet of the HKSE on the date of grant.

The exercise periods for the options granted under the 2002 Share Option Scheme shall end not later than 10 years from the date of grant.

On 31 December 2005, the Company terminated the 2002 Share Option Scheme. Upon termination of the 2002 Share Option Scheme, no further options may be granted under the 2002 Share Option Scheme, but in all other respects the provisions of the 2002 Share Option Scheme shall remain in force. The outstanding options under the 2002 Share Option Scheme shall continue to be subject to the provisions of the 2002 Share Option Scheme. The exercise periods for all options under the 2002 Share Option Scheme 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.

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CNOOC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

27.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 (2015 and 2014: nil) and the Group recognized an equity-settled share option expense of nil (2015 and 2014: nil) during the year.

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:

	2015		2016	
	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	311,184,000	10.17	262,592,000	10.56
Granted during the year	-	-	-	-
Forfeited during the year	(20,522,000)	11.43	(37,893,000)	11.30
Expired during the year	(28,070,000)	5.62	(37,170,000)	5.56
Exercised during the year	-	-	-	-
Outstanding at the end of the year	262,592,000	10.56	187,529,000	11.40
Exercisable at the end of the year	262,592,000	10.56	187,529,000	11.40

No share options had been cancelled or modified during the years ended December 31, 2014, 2015 or 2016.

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CNOOC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

27. 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 0.42% of the Company's shares in issue as at that date (2015: 0.59%, 2014: 0.70%). The weighted average remaining contractual life of share options outstanding at the end of the year was 2.11 years (2015: 2.74 years, 2014: 3.50 years). The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 187,529,000 (2015: 262,592,000) additional ordinary shares of the Company and additional share capital of RMB1,912,814,087 (2015: RMB2,323,404,158).

28. 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.

CNOOC China Limited is required to allocate at least 10% of its net profit as reported in accordance with the generally accepted accounting principles in the PRC ("PRC GAAP") to the general reserve fund until the balance of such fund reaches 50% of its registered capital. The general reserve fund 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, 2016, the general reserve fund amounted to RMB10,000 million (December 31, 2015: RMB10,000 million), representing 50% (2015: 50%) of the total registered capital of CNOOC China Limited.

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, 2016, the Group's safety fund reserve under the PRC regulations amounted to nil (December 31, 2015: nil).

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CNOOC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

29. 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 which are defined in Chapter 14A of the Listing Rules in respect of items listed below also constitute related party transactions. The Company has complied with disclosure requirements in accordance with Chapter 14A of the Listing Rules for the continuing connected transactions listed below. The Company entered into a comprehensive framework agreement with CNOOC on November 6, 2013 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, 2014. 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 1, 2010. The continuing connected transactions under the comprehensive framework agreement and the relevant annual caps for the three years from January 1, 2014 were approved by the independent shareholders of the Company on November 27, 2013. 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) 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

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CNOOC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

29. RELATED PARTY TRANSACTIONS (continued)

Pricing principles

The continuing connected transactions described above are based on negotiations with the CNOOC Group on normal commercial terms, or on terms no less favourable than those available to the Group from independent third parties, under prevailing local market conditions, including considerations such as volume of sales, length of contracts, package of services, overall customer relationship and other market factors.

For the continuing connected transactions referred to in paragraphs (1)(a) to (1)(d) above provided by the CNOOC Group to the Group and paragraph (2) above provided by the Group to the CNOOC Group, on the basis of the above pricing principle, such services must be charged in accordance with the following pricing mechanism and in the following sequential order:

(i) state-prescribed prices; or

(ii) where there is no state-prescribed price, market prices, including the local, national or international market prices;
or

(iii) when neither (i) nor (ii) is applicable, the costs of the CNOOC Group or the Group for providing the relevant service (including the cost of sourcing or purchasing from third parties) plus a margin of not more than 10%, before any applicable taxes.

The continuing connected transactions referred to in paragraph (1)(e) above provided by the CNOOC Group to the Group, on the basis of the above pricing principle, are at market prices on normal commercial terms which are calculated on a daily basis.

The continuing connected transactions referred to in paragraphs (3)(a) above provided by the Group to the CNOOC Group, on the basis of the above pricing principle, are at state-prescribed prices or local, national or international market prices and on normal commercial terms.

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

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Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***29. 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

	2014	2015	2016
Provision of exploration and support services	11,050	7,457	4,357
- Inclusive of amounts capitalized under property, plant and equipment	6,501	4,158	2,364
Provision of oil and gas development and support services	41,299	22,733	14,214
Provision of oil and gas production and support services (note a)	8,688	8,384	7,250
Provision of marketing, management and ancillary services (note b)	915	954	994
FPSO vessel leases (note c)	1,257	1,770	1,551
	63,209	41,298	28,366

(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, 2014, 2015 or 2016.

(iii) Sales of petroleum and natural gas products by the Group to the CNOOC Group

2014 2015 2016

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Sales of petroleum and natural gas products (other than long term sales of natural gas and liquefied natural gas) (note d)	157,290	105,401	88,682
Long term sales of natural gas and liquefied natural gas (note e)	7,981	10,557	8,663
	165,271	115,958	97,345

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Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***29. RELATED PARTY TRANSACTIONS (continued)****(iv) Transactions and Balances with CNOOC Finance Corporation Limited (“CNOOC Finance”) (note f)****(a) Interest income received by the Group**

	2014	2015	2016
Interest income from deposits in CNOOC Finance	474	629	564

(b) Deposits balances made by the Group

	2015	2016
Deposits in CNOOC Finance	21,707	19,437

(v) Balances with the CNOOC Group

	2015	2016
Amount due to CNOOC		
– included in other payables and accrued liabilities	144	215
Amount due to other related parties		
– included in trade and accrued payables	19,313	15,091
	19,457	15,306
Borrowing from CNOOC (note g)	4,504	4,811
Amounts due from other related parties		
– included in trade receivables	8,656	13,090
– included in other current assets	517	173
	9,173	13,263

(vi)

Balance with a joint venture

2015 2016

Amounts due from a joint venture		
– included in other current assets	126	135

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Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***29. 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 34. 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, 2016, as summarized below:

	2015	2016
Cash and cash equivalents	5,416	6,612
Time deposits with maturity over three months	-	108
Specified dismantlement fund accounts (note 19)	6,570	6,088
	11,986	12,808

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 9.

(ix) Coalbed Methane Resources Exploration and Development Cooperation Agreement with China United Coalbed Methane Corporation Limited

2015 2016

Accumulated investment 1,263 1,647

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.

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CNOOC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

29. 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 floating production, storage and offloading ("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 15 to 20 years.

f) CNOOC Finance is a 31.8% owned associate of the Company and also a subsidiary of CNOOC. Under the renewed financial services framework agreement with CNOOC Finance dated November 27, 2013, CNOOC Finance continues to provide to the Group settlement, depository, discounting, loans and entrustment loans services. The renewal agreement is effective from January 1, 2014 to December 31, 2016. 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 2016 was RMB22,000

million (2015: 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, 2016, the withdrawal amount of the loan was US\$130 million (December 31, 2015: 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, 2016, the withdrawal amount of the loan was US\$564 million (December 31, 2015: US\$564 million).

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Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***30. 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 RMB695 million (2015: RMB613 million, 2014: RMB845 million).

31. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS**Reconciliation of profit/(loss) before tax to cash generated from operations**

	2014	2015	2016
Profit/(loss) before tax	82,513	17,130	(5,275)
Adjustments for:			
Interest income	(1,073)	(873)	(901)
Finance costs	4,774	6,118	6,246

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Exchange (gains)/losses, net	(1,049)	143	790
Share of (profits)/losses of associates	(232)	(256)	609
Share of profit of a joint venture	(774)	(1,647)	(533)
Investment income	(2,684)	(2,398)	(2,774)
Impairment and provision	4,120	2,746	12,171
Depreciation, depletion and amortization	58,286	73,439	68,907
(Gain)/loss on disposal and write-off of property, plant and equipment	(789)	2,115	2,304
Others	46	70	-
Subtotal	143,138	96,587	81,544
Decrease/(increase) in trade receivables and other current assets	7,471	7,932	(2,820)
(Increase)/decrease in inventories and supplies	(1,540)	1,427	922
(Decrease)/increase in trade and accrued payables and other payables	(6,387)	(9,851)	2,491
Cash generated from operations	142,682	96,095	82,137

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Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***32. COMMITMENTS AND CONTINGENCIES****(i) Capital commitments**

As at December 31, 2016, the Group had the following capital commitments, principally for the construction of property, plant and equipment:

	2015	2016
Contracted, but not provided for ⁽¹⁾	51,296	46,515

⁽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 RMB2,482 million (December 31, 2015: RMB2,688 million) contracted with the CNOOC Group.

Capital commitments of a joint venture:

	2015	2016
Contracted, but not provided for	605	360

As at December 31, 2016, the Group had unutilized banking facilities amounting to approximately RMB60,697 million (December 31, 2015: RMB60,912 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, 2016, the Group had total minimum lease payments under non-cancellable operating leases falling due as follows:

	2015	2016
Commitments due:		
No later than one year	1,019	1,317
Later than one year and not later than two years	650	896
Later than two years and not later than five years	1,337	1,534
Later than five years	1,717	1,963
	4,723	5,710

The above table includes minimum lease payments of approximately RMB639 million (December 31, 2015: RMB273 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)***32. COMMITMENTS AND CONTINGENCIES (continued)****(ii) Operating lease commitments (continued)****a. Office properties (continued)**

Office properties commitments of a joint venture:

	2015	2016
Commitments due:		
No later than one year	27	25
Later than one year and not later than two years	18	17
Later than two years and not later than five years	24	26
Later than five years	34	51
	103	119

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, 2016, the Group had total minimum lease payments under non-cancellable operating leases falling due as follows:

	2015	2016
--	------	------

Commitments due:

No later than one year	1,519	1,378
Later than one year and not later than two years	1,179	734
Later than two years and not later than five years	1,497	1,316
Later than five years	3,966	3,878
	8,161	7,306

The above table includes a commitment of approximately RMB3,211 million (December 31, 2015: RMB4,075 million) to the CNOOC Group.

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Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***32. 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 Penglai 19-3 oilfield, which is being operated under a production sharing a 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 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 “Claim”). The Claim is lodged against COPC and CNOOC China Limited (together, the “Defendants”). The Plaintiff requires the Defendants to: (1) restore the ecological environment in the Bohai Bay as damaged by the Penglai 19-3 Oilfield Oil Spill Accidents so that the environment will be brought back to its original condition before the accidents occurred; (2) if the Defendants fail to set up and implement a scientific plan to restore the ecological environment in the Bohai Bay within three months after a court judgment is granted in favor of the Plaintiff, establish a fund specifically for the restoration of the ecological environment in the Bohai Bay. Such fund shall be supervised by a professional public welfare foundation and the total amount of such fund shall be fixed based on the estimated costs for restoring the ecological environment in the Bohai Bay as determined by a professional institution; and (3) bear all litigation costs incurred by the Plaintiff in connection with the Claim. CNOOC China Limited has engaged PRC lawyers in relation to the Claim and is defending the Claim vigorously.

The Company is of the view that the Company’s obligations, if any, arising from the above mentioned accidents (including the Claim disclosed in the paragraph above) shall be determined in accordance with relevant laws and regulations, the PSC and related agreements, among others. Based on evaluations performed as of the date of these consolidated financial statements authorized for issuance, the Company believes that it is not possible to determine provisions, if any, for the Company’s obligation determined in the future arising from the above mentioned accidents (including the Claim disclosed in the paragraph above) in the consolidated financial statements. The financial impact of such oil spill accidents on the Company is still uncertain, and the Company has not made any provision for the accidents in the consolidated financial statements.

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 **b.** contemporaneous documentation in accordance with applicable PRC tax laws and regulations and is currently awaiting confirmation from its in-charge tax authority.

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CNOOC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

32. COMMITMENTS AND CONTINGENCIES (continued)

(iii)

Contingencies (continued)

On July 15 2015, an emulsion leak from a pipeline was discovered within Nexen's Long Lake operations, located in south of Fort McMurray, Alberta, Canada. The root cause of the rupture was a thermally-driven upheaval buckling of the pipeline and the subsequent cooldown during the turnaround. This was the result of using an incompatible pipeline design for the muskeg ground conditions. Nexen has submitted investigation findings to the Alberta Energy Regulator, who is still in the process of completing their investigation. The Company is still in the process of evaluating the financial impact of the incident.

The Company places great emphasis on operation safety and has taken measures to minimize the spill's impact on the environment and wildlife. Since the incident, the Company has been working together with relevant regulatory agencies and has completed clean up at the spill site, with one spring sampling session scheduled for 2017. Nexen is cooperating with the investigation of regulatory agencies.

On January 15, 2016, an explosion occurred at Nexen's Long Lake site near the hydrocracker unit. Two employees died as a result of the incident. The root cause of the explosion was a result of work being performed that was outside of the scope of approved work activities. The Company is still in the process of evaluating the financial impact of the incident.

The Company maintains insurance policies that provide coverage against property damage, third party pollution clean-up and well control losses. The Company has submitted claims to its insurers on these recent Long Lake losses and each claim is being investigated.

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.

33. 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.

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CNOOC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

33. FINANCIAL INSTRUMENTS (continued)

Fair value of financial instruments (continued)

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 insufficient more recent information is available to measure their fair values as at December 31, 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, 2016 and 2015.

The estimated fair value of the Group's long term guaranteed notes was approximately RMB140,135 million as at December 31, 2016 (2015: RMB133,629 million), which was determined by reference to the market price as at December 31, 2016.

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, 2016 and December 31, 2015, the Group held the following financial instruments measured at fair value for each hierarchy respectively:

	December 31 2016	Level 1	Level 2	Level 3
Assets measured at fair value				
Other financial assets-current				
Corporate wealth management products	46,958	-	46,958	-
Liquidity 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)	-

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Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***33. FINANCIAL INSTRUMENTS (continued)****Fair value hierarchy (continued)**

	December			
	31	Level	Level 2	Level
		1		3
	2015			
Assets measured at fair value				
Other financial assets – current				
Corporate wealth management products	64,002	-	64,002	-
Liquidity funds	7,804	7,804	-	-
Derivative financial assets – current	7	-	7	-
Equity investments				
Non-publicly traded investments – current	14	-	14	-
Publicly traded investments – non current	1,142	1,142	-	-
	72,969	8,946	64,023	-
Liabilities measured at fair value				
Derivative financial liabilities – current	-	-	-	-

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. In these instances, internally developed methodologies are used to determine fair value, which primarily includes extrapolation of observable future prices to similar locations, similar instruments or later time periods. Key inputs are forward price of the underlying commodity, which may be observable or unobservable, discount rate and foreign exchange rates. The derivatives are classified according to the above fair value hierarchy based on the amount of observable inputs used to value the instruments. For derivatives categorised within level 3 of the fair value hierarchy, if any, the significant unobservable inputs used in the fair value measurement includes the extrapolation of future price of commodity.

No amounts have been transferred between the different levels of the fair value hierarchy for the year.

A reconciliation of changes in the fair value of the derivatives classified as Level 3 for the year ended December 31, 2016 and 2015 is provided below:

Level 3 Reconciliation of derivative financial assets and liabilities, net

	2015	2016
Fair value, beginning of year	131	-
Realized gains	156	-
Unrealized gains	6	-
Settlements	(296)	-
Exchange difference	3	-
Fair value, end of year	-	-

Items classified in Level 3 are generally economically hedged such that gains or losses on positions classified in Level 3 are often offset by gains or losses on positions classified in Level 1 or Level 2.

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***34. CONCENTRATION OF CUSTOMERS**

A substantial portion of the Group's oil and gas 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:

	2014	2015	2016
China Petroleum & Chemical Corporation*	25,055	14,692	9,659
PetroChina Company Limited*	14,048	5,502	6,923
Royal Dutch Shell PLC	16,724	6,917	3,661
BP p.l.c.	12,599	3,093	2,843
EOG Resources, Inc.	-	3,746	2,660

* These transactions are with other state-owned enterprises.

35. 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/ available-for-sale 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.

(i)

Credit risk

The carrying amounts of the Group's cash and cash equivalents, time deposits, liquidity funds investments 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, 2016, the Group has certain concentrations of credit risk as 1% (2015: 7%) and 5% (2015: 10%) 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 commodity price risk between the time the Group purchases and sells contracted volumes.

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts expressed in millions of Renminbi unless otherwise stated)

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(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, 2016 to December 31, 2016 (the last working day in 2016), Renminbi has depreciated by approximately 6.39% (December 31, 2015: 5.77%) against the US dollars. At December 31, 2015, approximately 88% (December 31, 2015: 89%, December 31, 2014: 79%) 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 have exposures to currencies other than the US dollars, such as Canadian dollar and British Pounds as such exposures are considered insignificant.

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, 2016 and 2015. Based on management's assessment, a 5% change in the foreign exchange rate of the US dollars at December 31, 2016 would have impacted the profit for the year of the Group by 6.63% (December 31, 2015: 0.09%) and the equity of the Group by 0.46% (December 31, 2015: 0.12%). 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 2015.

Senior management are closely monitoring the Group's net exposure to foreign currency risk. The depreciation 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 increase due to the appreciation of the US dollars against Renminbi. On the other hand, the appreciation of the US dollars against Renminbi will also increase the Group's costs for imported equipment and materials, most of which are 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 2016, the interest rates for 95.3% 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 9.55 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/ available-for-sale 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.

Table of Contents**CNOOC LIMITED****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***35. 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, 2014, 2015 and 2016.

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).

	2014	2015	2016
Interest-bearing debts	136,563	164,645	150,476
Equity attributable to owners of the parent	379,610	386,041	382,371
Total capital	516,173	550,686	532,847
Gearing ratio	26.5 %	29.9 %	28.2 %

36.**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.

37. SUBSEQUENT EVENTS

The Group has no significant subsequent events needed to be disclosed in the consolidated financial statements.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorized for issue by the Board of Directors on March 23, 2017.

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CNOOC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

The following disclosures are included in accordance with the FASB Accounting Standard Codification 932 “Extractive Activities-Oil and Gas (the “ASC 932”).

The regional analysis presented below is on a continent basis, with separate disclosure for countries that contain 15% or more of the total proved reserve, in accordance with SEC and FASB requirements.

(a) Reserve quantity information

Crude oil and natural gas reserve estimates are determined through analysis of geological and engineering data which appear, with reasonable certainty, to be economically producible in the future from known oil and natural gas reservoirs under existing economic and operating conditions. The reserve data that we disclosed were all based on the definitions and disclosure guidelines contained in the US Securities and Exchange Commission’s final rules on “Modernization of oil and Gas Reporting” (the “SEC Final Rule”).

For the years 2016, 2015 and 2014, approximately 60%, 62% and 52%, respectively, of our total proved reserves were evaluated by us, and the remaining were evaluated by independent third parties.

We implemented rigorous internal control system that monitors the entire reserves estimation process and certain key metrics in order to ensure that the process and results of reserves estimates fully comply with the relevant SEC rules.

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 reserves policies;
- review our proved reserves and other categories of reserves; and
- select our reserves estimators and auditors.

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CNOOC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

(a) Reserve quantity information (continued)

The RMC follows certain procedures to appoint our internal reserves estimators and reserves 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 trainings 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 Reserve 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 more than 30 years' experience in oil and gas industry.

The Group's net proved reserves consist of its interest in reserves, comprised of a 100% interest in its independent oil and gas properties and its participating interest in the properties covered under the production sharing contracts in the PRC, less (i) an adjustment for the Group's share of royalties payable by the Group to the PRC government and the Group's participating interest in share oil payable to the PRC government under the production sharing contracts, and less (ii) an adjustment for production allocable to foreign partners under the PRC production sharing contracts as reimbursement for exploration expenses attributable to the Group's participating interest, and plus the participating interest in the properties covered under the production sharing contracts in oversea countries, less adjustments, if any, of share oil attributable to the host government and the domestic market obligation.

Pursuant to SEC Final Rule, 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.

The Company determines its net entitlement oil and gas reserves under production sharing contracts using the economic interest method.

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Table of Contents**CNOOC LIMITED****SUPPLEMENTAL INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)***(All amounts expressed in millions of Renminbi unless otherwise stated)***(a) Reserve quantity information (continued)**

Proved developed and undeveloped reserves:

	PRC	Asia (excluding PRC)		Oceania	Africa	Canada*	North America (excluding Canada)*	South America	Europe	Total									
		Natural Oil	Natural gas								Natural Oil	Natural gas	Natural Oil	Natural gas	Synthetic oil	Natural Oil	Natural gas	Natural Oil	Natural gas
	(mmbbls)	(bcf)	(mmbbls)	(bcf)	(mmbbls)	(bcf)	(mmbbls)	(bcf)	(mmbbls)	(bcf)	(mmbbls)	(bcf)	(mmbbls)	(bcf)	(mmbbls)	(bcf)	(mmbbls)	(bcf)	
Consolidated entities																			
31 December 2013	1,693	4,476	84	889	16	386	155	-	-	195	736	34	175	350	2	-	166	28	2,295
Purchase/(Disposal) of reserves	-	-	-	-	-	-	-	-	-	(38)	-	-	(5)	(17)	-	-	-	-	(5)
Discoveries and extensions	201	752	-	11	-	6	2	-	-	93	92	-	70	120	-	-	-	-	274
Improved Recovery	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Production	(229)	(235)	(14)	(56)	(2)	(41)	(28)	-	-	(43)	(16)	(2)	(18)	(41)	-	-	(32)	(19)	(322)
Revisions of prior estimates	26	(236)	(23)	17	2	104	13	-	-	27	(62)	(1)	(12)	(8)	-	-	15	11	22
31 December 2014	1,692	4,757	47	861	17	456	143	-	-	233	750	31	209	404	2	-	149	20	2,255
Purchase/(Disposal) of reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Discoveries and extensions	267	1,491	-	10	-	-	3	-	-	-	8	-	99	75	-	-	-	-	369
Improved Recovery	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Production	(278)	(267)	(17)	(51)	(1)	(34)	(31)	-	-	(25)	(15)	(2)	(20)	(49)	-	-	(38)	(17)	(384)
Revisions of prior estimates	(250)	(626)	29	26	(1)	(32)	52	-	-	(89)	73	(30)	(49)	(154)	-	-	(9)	5	(223)
31 December 2015	1,431	5,355	60	846	15	389	167	-	-	119	815	-	239	275	2	-	102	9	2,011

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Purchase/(Disposal) of reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-	-	-	-
Discoveries and extensions	167	897	-	-	-	-	1	-	-	-	7	-	36	75	-	-	-	-	203
Improved Recovery	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Production	(271)	(237)	(18)	(55)	(2)	(41)	(29)	-	-	(18)	(8)	(7)	(18)	(47)	-	-	(36)	(13)	(373)
Revisions of prior estimates	119	(170)	35	162	(1)	(15)	-	-	-	(101)	(514)	7	3	45	-	-	14	11	171
31 December 2016	1,446	5,844	77	952	12	333	138	-	-	-	301	-	260	350	1	-	81	7	2,011

For explanation of significant changes in proved reserve, please refer to section “Item 4.B. Business Overview” for more details.

Table of Contents**CNOOC LIMITED****SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)***(All amounts expressed in millions of Renminbi unless otherwise stated)***(a) Reserve quantity information (continued)**

Proved developed and undeveloped reserves: (continued)

	PRC	Asia (excluding PRC)	Oceania	Africa	Canada*	North America (excluding Canada)*	South America	Europe	Total					
	Natural Oil	Natural gas	Natural Oil	Natural gas	Natural Oil	Natural gas	Synthetic oil	Natural Oil	Natural gas	Natural Oil	Natural gas			
	(mmbbls)	(bcf)	(mmbbls)	(bcf)	(mmbbls)	(bcf)	(mmbbls)	(bcf)	(mmbbls)	(bcf)	(mmbbls)	(bcf)		
Enterprise's share of equity														
method investees:														
31 December 2013	1	4	-	-	-	-	-	-	-	199	516	-	-	199
Purchase/(Disposal) of reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Discoveries and extensions	-	-	-	-	-	-	-	-	-	3	9	-	-	3
Improved Recovery Production	-	-	-	-	-	-	-	-	-	4	4	-	-	4
Revisions of prior estimates	-	(2)	-	-	-	-	-	-	-	(8)	(49)	-	-	(9)
31 December 2014	1	3	-	-	-	-	-	-	-	200	534	-	-	200
Purchase/(Disposal) of reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Discoveries and extensions	-	-	-	-	-	-	-	-	-	3	67	-	-	3
Improved Recovery	-	5	-	-	-	-	-	-	-	1	2	-	-	1

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Production	-	(2)	-	-	-	-	-	-	-	-	-	-	-	(9)	(53)	-	-	(9)
Revisions of prior estimates	-	-	-	-	-	-	-	-	-	-	-	-	-	5	21	-	-	5
31 December 2015	1	6	-	-	-	-	-	-	-	-	-	-	-	199	570	-	-	200
Purchase/(Disposal) of reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Discoveries and extensions	-	1	-	-	-	-	-	-	-	-	-	-	-	5	33	-	-	5
Improved Recovery	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2	-	-	-
Production	-	(2)	-	-	-	-	-	-	-	-	-	-	-	(8)	(55)	-	-	(8)
Revisions of prior estimates	-	1	-	-	-	-	-	-	-	-	-	-	-	(3)	17	-	-	(2)
31 December 2016	1	7	-	-	-	-	-	-	-	-	-	-	-	195	567	-	-	195

Total consolidated and equity

Interests in reserves

31 December 2014	1,692	4,760	47	861	17	456	143	-	-	233	750	31	209	404	201	534	149	20	2,459
31 December 2015	1,431	5,361	60	846	15	389	167	-	-	119	815	-	239	275	201	570	102	9	2,215
31 December 2016	1,446	5,850	77	952	12	333	138	-	-	-	301	-	260	350	196	567	81	7	2,211

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31
December
2015

31
December 1 7 - - - - - - - - - - 102 431 - - 103 438 -
2016

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CNOOC LIMITED

SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES

(UNAUDITED)

(All amounts expressed in millions of Renminbi unless otherwise stated)

(a) Reserve quantity information (continued)

Proved undeveloped reserves:

	PRC		Asia(excluding PRC)		Oceania		Africa		Canada		North America (excluding Canada)		South America		Europe		Total					
	Oil	Natural gas	Oil	Natural gas	Oil	Natural gas	Oil	Natural gas	Oil	Natural gas	Oil	Natural gas	Oil	Natural gas	Oil	Natural gas	Oil	Natural gas	Natural gas	Synthetic oil	Synthetic oil	
	(mmbbls)	(bcf)	(mmbbls)	(bcf)	(mmbbls)	(bcf)	(mmbbls)	(bcf)	(mmbbls)	(bcf)	(mmbbls)	(bcf)	(mmbbls)	(bcf)	(mmbbls)	(bcf)	(mmbbls)	(bcf)	(mmbbls)	(bcf)	(mmbbls)	(bcf)
Consolidated entities																						
31 December 2014	932	2,982	24	487	5	109	95	-	-	41	524	31	122	196	-	-	28	2	1,206	3,816	524	3
31 December 2015	622	3,598	20	406	5	116	114	-	-	-	619	-	154	109	-	-	8	1	923	4,230	619	-
31 December 2016	631	4,221	26	334	2	66	97	-	-	-	145	-	173	131	-	-	-	-	929	4,752	145	-
Enterprise's share of equity method investees:																						
31 December 2014	-	-	-	-	-	-	-	-	-	-	-	-	-	-	98	203	-	-	98	203	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	95	159	-	-	95	159	-	-

31
December
2015
31
December
2016
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-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	93	136	-	-	93	136	-	-
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Table of Contents**CNOOC LIMITED****SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)***(All amounts expressed in millions of Renminbi unless otherwise stated)***(b) Results of operations**

	2014 Consolidated entities								
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Net sales to customers	148,985	11,263	1,753	16,682	10,555	8,661	205	20,106	218,210
Operating expenses	(16,212)	(2,834)	(556)	(1,600)	(6,177)	(1,006)	(35)	(2,760)	(31,180)
Taxes other than income tax	(10,157)	(3)	(276)	(656)	(244)	(455)	-	(11)	(11,802)
Exploration expense	(4,945)	(1,626)	(267)	(1,637)	(1,263)	(808)	(238)	(896)	(11,680)
Accretion expense	(1,803)	(1)	-	(92)	(146)	(58)	(2)	(285)	(2,387)
Depreciation, depletion and amortization, and impairment*	(28,993)	(4,686)	(206)	(8,143)	(8,586)	(2,151)	(105)	(8,651)	(61,521)
Special oil gain levy	(19,072)	-	-	-	-	-	-	-	(19,072)
	67,803	2,113	448	4,554	(5,861)	4,183	(175)	7,503	80,568
Income tax expense	(16,952)	(1,559)	(134)	(1,984)	2,948	709	12	(5,063)	(22,023)
Result of operations	50,851	554	314	2,570	(2,913)	4,892	(163)	2,440	58,545

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Table of Contents**CNOOC LIMITED****SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)***(All amounts expressed in millions of Renminbi unless otherwise stated)***(b) Results of operations (continued)**

	2014								
	Enterprise's share of equity method investees:								
	PRC	Asia (excluding PRC)	Uganda	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Net sales to customers	277	-	-	-	-	-	3,160	-	3,437
Operating expenses	(136)	-	-	-	-	-	(1,329)	-	(1,465)
Taxes other than income tax	(25)	-	-	-	-	-	(1,496)	-	(1,521)
Exploration expense	(1)	-	-	-	-	-	(122)	-	(123)
Accretion expense	(15)	-	-	-	-	-	(34)	-	(49)
Depreciation, depletion and amortization, and impairment*	(78)	-	-	-	-	-	(1,411)	-	(1,489)
Special oil gain levy	-	-	-	-	-	-	-	-	-
	22	-	-	-	-	-	(1,232)	-	(1,210)
Income tax expense	(3)	-	-	-	-	-	-	-	(3)
Result of operations	19	-	-	-	-	-	(1,232)	-	(1,213)
Total result of operations for producing activities	50,870	554	314	2,570	(2,913)	4,892	(1,395)	2,440	57,332

* Depreciation, depletion and amortization listed above was changed into Depreciation, depletion and amortization, and impairment in current year. The comparison figures in both 2014 and 2015 were restated accordingly.

Table of Contents**CNOOC LIMITED****SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)***(All amounts expressed in millions of Renminbi unless otherwise stated)***(b) Results of operations (continued)**

	2015								Total
	Consolidated entities								
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	
Net sales to customers	106,258	7,258	1,079	9,723	4,981	4,435	103	12,760	146,597
Operating expenses	(15,984)	(2,562)	(420)	(1,271)	(4,278)	(1,044)	(28)	(2,785)	(28,372)
Taxes other than income tax	(9,498)	-	(131)	(459)	(250)	(362)	-	(48)	(10,748)
Exploration expense	(4,415)	(937)	(50)	(885)	(712)	(1,271)	(260)	(1,443)	(9,973)
Accretion expense	(1,882)	-	-	(93)	(119)	(55)	(2)	(284)	(2,435)
Depreciation, depletion and amortization, and impairment*	(40,082)	(3,193)	(135)	(9,898)	(4,173)	(7,370)	(581)	(9,592)	(75,024)
Special oil gain levy	(59)	-	-	-	-	-	-	-	(59)
	34,338	566	343	(2,883)	(4,551)	(5,667)	(768)	(1,392)	19,986
Income tax expense	(8,584)	(764)	(103)	186	1,405	2,133	34	4,801	(892)
Result of operations	25,754	(198)	240	(2,697)	(3,146)	(3,534)	(734)	3,409	19,094

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Table of Contents**CNOOC LIMITED****SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)***(All amounts expressed in millions of Renminbi unless otherwise stated)***(b) Results of operations (continued)**

	2015								
	Enterprise's share of equity method investees:								
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Net sales to customers	200	-	-	-	-	-	3,244	-	3,444
Operating expenses	(139)	-	-	-	-	-	(1,624)	-	(1,763)
Taxes other than income tax	(11)	-	-	-	-	-	(1,288)	-	(1,299)
Exploration expense	(59)	-	-	-	-	-	(6)	-	(65)
Accretion expense	(6)	-	-	-	-	-	(34)	-	(40)
Depreciation, depletion and amortization, and impairment*	(109)	-	-	-	-	-	(1,767)	-	(1,876)
Special oil gain levy	-	-	-	-	-	-	-	-	-
	(124)	-	-	-	-	-	(1,475)	-	(1,599)
Income tax expense	19	-	-	-	-	-	-	-	19
Result of operations	(105)	-	-	-	-	-	(1,475)	-	(1,580)
Total result of operations for producing activities	25,649	(198)	240	(2,697)	(3,146)	(3,534)	(2,209)	3,409	17,514

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Table of Contents**CNOOC LIMITED****SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)***(All amounts expressed in millions of Renminbi unless otherwise stated)***(b) Results of operations (continued)**

	2016 Consolidated entities								
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Net sales to customers	87,276	6,186	1,285	8,358	2,935	4,792	73	10,419	121,324
Operating expenses	(13,704)	(2,214)	(503)	(1,168)	(2,974)	(815)	(19)	(1,814)	(23,211)
Taxes other than income tax	(5,885)	-	(139)	(384)	(239)	(234)	-	(18)	(6,899)
Exploration expense	(3,499)	(9)	(37)	(117)	(182)	(2,395)	(508)	(647)	(7,394)
Accretion expense	(1,535)	-	-	(114)	(134)	(71)	(3)	(329)	(2,186)
Depreciation, depletion and amortization, and impairment*	(35,327)	(4,020)	(190)	(11,651)	(11,006)	(6,097)	(27)	(10,783)	(79,101)
Special oil gain levy	-	-	-	-	-	-	-	-	-
	27,326	(57)	416	(5,076)	(11,600)	(4,820)	(484)	(3,172)	2,533
Income tax expense	(6,832)	18	(125)	1,345	3,380	2,268	(10)	3,237	3,281
Result of operations	20,494	(39)	291	(3,731)	(8,220)	(2,552)	(494)	65	5,814

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Table of Contents**CNOOC LIMITED****SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)***(All amounts expressed in millions of Renminbi unless otherwise stated)***(b) Results of operations (continued)**

	2016								
	Enterprise's share of equity method investees:								
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Net sales to customers	187	-	-	-	-	-	2,905	-	3,092
Operating expenses	(84)	-	-	-	-	-	(1,193)	-	(1,277)
Taxes other than income tax	(10)	-	-	-	-	-	(461)	-	(471)
Exploration expense	(10)	-	-	-	-	-	(196)	-	(206)
Accretion expense	(8)	-	-	-	-	-	(16)	-	(24)
Depreciation, depletion and amortization, and impairment*	(133)	-	-	-	-	-	(1,994)	-	(2,127)
Special oil gain levy	-	-	-	-	-	-	-	-	-
	(58)	-	-	-	-	-	(955)	-	(1,013)
Income tax expense	9	-	-	-	-	-	-	-	9
Result of operations	(49)	-	-	-	-	-	(955)	-	(1,004)
Total result of operations for producing activities	20,445	(39)	291	(3,731)	(8,220)	(2,552)	(1,449)	65	4,810

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Table of Contents**CNOOC LIMITED****SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)***(All amounts expressed in millions of Renminbi unless otherwise stated)***(c) Capitalized costs**

	2014 Consolidated entities								Total
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	
Proved oil and gas properties	383,162	24,663	2,277	57,744	13,183	21,295	209	35,489	538,022
Unproved oil and gas properties	12,319	1,405	2	20,599	97,272	43,964	4,867	15,873	196,301
Accumulated depreciation, depletion and amortization, and impairment	(191,397)	(13,572)	(1,092)	(31,203)	(9,019)	(12,042)	(204)	(15,307)	(273,836)
Net capitalized costs	204,084	12,496	1,187	47,140	101,436	53,217	4,872	36,055	460,487

	2014 Enterprise's share of equity method investees								Total
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	
Proved oil and gas properties	251	-	-	-	-	-	25,713	-	25,964
Unproved oil and gas properties	-	-	-	-	-	-	5,395	-	5,395
Accumulated depreciation, depletion and amortization, and impairment	(81)	-	-	-	-	-	(5,840)	-	(5,921)
Net capitalized costs	170	-	-	-	-	-	25,268	-	25,438

Table of Contents**CNOOC LIMITED****SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)***(All amounts expressed in millions of Renminbi unless otherwise stated)***(c) Capitalized costs (continued)**

	2015 Consolidated entities								Total
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	
Proved oil and gas properties	409,295	30,736	2,420	65,593	29,160	39,805	97	11,217	588,323
Unproved oil and gas properties	13,006	1,616	2	27,644	90,802	36,523	6,263	42,387	218,243
Accumulated depreciation, depletion and amortization, and impairment	(230,943)	(17,768)	(1,253)	(43,408)	(14,774)	(20,247)	(831)	(26,034)	(355,258)
Net capitalized costs	191,358	14,584	1,169	49,829	105,188	56,081	5,529	27,570	451,308

	2015 Enterprise's share of equity method investees								Total
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	
Proved oil and gas properties		2,129	-	-	-	-	30,191	-	32,320
Unproved oil and gas properties		-	-	-	-	-	5,754	-	5,754
		(1,831)	-	-	-	-	(7,693)	-	(9,524)

Accumulated depreciation, depletion and
amortization, and impairment
Net capitalized costs
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298	-	-	-	-	-	28,252	-	28,550
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	2016 Consolidated entities								Total
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	
Proved oil and gas properties	425,290	36,318	2,585	84,014	14,247	47,763	533	4,156	614,906
Unproved oil and gas properties	13,635	1,731	2	28,404	115,875	38,649	7,619	49,524	255,439
Accumulated depreciation, depletion and amortization, and impairment	(266,002)	(23,081)	(1,472)	(58,331)	(27,226)	(27,733)	(936)	(36,083)	(440,864)
Net capitalized costs	172,923	14,968	1,115	54,087	102,896	58,679	7,216	17,597	429,481

	2016 Enterprise's share of equity method investees								Total
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	
Proved oil and gas properties		2,129	-	-	-	-	34,667	-	36,796
Unproved oil and gas properties		-	-	-	-	-	5,645	-	5,645
		(1,971)	-	-	-	-	(10,310)	-	(12,281)

Accumulated depreciation, depletion and
amortization, and impairment
Net capitalized costs
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158	-	-	-	-	-	30,002	-	30,160
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Table of Contents**CNOOC LIMITED****SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)***(All amounts expressed in millions of Renminbi unless otherwise stated)***(d) Costs incurred in oil and gas property acquisition, exploration and development**

	2014 Consolidated entities								
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Acquisition costs:									
–Proved	-	-	-	-	-	-	-	-	-
–Unproved	-	-	-	-	-	-	-	-	-
Exploration costs	13,644	1,515	267	3,454	1,759	2,260	421	724	24,044
Development costs*	58,920	5,060	-	7,754	8,239	10,026	44	5,434	95,477
Total costs incurred	72,564	6,575	267	11,208	9,998	12,286	465	6,158	119,521

	2014 Enterprise's share of equity method investees								
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Acquisition costs:									
–Proved	-	-	-	-	-	-	-	-	-
–Unproved	-	-	-	-	-	-	-	-	-
Exploration costs	1	-	-	-	-	-	151	-	152
Development costs*	-	-	-	-	-	-	1,890	-	1,890
Total costs incurred	1	-	-	-	-	-	2,041	-	2,042

Table of Contents**CNOOC LIMITED****SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)***(All amounts expressed in millions of Renminbi unless otherwise stated)***(d) Costs incurred in oil and gas property acquisition, exploration and development (continued)**

	2015 Consolidated entities								
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Acquisition costs:									
–Proved	-	-	-	-	-	-	-	-	-
–Unproved	-	-	-	-	-	-	-	-	-
Exploration costs	9,516	908	54	1,169	461	1,236	1,123	714	15,181
Development costs*	22,726	4,582	-	9,469	2,465	7,216	60	72	46,590
Total costs incurred	32,242	5,490	54	10,638	2,926	8,452	1,183	786	61,771

	2015 Enterprise's share of equity method investees								
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Acquisition costs:									
–Proved	-	-	-	-	-	-	-	-	-
–Unproved	-	-	-	-	-	-	-	-	-
Exploration costs	59	-	-	-	-	-	33	-	92
Development costs*	241	-	-	-	-	-	2,811	-	3,052
Total costs incurred	300	-	-	-	-	-	2,844	-	3,144

Table of Contents**CNOOC LIMITED****SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)***(All amounts expressed in millions of Renminbi unless otherwise stated)***(d) Costs incurred in oil and gas property acquisition, exploration and development (continued)**

	2016 Consolidated entities								
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Acquisition costs:									
–Proved	-	-	-	-	-	-	-	-	-
–Unproved	-	-	-	-	-	-	-	-	-
Exploration costs	6,243	8	37	225	303	642	1,588	305	9,351
Development costs*	14,420	3,549	-	12,701	1,610	6,476	219	538	39,513
Total costs incurred	20,663	3,557	37	12,926	1,913	7,118	1,807	843	48,864

	2016 Enterprise's share of equity method investees								
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Acquisition costs:									
–Proved	-	-	-	-	-	-	-	-	-
–Unproved	-	-	-	-	-	-	-	-	-
Exploration costs	10	-	-	-	-	-	222	-	232
Development costs*	-	-	-	-	-	-	1,833	-	1,833
Total costs incurred	10	-	-	-	-	-	2,055	-	2,065

* The development costs include estimated future dismantlement costs of dismantling offshore oil and gas properties.

Table of Contents**CNOOC LIMITED****SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)**

(All amounts expressed in millions of Renminbi unless otherwise stated)

(e) Standardised measure of discounted future net cash flows and changes therein

Pursuant to FASB Topic 932, the average of first-day-of-the-month oil price during the 12-month period before the year end, were used to estimate annual future production from proved reserves to determine future cash inflows.

Future development costs are estimated based upon constant price assumptions and the assumption of the continuation of existing economic, operating and regulatory conditions. Future income taxes are calculated by applying the year-end statutory rate to estimate future pre-tax cash flows after provision for the tax cost of the oil and natural gas properties based upon existing laws and regulations. The discount was computed by the application of a 10% discount factor to the estimated future net cash flows.

Management believes that this information does not represent the fair market value of the oil and natural gas reserves or the present value of estimated cash flows since no economic value is attributed to potential reserves, the use of a 10% discount rate is arbitrary, and prices change constantly.

Present value of estimated future net cash flows:

		2014 Consolidated entities								
		North								
Notes	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	America (excluding Canada)	South America	Europe	Total	
Future cash inflows	(1)	1,335,886	84,138	18,722	103,213	441,864	101,410	1,000	93,091	2,179,324
		(528,067)	(36,129)	(4,244)	(34,477)	(257,139)	(20,692)	(434)	(29,589)	(910,771)

Future production costs										
Future development costs	(2)	(273,362)	(17,291)	(2,708)	(34,665)	(52,399)	(22,101)	(43)	(13,704)	(416,273)
Future income taxes		(89,139)	(12,355)	(3,129)	(14,126)	(7,564)	(156)	(49)	(30,077)	(156,595)
Future net cash flows	(3)	445,318	18,363	8,641	19,945	124,762	58,461	474	19,721	695,685
10% discount factor		(163,945)	(8,741)	(3,179)	(6,585)	(84,425)	(33,260)	(93)	(4,584)	(304,812)
Standardised measure of discounted future net cash flows		281,373	9,622	5,462	13,360	40,337	25,201	381	15,137	390,873

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Table of Contents**CNOOC LIMITED****SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)***(All amounts expressed in millions of Renminbi unless otherwise stated)***(e) Standardised measure of discounted future net cash flows and changes therein (continued)**

		2014 Enterprise's share of equity method investees								
	Notes	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Future cash inflows	(1)	572	-	-	-	-	-	82,011	-	82,583
Future production costs		(1,225)	-	-	-	-	-	(30,695)	-	(31,920)
Future development costs	(2)	(642)	-	-	-	-	-	(12,330)	-	(12,972)
Future income taxes		-	-	-	-	-	-	(13,641)	-	(13,641)
Future net cash flows	(3)	(1,295)	-	-	-	-	-	25,345	-	24,050
10% discount factor		271	-	-	-	-	-	(14,096)	-	(13,825)
Standardised measure of discounted future net cash flows		(1,024)	-	-	-	-	-	11,249	-	10,225
Total standardised measure of discounted future net cash flow		280,349	9,622	5,462	13,360	40,337	25,201	11,630	15,137	401,098

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Table of Contents**CNOOC LIMITED****SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)***(All amounts expressed in millions of Renminbi unless otherwise stated)***(e) Standardised measure of discounted future net cash flows and changes therein (continued)**

		2015 Consolidated entities								
	Notes	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Future cash inflows	(1)	791,748	59,432	12,649	49,238	254,224	64,372	442	36,157	1,268,262
Future production costs		(268,950)	(28,572)	(3,332)	(17,100)	(192,827)	(20,123)	(312)	(26,695)	(557,911)
Future development costs	(2)	(184,967)	(12,962)	(2,442)	(26,992)	(40,130)	(26,609)	-	(2,533)	(296,635)
Future income taxes		(46,043)	(4,769)	(1,733)	-	(5,317)	-	(43)	(4,296)	(62,201)
Future net cash flows	(3)	291,788	13,129	5,142	5,146	15,950	17,640	87	2,633	351,515
10% discount factor		(127,971)	(5,392)	(1,664)	(5,868)	(20,616)	(13,726)	(22)	(252)	(175,511)
Standardised measure of discounted future net cash flows		163,817	7,737	3,478	(722)	(4,666)	3,914	65	2,381	176,004

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Table of Contents**CNOOC LIMITED****SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)***(All amounts expressed in millions of Renminbi unless otherwise stated)***(e) Standardised measure of discounted future net cash flows and changes therein (continued)**

			2015 Enterprise's share of equity method investees							
	Notes	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Future cash inflows	(1)	579	-	-	-	-	-	74,356	-	74,935
Future production costs		(928)) -	-	-	-	-	(29,858)	-	(30,786)
Future development costs	(2)	(575)) -	-	-	-	-	(10,703)	-	(11,278)
Future income taxes		-	-	-	-	-	-	(11,823)	-	(11,823)
Future net cash flows	(3)	(924)) -	-	-	-	-	21,972	-	21,048
10% discount factor		213	-	-	-	-	-	(12,014)	-	(11,801)
Standardised measure of discounted future net cash flows		(711)) -	-	-	-	-	9,958	-	9,247
Total standardised measure of discounted future net cash flow		163,106	7,737	3,478	(722)	(4,666)	3,914	10,023	2,381	185,251

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Table of Contents**CNOOC LIMITED****SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)***(All amounts expressed in millions of Renminbi unless otherwise stated)***(e) Standardised measure of discounted future net cash flows and changes therein (continued)**

		2016 Consolidated entities								
	Notes	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Future cash inflows	(1)	858,295	63,639	10,553	34,626	90,596	75,151	327	23,410	1,156,597
Future production costs		(315,248)	(35,825)	(2,757)	(9,273)	(69,337)	(18,499)	(220)	(7,606)	(458,765)
Future development costs	(2)	(160,725)	(8,222)	(2,175)	(17,687)	(7,202)	(21,364)	(43)	(8,267)	(225,685)
Future income taxes		(60,468)	(4,611)	(1,371)	-	-	-	(86)	(2,091)	(68,627)
Future net cash flows	(3)	321,854	14,981	4,250	7,666	14,057	35,288	(22)	5,446	403,520
10% discount factor		(139,345)	(5,753)	(1,165)	(3,718)	(9,727)	(20,380)	(3)	196	(179,895)
Standardised measure of discounted future net cash flows		182,509	9,228	3,085	3,948	4,330	14,908	(25)	5,642	223,625

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Table of Contents**CNOOC LIMITED****SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)***(All amounts expressed in millions of Renminbi unless otherwise stated)***(e) Standardised measure of discounted future net cash flows and changes therein (continued)**

	Notes	2016 Enterprise's share of equity method investees								Total
		PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	
Future cash inflows	(1)	1,801	-	-	-	-	-	68,573	-	70,374
Future production costs		(1,074)	-	-	-	-	-	(27,179)	-	(28,253)
Future development costs	(2)	(547)	-	-	-	-	-	(9,113)	-	(9,660)
Future income taxes		-	-	-	-	-	-	(11,292)	-	(11,292)
Future net cash flows	(3)	180	-	-	-	-	-	20,989	-	21,169
10% discount factor		114	-	-	-	-	-	(11,412)	-	(11,298)
Standardised measure of discounted future net cash flows		294	-	-	-	-	-	9,577	-	9,871
Total standardised measure of discounted future net cash flow		182,803	9,228	3,085	3,948	4,330	14,908	9,552	5,642	233,496

Future cash flows consist of the Group's 100% interest in the independent oil and gas properties and the Group's participating interest in the properties under production sharing contracts in the PRC less (i) an adjustment for the royalties payable to the PRC government and share oil payable to the PRC government under production sharing (1) contracts and (ii) an adjustment for production allocable to foreign partners under the PRC production sharing contracts for exploration costs attributable to the Group's participating interest, and plus the participating interest in the properties covered under the production sharing contracts in oversea countries, less adjustments, if any, of share oil attributable to the host government and the domestic market obligation.

(2) Future development costs include the estimated costs of drilling future development wells and building the production platforms.

(3) Future net cash flows have been prepared taking into consideration estimated future dismantlement costs of dismantling oil and gas properties.

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Table of Contents**CNOOC LIMITED****SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)***(All amounts expressed in millions of Renminbi unless otherwise stated)***(e) Standardised measure of discounted future net cash flows and changes therein (continued)**

Changes in the standardised measure of discounted future net cash flows:

	Consolidated Total	Equity share of equity method investee	2014 Consolidated and equity share of equity method investee
Standardised measure, beginning of year	379,504	9,518	389,022
Sales of production, net of royalties and production costs	(175,187)	58	(175,129)
Net change in prices, net of royalties and production costs	4,323	8,750	13,073
Extensions discoveries and improved recovery, net of related future costs	87,059	652	87,711
Change in estimated future development costs	(62,501)	(4,050)	(66,551)
Development costs incurred during the year	105,782	197	105,979
Revisions in quantity estimates	(6,620)	697	(5,923)
Accretion of discount	48,893	1,305	50,198
Net change in income taxes	19,828	(2,595)	17,233
Purchase of properties	(1,544)	-	(1,544)
Changes in timing and other	(8,664)	(4,307)	(12,971)
Standardised measure, end of year	390,873	10,225	401,098

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Table of Contents**CNOOC LIMITED****SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)***(All amounts expressed in millions of Renminbi unless otherwise stated)***(e) Standardised measure of discounted future net cash flows and changes therein (continued)**

	Consolidated Total	Equity share of equity method investee	2015 Consolidated and equity share of equity method investee
Standardised measure, beginning of year	390,873	10,225	401,098
Sales of production, net of royalties and production costs	(107,455)	(288)	(107,743)
Net change in prices, net of royalties and production costs	(306,900)	(5,484)	(312,384)
Extensions discoveries and improved recovery, net of related future costs	68,657	904	69,561
Change in estimated future development costs	38,995	(247)	38,748
Development costs incurred during the year	65,680	2,904	68,584
Revisions in quantity estimates	(37,789)	545	(37,244)
Accretion of discount	50,466	1,720	52,186
Net change in income taxes	64,907	1,040	65,947
Purchase of properties	-	(2)	(2)
Changes in timing and other	(51,430)	(2,070)	(53,500)
Standardised measure, end of year	176,004	9,247	185,251

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Table of Contents**CNOOC LIMITED****SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)***(All amounts expressed in millions of Renminbi unless otherwise stated)***(e) Standardised measure of discounted future net cash flows and changes therein (continued)**

	Consolidated Total	Equity share of equity method investee	2016 Consolidated and equity share of equity method investee
Standardised measure, beginning of year	176,004	9,247	185,251
Sales of production, net of royalties and production costs	(91,173)	(581)	(91,754)
Net change in prices, net of royalties and production costs	(25,703)	(2,029)	(27,732)
Extensions discoveries and improved recovery, net of related future costs	44,152	949	45,101
Change in estimated future development costs	28,951	451	29,402
Development costs incurred during the year	39,369	1,574	40,943
Revisions in quantity estimates	(2,363)	287	(2,076)
Accretion of discount	21,650	1,560	23,210
Net change in income taxes	(11,590)	571	(11,019)
Purchase of properties	15	-	15
Changes in timing and other	44,313	(2,157)	42,156
Standardised measure, end of year	223,625	9,872	233,497