

**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, 2014
- 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
中國海洋石油有限公司
(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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One Garden Road, Central
Hong Kong
Tel +852 2213 2500
Fax +852 2525 9322
(Name, telephone, e-mail and/or facsimile number and address of company contact person)

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

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

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.

Table of Contents

	<u>Page</u>
<u>TERMS AND CONVENTIONS</u>	<u>4</u>
<u>FORWARD-LOOKING STATEMENTS</u>	<u>9</u>
<u>SPECIAL NOTE ON THE FINANCIAL INFORMATION AND CERTAIN STATISTICAL INFORMATION PRESENTED IN THIS ANNUAL REPORT</u>	<u>10</u>
<u>PART I</u>	<u>11</u>
<u>ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u>	<u>11</u>
<u>ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE</u>	<u>11</u>
<u>ITEM 3. KEY INFORMATION</u>	<u>11</u>
<u>A. Selected Financial Data</u>	<u>11</u>
<u>B. Capitalization and Indebtedness</u>	<u>14</u>
<u>C. Reasons for the Offer and Use of Proceeds</u>	<u>14</u>
<u>D. Risk Factors</u>	<u>14</u>
<u>ITEM 4. INFORMATION ON THE COMPANY</u>	<u>23</u>
<u>A. History and Development</u>	<u>23</u>
<u>B. Business Overview</u>	<u>24</u>
<u>C. Organizational Structure</u>	<u>60</u>
<u>D. Property, plants and equipment</u>	<u>61</u>
<u>ITEM 4A. UNRESOLVED STAFF COMMENTS</u>	<u>61</u>
<u>ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	<u>62</u>
<u>A. Operating Results</u>	<u>62</u>
<u>B. Liquidity and Capital Resources</u>	<u>74</u>
<u>C. Research and Development, Patents and Licenses, etc.</u>	<u>77</u>
<u>D. Trend Information</u>	<u>77</u>
<u>E. Off-Balance Sheet Arrangements</u>	<u>78</u>
<u>F. Tabular Disclosure of Contractual Obligations</u>	<u>78</u>
<u>G. SAFE HARBOR</u>	<u>78</u>
<u>ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	<u>78</u>
<u>A. Directors and Senior Management</u>	<u>78</u>
<u>B. Compensation</u>	<u>86</u>
<u>C. Board Practice</u>	<u>87</u>
<u>D. Employees</u>	<u>89</u>
<u>E. Share Ownership</u>	<u>90</u>
<u>ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	<u>91</u>
<u>A. Major Shareholders</u>	<u>91</u>
<u>B. Related Party Transactions</u>	<u>91</u>
<u>C. Interests of Experts and Counsel</u>	<u>95</u>
<u>ITEM 8. FINANCIAL INFORMATION</u>	<u>95</u>
<u>A. Consolidated Statements and Other Financial Information</u>	<u>95</u>
<u>B. Significant Changes</u>	<u>98</u>
<u>ITEM 9. THE OFFER AND LISTING</u>	<u>98</u>
<u>ITEM 10. ADDITIONAL INFORMATION</u>	<u>98</u>
<u>A. Share Capital</u>	<u>98</u>
<u>B. Memorandum and Articles of Association</u>	<u>98</u>
<u>C. Material Contracts</u>	<u>102</u>
<u>D. Exchange Controls</u>	<u>102</u>
<u>E. Taxation</u>	<u>102</u>
<u>F. Dividends and Paying Agents</u>	<u>106</u>
<u>G. Statement by Experts</u>	<u>106</u>
<u>H. Documents on Display</u>	<u>106</u>
<u>I. Subsidiary Information</u>	<u>106</u>
<u>ITEM 11. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>107</u>
<u>ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	<u>108</u>
<u>A. DEBT SECURITIES</u>	<u>108</u>
<u>B. WARRANTS AND RIGHTS</u>	<u>108</u>
<u>C. OTHER SECURITIES</u>	<u>108</u>
<u>D. American Depositary shares</u>	<u>108</u>
<u>PART II</u>	<u>109</u>
<u>ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	<u>109</u>
<u>ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	<u>110</u>

A. MATERIAL MODIFICATIONS TO THE INSTRUMENTS DEFINING THE RIGHTS OF SECURITY HOLDERS	110
B. MATERIAL MODIFICATIONS TO THE RIGHTS OF REGISTERED SECURITIES BY ISSUING OR MODIFYING ANY OTHER CLASS OF SECURITIES	110
C. WITHDRAWAL OR SUBSTITUTION OF A MATERIAL AMOUNT OF THE ASSETS SECURING ANY REGISTERED SECURITIES	110
D. CHANGE OF TRUSTEES OR PAYING AGENTS FOR ANY REGISTERED SECURITIES	110
E. USE OF PROCEEDS	110
ITEM 15. CONTROLS AND PROCEDURES	110
ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT	111
ITEM 16B. CODE OF ETHICS	111
ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES	111
ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES	112
ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS	112
ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT	112
ITEM 16G. CORPORATE GOVERNANCE	113
Item 16H. MINE SAFETY DISCLOSURE	113
PART III	113
ITEM 17. FINANCIAL STATEMENTS	113
ITEM 18. FINANCIAL STATEMENTS	113
ITEM 19. EXHIBITS	113

TERMS AND CONVENTIONS

Definitions

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

- “CNOOC” are to our controlling shareholder, China National Offshore Oil Corporation, a PRC state-owned enterprise, or China National Offshore Oil Corporation and its subsidiaries (excluding us and our subsidiaries), as the case may be;
- “CNOOC Limited” are to CNOOC Limited, a Hong Kong limited liability company and the registrant of this annual report;
- “Our company”, “Company”, “Group”, “we”, “our” or “us” are to CNOOC Limited and its subsidiaries;
- “ADRs” are to the American depositary receipts that evidence our ADSs;
- “ADSs” are to our American depositary shares, each of which represents 100 shares;
- “Cdn\$” are to Canadian dollar, the legal currency of Canada;
- “China” or “PRC” are to the People’s Republic of China, excluding for purposes of geographical reference in this annual report, the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan;
- “Hong Kong” are to the Hong Kong Special Administrative Region of the People’s Republic of China;
- “Hong Kong Stock Exchange” or “HKSE” are to The Stock Exchange of Hong Kong Limited;
- “HK\$” are to Hong Kong dollar, the legal currency of the Hong Kong Special Administrative Region;
- “HKICPA” are to the Hong Kong Institute of Certified Public Accountants;
- “HKFRS” are to all Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards and Interpretations approved by the Council of the HKICPA;
- “IASB” are to the International Accounting Standards Board;
- “IFRS” are to all International Financial Reporting Standards, including International Accounting Standards and Interpretations, as issued by the International Accounting Standards Board;
- “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;
- “NYSE” are to the New York Stock Exchange;
- “Rmb” are to Renminbi, the legal currency of the PRC;
- “TSX” are to the Toronto Stock Exchange; and
- “US\$” are to U.S. dollar, the legal currency of the United States of America.

Conventions

We publish our financial statements in Renminbi. Unless otherwise indicated, we have translated amounts from Renminbi into U.S. dollars solely for the convenience of the reader at the noon buying rate for cable transfers 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, 2014 of US\$1.00=Rmb 6.2046. 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, 2014 of US\$1.00=HK\$ 7.7531. 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, 2014 of US\$1.00=Cdn\$ 1.1601. 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, 2014, 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 2012, 2013 and 2014, approximately 36%, 52%, and 52%, 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 2012, 2013 and 2014 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, and Indonesia in Asia and Yacheng 13-1/13-4 gas field in the Western South China Sea, where we have used energy equivalence for such conversion purpose.

Glossary of Technical Terms

Unless otherwise indicated in the context, references to:

- “API gravity” means the American Petroleum Institute’s scale for specific gravity for liquid hydrocarbons, measured in degrees.
- “appraisal well” means an exploratory well drilled after a successful wildcat well to gain more information on a newly discovered oil or gas reserve.
- “developed oil and gas reserves” are reserves of any category that can be expected to be recovered:
 - (i) through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and
 - (ii) through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving any well.
- “exploratory well” means a well drilled to find either a new field or a new reservoir in a field previously found to be productive of oil or gas in another reservoir. Generally, an exploratory well is any well that is not a development well, an extension well, a service well, or a stratigraphic test well.
- “LNG” means liquefied natural gas.
- “net wells” means a party’s working interests in wells.

- “proved oil and gas reserves” means those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible—from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations— prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.
 - (i) The area of the reservoir considered as proved includes: (A) The area identified by drilling and limited by fluid contacts, if any, and (B) Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geosciences and engineering data.
 - (ii) In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons (LKH) as seen in a well penetration unless geosciences, engineering, or performance data and reliable technology establishes a lower contact with reasonable certainty.
 - (iii) Where direct observation from well penetrations has defined a highest known oil (HKO) elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geosciences, engineering, or performance data and reliable technology establish the higher contact with reasonable certainty.
 - (iv) Reserves which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when: (A) Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and (B) The project has been approved for development by all necessary parties and entities, including governmental entities.
 - (v) Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.
- “PSC” means production sharing contract. For more information about PSC, see “Item 4—Information on the Company—Business Overview—Regulatory Framework in the PRC.”
- “share oil” means the portion of production that must be allocated to the relevant government entity under our PSCs in the PRC.
- “undeveloped oil and gas reserves” means reserves of any category that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.
 - (i) Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.

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

(iii) Under no circumstances shall estimates for undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir, or by other evidence using reliable technology establishing reasonable certainty.

For further definitions relating to reserves:

- “reserve replacement ratio” means, for a given year, total additions to proved reserves, which consist of additions from purchases, discoveries and extensions and revisions of prior reserve estimates, divided by production during the year. Reserve additions used in this calculation are proved developed and proved undeveloped reserves; unproved reserve additions are not used. Data used in the calculation of reserve replacement ratio is derived directly from the reserve quantity reconciliation prepared in accordance with U.S. Accounting Standards Codification 932-235-50, which reconciliation is included in “Supplementary Information on Oil and Gas Producing Activities” beginning on page F-79 of this annual report.

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

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

References to:

- bbls means barrels, which is equivalent to approximately 0.134 tons of oil (33 degrees API);
- mmbbls means million barrels;
- BOE means barrels-of-oil equivalent;
- mcf means thousand cubic feet;
- mmcf means million cubic feet;

- bcf means billion cubic feet, which is equivalent to approximately 28.32 million cubic meters; and
- BTU means British Thermal Unit, a universal measurement of energy.

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”, “believe”, “plans”, “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.

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, 2012, 2013 and 2014 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.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

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

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

The following tables present selected historical financial data of our company as of and for the years ended December 31, 2010, 2011, 2012, 2013 and 2014. 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, 2010, 2011, 2012, 2013 and 2014 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, 2010, 2011, 2012, 2013 and 2014 have been prepared and presented in accordance with IFRS.

	Year ended December 31,					
	2010 ⁽¹⁾	2011	2012	2013	2014	2014
	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	146,134	189,279	194,774	226,445	218,210	35,169
Marketing revenues	32,446	50,469	50,771	55,495	50,263	8,101
Other income	1,456	1,196	2,082	3,917	6,161	993
Total operating revenues	<u>180,036</u>	<u>240,944</u>	<u>247,627</u>	<u>285,857</u>	<u>274,634</u>	<u>44,263</u>
Expenses:						
Operating expenses	(15,647)	(18,264)	(21,445)	(30,014)	(31,180)	(5,025)
Taxes other than income tax	(7,109)	(10,332)	(15,632)	(15,937)	(11,842)	(1,909)
Exploration expenses	(5,483)	(5,220)	(9,043)	(17,120)	(11,525)	(1,857)
Depreciation, depletion and amortization	(26,756)	(30,521)	(32,903)	(56,456)	(58,286)	(9,394)
Special oil gain levy	(17,706)	(31,982)	(26,293)	(23,421)	(19,072)	(3,074)
Impairment and provision	(27)	(22)	(31)	45	(4,120)	(664)
Crude oil and product purchases	(32,236)	(50,307)	(50,532)	(53,386)	(47,912)	(7,722)
Selling and administrative expenses	(3,039)	(2,854)	(3,377)	(7,859)	(6,613)	(1,066)
Others	(888)	(835)	(1,230)	(3,206)	(3,169)	(511)
Total expenses	<u>(108,891)</u>	<u>(150,337)</u>	<u>(160,486)</u>	<u>(207,354)</u>	<u>(193,719)</u>	<u>(31,222)</u>
Profit from operating activities	71,145	90,607	87,141	78,503	80,915	13,041
Interest income	618	1,196	1,002	1,092	1,073	173
Finance costs	(1,122)	(1,707)	(1,603)	(3,457)	(4,774)	(769)
Exchange gains, net	995	637	359	873	1,049	169
Investment income	427	1,828	2,392	2,611	2,684	433
Share of profits of associates	199	320	284	133	232	37
Share of profits/(losses) of a joint venture	199	247	(311)	762	774	125
Non-operating income/(expenses), net	<u>142</u>	<u>(563)</u>	<u>908</u>	<u>334</u>	<u>560</u>	<u>90</u>
Profit before tax	<u>72,603</u>	<u>92,565</u>	<u>90,172</u>	<u>80,851</u>	<u>82,513</u>	<u>13,299</u>
Income tax expense	<u>(18,193)</u>	<u>(22,310)</u>	<u>(26,481)</u>	<u>(24,390)</u>	<u>(22,314)</u>	<u>(3,596)</u>
Profit for the year	<u>54,410</u>	<u>70,255</u>	<u>63,691</u>	<u>56,461</u>	<u>60,199</u>	<u>9,703</u>
Earnings per share (basic) ⁽²⁾	1.22	1.57	1.43	1.26	1.35	0.22
Earnings per share (diluted) ⁽³⁾	1.21	1.57	1.42	1.26	1.35	0.22
Earnings per ADS (basic) ⁽²⁾	121.81	157.28	142.66	126.46	134.83	21.73
Earnings per ADS (diluted) ⁽³⁾	121.39	156.63	142.14	126.07	134.57	21.69
Dividend per share						
Interim	0.181	0.204	0.122	0.198	0.198	0.03
Proposed final	0.211	0.227	0.259	0.252	0.254	0.04

	As of December 31,					
	2010 ⁽¹⁾	2011	2012	2013	2014	2014
	Rmb	Rmb	Rmb	Rmb	Rmb	US\$
	(in millions)					
Statement of Financial Position Data:						
Cash and cash equivalents	27,287	23,678	55,024	14,318	14,918	2,404
Available-for sale financial assets	18,940	27,576	61,795	51,103	54,030	8,708
Held-to-maturity financial assets	3,040	23,467	-	-	-	-
Current assets	99,384	131,923	170,894	146,552	140,708	22,678
Property, plant and equipment, net	186,678	220,567	252,132	419,102	463,222	74,658
Investments in associates	1,781	2,822	3,857	4,094	4,100	661
Investments in a joint venture	20,823	20,175	20,160	20,303	21,150	3,409
Intangible assets	1,148	1,033	973	17,000	16,491	2,658
Long term available-for-sale financial assets	8,616	7,365	7,051	6,798	5,337	860
Total assets	318,430	384,264	456,070	621,473	662,859	106,833
Current loans and borrowings	21,194	19,919	28,830	49,841	31,180	5,025
Current liabilities	68,423	70,216	82,437	128,948	103,498	16,681
Long term loans and borrowings, net of current portion	9,859	18,076	29,056	82,011	105,383	16,985
Total non-current liabilities	34,241	51,192	63,853	150,905	179,751	28,970
Total liabilities	102,664	121,408	146,290	279,853	283,249	45,651
Capital stock	43,078	43,078	43,078	43,081	43,081	6,943
Shareholders' equity	215,766	262,856	309,780	341,620	379,610	61,182

- (1) From January 1, 2011, the Company adopted IFRS 10-Consolidated Financial Statements, IFRS 11-Joint Arrangements, IFRS 12-Disclosure of Interest in Other Entities, IAS 27 (Revised)-Separated Financial Statements and IAS 28 (Revised)-Investments in Associates and Joint Ventures before their mandatory effective date on January 1, 2013. Certain comparative figures have been adjusted.
- (2) Earnings per share (basic) and earnings per ADS (basic) for each year from 2010 to 2014 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 44,669,199,984 and 446,692,000, respectively, for 2010, 44,668,570,359 and 446,685,704, respectively, for 2011, 44,646,305,984 and 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, in each case based on a ratio of 100 shares to one ADS.
- (3) Earnings per share (diluted) and earnings per ADS (diluted) for each year from 2010 to 2014 have been computed, after considering the dilutive effect of the shares underlying our share option schemes by using 44,821,187,466 shares and 448,211,875 ADSs for 2010, 44,853,615,010 shares and 448,536,150 ADSs for 2011, 44,808,042,330 shares and 448,080,423 ADSs for 2012, 44,787,119,089 shares and 447,871,191 ADSs for 2013, and 44,734,774,504 shares and 447,347,745 ADSs for 2014.

	Year ended December 31,					
	2010 ⁽¹⁾	2011	2012	2013	2014	2014
	Rmb	Rmb	Rmb	Rmb	Rmb	US\$
	(in millions, except percentages and ratios)					
Other Financial Data:						
Capital expenditures paid ⁽²⁾	28,332	36,823	54,331	79,716	95,673	15,420
Cash provided by/(used for):						
Operating activities	70,883	116,171	92,574	110,891	110,508	17,811
Investing activities	(64,203)	(99,036)	(63,797)	(170,032)	(90,177)	(14,534)
Financing activities	(1,610)	(20,246)	2,584	18,601	(19,486)	(3,141)
Gearing ratio ⁽³⁾	12.6%	12.6%	15.7%	27.8%	26.5%	26.5%

- (1) From January 1, 2011, the Company adopted IFRS 10-Consolidated Financial Statements, IFRS 11-Joint Arrangements, IFRS 12-Disclosure of Interest in Other Entities, IAS 27 (Revised)-Separated Financial Statements and IAS 28 (Revised)-Investments in Associates and Joint Ventures before their mandatory effective date on January 1, 2013. Certain comparative figures have been adjusted.
- (2) Capital expenditures paid exclude those relating to acquisition of oil and gas properties.
- (3) Interest bearing debt divided by the sum of interest bearing debt and equity.

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

Period	Noon Buying Rate			
	End	Average ⁽¹⁾	High	Low
	(Rmb per US\$1.00)			
2010	6.6000	6.7603	6.8330	6.6000
2011	6.2939	6.4475	6.6364	6.2939
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
October 2014	6.1124	—	6.1385	6.1107
November 2014	6.1429	—	6.1429	6.1117
December 2014	6.2046	—	6.2256	6.1490
January 2015	6.2495	—	6.2535	6.1870
February 2015	6.2695	—	6.2695	6.2399
March 2015	6.1990	—	6.2741	6.1955

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

On March 31, 2015, 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 6.1990 to US\$1.00.

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

Period	Noon Buying Rate			
	End	Average ⁽¹⁾	High	Low
	(HK\$ per US\$1.00)			
2010	7.7810	7.7692	7.8040	7.7501
2011	7.7663	7.7793	7.8087	7.7634
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
October 2014	7.7551	—	7.7645	7.7541
November 2014	7.7548	—	7.7572	7.7519
December 2014	7.7531	—	7.7616	7.7509
January 2015	7.7529	—	7.7563	7.7508
February 2015	7.7559	—	7.7584	7.7517
March 2015	7.7540	—	7.7686	7.7534

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

On March 31, 2015, 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\$7.7540 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	Average ⁽¹⁾	High	Low
	(Cdn\$ per US\$1.00)			
2010	1.0009	1.0353	1.0776	0.996
2011	1.0168	0.9857	1.0605	0.9448
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
October 2014	1.1272	—	1.1291	1.1135
November 2014	1.1426	—	1.1426	1.1236
December 2014	1.1601	—	1.1644	1.1343
January 2015	1.2716	—	1.2716	1.1725
February 2015	1.2506	—	1.2635	1.2401
March 2015	1.2681	—	1.2803	1.2439

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

On March 31, 2015, 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\$1.2681 to US\$1.00.

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

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

Risks Relating to Our Operations

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

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

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

Even relatively modest declines in crude oil and/or natural gas prices may adversely affect our business, revenues and profits. Lower oil and gas prices may result in the write-off of higher cost reserves and other assets and may lower our earnings or cause losses. Lower oil and gas prices may also reduce the amount of oil and natural gas we can produce economically and render existing contracts that we have entered into uneconomical.

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

The reliability of reserve estimates depends on a number of factors, including the quality and quantity of technical and economic data, the prevailing oil and gas prices for our production, the production performance of reservoirs, extensive engineering judgments, and the fiscal regime in the PRC and overseas 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 to be incorrect over time. In addition, many of the factors involved in estimating reserves over which we do have control, such as the recovery factor estimates and the projected production decline rates, may also prove to be incorrect over time. Consequently, the results of drilling, testing and production and oil and gas price changes may require substantial upward or downward revisions in our initial reserve data.

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

Exploring for, developing and acquiring reserves is highly risky and capital intensive. Our exploration and development activities involve inherent risks, including the risk that we will not encounter commercially productive oil or gas reservoirs and the wells we drill may not be productive or not sufficiently productive to recover a portion or all of our investment. In addition, approximately 56.6% of our proved reserves were undeveloped as of December 31, 2014. Our future success will depend on our ability to develop these reserves in a timely and cost-effective manner. There are various risks in developing reserves, mainly including construction, operational, geophysical, geological and regulatory risks.

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

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

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

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

As part of our business strategy and to meet increasing market demand in China, we continue to expand our natural gas business. In addition to the risks that affect our business generally, this strategy involves certain risks and uncertainties, including our limited market share compared to PetroChina Company Limited, or PetroChina, and China Petroleum & Chemical Corporation, or Sinopec, and the underdeveloped natural gas transportation and supply infrastructure and market in China. We expect that the gap between the market demand and supply for natural gas will continue to narrow down in the next few years and the supply may exceed the demand in certain regions, which may cause challenges to our natural gas business. We are evaluating the options to invest in CNOOC's LNG projects in China. However, we have not decided whether to exercise these options. The options are subject to various conditions including certain governmental approvals, the prospects of such projects and, if applicable, independent shareholders' approval.

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

In the past few years, we expanded our operations into Argentina, the U.S., Canada, Uganda, United Kingdom, Brazil and certain other countries through mergers and acquisitions. For example, we completed our significant acquisition of Nexen Inc. ("Nexen"), a Canada-based energy company previously listed on the TSX and the NYSE, in February 2013. We may continue to pursue opportunities for mergers and acquisitions to expand our business in the future.

In light of political instability, unexpected changes to fiscal regime and various other factors, there may be uncertainties with respect to the operations of those merged and acquired overseas assets. In particular, we may face increasing exploration and environmental risks arising from Nexen's unconventional resources development, including oil sands and shale gas. The relatively high production cost of Nexen's oil sands operations may negatively affect our overall profitability. In addition, acquisitions may result in the incurrence and inheritance of debts and other liabilities, assumption of potential legal liabilities in respect of the acquired businesses, and incurrence of impairment charges related to goodwill and other intangible assets, any of which could harm our results of operations and financial condition. In particular, if any of the acquired businesses fails to perform as we expect, we may be required to recognize a significant impairment charge, which may materially and adversely affect our results of operations. Further, we may face other risks and uncertainties as we become subject to additional regulatory requirements as a result of the acquisition of Nexen. Therefore, we may not be able to achieve the anticipated economic return. Also, the increase in the scale of our operations may increase our operational risks.

Achieving the advantages of the Nexen acquisition will depend partly on the efficient combination of the activities of the Company and Nexen, two companies that functioned independently and were incorporated in different countries, with geographically dispersed operations and with different business cultures.

The integration process involves inherent costs and uncertainties. We expect the acquisition of Nexen will expand our existing business and assets and create sustainable growth opportunities, synergies and other benefits. However, our anticipated benefits may not develop. In addition, implementation of the acquisition and the successful integration of Nexen will also require management time and attention, as well as those employees with the appropriate skill sets for the tasks associated with such integration. The integration process may also adversely affect our profitability because we will incur additional costs, such as depreciation and employee costs, during this process. Any failures, material delays or unexpected costs of the integration process could therefore have a material adverse effect on our business, results of operations and financial condition.

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

CNOOC indirectly owned or controlled 64.44% of our shares as of March 31, 2015. As a result, CNOOC is able to control the composition of the board of directors of our company, or our Board, determine the timing and amount of our dividend payments and otherwise control us. If CNOOC takes actions that favor its interests over ours, our results of operations and financial position may be adversely affected.

In addition, we regularly enter into transactions with CNOOC and its affiliates. Some of our transactions with CNOOC and its affiliates constitute connected transactions under The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, or the Hong Kong Stock Exchange Listing Rules. Furthermore, these connected transactions are subject to the review by the Hong Kong Stock Exchange and may also be subject to the prior approval of our independent shareholders. For example, we obtained the independent shareholders' approval in respect of certain continuing connected transactions under a comprehensive framework agreement with CNOOC and its affiliates on November 27, 2013. If we do not obtain these approvals, we will not be allowed to effect these transactions and our business operations and then the financial condition could be adversely affected.

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

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

We sell a significant proportion of our production to Sinopec, PetroChina and CNOOC-affiliated companies. However, we currently do not have long-term crude oil sales contracts with these customers. Our business, results of operations and financial condition could be adversely affected if any of them significantly reduced their crude oil purchases from us.

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

Quite a few of our operations are conducted with partners or in joint ventures in which we may have limited ability to influence or control their operation or future development. Our limited ability to influence or control the operation or future development of such joint ventures could materially and adversely affect the realization of our target returns on capital and lead to unexpected future costs.

Blowout or other incidents may result in platform explosions, fire accidents and oil spills

Our operations are mainly conducted in challenging or environmentally sensitive locations, in which the consequences of a blowout, spill, explosion, fire or other incidents could be more severe than in other locations. Although we have adopted standard workflow procedures and various measures to control the risks of blowout or other incidents, we cannot ensure that we could avoid the potential losses caused by blowout or other incidents. If one or more blowout or other incidents occur, platform explosions and fire accidents caused by such incidents may result in casualties, property losses and environmental damages, which may have a material adverse effect on our business, financial condition and results of operation.

We maintain various insurance policies for our operations against certain types of potential losses. For detailed information on our insurance coverage, see “Item 4—Information on the Company—Business Overview—Operating Hazards and Uninsured Risks.” However, our ability to insure against our risks is limited by the availability of relevant insurance products in the market. In addition, we cannot assure 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 timely or at all. If any of our losses is not covered by our insurance policies, or if the insurance compensation is less than our losses or not paid timely, our business, financial condition and results of operations could be materially and adversely affected.

We conduct exploration and development in deepwater areas in both offshore China and overseas by cooperating with our partners and by ourselves. Operations in deepwater may require a significant amount of time between the discovery and the initial production, thus increasing the risks involved in these operations. Also, operations in deepwater are more difficult, risky and costly than those in shallower water and are subject to certain risks including well control and other catastrophic events. The consequences of blowouts and other catastrophic events occurring in deepwater operations can be more difficult, uncertain and time-consuming to remedy.

Extreme weather conditions may have a material adverse impact on us and could result in losses that are not covered by insurance

Our exploration, development and production activities can be adversely affected by extreme weather conditions, which could result in loss of hydrocarbons, environmental pollution, damage to our properties, cessation of activities, delay of project plans, shareholders lawsuits, government penalty, and increases in costs of drilling, completing and operating wells.

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

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 to us and possible imposition of sanctions on CNOOC, which could materially and adversely affect our shareholders

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

It is possible that, as a result of activities by CNOOC or its affiliates in countries that are the subject of U.S. sanctions, we may be subject to negative media or investor attention, which may distract management, consume internal resources and affect investors' perception of our company.

In recent years, the U.S. Government has implemented a number of sanctions targeting non-U.S. companies that engage in certain Iran-related transactions. A number of U.S. statutes, Executive Orders and regulations authorize the imposition of sanctions on companies that engage in, among other things, certain activities related to Iran's energy, petrochemical, shipping or shipbuilding sectors, and in certain instances, on their parent companies. It is possible that the U.S. Government could determine that CNOOC or its affiliates engage in activities targeted by U.S. sanctions. If the U.S. President determined that CNOOC or one of its affiliates engaged in targeted activities, CNOOC and/or its affiliate could be subject to U.S. sanctions, which range from restrictions on U.S. exports or bank financing to outright blocking of CNOOC or its affiliate's property within U.S. jurisdiction. If the most extreme sanction, blocking, were applied to CNOOC's property, including controlled subsidiaries, 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.

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 2014, China Oilfield Services Limited (COSL), one of our non-controlled affiliates, continued to provide certain drilling and other related services in Iran in relation to renewed subcontracting agreements entered into in 2009, as it did in 2013. We cannot predict at this time whether U.S. sanctions will be imposed on any of our affiliates.

Our business and financial condition may be adversely affected by a severe and prolonged global economic downturn and adverse economic conditions

The global economy has recovered moderately from the recession following the 2008 financial market disruptions and the European sovereign debt crisis. However, concerns about the systemic impact of a prolonged recession and adverse economic conditions, energy costs, geopolitical issues and the availability and cost of credit have contributed to increased market volatility and diminished expectations for economic growth around the world. The complex economic outlook has negatively affected business and consumer confidence and contributed to volatility levels. We cannot predict the short- and long-term impacts of these events on our business and financial condition, which could be materially and adversely affected.

Our unconventional oil and gas operations carry additional risks and uncertainties

Oil sands, shale oil and gas and coalbed methane ("CBM") are unconventional oil and gas resources produced through the application of relatively new and expensive technologies. As a result, our unconventional oil and gas operations are subject to the challenges of immature technology and also expose us to higher environmental compliance standards and requirements. In the event of any failure to comply with such standards and requirements, such failure may lead to public concerns on our unconventional oil and gas operations, which may also harm our corporate reputation and profitability.

Our projects may not be completed on time or within budget

We are involved with a variety of projects at any given time, including exploration and development projects, and the construction and expansion of projects facilities. Project delays may adversely affect expected revenues and cost overruns may adversely affect project economics. Our ability to complete projects on time and within budget depends on many factors beyond our control, including the need for government and regulatory approvals, especially the approvals from environmental agencies, the availability of equipment and personnel, weather, accidents, equipment breakdown, unexpected or uncontrollable increases in the costs of materials or labor and processing capacity.

Oil and gas transportation may expose us to the risk of financial loss and damaged reputation

Oil and gas transportation involves certain risks, which may expose us to the risk of financial loss and damaged reputation. 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, explosion, and 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 damaged reputation. 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 capital, exploration and investment spending, which could have a material adverse effect on our business, financial condition and results of operations.

Pipeline and export infrastructure in North America is limited

An increase in the supply of crude oil and natural gas from unconventional sources in North America has reduced commodity prices in North America relative to many other markets. The increased supply in North America is expected to fill existing North American pipeline infrastructure. Without new transportation and export infrastructure, the current transportation network in North America may not be able to accommodate the increased volumes of crude oil and natural gas expected from the development of unconventional oil and gas, including oil and gas produced from our oil sands and shale gas properties in western Canada. This, in turn, could delay the development of our oil and gas reserves in western Canada. In addition, North America has limited export infrastructure and without new export infrastructure, we may be required to sell our production into the North American markets at lower prices than are available in other markets, which could materially and adversely affect our financial performance.

Our lands in western Canada could be subject to aboriginal claims

Aboriginal peoples in Canada have claimed aboriginal title and rights to a substantial portion of western Canada, including the lands on which our shale gas and oil sands interests, and those of most other oil sands and shale gas operators in Alberta and British Columbia of Canada, are located. As a result, aboriginal consultation on surface activities is required and may result in timing uncertainties or delays of future development activities. Such claims, if successful, could have a significant adverse effect on our oil sands and shale gas developments in Canada.

The energy marketing operations of Nexen expose us to the risk of trading losses

Nexen has an energy marketing business, which primarily markets Nexen's proprietary crude oil and natural gas production and also engages in market optimization activities including the purchase and sale of third-party production. The energy marketing operations of Nexen expose us to the risk of financial losses from various sources, which may have a material adverse effect on our financial performance. Nexen's energy marketing team maintains a portfolio comprised of long and short physical and financial positions, which may be significant in size or number at any time. This portfolio of positions is managed based on a trading thesis for expected future pricing levels and trends in forward or regional markets. Unanticipated volatility in commodity price levels and trends upon which those positions are based may cause a position to decrease in value. The transportation and storage assets and contracts undertaken by Nexen's energy marketing business may decrease in value due to changes in temporal and regional commodity pricing.

Risks Relating to the Petroleum Industry

The oil and natural gas industries 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 oil and gas properties or leases, customers, capital financing and business opportunities, including desirable oil and gas prospects. We also compete for the equipment and personnel required to explore, develop and operate oil and gas properties. Competition may result in shortage of these resources, customers or opportunities, and also an over-supply of oil and gas, which could negatively impact our business, financial condition and results of operations.

Political and security risks and changes in laws and regulations could have an adverse effect on our overseas operation

We currently have operations and assets in various foreign countries and regions, including Indonesia, Brazil, Iraq, Australia, Nigeria, Uganda, Argentina, the United States, Canada, United Kingdom and certain other countries, and may expand our operations into other countries to further enhance our reserve base and diversify our geographic risk profile.

Some of the countries in which we have operations may be considered politically and economically unstable. A portion of our revenue is derived from operations in these countries. As a result, our financial condition and operating results could be significantly affected by risks associated with international activities, including, civil unrest and general strikes, political instability, risk of war and acts of terrorism, changes in governmental policies or social instability or other political, economic or diplomatic developments in or affecting these foreign nations which are not within our control, including, among other things, a change in crude oil or natural gas pricing policy, expropriation, nationalization, renegotiation or nullification of existing concessions and contracts, cost recovery, taxation policies, foreign exchange and repatriation restrictions, changing political conditions and currency controls.

In addition, the operations and assets that we currently have or in the future may have in foreign countries and regions may be materially and adversely affected by trade or economic sanctions that may be imposed by other countries due to their deteriorated relations with each other.

Tax and fiscal policies change may have an adverse effect on our financial performance

Our financial performance is subject to the tax and fiscal regime in host countries in which we operate. Any changes on the tax and fiscal regime in host countries in which we operate may increase our tax burden and have an adverse effect on our financial performance. For example, in September 2014, OECD launched the “Base Erosion and Profit Shifting Project” to enhance multilateral cooperation, pursuant to which countries worldwide will amend their tax laws and tax treaties and strengthen their supervision on the corporate tax planning and transfer pricing activities, which may cause risks to the Company on transfer pricing activities.

War and acts of terrorism could materially and adversely affect us

We have operations and assets in various countries and regions, including Indonesia, Brazil, Iraq, Australia, Nigeria, Uganda, Argentina, the United States, Canada, United Kingdom and certain other countries, some of which are deemed to be with a high degree of political risk. We face the risks of kidnapping, damage to property and business interruption caused by terrorism activities and strikes. Acts of terrorism and strikes could materially and adversely affect our business, financial condition and results of operations.

We are required to obtain government or other regulatory approvals in order to operate

Our oil and gas operations require approvals from domestic or various international, federal, state, provincial, territorial and local governmental authorities in order to meet the requirement of laws and regulations designed to govern the activities of oil and gas in the process through exploration, development and production. These laws and regulations may impose significant liabilities on a failure to comply with their requirements including the possibility of administrative, civil and criminal penalties, cancellation or suspension of permits or authorizations, investigations or other proceedings. If we are unable to obtain any necessary approvals, our business, financial condition, reputation and results of operations could be materially and adversely affected.

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

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

We have established an enterprise risk management system to identify, evaluate and manage the risks that we face. In addition, to help address various health, safety, security, environmental and operational risks, we have established a comprehensive management system to improve our employees' awareness of our health, safety and environmental policies in our business operations and strengthen their skills of risk identification and risk management. We also continuously focus on workplace safety and prevention of oil spills or other adverse environmental events. However, there can be no assurance that our management systems and controls will function as intended at all times. Substantial liabilities and other adverse impacts could result if our management systems and controls cannot adequately identify all process safety, personal safety and environmental risks or provide effective mitigations, or that our operations will not be able to conform with our management systems and controls at all times.

Risks Relating to the PRC

Changes in PRC laws and regulations could have an adverse effect on our operation

We are the largest producer of offshore crude oil and natural gas in the PRC. The PRC government exercises control over the PRC petroleum industry, including licensing, exploring, producing, distributing, pricing, taxing, importing, exporting and allocating of various resources. We have benefited from various favorable PRC government policies, laws and regulations that have been enacted to encourage the development of the offshore petroleum industry. We cannot guarantee that the legal and fiscal regimes affecting our businesses will remain substantially unchanged or that we will continue to benefit from favorable PRC government policies.

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

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

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

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

The value of Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. The depreciation of Renminbi against the U.S. dollar may cause an increase in cost for imported equipment and materials. In addition, the depreciation of Renminbi against the U.S. dollar may cause an increase in our debt repayment burden, since all of our debt is denominated in U.S. dollars.

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

We are a holding company. Our businesses are owned and conducted through various wholly owned subsidiaries, including CNOOC China Limited, our wholly owned subsidiary in the PRC. Accordingly, our future cash flows will consist principally of dividends and other distributions from our subsidiaries. Our PRC subsidiary's ability to pay dividends and other distributions to us is subject to PRC laws and regulations. For example, legal restrictions in the PRC permit payment of dividends only out of profits determined in accordance with PRC accounting standards and regulations. Substantially all our dividend payments result from dividends paid to us as a holding company 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 should 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 distributions according to the prevailing accounting rules and regulations in the PRC. Therefore, there is a risk that we may not be able to maintain sufficient cash flows due to these restrictions on dividend distribution.

If the settlement recently reached between the SEC and the Big Four PRC-based accounting firms (including the Chinese affiliate of our independent registered public accounting firm), concerning the manner in which the SEC may seek access to audit working papers from audits in China of US-listed companies, is not or cannot be performed in a manner acceptable to authorities in China and the US, we could be unable to timely file future financial statements in compliance with the requirements of the Securities Exchange Act of 1934.

Starting in 2011 all Mainland Chinese audit firms practising before the SEC (including the mainland Chinese affiliate of our independent registered public accounting firm and those of the other "Big Four" networks) were affected by a conflict between US and Chinese laws. Specifically, the SEC and the PCAOB sought to obtain from the Chinese accounting firms access to their audit work papers and related documents from audits in mainland China of the operations of certain US-listed companies. The Chinese accounting firms were, however, advised and directed that under China law they could not respond directly to the US regulators on those requests, and that requests by foreign regulators for access to such papers in China had to be channelled through the China Securities Regulatory Commission ("CSRC").

In late 2012 this impasse led the SEC to commence administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the mainland Chinese affiliates of the "Big Four" accounting firms (including the mainland Chinese affiliate of our independent registered public accounting firm). On February 6, 2015, before a review by the Commissioner had taken place, the Chinese accounting firms reached a settlement with the SEC whereby the proceedings were stayed. Under the settlement, the SEC accepts that future requests by the SEC for the production of documents will normally be made to the CSRC. The Chinese accounting firms will receive requests matching those under Section 106 of the Sarbanes-Oxley Act of 2002., and are required to abide by a detailed set of procedures with respect to such requests, which in substance require them to facilitate production via the CSRC. If they fail to meet specified criteria, the SEC retains authority to impose a variety of additional remedial measures on the Chinese accounting firms depending on the nature of the failure. Remedies for any future noncompliance could include, as appropriate, an automatic six-month bar on a single firm's performance of certain audit work, commencement of a new proceeding against a firm, or in extreme cases the resumption of the recently-stayed proceeding against all four firms. The SEC also reserves the right to resume those proceedings in circumstances where, notwithstanding the accounting firms' compliance with the procedures in the settlement agreement, the SEC does not receive a production of documents which it considers satisfactory (for example because of action or inaction by the Chinese authorities).

In the event that the SEC restarts the administrative proceedings, depending upon the final outcome listed companies in the United States with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in the PRC whose work could contribute to SEC filings, which could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act, including possible delisting. Moreover, any negative news about any such future proceedings against these accounting firms may cause investor uncertainty regarding China-based, United States-listed companies and the market price of our ADSs may be adversely affected.

If the Chinese affiliate of our independent registered public accounting firm were denied, even temporarily, the ability to practice before the SEC and we were unable to timely find another registered public accounting firm to audit and issue an opinion on our financial statements, our financial statements could be determined not to be in compliance with the requirements of the Exchange Act of 1934, as amended. Such a determination could ultimately lead to the delisting of our ordinary shares from the NYSE or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

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 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, 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."

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. At the end of 2014, we had net proved reserves of approximately 4.48 billion BOE (including approximately 0.29 billion BOE under our equity method investees). In 2014, we had a total net oil and gas production of 1,184,977 BOE per day (including net oil and gas production of approximately 47,640 BOE per day under 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, 2014, we had approximately 4.48 billion BOE of net proved reserves. Our core operating area, offshore China, contributed to approximately 55.6% of our net proved reserves, while overseas contributed to the balance of 44.4%.

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, 2014, approximately 56.6% of our net proved reserves were classified as net proved undeveloped. Our large proved reserve base gives us the opportunity to achieve substantial production growth.

Sizable operating areas in offshore China with demonstrated exploration potential

We are the dominant oil and gas producer in offshore China, a region that we believe has substantial exploration upside. As of December 31, 2014, our total major exploration areas acreage in offshore China was approximately 257,292 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 2014, we and our foreign partners have together drilled a total of 117 exploratory wells in offshore China, of which 53 were wildcat wells. During the same year, we and our foreign partners made 15 new discoveries in offshore China.

Successful independent exploration and development track record

We have a strong record of growing our reserves base for oil and natural gas, both independently and with our foreign partners through PSCs. In recent years, we have been adding reserves and production mainly through independent exploration and development. As of the end of 2014, in offshore China, approximately 84% of our net proved reserves were independent and approximately 74% of our production came from independent projects.

In 2014, in offshore China, our independent exploration resulted in 15 new discoveries. We also successfully appraised 17 oil and gas structures. On the development front, in 2014, our major new development projects progressed smoothly with over 10 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 the “ICON on Corporate Governance” by Corporate Governance Asia Magazine and the “2014 Excellence in Management and Corporate Governance Awards-Platinum” by The Asset in 2014.

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 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 top priority. We plan to increase our reserves and production through drill bits and value-driven acquisitions. We will continue to concentrate independent exploration efforts on major operating areas, especially in offshore China. In the meantime, we will continue to enter into PSCs with foreign partners to lower capital requirements and exploration risks. In 2014, we achieved a reserve replacement ratio of 112%.

We increase production primarily through the development of proved undeveloped reserves. As of December 31, 2014, approximately 56.6% of our proved reserves were classified as proved undeveloped, which gives us the opportunity to achieve future production growth, as long as these proved undeveloped reserves are developed faster than the depletion rate of our currently producing reserves.

Develop natural gas business

We plan to capitalize on the growth potential of the PRC natural gas market, and continue to explore and develop natural gas fields. To the extent we invest in businesses and geographic areas where we have limited experience and expertise, we plan to structure our investments as alliances or partnerships with partners possessing the relevant experience and expertise.

In 2014, the large-size gas field Liwan 3-1 in deepwater South China Sea commenced production and our natural gas production would continue to increase accordingly.

Maintain prudent financial policy

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

Aiming to control production cost, we plan to actively promote the regional development of oil and gas field groups and to apply up-to-date offshore engineering, drilling and production technologies to our operations.

Currently, we have a strong financial profile. We intend to maintain our financial strength by managing key measures such as capital expenditures, cash flows and costs per BOE. We also intend to actively manage our accounts receivable and inventories to enhance liquidity and improve profitability. We will continue to monitor our foreign currency denominated assets and debts and to manage exposure to foreign exchange rate fluctuations.

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 2012, 2013 and 2014 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,		
	2012	2013	2014
Net Production⁽²⁾:			
Oil (daily average bbls/day)	742,765	912,603	955,647
Gas (daily average mmcf/day)	1,109.7	1,247.4	1,330.1
Oil equivalent (BOE/day)	935,615	1,127,967	1,184,977
Net Proved Reserves (end of period):			
Oil (mmbbls)	2,031.1	2,290.2	2,258.5
Gas (bcf)	6,005.3	6,323.3	6,730.8
Synthetic Oil (mmbbls)	137.0	736.4	749.9
Bitumen (mmbbls)	12.6	33.8	31.4
Total (million BOE)	3,202.6	4,138.7	4,185.0
Total with equity method investees (million BOE) ⁽²⁾	3,491.9	4,427.6	4,478.0
Annual reserve replacement ratio ⁽¹⁾	187%	337%	111%
Annual reserve replacement ratio ⁽²⁾	188%	327%	112%
Estimated reserve life (years)	9.8	10.5	10.1
Estimated reserve life (years) ⁽²⁾	10.2	10.8	10.4
Standardized measure of discounted future net cash flow (million Rmb)	356,998	389,022	401,098

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

(2) Including our interest in equity method investees.

For further information regarding our reserves, see “Item 3—Key Information—Risk Factors—Risks Relating to Our Operations—The oil and gas reserve estimates in this annual report may require substantial revision as a result of future drilling, testing, production and oil and gas price changes” and “Item 4—Information on the Company—Business Overview—Exploration, Development and Production.”

Summary of Oil and Gas Reserves

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

	Net proved reserves at December 31,		Net proved reserves at December 31, 2014				
	2012 (mmeob)	2013 (mmeob)	Crude Oil (mmbbls)	Natural Gas (bcf)	Synthetic Oil (mmbbls)	Bitumen (mmbbls)	Total (mmeob) ⁽¹⁾
Developed							
Offshore China							
Bohai	579.6	533.7	530.1	321.5	—	—	583.7
Western South China Sea	207.8	210.8	81.8	535.9	—	—	173.5
Eastern South China Sea	209.5	176.4	142.3	825.1	—	—	279.8
East China Sea	7.1	5.9	5.2	92.2	—	—	20.5
Subtotal	1,004.0	926.8	759.4	1,774.7	—	—	1,057.5
Overseas							
Asia (excluding China)	105.3	98.9	23.6	374.6	—	—	90.9
Oceania	30.2	44.4	12.0	346.9	—	—	80.0
Africa	44.2	58.9	47.1	—	—	—	47.1
North America (excluding Canada)	105.4	116.7	87.1	208.3	—	—	121.4
Canada ⁽²⁾	—	241.4	0.1	191.8	226.2	—	258.2
South America	—	1.7	1.8	—	—	—	1.8
Europe	—	132.6	121.5	18.5	—	—	124.6
Subtotal	285.1	694.6	293.2	1,140.2	226.2	—	724.1
Total Developed	1,289.1	1,621.3	1,052.6	2,914.9	226.2	—	1,781.6
Undeveloped							
Offshore China							
Bohai	586.3	646.1	581.6	159.3	—	—	608.1
Western South China Sea	414.4	438.7	128.2	1,782.2	—	—	425.2
Eastern South China Sea	340.5	366.3	209.6	204.5	—	—	243.7
East China Sea	63.6	64.4	12.9	836.0	—	—	152.2
Subtotal	1,404.9	1,515.5	932.2	2,982.1	—	—	1,429.2
Overseas							
Asia (excluding China)	102.2	141.7	23.8	486.6	—	—	108.5
Oceania	66.6	47.7	4.6	108.7	—	—	25.9
Africa	91.5	96.5	95.5	—	—	—	95.5
North America (excluding Canada)	248.3	116.5	122.2	195.6	—	—	154.5
Canada	—	561.4	—	41.2	523.7	31.4	562.0
Europe	—	38.0	27.6	1.6	—	—	27.9
Subtotal	508.6	1,001.8	273.7	833.8	523.7	31.4	974.2
Total Undeveloped	1,913.5	2,517.3	1,205.9	3,815.9	523.7	31.4	2,403.4
TOTAL PROVED	3,202.6	4,138.7	2,258.5	6,730.8	749.9	31.4	4,185.0
Equity method investees	289.3	288.9	200.4	537.3	—	—	293.0
Total with equity method investees	3,491.9	4,427.6	2,458.9	7,268.1	749.9	31.4	4,478.0

- (1) 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, Indonesia in Asia and Yacheng 13-1/13-4 gas fields in the Western South China Sea, which we have used energy equivalence for such conversion purpose.
- (2) As Canada contained over 15% of our total proved reserves as at the end of 2013, our proved reserves and production data in Canada are disclosed separately for year 2013. For year 2012 and prior, reserves in Canada were included in North America (if applicable) and disclosed on a combined basis.

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, 2014		
	2012	2013	Developed	Undeveloped	Total
Offshore China					
Bohai	1,067.2	1,087.6	530.1	581.6	1,111.7
Western South China Sea	224.8	228.3	81.8	128.2	210.0
Eastern South China Sea	354.0	357.0	142.3	209.6	351.9
East China Sea	19.8	19.8	5.2	12.9	18.0
Subtotal	1,665.7	1,692.6	759.4	932.2	1,691.6
Overseas					
Asia (excluding China)	65.0	83.6	23.6	23.8	47.4
Oceania	16.7	15.9	12.0	4.6	16.6
Africa	135.7	155.4	47.1	95.5	142.5
North America (excluding Canada)	297.6	175.0	87.1	122.2	209.3
Canada	—	770.3	226.3 ⁽¹⁾	555.1 ⁽²⁾	781.4
South America	—	1.7	1.8	—	1.8
Europe	—	166.0	121.5	27.6	149.1
Subtotal	515.0	1,367.8	519.4	828.8	1,348.2
Total	2,180.7	3,060.4	1,278.8	1,761.0	3,039.8
Equity method entities	200.7	199.3	102.4	97.9	200.4
Total with equity method investees	2,381.5	3,259.7	1,381.2	1,858.9	3,240.1

(1) Including Synthetic oil 226.2 mmbbls and crude oil 0.1 mmbbls.

(2) Including Synthetic oil 523.7 mmbbls and Bitumen 31.4 mmbbls.

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

	As of December 31,		As of December 31, 2014		
	2012	2013	Developed	Undeveloped	Total
Offshore China					
Bohai	592.5	552.9	321.5	159.3	480.8
Western South China Sea	2,384.9	2,505.4	535.9	1782.2	2318.1
Eastern South China Sea	1,175.7	1,114.2	825.1	204.5	1029.6
East China Sea	305.9	303.1	92.2	836.0	928.3
Subtotal	4,459.0	4,475.6	1774.7	2982.1	4756.8
Overseas					
Asia (excluding China)	800.4	889.4	374.6	486.6	861.2
Oceania	409.5	386.0	346.9	108.7	455.7
Africa	—	—	—	—	—
North America (excluding Canada)	336.4	349.6	208.3	195.6	403.9
Canada	—	195.0	191.8	41.2	233.0
South America	—	—	—	—	—
Europe	—	27.8	18.5	1.6	20.2
Subtotal	1,546.3	1,847.7	1,140.2	833.8	1,974.0
Total	6,005.3	6,323.3	2,914.9	3,815.9	6,730.8
Equity method investees	513.7	519.9	334.3	203.0	537.3
Total with equity method investees	6,519.0	6,843.2	3,249.2	4,018.8	7,268.1

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

	As of December 31,		As of December 31, 2014		
	2012	2013	Developed	Undeveloped	Total
Offshore China					
Bohai	1,165.9	1,179.7	583.7	608.1	1,191.8
Western South China Sea	622.3	649.6	173.5	425.2	598.7
Eastern South China Sea	550.0	542.7	279.8	243.7	523.5
East China Sea	70.7	70.4	20.5	152.2	172.7
Subtotal	2,408.9	2,442.3	1,057.5	1,429.2	2,486.8
Overseas					
Asia (excluding China)	207.5	240.6	90.9	108.5	199.4
Oceania	96.8	92.0	80.0	25.9	106.0
Africa	135.7	155.4	47.1	95.5	142.5
North America (excluding Canada)	353.7	233.2	121.4	154.5	275.9
Canada	—	802.8	258.2	562.0	820.2
South America	—	1.7	1.8	—	1.8
Europe	—	170.6	124.6	27.9	152.5
Subtotal	793.7	1,696.4	724.1	974.2	1,698.3
Total	3,202.6	4,138.7	1,781.6	2,403.4	4,185.0
Equity method investees	289.3	288.9	160.1	132.9	293.0
Total with equity method investees	3,491.9	4,427.6	1,941.7	2,536.3	4,478.0

Proved Reserves

As of December 31, 2014, we had proved reserves of 4,478.0 million BOE, including 2,458.9 million barrels of crude oil, 749.9 million barrels of synthetic oil, 31.4 million barrels of bitumen and 7,268.1 bcf of natural gas, representing an increase of 50.4 million BOE as compared to proved reserves of 4,427.6 million BOE as of December 31, 2013.

The changes in our proved reserves mainly include:

- An increase of 534.0 million BOE due to new discoveries and extensions, of which 64.7 million BOE are developed and 469.3 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 326.7 million BOE, which are primarily attributable to fields such as Luda 5-2 North, Bozhong 8-4, Kenli 10-4 and Ningbo 22-1 etc.; and
 - Overseas: the discoveries and extensions of oil and gas reserves in the amount of 207.3 million BOE, which are primarily attributable to oil sands and shale gas fields in Canada, and onshore and offshore fields in the United States.
- A decrease of 40.9 million BOE due to revision of previous estimates;
- A decrease of 14.8 million BOE due to disposal of assets; and
- The production of 432.5 million BOE in 2014.

Proved Undeveloped Reserves (PUD)

As of December 31, 2014, we had proved undeveloped reserves of 2,536.3 million BOE, including 1,303.8 million barrels of crude oil, 523.7 million barrels of synthetic oil, 31.4 million barrels of bitumen and 4,018.8 bcf of natural gas, representing an increase of 107.0 million BOE as compared to proved undeveloped reserves of 2,643.3 million BOE as of December 31, 2013.

The changes in our proved undeveloped reserves mainly include:

- A decrease of 400.2 million BOE due to PUD converted to Proved Developed reserves (PD);
- A decrease of 177.7 million BOE due to revision of previous estimates;
- An increase of 469.3 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 284.1 million BOE, which are primarily attributable to fields such as Luda 5-2 North, Bozhong 8-4, Kenli 10-4 and Ningbo 22-1 etc.; and
 - Overseas: the discoveries and extensions of oil and gas reserves in the amount of 185.3 million BOE which are primarily attributable to oil sands and shale gas fields in Canada, and onshore and offshore fields in the United States.

In 2014, we had in total 400.2 million BOE PUD reserves converted to PD, or the PUD conversion rate was 15%.

In 2014, we spent approximately US\$6.0 billion on developing proved undeveloped reserves into proved developed reserves. US\$5.5 billion, or 92%, were spent on 29 major development projects in Bohai, Eastern South China Sea, Western South China Sea and Eastern South China Sea in offshore China and Nigeria, the United Kingdom, Canada and the U.S. The remaining 8% was spent mainly on the infill drilling programs in offshore China.

As of December 31, 2014, 137.9 million BOE of our proved undeveloped reserves were first booked before 2010. These proved undeveloped reserves were mainly located in East China Sea, Bohai and Western South China Sea, including (i) 15.1 million BOE in East China Sea, which are under construction; (ii) 54.0 million BOE in Bohai, including QHD29-2/35-2/36-3 oil fields which are planned to be jointly developed with newly discovered extensions; and (iii) 68.8 million BOE in Western South China Sea, including Wenchang 9-2/9-3/10-3 gas fields which are expected to be online in 2016-2017. The development of proved undeveloped reserves relating to the above projects is not expected to be completed within five years from initial booking due to the specific circumstances associated with the relevant development activities and delivery obligations. The Company books proved reserves for which development is scheduled to commence after more than five years only if these proved reserves satisfy the SEC's standards for attribution of proved status and the Company's management has reasonable certainty that these proved reserves will be produced.

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

Reserve data contained in this disclosure is based on the definitions and disclosure guidelines contained in the SEC Title 17: "Code of Federal Regulations—Modernization of Oil and Gas Reporting—Final Rule" in the Federal Register (SEC regulations), released on January 14, 2009 and related accounting standards. Our proved reserves estimates were prepared using standard geological and engineering methods generally accepted by the petroleum industry, and the definitions and standards of reserves required by the SEC. Generally accepted methods for estimating reserves include volumetric calculations, material balance techniques, production decline curves, pressure transient analysis, analogy with similar reservoirs, and reservoir simulation. The method or combination of methods used is based on professional judgment and experience.

For 2012, 2013 and 2014, approximately 36%, 52%, and 52%, 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 2014, we engaged Ryder Scott Company, L.P. and Gaffney, Cline & Associates (Consultants) Pte Ltd. 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., McDaniel & Associates Consultants Ltd. and DeGolyer and MacNaughton to perform annual audits for over 86% 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.

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"). At the end of 2014, approximately 55.6% of the Company's net proved reserves and approximately 62.2% 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. At the end of 2014, approximately 84% of the Company's net proved reserves and approximately 74% 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.

Overseas, following years of overseas development, the Company has essentially completed the allocation of its global portfolio. Overseas assets represent over 50% of the Company's total assets. 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.

In 2014, the Company continued to promote integration with Nexen and achieved exceptional results. The operation for the Company's other overseas assets has also progressed in a stable and orderly manner. At the same time, the Company strengthened the overseas operational management, cost control and risk management, with a significant increase in operational efficiency of our overseas assets.

Exploration

Exploration is a top priority for the Company. In 2014, the Company advanced steadily in its exploration work, achieving new breakthroughs in both shallow and deepwater exploration in offshore China and overseas. The Company's reserve replacement ratio reached 112% in 2014.

The Company's exploration investments and activities in offshore China remained at a high level.

Approximately 20,500 km of 2D seismic data was acquired by independent exploration and approximately 22,800 km² of 3D seismic data was acquired by independent and PSC exploration, coupled with the completion of the drilling of 117 exploration wells. The Company also completed 31 unconventional wells in onshore China. A total of 15 new discoveries were made and 17 oil and gas structures were successfully appraised, resulting in a success rate of 50-70% in independent exploration wells in offshore China.

In 2014, the Company implemented a proactive exploration strategy in offshore China and had successful achievements in exploration, mainly including the following:

1. We discovered and summarized a new model of hydrocarbon accumulation for guidance of deepwater exploration. The first major independent deepwater natural gas discovery offshore China, Lingshui 17-2, was achieved. The same model was applied in the exploration in Ledong Trough, leading to the new discovery of Lingshui 25-1.
2. Breakthroughs were obtained in Bohai by adopting new exploration knowledge. Exploration in new strata in Liaodong Bay led to the new discovery of Jinzhou 23-2. The discovery of Bozhong 22-1 demonstrated the huge potential of Bohai's deep zone natural gas resource. Large-sized Luda 21-2 oilfield and Bozhong 8-4 oilfield were successfully appraised.
3. Through technological advancement and knowledge breakthrough, we promoted integration of exploration and development, and achieved the successful appraisal of Wushi 17-2 oilfield, increasing its high quality reserves of crude oil.
4. Progress was made in the exploration of the Paleogene zone in the Pearl River Mouth Basin. The discovery of the Lufeng 14-4 structure made it possible to "jointly develop various smaller fields together with a big field" in the region.

The above achievements further consolidated the position of offshore China as the Company's core region and demonstrated the Company's unique advantage in offshore China.

In overseas exploration, the Company implemented an optimized investment portfolio strategy focusing on key regions, and made substantial progress in major projects. A total of five new discoveries, including Rydberg in the U.S Gulf of Mexico, Rii-B in Uganda, Blackjack and Ravel in the UK North Sea and a discovery in OML138, Usan area in Nigeria, as well as a successful appraisal of one oil and gas structure, were achieved. The NW1 well-drilling in the Libra project in Brazil further reinforced the confidence for exploration and appraisal in the block. These achievements presented a broad prospect of the Company's overseas exploration.

In addition, the Company obtained significant progress in unconventional gas exploration in onshore China, where reservoirs were discovered in a number of exploration wells completed in 2014.

In 2014, the Company strengthened its technology advancements on exploration work and continued to overcome the bottleneck in exploration technology, and achieved successes in technological innovation such as the modularization of ground equipment for deepwater testing. In addition, the Company proactively enhanced its exploration portfolio to improve the success rate of exploration; focused on the discovery of economically valuable reserves through optimization of exploration projects and structural adjustments; and streamlined operation organization to strengthen execution. At the same time, the Company not only enhanced the management of operation sites, but also the integration of exploration and development and overseas exploration management, enabling more effective control on exploration costs while improving exploration efficiency.

The Company's major exploration activities in 2014 are set out in the table below:

	Exploration Wells				New Discoveries		Successful Appraisal Wells		Seismic Data			
	Independent		PSC						2D (km)		3D (km2)	
	Wildcat	Appraisal	Wildcat	Appraisal	Independent	PSC	Independent	PSC	Independent	PSC		
Offshore China												
Bohai	14	33	1	–	5	–	24	–	–	–	1,765	–
Eastern South China Sea	10	3	1	–	3	–	2	–	11,730	–	5,088	1,648
Western South China Sea	21	21	1	1	5	1	12	1	4,650	–	7,723	2,613
East China Sea	5	6	–	–	1	–	5	–	4,098	–	3,377	612
Subtotal	50	63	3	1	14	1	43	1	20,477	–	17,953	4,873
Overseas	–	–	16	5	–	5	–	4	–	500	–	3,475
Total	50	63	19	6	14	6	43	5	20,477	500	17,953	8,348

Engineering Construction, Development and Production

In 2014, the Company, by carefully allocating its operational resources, made successful progress in engineering construction and achieved impressive results in engineering construction, development and production operations.

In 2014, the Company's net oil and gas production reached 432.5 million BOE, representing a year-on-year increase of 5.1%, achieving the production target of 422-435 million BOE set at the beginning of the year. Currently, the new projects planned to commence production in 2014, including Kenli 3-2 oilfields, Wenchang 13-6, Panyu 10-2/5/8, Panyu 34-1/35-1/35-2 and Enping 24-2, all came on stream. The Golden Eagle regional development project in the UK North Sea also started production. Most projects came on stream ahead of schedule. In addition, new projects planned in 2015 including Huizhou 25-8/Xijiang 24-3 oilfield Xijiang 24-1 district joint development project, Liuhua 34-2 gas field and K1A oil sands project in Canada came on stream ahead of schedule in 2014.

In 2014, the Company's development and production operations were subject to various pressures, including restrained production capacity of Eastern South China Sea gas fields due to weak downstream market demand, uncertainty of a few new projects in meeting the production target, typhoons and significant increases in operating costs of mature oilfields. To address these challenges, the Company implemented the following measures and achieved its annual development and production targets:

First, ensuring the integrity of our production facilities and equipment in oil and gas fields and the safe and stable production, which included: strengthening risk identification systems to achieve record-low number of equipment accidents; optimizing maintenance plans to reduce the impacts on production; and standardizing engineering design to solidify the foundation for reliable set up of equipment and facilities at the design and construction stage.

Second, implementing a number of measures simultaneously to stabilize production volume. Through our efforts, new oil and gas fields including the Suizhong 36-1 Phase II Adjustment project, Wenchang 8-3 East and Weizhou 6-12 came on stream during the year, contributing to the Company's production growth. Through scientific planning and proactive promotion, the workload and production volume contribution of oil, gas and water wells achieved our expectation. Through replacing large pumps, acidifying, workovers and a number of other measures, the decline rate was effectively lowered, thereby maintaining the basic production volume.

Third, actively tracking progress to ensure more infill drilling wells were put into production. In 2014, the number of domestic infill drilling wells put into production and their overall initial production volume exceeded expectations.

Fourth, promoting the integration of exploration and development, as well as speeding up the construction and production of oil and gas fields. Through collaborative efforts, most development projects commenced production one to two months ahead of schedule.

Fifth, refining the study of reservoirs and improving the development of oilfields to promote stable production. The Company strengthened refined studies on geological reservoirs to ensure the production measures were based on the reservoirs. The increase in infill drilling wells in oilfields such as Bozhong 28-2 South and Bozhong 29-4 contributed to the production growth.

Sixth, strengthening the management of specialized cost items and enhancing efficiency to reduce costs from the roots. In accordance with the requirements of “the Year of Quality and Efficiency”, the Company implemented specialized cost control measures targeting the major subjects of development investment and operating costs, which included: ODP design optimization to control cost from the roots; specialized management of the operating costs of oil wells to improve efficiency and control costs; and specialized management on maintenance costs to fully realize cost control potential.

In 2015, the Company will utilize its full capacity in onshore construction and offshore installation. A total of seven new projects are expected to commence production, including Jinzhou 9-3 oilfield comprehensive adjustment, Bozhong 28/34 oilfields comprehensive adjustment and Kenli 10-1 oilfield. Other oil and gas fields are expected to commence production in the coming years and will inject new impetus into the Company’s production growth in the medium-to-long term.

In 2015, the Company’s development and production is expected to face a relatively harsh external environment, including low oil prices and a weak demand in the natural gas market. The Company will implement its various tasks with emphasis on the following areas:

First, the Company will focus on meeting its annual production target. The Company has set its net production target at 475-495 million BOE in 2015. To achieve this target, we will carefully coordinate our resources to facilitate the timely commencement of production of new projects; control production decline rate and maintain baseline production at existing oil and gas fields; develop natural gas downstream market to release production capacity; optimize planned maintenance of projects; enhance the deployment of measures such as infill drilling wells to increase production; improve the effectiveness of standard measures.

Second, the Company will continue to focus on cost control and efficiency. In 2015, the Company will continue to implement various measures for “the Year of Quality and Efficiency”. The focus of our cost-saving measures with respect to development and production will be directed to the following aspects: adjusting the management model according to better governance; tightening the management of operating costs; optimizing production capital expenditure investment; and introducing innovative management mechanisms to control costs effectively.

Third, the Company will plan in advance the realization of production output in 2016 and 2017. We will strengthen the preliminary research on new projects and review of reservoir plans, accelerate the development of China’s natural gas market, and promote the construction of new projects in order to fulfill our medium-to-long term production growth target.

With the above initiatives, the Company will strive to achieve its annual production growth target and lay a solid foundation for its long-term sustainable growth.

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. At the end of 2014, the reserves and daily production volume in Bohai were 1,191.8 million BOE and 426,913 BOE/day, respectively, representing approximately 26.6% and 36.0% 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 2014, the Company made five successful discoveries in Bohai, namely Bozhong 22-1, Luda 16-3 South, Kenli 16-1, Jinzhou 23-2 and Caofeidian 6-4. In addition, the Company also successfully appraised eight oil and gas structures, including Bozhong 8-4, Bozhong 34-9, Kenli 10-4, Kenli 10-2, Luda 21-2, Jinzhou 23-2, Penglai 15-2 and Penglai 13-2. The Company's major accomplishments in Bohai included:

First, we advocated innovation and encouraged new concepts for exploration. Major breakthroughs were achieved in the exploration of the Neogene zone of Jinzhou 23-2 structure following a transition from medium-to-deep oil and gas to shallow oil and gas exploration.

Second, two major successful appraisals were completed, which included: refined appraisal of Luda 21-2 oilfield of complex fault blocks and high abundance, and efficient appraisal of Bozhong 8-4 oilfield of complex fault blocks.

Third, the discovery of Bozhong 22-1 demonstrated the huge potential of deep zone natural gas resources in Bohai.

Benefiting from these new discoveries and successful appraisals, the reserve replacement ratio in Bohai reached 108% in 2014, further reflecting Bohai's potential as a core production region for the Company.

For development and production, the production commencement of Kenli 3-2 oilfields was another accomplishment brought by the efficiency enhancement of oil and gas fields under the Company's joint development of oil and gas fields in accordance with the regional development concept.

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. At the end of 2014, the reserves and daily production volume in Western South China Sea reached 598.7 million BOE and 138,972 BOE/day, respectively, representing approximately 13.4% and 11.7%, respectively, of the Company's total reserves and daily production.

In 2014, the Company made five new independent discoveries in Western South China Sea, namely Weizhou 6-13, Lingshui 17-2, Lingshui 13-2, Lingshui 25-1 and Wenchang 19-6. We also made a new discovery under PSC, namely Weizhou 12-10. Among these, Lingshui 17-2 was the first major natural gas discovery in independent deepwater exploration in offshore China. In addition, the high quality reservoir discovered in Wushi 17-2 laid the foundation for establishing the second oil producing region in the Beibu Gulf. A total of five successful appraisals were obtained, namely Weizhou 12-11, Wushi 17-2, Lingshui 17-2, Lingshui 13-2 and Wenchang 19-6.

In 2014, commencement of the production of Wenchang 13-6 in Western South China Sea contributed to the production growth of the region.

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. At the end of 2014, the reserves and daily production volume in Eastern South China Sea reached 523.5 million BOE and 163,970 BOE/day, respectively, representing approximately 11.7% and 13.8%, respectively, of the Company's total reserves and daily production.

In 2014, the Company made three independent discoveries in Eastern South China Sea, namely Liuhua 27-1, Liuhua 28-2 and Lufeng 14-4. In addition, two successful appraisals of oil and gas structures were completed, namely Liuhua 28-2 and Lufeng 14-4.

In 2014, the construction of the Company's new projects in Eastern South China Sea proceeded efficiently and safely. New oil and gas fields including Liwan 3-1 gas field, Panyu 10-2/5/8, Enping 24-2, Huizhou 25-8 oilfields / Xijiang 24-3 oilfield Xijiang 24-1 district joint development project, Panyu 34-1 / 35-1 / 35-2 projects, Lufeng 7-2 and Liuhua 34-2 gas fields came on stream.

East China Sea

The typical water depth of the Company's operation area in the East China Sea region is approximately 90 meters. At the end of 2014, approximately 3.9% of the Company's reserves and 0.6% of the Company's production were derived from the East China Sea.

In 2014, the Company made an important new natural gas discovery of Ningbo 22-1 in the East China Sea, which consolidated the resource base for sustainable development in the region.

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. At the end of 2014, the reserves and daily production volume derived from Asia (excluding China) reached 199.4 million BOE and 65,280 BOE/day, respectively, representing approximately 4.5% and 5.5%, respectively, of the Company's total reserves and daily production.

Indonesia

As of the end of 2014, the Company's asset portfolio in Indonesia consisted of three development and production blocks and one block under construction, among which, the Company acted as the operator for the PSC block in Southeast Sumatra while the Madura Strait PSC was a joint operation block. Meanwhile, the Company also holds non-operating working interests in Malacca PSC.

The Company owns approximately 13.90% interest in the Tangguh LNG Project in Indonesia. Phase I of the Tangguh Project was completed and commenced production by the end of 2009, and has maintained a stable production volume with exceptional results. Currently, the Tangguh Project is preparing for the development of the third LNG train in Phase II, which is expected to be completed and commence production in 2019.

In 2014, faced with many challenges such as aging production facilities and typhoons in the Southeast Sumatra Project, the Company deeply studied reservoirs delineation and residue oil distribution, further explored the potential of oilfields, reperforated in old wells and applied new technology, achieving desirable results.

Iraq

In 2010, the Company entered into a technical service contract in relation to the development and production of the Missan oilfields in Iraq. Under the contract, CNOOC Limited acts as the lead contractor of these oilfields and owns a 63.75% participating interest. The project entered the cost recovery period in 2012 and began to contribute to the Company's production growth.

In 2014, faced with the grim security condition in Iraq, declining production of mature oilfields and other difficulties, the Company coordinated the development and production operations, strengthened technical support, optimized the operating mechanism and operation of oil wells, and strove to increase the production of mature wells. The newly drilled horizontal wells in Missan oilfields achieved the expected production level. In 2014, the production of Missan oilfields increased steadily and reached approximately 22,000 barrels per day.

Other Regions in Asia

In addition, the Company owns interests in several exploration blocks in Qatar.

Oceania

Currently, the Company's oil and gas assets in Oceania are located in Australia and Papua New Guinea. At the end of 2014, the reserves and daily production volume derived from Oceania reached 106.0 million BOE and 26,092 BOE/day, respectively, representing approximately 2.4% and 2.2%, respectively, of the Company's total reserves and daily production.

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 2014, the North West Shelf LNG Project generated a stable production and healthy returns.

The Company also owns exploration blocks in Australia, which are currently under appraisal.

Other Regions in Oceania

The Company owns interests in several blocks in Papua New Guinea. These blocks are still under exploration.

Africa

Africa is a 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. At the end of 2014, the reserves and daily production volume derived from Africa reached 142.5 million BOE and 76,838 BOE/day, respectively, representing approximately 3.2% and 6.5%, respectively, of the Company's total reserves and daily production.

Nigeria

The Company owns 45% interest in the OML130 block in Nigeria, which is a deepwater project comprised of four oilfields, namely, Akpo, Egina, Egina South and Preowei. The Akpo oilfield commenced production in March 2009. In 2014, the Akpo oilfield maintained a stable production and its net production reached approximately 56,000 barrels per day.

In 2013, TOTAL S.A., the operator of the Egina project, announced that the final investment decision for the Egina field had been approved and the project entered into the engineering construction phase.

In addition, Nexen Petroleum Nigeria Limited holds a 20% non-operating interest in each of the two offshore oilfields, namely, Usan and Usan West in the OML138 block, together with a number of other discoveries and exploration targets. The Usan oilfield commenced production in early 2012 and its production continued to increase. Nexen Petroleum Nigeria Limited made a new discovery in the Usan area in 2014.

We plan to utilize the synergy of Usan, Usan West and the OML130 Project 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, 2 and 3A in Uganda. EA 1, 2 and 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 2014, we made a new discovery of Rii-B in Uganda. In addition, as the operator of EA 3A, the Company took great efforts to promote the development of the Kingfisher oilfield. The field is still under research in the preliminary development stage, and has currently completed the Pre-FEED of the crude oil pipeline.

In 2014, the FDP / PRR preparation for all oil and gas fields (excluding Kingfisher) in the reserved region in the EA1 and EA2 blocks were completed and submitted to the government of Uganda for the application of the production licenses, and is currently awaiting the government's approval.

Other Regions in Africa

Apart from Nigeria and Uganda, the Company also owns interests in several blocks in Equatorial Guinea, the Republic of Congo, Algeria and the Gabonese Republic.

North America

North America made the biggest overseas reserves and production contribution for the Company. The Company holds interests in oil and gas assets in the U.S., Canada and Trinidad and Tobago in North America, as well as part of the shares of MEG Energy Corporation in Canada. At the end of 2014, the Company's reserves and daily production volume derived from North America reached 1,096.1 million BOE and 136,166 BOE/day, respectively, representing approximately 24.5% and 11.5%, respectively, of the Company's total reserves and daily production.

The U.S.

The Company currently holds 33.3% interest in two shale oil and gas projects in the U.S., namely the Eagle Ford and Niobrara shale oil and gas projects.

In 2014, along with the increasing number of wells drilled in the Eagle Ford project, we gained a clearer understanding of the underground resources. The Company has worked closely with the operator, and divided the Eagle Ford project into primary production area, secondary production area and potential area according to single-well economics and implemented different operating strategies. By accelerating the development of high-quality assets, production has grown for three consecutive years and its net production reached approximately 53,000 BOE/day. At the same time, the identification of the core region of the Powder River Basin for the Niobrara project began to make contribution to the Company.

Development of shale oil and gas resources has become an important area in upstream oil and gas development, and will support the sustainable growth of the Company.

In addition, the Company owns a number of exploration blocks in the U.S. Gulf of Mexico through its wholly-owned subsidiary, Nexen. In 2014, Nexen made the new discovery of Rydberg in the Gulf of Mexico. The Company also owns interests in several exploration blocks offshore Alaska.

Canada

Canada is one of the world's major regions with rich oil sands resources. As oil sands are one of the new growth areas of oil and gas exploration and development in the future, participation in oil sands development will be favorable to the sustainable growth of the Company.

In 2013, the Company completed the acquisition of the entire interest of Nexen in Canada. The assets of Nexen are mainly distributed in Canada, the UK North Sea, offshore Nigeria and the U.S. Gulf of Mexico. In Canada, the Company owns the entire working interest in the oil sands project located at Long Lake as well as three other oil sands projects in the Athabasca region in northeastern Alberta.

In 2014, the Company continued the development of the Long Lake project and improved its performance. Its net production increased to approximately 31,000 BOE/day. For the oil sands project in Canada, the Company will leverage its overall advantages, improve cost efficiency and control the pace of investment to provide a solid resource safeguard for its long-term development.

In addition, the Company holds 12.39% of the shares of MEG Energy Corporation in Canada, which is listed on the Toronto Stock Exchange. The Company also owns a 60% interest in Northern Cross (Yukon) Limited, which owns oil and gas exploration blocks in the Yukon area in Canada.

Other Regions in North America

The Company owns a 12.5% interest in the 2C block and a 12.75% interest in the 3A block in Trinidad and Tobago, of which the 2C block is in production. In 2014, with the region's crude oil entering the post development stage, the Company reduced accidental shutdowns and increased the production efficiency by optimizing gas injection, facilities and equipment integration management, maintenance and other measures, resulting in production volume that exceeded the Company's expectation.

South America

In South America, the Company mainly holds a 50% interest in Bidas Corporation ("Bidas") in Argentina 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 the equity method. At the end of 2014, the Company's reserves and daily production volume derived from South America reached 293.5 million BOE and 46,963 BOE/day, respectively, representing approximately 6.6% and 4.0%, respectively, of the Company's total reserves and daily production.

Argentina

The Company and Bidas Energy Holding each hold 50% shareholding interest in Bidas and make joint management decisions. Bidas holds 40% interest in Pan American Energy (“PAE”) in Argentina. Bidas is engaged in oil and gas exploration and production activities in Argentina mainly through its affiliates (including the interest in PAE).

In 2014, the Company strove to maintain normal operations and production in the operating areas, and endeavored to overcome the bottleneck of operational resources, coordinate resources and improve operational efficiency. The production of Bidas increased slightly to approximately 46,000 BOE/day.

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 a water depth of about 2,000 meters.

In 2014, the exploration and appraisal work on the Libra project progressed smoothly. The drilling of the NW1 well further reinforced the confidence for exploration and appraisal in the block.

Brazil is one of the world’s most important deepwater oil and gas development regions. The Company will fully leverage the development opportunities in Libra, Brazil to establish a new production growth point.

Other Regions in South America

In South America, the Company also holds interests in several exploration and production blocks in Colombia.

Europe

The Company holds interests in several oil and gas fields such as Buzzard and Golden Eagle in the UK North Sea. At the end of 2014, the Company’s reserves and daily production volume derived from Europe reached 152.5 million BOE and 96,370 BOE/day, respectively, representing approximately 3.4% and 8.1%, respectively, of the Company’s total reserves and daily production.

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, making the Company one of the largest crude oil producers in the North Sea, and a 36.5% interest in the Golden Eagle block which commenced production in 2014.

In 2014, the Company made two new discoveries in the North Sea, namely, Blackjack and Ravel.

The United Kingdom is one of the Company’s key overseas development areas as several key projects such as Buzzard and Golden Eagle contributed considerably to the Company’s production. In 2014, the net production of Buzzard oilfields reached approximately 68,000 barrels per day. In the future, we will continue to intensify our efforts on the oil and gas development in the UK, and actively look for potential exploration and development blocks 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 in Northeastern Iceland.

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 2012, 2013 and 2014.

	Net Production			Average Sales Price		Average Production Cost
	Total (BOE/day)	Crude and Liquids (Bbls/day)	Gas (Mmcf/day)	Crude and Liquids (US\$/bbl)	Gas (US\$/Mmcf)	(US\$/ BOE)
2014						
Offshore China						
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	—	—	—
2013						
Offshore China						
Bohai	413,650	392,413	127.4	—	—	—
Western South China Sea	132,284	75,606	330.5	—	—	—
Eastern South China Sea	166,778	141,545	151.4	—	—	—
East China Sea	5,072	872	25.2	—	—	—
Subtotal	717,784	610,435	634.5	106.86	6,323	10.06
Overseas						
Asia (excluding China)	54,529	28,997	140.3	105.40	8,193	23.65
Oceania	23,909	4,533	98.2	118.48	3,151	9.61
Africa	77,343	77,343	—	108.29	—	7.54
North America (excluding Canada)	62,496	44,245	109.5	79.59	3,632	8.47
Canada	57,534	39,872	106.0	90.52	2,901	45.58
South America	960	960	—	97.62	—	13.98
Europe	88,241	83,460	28.7	103.58	9,700	12.38
Subtotal	365,010	279,409	482.7	99.67	5,067	17.42
Total	1,082,795	889,845	1,117.1	104.60	5,780	12.54
Equity method investees	45,173	22,758	130.2	—	—	—

2012

Offshore China

Bohai	432,285	411,642	123.9	—	—	—
Western South China Sea	135,007	72,672	364.1	—	—	—
Eastern South China Sea	155,070	130,266	148.8	—	—	—
East China Sea	4,925	542	26.3	—	—	—
Subtotal	727,287	615,122	663.1	111.71	6,019	9.28

Overseas

Asia (excluding China)	43,752	14,883	157.8	112.38	7,752	23.58
Oceania	24,628	4,846	101.1	99.73	3,171	9.26
Africa	56,998	56,998	—	111.39	—	9.41
North America	36,183	27,896	49.7	82.83	1,426	23.80
Subtotal	161,561	104,623	308.6	103.38	5,232	16.45

Total	888,848	719,745	971.7	110.48	5,769	10.58
Equity method investees	46,767	23,020	138.0	—	—	—

Drilling and Other Exploratory and Development Activities

The following table sets forth our net exploratory wells and development wells drilled in the years of 2012, 2013 and 2014.

	Net Exploratory Wells Drilled			Net Development Wells Drilled		
	Total	Productive	Dry	Total	Productive	Dry
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	—

2013

Offshore China

Independent

Bohai	39	28	11	161	161	—
Western South China Sea	38	15	23	26	26	—
Eastern South China Sea	15	1	14	13	13	—
East China Sea	5	3	2	—	—	—
Subtotal	97	47	50	200	200	—

PSCs

Bohai	—	—	—	67	67	—
Western South China Sea	3	—	3	8.4	8.4	—
Eastern South China Sea	—	—	—	29.5	29.5	—
East China Sea	—	—	—	2.0	2.0	—
Subtotal	3	—	3	106.9	106.9	—

Overseas

Asia (excluding China)	1.9	1.5	0.4	8.5	8.5	—
Oceania	—	—	—	—	—	—
Africa	7.4	5.9	1.5	4.0	4.0	—
North America	0.9	0.3	0.6	186.7	186.4	—
South America	1.0	—	1.0	0.2	0.2	—
Europe	1.4	1.0	0.4	2.9	2.9	—
Subtotal	12.6	8.7	3.9	202.3	202.0	—

2012

Offshore China

Independent

Bohai	50	35	15	101	101	—
Western South China Sea	24	9	15	29	29	—
Eastern South China Sea	15	4	11	20	19	1
East China Sea	7	5	2	—	—	—
Subtotal	96	53	43	150	149	1

PSCs

Bohai	—	—	—	25	25	—
Western South China Sea	3	1	2	—	—	—
Eastern South China Sea	—	—	—	11	11.3	—
East China Sea	—	—	—	2	2	—
Subtotal	3	1	2	38	38	—

Overseas

Asia (excluding China)	8.2	3.4	4.8	14.5	14.5	—
Oceania	—	—	—	—	—	—
Africa	7.4	5.8	1.6	0.9	0.9	—
North America	60.9	60.7	0.2	127.3	127.3	—
Subtotal	76.5	69.6	6.6	142.7	142.7	—

Present Activities

The following tables set forth our present activities as of December 31, 2014.

	Wells Being Drilled		Waterfloods Being Installed	
	Gross	Net	Gross	Net
Offshore China				
Bohai	15	13.5	508	456.7
Western South China Sea	18	18	24	24
Eastern South China Sea	22	20.5	—	—
East China Sea	4	2	—	—
Subtotal	59	54.0	532	480.7
Overseas				
Asia (excluding China)	6	5.1	—	—
Oceania	—	—	—	—
Africa	3	1.2	—	—
North America	42	16.3	—	—
South America	1	0.1	24	4.8
Europe	1	0.4	1	0.4
Subtotal	53	23.1	25	5.2

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, 2014.

	Productive Wells				Developed Acreage (km ²)		Undeveloped Acreage (km ²)	
	Crude and Liquids		Natural Gas		Gross	Net	Gross	Net
	Gross	Net	Gross	Net				
Offshore China								
Bohai	1,899	1,635.3	25	25.0	2,497	2,497	43,068	43,068
Western South China Sea	248	227.9	74	69.5	1,863	1,863	73,388	73,388
Eastern South China Sea	359	317.6	30	26.1	2,534	2,534	55,424	55,424
East China Sea	18	6.4	43	18.9	85	85	85,413	85,413
Subtotal	2,524	2,187.1	172	139.5	6,979	6,979	257,292	257,292
Overseas								
Asia (excluding China)	601	369.9	25	15.0	18,604	7,437	28,922	15,121
Africa	39	13.0	—	—	1,307	585	24,134	6,514
Oceania	—	—	48	2.5	3,950	209	41,766	33,333
North America	117	12.0	—	—	523	138	5,141	1,920
South America	5,984	1,430.1	1,258	306.2	5,966	1,193	2,840	795
Europe	78	39.0	2	1.0	115	61	15,233	7,954
Subtotal	6,819	1,864.0	1,333	324.7	30,465	9,623	118,036	65,637
Total	9,343	4,051.2	1,505	464.2	37,444	16,602	375,328	322,929

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 2014, the annual sales from our largest gas contract contributed to only approximately 0.3% of our total oil and gas sales and the total revenues from gas sales accounted for approximately 6.3% of our total revenues in 2014. 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 2014.

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, located in Canada, 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 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. 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 2014, the world economy has lost its growth momentum, and global oil supply became relatively sufficient. Affected by the U.S. shale gas production, geopolitical and market factors, the international oil prices began to fall sharply from the second half of the year. The overall fuel oil market in Asia was negatively affected by its weak supply and demand ratio and the movement of international crude oil futures, resulting in a relatively weak growth trend.

Due to the sharp decline in international oil prices as well as the weaker economic fundamentals and demand for oil products in the Asia-Pacific region as compared to the previous year, there was a relatively high pressure on the selling price of the Company’s crude oil. In 2014, the Company’s average realized oil price was US\$96.04/barrel, representing a decrease of 8.2% from the previous 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,		
		2012	2013	2014
Sales and Marketing Volumes (mmbbls)⁽¹⁾	Benchmark Prices			
Light Crude	PLATTS Tapis ⁽²⁾	14.1	12.4	10.6
Medium Crude	Daqing OSP ⁽³⁾	120.2	126.7	130.4
Heavy Crude	ICP Duri ⁽⁴⁾	123.5	128.3	125.2

(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 provide 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.

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 2014, the natural gas sales of the Company were under pressure due to the weak demand of coastal Southern China. The Company's average realized natural gas price was US\$6.44/mcf, representing a 11.4% increase over the previous year, primarily due to: on the one hand, benefiting from the Chinese government's gradual onshore natural gas price reform, the Company adjusted its sales price to major natural gas customers through negotiation; on the other hand, the production from new gas fields recorded higher prices; there was also an increase in the sales price of natural gas in certain regions overseas.

To cope with the current shortage of natural gas demand by downstream users, the Company will coordinate related designs, approvals and gas price negotiations with downstream customers, with an aim to promote a stable production of oil and gas fields in production and the development of oil and gas fields under construction.

Apart from the above sales activities, Nexen, a wholly-owned subsidiary of the Company, is engaged in the purchase and sales of oil and gas products from third parties, as well as trading derivatives to mitigate risks arising from oil and gas price fluctuations.

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

	Year ended December 31,		
	2012	2013	2014
Average Realized Prices			
Crude and Liquids (US\$/bbl)	110.48	104.60	96.04
Natural Gas (US\$/mcf)	5.77	5.78	6.44
West Texas Intermediate (US\$/bbl)	94.10	98.01	93.03

The international benchmark crude oil price, West Texas Intermediate, was US\$53.27 per barrel as of December 31, 2014 and US\$47.60 per barrel as of March 31, 2015.

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

	Year ended December 31,		
	2012	2013	2014
	(Rmb in millions, except percentages)		
Revenues sourced in the PRC	184,619	191,764	178,822
Revenues sourced outside the PRC	63,008	94,093	95,812
Total revenues	<u>247,627</u>	<u>285,857</u>	<u>274,634</u>
% of revenues sourced outside the PRC	25.4%	32.9%	34.9%

Procurement of Services

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

Besides building floating production storage and offloading, or FPSO, with our partners, we employ independent third parties or CNOOC and/or its affiliates for FPSO services and other services.

We conduct a bidding process to determine who we employ to construct platforms, terminals and pipelines, to drill production wells and to install offshore production facilities. Both independent third parties and CNOOC affiliates participate in the bidding process. We are closely involved in the design and management of services by contractors and exercise extensive control over their performance, including their costs, schedule, quality and health, safety, and environment measures.

Research and Development

In 2014, the Company continued to implement its “Technology-driven Strategy” through further reform in science and technology systems as well as improving its technological innovation system. The Company set up scientific research platform construction projects, such as the “National Engineering Laboratory Phase I Project for Offshore Oil Exploration”, to improve the capability of its proprietary innovation. The Company increased reserves and production and enhanced cost efficiency through technological innovation, with certain research findings being applied to operations and generating positive results. “The Development and Application of Ultradeepwater Semi-submersible Drilling Platform” and “The Critical Technology and Industrial Application of Offshore Drilling Risers” were honored with the Special National Technological Progress Award of China and Second prize of National Technological Invention Award, respectively, in 2014.

Major Scientific Project Development

In 2014, with a view to strengthen key technologies and to provide support for sustainable development, the Company focused on major directions and technologies which included: exploration and development technology for deepwater oil and gas fields, offshore heavy oil fields and fields with low porosity and permeability, production enhancement at producing fields, offshore oil and gas fields regional development and marginal fields development, and development of high-temperature/ ultra-pressure and high-temperature/ low-pressure gas fields in South China Sea.

In addition, the Company undertook a number of national science and technology projects such as “Development of Large-scale Oil and Gas Fields and Coalbed Methane” and obtained various achievements such as geological understanding of and exploration breakthrough in offshore large-scale oil and gas fields, establishing a demonstration base for efficient development technology of offshore heavy oilfields, and completing the development of the Liwan 3-1 deepwater gas field in South China Sea.

Innovative Development of Key Technologies

In 2014, major technological innovations and developments achieved by the Company included:

First, relying on the national research and internal research, Lingshui 17-2-1 was tested to flow the highest daily rate in the independent gas fields offshore China and the first major natural gas discovery was made in the independent deepwater exploration for the Company.

Second, the efficient development of offshore heavy oilfield achieved remarkable results, representing research, production and service capabilities of full range of sands control and well completion tools, and the representative thermal recovery test sites at Nanbao 35-2 and Luda 27-2 were built.

Third, the Company successfully developed a high-temperature low-free water drilling fluid system and ancillary chemical products, with their successful application at a high temperature of 164°C. The Company also successfully developed China's first submerged umbilical production system. Both of the above developments filled the technology gap in China.

In addition, the Company also made breakthroughs in key technologies including the large-scale long-distance flexible HVDC for offshore oilfields, and completed an integrated intelligent monitoring system along with project demonstration.

Health, Safety and Environmental Protection, or HSE

As an offshore exploration and production company, we face considerable operational safety and environmental protection risks. Therefore, the Company has been placing a great deal of emphasis on health, safety and environmental protection (HSE) issues. Promoting a philosophy and culture of HSE among its employees, the Company strives to establish a comprehensive management system to improve employees' awareness of HSE during operations and to strengthen their ability to identify potential risks as well as their risk management skills.

In 2014, along with the rapid growth of the Company's business, the scope of management in health, safety and environmental protection also expanded accordingly and the Company faced greater challenges. For these reasons, the Company continued to improve its management system, promoted intrinsic safety management and strengthened supervision, inspection and training in these areas. As a result, the Company achieved stable performance in the areas of health, safety and environmental protection and met the respective yearly targets. No oil spill accidents above a small size were recorded throughout the year. In production activities, the operation of the health, safety and environmental protection system was effective.

Offshore China, the Company carried out special inspections of offshore oil and gas projects and implemented measures to prevent potential accidents. Considering the work allocation for the year's key tasks and the actual operations of the relevant organizations, the Company's headquarter organized an inspection team, which consisted of relevant experts from various functional departments, their affiliated units and intermediary institutions in charge of safety technologies, to conduct random inspections of four branches according to the inspection list. Based on the issues discovered, we were able to make solid progress in detecting and managing potential risks.

In addition, the Company further strengthened its management of pollutant discharge to promote energy savings and emission reductions.

For overseas projects, in accordance with the characteristics of different countries, regions, cultures, cooperation models, local legal environments as well as project durations and nature of operations, the Company enhanced its study on the countries and regions of operation and conducted dynamic evaluations on potential risks. The Company has been closely tracking and making scientific judgments on the safety situations of such countries and regions, which increased its risk identification ability and facilitated the formulation of targeted HSE management plans for overseas projects. In 2014, the Company completed HSE management plans for three overseas subsidiaries and conducted one senior audit. During the year, the Occupational Safety and Health Administration ("OSHA") statistics of Nexen reached the best standard on record.

To obtain health, safety and environmental protection information, the Company utilized an environmental management information system to realize immediate pollutants tracking in offshore China, and adopted categorized management on operational risks with the risk identification system.

In 2014, there were no accidents causing critical casualties. The Company's OSHA statistics were maintained at a good level, and the Company's performance continued to improve.

Operating Hazards and Uninsured Risks

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

As 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, 2014, 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.”

Excluding Nexen’s operation and Nexen’s assets, we have maintained varied insurance policies for our 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 Nexen, we are insured for amounts up to the replacement cost value of our assets for property damage and up to US\$425 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\$900 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 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.

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,					
	2012		2013		2014	
	Rmb in millions	%	Rmb in millions	%	Rmb in millions	%
Exploration and production	210,706	85.1	247,303	86.5	239,121	87.1
Trading businesses	50,771	20.5	55,716	19.5	50,263	18.3
Corporate and elimination	(13,850)	(5.6)	(17,162)	(6.0)	(14,750)	(5.4)
Total operating revenues	247,627	100.0	285,857	100.0	274,634	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, 2014, approximately 65.1% 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 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.

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.

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 taxes at the rate of 5% on independent production and production under PSCs;
- resource taxes at the rate of 5% (reduced tax rates may apply to specific products and fields) on the oil and gas sales revenue (excluding production taxes) 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. The resource tax rate has been changed from 5% to 6% since December 1, 2014;
- mineral resource compensation at the temporary rate of 1% (reduced tax rates may apply) on the oil and gas sales revenue derived by oil and gas fields under production sharing contracts signed after November 1, 2011 starting from November 1, 2011. The rate decreased to zero since December 1, 2014;
- export tariffs at the rate of 5% on the export value of petroleum oil;
- business tax at the rates of 3% to 5% or value-added tax at the rate of 6% on other income;
- city construction tax at the rates of 1% or 7% on the actual paid production taxes, business tax and value-added tax;
- educational surcharge at the rate of 3% on the actual paid production taxes, business tax and value-added tax; and
- local educational surcharge at the rate of 2% on the actual paid production taxes, business tax and value-added tax.

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, 2012, 2013 and 2014, we had Rmb 3,363 million, Rmb 22,633 million and Rmb 14,312 million (US\$ 2,307 million) respectively, in net deferred tax liabilities. See note 12 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. The special oil gain levy is collected on a quarterly basis. For the years ended December 31, 2012, 2013 and 2014 we incurred approximately Rmb 26.3 billion, Rmb 23.4 billion and Rmb 19.1 billion (US\$3.1 billion) for the Special Oil Gain Levy.

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

Realized Oil Price (US\$/bbl)	Rate of the Levy
55-60 (Include 60)	20%
60-65 (Include 65)	25%
65-70 (Include 70)	30%
70-75 (Include 75)	35%
Above 75	40%

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. 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.

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.

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 or recovery: 1. Resource tax ⁽²⁾ payable to the PRC government 2. Cost recovery oil ⁽³⁾ allocated according to the following priority: (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 us and foreign partner(s);
- (4). recovery of development costs and deemed interest by us and foreign partner(s) based on participating interests; and
- (5). any excess, allocated to the remainder oil.

32.5%⁽⁴⁾ Remainder oil allocated according to the following formula:

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

- (1) In this annual report and in our consolidated financial statements included elsewhere in this annual report, references to production tax on oil and gas produced offshore China are 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 amount of crude oil equivalent to 62.5% of annual gross production minus the amount of crude oil for payment of resource tax shall be cost recovery oil.
- (4) 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 sell such crude oil to us 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.

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

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

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

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

Regulatory Framework Overseas

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

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

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

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

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

Taxation

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

Our subsidiaries domiciled outside of the PRC are subject to income tax rates ranging from 10% to 62%.

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

Government agencies set national or local environmental protection standards. The relevant 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, 2012, 2013 and 2014 of approximately Rmb 29,406 million, Rmb 42,351 million and Rmb 52,889 million (US\$8,524 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 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 agreements 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, 2012, 2013 and 2014, we employed 10,063 persons, 17,553 persons and 21,046 persons, respectively. Of the 21,046 employees we employed as of December 31, 2014, approximately 76.2% were involved in oil exploration, development and production activities, approximately 3.8% 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.

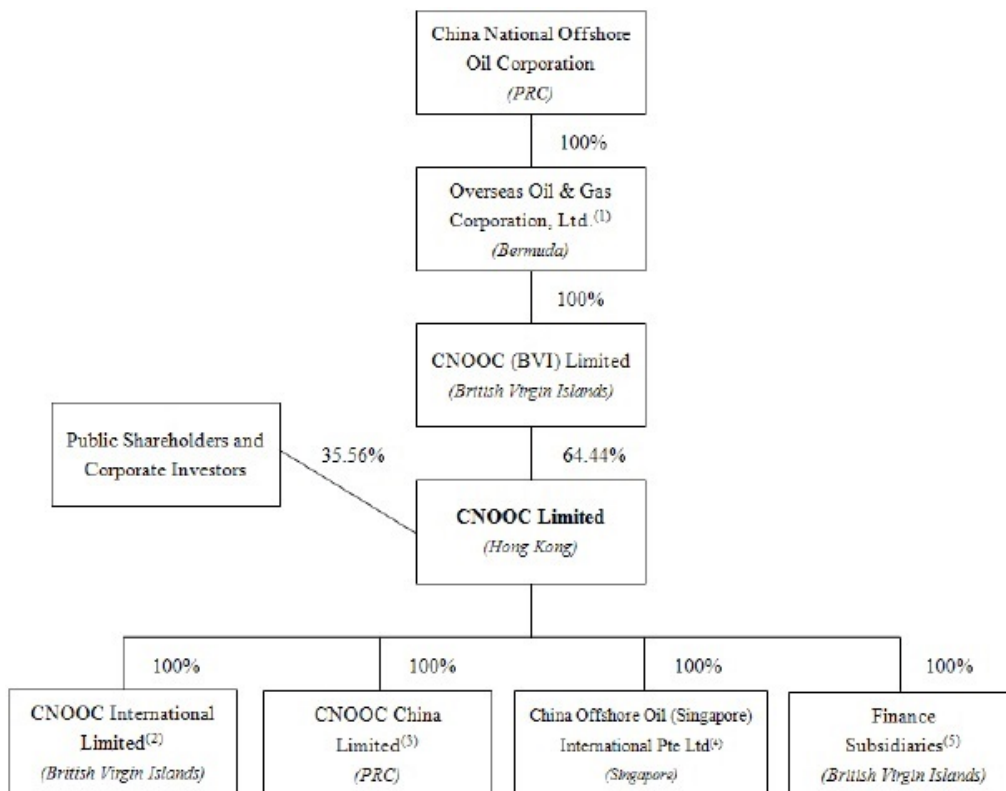
For further details regarding retirement benefits, see note 31 to our consolidated financial statements included elsewhere in this annual report.

As an oil and gas exploration and production company operating in highly competitive markets, we depend in large part on our employees for effective and efficient operations. We devote significant resources to train our employees. During 2014, we held approximately 20,600 training workshops, which were attended by approximately 273,000 person-times of participants. To ensure smooth implementation of our overseas strategy, we have established an international human resources system to attract and retain talent in the international market. In order to enhance the planning and budget control of our labor costs, we have installed target benchmarks in performance appraisals to guide various business units to cut their labor costs and to increase the accuracy of their budgets.

C. ORGANIZATIONAL STRUCTURE

CNOOC indirectly owned or controlled an aggregate of approximately 64.44% of our shares as of March 31, 2015. Accordingly, CNOOC continues to be able to exercise all the rights of a controlling shareholder, including electing our directors and voting to amend our articles of association. Although CNOOC has retained a controlling interest in us, the management of our business will be our directors' responsibility.

The following chart sets forth our controlling entities and our directly-held subsidiaries as of March 31, 2015 and notes our significant indirectly-held subsidiaries.



- (1) Overseas Oil & Gas Corporation, Ltd. also directly owns five shares of our company.
- (2) Owner of our overseas interests in oil exploration and production businesses and operations, including our indirect wholly-owned subsidiaries CNOOC Southeast Asia Limited, CNOOC SES Ltd. , CNOOC Muturi Limited, CNOOC NWS Private Limited, CNOOC Exploration & Production Nigeria Limited, CNOOC Iraq Limited, CNOOC Canada Energy Ltd., CNOOC Uganda Ltd., Nexen Energy ULC, Nexen Petroleum UK Limited, Nexen Petroleum Nigeria Limited, OOGC America LLC, Nexen Petroleum Offshore U.S.A. Inc., Nexen Marketing, Nexen Oil Sands Partnership, CNOOC PETROLEUM BRASIL LTDA, and CNOOC Nexen Finance (2014) ULC.
- (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.
- (5) Includes CNOOC Finance (2003) Limited, CNOOC Finance (2011) Limited, CNOOC Finance (2012) Limited and CNOOC Finance (2013) Limited, all of which are our financing vehicles. These finance companies are our wholly owned subsidiaries with our company as their sole corporate director.

D. PROPERTY, PLANTS AND EQUIPMENT

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

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

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

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.

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

	Year ended December 31,		
	2012	2013	2014
Average net realized prices:			
Crude oil (US\$ per bbl)	110.48	104.60	96.04
Natural gas (US\$ per mcf)	5.77	5.78	6.44

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,		
	2012	2013	2014
Net production of crude oil (bbl/day) ⁽¹⁾	742,765	912,603	955,647
Net production of natural gas (mmcf/day) ⁽¹⁾	1,109.7	1,247.4	1,330.1

(1) Including our interest in equity method investees.

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

Critical Accounting Policies

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

Oil and Gas Properties

For oil and gas exploration, we have adopted the successful efforts method of accounting. As a result, we capitalize initial acquisition costs of oil and gas properties. Impairment of initial acquisition costs is recognized as exploration expenses based on exploratory experience and management judgment which includes, but is not limited to, that any dry hole has been drilled on the property; that the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale; and that the period during which we have the right to explore in the specific area has expired or will expire in the near future and is not expected to be renewed. Upon discovery of commercial reserves, we transfer acquisition costs to proved properties and capitalize the costs of drilling and equipping successful exploratory wells, all development expenditure on construction, installation or completion of infrastructure facilities such as platforms, pipelines, processing plants and the drilling of development wells, and the building of enhanced recovery facilities, including those renewals and betterments that extend the economic lives of the assets, and the related borrowing costs.

The costs incurred in installing enhanced recovery facilities are capitalized together with the development costs of the relevant oil and gas properties. We treat the costs of unsuccessful exploratory wells and all other exploration costs as expenses when incurred. Productive oil and gas properties and other tangible and intangible costs of producing properties are depreciated using the unit-of-production method on a property-by-property basis under which the ratio of produced oil and gas to the estimated remaining proved developed reserves is used to determine the provision of depreciation, depletion and amortization. Common facilities that are built specifically to 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 recoverable amount of assets require the use of estimates and assumptions. It is reasonably possible that the oil price assumption may change, which may then impact the estimated life of the field and may then require a material adjustment to the carrying value of tangible assets. The Company monitors internal and external indicators of impairment relating to its tangible and intangible assets.

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.

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.

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. In addition, our trading 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.

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,					
	2012		2013		2014	
	(Rmb in millions, except percentages and production data)					
Revenues:						
Oil and gas sales:						
Crude oil	181,825	73.4%	211,838	74.1%	200,991	73.2%
Natural gas	12,949	5.2%	14,607	5.1%	17,219	6.3%
Total oil and gas sales	194,774	78.7%	226,445	79.2%	218,210	79.5%
Marketing revenues	50,771	20.5%	55,495	19.4%	50,263	18.3%
Other income	2,082	0.8%	3,917	1.4%	6,161	2.2%
Total revenues	247,627	100.0%	285,857	100%	274,634	100%
Net production (million BOE)⁽¹⁾:						
Crude oil	271.9	79.4%	333.1	80.9%	348.8	80.6%
Natural gas	70.6	20.6%	78.6	19.1%	83.7	19.4%
Total net production	342.4	100.0%	411.7	100%	432.5	100%

(1) Including our interest in equity method investees.

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

	Year ended December 31,		
	2012	2013	2014
Operating Revenues:			
Oil and gas sales	78.7%	79.2%	79.5%
Marketing revenues	20.5%	19.4%	18.3%
Other income	0.8%	1.4%	2.2%
Total revenues	100.0%	100.0%	100.0%
Expenses:			
Operating expenses	(8.7)%	(10.5)%	(11.4)%
Taxes other than income tax	(6.3)%	(5.6)%	(4.3)%
Exploration expenses	(3.7)%	(6.0)%	(4.2)%
Depreciation, depletion and amortization	(13.3)%	(19.7)%	(21.2)%
Special oil gain levy	(10.6)%	(8.2)%	(6.9)%
Impairment and provision	0.0%	0.0%	(1.5)%
Crude oil and product purchases	(20.4)%	(18.7)%	(17.4)%
Selling and administrative expenses	(1.4)%	(2.7)%	(2.4)%
Others	(0.5)%	(1.1)%	(1.2)%
Total expenses	(64.8)%	(72.5)%	(70.5)%
Interest income	0.4%	0.4%	0.4%
Finance costs	(0.6)%	(1.2)%	(1.7)%
Exchange gain, net	0.1%	0.3%	0.4%
Investment income	1.0%	0.9%	1.0%
Share of profits of associates	0.1%	0.0%	0.1%
Share of profits/(losses) of a joint venture	(0.1)%	0.3%	0.3%
Non-operating income/(expenses), net	0.4%	0.1%	0.2%
Profit before tax	36.4%	28.3%	30.0%
Income tax expense	(10.7)%	(8.5)%	(8.1)%
Profit for the year	25.7%	19.8%	21.9%

Calculation of Revenues

China

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

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

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

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

Indonesia

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

Iraq

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

Australia

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

Nigeria

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

Trinidad and Tobago

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.

2014 versus 2013

Consolidated net profit

Our consolidated net profit increased 6.6% to RMB60,199 million (US\$9,702.3 million) in 2014 from RMB56,461 million in 2013, primarily as a result of the more strengthened cost control under the recent decreased oil price environment.

Revenues

	Year ended December 31,		Change	Change (%)
	2014	2013		
Oil and gas sales (Rmb million)	218,210	226,445	(8,235)	(3.6)
Crude and liquids	200,991	211,838	(10,847)	(5.1)
Natural gas	17,219	14,607	2,612	17.9
Sales volume (million BOE)	415.6	397.2	18.4	4.6
Crude and liquids (million barrels)	340.6	326.8	13.8	4.2
Natural gas (bcf)	435	408	27	6.6
Realized prices				
Crude and liquids (US\$/barrel)	96.04	104.60	(8.56)	(8.2)
Natural gas (US\$/mcf)	6.44	5.78	0.66	11.4
Net production (million BOE)	432.5	411.7	20.8	5.1
China	269.1	262.7	6.4	2.4
Overseas	163.4	149.0	14.4	9.7

In 2014, our net production was 432.5 million BOE (including our interest in equity-accounted investees), representing an increase of 5.1% from 411.7 million BOE in 2013, benefitting from the additional production from the Nexen acquisition in the end of February 2013 and the commencement of production on oil and gas fields in offshore China. The overseas production volume accounted for 37.8% of our total net production volume in 2014, compared with 36.2% in 2013. The decrease of crude and liquids sales was primarily due to the lower realised oil prices in 2014. The increase of gas sales primarily came from the higher prices for sales in domestic China and in East Asian LNG market.

Operating expenses

Our operating expenses increased 3.9% to RMB31,180 million (US\$5,025.4 million) in 2014 from RMB30,014 million in 2013, and the operating expenses per BOE decreased 1.1% to RMB 75.1 (US\$12.11) per BOE in 2014 from RMB75.9 (US\$12.55) per BOE in 2013, attributable from effective cost control and steady increase in production. Operating expenses per BOE offshore China decreased 0.8% to RMB60.4 (US\$9.73) per BOE in 2014 from RMB60.9 (US\$10.06) per BOE in 2013. Overseas operating expenses per BOE decreased 3.2% to RMB102.1 (US\$16.46) per BOE in 2014 from RMB105.5 (US\$17.43) per BOE in 2013.

Taxes other than income tax

Our taxes other than income tax decreased 25.7% to RMB 11,842 million (US\$ 1,908.6 million) in 2014 from RMB15,937 million in 2013. The decrease was mainly due to the cancellation of accrued mineral resource compensation payment pursuant to the announcement made by Chinese government agencies that did not require separately imposing such fee in offshore China anymore.

Exploration expenses

Our exploration expenses decreased 32.7% to RMB 11,525 million (US\$ 1,857.5 million) in 2014 from RMB17,120 million in 2013, among which dry hole expenses decreased 39.9% to RMB5,686million (US\$916.4 million) in 2014 from RMB9,453 million in 2013, due to less uncertain wells which were previously capitalised but written off according to subsequent reserve evaluation. Meanwhile, due to the unfavourable exploration results and overdue leases, some unproved properties of shale gas and oil projects located in the U.S. were written off in 2013. There was no such event in 2014.

Depreciation, depletion and amortization

Our depreciation, depletion and amortization increased 3.2% to RMB 58,286 million (US\$ 9,394.0 million) in 2014 from RMB56,456 million in 2013, primarily as a result of the increased production. Our average depreciation, depletion and amortization per BOE, excluding the dismantlement-related part, increased 0.5% to RMB130.9 (US\$ 21.10) per BOE in 2014 from RMB130.3 (US\$ 21.53) per BOE in 2013.

The dismantlement-related depreciation, depletion and amortization costs decreased 20.3% to RMB 3,951 million (US\$ 636.7 million) in 2014 from RMB4,954 million in 2013, Our average dismantling costs per BOE decreased 24.1% to RMB 9.52 (US\$ 1.53) per BOE in 2014 from RMB12.53 (US\$2.07) per BOE in 2013, primarily as a result of the decrease in dismantlement asset balance which came from the effect of discounting factor on the present value of asset retirement obligations of producing oil and gas fields.

Special Oil Gain Levy

Our Special Oil Gain Levy decreased 18.6% to RMB 19,072 million (US\$ 3,073.8 million) in 2014 from RMB23,421 million in 2013, primarily as a result of our decreased oil sales in offshore China.

Impairment and provision

Our impairment and provision was RMB4,120 million(US\$664.0 million) in 2014, while in 2013 was credit to impairment of RMB 45 million. In 2014, certain oil and gas properties located in North America and UK North Sea were impaired, which reflected the impact of near term lower price environment. Please refer to Note 15 to the Consolidated Financial Statement of this annual report.

Selling and administrative expenses

Our selling and administrative expenses decreased 15.9% to RMB 6,613 million (US\$ 1,065.8 million) in 2014 from RMB7,859 million in 2013. Such decreases were primarily due to lower commission and consulting payments connected with acquisition and sound effect from enhancing operating efficiency with cost deduction in this year. Our selling and administrative expenses per BOE decreased 20.0% to RMB 15.93 (US\$ 2.57) per BOE in 2014 from RMB19.89 (US\$3.28) per BOE in 2013.

Finance costs/Interest income

Our finance costs increased 38.1% to RMB 4,774 million (US\$769.4 million) in 2014 from RMB3,457 million in 2013, primarily due to new issuance of corporate notes which was mainly used to replace short-term loans and the increase in unwinding of discount on provision for dismantlement due to increase in discount rate and obligations contributed from newly developed oil and gas fields in 2014. Our interest income decreased 1.7% to RMB1,073 million (US\$ 172.9 million) in 2014 from RMB1,092 million in 2013.

Exchange gains, net

Our net exchange gains increased 20.2% to RMB1,049 million (US\$169.1 million) in 2014 from RMB873 million in 2013, primarily as a result of GBP depreciating against US dollar.

Investment income

Our investment income increased 2.8% to RMB 2,684 million (US\$ 432.6 million) in 2014 from RMB2,611 million in 2013, primarily attributable to the increase in return on corporate wealth management products and money market funds held by the company.

Share of profits of associates/a joint venture

Our share of profits of associates/a joint venture increased 12.4% to RMB1,006 million (US\$162.1 million) in 2014 from RMB895 million in 2013, primarily attributable to the increase in profitability of associates.

Income tax expense

Our income tax expense decreased 8.5% to RMB 22,314million (US\$ 3,596.4 million) in 2014 from RMB24,390 million in 2013, and the effective tax rate decreased to 27.0% in 2014 from 30.2% in 2013. The decrease in effective tax rate was mainly attributable to further recognized deferred tax assets for oil sands project in Canada.

2013 versus 2012

Consolidated net profit

Our consolidated net profit decreased 11.4% to Rmb56,461 million in 2013 from Rmb63,691 million in 2012, primarily as a result of the comprehensive impact of the decreased oil price and the increased costs.

Revenues

	Year ended December 31,		Change	Change (%)
	2013	2012		
Oil and gas sales (Rmb million)	226,445	194,774	31,671	16.3%
Crude and liquids	211,838	181,825	30,013	16.5%
Natural gas	14,607	12,949	1,658	12.8%
Sales volume (million BOE)	397.2	322.6	74.6	23.1%
Crude and liquids (million barrels)	326.8	260.8	66.0	25.3%
Natural gas (bcf)	408	356	52	14.7%
Realized prices				
Crude and liquids (US\$/barrel)	104.60	110.48	(5.88)	(5.3%)
Natural gas (US\$/mcf)	5.78	5.77	0.01	0.2%
Net production (million BOE)	411.7	342.4	69.3	20.2%
China	262.7	267.0	(4.3)	(1.6%)
Overseas	149.0	75.4	73.6	97.4%

The increase of our oil and gas sales was primarily due to the significant increase of production attributable from the Nexen acquisition.

In 2013, our net production was 411.7 million BOE (including our interest in equity-accounted investees), representing an increase of 20.2% from 342.4 million BOE in 2012, benefitting from the addition from the Nexen acquisition and the increased production of shale oil and gas in North America and technical service contract in Iraq. The overseas production volume accounted for 36.2% of our total net production volume in 2013, compared with 22.0% in 2012.

Operating expenses

Our operating expenses increased 40.0% to Rmb30,014 million in 2013 from Rmb21,445 million in 2012, and the operating expenses per BOE increased 15.2% to Rmb75.9 per BOE in 2013 from Rmb65.9 per BOE in 2012, primarily as a result of the addition from the Nexen acquisition. Operating expenses per BOE offshore China increased 5.4% to Rmb60.9 per BOE in 2013 from Rmb57.8 per BOE in 2012. Overseas operating expenses per BOE increased 2.9% to Rmb105.5 per BOE in 2013 from Rmb102.5 per BOE in 2012.

Taxes other than income tax

Our taxes other than income tax increased 2.0% to Rmb15,937 million in 2013 from Rmb15,632 million in 2012, primarily as a result of the comprehensive impact of changes in oil and gas sales in offshore China and overseas.

Exploration expenses

Our exploration expenses increased 89.3% to Rmb17,120 million in 2013 from Rmb9,043 million in 2012, primarily as a result of the addition from the Nexen acquisition, and our continuous enhancement of exploratory activities in offshore China, especially in deepwater. Meanwhile, due to the unfavourable exploration appraisal results and some overdue land leasehold contracts, some of the unproved properties of shale oil and gas project located in North America were written off in 2013. Nexen focuses on opportunities in the deepwater of U.S. Gulf of Mexico and U.K. North Sea, which are deepwater areas with good exploration prospect. Meanwhile, in the recent two years, our continuing efforts in exploration in offshore China has led to a series of important reserves discoveries and upgrades, but also resulted in continuing increased exploration expenses. Dry hole expenses increased 78.5% to Rmb7,140 million in 2013 from Rmb3,999 million in 2012, including costs of some uncertain wells that were capitalized previously and written off according to appraisal result.

Depreciation, depletion and amortization

Our depreciation, depletion and amortization increased 71.6% to Rmb56,456 million in 2013 from Rmb32,903 million in 2012, primarily as a result of the addition from the Nexen acquisition, the increased production of shale oil and gas in North America and technical service contract in Iraq and the commencement of production on new oil and gas fields in offshore China. Our average depreciation, depletion and amortization per BOE, excluding the dismantlement-related depreciation, depletion and amortization, increased 41.5% to Rmb130.3 per BOE in 2013 from Rmb92.1 per BOE in 2012. These increases were mainly attributable to the increased production proportion from oil sands, shale oil and gas and technical service contract overseas, which have higher depreciation, depletion and amortization rate. In addition, the increased proportion of production on new oil and gas fields in offshore China in recent year, which were developed under the environment of increasing prices of raw materials and services over the past few years, also contributed to the increase of depreciation, depletion and amortization per BOE.

The dismantlement-related depreciation, depletion and amortization costs increased 68.2% to Rmb4,954 million in 2013 from Rmb2,946 million in 2012, primarily as a result of the addition from the Nexen acquisition. Our average dismantling costs per BOE increased 38.4% to Rmb12.53 per BOE in 2013 from Rmb9.06 per BOE in 2012.

Special Oil Gain Levy

Our Special Oil Gain Levy decreased 10.9% to Rmb23,421 million in 2013 from Rmb26,293 million in 2012, primarily as a result of our decreased oil sales in offshore China.

Selling and administrative expenses

Our selling and administrative expenses increased 132.7% to Rmb7,859 million in 2013 from Rmb3,377 million in 2012. Such increases were primarily due to the addition from the Nexen acquisition and the related commissions and consulting expenses. Our selling and administrative expenses per BOE increased 91.6% to Rmb19.89 per BOE in 2013 from Rmb10.38 per BOE in 2012.

Finance costs/Interest income

Our finance costs increased 115.7% to Rmb3,457 million in 2013 from Rmb1,603 million in 2012, primarily due to the addition from the Nexen acquisition and capital demand increase from expansion in overseas investment as well as the increase in unwinding of discount on provision for dismantlement due to commencement of production on new oil and gas fields. Our interest income increased 9.0% to Rmb1,092 million in 2013 from Rmb1,002 million in 2012, primarily due to the increased effective rate of return from increased time deposits.

Exchange gains, net

Our net exchange gains increased 143.2% to Rmb873 million in 2013 from Rmb359 million in 2012, primarily as a result of the further appreciation of Renminbi/US dollars and Renminbi/HK dollars.

Investment income

Our investment income increased 9.2% to Rmb2,611 million in 2013 from Rmb2,392 million in 2012, primarily attributable to the increase in aggregate corporate wealth management products under the condition that the products and portfolios are of good liquidity and low risk.

Share of profits of associates/a joint venture

Our share of profits of associates/a joint venture was Rmb895 million in 2013, while in 2012 we shared losses of Rmb27 million, primarily attributable to the increased profitability of overall assets contributed by the downstream refinery which was acquired by Bidas in the second half of 2012.

Income tax expense

Our income tax expense decreased 7.9% to Rmb24,390 million in 2013 from Rmb26,481 million in 2012, and the effective tax rate increased to 30.2% in 2013 from 29.4% in 2012. The increase in effective tax rate was mainly attributable to the Nexen acquisition, partially offset by the increased tax credits arising from certain qualified capital expenditure in Nigeria along with the development of Egina oilfield of OML130 project.

B. LIQUIDITY AND CAPITAL RESOURCES

Our primary source of cash during 2014 was cash flow 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,		
	2012	2013	2014
	(Rmb in millions)		
Cash generated from (used for):			
Operating activities	92,574	110,891	110,508
Investing activities	(63,797)	(170,032)	(90,177)
Financing activities	2,584	18,601	(19,486)
Net increase/(decrease) in cash and cash equivalents	<u>31,361</u>	<u>(40,540)</u>	<u>845</u>

Cash generated from operating activities

In 2014, the cash inflow from operating activities was RMB110,508 million(US\$17,810.7 million), almost in line with the previous year.

Cash Used in Investing Activities

In 2014, our capital expenditure (excluding acquisition) increased 20.0% to RMB95,673 million (US\$15,419.7 million) from 2013, primarily as a result of the increase in exploration activities and the development of projects under construction. Our development expenditures in 2014 were primarily related to the capital expenditures of Nexen, the development of the OML130 project, as well as the expenses incurred for improving recovery factors of the oilfields in production. The Company has no significant acquisition during the year.

In addition, our cash used in investing activities was also attributable to purchase of available-for-sale financial assets of RMB105,718 million (US\$17,038.6 million). Our cash generated from investing activities was mainly from the proceeds from the sales of available-for-sale financial assets in the amount of RMB102,587 million (US\$16,534.0 million). Our time deposits with maturity of more than three months decreased by RMB3,383 million (US\$545.2 million) in 2014.

Cash Used in / Generated from Financing Activities

In 2014, the cash inflow from financing activities was mainly due to the proceeds of bank borrowings of RMB12,789 million (US\$2,061.2 million) and RMB24,578 million (US\$3,961.3 million) from the issuance of guaranteed notes, partially offset by the cash outflow of the distribution of dividends of RMB20,216 million (US\$3,258.2 million) and the repayment of bank loans of RMB32,523 million (US\$5,241.8 million).

At the end of 2014, our total interest-bearing outstanding debt was RMB136,563 million (US\$22,010.0 million), compared to RMB131,852 million at the end of 2013. The increase in debt in 2014 was primarily attributable to the issuance of guaranteed notes of US\$4 billion and the decrease of short-term bank loans. Our gearing ratio, which is defined as interest-bearing debts divided by the sum of interest-bearing debts plus equity, was 26.5%, lower than that of 27.8% in 2013.

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, 2014.

Due by December 31,	Debt maturities (principal only)		
	Original currency	Total Rmb equivalents	Total US\$ equivalents
	US\$		
	(in millions, except percentages)		
2015	149.8	929.6	149.8
2016-2017	2,092.9	12,985.5	2,092.9
2018-2019	1,099.5	6,821.7	1,099.5
2020 and beyond	12,854.6	79,757.5	12,854.6
Total	16,196.7	100,494.3	16,196.7
Percentage of total debt	76.9%	76.9%	76.9%

In April 2014, we, through CNOOC Nexen Finance (2014) ULC, our wholly owned subsidiary, issued US\$1,250 million 1.625% guaranteed notes due 2017, US\$2,250 million 4.250% guaranteed notes due 2024, and US\$500 million 4.875% guaranteed notes due 2044. The obligation of CNOOC Nexen Finance (2014) ULC in respect of the notes are unconditionally and irrevocably guaranteed by us. The net proceeds of this notes offering were used to in part to repay all or part of the outstanding borrowings of our wholly-owned subsidiary Nexen Energy ULC under the US\$2.0 billion facility agreement dated February 15, 2014. The remaining proceeds were used for general corporate purposes.

As of December 31, 2014, we had total foreign currency debt of US\$21,367 million, all of which is in U.S. dollars. As of March 31, 2015, we had total foreign currency debt of US\$22,441 million, all of which is in U.S. dollars.

As of December 31, 2014, we had unutilized banking facilities amounting to approximately Rmb 63,623 million (US\$10,254 million) as compared to Rmb 56,440 million as of December 31, 2013.

In 2012, 2013 and 2014, we paid dividends totaling Rmb 15,635.1 million, Rmb 20,226 million and Rmb 20,216 million (US\$3,258 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 2015. 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 2015, we have budgeted approximately Rmb 70.4 billion for capital expenditures for exploration and development. The following table sets forth actual or budgeted capital expenditures on an accrual basis for the periods indicated.

	Year ended December 31,				
	2012	2013 ⁽¹⁾	2014 ⁽¹⁾	2015 ⁽¹⁾⁽²⁾	2014 ⁽¹⁾
	(Rmb million)			(US\$ million)	
Offshore China					
Development	31,360	42,839	49,128	28,240	7,918
Exploration	10,572	12,012	13,718	10,935	2,211
Subtotal	41,931	54,851	62,845	39,175	10,129
Overseas					
Development	15,459	28,315	33,403	25,939	5,384
Exploration	2,615	6,216	9,455	5,287	1,524
Subtotal	18,073	34,531	42,858	31,226	6,907
Total	60,005	89,383	105,704	70,401	17,036

(1) Capitalized interests were not included, and it was Rmb 2,049 million and Rmb 1,842 million in 2013 and 2014, respectively.

(2) Figures for 2015 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 and production and sales business in the PRC is owned and conducted by CNOOC China Limited, our wholly owned subsidiary in the PRC. Our entire 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 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, a wholly-owned subsidiary of the Company, located in Canada, 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. 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 2.6%, 2.6% and 2.0% in 2012, 2013 and 2014, respectively. Neither deflation nor inflation has had a significant impact on our results of operations in the respective years.

Impact of Recently Issued Accounting Standards

IFRS and HKFRS

We have adopted the IFRS as issued by the IASB since January 1, 2008. Therefore, our consolidated financial statements for 2014 have been prepared in due compliance with both IFRS and HKFRS. The accounting policies adopted are consistent with those of the year ended 31 December 2013, except for the first time adoption of the amendments to IFRS/HKFRS and the new interpretation effective for the Group's financial year beginning on 1 January 2014. The adoption of those amendments and interpretation 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.

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

In 2015, the outlook for the global economy will continue to face relatively high uncertainty. International oil prices are expected to continue at low levels for a period of time, and the Company’s operations will be faced with significant challenges. As a result, the Company will further promote all measures for realizing the “Year of Efficiency and Quality” and make all efforts to reduce costs and raise efficiency, in order to meet all targets for production and operation.

Prices for crude oil may fluctuate widely in response to relatively minor changes in the supply and demand for oil, market uncertainty and various other factors that are beyond our control.

We plan to increase our reserves and production through drill bits and value-driven acquisitions. We will continue to concentrate independent exploration efforts on major operating areas, especially in offshore China. In the meantime, we will continue to enter into PSCs with foreign partners to lower capital requirements and exploration risks.

We plan to capitalize on the growth potential of the PRC 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.

In 2014, the large-sized deepwater gas field Liwan 3-1 in deepwater South China Sea has commenced production and our natural gas production continued to increase.

We will continue to maintain our prudent financial policy. As an essential part of our corporate culture, we continue to promote the cost consciousness among both our management team and other employees. Aiming to control production cost, we plan to actively promote the regional development of oil and gas field groups and to apply up-to-date offshore engineering, drilling and production technologies to our operations. We intend to maintain our financial strength by managing key measures such as capital expenditures, cash flows and costs per BOE. We also intend to actively manage our account receivables and inventories to enhance liquidity and improve profitability. We will continue to monitor our foreign currency denominated assets and debts and to manage exposure to foreign exchange rate fluctuations.

For 2015, we have budgeted Rmb 70 billion to 80 billion for capital expenditures for exploration and development.

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

E. OFF-BALANCE SHEET ARRANGEMENTS

None.

F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table sets forth information regarding our contractual obligations as of December 31, 2014.

Contractual Obligations	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	Rmb million	Rmb million	Rmb million	Rmb million	Rmb million
Long-term debt obligations	100,494	930	12,985	6,822	79,757
Operating lease obligations	15,364	3,445	3,097	2,476	6,346
Provision for dismantlement ⁽¹⁾	52,889	456	-	-	52,433
Total	168,747	4,831	16,082	9,298	138,536

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

As of December 31, 2012, 2013 and 2014, we had the following capital commitments, principally for the construction and purchase of property, plant and equipment:

Capital Commitments	2012	2013	2014
	Rmb million	Rmb million	Rmb million
Contracted, but not provided for	27,502	30,131	39,630
Authorized, but not contracted for	80,682	138,571	115,269

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 10 members, including two executive directors, four non-executive directors and four independent non-executive directors as of March 31, 2015. Jianwei Zhang resigned as a Non-executive Director with effect from November 17, 2014. Tao Wang retired as Independent Non-executive Director with effect from March 1, 2014. Shouwei Zhou and Zhenfang Wu retired as Non-executive Directors with effect from January 1, 2014.

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

[Table of Contents](#)

Name	Year of Birth	Position
Yilin Wang	1956	Chairman of our Board and Non-executive Director
Hua Yang	1961	Vice Chairman of our Board and Non-executive Director
Fanrong Li	1963	Executive Director, Chief Executive Officer and President
Guangqi Wu	1957	Executive Director and Compliance Officer
Bo Lv	1962	Non-executive Director (effective January 1, 2014)
Jianwei Zhang	1957	Non-executive Director (resigned, effective November 17, 2014)
Jiaxiang Wang	1955	Non-executive Director (effective January 1, 2014)
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
Tao Wang	1931	Independent Non-executive Director (retired March 1, 2014)
Kevin G. Lynch	1951	Independent Non-executive Director (effective March 1, 2014)
Guangyu Yuan	1959	Executive Vice President and General Manager of CNOOC China Limited Tianjin Branch
Weilin Zhu	1956	Executive Vice President and General Manager of Exploration Department
Liguo Zhao	1953	General Counsel
Bi Chen	1961	Executive Vice President
Wei Chen	1958	Executive Vice President and General Director of CNOOC Research Institute
Guohua Zhang	1960	Senior Vice President and General Manager of CNOOC China Limited Shanghai Branch
Hua Zhong	1960	Chief Financial Officer, Joint Company Secretary and General Manager of Investor Relations Department
Yunhua Deng	1963	Deputy Chief Geologist and Deputy General Director of CNOOC Research Institute
Lisong Song	1957	Chief Safety Official and General Manager of Quality, Health, Safety and Environment Department
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.

Executive Directors

Fanrong Li Born in 1963, Mr. Li is a professor-level senior engineer. He obtained a B.S. degree majoring in oil production from Jiang Han Petroleum Institute (now 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 for over 30 years. He joined China National Offshore Oil Corporation (the “CNOOC”) in 1984, and worked as Petroleum Engineer, later as Offshore Platform Supervisor, 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. He has served as Vice President of CNOOC since May 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 CNOOC International Limited, and Chairman and Director of CNOOC Southeast Asia 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.

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 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 and the Chairman of CNOOC Marine Environment and Ecology Protection Foundation. 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. He also served as a Director of CNOOC Deepwater Development Limited, a subsidiary of the Company. Mr. Wu has served as the Compliance Officer of the Company since June 1, 2005 and he also serves as a Director of CNOOC China Limited and CNOOC International 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.

Non-executive Directors

Yilin Wang Born in 1956, Mr. Wang is a professor-level senior engineer. He graduated from China University of Petroleum majoring in petroleum geology and exploration and received a doctorate degree. He has over 30 years of working experience in China’s oil and gas industry. From June 1996 to September 1999, Mr. Wang served as the deputy director and chief exploration geologist of Xinjiang Petroleum Administration Bureau. From September 1999 to May 2004, he served as the general manager of PetroChina Xinjiang Oilfield Company. From June 2001 to May 2004, he served as the senior executive of Xinjiang Petroleum Administration Bureau and the general manager of PetroChina Xinjiang Oilfield Company. From July to December 2003, he served as the Assistant to General Manager of China National Petroleum Corporation (“CNPC”). From December 2003 to April 2011, he served as the Deputy General Manager of CNPC. From July 2004 to July 2007, he also served as the safety director of CNPC. From November 2005 to April, 2011, he served as a Director of PetroChina Company Limited, a company listed on the New York Stock Exchange, The Stock Exchange of Hong Kong Limited and Shanghai Stock Exchange respectively. Since April 8, 2011, Mr. Wang serves as Chairman of CNOOC. Mr. Wang was appointed as Chairman and Non-executive Director of the Company with effect from April 15, 2011.

Hua Yang Born in 1961, Mr. Yang is a professor-level senior engineer 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 in the Company and its subsidiaries. From 1993 to 1999, he served as the Deputy Chief Geologist, the Deputy Director and the Acting Director for Overseas Development Department of the Company and the Vice President of CNOOC International Limited, a subsidiary of the Company. From 1999 to 2011, Mr. Yang served in a number of positions in the Company including Senior Vice President, Chief Financial Officer, Executive Vice President, President and Chief Executive Officer. Mr. Yang also served as an Assistant President of CNOOC from November 2006 to April 2010 and as Vice President of CNOOC from April 2010 to August 2011. Mr. Yang was appointed as Director and President of CNOOC in August 2011. In addition, he serves as Chairman and Director of CNOOC China Limited and CNOOC International Limited, both being subsidiaries of the Company. He also served as Director and President of CNOOC Southeast Asia Limited, General Manager of CNOOC China Limited, Chairman and Director of CNOOC Southeast Asia Limited and Chairman and Director of CNOOC Deepwater Development 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, was appointed as Vice Chairman of the Board of the Company with effect from September 16, 2010, and was re-designated from an Executive Director to a Non-Executive Director of the Company with effect from November 23, 2011.

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.

Jianwei Zhang Born in 1957, Mr. Zhang received a Bachelor of Arts degree in Philosophy from Xiamen University in 1983. Mr. Zhang started his career in 1975 and had served as the Deputy Director of General Office of Light Industry Development Strategy Research Center of the Ministry of Light Industry. He subsequently assumed a number of positions in the Secretarial Bureau of the General Office of the Communist Party of China Central Committee, including Deputy Director of Inspection Department, Deputy Director of Conference Department, and Deputy Director of the Secretarial Bureau. Mr. Zhang was subsequently appointed as the Deputy Director of General Office of the General Administration of Quality Supervision, Inspection and Quarantine of China and the Deputy Director General of the Standardization Administration of China. Mr. Zhang was appointed as the Director and Chief Compliance Officer of CNOOC in December 2011. Mr. Zhang was appointed as a Non-executive Director of the Company on November 27, 2013, and such appointment took effect from January 1, 2014. Mr. Zhang resigned as a Non-executive Director of the Company with effect from November 17, 2014.

Jiaxiang Wang Born in 1955, Mr. Wang is a professor-level senior engineer. He graduated from China University of Petroleum (formerly known as East China Petroleum Institute), major in Drilling Engineering, and later received a Doctorate degree from Tianjin University in Management Science and Engineering. Mr. Wang joined CNOOC in 1982. He served as Production Section Director, Chief Engineer, Deputy Director and Director of the Drilling Department of CNOOC Bohai Corporation and Deputy General Manager of CNOOC Bohai Corporation. From 2001 to 2003, he served as the Deputy General Manager of CNOOC China Limited Tianjin Branch. From June 2003 to December 2003, he served as the Deputy General Manager of CNOOC Bohai Corporation. From December 2003 to April 2005, Mr. Wang served as the General Manager of CNOOC Bohai Corporation. In November 2004, he was appointed as the General Manager of CNOOC Oil Base Group Limited. In January 2007, Mr. Wang was appointed as the Assistant President of CNOOC. Since December 2007, he has also served as the General Manager of CNOOC Gas & Power Group. In February 2013, Mr. Wang was appointed as a Vice President of CNOOC. Mr. Wang was appointed as a Non-executive Director of the Company on November 27, 2013, and such appointment took effect from January 1, 2014.

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-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 six books and published more than 170 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, the Vice-Chairman of the Advisory Committee of the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone of Shenzhen and a Director of the Chinese Association of Hong Kong and Macau Studies. 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 member of its Currency Board Sub-Committee. 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, which is listed on the Hong Kong Stock Exchange, an Independent Non-executive Director of Hysan Development Company Limited, which is 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, Wing Hang Bank Limited (whose shares were delisted from The Stock Exchange of Hong Kong Limited with effect from 16 October 2014 and was renamed as OCBC Wing Hang Bank Limited), Linmark Group Limited, SJM Holdings Limited and Sinofert Holdings Limited, companies listed on The Stock Exchange of Hong Kong Limited, and he is also an independent non-executive director of China Huarong Asset Management Company, Limited. He was an independent non-executive director of China Construction Bank Corporation, which is listed on the HKSE Main Board from 2004 to 2010. Mr. Tse was appointed as an independent non-executive director of CCB International (Holdings) Limited, a wholly owned subsidiary of China Construction Bank Corporation in March 2013. 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.

Tao Wang Born in 1931, Mr. Wang studied at the Moscow Institute of Oil in the former Soviet Union from 1954 to 1963, where he obtained his deputy doctoral degree in Geological Mineralogy. Mr. Wang is the Chairman of the Chinese National Committee for World Petroleum Council (Formerly World Petroleum Congress) and the foreign academician for Russian Academy of Natural Sciences. He also serves as adjunct professor and/or doctoral advisor in China University of Petroleum. Mr. Wang has been working in the oil and gas sector for more than 50 years, and served as the Chief Geologist in Beijing Research Institute of Petroleum Science, the Deputy Commander and Chief Geologist of the North China Oil Exploration Command Office, the Deputy Director-General and Chief Geologist of Liao River Petroleum Exploration Bureau and the Principal of the Preparation and Construction Office for the Pearl River Mouth Project in the Command Office of South China Sea Oil Exploration. He became the General Manager of CNOOC Nanhai East Corporation in June 1983, the Minister and Secretary of the Party Leadership Group of the Ministry of Petroleum Industry in June 1985 and the General Manager and Secretary of the Party Leadership Group of China National Petroleum Corporation in May 1988 successively. He was also a Member of the 12th, 13th and 14th Central Committees of the Communist Party of China, a Member of the Standing Committee of the 9th National People’s Congress and the Vice-chairman of the Environmental Protection and Resources Conservation Committee of the National People’s Congress. He also served as the Vice Chairman and Senior Vice Chairman of the World Petroleum Council from 1994 to 2005. Mr. Wang served as the Honorary Chairman and an Executive Director of Sino Union Energy Investment Group Limited (Formerly Sino Union Petroleum & Chemical International Limited), a company listed on The Stock Exchange of Hong Kong Limited. Mr. Wang was appointed as Independent Non-executive Director of the Company with effect from May 29, 2008. Mr. Wang retired as an Independent Non-executive Director of the Company with effect from March 1, 2014.

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 seven honorary degrees. Mr. Lynch was made a life Member of the Privy Council for Canada, and an Officer of the Order of Canada. He is the Vice Chairman of BMO Financial Group and also a distinguished former public servant with 33 years of service with the Government of Canada. Mr. Lynch served as Deputy Minister of Industry of Canada from 1995 to 2000, Deputy Minister of Finance of Canada from 2000 to 2004, Executive Director at the International Monetary Fund from 2004 to 2006 and was appointed as Clerk of the Privy Council for Canada, Secretary to the Cabinet and Head of the Public Service from 2006 to 2009. Mr. Lynch is the Chancellor of the University of King’s College, 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 Gairdner Foundation, the Killam Trusts, the Perimeter Institute, the Princess Margaret Cancer 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 former Vice Chair of the Jobs and Prosperity Council of Ontario. 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

Guangyu Yuan Born in 1959, Mr. Yuan is an Executive Vice President of the Company, responsible for the operation safety, engineering and construction, and drilling and completion. Mr. Yuan is a professor-level senior engineer. He graduated from East China Petroleum Institute (now China University of Petroleum) with a bachelor's degree in drilling engineering. He graduated from the CEO Class and the EMBA program of China Europe International Business School in 2004 and 2007 respectively with an MBA degree. With over 30 years of experience in the oil and gas industry, Mr. Yuan joined CNOOC in 1982, having served as Deputy Manager of CNOOC Bohai Drilling Company, Deputy General Manager of CNOOC China Offshore Oil Northern Drilling Company, Deputy General Manager of Operational Department of CNOOC, General Manager of CNOOC China Offshore Oil Northern Drilling Company, Chairman of the Board of Directors and General Manager of CNOOC Services, and Vice Chairman of the Board of Directors, Executive Director, Chief Executive Officer and President of China Oilfield Services Limited. Mr. Yuan also serves as the Director of CNOOC China Limited, CNOOC International Limited, CNOOC Southeast Asia Ltd. and CNOOC Deepwater Development Limited, all being the subsidiaries of the Company. In November 2006, Mr. Yuan was appointed as the Assistant President of CNOOC. In March 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.

Weilin Zhu Born in 1956, Mr. Zhu is the Chief Geologist of CNOOC, Executive Vice President of the Company and General Manager of Exploration Department of the Company. Mr. Zhu is a professor-level senior engineer. He graduated from Shanghai 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 Director and Director of the Research 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, the subsidiary 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, responsible for the Company's oil and gas exploration operations.

Liguo Zhao Born in 1953, Mr. Zhao is the General Counsel of the Company. He is a professor-level senior economist. He graduated from the Faculty of Law, Peking University in 1983 with a bachelor of laws' degree. In 1988, he studied at the Law School of Niigata University in Japan for a year. Mr. Zhao joined CNOOC in 1983. He served as Head of Contract Division of Contract Law Department, Deputy General Manager and General Manager of Legal Department of CNOOC. At present, he serves as the General Counsel of CNOOC and the Company. Mr. Zhao was granted PRC lawyer qualification in 1985 and corporate counsel qualification in 1998. He is an arbitrator of China International Economic and Trade Arbitration Commission and a member of the China Maritime Arbitration Commission. Mr. Zhao also serves as the Director of CNOOC China Limited and CNOOC International Limited, both being the subsidiaries of the Company. Mr. Zhao was appointed as the General Counsel of the Company effective June 2008.

Bi Chen Born in 1961, Mr. Chen is an Executive Vice President of the Company and is responsible for development, production and sales 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 1988, an MBA degree from Tsinghua University in 2001 and an honorary doctoral degree in petroleum engineering from Edinburgh Heriot-Watt University in 2010. 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 Production Company, Director of Production Section, Deputy 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 December 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.

Wei Chen Born in 1958, Mr. Chen is the Worker's Director of CNOOC, an Executive Vice President of the Company and the General Director of CNOOC Research Institute (formerly CNOOC Research Center). He is a professor-level senior engineer. He received his B.S. degree from China University of Petroleum and MBA from Tsinghua University. He has around 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, 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 Science and Technology Development of CNOOC, and the 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 Executive Vice President of the Company.

Guohua Zhang Born in 1960, Mr. Zhang is a Senior Vice President of the Company and the General Manager of CNOOC China Limited Shanghai Branch. He is a professor-level senior engineer. He graduated from Shandong Oceanographic Institute (now Ocean University of China) with a bachelor degree. He studied in the Business Institute of University of Alberta in Canada in 2001. He joined CNOOC in 1982 and served as Deputy Chief Geologist and Manager of Exploration Department of CNOOC Naihai West Corporation, a subsidiary of CNOOC, Chief Geologist of CNOOC Research Center, Assistant to General Manager of CNOOC China Limited and the General Manager of Exploration Department of the Company. In October 2005, Mr. Zhang was appointed as senior vice president of the Company and General Manager of CNOOC China Limited Shanghai Branch.

Hua Zhong Born in 1960, Mr. Zhong is Chief Financial Officer, Joint Company Secretary and General Manager (Director) of Investor Relations Department (Office for the Board of Directors) of the Company. Mr. Zhong is a professor-level senior economist and senior engineer and graduated from Southwest Petroleum Institute 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 in 1988. He joined CNOOC in 1982, and has been working in the oil and gas industry for over 30 years. From 1982 to 1999, Mr. Zhong served as Petroleum Engineer of China Offshore Oil Nanhai West Corporation ("COONWC"), Expro Northsea Staff in UK, Deputy Manager of Downhole Services Company, Manager of Wei 10-3 Oilfield, Oilfield Superintendent of CNOOC Indonesia Project, Supervisor of Ya 21-1-3 HTHP Well Testing Project, Deputy Manager of Drilling and Exploitation Institute, Manager of Science and Technology Department and Manager of Administration Department of COONWC. From September 1999 to August 2005, Mr. Zhong was General Manager of Administration Department and General Manager of Development and Planning Department of the Company. From August 2005 to September 2010, Mr. Zhong served as Vice President, Executive 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. On March 22, 2012, Mr. Zhong was appointed as Joint Company Secretary of the Company.

Yunhua Deng Born in 1963, Mr. Deng is the Deputy Head of the Company's exploration division. Mr. Deng graduated from the Scientific Research Institute of Petroleum Exploration and Development with a major in Petroleum Geology and received a master's degree in Engineering. 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 Geologist 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 Head of the exploration division of the Company and the Deputy Director of CNOOC Research Center from 2006 to 2007. Mr. Deng was appointed Deputy Chief Geologist of CNOOC, Deputy Head of the exploration division of the Company and Deputy Director of CNOOC Research Center from 2007 to 2009; and has been Deputy Chief Geologist of CNOOC, Deputy Head of the exploration division of the Company and Deputy General Director of CNOOC Research Institute since 2009.

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 1991, 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 1996, Mr. Song served as Director of the Safety Production Division and head of the Safety Office of the HSE Department of the Company. From 1999 to 2001, he served as Vice Manager of the HSE Department of the Company. From 2001 to 2003, he served as Director of operational safety of the HSE Department of the Company. From 2003 to 2011, he served as the General Manager of the HSE Department of the Company. From March 2013 to now, he has been serving as the Chief Safety Official and General Manager of the QHSE Department of the Company.

Joint Company Secretaries

Hua Zhong Please refer to the biography of Mr. Zhong above for details.

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. She is a fellow member of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries since 2012 and became a member of Company Secretaries Panel and Advisor for Academy of Professional Certification in the same year. 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 CNOOC Insurance Limited since 2000 and became its employee in 2004 as a manager of finance department. She serves as company secretary of CNOOC Insurance Limited since March 2007. Ms. Tsue was appointed as Joint Company Secretary of the Company with effect from November 25, 2008.

B. COMPENSATION

The aggregate amount of fees, salaries, bonus, housing allowances, other allowances and benefits in kind paid to our directors for the year ended December 31, 2014 was approximately Rmb 8.6 million (US\$1.4 million), while the amount paid to our other senior management for the same period was approximately Rmb 8.3 million (US\$1.3 million). In addition, under our pension plan for 2014, we set aside an aggregate amount of Rmb 1,027,512 (US\$165,605) 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 596,438 (US\$96,128) to the pension plan for 2014. Each director's annual compensation, including fees, salaries, allowances, benefits in kind, pension benefits and share option benefits, is disclosed in note 10 to our consolidated financial statements included elsewhere in this annual report. Note 11 to our consolidated financial statements included elsewhere in this annual report discloses our five highest paid employees during 2014. For further details regarding share options granted to our directors, officers and employees, see "Item 6—Directors, Senior Management and Employees—Share Ownership." For further details regarding our employee compensation, see "Item 4—Information on the Company—Business Overview—Employees and Employee Benefits."

C. BOARD PRACTICE

Committees

We have established an audit committee, a remuneration committee and a nomination committee. Our audit committee meets at least twice a year and is responsible for reviewing the completeness, accuracy and fairness of our accounts, evaluating our auditing scope (both internal and external) and procedures, as well as its internal control systems. Our audit committee is also responsible for overseeing the operation of the internal monitoring systems, so as to ensure our Board is able to monitor our overall financial position, to protect our assets, and to prevent major errors or omissions resulting from financial reporting. In addition, our audit committee reviews our Company's business ethics and compliance policies, related reports and performs other corporate governance functions. Our Board is responsible for these systems and appropriate delegations and guidance have been made. Our audit committee regularly reports to our Board. Our audit committee consists of Aloysius Hau Yin Tse as the audit committee financial expert for the purposes of U.S. securities laws and chairman of the audit committee, Sung Hong Chiu and Professor Lawrence J. Lau. Our audit committee charter is available on our website, www.cnooltd.com.

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. Zhenfang Wu retired as our non-executive director and a member of our remuneration committee as of January 1, 2014, and Bo Lv has been appointed and replaced Zhenfang Wu as a member of our remuneration committee as of the same day. Since January 1, 2014, our remuneration committee consisted of two independent non-executive directors (Sung Hong Chiu as chairman and Aloysius Hau Yin Tse) and one non-executive director (Bo Lv). Our remuneration committee charter is available on our website, www.cnooltd.com.

The main authorities and responsibilities of our nomination committee include nominating candidates to serve as our directors and senior management for approval by our Board, reviewing the structure and composition of our Board, and evaluating the leadership abilities of our executive directors so as to ensure our competitive position. Our nomination committee is also responsible for reviewing and monitoring the training and continuous professional development of directors and senior management and make recommendations to our Board in this regard. Tao Wang retired as our independent non-executive Director and a member of our nomination committee as of March 1, 2014, and Kevin G. Lynch has been appointed and replaced Tao Wang as a member of our nomination committee as of the same day. Since March 1, 2014, our nomination committee consists of Yilin Wang as chairman, Professor Lawrence J. Lau and Kevin G. Lynch. Our nomination committee charter is available on our website, www.cnooltd.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 ten directors are independent non-executive directors.

NYSE Standards require U.S. domestic issuers to schedule regular executive sessions of non-management directors, or regular executive sessions of independent directors only. NYSE Standards also require that, if a U.S. domestic issuer chooses to hold regular meetings of all non-management directors, it should hold an executive session at least once a year to be attended by only independent directors. We are not subject to such requirements and our independent directors attend all board meetings where possible. We also schedule meetings between our chairman and our independent non-executive directors.

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

2. Audit Committee

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

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

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

3. Remuneration Committee

NYSE Standards require U.S. domestic issuers to have a compensation committee composed entirely of independent directors. We are not subject to such requirement and have a remuneration committee that consists of two independent non-executive directors and one non-executive director. NYSE Standards also require the board of directors of U.S. domestic issuers to consider additional factors in evaluating the independence of compensation committee members, including the source of compensation of the director, including any consulting, advisory or other compensatory fee paid by the issuer to such director and whether such director is affiliated with the issuer, a subsidiary of the issuer or an affiliate of a subsidiary of the issuer. We are not subject to such requirement and we have not considered such additional factors in evaluating the independence of compensation committee members.

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

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

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

4. Nomination Committee

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

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

5. Corporate Governance Guidelines

NYSE Standards require U.S. domestic issuers to adopt and disclose corporate governance guidelines. They must state in their annual proxy statements or annual reports that such corporate governance guidelines are available on their websites and provide the website addresses. We are not subject to such requirement. We have adopted a set of corporate governance guidelines in accordance with the Hong Kong Stock Exchange Listing Rules, including the CNOOC Limited Code of Ethics for Directors and Senior Officers (the "Code of Ethics"), to govern various aspects of our corporate governance. We have posted the Code of Ethics on our website, www.cnoocld.com. See "Item 16B—Code of Ethics."

D. EMPLOYEES

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

E. SHARE OWNERSHIP

As of March 31, 2015, our directors and employees had the following personal interests in options to subscribe for shares granted under our share option schemes:

Name of Grantee	Number of shares involved in the options outstanding as of January 1, 2014	Number of shares involved in the options outstanding as of March 31, 2015	Date of Grant	Date of Expiration⁽¹⁾	Closing price per share immediately before the date of grant (HK\$)	Exercise Price (HK\$)
Executive Directors:						
Guangqi Wu	1,610,000	1,610,000	August 31, 2005	August 31, 2015	5.75	5.62
	1,770,000	1,770,000	June 14, 2006	June 14, 2016	5.30	5.56
	1,857,000	1,857,000	May 25, 2007	May 25, 2017	7.43	7.29
	1,857,000	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
Non-executive Directors:						
Hua Yang	1,150,000	—	February 5, 2004	February 5, 2014	3.13	3.152
	1,610,000	1,610,000	August 31, 2005	August 31, 2015	5.75	5.62
	1,770,000	1,770,000	June 14, 2006	June 14, 2016	5.30	5.56
	1,857,000	1,857,000	May 25, 2007	May 25, 2017	7.43	7.29
	1,857,000	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	
Other Employees In Aggregate:						
	19,399,934	—	February 5, 2004	February 5, 2014	3.13	3.152
	29,290,000	24,850,000	August 31, 2005	August 31, 2015	5.75	5.62
	43,030,000	34,940,000	June 14, 2006	June 14, 2016	5.30	5.56
	50,116,000	40,576,000	May 25, 2007	May 25, 2017	7.43	7.29
	59,739,000	49,875,000	May 29, 2008	May 29, 2018	14.20	14.828
	72,528,000	62,865,000	May 27, 2009	May 27, 2019	9.33	9.93
	85,189,000	75,341,000	May 20, 2010	May 20, 2020	12.22	12.696
Total	383,178,934	311,184,000				

- (1) 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.
- (2) Shouwei Zhou and Zhenfang Wu retired as non-executive director of the Company with effect from January 1, 2014. Information on Mr. Zhou and Mr. Wu's share options outstanding at the beginning of the period are included in the category of "Other employees".

Sung Hong Chiu exercised his right to subscribe for 1,150,000 shares of option granted under the 2002 Share Option Scheme of the Company on July 19, 2013 and the allotment was completed on July 26, 2014. As of December 31, 2014, Sung Hong Chiu beneficially owned 0.003% of our total shares. For the year ended December 31, 2014, no share options granted under our share option schemes were exercised. For the period from January 1, 2014 to March 31, 2015, no share options were exercised.

As of December 31, 2014, we had 311,184,000 share options outstanding under our share option schemes, which represented approximately 0.7% of our shares in issue as of that date.

For further details about our share option schemes, see notes 10 and 29 to our consolidated financial statements included elsewhere in this annual report.

As of March 31, 2015, 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, 2015.

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, 2015, 9,634,147 ADSs, representing approximately 2.2% 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 54.

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 and borrowings.

These transactions are conducted in the ordinary course of business.

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 and/or our 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 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 term of the comprehensive framework agreement is for a period of three years from January 1, 2014. The continuing connected transactions and relevant annual caps 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

[Table of Contents](#)

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

Pricing principles

The continuing connected transactions 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 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, based on 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 cost 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.

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

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

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

[Table of Contents](#)

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

Under the Hong Kong Stock Exchange Listing Rules, the following categories of continuing connected transactions, or the non-exempt continuing connected transactions, are subject to the connected transaction requirements:

- (a) Provision of exploration and support services;
- (b) Provision of oil and gas development and support services;
- (c) Provision of oil and gas production and support services;
- (d) Sales of petroleum and natural gas products (other than long-term sales of natural gas and liquefied natural gas); and
- (e) Long term sales of natural gas and liquefied natural gas.

We obtained independent shareholders' approval at the extraordinary general meetings held on 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:

Category of Continuing Connected Transactions

Relevant Annual Caps

Provision of exploration, oil and gas development, oil and gas production as well as marketing, management and ancillary services by CNOOC and/or its associates to us

(a) Provision of exploration and support services	For the three years ending December 31, 2016, Rmb 15,000 million, Rmb 16,100 million and Rmb 17,200 million, respectively
(b) Provision of oil and gas development 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
(c) Provision of oil and gas production 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
(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
(e) FPSO vessel leases	For the three years ending December 31, 2016, Rmb 1,450 million, 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

Provision of management, technical, facilities and ancillary services, including the supply of materials to CNOOC and/or its associates	For the three years ending December 31, 2016, Rmb 100 million, Rmb 100 million and Rmb 100 million, respectively
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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)	For the three years ending December 31, 2016, Rmb 346,700 million, Rmb 438,600 million and Rmb 504,400 million, respectively
(b) Long-term sales of natural gas and liquefied natural gas	For the three years ending December 31, 2016, Rmb 30,700 million, Rmb 38,900 million and Rmb 44,700 million, respectively

A detailed discussion of significant connected transactions entered into in the ordinary course of business between us and our related parties during 2014 and the balances arising from connected transactions at the end of 2014 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, 2014 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
- (iii) in accordance with the relevant agreements (including pricing principles and guidelines set out therein) governing the transactions on terms that were fair and reasonable and in the interests of our company and shareholders as a whole.

We confirmed that the annual amount of each category of the non-exempt continuing connected transactions for the year ended December 31, 2014 did not exceed the applicable annual caps; and we have complied with other relevant provisions of the Hong Kong Stock Exchange Listing Rules in relation to each category of the non-exempt continuing connected transactions.

Transactions with CNOOC Finance Corporation Limited

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

As the financial services framework agreement (as renewed on August 20, 2010) entered into by us and CNOOC Finance Corporation Limited expired on December 31, 2013, we entered into a new renewal agreement with CNOOC Finance Corporation Limited 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 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) we placed with CNOOC Finance Corporation Limited did not exceed Rmb 22 billion from January 1, 2014 to December 31, 2014.

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

On August 3, 2012, CNOOC China Limited, our wholly-owned subsidiary, entered into the Coalbed Methane Resources Exploration and Development Cooperation Agreement (“Cooperation Agreement”) with China United Coalbed Methane Corporation Limited (“CUCBM”) in connection with the exploration, development, production and sale of Coalbed Methane (“CBM”) and CBM products within the contract areas (as defined in the Cooperation Agreement). The term of the Cooperation Agreement commences on the effective date and expires on the later of (i) 30 years from the effective date of the Cooperation Agreement, and (ii) the end of the production period of the last CBM field (as defined in the Cooperation Agreement) in the contract areas, unless otherwise agreed by CNOOC China Limited and CUCBM. The Cooperation Agreement and the transactions contemplated thereunder were approved by our independent shareholders on August 21, 2012. As at the date of the Cooperation Agreement, CNOOC China Limited expected to incur total expenses of Rmb 9,933.3 million (being (1) Rmb 9,713.3 million for the initial three years of the five years exploration period, plus (2) the minimum exploration costs of Rmb 220 million as required under the applicable PRC laws and regulations for the remaining two years of the exploration period). CUCBM is a connected person of us, hence the Cooperation Agreement constitutes a connected transaction of us under the Hong Kong Stock Exchange Listing Rules.

As CUCBM is unable to fulfill its obligations under the Cooperation Agreement in respect of four CBM blocks (the “Relevant Blocks”) which formed part of the contract areas (as defined in the Cooperation Agreement), CNOOC China Limited and CUCBM entered into a supplemental agreement on October 10, 2013, pursuant to which (i) the Relevant Blocks were excluded from the contract areas; and (ii) CUCBM would indemnify in full CNOOC China Limited against any related loss, the amount of which would be determined by a third party appraising firm appointed by both parties. CNOOC China Limited and CUCBM have reached an agreement on the compensation for the losses of CNOOC China Limited related to such Relevant Blocks. As the Relevant Blocks were still at preliminary exploration stage, no revenue was generated and it is expected that the exclusion of the Relevant Blocks from the contract areas will not materially affect the expected profit in relation to the Cooperation Agreement.

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, 2015, 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, 2015, 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

Except for the Complaint disclosed in the section entitled “Contingencies” under item 8 of this annual report and in note 33(iii)(b) on page 68 to our consolidated financial statement entitled “Commitments and Contingencies” included elsewhere in this annual report, as at December 31, 2014, the Company was not involved in any material litigation or arbitration and no material litigation or arbitration were pending or threatened or made against the Company so far as the Company is aware.

Dividend Distribution Policy

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

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

Holders of our ADSs will be entitled to receive dividends, subject to the terms of the deposit agreement, to the same extent as holders of our shares, less the fees and expenses payable under the deposit agreement and withholding taxes of 10%. Cash dividends will be paid to the depository in Hong Kong dollars and will be converted by the depository into U.S. dollars and paid to holders of ADSs. Stock dividends, if any, will be distributed to the depository and will be distributed by the depository, in the form of additional ADSs, to holders of the ADSs.

In 2012, we declared and paid dividends totaling Rmb 15,635 million. In 2013, we declared and paid dividends totaling Rmb 20,226 million. In 2014, we declared and paid dividends totaling Rmb 20,216 million (US\$3,258 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 691.7 million (US\$111.5 million) in 2014, which was Rmb 645.0 million in 2013. None of the contributions of CNOOC China Limited to these statutory funds may be used for dividend purposes.

For the years ended December 31, 2012, 2013 and 2014, CNOOC China Limited made the following appropriations to the statutory reserves:

	For the year ended December 31, 2012		For the year ended December 31, 2013		For the year ended December 31, 2014	
	Percentage of Net Profits	Rmb (in millions)	Percentage of Net Profits	Rmb (in millions)	Percentage of Net Profits	Rmb (in millions)
Reserve fund	—	—	0.0%	—	—	—
Staff and workers' bonus and welfare fund	—	—	0.0%	—	0.2%	102
Safety fund	1.0%	605.8	1.1%	645.0	1.1%	692

Contingencies

- (a) With respect to Penglai 19-3 Oilfield Oil Spill Accidents (please refer to the Annual Reports and/or Interim Reports of the Company issued in or after 2012 for the background information), the Company is of the view that the Company's obligations, if any, arising from the above mentioned accidents shall be determined in accordance with relevant laws and regulations, the production sharing contract (the "PSC") and related agreements, among others. Based on evaluations performed as of the date of the 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 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) On 11 October 2012, the Company was served with a purported class action complaint filed by Sam Sinay, individually and on behalf of all others similarly situated (the "Plaintiff") in the United States District Court for the Southern District of New York (the "Trial Court") (the foregoing legal action is therein below referred as the "Complaint"). The Complaint was lodged against the Company and certain of its officers, which alleged that during the period between 27 January 2011 and 16 September 2011, the Company made materially false and misleading statements regarding its business and financial results and the oil spill accidents occurred at the Penglai 19-3 oilfield.
- On 21 December 2012, the Company filed a motion to dismiss the Complaint in the Trial Court.
- On 4 April 2013, the judge of the Trial Court approved the Plaintiff's voluntarily dismissal, without prejudice, to its claims against the officers of the Company.
- On 6 May 2013, the judge of the Trial Court granted the Company's motion to dismiss in the entirety with prejudice. On 5 June 2013, the Plaintiff (i.e. the Appellant) appealed to the United States Court of Appeals for the Second Circuit (the "Court of Appeals"). On 3 February 2014, the Court of Appeals issued a summary order which found the Appellant's argument without merit and affirmed the Trial Court's judgment. After the issuance of the summary order, the Appellant was able to appeal to the Supreme Court of the United States within 90 days (namely, on or before 5 May 2014, New York time) (the "Appeal Period"). The Appellant did not appeal within the Appeal Period. In accordance with the laws of the United States, all the claims brought by the Appellant at the Trial Court and the Court of Appeals are dismissed in their entirety.
- (c) 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.

We are 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 our 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 interim condensed consolidated financial statements based on available information.

In addition to the matters mentioned above, we are 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 38 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 (HK\$ per share)	Low	High (US\$ per ADS)	Low	High (Cdn\$ per ADS)	Low
2010	18.48	11.02	238.80	139.83	-	-
2011	20.85	11.34	270.64	145.32	-	-
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
2013 Financial Quarter						
1 st Quarter	17.34	14.28	226.60	182.62	-	-
2 nd Quarter	15.08	12.28	193.68	159.19	-	-
3 rd Quarter	16.28	12.54	211.20	163.66	-	-
4 th Quarter	16.10	14.14	208.98	183.17	217.78	196.50
2014 Financial Quarter						
1 st Quarter	14.38	11.54	182.92	147.88	196.00	164.00
2 nd Quarter	14.12	11.68	182.14	151.72	197.05	166.50
3 rd Quarter	15.68	13.32	201.50	172.53	219.15	190.00
4 th Quarter	13.52	9.80	173.82	126.70	202.00	151.57
2015 Financial Quarter						
1 st Quarter	11.38	10.18	145.82	129.73	181.30	160.50
Last Six Months						
October 2014	13.52	12.00	173.82	153.78	202.00	173.03
November 2014	12.26	11.26	157.57	143.93	176.12	166.22
December 2014	10.98	9.8	140.97	126.70	166.22	151.57
January 2015	10.68	10.18	138.87	129.73	171.19	156.00
February 2015	11.38	10.28	145.82	136.22	181.30	169.14
March 2015	11.18	10.22	142.96	131.28	180.55	167.50

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 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 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.

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;
- 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—Risks Relating to the PRC—Government control of currency conversion and future movements in exchange rates may adversely affect our operations and financial condition" and "Item 11—Qualitative and Quantitative Disclosure about Market Risk."

E. TAXATION

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

The PRC

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

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

We are considered a PRC resident enterprise for purposes of the Notice. In accordance with the Notice and the PRC income tax law as well as the formal approval from the SAT in October 2010, we are regarded as a CRE pursuant to the provisions of the New EIT Law and the Notice. Accordingly, we are required to withhold 10% corporate income tax when we make dividend distributions to the ADS depositary 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 depositary shares are not subject to tax on capital gains. In accordance with the New EIT Law, capital gains realized by foreign enterprises which are non-resident enterprises in China upon the sale of overseas-listed shares or American depositary shares are generally subject to a PRC enterprise income tax levied at a rate of 10%, unless exempted or reduced pursuant to an applicable double-taxation treaty or other exemption.

Hong Kong

Tax on Dividends

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

Profits Tax

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

Stamp Duty

Hong Kong stamp duty, currently charged at the rate of HK\$1.00 per HK\$1,000 or part thereof on the higher of the consideration for, or the value of, the shares, will be payable by the purchaser on every purchase and by the seller on every sale of shares. A total of HK\$2.00 per HK\$1,000 or part thereof is currently payable on a typical sale and purchase transaction involving shares. In addition, a fixed duty of HK\$5.00 is currently payable on any instrument of transfer of shares. The withdrawal of shares upon the surrender of ADSs, and the issuance of ADSs upon the deposit of shares, will also attract stamp duty at the rate described above for sale and purchase transactions unless the withdrawal or deposit does not result in a change in the beneficial ownership of the shares under Hong Kong law. The issuance of the ADSs upon the deposit of shares issued directly to the depository or for the account of the depository does not incur stamp duty if it does not involve a change of beneficial ownership in the shares. No Hong Kong stamp duty is payable upon the transfer of ADSs outside Hong Kong.

U.S. Federal Income Tax Considerations

The following is a discussion of material U.S. federal income tax consequences of owning and disposing of ADSs or shares by the U.S. Holders described below, but it does not purport to be a comprehensive description of all the tax considerations that may be relevant to a particular person's decision to own such ADSs or shares. This discussion does not address the potential application of the Medicare contribution tax to "net investment income" of non-corporate U.S. Holders. In addition, this discussion does not address U.S. state, local and non-U.S. tax consequences. The discussion applies only to U.S. Holders who hold ADSs or shares as capital assets for U.S. federal income tax purposes and does not address all of the U.S. federal income tax consequences that may be relevant to U.S. Holders that are subject to special rules, such as:

- certain financial institutions;
- dealers or traders in securities who use a mark-to-market method of tax accounting;
- 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, including "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 or any political subdivision thereof; or (iii) an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

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

The U.S. Treasury has expressed concerns that parties to whom American depository shares are released before delivery of shares to the depository (a pre-release), or intermediaries in the chain of ownership between holders and the issuer of the securities underlying the American depository shares, may be taking actions that are inconsistent with the claiming of foreign tax credits by holders of American depository shares. Such actions would also be inconsistent with the claiming of the 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, 2014, as described below, and that we will not become a PFIC.

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 may 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). Any gain or loss will generally be U.S.-source gain or loss for foreign tax credit purposes.

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

Passive Foreign Investment Company Considerations

We believe that we were not a PFIC for U.S. federal income tax purposes for our taxable year ended December 31, 2014. In general, a non-U.S. company will be considered a PFIC for U.S. federal income tax purposes for any taxable year in which (i) 75% or more of its gross income consists of passive income 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 considered a PFIC for any taxable year.

If we were to be treated as a PFIC for any taxable year during which a U.S. Holder held ADSs or shares, certain adverse U.S. federal income tax rules would apply on a disposition (including 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.

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. On July 21, 2005, China reformed its exchange rate regime by adopting a managed floating exchange rate approach based on market supply and demand and with reference to a basket of currencies. Renminbi was no longer pegged to U.S. dollars. From January 1, 2014 to March 31, 2015, Renminbi depreciated approximately 0.7% 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, 2014. Based on our management's assessment, a 5% change in the foreign exchange rate of the US dollars at December 31, 2014 would have impacted our profit for the year by 0.06%. 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:

- 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, 2014, the interest rates for 79.2% of our outstanding debts were fixed. The term of the weighted average balance was approximately 9.5 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, 2014, the interest rates for 99.0% 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, 2014.

	2015	2016	2017	2018	2019	2020 and after	Total	Fair value as of December 31, 2014
(Rmb in millions, except percentages)								
Long-term loans, including current portion								
Floating rate	161.8	179.3	192.4	201.1	201.1	275.5	1,211.3	1,212.1
Interest rate	Libor + 0.23%~0.38%	Libor + 0.23%~0.38%	Libor + 0.23%~0.38%	Libor + 0.23%~0.38%	Libor + 0.23%~0.38%	Libor + 0.23%~0.38%		
Long-term guaranteed notes, including current portion								
Fixed rate	780.8	4,653.5	8,142.0	4,653.5	1,861.4	80,597.8	100,688.8	109,618.1
Average interest rate	4.29%	4.38%	4.60%	4.79%	4.84%	4.82%		

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

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. DEBT SECURITIES

Not applicable.

B. WARRANTS AND RIGHTS

Not applicable.

C. OTHER SECURITIES

Not applicable.

D. AMERICAN DEPOSITARY SHARES

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 against deposits of shares, including deposits in respect of share distributions, rights and other distributions, and each person surrendering ADRs for withdrawal of deposited securities (including, without limitation, on the termination of the deposit agreement), US\$5.00 for each 100 ADSs (or portion thereof) evidenced by the ADRs delivered or surrendered.

The charges of the Depositary payable by investors are as follows:

Category (as defined by SEC)	Depositary Actions	Associated Fee
(a) Depositing or substituting the underlying shares	Each person to whom ADRs are issued against deposits of Shares, including deposits and issuances in respect of: <ul style="list-style-type: none"> Share distributions, stock split, rights, merger Exchange of securities or any other transaction or event or other distribution affecting the ADSs or the Deposited Securities 	US\$5.00 for each 100 ADSs (or portion thereof) evidenced by the new ADRs delivered
(b) Withdrawing an underlying security	Acceptance of ADRs surrendered for withdrawal of deposited securities	US\$5.00 for each 100 ADSs (or portion thereof) evidenced by the ADRs surrendered

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\$689,360 for the year ended December 31, 2014.

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, 2014 that were reimbursed:

Category of Expenses	Amount Reimbursed for Fiscal Year Ended December 31, 2014 (US\$)⁽³⁾
Investor relations ⁽¹⁾	150,921
Broker reimbursements ⁽²⁾	346,438
NYSE annual listing fees	42,000
Total	539,359

(1) Includes investor relation service fees and investor relations expenses for road show in 2014.

(2) 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, 2014:

Category of Expenses	Amount Reimbursed for Fiscal Year Ended December 31, 2014 (US\$)
Fees waived	150,000

PART II**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None.

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

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

None.

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

None.

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

Not applicable.

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, 2014, 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, 2014, 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, 2014 using the criteria set forth in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, our management has concluded that our internal control over financial reporting as of December 31, 2014 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, 2014 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 to provide guidelines to our senior management and directors in legal and ethical matters as well as the sensitivities involved in reporting illegal and unethical matters. Such Code of Ethics covers such areas as supervisory rules, insider dealing, market malpractices, conflict of interests, company opportunities, protection and proper use of our assets as well as reporting requirements. As part of the continued efforts to improve our corporate governance standards, our Board conducted an annual review of the Code of Ethics since 2009, and the current version of the Code of Ethics was reviewed and adopted in August 2014.

We have provided all our directors and senior officers with a copy of the Code of Ethics and require them to comply with it in order to ensure our operations are proper and lawful. We will take disciplinary actions against any act which is in breach of the Code of Ethics. Any change or waiver, explicit or implicit, with respect to our Code of Ethics, must be disclosed to our shareholders either in our annual report or on our internet website, www.cnooc.com.

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 or services that are normally provided by the accountants in connection with statutory and regulatory filings or engagements were Rmb 41.7 million for 2013 and Rmb 46.7 million (US\$7.5 million) for 2014.

Audit-Related Fees

The aggregate fees billed for 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 7.2 million for 2013 and Rmb 8.7 million (US\$1.4 million) for 2014.

Tax Fees

The aggregate fees billed for professional service rendered by the principal accountant for tax compliance, tax advice and tax planning were approximately Rmb1.6 million for 2013 and Rmb 2.1 million (US\$0.3 million) for 2014.

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 Rmb7.8 million for 2013 and Rmb 7.0 million (US\$1.1 million) for 2014.

The aggregate fees billed for products and services provided by our principal accountant, other than the services reported above, were nil for fiscal years 2013 and 2014.

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 2014, 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

On March 22, 2013, our Board resolved, as recommended by our audit committee, to propose change in our independent registered public accounting firm, Ernst & Young, after the completion of the audit of the consolidated financial statements for the year ended December 31, 2012, with effect from the conclusion of our 2012 annual general meeting held on May 24, 2013, due to the requirements of the Ministry of Finance of the PRC and the State-owned Assets Supervision and Administration Commission of the State Council of the PRC in respect of the term of office of the auditors. As a result, Ernst & Young did not offer themselves for re-appointment at our 2012 annual general meeting on May 24, 2013.

The report of Ernst & Young on our consolidated financial statements for the fiscal year ended December 31, 2012 did not contain any adverse opinion or a disclaimer of opinion, nor was such report qualified or modified as to uncertainty, audit scope, or accounting principles.

During the fiscal year ended December 31, 2012 and through May 24, 2013, there were no disagreements with Ernst & Young on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Ernst & Young, would have caused it to make reference to the subject matter of the disagreements in their report on the consolidated financial statements for such years.

During the fiscal year ended December 31, 2012 and through May 24, 2013, there were no "reportable events" (hereinafter defined) requiring disclosure pursuant to Item 16F(a)(1)(v) of Form 20-F. As used herein, the term "reportable event" means any of the items listed in paragraphs (a)(1)(v)(A)-(D) of Item 16F of Form 20-F.

We provided a copy of this disclosure to Ernst & Young and requested that Ernst & Young furnish a letter addressed to the SEC stating whether it agrees with the above statements, and if not, stating the respects in which they do not agree. A copy of the letter from Ernst & Young addressed to the SEC, dated April 17, 2014, was filed as Exhibit 15.7 to the Form 20-F for the year ended December 31, 2013 which we filed with the SEC on April 17, 2014.

On March 22, 2013, our Board resolved, as recommended by our audit committee, to propose to appoint Deloitte Touche Tohmatsu, or Deloitte, as our independent registered public accounting firm, which was approved by our shareholders at our 2012 annual general meeting held on May 24, 2013. As a result, Deloitte Touche Tohmatsu was appointed as our independent registered public accounting firm as of May 24, 2013. During the two most recent fiscal years and through May 24, 2013, neither we nor anyone on our behalf consulted Deloitte regarding either (i) the application of accounting principles to a specified transaction, either completed or proposed; or the type of audit opinion that might be rendered on our consolidated financial statements, and neither a written report nor oral advice was provided to us that Deloitte concluded was an important factor considered by us in reaching a decision as to the accounting, auditing or financial reporting issue, or (ii) any matter that was either the subject of a “disagreement”, as defined in Item 16F(a)(1)(iv) of Form 20-F and related instructions to Item 16-F of Form 20-F, with Deloitte or a “reportable event” as described in Item 16F(a)(1)(v) of Form 20-F.

ITEM 16G. CORPORATE GOVERNANCE

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

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

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

ITEM 19. EXHIBITS

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

Exhibit Number	Document
1.1	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).
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)
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).

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

[Table of Contents](#)

- 4.3 The Reorganization Agreement dated September 13, 1999 between CNOOC, Offshore Oil Company Limited and CNOOC Limited, incorporated by reference to Exhibit 10.3 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.4 Form of the Equity Transfer Agreement between CNOOC and CNOOC Limited, incorporated by reference to Exhibit 10.4 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.5 Form of the Transfer Agreement dated October 1, 1999 between CNOOC and Offshore Oil Company Limited regarding the transfer of the rights and obligations of CNOOC under the 37 PSCs and one geophysical exploration agreement, incorporated by reference to Exhibit 10.5 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.6 Form of Equity Transfer Agreement between China Offshore Oil East China Sea Corporation and Offshore Oil Company Limited regarding the transfer of the rights and obligations under Joint Venture Contract of Shanghai Petroleum and Natural Gas Company Limited dated July 28, 1992 to Offshore Oil Company Limited, incorporated by reference to Exhibit 10.6 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.7 Transfer Agreement dated September 9, 1999 between CNOOC and Offshore Oil Company Limited regarding the transfer of the rights and obligations of CNOOC under the Natural Gas Sale and Purchase Contract dated December 22, 1992 to Offshore Oil Company Limited, incorporated by reference to Exhibit 10.7 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.8 Transfer Agreement dated September 9, 1999 between CNOOC and Offshore Oil Company Limited regarding the transfer of the rights and obligations of CNOOC under the Natural Gas Sale and Purchase Contract dated November 7, 1992 to Offshore Oil Company Limited, incorporated by reference to Exhibit 10.8 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.9 Transfer Agreement dated September 9, 1999 among CNOOC, Offshore Oil Company Limited, the four PRC subsidiaries and CNOOC's affiliates regarding the transfer of the rights and obligations of the technical services agreements to Offshore Oil Company Limited, incorporated by reference to Exhibit 10.9 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.10 Nanshan Terminal Leasing Agreement dated September 9, 1999 between CNOOC, Hainan China Oil and Offshore Natural Gas Company and Offshore Oil Company Limited, incorporated by reference to Exhibit 10.10 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 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).

[Table of Contents](#)

- 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).
- 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).

[Table of Contents](#)

- 4.24 Form of the Undertaking Agreement between CNOOC and CNOOC Limited, incorporated by reference to Exhibit 10.27 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.25 Form of Pre-Global Offering Share Option Scheme for the Senior Management of CNOOC Limited, incorporated by reference to Exhibit 10.31 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.26 Form of Share Option Scheme for the Senior Management of CNOOC Limited, incorporated by reference to Exhibit 10.32 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.27 CNOOC Limited Share Option Scheme adopted on December 31, 2005, incorporated by reference to Exhibit 4.37 to our Annual Report on Form 20-F for fiscal year 2005 filed with the Securities and Exchange Commission (File Number: 1-14966).
- 4.28 Subscription Agreement dated March 17, 2000 among CNOOC Limited, CNOOC (BVI) Limited, Overseas Oil & Gas Corporation, Ltd., et al., incorporated by reference to Exhibit 10.33 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.29 Subscription Agreement dated May 31, 2000 among CNOOC Limited, CNOOC (BVI) Limited, Overseas Oil & Gas Corporation, Ltd. and Hutchison International Limited, incorporated by reference to Exhibit 10.34 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 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).

[Table of Contents](#)

4.37	Framework Agreement dated December 8, 2005 with Offshore Oil Engineering Co., Ltd. (Summary Translation), incorporated by reference to Exhibit 4.47 to our Annual Report on Form 20-F for fiscal year 2005 filed with the Securities and Exchange Commission (File number: 1-14966).
4.38	Sale and Purchase Agreement, dated January 8, 2006 between CNOOC Exploration & Production Limited and South Atlantic Petroleum Limited (certain statements, marked with an asterisk in brackets [*], have been omitted from this agreement pursuant to a request for confidential treatment pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended, and the omitted materials have been filed separately in paper form with the Securities and Exchange Commission), incorporated by reference to Exhibit 4.49 to our Annual Report on Form 20-F for fiscal year 2005 filed with the Securities and Exchange Commission (File number: 1-14966).
4.39	Framework Agreement dated November 8, 2007 with China BlueChemical Ltd. (Summary Translation), incorporated by reference to Exhibit 4.37 to our Annual Report on Form 20-F for fiscal year 2007 filed with the Securities and Exchange Commission (File number: 1-14966).
4.40	Framework Agreement dated November 8, 2007 with CNOOC (Summary Translation), incorporated by reference to Exhibit 4.38 to our Annual Report on Form 20-F for fiscal year 2007 filed with the Securities and Exchange Commission (File number: 1-14966).
4.41	Framework Agreement dated November 8, 2007 with China Oilfield Services Limited (Summary Translation), incorporated by reference to Exhibit 4.39 to our Annual Report on Form 20-F for fiscal year 2007 filed with the Securities and Exchange Commission (File number: 1-14966).
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).
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 2014.
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	2014 Reserves Reports of Ryder Scott Company, L.P.
15.2	2014 Reserves Reports of Gaffney, Cline & Associates (Consultants) Pte Ltd.

[Table of Contents](#)

15.3	2014 Reserves Report of RPS.
15.4	2014 Reserves Audit Reports of Ryder Scott Company, L.P.
15.5	2014 Reserves Audit Report of McDaniel & Associates Consultants Ltd.
15.6	2014 Reserves Audit Report of DeGolyer and MacNaughton.
15.7	Letter from Ernst & Young (incorporated by reference to Exhibit 15.7 of our Annual Report on Form 20-F (file No. 001-14966) filed with the Securities and Exchange Commission on April 17, 2014).
15.8	Consent from Ernst & Young.
15.9	Consent from Deloitte Touche Tohmatsu
15.10	Consent from Ryder Scott Company, L.P.
15.11	Consent from Gaffney, Cline & Associates (Consultants) Pte Ltd.
15.12	Consent from RPS.
15.13	Consent from McDaniel & Associates Consultants Ltd.
15.14	Consent from DeGolyer and MacNaughton.

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/ Hua Zhong
Name: Hua Zhong
Title: Joint Company Secretary

Date: April 22, 2015

CNOOC LIMITED

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 AND 2014
TOGETHER WITH REPORT OF INDEPENDENT PUBLIC ACCOUNTING FIRM

INDEX TO FINANCIAL STATEMENTS

	Page
CNOOC LIMITED	
Report of independent registered public accounting firm on financial statements for the year ended December 31, 2013 and 2014	F-3
Report of independent registered public accounting firm on internal control over financial reporting as of December 31, 2014	F-4
Report of independent registered public accounting firm on financial statements for the year ended December 31, 2012	F-5
Consolidated statements of profit or loss and other comprehensive income for the years ended December 31, 2012, 2013 and 2014	F-6
Consolidated statements of financial position as of December 31, 2013 and 2014	F-7
Consolidated statements of changes in equity for the years ended December 31, 2012, 2013 and 2014	F-8
Consolidated statements of cash flows for the years ended December 31, 2012, 2013 and 2014	F-10
Notes to the consolidated financial statements	F-11

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, 2014 and 2013, 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 two years in the period ended December 31, 2014. 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, 2014 and 2013, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2014 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, 2014, 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 27, 2015 expressed an unqualified opinion on the Group's internal control over financial reporting.

/s/ Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

March 27, 2015

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, 2014, 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, 2014, 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, 2014 of the Group and our report dated March 27, 2015 expressed an unqualified opinion on those financial statements.

/s/ Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
March 27, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows of CNOOC Limited and its subsidiaries (the "Group") for the year ended December 31, 2012.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance 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, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) and Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated results of operations and cash flows of the Group for the year ended December 31, 2012, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board and Hong Kong Financial Reporting Standards as issued by the Hong Kong Institute of Certified Public Accountants.

/s/ Ernst & Young
Certified Public Accountants

Ernst & Young
Hong Kong
March 22, 2013

CNOOC LIMITED
CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 AND 2014
(All amounts expressed in millions of Renminbi/US\$, except per share data)

	Notes	2012 RMB million	2013 RMB million	2014 RMB million	2014 US\$ million
REVENUE					
Oil and gas sales	6	194,774	226,445	218,210	35,169
Marketing revenues	34	50,771	55,495	50,263	8,101
Other income		2,082	3,917	6,161	993
		<u>247,627</u>	<u>285,857</u>	<u>274,634</u>	<u>44,263</u>
EXPENSES					
Operating expenses		(21,445)	(30,014)	(31,180)	(5,025)
Taxes other than income tax	12 (ii)	(15,632)	(15,937)	(11,842)	(1,909)
Exploration expenses		(9,043)	(17,120)	(11,525)	(1,857)
Depreciation, depletion and amortization	8	(32,903)	(56,456)	(58,286)	(9,394)
Special oil gain levy	7	(26,293)	(23,421)	(19,072)	(3,074)
Impairment and provision	15	(31)	45	(4,120)	(664)
Crude oil and product purchases		(50,532)	(53,386)	(47,912)	(7,722)
Selling and administrative expenses		(3,377)	(7,859)	(6,613)	(1,066)
Others		(1,230)	(3,206)	(3,169)	(511)
		<u>(160,486)</u>	<u>(207,354)</u>	<u>(193,719)</u>	<u>(31,222)</u>
PROFIT FROM OPERATING ACTIVITIES					
		87,141	78,503	80,915	13,041
Interest income	8	1,002	1,092	1,073	173
Finance costs	9	(1,603)	(3,457)	(4,774)	(769)
Exchange gains, net		359	873	1,049	169
Investment income	8	2,392	2,611	2,684	433
Share of profits of associates		284	133	232	37
Share of (loss)/profit of a joint venture		(311)	762	774	125
Non-operating income, net		908	334	560	90
PROFIT BEFORE TAX					
	8	90,172	80,851	82,513	13,299
Income tax expense	12(i)	(26,481)	(24,390)	(22,314)	(3,596)
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT					
		<u>63,691</u>	<u>56,461</u>	<u>60,199</u>	<u>9,703</u>
OTHER COMPREHENSIVE (LOSS)/INCOME					
Items that may be subsequently reclassified to profit or loss:					
Net loss on available-for-sale financial assets, net of tax	19	(1,128)	(626)	(2,301)	(371)
Exchange differences on translation of foreign operations		(42)	(4,143)	454	73
Share of other comprehensive income/(loss) of associates		21	(29)	92	15
Other items that will not be reclassified to profit or loss		-	393	(268)	(43)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX					
		<u>(1,149)</u>	<u>(4,405)</u>	<u>(2,023)</u>	<u>(326)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT					
		<u>62,542</u>	<u>52,056</u>	<u>58,176</u>	<u>9,377</u>
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT					
Basic (RMB Yuan)	14	1.43	1.26	1.35	US\$0.22
Diluted (RMB Yuan)	14	1.42	1.26	1.35	US\$0.22

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

CNOOC LIMITED
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2013 AND 2014
(All amounts expressed in millions of Renminbi/US\$)

	Notes	2013 RMB million	2014 RMB million	2014 US\$ million
NON-CURRENT ASSETS				
Property, plant and equipment	15	419,102	463,222	74,658
Intangible assets	16	17,000	16,491	2,658
Investments in associates	17	4,094	4,100	661
Investment in a joint venture	18	20,303	21,150	3,409
Available-for-sale financial assets	19, 34	6,798	5,337	860
Deferred tax assets	12(i)	2,729	5,877	947
Other non-current assets	20	4,895	5,974	962
Total non-current assets		474,921	522,151	84,155
CURRENT ASSETS				
Inventories and supplies	21	9,153	10,608	1,710
Trade receivables	22	17,593	19,343	3,118
Due from related companies		17,516	10,557	1,701
Derivative financial assets	34	329	303	49
Available-for-sale financial assets	19, 34	51,103	54,030	8,708
Other current assets		10,322	8,114	1,308
Time deposits with maturity over three months	23	26,218	22,835	3,680
Cash and cash equivalents	23	14,318	14,918	2,404
Total current assets		146,552	140,708	22,678
CURRENT LIABILITIES				
Loans and borrowings	26	49,841	26,936	4,341
Borrowings from the parent company	30	-	4,244	684
Trade and accrued payables	24	30,468	31,028	5,001
Due to the parent company		622	240	39
Due to related companies		18,090	21,164	3,411
Derivative financial liabilities	34	220	316	51
Other payables and accrued liabilities	25	16,292	11,259	1,815
Taxes payable		13,415	8,311	1,339
Total current liabilities		128,948	103,498	16,681
NET CURRENT ASSETS		17,604	37,210	5,997
TOTAL ASSETS LESS CURRENT LIABILITIES		492,525	559,361	90,152
NON-CURRENT LIABILITIES				
Loans and borrowings	26	82,011	105,383	16,985
Provision for dismantlement	27	41,146	52,433	8,451
Deferred tax liabilities	12(i)	25,362	20,189	3,254
Other non-current liabilities		2,386	1,746	280
Total non-current liabilities		150,905	179,751	28,970
Net assets		341,620	379,610	61,182
EQUITY				
Equity attributable to owners of the parent				
Issued capital	28	949	43,081	6,943
Reserves	29	340,671	336,529	54,239
Total equity		341,620	379,610	61,182

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

CNOOC LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 AND 2014
(All amounts expressed in millions of Renminbi)

Attributable to owners of the parent								
	Issued capital	Share premium and capital redemption reserve	Cumulative translation reserve	Statutory and non- distributable reserves	Other reserves	Retained earnings	Proposed final dividend	Total
At January 1, 2012	949	42,129	(17,187)	20,000	10,282	196,541	10,142	262,856
Profit for the year	-	-	-	-	-	63,691	-	63,691
Other comprehensive loss, net of tax	-	-	(42)	-	(1,107)	-	-	(1,149)
Total comprehensive income/(loss)	-	-	(42)	-	(1,107)	63,691	-	62,542
2011 final dividend	-	-	-	-	-	(49)	(10,142)	(10,191)
2012 interim dividend	-	-	-	-	-	(5,477)	-	(5,477)
Proposed 2012 final dividend	-	-	-	-	-	(11,563)	11,563	-
Equity-settled share option expenses (note 28)	-	-	-	-	50	-	-	50
At December 31, 2012	949	42,129*	(17,229)*	20,000*	9,225*	243,143*	11,563*	309,780
At January 1, 2013	949	42,129	(17,229)	20,000	9,225	243,143	11,563	309,780
Profit for the year	-	-	-	-	-	56,461	-	56,461
Other comprehensive loss, net of tax	-	-	(4,143)	-	(262)	-	-	(4,405)
Total comprehensive income/(loss)	-	-	(4,143)	-	(262)	56,461	-	52,056
2012 final dividend	-	-	-	-	-	183	(11,563)	(11,380)
2013 interim dividend	-	-	-	-	-	(8,850)	-	(8,850)
Proposed 2013 final dividend	-	-	-	-	-	(11,269)	11,269	-
Exercise of share options	-	3	-	-	-	-	-	3
Equity-settled share option expenses (note 28)	-	-	-	-	11	-	-	11
At December 31, 2013	949	42,132*	(21,372)*	20,000*	8,974*	279,668*	11,269*	341,620

CNOOC LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 AND 2014
(All amounts expressed in millions of Renminbi)

Attributable to owners of the parent								
	Issued capital	Share premium and capital redemption reserve	Cumulative translation reserve	Statutory and non- distributable reserves	Other reserves	Retained earnings	Proposed final dividend	Total
At 1 January 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/ (loss), net of tax	-	-	454	-	(2,477)	-	-	(2,023)
Total comprehensive income/ (loss)	-	-	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	-
At 31 December 2014	43,081	-*	(20,918)*	20,000*	6,497*	319,625*	11,325*	379,610

* These reserve accounts comprise the consolidated reserves of approximately RMB336,529 million (December 31, 2013: RMB340,671 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.

CNOOC LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 AND 2014
(All amounts expressed in millions of Renminbi/US\$)

	Notes	2012 RMB million	2013 RMB million	2014 RMB million	2014 US\$ million
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash generated from operations	32	117,736	143,539	142,682	22,996
Income taxes paid		(25,162)	(32,648)	(32,174)	(5,185)
Net cash flows from operating activities		92,574	110,891	110,508	17,811
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of oil and gas properties		(8,709)	(7,001)	-	-
Capital expenditure		(54,331)	(79,716)	(95,673)	(15,420)
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary		-	(87,926)	-	-
Additions in associates/a joint venture investment		(2,432)	-	-	-
Decrease/(increase) in time deposits with maturity over three months		7,586	(9,328)	3,383	545
Dividends received from associates		1,352	63	153	25
Interest received		1,591	871	1,041	168
Investment income received		1,956	2,234	2,331	376
Purchases of current available-for-sale financial assets		(151,292)	(80,532)	(105,718)	(17,039)
Proceeds from sale of current available-for-sale financial assets		140,359	90,852	102,587	16,534
Proceeds from disposal of property, plant and equipment		123	451	1,719	277
Net cash flows used in investing activities		(63,797)	(170,032)	(90,177)	(14,534)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issuance of guaranteed notes		12,571	24,363	24,578	3,961
Repayment and redemption of guaranteed notes		(3,150)	(4,100)	-	-
Proceeds from bank loans		21,459	59,186	12,789	2,061
Repayment of bank loans		(10,825)	(36,793)	(32,523)	(5,242)
Dividends paid		(15,635)	(20,226)	(20,216)	(3,258)
Interest paid		(1,836)	(3,832)	(4,114)	(663)
Exercise of share options		-	3	-	-
Net cash flows from/(used in) financing activities		2,584	18,601	(19,486)	(3,141)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS					
Cash and cash equivalents at beginning of year		23,678	55,024	14,318	2,308
Effect of foreign exchange rate changes, net		(15)	(166)	(245)	(40)
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	55,024	14,318	14,918	2,404

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

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 ordinary shares issued and paid-up/registered capital	Percentage of equity attributable to the Group	Principal activities
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
China Offshore Oil (Singapore) International Pte Ltd	Singapore	SG\$3 million	100%	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	Zhuhai, PRC	RMB8.5 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

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⁽¹⁾:				
CNOOC Iraq Limited	British Virgin Islands	US\$1	100%	Providing services of petroleum exploration and development in the Republic of Iraq
CNOOC Canada Energy Ltd. ⁽²⁾	Canada	100 common shares without a par value 103,000 preferred shares without a par value	100%	Oil sands exploration, development and production in Canada
CNOOC Uganda Ltd	Uganda	1 million Uganda Shilling	100%	Petroleum exploration, development and production in Africa
Nexen Energy ULC	Canada	13,671,421,700 common shares without a par value	100%	Petroleum exploration, development and production in Canada
Nexen Petroleum U.K. Limited	England and Wales	GBP98,009,131	100%	Petroleum exploration, development and production in the UK
Nexen Petroleum Nigeria Limited	Nigeria	NGN30 million	100%	Petroleum exploration, development and production in Nigeria
OOGC America LLC	USA	N/A	100%	Petroleum exploration, development and production in the USA
Nexen Petroleum Offshore U.S.A. Inc.	USA	US\$15,830	100%	Petroleum exploration, development and production in the USA
Nexen Marketing	Canada	N/A	100%	Sales and marketing of oil and gas products in Canada
Nexen Oil Sands Partnership	Canada	N/A	100%	Petroleum exploration, development and production in Canada
CNOOC PETROLEUM BRASIL LTDA ⁽³⁾	Brazil	R\$1,646,000,000	100%	Petroleum exploration, development and production in Brazil
CNOOC Nexen Finance (2014) ULC ⁽⁴⁾	Canada	100 common shares without a par value	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) CNOOC Canada Energy Ltd. was an amalgamated company arising from CNOOC Canada Inc. and another indirectly held subsidiary of the Company.
- (3) The registered capital of CNOOC PETROLEUM BRASIL LTDA increased from R\$1,646,000,000 to R\$2,186,000,000 on February 11, 2015.
- (4) CNOOC Nexen Finance (2014) ULC was incorporated on March 12, 2014, for issuing guaranteed notes (note 26).

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.

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) (the "Hong Kong Companies Ordinance"). A summary of the significant accounting policies adopted by the Group is set out below.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The IASB has issued a number of new and revised IFRSs that are first effective for the current accounting year commencing January 1, 2014 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, 2013, except for the first time adoption of the amendments to IFRSs/HKFRSs and the new interpretation effective for the Group's financial year beginning on January 1, 2014. The adoption of those amendments and the interpretation upon their effective dates has had no material impact on the accounting policies, the disclosures or the amounts recognised in the consolidated financial statements of the Group.

The Group has not applied the following new and revised IFRSs/HKFRSs, which may be relevant to the Group and have been issued but are not yet effective, in these consolidated financial statements:

IFRS 9/HKFRS 9	Financial Instruments ¹
IFRS 14/ HKFRS 14	Regulatory Deferral Accounts ²
IFRS 15/ HKFRS 15	Revenue from Contracts with Customers ³
Amendments to IFRS 11/HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations ⁵
Amendments to IAS 1/ HKAS 1	Disclosure Initiative ⁵
Amendments to IAS 16/HKAS 16 and IAS 38/HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ⁵
Amendments to IAS 19/ HKAS 19	Defined Benefit Plans: Employee Contributions ⁴
Amendments to IFRSs/HKFRSs	Annual Improvements to IFRSs/HKFRSs 2010-2012 Cycle ⁶
Amendments to IFRSs/HKFRSs	Annual Improvements to IFRSs/HKFRSs 2011-2013 Cycle ⁴
Amendments to IFRSs/HKFRSs	Annual Improvements to IFRSs/HKFRSs 2012-2014 Cycle ⁵
Amendments to IAS 27/HKAS 27	Equity Method in Separate Financial Statements ⁵
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 ⁵

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

2 Effective for first annual IFRS/HKFRS financial statements beginning on or after January 1, 2016

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

4 Effective for annual periods beginning on or after July 1, 2014

5 Effective for annual periods beginning on or after January 1, 2016

6 Effective for annual periods beginning on or after July 1, 2014, with limited exceptions

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, 2014.

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 unrealised 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 acquirer'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 recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39/HKAS 39 is measured at fair value with subsequent changes in fair value recognised in profit or loss. If the contingent consideration is not within the scope of IAS 39/HKAS 39, it is measured in accordance with the appropriate IFRS/HKFRS. 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 recognised 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 subsidiary acquired, the difference is recognised in profit or loss as a gain on bargain purchase.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the 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 recognised. An impairment loss recognised 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. Unrealised 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 unrealised 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.

The results of associates 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 investments in associates are treated as non-current assets and are stated at cost less any impairment losses. Non-current asset (or disposal group) classified as held for sale are measured at the lower of its carrying amount and fair value less costs to sell.

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.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint arrangements (continued)

Joint 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.

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 is 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. Unrealised gains and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Groups investments in the joint ventures, except where unrealised 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.

The results of joint ventures are included in the Company's statement of profit or loss and other comprehensive income to the extent of dividend received and receivable. The Company's investments in joint ventures are treated as non-current assets and are stated at cost less any impairment losses. Non-current asset (or disposal group) classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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;
- (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 recognised 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 recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised 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/amortisation) had no impairment loss been recognised 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.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

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 capitalises the initial acquisition costs of oil and gas properties. Impairment of initial acquisition costs is recognised 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 capitalised. The costs of unsuccessful exploratory wells and all other exploration costs are expensed as incurred.

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 capitalised 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.

Capitalised 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.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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 recognised 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 amortisation 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 amortised 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 amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

The intangible assets regarding software have been amortised on the straight-line basis over their respective useful lives. The intangible asset regarding the gas processing rights has been amortised 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 amortised over the life of the contracts on the straight-line basis. The intangible assets related to the seismic data usage rights are amortised 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 capitalised. 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 capitalised 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.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

Initial recognition and measurement

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 recognised 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 recognised 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.

Subsequent measurement

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

(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 and loss are carried in the statement of financial position at fair value with net changes in fair value recognised 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 recognised 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 amortised cost using the effective interest method less any allowance for impairment. Amortised 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 recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation 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 amortised cost using the effective interest rate method less any allowance for impairment. Amortised 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 recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Subsequent measurement (continued)

(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 unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised 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 recognised 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.

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 34.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets may be impaired.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

(a) Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised 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 recognised in profit or loss.

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 recognised, the previously recognised impairment loss is increased or reduced either directly or by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed amortised 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

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

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

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 amortised cost. Impairment losses on equity instruments are not reversed through profit or loss; increases in their fair value after impairments are recognised 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 recognised in profit or loss.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- (i) The contractual rights to receive cash flows from the asset have expired; or
- (ii) 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 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.

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 recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises 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 amortised 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 amortised cost, using the effective interest method. The related interest expense is recognised within "Finance costs" in profit or loss.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

A financial guarantee contract is recognised 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 recognised less cumulative amortisation.

Derecognition of financial liabilities

A financial liability is derecognised 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 recognised 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 recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 realisable 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.

Provisions

(a) General

A provision is recognised 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 recognised 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 recognised 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 recognised as part of the cost of the related property, plant and equipment. The amount recognised 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 recognised 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 loss.

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.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax liabilities are recognised 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.

As at December 31, 2014, deferred tax liabilities related to undistributed earnings of certain of the Company's subsidiaries have not been recognised, since the timing of the reversal of the taxable temporary difference can be controlled by the Company and it is probable that the temporary difference would not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised 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 utilised, 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 recognised 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 utilised.

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 utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised 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 utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised 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.

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

Revenue is recognised 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 recognised 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 recognised 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.

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 recognised 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 recognised when the services have been rendered or the properties have been disposed of. Reimbursement of insurance claims is recognised when the compensation becomes receivable.

(d) Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

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)

(e) Interest income

Interest income is recognised 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.

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 28.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised 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 recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest for the Group.

No equity-settled award was cancelled or modified during the years ended December 31, 2014 and 2013.

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 capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they are incurred.

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

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.

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 recognised in equity relating to that particular foreign operation is recognised 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 amortised 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 recognised 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 conformity 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 recognised in the consolidated financial statements.

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)

(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.

(b) Carrying value of oil and gas properties

The calculation of the unit-of-production rate for oil and gas properties amortisation 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 commodity prices and commodity price assumptions and unforeseen operational issues.

(c) Impairment indicators

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value in use and fair value less costs of disposal. These calculations require the use of estimates and assumptions. It is reasonably possible that the oil price assumption may change which may then impact the estimated life of the field and may then require a material adjustment to the carrying value of tangible and intangible assets. The Group monitors internal and external indicators of impairment relating to its tangible and intangible assets.

(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.

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)

(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. ACQUISITIONS AND OTHER ARRANGEMENTS

2014

The Group has no significant acquisition during the year.

2013

- (i) On July 23, 2012, the Company, CNOOC Canada Holding Ltd. and Nexen Inc. entered into an arrangement agreement in relation to the Company's proposed acquisition (through its wholly-owned subsidiary, CNOOC Canada Holding Ltd.) of all the Nexen Inc. common shares and preferred shares, pursuant to a plan of arrangement under the Canada Business Corporations Act.

The acquisition of Nexen Inc. was completed on February 26, 2013 (Beijing time). The consideration of the acquisition was approximately US\$14.8 billion (approximately RMB92.8 billion), and was paid in cash. The consideration is related to acquisition of common shares and preferred shares. As a result of the acquisition, an additional amount of approximately US\$275 million was paid by Nexen Inc. to settle its long-term incentive plans. The indebtedness of Nexen Inc. at the acquisition date remains outstanding except for the US\$460 million of subordinated debt that was repaid subsequently in 2013.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

4. ACQUISITIONS AND OTHER ARRANGEMENTS (continued)

2013 (continued)

(i) (continued)

The fair values of the identifiable assets and liabilities of Nexen as at the date of acquisition are as follows:

	Final amounts recognized
Property, plant and equipment	150,572
Intangible assets	4,196
Investment in an associate	234
Deferred tax assets	119
Other non-current assets	889
Trade receivables	11,148
Inventories and supplies	2,782
Other current assets	672
Cash and cash equivalents	4,858
Trade and accrued payables	(17,709)
Taxes payable	(1,399)
Other payables and accrued liabilities	(529)
Loans and borrowings	(34,893)
Provisions for dismantlement	(13,076)
Other non-current liabilities	(1,681)
Deferred tax liabilities	(26,745)
Net assets acquired	79,438
Goodwill on acquisition	13,346
Satisfied by cash	92,784

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition is as follows:

Cash consideration	92,784
Cash and cash equivalents acquired	(4,858)
Net outflow of cash and cash equivalents in respect of the acquisition	87,926

Since the acquisition, Nexen contributed RMB37,249 million to the Group's revenue and RMB1,078 million to the consolidated profit for the year of 2013.

Had the acquisition taken place at the beginning of the year of 2013, the revenue of the Group and the consolidated profit for the year might have been RMB293,471 million and RMB56,429 million, respectively.

Legal and professional fees related to the acquisition were approximately RMB474 million. The expenses are charged to profit or loss directly.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

4. ACQUISITIONS AND OTHER ARRANGEMENTS (continued)

2013 (continued)

- (ii) On December 2, 2013, CNOOC PETROLEUM BRASIL LTDA, a wholly-owned subsidiary of CNOOC International Limited, entered into a production sharing contract with Ministry Of Mines And Energy in Brazil, to be a non-operator contractor in Block LIBRA. CNOOC PETROLEUM BRASIL LTDA holds 10% working interest and paid its share of signature bonus of BRL1.5 billion (approximately RMB4.1 billion), which has been recorded as an acquisition cost of oil and gas properties.

2012

On March 29, 2011, CNOOC Uganda Ltd, a wholly-owned subsidiary of CNOOC International Limited, entered into a sales and purchase agreement with Tullow Uganda Limited and Tullow Uganda Operations Pty Ltd., wholly-owned subsidiaries of Tullow Oil Plc., to acquire a one-third working interest in each of Uganda Exploration Areas 1, 2 and 3A (the "Uganda Assets") at an initial cash consideration of US\$1.467 billion (approximately RMB9.3 billion). The acquisition of the Uganda Assets was completed on February 21, 2012. Together with the related price adjustment, the cash consideration mentioned above has been recorded as an acquisition cost of oil and gas properties.

5. SEGMENT INFORMATION

- (a) Segment results

The Group is engaged worldwide in the upstream operating activities of the conventional oil and gas, shale oil and gas, oil sands and other unconventional oil and gas business. The Group reports the business through three operating and reporting segments: 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).

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

5 SEGMENT INFORMATION (continued)**(a) Segment results (continued)**

The following table presents the segment financial information for the Group for the years ended December 31, 2012, 2013 and 2014.

	E&P			Trading business			Corporate			Eliminations			Consolidated		
	2012	2013	2014	2012	2013	2014	2012	2013	2014	2012	2013	2014	2012	2013	2014
Sales to external customers:															
Oil and gas sales	194,774	226,445	218,210	-	-	-	-	-	-	-	-	-	194,774	226,445	218,210
Marketing revenues	-	-	-	50,771	55,495	50,263	-	-	-	-	-	-	50,771	55,495	50,263
Intersegment revenues	14,299	17,443	15,380	-	-	-	-	-	-	(14,299)	(17,443)	(15,380)	-	-	-
Other income	1,633	3,415	5,531	-	221	-	464	303	872	(15)	(22)	(242)	2,082	3,917	6,161
Total	210,706	247,303	239,121	50,771	55,716	50,263	464	303	872	(14,314)	(17,465)	(15,622)	247,627	285,857	274,634
Operating expenses	(21,445)	(30,014)	(31,180)	-	-	-	-	-	-	-	-	-	(21,445)	(30,014)	(31,180)
Taxes other than income tax	(15,602)	(15,920)	(11,802)	-	-	-	(30)	(17)	(40)	-	-	-	(15,632)	(15,937)	(11,842)
Exploration expenses	(9,058)	(17,142)	(11,680)	-	-	-	-	-	-	15	22	155	(9,043)	(17,120)	(11,525)
Depreciation, depletion and amortization	(32,775)	(55,512)	(57,407)	-	(497)	(417)	(128)	(447)	(484)	-	-	22	(32,903)	(56,456)	(58,286)
Special oil gain levy	(26,293)	(23,421)	(19,072)	-	-	-	-	-	-	-	-	-	(26,293)	(23,421)	(19,072)
Impairment and provision	(31)	34	(4,147)	-	12	27	-	(1)	-	-	-	-	(31)	45	(4,120)
Crude oil and product purchases	-	-	-	(50,532)	(53,386)	(47,912)	-	-	-	-	-	-	(50,532)	(53,386)	(47,912)
Selling and administrative expenses	(2,513)	(4,294)	(3,651)	(9)	(1,021)	(862)	(855)	(2,544)	(2,166)	-	-	66	(3,377)	(7,859)	(6,613)
Others	(1,130)	(3,024)	(3,085)	-	-	-	(100)	(182)	(84)	-	-	-	(1,230)	(3,206)	(3,169)
Interest income	9	19	125	-	-	1	1,441	1,396	1,801	(448)	(323)	(854)	1,002	1,092	1,073
Finance costs	(1,893)	(2,269)	(2,813)	(4)	(5)	(3)	(154)	(1,506)	(2,997)	448	323	1,039	(1,603)	(3,457)	(4,774)
Exchange gains/(losses), net	389	137	142	-	20	-	(30)	716	907	-	-	-	359	873	1,049
Investment income	-	-	-	-	-	-	2,567	2,846	3,120	(175)	(235)	(436)	2,392	2,611	2,684
Share of profits/(losses) of associates	71	(98)	12	-	-	-	213	231	220	-	-	-	284	133	232
Share of profit/(loss) of a joint venture	-	-	-	-	-	-	(311)	762	774	-	-	-	(311)	762	774
Non-operating income/(expenses), net	896	339	566	-	-	-	12	(5)	(6)	-	-	-	908	334	560
Income tax expense	(25,886)	(24,524)	(24,903)	(2)	77	(114)	(593)	57	2,703	-	-	-	(26,481)	(24,390)	(22,314)
Segment profit for the year	75,445	71,614	70,226	224	916	983	2,496	1,609	4,620	(14,474)	(17,678)	(15,630)	63,691	56,461	60,199
Other segment information															
Investments in associates	1,080	1,145	953	-	-	-	2,777	2,949	3,147	-	-	-	3,857	4,094	4,100
Investment in a joint venture	-	-	-	-	-	-	20,160	20,303	21,150	-	-	-	20,160	20,303	21,150
Others	272,804	476,414	524,702	3,172	11,205	8,671	342,616	337,813	368,648	(186,539)	(228,356)	(264,412)	432,053	597,076	637,609
Segment assets	273,884	477,559	525,655	3,172	11,205	8,671	365,553	361,065	392,945	(186,539)	(228,356)	(264,412)	456,070	621,473	662,859
Segment liabilities	(244,481)	(315,805)	(381,342)	(3,020)	(8,499)	(7,142)	(69,866)	(137,345)	(111,311)	171,077	181,796	216,546	(146,290)	(279,853)	(283,249)
Capital expenditure	70,746	248,462	106,593	2	40	16	310	602	794	-	-	-	71,058	249,104	107,403

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

5. SEGMENT INFORMATION (continued)

(b) Geographical information

The Group mainly engages in the exploration, development, production and sale of crude oil, natural gas and other petroleum products in offshore China. Activities outside the PRC are mainly conducted in Canada, the United States of America, United Kingdom, Nigeria, Argentina, Indonesia, Uganda and Australia etc.

In presenting the Group's geographical information, revenues from external customers are based on the location of the Group's customers, and non-current assets are attributed to the segments based on the location of the Group's assets. 65% (2013: 67%, 2012: 75%) 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, 2012, 2013 and 2014.

	PRC			Canada			Others			Consolidated		
	2012	2013	2014	2012	2013	2014	2012	2013	2014	2012	2013	2014
Property, plant and equipment	149,473	164,939	206,144	16,816	97,140	101,644	85,843	157,023	155,434	252,132	419,102	463,222
Investments in associates/a joint venture	2,945	3,054	3,317	912	857	783	20,160	20,486	21,150	24,017	24,397	25,250
Other non-current assets	963	3,716	5,246	-	1,021	643	-	158	85	963	4,895	5,974

(c) Information about major customers

The current year's revenue of approximately RMB25,055 million (2013: approximately RMB29,855 million, 2012: approximately RMB44,622 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 30 (iii).

6. OIL AND GAS SALES

	2012	2013	2014
Gross sales	198,428	233,450	227,544
Less: Royalties	(1,036)	(3,655)	(6,433)
PRC government's share of oil	(2,618)	(3,350)	(2,901)
Oil and gas sales	194,774	226,445	218,210

7. 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\$55 with effect from November 1, 2011 and to further 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.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

8. PROFIT BEFORE TAX

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

	2012	2013	2014
Crediting:			
Interest income from bank deposits	(1,002)	(1,092)	(1,073)
Investment income:			
– Net gain from available-for-sale financial assets	(1,869)	(2,611)	(2,684)
– Net gain from held-to-maturity financial assets	(523)	-	-
	(2,392)	(2,611)	(2,684)
Insurance compensation on disposal of property, plant and equipment	(390)	(372)	(334)
Charging:			
Auditors' remuneration:			
– Audit fee	24	42	47
– Other fees	12	17	18
	36	59	65
Employee wages, salaries, allowances and social security costs*	2,537	6,546	8,751
Equity-settled share option expenses	50	11	-
Depreciation, depletion and amortization:			
– Property, plant and equipment	33,098	54,919	57,212
– Intangible assets	200	1,414	1,398
– Less: Net amount capitalized	(395)	123	(324)
	32,903	56,456	58,286
Operating lease rentals:			
– Office properties	158	460	508
– Plant and equipment	1,383	1,944	1,741
	1,541	2,404	2,249
Repairs and maintenance	4,229	5,925	6,342
Research and development costs	1,420	1,278	1,821
Loss/(gain) on disposal of property, plant and equipment	19	681	(1,158)

* In 2013, employee wages, salaries, allowances and social security costs only included the amount of Nexen for 10 months after acquisition, while the cost items included the amount of Nexen for 12 months in 2014.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

9. FINANCE COSTS

	2012	2013	2014
Interest on bank loans			
which are repayable within five years	503	1,212	415
Interest on other loans			
- which are repayable within five years	89	90	321
- which are repayable over five years	1,056	2,133	3,492
Other borrowing costs	183	167	1
Total borrowing costs	1,831	3,602	4,229
Less: Amount capitalized in property, plant and equipment (note 15)	(1,549)	(2,049)	(1,842)
	282	1,553	2,387
Other finance costs:			
Unwinding of discount on provision for dismantlement (note 27)	1,359	1,904	2,387
Others	(38)	-	-
	1,603	3,457	4,774

The effective interest rates used to determine the amount of related borrowing costs for capitalization varied from 0.64775% to 7.875% (2013: from 0.665% to 6.66%, 2012: 1.06585% to 6.375%) per annum during the year ended at December 31, 2014.

10. 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

	Fees ⁽¹⁾ RMB'000	Salaries allowances and benefits in kind ⁽¹⁾ RMB'000	Performance related bonuses ⁽¹⁾ RMB'000	Pension scheme contributions RMB'000	Total paid/payable during the year RMB'000
2012					
Executive directors:					
Li Fanrong	773	-	-	81	854
Wu Guangqi	773	-	-	72	845
Subtotal	1,546	-	-	153	1,699
Non-executive directors:					
Wang Yilin ⁽²⁾	848	-	-	-	848
Yang Hua	773	-	-	-	773
Zhou Shouwei ⁽³⁾⁽⁵⁾	788	-	-	-	788
Wu Zhenfang ⁽⁵⁾	773	-	-	-	773
Subtotal	3,182	-	-	-	3,182
Independent non-executive directors:					
Chiu Sung Hong ⁽⁴⁾	862	-	-	-	862
Lawrence J. Lau	773	-	-	-	773
Tse Hau Yin, Aloysius	895	-	-	-	895
Wang Tao ⁽⁷⁾	773	-	-	-	773
Subtotal	3,303	-	-	-	3,303
Total	8,031	-	-	153	8,184

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

10. KEY MANAGEMENT PERSONNEL'S REMUNERATION (continued)**(i) Directors' remuneration (continued)**

	Fees ⁽¹⁾ RMB'000	Salaries allowances and benefits in kind ⁽¹⁾ RMB'000	Performance related bonuses ⁽¹⁾ RMB'000	Pension scheme contributions RMB'000	Total paid/payable during the year RMB'000
2013					
Executive directors:					
Li Fanrong	759	-	-	79	838
Wu Guangqi	759	-	-	70	829
Subtotal	1,518	-	-	149	1,667
Non-executive directors:					
Wang Yilin ⁽²⁾	847	-	-	-	847
Yang Hua	759	-	-	-	759
Zhou Shouwei ⁽³⁾⁽⁵⁾	759	-	-	-	759
Wu Zhenfang ⁽⁵⁾	759	-	-	-	759
Subtotal	3,124	-	-	-	3,124
Independent non-executive directors:					
Chiu Sung Hong ⁽⁴⁾	847	-	-	-	847
Lawrence J. Lau	759	-	-	-	759
Tse Hau Yin, Aloysius	879	-	-	-	879
Wang Tao ⁽⁷⁾	759	-	-	-	759
Subtotal	3,244	-	-	-	3,244
Total	7,886	-	-	149	8,035
2014					
Executive directors:					
Li Fanrong	753	-	-	78	831
Wu Guangqi	753	-	-	70	823
Subtotal	1,506	-	-	148	1,654
Non-executive directors:					
Wang Yilin ⁽²⁾	840	-	-	-	840
Yang Hua	753	-	-	-	753
Lv Bo ⁽⁵⁾	753	-	-	-	753
Zhang Jianwei ⁽⁵⁾⁽⁶⁾	690	-	-	-	690
Wang Jiaxiang ⁽⁵⁾	753	-	-	-	753
Subtotal	3,789	-	-	-	3,789
Independent non-executive directors:					
Chiu Sung Hong ⁽⁴⁾	887	-	-	-	887
Lawrence J. Lau	753	-	-	-	753
Tse Hau Yin, Aloysius	887	-	-	-	887
Wang Tao ⁽⁷⁾	125	-	-	-	125
Kevin G. Lynch ⁽⁷⁾	628	-	-	-	628
Subtotal	3,280	-	-	-	3,280
Total	8,575	-	-	148	8,723

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

10. KEY MANAGEMENT PERSONNEL'S REMUNERATION (continued)

(i) Directors' remuneration (continued)

Share options ⁽⁶⁾

	2012 RMB'000	2013 RMB'000	2014 RMB'000
Executive directors:			
Li Fanrong	-	-	-
Wu Guangqi	2,965	212	-
Subtotal	2,965	212	-
Non-executive directors:			
Wang Yilin ⁽²⁾	-	-	-
Yang Hua	3,762	228	-
Zhou Shouwei ⁽³⁾⁽⁵⁾	2,874	205	-
Wu Zhenfang ⁽⁵⁾	2,874	205	-
Lv Bo ⁽⁵⁾	-	-	-
Zhang Jianwei ⁽⁵⁾⁽⁶⁾	-	-	-
Wang Jiaxiang ⁽⁵⁾	-	-	-
Subtotal	9,510	638	-
Independent non-executive directors:			
Chiu Sung Hong ⁽⁴⁾	-	-	-
Lawrence J. Lau	-	-	-
Tse Hau Yin, Aloysius	-	-	-
Wang Tao ⁽⁷⁾	-	-	-
Kevin G. Lynch ⁽⁷⁾	-	-	-
Subtotal	-	-	-
Total	12,475	850	-

Notes:

- (1) Fees, salaries, allowances, and benefits in kind represent the gross amount (before 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, 2013 and 2012.
- (2) On March 28, 2012, Mr. Wang Yilin was appointed as the Chairman of the Nomination Committee.
- (3) On March 28, 2012, Mr. Zhou Shouwei ceased serving as Chairman and a member of the Nomination Committee.
- (4) Mr. Chiu Sung Hong exercised his right to subscribe for 1,150,000 shares of options granted under the 2002 Share Option Scheme of the Company on July 19, 2013 and the allotment was completed on July 26, 2013.
- (5) 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, and each of Mr. Zhou Shouwei and Mr. Wu Zhenfang retired as a non-executive director of the Company.
- (6) On November 17, 2014, Mr. Zhang Jianwei resigned as a non-executive director of the Company.
- (7) 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.
- (8) This item represents 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 except Mr. Chiu Sung Hong exercised any share option in 2012, 2013 or 2014. During the year, 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. Further details of share option scheme and valuation techniques are set out in note 28 to the consolidated financial statements.

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

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

10. KEY MANAGEMENT PERSONNEL'S REMUNERATION (continued)

(ii) Other key management personnel's (excluding Directors') remuneration

	2012	2013	2014
Short term employee benefits	6	6	8
Pension scheme contributions	1	1	1
Amount paid/payable during the year	7	7	9
Share options*	21	1	-
	<u>28</u>	<u>8</u>	<u>9</u>

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		
	2012	2013	2014
Nil to RMB 2,000,000	1	8	10
RMB 2,000,001 to RMB 5,000,000	7	-	-
	<u>8</u>	<u>8</u>	<u>10</u>

* 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 2012, 2013 or 2014.

11. FIVE HIGHEST PAID EMPLOYEES

During the year, none (2013: none; 2012: none) of the directors, details of whose remuneration are disclosed in note 10 (i) above, received an amount which falls within the category of the five highest paid employees. Details of the remuneration of the five (2013: five; 2012: five) highest paid employees, who are not the directors, for the year are as follows:

	2012	2013	2014
Fees ⁽¹⁾	-	-	-
Basic salaries, allowances and benefits in kind ⁽¹⁾	7	19	18
Performance-related bonuses	2	1	16
Pension scheme contributions	-	1	1
Amount paid/payable during the year	9	21	35
Share options ⁽²⁾	13	-	-
	<u>22</u>	<u>21</u>	<u>35</u>

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

(2) This item represents the fair value of share options measured according to the Group's accounting policy as set out in note 3. None of the five highest paid employees exercised any share option in 2012, 2013 or 2014. During the year, no new share option was granted to the five highest paid employees in respect of their services to the Group (2013: none, 2012: none). Further details are included in note 28.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

11. FIVE HIGHEST PAID EMPLOYEES (continued)

The remuneration of the five (2013: five, 2012: five) highest paid employees, who are not the directors, falls within the following bands:

	2012	2013	2014
Nil to RMB5,000,000	4	3	-
RMB5,000,001 to RMB5,500,000	-	-	-
RMB5,500,001 to RMB6,000,000	-	-	1
RMB6,000,001 to RMB6,500,000	-	-	1
RMB6,500,001 to RMB7,000,000	1	2	-
RMB7,000,001 to RMB7,500,000	-	-	1
RMB7,500,001 to RMB8,000,000	-	-	1
RMB8,500,001 to RMB9,000,000	-	-	1
	5	5	5

12. 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 % (2013: 16.5%, 2012: 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.

Subsidiaries of the Group domiciled outside the PRC are subject to income tax at rates ranging from 10% to 62%.

As of December 31, 2014, 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.

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

	2012	2013	2014
Current tax			
Provision for PRC enterprise income tax on the estimated taxable profits for the year	20,662	18,369	16,609
Provision for overseas enterprise income tax on the estimated taxable profits for the year	8,177	12,619	14,083
Deferred tax			
Temporary differences in the current year	(2,358)	(6,598)	(8,378)
Income tax expense for the year	26,481	24,390	22,314

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

12. TAX (continued)

(i) Income tax (continued)

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

	2012 %	2013 %	2014 %
PRC statutory enterprise income tax rate	25.0	25.0	25.0
Effect of different tax rates for overseas subsidiaries	4.4	7.6	7.1
Tax credit from the government	(0.2)	(2.5)	(2.2)
Tax reported in equity-accounted entities	-	(0.3)	(0.1)
Tax losses previously not recognized	-	-	(3.3)
Others	0.2	0.4	0.5
Group's effective income tax rate	29.4	30.2	27.0

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

	2012	2013	2014
At January 1	5,488	3,363	22,633
Credit to the profit or loss	(2,358)	(6,598)	(8,378)
Acquisition of a subsidiary	-	26,626	-
Charge to equity	237	29	(92)
Exchange differences	(4)	(787)	149
At December 31	3,363	22,633	14,312

Principal components of deferred tax balances are as follows:

	2013	2014
<i>Deferred tax assets</i>		
Provision for dismantlement	7,535	8,302
Losses available for offsetting against future taxable profit	7,117	11,583
Fair value of long term borrowings	1,817	1,750
Others	810	822
	17,279	22,457
<i>Deferred tax liabilities</i>		
Property, plant and equipment	(39,008)	(36,256)
Unrecognised gain for available-for-sale financial assets	(138)	(116)
Others	(766)	(397)
	(39,912)	(36,769)
Net deferred tax liabilities	(22,633)	(14,312)
Of which – deferred tax assets	2,729	5,877
– deferred tax liabilities	(25,362)	(20,189)

As at December 31, 2014, the Group had approximately RMB45,484 million (December 31, 2013: RMB34,422 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 10 to 20 years. The Uganda tax losses have no fixed expiry date.

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

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

12. TAX (continued)

(i) Income tax (continued)

As at December 31, 2014, the Group's recognised tax losses amounted to RMB36,116 million (December 31, 2013: RMB21,757 million). Unrecognised tax losses, where recovery is not currently expected, amounted to RMB9,368 million (December 31, 2013: RMB12,665 million). This includes RMB1,249 million (2013: RMB1,023 million) of unrecognized tax loss arising from Uganda which has no fixed expiry date, and RMB1,056 million of unrecognized tax loss arising from subsidiaries of CNOOC China Limited which have 5 years expiry date. The remainder expires between 11 to 20 years.

At December 31, 2014, the Group's unrecognized deferred tax assets related to unused tax credits amounted to RMB5,149 million (2013: RMB5,150 million). This includes RMB4,404 million (2013: RMB4,241million) of unrecognized deferred tax assets related to unused tax credits in Nigeria. The remainder expires between 2025 and 2029.

(ii) Other taxes

The Company's PRC subsidiaries pay the following other taxes and dues:

- i. Production taxes at the rate of 5% on independent production and production under production sharing contracts;
- ii. Resource taxes at the rate of 5% (reduced tax rates may apply to specific products and fields) on the oil and gas sales revenue (excluding production taxes) 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 taxes requirement after the expiration of such production sharing contracts. The resource tax rate has been changed from 5% to 6% since December 1, 2014;
- iii. Mineral resource compensation at the temporary rate of 1% (reduced tax rates may apply) on the oil and gas sales revenue derived by oil and gas fields under production sharing contracts signed after November 1, 2011 starting from November 1, 2011. The rate decreased to zero since December 1, 2014;
- iv. Export tariffs at the rate of 5% on the export value of petroleum oil;
- v. Business tax at rates of 3% to 5% or value-added tax at the rate of 6% on other income;
- vi. City construction tax at the rate of 1% or 7% on the actual paid production taxes, business tax and value-added tax;
- vii. Educational surcharge at the rate of 3% on the actual paid production taxes, business tax and value-added tax; and
- viii. Local educational surcharge at the rate of 2% on the actual paid production taxes, business tax and value-added tax.

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.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

13. DIVIDENDS

	2012	2013	2014
Dividend per ordinary share:			
2014 interim dividend - HK\$0.25 (2013: interim dividend HK\$0.25, 2012: interim dividend HK\$0.15) per ordinary share	5,444	8,843	8,846
2013 final dividend - HK\$0.32 (2012: final dividend HK\$0.32, 2011: final dividend HK\$0.28) per ordinary share	10,191	11,383	11,370
Final dividend proposed at HK\$0.32 (2013: HK\$0.32, 2012: HK\$0.32) per ordinary share by the Board of Directors - not recognised as a liability as at the end of the year	<u>11,563</u>	<u>11,269</u>	<u>11,325</u>

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%. The Company is in the process of discussing with relevant PRC authorities regarding the arrangement (if any) relating to the withholding tax in respect of dividend to be paid by the Company to the investors who invest in the shares in the Company listed on the Main Board of The Stock Exchange of Hong Kong Limited through the Shanghai Stock Exchange.

14. EARNINGS PER SHARE

	2012	2013	2014
<i>Earnings</i>			
Profit for the year attributable to ordinary equity holders for the basic and diluted earnings per share calculations	<u>63,691</u>	<u>56,461</u>	<u>60,199</u>
<i>Number of shares</i>			
Weighted average number of ordinary shares for the basic earnings per share calculation	44,646,305,984	44,646,825,847	44,647,455,984
Effect of dilutive potential ordinary shares under the share option schemes	<u>161,736,346</u>	<u>140,293,242</u>	<u>87,318,520</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>44,808,042,330</u>	<u>44,787,119,089</u>	<u>44,734,774,504</u>
<i>Earnings per share:</i>			
Basic (RMB Yuan)	1.43	1.26	1.35
Diluted (RMB Yuan)	<u>1.42</u>	<u>1.26</u>	<u>1.35</u>

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

15. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Vehicles and equipment and others	Total
Cost:			
At January 1, 2013	412,030	2,091	414,121
Additions	77,716	1,111	78,827
Acquisitions	154,069	1,483	155,552
Disposals and write-offs	(6,514)	(103)	(6,617)
Exchange differences	(8,539)	(56)	(8,595)
At December 31, 2013	628,762	4,526	633,288
At January 1, 2014	628,762	4,526	633,288
Additions	107,229	671	107,900
Disposals and write-offs	(4,289)	(28)	(4,317)
Exchange differences	930	6	936
At December 31, 2014	732,632	5,175	737,807
Accumulated depreciation, depletion and amortization and impairment:			
At January 1, 2013	(161,535)	(454)	(161,989)
Depreciation charge for the year	(54,625)	(329)	(54,954)
Disposals and write-offs	1,623	18	1,641
Exchange differences	1,112	4	1,116
At December 31, 2013	(213,425)	(761)	(214,186)
At January 1, 2014	(213,425)	(761)	(214,186)
Depreciation charge for the year	(56,812)	(400)	(57,212)
Impairment	(4,114)	-	(4,114)
Disposals and write-offs	951	26	977
Exchange differences	(50)	-	(50)
At December 31, 2014	(273,450)	(1,135)	(274,585)
Net book value:			
At January 1, 2014	415,337	3,765	419,102
At December 31, 2014	459,182	4,040	463,222

Included in the current year's additions was an amount of approximately RMB1,842 million (2013: approximately RMB2,049 million, 2012: approximately RMB1,549 million) in respect of interest capitalised in property, plant and equipment (note 9). Included also in the depreciation charge for the year was an amount of approximately RMB3,873 million (2013: approximately RMB4,939 million, 2012: approximately RMB2,990 million) in respect of a depreciation charge on dismantlement cost capitalised in oil and gas properties.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Impairment and provision recognized during the year included the impairment loss of approximately RMB4,114 million to reduce the carrying amount of certain oil and gas properties to the recoverable amount. This impairment loss was all related to fields in North America and UK North sea which was primarily due to the sharp decline in crude oil price in short-term. The recoverable amount was calculated based on the assets value in use and was determined at the oil field(s) level.

16. INTANGIBLE ASSETS

	Gas processing right under NWS Project	Drilling rig contracts and seismic data usage rights	Marketing transportation and storage contracts	Software and others	Goodwill	Total
Cost:						
At January 1, 2013	1,153	-	-	765	-	1,918
Acquisition	-	2,015	1,602	579	13,346	17,542
Additions	-	-	-	412	-	412
Exchange differences	(35)	(58)	(46)	(19)	(384)	(542)
At December 31, 2013	1,118	1,957	1,556	1,737	12,962	19,330
At January 1, 2014	1,118	1,957	1,556	1,737	12,962	19,330
Additions	-	-	-	832	-	832
Disposal	-	-	-	(6)	-	(6)
Exchange differences	4	7	6	-	47	64
At December 31, 2014	1,122	1,964	1,562	2,563	13,009	20,220
Accumulated amortisation:						
At January 1, 2013	(422)	-	-	(523)	-	(945)
Amortisation charge for the year	(65)	(551)	(445)	(353)	-	(1,414)
Exchange differences	14	7	6	2	-	29
At December 31, 2013	(473)	(544)	(439)	(874)	-	(2,330)
At January 1, 2014	(473)	(544)	(439)	(874)	-	(2,330)
Amortisation charge for the year	(68)	(452)	(370)	(508)	-	(1,398)
Exchange differences	(1)	-	-	-	-	(1)
At December 31, 2014	(542)	(996)	(809)	(1,382)	-	(3,729)
Net book value:						
At January 1, 2014	645	1,413	1,117	863	12,962	17,000
At December 31, 2014	580	968	753	1,181	13,009	16,491

Goodwill represents the excess of the purchase price over the estimated fair value of the assets acquired and liabilities assumed. Goodwill of RMB13,346 million was recognised during the year ended December 31, 2013 as a result of the acquisition of Nexen, as discussed in Note 4. Goodwill acquired through business combinations is held at the E&P segment.

The intangible asset regarding the gas processing rights has been amortised 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 amortised on a straight-line basis over the life of the contracts ranging from 3.5 to 20 years. Other identifiable intangible assets are amortised on a straight-line basis over a period ranging from 3 to 5 years.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

17. INVESTMENTS IN ASSOCIATES

Particulars of the 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 Gross (Yukon) Limited	Canada	22,691,705 common shares without a par value	60%	Petroleum exploration, development and production in Canada

* The registered capital of CNOOC Finance Corporation Limited was increased to RMB 4 billion in 2012, and the percentage of equity attributable to the Group remains unchanged.

The Group's investments in associates represent:

	2013	2014
Share of net assets	4,094	4,100

None of the Group's associates are considered to be individually material. The following table illustrates the summarised financial information of the Group's associates in the consolidated financial statements:

	2012	2013	2014
Profit for the year	284	133	232
Other comprehensive income /(loss)	21	(29)	92
Total comprehensive income	305	104	324

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

18. INVESTMENT IN A JOINT VENTURE

Particulars of the joint venture at the end of the reporting period are as follows:

Name of entity	Place of establishment	Nominal value of ordinary shares issued and paid-up/registered capital	Percentage of equity attributable to the Group	Principal activities
Bridas Corporation	British Virgin Islands	US\$ 102,325,582	50%	Investment holding

Summarized financial information of the joint venture is disclosed below:

	2013	2014	
Cash and cash equivalents	2,424	4,151	
Other current assets	6,443	4,932	
Total current assets	8,867	9,083	
Non-current assets, excluding goodwill	52,068	52,835	
Goodwill	3,451	3,463	
Total assets	64,386	65,381	
Current financial liabilities (excluding trade and other payables)	(1,049)	(1,290)	
Other current liabilities	(4,873)	(4,697)	
Total current liabilities	(5,922)	(5,987)	
Non-current financial liabilities	(3,066)	(3,989)	
Other non-current liabilities	(14,792)	(13,105)	
Total non-current liabilities	(17,858)	(17,094)	
Total liabilities	(23,780)	(23,081)	
Net assets	40,606	42,300	
Net assets, excluding goodwill	37,155	38,837	
	2012	2013	2014
Revenue	31,650	32,045	32,265
Depreciation, depletion and amortization	(2,922)	(3,009)	(2,822)
Interest income	47	253	324
Finance costs	(599)	(416)	(473)
(Loss)/profit before tax	(967)	3,272	2,762
Income tax expense	345	(1,748)	(1,214)
(Loss)/profit after tax	(622)	1,524	1,548
Total comprehensive (loss)/income	(622)	1,524	1,548

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

18. INVESTMENT IN A JOINT VENTURE (continued)

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:

	2013	2014
Share of net assets of a joint venture, excluding goodwill	18,578	19,418
Goodwill on acquisition less cumulative impairment	1,725	1,732
Carrying amount of investment in a joint venture	20,303	21,150

No dividend was received from the joint venture in 2012, 2013 or 2014.

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2013	2014
Current:		
Non-publicly traded investments, at fair value:		
Private equity funds	15	13
Corporate wealth management products ⁽¹⁾	43,052	48,564
Liquidity funds ⁽²⁾	8,036	5,453
	51,103	54,030
Non-current:		
Publicly traded investments, at fair value:		
Equity investment	5,027	3,092
MEG ⁽³⁾	5,027	2,958
Non-publicly traded investments, at cost:		
Private equity fund in Kerogen Energy Fund ⁽⁴⁾	1,771	2,245
	6,798	5,337

- (1) The corporate wealth management products matured from January 8, 2015 to June 17, 2015 (2013: from January 6, 2014 to June 11, 2014).
- (2) The liquidity funds have no fixed maturity date and no coupon rate.
- (3) The equity investment represents an investment in the equity securities of MEG Energy Corporation ("MEG"). As at December 31, 2014, the investment in MEG was stated at the quoted market price. MEG is principally engaged in the exploitation and production of oil sands.
- (4) The private equity fund represents an investment in Kerogen Energy Fund and is stated at cost less any impairment, as there is no market price available. Kerogen Energy Fund is principally engaged in the investment in the oil and gas industry.

During the year, the net loss on the Group's available-for-sale investments, net of tax, recognised directly in other comprehensive loss amounted to RMB2,301 million (2013: RMB626 million, 2012: RMB1,128 million).

In addition, the realised gains of the Group transferred from other comprehensive income to the profit or loss for the year was RMB2,684 million upon the disposal of the related available-for-sale financial assets (2013: RMB2,611 million).

None of the financial assets above is either past due or impaired.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

20. 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 utilised for any other purposes but the dismantlement of oil and gas production facilities in the future. As of December 31, 2014, the balance of the specified dismantlement fund accounts was RMB3,981 million (December 31, 2013: RMB2,581 million).

21. INVENTORIES AND SUPPLIES

	2013	2014
Materials and supplies	6,461	8,291
Oil in tanks	2,821	2,487
Less: Provision for inventory obsolescence	(129)	(170)
	<u>9,153</u>	<u>10,608</u>

22. 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, 2014 and 2013, substantially all the trade receivables were aged within 30 days. All customers have a good repayment history and no receivables are past due.

23. 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 2.96% per annum (2013: 2.0% per annum, 2012: 1.7% per annum) for the year ended December 31, 2014.

24. TRADE AND ACCRUED PAYABLES

As at December 31, 2014 and 2013, substantially all the trade and accrued payables were aged within six months. The trade and accrued payables are non-interest-bearing.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

25. OTHER PAYABLES AND ACCRUED LIABILITIES

	2013	2014
Accrued payroll and welfare payable	1,276	1,805
Provision for retirement benefits	765	614
Accrued expenses	107	164
Advances from customers	227	67
Royalties payable	591	424
Special oil gain levy payable	6,034	2,150
Provision for dismantlement (note 27)	1,205	456
Other payables	6,709	5,819
	16,914	11,499

26. LOANS AND BORROWINGS

Current

	Effective interest rate and final maturity	2013			2014		
		Loan	Note	Total	Loan	Note	Total
Short-term loans and borrowings							
General loans***	LIBOR+0.6% to 0.85% per annum with maturity within one year	48,776	-	48,776	30,250	-	30,250
		48,776	-	48,776	30,250	-	30,250
Loans and borrowings due within one year							
For Tangguh LNG Project**	LIBOR+0.23% to 0.38% per annum with maturity within one year	1,065	-	1,065	160	-	160
Notes*		-	-	-	-	770	770
		1,065	-	1,065	160	770	930
		49,841	-	49,841	30,410	770	31,180

Non-current

	Effective interest rate and final maturity	2013			2014		
		Bank loan	Notes	Total	Bank loan	Notes	Total
For Tangguh LNG Project**	LIBOR+0.23% to 0.38% per annum with maturity through to 2021	1,190	-	1,190	1,035	-	1,035
Notes*		-	80,821	80,821	-	104,348	104,348
		1,190	80,821	82,011	1,035	104,348	105,383

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

26. LOANS AND BORROWINGS (continued)

* The principal amount of US\$300 million of 5.500% guaranteed notes due in 2033 were issued by CNOOC Finance (2003) Limited, a wholly-owned subsidiary of the Company. The obligations of CNOOC Finance (2003) Limited in respect of the notes are unconditionally and irrevocably guaranteed by the Company.

The principal amount of US\$1,500 million of 4.25% guaranteed notes due in 2021 and the principal amount of US\$500 million of 5.75% guaranteed notes due in 2041 were issued by CNOOC Finance (2011) Limited, a wholly-owned subsidiary of the Company. The obligations of CNOOC Finance (2011) Limited in respect of the notes are unconditionally and irrevocably guaranteed by the Company.

The principal amount of US\$1,500 million of 3.875% guaranteed notes due in 2022 and the principal amount of US\$500 million of 5.000% guaranteed notes due in 2042 were issued by CNOOC Finance (2012) Limited, a wholly-owned subsidiary of the Company. The obligations of CNOOC Finance (2012) Limited in respect of the notes are unconditionally and irrevocably guaranteed by the Company.

The principal amount of US\$750 million of 1.125% guaranteed notes due in 2016, the principal amount of US\$750 million of 1.750% guaranteed notes due in 2018, the principal amount of US\$2,000 million of 3.000% guaranteed notes due in 2023 and the principal amount of US\$500 million of 4.250% guaranteed notes due in 2043 were issued by CNOOC Finance (2013) Limited, a wholly-owned subsidiary of the Company. The obligations of CNOOC Finance (2013) Limited in respect of the notes are unconditionally and irrevocably guaranteed by the Company.

The principal amount of US\$1,250 million of 1.625% guaranteed notes due in 2017, the principal amount of US\$2,250 million of 4.250% guaranteed notes due in 2024 and the principal amount of US\$500 million of 4.875% guaranteed notes due in 2044 were issued by CNOOC Nexen Finance (2014) ULC, a wholly-owned subsidiary of Nexen Energy ULC in April 2014. The obligations of CNOOC Nexen Finance (2014) ULC in respect of the notes are unconditionally and irrevocably guaranteed by the Company.

During March 2005, Nexen issued US\$250 million of notes. Interest is payable semi-annually at a rate of 5.2% and the principal is to be repaid in March 2015. In 2011, Nexen repurchased and cancelled US\$124 million of principal of these notes. As at December 31, 2014, US\$126 million of notes remain outstanding.

During May 2007, Nexen issued US\$250 million of notes. Interest is payable semi-annually at a rate of 5.65% and the principal is to be repaid in May 2017. In 2011, Nexen repurchased and cancelled US\$188 million of principal of these notes. As at December 31, 2014, US\$62 million of notes remain outstanding.

During July 2009, Nexen issued US\$300 million of notes. Interest is payable semi-annually at a rate of 6.2% and the principal is to be repaid in July 2019.

During April 1998, Nexen issued US\$200 million of notes. Interest is payable semi-annually at a rate of 7.4% and the principal is to be repaid in May 2028.

During March 2002, Nexen issued US\$500 million of notes. Interest is payable semi-annually at a rate of 7.875% and the principal is to be repaid in March 2032.

During March 2005, Nexen issued US\$790 million of notes. Interest is payable semi-annually at a rate of 5.875% and the principal is to be repaid in March 2035.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

26. LOANS AND BORROWINGS (continued)

* (continued)

During May 2007, Nexen issued US\$1,250 million of notes. Interest is payable semi-annually at a rate of 6.4% and the principal is to be repaid in May 2037.

During July 2009, Nexen issued US\$700 million of notes. Interest is payable semi-annually at a rate of 7.5% and the principal is to be repaid in July 2039.

All the notes issued by Nexen mentioned above were guaranteed by the Company since March 22, 2013.

** 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 dated October 29, 2007. 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. Together with the loan agreement dated July 31, 2006 with a maximum cap of approximately US\$487,862,000, the total maximum guarantee cap is US\$652,750,000. With the prepayment of portion of bank loans on January 31, 2014, the total maximum guarantee cap of the Company decreased to approximately US\$164,888,000.

An agreement in respect of the sale of a 3.05691% interest of the Company in the Tangguh LNG Project to Talisman Energy Inc. ("Talisman") for a consideration of US\$212.5 million became effective on January 1, 2008. The transaction was completed through the equity transfer of an indirect subsidiary of the Company. The Company through its subsidiary continues to hold a 13.89997% interest in the Tangguh LNG Project after the sale.

In addition, a letter of credit agreement was signed between the Company and Talisman with execution of the aforesaid agreement. Accordingly, Talisman has delivered valid and unexpired standby letters of credit with the amount of US\$120 million 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. With the prepayment of portion of bank loans on January 31, 2014, the amount of the standby letters of credit decreased to US\$30 million.

*** As at December 31, 2014, US\$3,750 million bank loans (2013: US\$7,350 million) were guaranteed by the Company.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

26. LOANS AND BORROWINGS (continued)

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

	2013	2014
Repayable:		
Within one year	1,065	160
After one year but within two years	159	177
After two years but within three years	176	190
After three years but within four years	189	198
After four years but within five years	198	198
After five years	468	272
	2,255	1,195
Amount due within one year shown under current liabilities	(1,065)	(160)
	1,190	1,035

Supplemental information with respect to the long term bank loans:

For the year ended December 31	Balance at year end	Weighted average interest rate at year end	Maximum amount outstanding during the year	Average amount outstanding during the year ⁽¹⁾	Weighted average interest rate during the year ⁽²⁾
2013	2,255	0.59%	2,557	2,406	0.68%
2014	1,195	0.58%	2,255	1,725	0.58%

(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.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

27. PROVISION FOR DISMANTLEMENT

	2013	2014
At January 1	29,406	42,351
New projects*	2,598	5,180
Revision*	(3,155)	6,287
Acquisitions*	13,234	-
Utilisation	(740)	(911)
Deletions	(482)	(1,905)
Unwinding of discount (note 9)	1,904	2,387
Exchange differences	(414)	(500)
At December 31	42,351	52,889
Current portion of dismantlement included in other payables and accrued liabilities (note 25)	(1,205)	(456)
At December 31	41,146	52,433

The discount rates used for calculating the amount of provision for dismantlement are within the range of 4% to 5% (2013: 5% to 6%, 2012: 4% to 5%).

* The amounts are included in the additions and acquisitions of oil and gas properties in note 15.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

28. SHARE CAPITAL

Share	Number of shares	Issued share capital equivalent of RMB million
Authorized*:		
Ordinary shares of HK\$0.02 each as at December 31, 2013	75,000,000,000	
Ordinary shares with no par value as at December 31, 2014	75,000,000,000	
Issued and fully paid:		
Ordinary shares of HK\$0.02 each as at January 1, 2013	44,646,305,984	949
As at December 31, 2013	44,647,455,984	949
Transfer from share premium and capital redemption reserve upon abolition of par value*	-	42,132
As at December 31, 2014	44,647,455,984	43,081

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

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.

2002 Share Option Scheme

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

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

28. SHARE CAPITAL (continued)

Share option schemes (continued)

2002 Share Option Scheme (continued)

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 HKSE's quotation sheet 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 December 31, 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.

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.

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.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

28. SHARE CAPITAL (continued)

Share option schemes (continued)

2005 Share Option Scheme (continued)

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 (2013 and 2012: nil) and the Group recognised an equity-settled share option expense of nil (2013: RMB11 million, 2012: RMB50 million) 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:

	2013		2014	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
		HK\$		HK\$
Outstanding at the beginning of the year	411,154,900	9.51	383,178,934	9.75
Granted during the year	-	-	-	-
Forfeited during the year	(13,276,000)	10.67	(51,445,000)	9.85
Expired during the year	(13,549,966)	2.11	(20,549,934)	3.15
Exercised during the year	(1,150,000)	3.15	-	-
Outstanding at end of year	383,178,934	9.75	311,184,000	10.17
Exercisable at the end of the year	383,178,934	9.75	311,184,000	10.17

No share options had been cancelled or modified during the years ended December 31, 2012, 2013 and 2014.

At the date of approval of these consolidated financial statements, the share options outstanding under these share option schemes represented approximately 0.70% of the Company's shares in issue as at that date (2013: 0.86%, 2012: 0.92%). The weighted average remaining contractual life of share options outstanding at the end of the year was 3.50 years (2013: 4.23 years, 2012: 5.06 years). The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 311,184,000 additional ordinary shares of the Company and additional share capital of RMB2,497,193,648.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

29. 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, 2014, the general reserve fund amounted to RMB10,000 million (December 31, 2013: RMB10,000 million), representing 50% (2013: 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 utilised, additional expenses incurred for safety production purposes are charged directly to the profit or loss for the year. As of December 31, 2014, the Group's safety fund reserve under the PRC regulations amounted to nil (December 31, 2013: nil).

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

30. 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 organisations.

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 are defined in Chapter 14A of Listing Rules in respect of items listed below also constitute related party transactions. The Company entered into a new 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 new comprehensive framework agreement is for a period of three years from January 1, 2014. 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 1, 2010. The continuing connected transactions under the new 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

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.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

30. RELATED PARTY TRANSACTIONS (continued)

Pricing principles (continued)

For the continuing connected transactions referred to in paragraphs 1(a) to 1(d) above provided by CNOOC and/or its associates to the Group and paragraph (2) above provided by the Group to CNOOC and/or its associates, 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.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

30. 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 period 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 CNOOC Group to the Group

	2012	2013	2014
Provision of exploration and support services	8,349	9,547	11,050
- Inclusive of amounts capitalized under property, plant and equipment	4,060	4,059	6,501
Provision of oil and gas development and support services	23,857	31,716	41,299
Provision of oil and gas production and support services (note a)	7,523	9,256	8,688
Provision of marketing, management and ancillary services (note b)	770	822	915
FPSO vessel leases (note c)	1,127	1,208	1,257
	41,626	52,549	63,209

(ii) Provision of management, technical, facilities and ancillary services, including the supply of materials by the Group to CNOOC Group

The Group did not enter into any transactions in this category for the years ended December 31, 2012, 2013 and 2014.

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

	2012	2013	2014
Sales of petroleum and natural gas products (other than long term sales of natural gas and liquefied natural gas) (note d)	157,441	175,362	157,290
Long term sales of natural gas and liquefied natural gas (note e)	5,937	6,433	7,981
	163,378	181,795	165,271

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

30. RELATED PARTY TRANSACTIONS (continued)

(iv) Transactions and Balances with CNOOC Finance Corporation Limited (“CNOOC Finance”) (note f)

(a) Interest income received by the Group

	2012	2013	2014
Interest income from deposits in CNOOC Finance	323	328	474

(b) Deposits balances made by the Group

	2013	2014
Deposits in CNOOC Finance	16,654	19,462

(v) Balances with the CNOOC Group

	2013	2014
Amount due to CNOOC		
- included in other payables and accrued liabilities	622	240
Amount due to other related parties		
- included in trade and accrued payables	18,090	21,164
	18,712	21,404
Borrowing from CNOOC (note g)	-	4,244
Amounts due from other related parties		
- included in trade receivables	16,543	10,098
- included in other current assets	973	459
	17,516	10,557

(vi) Balances with a joint venture

	2013	2014
Amounts due from a joint venture		
- included in other current assets	85	91
	85	91

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

30. 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, and purchase of property, plant and equipment and other assets, receiving of services, and making deposits and borrowings 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 35. In addition, the Group had certain of its cash in bank and time deposits and outstanding short-term bank loans with certain state-owned banks in the PRC as at December 31, 2014, as summarised below:

	2013	2014
Cash and cash equivalents	5,202	6,067
Time deposits with maturity over three months	6,605	4,214
Specified dismantlement fund accounts (note 20)	2,581	3,981
	14,388	14,262
Short-term loans	15,547	-

Interest rates for the above time deposits, specified dismantlement fund accounts and short-term bank loans are at prevailing market rates.

(viii) Key management personnel's remuneration

Key management personnel's remuneration is disclosed in note 10.

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, CNOOC 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.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

30. RELATED PARTY TRANSACTIONS (continued)

Notes: (continued)

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 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) was RMB22,000 million (2013: RMB18,500 million) during the period

g) 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, 2014, the withdrawal amount of the loan was 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, 2014, the withdrawal amount of the loan was US\$564 million.

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

On August 3, 2012, CNOOC China Limited, a wholly-owned subsidiary of the Company, entered into the Coalbed Methane Resources Exploration and Development Cooperation Agreement (the "Cooperation Agreement") with China United Coalbed Methane Corporation Limited ("CUCBM") in connection with the exploration, development, production and sale of Coalbed Methane ("CBM") and CBM products within the contract areas (as defined in the Cooperation Agreement). The term of the Cooperation Agreement commences on the effective date and expires on the later of (i) 30 years from the effective date of the Cooperation Agreement, and (ii) the end of the production period of the last CBM field (as defined in the Cooperation Agreement) in the contract areas, unless otherwise agreed by CNOOC China Limited and CUCBM. The Cooperation Agreement and the transactions contemplated thereunder were approved by independent shareholders of the Company on August 21, 2012. As at the date of the Cooperation Agreement, CNOOC China Limited expected to incur total expenses of RMB9,933.3 million (being (1) RMB9,713.3 million for the initial three years of the five years' exploration period, plus (2) the minimum exploration costs of RMB220 million as required under the applicable PRC laws and regulations for the remaining two years of the exploration period).

As CUCBM is unable to fulfill its obligations under the Cooperation Agreement in respect of four CBM blocks (the "Relevant Blocks") which form part of the contract areas, CNOOC China Limited and CUCBM entered into a supplemental agreement on October 10, 2013, pursuant to which (i) the Relevant Blocks will be excluded from the contract areas; and (ii) CUCBM will indemnify in full CNOOC China Limited against any related loss, the amount of which will be determined by a third party appraising firm appointed by both parties. CNOOC China Limited and CUCBM have reached an agreement on the compensation for the losses of CNOOC China Limited related to such Relevant Blocks. As the Relevant Blocks were still at preliminary exploration stage, no revenue was generated and it is expected that the exclusion of the Relevant Blocks from the contract areas will not materially affect the expected profit in relation to the Cooperation Agreement.

CUCBM is a connected person of the Company, hence the Cooperation Agreement constitutes a connected transaction of the Company under the Listing Rules. As of December 31, 2014, the accumulated investment incurred by CNOOC China Limited was RMB896 million (December 31, 2013: RMB493 million).

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.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

31 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 labour 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 RMB845 million (2013: RMB239 million, 2012:RMB178 million).

32. NOTE TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Reconciliation of profit before tax to cash generated from operations

	2012	2013	2014
Profit before tax	90,172	80,851	82,513
Adjustments for:			
Interest income	(1,002)	(1,092)	(1,073)
Finance costs	1,603	3,457	4,774
Exchange gains, net	(359)	(873)	(1,049)
Share of profits of associates	(284)	(133)	(232)
Share of loss/(profit) of a joint venture	311	(762)	(774)
Investment income	(2,392)	(2,611)	(2,684)
Impairment and provision	31	(45)	4,120
Depreciation, depletion and amortization	32,903	56,456	58,286
Loss/(gain) on disposal and write-off of property, plant and equipment	2,270	4,704	(789)
Equity-settled share option expenses	50	11	-
Others	-	18	46
	123,303	139,981	143,138
(Increase)/decrease in trade receivables and other current assets	(3,937)	(5,698)	7,471
Increase in inventories and supplies	(496)	(1,775)	(1,540)
(Decrease)/increase in trade and accrued payables and other current liabilities	(1,134)	11,031	(6,387)
Cash generated from operations	117,736	143,539	142,682

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

33. COMMITMENTS AND CONTINGENCIES

(i) Capital commitments

As at December 31, 2014, the Group had the following capital commitments, principally for the construction of property, plant and equipment:

	2013	2014
Contracted, but not provided for ⁽¹⁾	30,131	39,630
Authorized, but not contracted for	138,571	115,269

(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 RMB5,870 million (December 31, 2013: RMB9,762 million) contracted with the CNOOC Group.

Capital commitments of a joint venture:

	2013	2014
Contracted, but not provided for	146	1,612
Authorized, but not contracted for	130	-

As at December 31, 2014, the Group had unutilised banking facilities amounting to approximately RMB63,623 million (December 31, 2013: RMB56,440 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 4 months to 25 years.

As at December 31, 2014, the Group had total minimum lease payments under non-cancellable operating leases falling due as follows:

	2013	2014
Commitments due:		
No later than one year	2,041	1,758
Later than one year and not later than two years	625	888
Later than two years and not later than five years	1,348	2,048
Later than five years	958	1,888
	4,972	6,582

The above table includes minimum lease payments of approximately RMB405 million (December 31, 2013: RMB167 million) to the CNOOC Group.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

33. COMMITMENTS AND CONTINGENCIES (continued)

(ii) Operating lease commitments (continued)

a. Office properties (continued)

Office properties commitments of a joint venture:

	2013	2014
Commitments due:		
No later than one year	23	31
Later than one year and not later than two years	17	25
Later than two years and not later than five years	21	33
Later than five years	7	34
	68	123

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, 2014, the Group had total minimum lease payments under non-cancellable operating leases falling due as follows:

	2013	2014
Commitments due:		
No later than one year	1,421	1,687
Later than one year and not later than two years	1,120	774
Later than two years and not later than five years	1,649	1,863
Later than five years	2,995	4,458
	7,185	8,782

The above table includes a commitment of approximately RMB4,311 million (December 31, 2013: RMB4,808 million) to the CNOOC Group.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

33. COMMITMENTS AND CONTINGENCIES (continued)

(iii) Contingencies

a. With respect to Penglai 19-3 Oilfield Oil Spill Accidents (please refer to the Annual Reports and/or Interim Reports of the Company issued in or after 2012 for the background information), the Company is of the view that the Company's obligations, if any, arising from the above mentioned accidents shall be determined in accordance with relevant laws and regulations, the production sharing contract (the "PSC") and related agreements, among others. Based on evaluations performed as of the date of the 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 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. On October 11, 2012, the Company was served with a purported class action complaint filed by Sam Sinay, individually and on behalf of all others similarly situated (the "Plaintiff") in the United States District Court for the Southern District of New York (the "Trial Court") (the foregoing legal action is therein below referred as the "Complaint"). The Complaint was lodged against the Company and certain of its officers, which alleged that during the period between January 27, 2011 and September 16, 2011, the Company made materially false and misleading statements regarding its business and financial results and the oil spill accidents occurred at the Penglai 19-3 oilfield.

On December 21, 2012, the Company filed a motion to dismiss the Complaint in the Trial Court.

On April 4, 2013, the judge of the Trial Court approved the Plaintiff's voluntary dismissal, without prejudice, to its claims against the officers of the Company.

On May 6, 2013, the judge of the Trial Court granted the Company's motion to dismiss in the entirety with prejudice. On June 5, 2013, the Plaintiff (i.e. the Appellant) appealed to the United States Court of Appeals for the Second Circuit (the "Court of Appeals"). On February 3, 2014, the Court of Appeals issued a summary order which found the Appellant's argument without merit and affirmed the Trial Court's judgment. After the issuance of the summary order, the Appellant was able to appeal to the Supreme Court of the United States within 90 days (namely, on or before May 5, 2014, New York time) (the "Appeal Period"). The Appellant did not appeal within the Appeal Period. In accordance with the laws of the United States, all the claims brought by the Appellant at the Trial Court and the Court of Appeals are dismissed in their entirety.

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

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

33. COMMITMENTS AND CONTINGENCIES (continued)

(iii) Contingencies (continued)

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 our 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.

34. 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 use derivatives to manage foreign currency risk for non-trading purposes. The total gains or losses in profit or loss for the year attributable to the realised and unrealised gains or losses relating to total derivative financial assets and liabilities that are included in "marketing revenues" is RMB1,030 million (2013: RMB1,667 million, 2012: nil).

For purposes of estimating the fair value of the derivative contracts, wherever possible, the Group utilises 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 utilising assumptions that market participants would use when pricing the assets or liabilities, including assumptions about risk and market liquidity.

The carrying values of the Group's cash and cash equivalents, time deposits, trade receivables, other current assets, trade and accrued payables, short-term loans, other payables and accrued liabilities approximated to their fair values at the reporting date due to the short maturity of these instruments.

The fair value of the Group's long term bank loans with floating interest rates approximated to the carrying amount as at December 31, 2014.

The estimated fair value of the Group's long term guaranteed notes based on current market interest rates was approximately RMB108,106 million as at December 31, 2014 (2013: RMB76,674 million), which was determined by reference to the market price as at December 31, 2014.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

34. FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

The Group uses the following hierarchy that reflects the significance of the inputs used in making the fair value measurement:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities. Active markets are those in which transaction occur in sufficient frequency and volume to provide pricing information on an on-going basis.

Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Instruments in this category include non-exchange traded derivatives such as over-the-counter physical forwards and options, including those that have prices similar to quoted market prices, private equity funds and corporate wealth management products. The Group obtains information from sources of independent price publications, over-the-counter broker quotes and the fund management's quotations as at the reporting date.

Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs), or where the observable data does not support the majority of the instruments fair value.

As at December 31, 2014 and December 31, 2013, the Group held the following financial instruments measured at fair value for each hierarchy respectively:

Assets measured at fair value	December 31 2014	Level 1	Level 2	Level 3
Available-for-sale financial assets-current				
Private equity funds	13	-	13	-
Corporate wealth management products	48,564	-	48,564	-
Liquidity funds	5,453	5,453	-	-
Derivative financial assets – current	303	96	47	160
	<u>54,333</u>	<u>5,549</u>	<u>48,624</u>	<u>160</u>
Available-for-sale financial assets-non current				
Equity investment	3,092	3,092	-	-
	<u>3,092</u>	<u>3,092</u>	<u>-</u>	<u>-</u>
Liabilities measured at fair value				
Derivative financial liabilities – current	(316)	(264)	(23)	(29)

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

34. FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Assets measured at fair value	December 31 2013	Level 1	Level 2	Level 3
Available-for-sale financial assets-current				
Private equity funds	15	-	15	-
Corporate wealth management products	43,052	-	43,052	-
Liquidity funds	8,036	8,036	-	-
Derivative financial assets – current	329	111	20	198
	<u>51,432</u>	<u>8,147</u>	<u>43,087</u>	<u>198</u>
Available-for-sale financial assets-non current				
Equity investment	5,027	5,027	-	-
Derivative financial assets – non current	6	-	-	6
	<u>5,033</u>	<u>5,027</u>	<u>-</u>	<u>6</u>
Liabilities measured at fair value				
Derivative financial liabilities – current	(220)	(35)	(102)	(83)
Derivative financial liabilities – non current	(6)	-	-	(6)

For financial assets and liabilities arising from derivative contracts, inputs may be readily observable, market-corroborated or generally unobservable. The Group utilises valuation techniques that seek to maximise the use of observable inputs and minimise 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, 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, 2014 and 2013 is provided below:

Level 3 Reconciliation of derivative financial assets and liabilities, net

	<u>2013</u>	<u>2014</u>
Fair value, beginning of year	-	115
Acquisition of a subsidiary	283	-
Realised gains	566	541
Unrealised gains	117	132
Settlements	(846)	(657)
Exchange difference	(5)	-
Fair value, end of year	<u>115</u>	<u>131</u>

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. The Group performed a sensitivity analysis of inputs used to calculate the fair value of Level 3 instruments. Using reasonably possible alternative assumptions, the fair value of Level 3 instruments at December 31, 2014 would have no material change.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

34. FINANCIAL INSTRUMENTS (continued)

Offsetting financial assets and liabilities (continued)

As at December 31, 2013

Offsetting financial assets and liabilities	Gross amount of recognized financial assets	Gross amounts of recognized financial liabilities set off in the consolidated statement of financial position	Net amount of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position	Net amounts
Financial assets					
Current financial derivatives					
Commodity contracts	659	(330)	329	-	239
Non-current financial derivatives					
Commodity contracts	6	-	6	-	6
Trade receivables	8,158	(5,108)	3,050	-	3,050

Offsetting financial assets and liabilities	Gross amount of recognized financial liabilities	Gross amounts of recognized financial assets set off in the consolidated statement of financial position	Net amount of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position	Net amounts
Financial liabilities					
Current financial derivatives					
Commodity contracts	(550)	330	(220)	-	(200)
Non-current financial derivatives					
Commodity contracts	(6)	-	(6)	-	(6)
Trade payables	(6,600)	5,108	(1,492)	-	(1,492)

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

35. 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:

	2012	2013	2014
China Petroleum & Chemical Corporation*	44,622	29,855	25,055
Royal Dutch Shell plc	-	11,777	16,724
Phillips 66 Co.	-	17,708	15,057
ExxonMobil Corporation	-	13,082	14,429
PetroChina Company Limited*	18,259	14,312	14,048

* These transactions are with other state-owned enterprises.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, long term guaranteed notes, 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, 2014, the Group has certain concentrations of credit risk as 11% (2013: 9%) and 15% (2013: 14%) 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.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Oil and gas price risk

Since the Group makes reference to international oil prices to determine its realised oil price, fluctuations in international oil price would have a significant impact on the Group's sales revenue and profit. 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.

(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, 2014 to December 31, 2014 (the last working day in 2014), Renminbi has depreciated by approximately 0.36% against the US dollars. At December 31, 2014, approximately 79% (December 31, 2013: 79%, December 31, 2012: 92%) 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. We 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, 2013 and 2014. Based on management's assessment, a 5% change in the foreign exchange rate of the US dollars at December 31, 2014 would have impacted the profit for the year of the Group by 0.06% (December 31, 2013: 0.35%) and the equity of the Group by 0.50% (December 31, 2013: 0.07%). 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 2013.

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. In addition, the debt repayment by the Group will increase since all of the Group's debts are also denominated in the US dollars.

(iv) Interest rate risk

The interest rate risk is closely monitored by the Group's senior management. As at the end of 2014, the interest rates for 79.2% 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 9.5 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.

CNOOC LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in millions of Renminbi unless otherwise stated)

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(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 realisable 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.

(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 maximise 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, 2012, 2013 and 2014.

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).

	2012	2013	2014
Interest-bearing debts	57,886	131,852	136,563
Equity attributable to owners of the parent	309,780	341,620	379,610
Total capital	<u>367,666</u>	<u>473,472</u>	<u>516,173</u>
Gearing ratio	15.7%	27.8%	26.5%

37. 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.

38. SUBSEQUENT EVENTS

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

39. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform to the current period's presentation, and those reclassifications are not significant.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on March 27, 2015.

CNOOC LIMITED
SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES
(UNAUDITED)

(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 2014, 2013 and 2012, approximately 52%, 52% and 36%, 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.

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)

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.

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:

	Asia (excluding PRC)				Oceania		Africa		Canada*				North America (excluding Canada)				South America		Europe		Total			
	Oil (mmbbls)	Natural gas (bcf)	Oil (mmbbls)	Natural gas (bcf)	Oil (mmbbls)	Natural gas (bcf)	Oil (mmbbls)	Natural gas (bcf)	Oil (mmbbls)	Natural gas (bcf)	Synthetic oil (mmbbls)	Bitumen (mmbbls)	Oil (mmbbls)	Natural gas (bcf)	Synthetic oil (mmbbls)	Bitumen (mmbbls)	Oil (mmbbls)	Natural gas (bcf)	Oil (mmbbls)	Natural gas (bcf)	Oil (mmbbls)	Natural gas (bcf)	Synthetic oil (mmbbls)	Bitumen (mmbbls)
Consolidated entities																								
31 December 2011	1,584	4,139	82	849	19	468	134	-	-	-	-	-	54	171	87	9	-	-	-	-	1,873	5,627	87	9
Purchase/ (Disposal) of reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Discoveries and extensions	207	911	-	-	-	-	-	-	-	-	-	-	101	176	52	4	-	-	-	-	308	1,087	52	4
Improved Recovery	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Production	(226)	(243)	(5)	(58)	(1)	(37)	(21)	-	-	-	-	-	(7)	(18)	(2)	-	-	-	-	-	(260)	(356)	(2)	-
Revisions of prior estimates	101	(347)	(12)	9	(1)	(22)	23	-	-	-	-	-	-	7	-	-	-	-	-	-	111	(353)	-	-
31 December 2012	1,666	4,460	65	800	17	409	136	-	-	-	-	-	148	336	137	13	-	-	-	-	2,032	6,005	137	13
Purchase/ (Disposal) of reserves	-	-	1	-	-	-	27	-	-	65	579	-	12	54	-	-	2	-	173	53	215	171	579	-
Discoveries and extensions	226	376	-	74	-	-	1	-	-	45	7	34	31	25	-	-	-	-	1	-	258	520	7	34
Improved Recovery	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Production	(223)	(232)	(11)	(51)	(2)	(36)	(28)	-	-	(39)	(15)	-	(16)	(40)	-	-	-	-	(30)	(10)	(310)	(408)	(15)	-
Revisions of prior estimates	24	(128)	29	66	1	13	19	-	-	124	165	-	-	(25)	(137)	(13)	-	-	22	(15)	95	35	28	(13)
31 December 2013	1,693	4,476	84	889	16	386	155	-	-	195	736	34	175	350	-	-	2	-	166	28	2,290	6,323	736	34
Purchase/ (Disposal) of reserves	-	-	-	-	-	-	-	-	-	(38)	-	-	(5)	(17)	-	-	-	-	-	-	(5)	(56)	-	-
Discoveries and extensions	201	752	-	11	-	6	2	-	-	93	92	-	70	120	-	-	-	-	-	-	274	982	92	-
Improved Recovery	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Production	(229)	(235)	(14)	(56)	(2)	(41)	(28)	-	-	(43)	(16)	(2)	(18)	(41)	-	-	-	-	(32)	(19)	(323)	(434)	(16)	(2)
Revisions of prior estimates	26	(236)	(23)	17	2	104	13	-	-	27	(62)	(1)	(12)	(8)	-	-	-	-	15	11	22	(85)	(62)	(1)
31 December 2014	1,692	4,757	47	861	17	456	143	-	-	233	750	31	209	404	-	-	2	-	149	20	2,258	6,731	750	31
Enterprise's share of equity method investees:																								
31 December 2011	1	9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	195	413	-	-	196	422	-	-
Purchase/ (Disposal) of reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Discoveries and extensions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Improved Recovery	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Production	-	(3)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(8)	(47)	-	-	(8)	(50)	-	-
Revisions of prior estimates	-	(1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13	143	-	-	13	142	-	-
31 December 2012	1	5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	200	509	-	-	201	514	-	-
Purchase/ (Disposal) of reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Discoveries and extensions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Improved Recovery	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Production	-	(2)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(8)	(45)	-	-	(8)	(48)	-	-
Revisions of prior estimates	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7	53	-	-	7	54	-	-
31 December 2013	1	4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	199	516	-	-	199	520	-	-
Purchase/ (Disposal) of reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Discoveries and extensions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3	9	-	-	3	9	-	-
Improved Recovery	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4	4	-	-	4	4	-	-
Production	-	(2)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(8)	(49)	-	-	(9)	(51)	-	-
Revisions of prior estimates	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3	54	-	-	3	56	-	-
31 December 2014	1	3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	200	534	-	-	200	537	-	-
Total consolidated and equity interests in reserves																								
31 December 2012	1,667	4,465	65	800	17	409	136	-	-	-	-	-	148	336	137	13	200	509	-	-	2,233	6,519	137	13
31 December 2013	1,693	4,480	84	889	16	386	155	-	-	195	736	34	175	350	-	-	200	516	166	28	2,490	6,843	736	34
31 December 2014	1,692	4,760	47	861	17	456	143	-	-	233	750	31	209	404	-	-	201	534	149	20	2,459	7,268	750	31

* As the Group's proved reserves in Canada were over 15% of the Group's total proved reserves since the end of 2013, the Group's proved reserves and related information in Canada are disclosed separately from year 2013 and after. For year 2012 and prior reserves, Canada were included in North America if applicable and disclosed on a combined basis.

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 reserves:

	PRC		Asia(excluding PRC)		Oceania		Africa		Canada				North America (excluding Canada)		South America		Europe		Total				
	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (mmbls)	Synthetic oil (mmbls)	Bitumen (mmbls)	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Synthetic oil (mmbls)	Bitumen (mmbls)	
Consolidated entities																							
31 December 2012	754	1,500	22	460	6	124	45	-	-	-	32	1	51	129	-	-	-	-	878	2,213	32	1	
31 December 2013	700	1,337	24	415	8	183	59	-	-	195	209	-	85	193	2	-	128	26	1,006	2,349	209	-	
31 December 2014	759	1,775	24	375	12	347	47	-	-	192	226	-	87	208	2	-	122	19	1,053	2,915	226	-	
Enterprise's share of equity method investees:																							
31 December 2012	1	5	-	-	-	-	-	-	-	-	-	-	-	-	104	324	-	-	105	329	-	-	
31 December 2013	1	4	-	-	-	-	-	-	-	-	-	-	-	-	102	349	-	-	102	353	-	-	
31 December 2014	1	3	-	-	-	-	-	-	-	-	-	-	-	-	102	331	-	-	102	334	-	-	

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 (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Synthetic oil (mmbls)	Bitumen (mmbls)	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Synthetic oil (mmbls)	Bitumen (mmbls)	
Consolidated entities																							
31 December 2012	912	2,960	43	340	11	285	91	-	-	-	105	12	97	207	-	-	-	-	1,154	3,792	105	12	
31 December 2013	992	3,139	59	474	8	203	96	-	-	-	528	34	90	156	-	-	38	1	1,284	3,974	528	34	
31 December 2014	932	2,982	24	487	5	109	95	-	-	41	524	31	122	196	-	-	28	2	1,206	3,816	524	31	
Enterprise's share of equity method investees:																							
31 December 2012	-	-	-	-	-	-	-	-	-	-	-	-	-	-	96	185	-	-	96	185	-	-	
31 December 2013	-	-	-	-	-	-	-	-	-	-	-	-	-	-	97	167	-	-	97	167	-	-	
31 December 2014	-	-	-	-	-	-	-	-	-	-	-	-	-	-	98	203	-	-	98	203	-	-	

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

	2012						Total	
	Consolidated entities							
	PRC	Asia (excluding PRC)	Oceania	Africa	North America	South America	Europe	
Net sales to customers	166,060	6,689	1,857	14,666	5,502	–	–	194,774
Operating expenses	(153,386)	(2,352)	(520)	(1,223)	(1,964)	–	–	(21,445)
Taxes other than income tax	(14,543)	–	(338)	(504)	(247)	–	–	(15,632)
Exploration expense	(5,954)	(847)	(1)	(637)	(1,604)	–	–	(9,043)
Accretion expense	(1,280)	(12)	–	(54)	(13)	–	–	(1,359)
Depreciation, depletion and amortisation	(24,599)	(1,439)	(193)	(4,350)	(2,322)	–	–	(32,903)
Special oil gain levy	(26,293)	–	–	–	–	–	–	(26,293)
	<u>78,005</u>	<u>2,039</u>	<u>805</u>	<u>7,898</u>	<u>(648)</u>	<u>–</u>	<u>–</u>	<u>88,099</u>
Income tax expense	(19,501)	(1,287)	(242)	(4,289)	(65)	–	–	(25,384)
Result of operations	<u>58,504</u>	<u>752</u>	<u>563</u>	<u>3,609</u>	<u>(713)</u>	<u>–</u>	<u>–</u>	<u>62,715</u>

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)

	2012							Total
	Enterprise's share of equity method investees:							
	PRC	Asia (excluding PRC)	Oceania	Africa	North America	South America	Europe	
Net sales to customers	321	–	–	–	–	2,952	–	3,273
Operating expenses	(141)	–	–	–	–	(1,235)	–	(1,376)
Taxes other than income tax	(34)	–	–	–	–	(1,740)	–	(1,774)
Exploration expense	(29)	–	–	–	–	(41)	–	(70)
Accretion expense	12	–	–	–	–	(38)	–	(26)
Depreciation, depletion and amortisation	(34)	–	–	–	–	(1,363)	–	(1,397)
Special oil gain levy	–	–	–	–	–	–	–	–
	95	–	–	–	–	(1,465)	–	(1,370)
Income tax expense	(14)	–	–	–	–	–	–	(14)
Result of operations	81	–	–	–	–	(1,465)	–	(1,384)
Total result of operations for producing activities	58,585	752	563	3,609	(713)	(1,465)	–	61,331

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)

	2013								Total
	Consolidated entities								
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	
Net sales to customers	157,458	9,539	1,915	18,905	8,800	8,845	212	20,771	226,445
Operating expenses	(15,961)	(2,998)	(508)	(1,288)	(5,794)	(1,022)	(30)	(2,413)	(30,014)
Taxes other than income tax	(14,585)	-	(338)	(556)	(76)	(350)	(15)	-	(15,920)
Exploration expense	(9,939)	(601)	(29)	(889)	(112)	(3,401)	(238)	(1,911)	(17,120)
Accretion expense	(1,406)	1	-	(72)	(122)	(93)	(5)	(207)	(1,904)
Depreciation, depletion and amortisation	(27,992)	(3,701)	(199)	(7,850)	(3,327)	(4,812)	(98)	(7,533)	(55,512)
Special oil gain levy	(23,421)	-	-	-	-	-	-	-	(23,421)
	64,154	2,240	841	8,250	(631)	(833)	(174)	8,707	82,554
Income tax expense	(16,038)	(1,234)	(252)	(3,931)	(91)	447	57	(5,352)	(26,394)
Result of operations	48,116	1,006	589	4,319	(722)	(386)	(117)	3,355	56,160

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)

	2013								
	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	284	-	-	-	-	-	2,870	-	3,154
Operating expenses	(130)	-	-	-	-	-	(1,495)	-	(1,625)
Taxes other than income tax	(29)	-	-	-	-	-	(1,677)	-	(1,706)
Exploration expense	(43)	-	-	-	-	-	(7)	-	(50)
Accretion expense	(16)	-	-	-	-	-	(35)	-	(51)
Depreciation, depletion and amortisation	(137)	-	-	-	-	-	(1,504)	-	(1,641)
Special oil gain levy	-	-	-	-	-	-	-	-	-
	(71)	-	-	-	-	-	(1,848)	-	(1,919)
Income tax expense	-	-	-	-	-	-	-	-	-
Result of operations	(71)	-	-	-	-	-	(1,848)	-	(1,919)
Total result of operations for producing activities	48,045	1,006	589	4,319	(722)	(386)	(1,965)	3,355	54,241

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 Consolidated entities								Total
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	
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 amortisation	(28,993)	(4,686)	(206)	(8,143)	(6,476)	(1,385)	(105)	(7,413)	(57,407)
Special oil gain levy	(19,072)	-	-	-	-	-	-	-	(19,072)
	67,803	2,113	448	4,554	(3,751)	4,949	(175)	8,741	84,682
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	(803)	5,658	(163)	3,678	62,659

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								Total
	Enterprise's share of equity method investees:								
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	
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 amortisation	(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	(803)	5,658	(1,395)	3,678	61,446

CNOOC LIMITED
SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES
(UNAUDITED)

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

(c) Capitalised costs

	2012							Total
	Consolidated entities							
	PRC	Asia (excluding PRC)	Oceania	Africa	North America	South America	Europe	
Proved oil and gas properties	278,777	16,685	2,339	37,469	24,756	-	-	360,026
Unproved oil and gas properties	6,226	1,429	2	13,725	30,621	-	-	52,003
Accumulated depreciation, depletion and amortisation	(136,435)	(5,591)	(845)	(15,739)	(2,925)	-	-	(161,535)
Net capitalised costs	148,568	12,523	1,496	35,455	52,452	-	-	250,494

	2012							Total
	Enterprise's share of equity method investees							
	PRC	Asia (excluding PRC)	Oceania	Africa	North America	South America	Europe	
Proved oil and gas properties	1,881	-	-	-	-	20,441	-	22,322
Unproved oil and gas properties	-	-	-	-	-	8,055	-	8,055
Accumulated depreciation, depletion and amortisation	(1,497)	-	-	-	-	(3,664)	-	(5,161)
Net capitalised costs	384	-	-	-	-	24,832	-	25,216

CNOOC LIMITED
SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES
(UNAUDITED)

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

(c) Capitalised costs (continued)

	2013								Total
	Consolidated entities								
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	
Proved oil and gas properties	323,111	19,508	2,269	53,136	46,009	27,139	419	29,053	500,644
Unproved oil and gas properties	5,538	1,470	2	16,442	54,116	29,886	4,414	17,075	128,943
Accumulated depreciation, depletion and amortisation	(162,767)	(8,971)	(951)	(23,011)	(3,827)	(7,152)	(96)	(6,733)	(213,508)
Net capitalised costs	165,882	12,007	1,320	46,567	96,298	49,873	4,737	39,395	416,079

	2013								Total
	Enterprise's share of equity method investees								
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	
Proved oil and gas properties	1,888	-	-	-	-	-	21,555	-	23,443
Unproved oil and gas properties	-	-	-	-	-	-	7,537	-	7,537
Accumulated depreciation, depletion and amortisation	(1,637)	-	-	-	-	-	(4,331)	-	(5,968)
Net capitalised costs	251	-	-	-	-	-	24,761	-	25,012

CNOOC LIMITED
SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES
(UNAUDITED)

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

(c) Capitalised costs (continued)

	2014								Total
	Consolidated entities								
	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 amortisation	(191,397)	(13,572)	(1,092)	(31,203)	(9,019)	(12,042)	(204)	(15,307)	(273,836)
Net capitalised costs	<u>204,084</u>	<u>12,496</u>	<u>1,187</u>	<u>47,140</u>	<u>101,436</u>	<u>53,217</u>	<u>4,872</u>	<u>36,055</u>	<u>460,487</u>

	2014								Total
	Enterprise's share of equity method investees								
	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 amortisation	(81)	-	-	-	-	-	(5,840)	-	(5,921)
Net capitalised costs	<u>170</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,268</u>	<u>-</u>	<u>25,438</u>

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

	2012							Total
	Consolidated entities							
	PRC	Asia (excluding PRC)	Oceania	Africa	North America	South America	Europe	
Acquisition costs:								
-Proved	-	-	-	-	-	-	-	-
-Unproved	-	-	2	10,780	-	-	-	10,782
Exploration costs	10,572	930	-	1,274	418	-	-	13,194
Development costs*	33,676	2,099	-	2,752	11,378	-	-	49,905
Total costs incurred	44,248	3,029	2	14,806	11,796	-	-	73,881

	2012							Total
	Enterprise's share of equity method investees							
	PRC	Asia (excluding PRC)	Oceania	Africa	North America	South America	Europe	
Acquisition costs:								
-Proved	-	-	-	-	-	-	-	-
-Unproved	-	-	-	-	-	-	-	-
Exploration costs	29	-	-	-	-	84	-	113
Development costs*	22	-	-	-	-	1,218	-	1,240
Total costs incurred	51	-	-	-	-	1,302	-	1,353

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)

	2013								Total
	Consolidated entities								
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	
Acquisition costs:									
-Proved	879	29	-	10,283	35,773	1,760	453	26,894	76,071
-Unproved	-	25	-	2,385	39,959	13,707	4,552	17,980	78,608
Exploration costs	12,155	733	29	1,897	1,271	1,563	138	895	18,681
Development costs*	42,877	3,272	-	6,720	8,755	6,882	17	2,943	71,466
Total costs incurred	55,911	4,059	29	21,285	85,758	23,912	5,160	48,712	244,826

	2013								Total
	Enterprise's share of equity method investees								
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	
Acquisition costs:									
-Proved	-	-	-	-	-	-	-	-	-
-Unproved	-	-	-	-	-	-	-	-	-
Exploration costs	43	-	-	-	-	-	25	-	68
Development costs*	7	-	-	-	-	-	1,457	-	1,464
Total costs incurred	50	-	-	-	-	-	1,482	-	1,532

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)

	2014								Total
	Consolidated entities								
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	
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	<u>72,564</u>	<u>6,575</u>	<u>267</u>	<u>11,208</u>	<u>9,998</u>	<u>12,286</u>	<u>465</u>	<u>6,158</u>	<u>119,521</u>

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

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

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:

	Notes	2012 Consolidated entities							Total
		PRC	Asia (excluding PRC)	Oceania	Africa	North America	South America	Europe	
Future cash inflows	(1)	1,369,398	86,795	19,737	94,102	153,614	-	-	1,723,646
Future production costs		(530,402)	(30,405)	(8,085)	(35,927)	(50,682)	-	-	(655,501)
Future development costs	(2)	(256,030)	(34,653)	(2,541)	(26,521)	(28,803)	-	-	(348,548)
Future income taxes		(112,428)	(8,740)	(2,409)	(9,765)	(16,797)	-	-	(150,139)
Future net cash flows	(3)	470,538	12,997	6,702	21,889	57,332	-	-	569,458
10% discount factor		(171,739)	(5,706)	(2,363)	(10,356)	(31,834)	-	-	(221,998)
Standardised measure of discounted future net cash flows		298,799	7,291	4,339	11,533	25,498	-	-	347,460

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	2012							Total
		Enterprise's share of equity method investees							
		PRC	Asia (excluding PRC)	Oceania	Africa	North America	South America	Europe	
Future cash inflows	(1)	655	-	-	-	-	68,740	-	69,395
Future production costs		(396)	-	-	-	-	(38,262)	-	(38,658)
Future development costs	(2)	(209)	-	-	-	-	(833)	-	(1,042)
Future income taxes		-	-	-	-	-	(7,592)	-	(7,592)
Future net cash flows	(3)	50	-	-	-	-	22,053	-	22,103
10% discount factor		38	-	-	-	-	(12,603)	-	(12,565)
Standardised measure of discounted future net cash flows		88	-	-	-	-	9,450	-	9,538
Total standardised measure of discounted future net cash flow		298,887	7,291	4,339	11,533	25,498	9,450	-	356,998

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	2013 Consolidated entities								Total
		PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	
Future cash inflows	(1)	1,336,580	93,943	18,095	99,648	430,094	87,532	1,040	108,254	2,175,186
Future production costs		(523,810)	(46,834)	(6,716)	(19,779)	(247,762)	(19,423)	(610)	(32,056)	(896,990)
Future development costs	(2)	(259,636)	(29,850)	(2,269)	(36,699)	(50,993)	(15,946)	(43)	(14,911)	(410,347)
Future income taxes		(102,827)	(5,504)	(2,314)	(18,498)	(24,996)	(12,252)	(31)	(36,709)	(203,131)
Future net cash flows	(3)	450,307	11,755	6,796	24,672	106,343	39,911	356	24,578	664,718
10% discount factor		(165,652)	(8,085)	(2,393)	(9,328)	(74,732)	(19,283)	(53)	(5,688)	(285,214)
Standardised measure of discounted future net cash flows		284,655	3,670	4,403	15,344	31,611	20,628	303	18,890	379,504

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	2013 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)	560	-	-	-	-	-	46,278	-	46,838
Future production costs		(369)	-	-	-	-	-	(19,688)	-	(20,057)
Future development costs	(2)	(229)	-	-	-	-	-	(4,362)	-	(4,591)
Future income taxes		-	-	-	-	-	-	(4,305)	-	(4,305)
Future net cash flows	(3)	(38)	-	-	-	-	-	17,923	-	17,885
10% discount factor		45	-	-	-	-	-	(8,412)	-	(8,367)
Standardised measure of discounted future net cash flows		7	-	-	-	-	-	9,511	-	9,518
Total standardised measure of discounted future net cash flow		284,662	3,670	4,403	15,344	31,611	20,628	9,814	18,890	389,022

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

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	2014								Total
		PRC	Asia (excluding PRC)	Oceania	Africa	Canada	Enterprise's share of equity method investees North America (excluding Canada)	South America	Europe	
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

- (1) 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 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 overseas 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 offshore oil platforms and gas properties.

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	2012 Consolidated and equity share of Equity Method Investee
Standardised measure, beginning of year	328,768	10,465	339,233
Sales of production, net of royalties and production costs	(157,697)	(94)	(157,791)
Net change in prices, net of royalties and production costs	49,470	(2,626)	46,844
Extensions discoveries and improved recovery, net of related future costs	79,416	-	79,416
Change in estimated future development costs	(82,776)	(396)	(83,172)
Development costs incurred during the year	45,923	1,017	46,940
Revisions in quantity estimates	13,044	1,679	14,723
Accretion of discount	42,707	1,401	44,108
Net change in income taxes	8,191	317	8,508
Purchase of properties	-	-	-
Changes in timing and other	20,414	(2,225)	18,189
Standardised measure, end of year	<u>347,460</u>	<u>9,538</u>	<u>356,998</u>

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	2013 Consolidated and equity share of equity method investee
Standardised measure, beginning of year	347,460	9,539	356,999
Sales of production, net of royalties and production costs	(180,494)	313	(180,181)
Net change in prices, net of royalties and production costs	51,408	(2,624)	48,784
Extensions discoveries and improved recovery, net of related future costs	53,261	-	53,261
Change in estimated future development costs	(82,414)	(2,083)	(84,497)
Development costs incurred during the year	70,077	229	70,306
Revisions in quantity estimates	22,884	820	23,704
Accretion of discount	42,522	1,269	43,791
Net change in income taxes	(17,464)	1,148	(16,316)
Purchase of properties	114,763	-	114,763
Changes in timing and other	(42,499)	907	(41,592)
Standardised measure, end of year	379,504	9,518	389,022

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	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	<u>390,873</u>	<u>10,225</u>	<u>401,098</u>

China National Offshore Oil Corporation

and

CNOOC Limited

**Framework Agreement
in respect of
the Connected Transactions**

(Summary Translation)

Table of Contents

1. Scope of Products and Services
 2. Transaction Principles
 3. Pricing Principles
 4. Mode of Operations
 5. Rights and Obligations
 6. Term and Termination of the specific Product and Service Contracts
 7. Representations and Warranties
 8. Performance of this Agreement
 9. Force Majeure
 10. Announcement
 11. Miscellaneous
 12. Notices
 13. Governing Law and Dispute Resolution
 14. Supplementary
-

Framework Agreement in respect of the Connected Transactions

(Summary Translation)

This **Agreement** was entered into on November 6, 2013 by the following parties in Beijing, **the People's Republic of China** ("PRC", excluding for the purpose of this Agreement, the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan):

Party A: China National Offshore Oil Corporation ("CNOOC", hereinafter referred to as "Party A"), a state-owned enterprise incorporated and duly existing under the laws of the PRC.

Party B: CNOOC Limited (hereinafter referred to as "Party B"), a company incorporated and duly existing under the laws of the Hong Kong Special Administrative Region with limited liability.

On the date of this Agreement, Party A owned approximately [64.45%] of the equity interests of Party B.

Party A (including its associates (as defined under **the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited** (the "Listing Rules"))) principally engages in the production and operation of the oil and gas and petrochemical such as ancillary production services, engineering construction services, information consulting services, supply services and financial services by financing companies. The above services are essential to the production operations of Party B and its affiliates. Party A and its associates possess the leading edge of talented personnel, technologies and geographical advantages, and have maintained a long-term working relationship with Party B and its affiliates. Therefore, Party B agrees to acquire the above products and services from Party A and its associates.

Party B possesses crude oil, condensate oil, liquefied oil, natural gas, by-products, semi-finished products, and is able to provide sales and services of other various types of petroleum-related products. Party B has maintained long-term working relationship with Party A. Therefore, Party A (including its associates) agrees to acquire the above products and services from Party B (including its affiliates).

As such, based on the principles of long-term cooperation, mutual benefits and joint development, after friendly consultations, the Parties agree to enter into this Agreement and to procure their respective affiliates (including the subsidiaries, branch and other units)

to provide or accept the products and services as stipulated in this Agreement pursuant to the terms and spirits of this Agreement.

Article 1 Scope of products and services

1.1 Party B (including its affiliates) shall provide to Party A (including its affiliates) the following products and services:

1.1.1 management, technical, facilities and ancillary services, including the supply of materials, technical consulting, technology transfer, delegated administration, technical research services and other supporting services;

1.1.2 sales of petroleum products, natural gas and by-products, semi-finished products and other various types of natural gas-related or petroleum-related products.

1.1.3 long-term sales of natural gas, liquefied natural gas and by-products, semi-finished products and other various types of natural gas-related or petroleum-related products.

1.2 Party A (including its associates) shall provide to Party B (including its affiliates) the following products and services:

1.2.1 exploration and support services: well site survey; geophysical exploration seismic data processing; seismic testing data processing; integrated exploratory research services; geophysical data acquisition; marine geological forecast and data processing; drilling; well logging of oil and gas volume; well logging; exploration well operation and other related technical services; tow-boat; transportation; supply of materials; technical research of exploration and safety services as well as various types of technical services and support services related to the above operations;

1.2.2 oil and gas fields development and support services; engineering exploration, geological exploration; drilling; well completion; well logging of oil and gas volume; well logging, well cementing and other related technical services; design, construction, installation, testing and tuning of production facilities; shipping transportation; supply of materials/facilities; integrated exploration research services as well as various types of technical services and support services related to the above operations;

1.2.3 production of oil and gas field and support services: integrated research on production techniques; well workover; shipping transportation; oil tanker

transportation; supply of material/facilities; maintenances of platform; repair of equipment and pipeline; production operations; oil exploitation operations; oil and gas production labour services; repair of facilities for the production of oil and gas fields; warehousing and storage; lease of equipment and building; road transportation ; telecommunication and network services; wharf services; labour services; warehousing and storage; construction services, including roads, wharf, buildings, factories and water barriers; maintenance and repair of major facilities; medical, childcare and social services; provision of water, electricity and heat; security and fire-protection services; technical training; accommodation; maintenance and repair of buildings; catering services, as well as other technical and supporting services related to the above services;

1.2.4 management, marketing and other ancillary services: marketing services; delegated administration; staff recruitment; publishing and printing; telecommunication networks; lease of properties; property management; provision of water, electricity and heat; car rental; integrated services; integrated research; sewage disposal and other ancillary services;

1.2.5 FPSO vessel leases.

Article 2 Transaction Principles

2.1 Specific agreements may be separately entered into between the respective Parties, that is Party A (and its associates) and Party B (and its affiliates), for specific products and services in accordance with the scope of this Agreement. Both Parties agree to implement the contracts under this Agreement pursuant to the following principles:

2.1.1 the products and services to be provided shall be of satisfactory quality to the recipient;

2.1.2 the pricing of the products and services to be provided shall be fair and reasonable;

2.1.3 the terms and conditions of the products and services provided by Party A to Party B shall be more favourable than those provided by the independent third parties; and

2.1.4 the terms and conditions of the products and services provided by Party B to Party A shall be no less favourable than those provided by Party B to the independent third parties.

Article 3 Pricing Principles

- 3.1 Subject to the pricing principles as mentioned in Article 2.1, the pricing of the respective products and services involved under Article 1 of this Agreement shall be determined by arm's length negotiations and on normal commercial terms or on terms no less favourable than those available to Party B from independent third parties, under prevailing local market conditions (considering volume of sales, terms of contracts, package of services, overall customer relationship and other market factors).
- 3.2 Subject to the pricing principles as mentioned in Article 3.1, the pricing of the respective products and services under Articles 1.2.1 to 1.2.4 of this Agreement shall be determined on the following terms and sequential order:
- (1) State-prescribed prices; or
 - (2) where there is no State-prescribed price, market prices (including the local, national or international market prices); or
 - (3) when neither (1) nor (2) is applicable, the cost to Party A for providing the relevant services and products plus a margin of not more than 10%, before any applicable taxes.
- 3.3 Subject to the pricing principles as mentioned in Article 3.1, the pricing of the respective products and services under Article 1.2.5 of this Agreement shall be determined at market prices and on normal commercial terms.
- 3.4 Subject to the pricing principles as mentioned in Article 3.1, the pricing of the respective products and services under Article 1.1.1 of this Agreement shall be determined on the following terms and sequential order and on normal commercial terms:
- (1) State-prescribed prices; or
 - (2) where there is no State-prescribed price, market prices (including the local, national or international market prices); or
 - (3) when neither (1) nor (2) is applicable, the cost to Party A for providing the relevant services and products plus a margin of not more than 10%, before any applicable taxes.
- 3.5 Subject to the pricing principles as mentioned in Article 3.1, the pricing of the respective products and services under Articles 1.1.2 and 1.1.3 of this Agreement shall be determined on the following terms and sequential order:
- (1) State-prescribed prices; or
-

(2) where there is no State-prescribed price, market prices (including the local, national or international market prices).

Article 4 Mode of Operations

- 4.1 Party A shall ensure and procure its associates and Party B shall ensure and procure its affiliates to execute the specific products and service contracts in compliance with the principles and terms of this Agreement.
- 4.2 The respective product and service contracts executed between Party A (and its associates) and Party B (and its affiliates) prior to January 1, 2014 and which are valid after January 1, 2014 and shall be deemed as signed pursuant to the principles and terms of this Agreement. Corresponding amendments shall be made to such contracts if the principles and terms of such contracts are inconsistent with those set out in this Agreement.
- 4.3 The term of the respective product and service contracts executed pursuant to Articles 1.1.1, 1.1.2 and 1.2.1 to 1.2.4 shall not exceed three years. If the term of these contracts does not exceed three years but the expiry date thereof is later than December 31, 2016, then the following provision shall be incorporated into these contracts: "This contract shall terminate on December 31, 2016 if, as of December 31, 2016, CNOOC Limited fails to obtain the waiver for the relevant category of connected transaction in respect of this contract for the 3 year period between 2017 and 2020 pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited".
- 4.4 The terms of the liquefied natural gas contracts and the natural gas contract executed pursuant to Article 1.1.3 of this Agreement shall not exceed 25 years and 20 years respectively, and the following provision shall be incorporated into these contracts: "This contract shall terminate on December 31, 2016 if, as of December 31, 2016, CNOOC Limited fails to obtain the waiver for the relevant category of connected transaction in respect of this contract for the 3 year period between 2017 and 2020 pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited".
- 4.5 The term of the specific service contracts executed pursuant to Article 1.2.5 of this Agreement shall not exceed 20 years, and the following provision shall be incorporated into these contracts: "This contract shall terminate on December 31, 2016 if, as of December 31, 2016, CNOOC Limited fails to obtain the waiver for the relevant category of connected transaction in respect of this contract for the 3 year period between 2017 and 2020 pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited".
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Article 5 Rights and Obligations

5.1 The rights of the Parties include:

5.1.1 a Party may provide corresponding products and services to independent third parties, provided that the products and services shall be provided to the other Party in accordance with the terms of this Agreement;

5.1.2 the prices of the products and service fees shall be charged in accordance with the applicable law and the terms of this Agreement and the specific products and service agreements.

5.2 The obligations of the Parties include:

5.2.1 to procure and ensure that its affiliates shall provide to the other Party products and services based on the standards and pricing principles as prescribed in this Agreement and the specific products and service agreements;

5.2.2 to be entrusted by the Parties in the specific product and service agreements and to coordinate matters related to such specific product and service agreements;

5.2.3 to pay the relevant price and service fees pursuant to this Agreement and the specific product and service agreements.

Article 6 Term and termination of the specific product and service agreements

6.1 This Agreement shall be effective from January 1, 2014 for a term of three years after being executed by the authorised representatives of the Parties and sealed.

6.2 If there is any default of one of the Parties ("Defaulting Party"), the other Party ("Non-defaulting Party") may notify the Defaulting Party by written notice that a default has been committed and request that the Defaulting Party remedy such default within a reasonable period. If the Defaulting Party fails to remedy such default within the aforementioned period, the Non-defaulting Party may terminate this Agreement immediately. The Non-defaulting Party reserves the right to claim, request for indemnities and any other legally permitted remedies from the Defaulting Party.

6.3 The termination of this Agreement shall not affect the rights or obligations of any Party which have accrued under this Agreement.

6.4 Either Party shall be entitled to terminate at any time the specific product and service agreements in respect of one or more types of products or services provided that prior written notice is given to the other Party.

Article 7 Representations and Warranties

7.1 Party A represents and warrants that:

7.1.1 Party A is a state-owned enterprise incorporated under the laws of the PRC as an independent legal entity and is currently holding a valid business licences;

7.1.2 Party A has obtained all government approvals (if necessary) and internal authorisations as required for the purpose of execution of this Agreement and performance of all obligations under this Agreement. This Agreement shall be binding to Party A once it has been executed by the authorised representative of Party A;

7.1.3 The execution of this Agreement or performance of the obligations thereunder by Party A will not violate any other agreements executed by it or its articles of association, and will not create any legal conflicts with other agreements executed by it or its articles of association.

7.2 Party B represents and warrants that:

7.2.1 Party B is incorporated under the laws of the Hong Kong Special Administrative Region of the PRC with limited liability as an independent legal entity and is currently holding a valid business license;

7.2.2 Party B has obtained all internal authorisations necessary for the execution of this Agreement. This Agreement shall be binding to Party B once it has been executed by the authorised representative of Party B;

7.2.3 The execution of this Agreement or performance of the obligations thereunder by Party B will not violate any other agreements executed by it or its articles of association, and will not create any legal conflicts with other agreements executed by it or its articles of association.

Article 8 Performance of this Agreement

- 8.1 If any of the transactions under this Agreement constitutes a connected transaction pursuant to the Listing Rules, these transactions shall only be implemented upon obtaining a waiver from The Stock Exchange of Hong Kong Limited ("Stock Exchange") or obtaining independent shareholders' approval in accordance with the Listing Rules. The independent shareholders' approval or the compliance with any other provisions related to connected transactions under the Listing Rules shall be a condition precedent to this Agreement and such transactions.
- 8.2 If a conditional waiver is granted by the Stock Exchange, this Agreement shall be implemented according to the conditions so stipulated.
- 8.3 If a waiver in respect of a certain connected transaction is withdrawn, revoked or lapsed, and the transaction fails to comply with the requirements of the Listing Rules regarding connected transaction, then the performance under this Agreement regarding that transaction shall be terminated.
- 8.4 If the performance of all transactions under this Agreement are terminated pursuant to Article 8.3, this Agreement shall be terminated.

Article 9 Force Majeure

- 9.1 If an event of Force Majeure occurs to any Party of this Agreement (Force Majeure events shall mean any event which is beyond the reasonable control of the affected Party, unforeseen or unavoidable and insurmountable even if foreseeable, and which arises after the date of this Agreement and which makes the total or partial performance of this Agreement by that Party become impossible or impracticable (including but not limited to the failure to perform even when a reasonable amount of money has been spent). Such events shall include but not limited flood, fire, drought, typhoons, earthquakes and other natural disasters, traffic accidents, unrests, riots and war (whether declared or not) and acts or omissions of government agencies) and the impact of such event of Force Majeure has resulted in the failure to perform all or part of its obligations under this Agreement, the performance of such obligations shall be suspended during the period caused by an event of Force Majeure.
- 9.2 The Party claiming Force Majeure shall make its best efforts to inform the other Party in writing within the shortest period of time and shall furnish within fifteen days thereafter proper proof of the occurrence and duration of such Force Majeure by hand or registered post. The Party claiming a Force Majeure event such that objectively the performance of this Agreement has become impossible or impracticable shall have the liability to use all reasonable endeavours to eliminate or mitigate the impact of Force Majeure.
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9.3 In the event of Force Majeure, both Parties shall promptly decide how to implement this Agreement through friendly consultations. After the termination or elimination of the Force Majeure events or its consequences, both Parties shall promptly resume the performance of their respective obligations under this Agreement.

Article 10 Announcement

10.1 Save for announcement made pursuant to the laws of the PRC or the requirements of China Securities Regulatory Commission, Stock Exchange of Hong Kong Limited, Securities and Futures Commission of Hong Kong, New York Stock Exchange, US Securities and Exchange Commission or any other governmental or regulatory authorities, neither party shall make any announcement regarding this Agreement without the prior written consent of the other party.

Article 11 Miscellaneous

11.1 Save as otherwise provided in this Agreement, neither Party shall transfer all or part of its rights or obligations under this Agreement without the prior written consent of the other Party.

11.2 This Agreement shall constitute the entire agreement between the Parties and shall supersede all prior verbal or written agreements, contracts, understanding and communication between them with respect to such matters.

11.3 If any provision in this Agreement becomes illegal, invalid or unenforceable, it shall not affect the validity and enforceability of the other provisions of this Agreement.

11.4 Both Parties agree to be liable for all fees and expenses arising from the execution of this Agreement pursuant to the relevant PRC laws. If the law does not prescribe for such payments, the fees and expenses shall be borne equally by both Parties.

11.5 This Agreement shall only be amended in writing sign by the authorised representatives from both Parties and sealed. If such amendment constitutes a substantive or material amendment to this Agreement, then such amendment shall only be valid upon notification or obtaining the approval (subject to the requirements of the Stock Exchange then) from the Stock Exchange and Party B's shareholders at the shareholders' meeting (if applicable).

11.6 Unless otherwise provided, no failure or delay on the part of either Party to this Agreement in exercising any right, power or privilege hereunder shall operate as a

waiver of any right, power or privilege of the other party hereto. The single or partial exercise of any right, power or privilege hereunder by any Party shall not preclude any other exercise of any other right, power or privilege hereunder.

Article 12 Notices

- 12.1 A notice or other correspondences made by a Party pursuant to this Agreement must be in writing and in Chinese, and must be left at the designated address of the other Party by hand or registered post, or sent by facsimile to the designated facsimile number of the other Party. A notice is deemed to have validly made on a date subject to the following provisions:
- 12.1.1 in the case of a notice delivered by hand, the date of receipt by a designated person of the other Party;
- 12.1.2 in the case of a notice by registered post, on the seventh day after the posting (dated on postage stamp) (if the last day is Saturday, Sunday or statutory holiday, then the next following working day).
- 12.1.3 in the case of a notice by facsimile, upon the facsimile being sent.

Article 13 Governing Law and Dispute Resolution

- 13.1 This Agreement shall be governed and construed in accordance with the laws of the People's Republic of China.
- 13.2 Any dispute arising out of or relating to this Agreement shall be settled by consultation between Party A and Party B. If consultation fails, Party A or Party B may submit such dispute to China International Economic and Trade Arbitration Commission for arbitration in accordance with the arbitration rules of the such arbitration commission in effective at the application of such arbitration. Any arbitral award shall be final and binding upon both Parties.

Article 14 Supplementary

- 14.1 Unless otherwise provided, in this Agreement:
- 14.1.1 a Party shall include its successors;
- 14.1.2 the headings of the respective articles of this Agreement shall be solely for ease of reference and shall not have any legal force or prejudice the interpretation of this Agreement.
-

14.2 This Agreement shall be in Chinese.

IN WITNESS whereof which the parties have executed this Agreement on the date and place first above written.

China National Offshore Oil Corporation

Authorised representative
Title:

CNOOC Limited

Authorised representative
Title:

Subsidiaries

As of December 31, 2014, we owned, directly or indirectly, the following subsidiaries.

Name of entity	Our interest	Jurisdiction of incorporation
CNOOC China Limited	100%	Tianjin, PRC
CNOOC International Limited	100%	British Virgin Islands
China Offshore Oil (Singapore) International Pte Ltd	100%	Singapore
CNOOC Finance (2003) Limited	100%	British Virgin Islands
Malacca Petroleum Limited	100%	Bermuda
OOGC America LLC	100%	Delaware, USA
OOGC Malacca Limited	100%	Bermuda
CNOOC Southeast Asia Limited	100%	Bermuda
CNOOC Africa Holding Ltd.	100%	British Virgin Islands
CNOOC Africa Ltd.	100%	British Virgin Islands
CNOOC Africa (UK) Limited	100%	London, U.K.
CNOOC SES Ltd.	100%	Labuan, F.T., Malaysia
CNOOC Poleng Ltd.	100%	Labuan, F.T., Malaysia
CNOOC Madura Ltd.	100%	Labuan, F.T., Malaysia
CNOOC NWS Private Limited	100%	Singapore
CNOOC Australia E&P Pty Ltd	100%	Australia
CNOOC Wiriagar Holding Limited	100%	Labuan, F.T., Malaysia
CNOOC Muturi Holding Limited	100%	Labuan, F.T., Malaysia
CNOOC Muturi Limited	100%	The Isle of Man
CNOOC Belgium BVBA	100%	Belgium
CNOOC Australia Limited	100%	British Virgin Islands
CNOOC Exploration & Production Nigeria Limited	100%	Nigeria
CNOOC Hong Kong Holding Limited	100%	Hong Kong

CNOOC Myanmar Holding Ltd.	100%	British Virgin Islands
CNOOC Myanmar Ltd.	100%	British Virgin Islands
CNOOC Middle East (Qatar) Limited	100%	British Virgin Islands
CNOOC Congo SA	100%	Republic of Congo
CNOOC Caspian (Kazakhstan) Ltd.	100%	Cayman Islands
CNOOC Singapore Private Limited	100%	Singapore
CNOOC Australia Energy Pty Ltd	100%	Australia
CNOOC Batanghari Ltd.	100%	Labuan, F.T., Malaysia
CNOOC Palung Aru Ltd.	100%	Labuan, F.T., Malaysia
CNOOC FPSO Holding Limited	100%	Liberia
CNOOC Liberia Limited	100%	Liberia
CNOOC Uganda (BVI) Ltd	100%	British Virgin Islands
De coöperatieve vereniging CNOOC Netherlands U.A.	100%	The Netherlands
CNOOC Netherlands B.V.	100%	The Netherlands
CNOOC Uganda Ltd	100%	Uganda
CNOOC Deepwater Development Limited	100%	Zhuhai, PRC
CNOOC Hainan Dock Limited	100%	Hainan, PRC
CNOOC Iraq Limited	100%	British Virgin Islands
CNOOC Finance (2011) Limited	100%	British Virgin Islands
CNOOC Algeria (BVI) Limited	100%	British Virgin Islands
CNOOC Reserves Fund I, Ltd.	100%	Cayman Islands
CNOOC Luxembourg S.à r.l.	100%	Luxembourg
CNOOC Finance (2012) Limited	100%	British Virgin Islands

CNOOC Finance (2013) Limited	100%	British Virgin Islands
Tainan-Chaoshan Petroleum Operating Company Limited*	50%	British Virgin Islands
Husky - CNOOC Madura Limited *	40%	British Virgin Islands
Chaoyang Petroleum (BVI) Limited*	50%	British Virgin Islands
Chaoyang Petroleum (Trinidad) Block 3A Limited*	50%	Barbados
Chaoyang Petroleum (Trinidad) Block 2C Limited*	50%	Barbados
Bridas Corporation*	50%	British Virgin Islands
Axion Energy Holding Ltd. *	50%	British Virgin Islands
PNG Energy Limited	70%	British Virgin Islands
GINI Energy Ltd	70%	Papua New Guinea
CNOOC Iceland ehf.	100%	Iceland
CNOOC Luxembourg Holding S.à r.l.	100%	Luxembourg
CNOOC PETROLEUM BRASIL LTDA	100%	Brazil
CNOOC International Energy Services (Beijing) Limited	100%	Beijing, PRC
Aurora Liquefied Natural Gas Ltd.	60%	Alberta, Canada
Canadian Nexen Petroleum East Al Hajr Ltd.	100%	Alberta, Canada
Canadian Petroleum Yemen Limited	100%	Jersey
CanadianOxy Offshore Production Co.	100%	Delaware, USA
CNOOC Canada Energy Ltd.	100%	British Columbia, Canada
CNOOC Nexen Finance (2014) ULC	100%	Nova Scotia, Canada
CNOOC Nexen Petroleum Guyana Limited	100%	Barbados

CNOOC UK Limited	100%	England and Wales
ICH Capital Management Hungary Limited Liability Company	100%	Hungary
ICM Assurance Ltd.	100%	Barbados
ICM Holdings Limited	100%	Jersey
International Capital Holdings Limited	100%	Malta
Nexen Brasil Exploração Petróleo Ltda.	100%	Brazil
Nexen E & P Services Nigeria Limited	100%	Nigeria
Nexen Energy Acquisitions Holdings Limited	100%	Jersey
Nexen Energy Capital Management U.S.A. Inc.	100%	Delaware, USA
Nexen Energy Holdings International Limited	100%	Jersey
Nexen Energy Holdings U.S.A. Inc.	100%	Delaware, USA
Nexen Energy Marketing Europe Limited	100%	England and Wales
Nexen Energy Marketing Nigeria Limited	100%	Nigeria
Nexen Energy Marketing U.S.A. Inc.	100%	Delaware, USA
Nexen Energy Services International Ltd.	100%	England and Wales
Nexen Energy Services U.S.A. Inc.	100%	Delaware, USA
Nexen Energy ULC	100%	British Columbia, Canada
Nexen Ettrick U.K. Limited	100%	England and Wales
Nexen Field Services Nigeria Limited	100%	Nigeria
Nexen Holdings U.S.A. Inc.	100%	Delaware, USA

Nexen Holdings West Africa Limited	100%	Jersey
Nexen Marketing Singapore Pte Ltd.	100%	Singapore
Nexen New Venture Jersey Limited	100%	Jersey
Nexen No. 8 Ltd.	100%	Alberta, Canada
Nexen Oil & Gas Holdings U.S.A. Inc.	100%	Delaware, USA
Nexen Oilfield Services Nigeria Limited	100%	Jersey
Nexen Petroleum Colombia Limited	100%	Jersey
Nexen Petroleum Deepwater Nigeria Limited	100%	Nigeria
Nexen Petroleum Dragon U.K. Limited	100%	England and Wales
Nexen Petroleum Exploration and Production Nigeria Limited	100%	Nigeria
Nexen Petroleum Nigeria Limited	100%	Nigeria
Nexen Petroleum Offshore U.S.A. Inc.	100%	Delaware, USA
Nexen Petroleum Operations Yemen Limited	100%	Jersey
Nexen Petroleum Poland Sp. zo.o.	100%	Poland
Nexen Petroleum Sales U.S.A. Inc.	100%	Texas, USA
Nexen Petroleum U.K. Holdings Limited	100%	England and Wales
Nexen Petroleum U.K. Limited	100%	England and Wales
Nexen Petroleum U.S.A. Inc.	100%	Delaware, USA
Nexen Resource Holdings U.K. Limited	100%	England and Wales
Nexen Services Jersey Limited	100%	Jersey

Wascana Energy 2001 Ltd.	100%	Saskatchewan, Canada
Canadian Nexen Petroleum Yemen	100%	Alberta, Canada
Nexen Crossfield Partnership	100%	Alberta, Canada
Nexen Marketing	100%	Alberta, Canada
Nexen Med Hat-Hatton Partnership	100%	Alberta, Canada
Nexen Nigerian Holdings Coöperatief U.A	100%	The Netherlands
Nexen Oil Sands Partnership	100%	Alberta, Canada

*We and our partners jointly control these entities.

CNOOC Limited
(incorporated under laws of Hong Kong with limited liability)
Code of Ethics for Directors and Senior Officers

28 August 2014

I. INTRODUCTION

This "CNOOC Limited Code of Ethics for Directors and Senior Officers" (the "Code of Ethics") summarizes the major long-standing principles of conduct that our company, CNOOC Limited (the "Company" or "our company"), follows to ensure our business is conducted with integrity and in compliance with the law. Because our company is incorporated in Hong Kong with our shares listed on the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and our ADRs listed on the New York Stock Exchange and Toronto Stock Exchange, and because most of our operations are conducted in the People's Republic of China (the "PRC"), we are at least subject to laws and ethical rules of all these jurisdictions. We expect our directors and senior management to know and follow the policies outlined in this Code of Ethics. For the purpose of this Code of Ethics, the scope of senior management includes Chief Executive Officer, President, Chief Financial Officer, Executive Vice Presidents, Senior Vice Presidents, Vice Presidents, Compliance Officer, General Counsel, Company Secretary and general managers and deputy general managers or other equal ranking personnel of the Company's headquarters, departments of the Company's headquarters, wholly-owned subsidiaries and regional branch companies (collectively, "Senior Officers"). Apart from any applicable sanctions under relevant laws, rules and regulations, any director or Senior Officer who violates the provisions or spirit of these policies is subject to disciplinary action, including termination of the employment.

Each of the directors and Senior Officers has the responsibility to obey the law and act honestly and ethically. To that end, this Code of Ethics is a guide intended to assist each of the directors and Senior Officers to decide to perform proper commercial conduct and to report existing illegal or unethical conduct. It is not, however, a comprehensive document that addresses every legal or ethical issue that a director or Senior Officer may confront, nor is it a summary of all laws and policies that apply to our business. This Code of Ethics is supplemental to other policies, manuals and internal regulations of our company.

If any director or Senior Officer has any questions about this Code of Ethics or is concerned or unsure about conducts he or she believes may violate this Code of Ethics, other policies of our company or any applicable laws, rules or regulations, the director or Senior Officer should consult with our Compliance Officer, General Counsel, and/or a member of the Audit Committee of our Board of Directors (the "Audit Committee"). No one at our company has the authority to make exceptions to these policies, other than our Board of Directors (the "Board") or a committee of the Board.

II. COMPLIANCE WITH LAWS, RULES AND REGULATIONS

The directors and Senior Officers must comply fully with, among other things, all applicable laws, rules and regulations that govern our business conduct in the PRC, Hong Kong Special Administrative Region of the PRC ("Hong Kong"), the United States of America (the "U.S."), Canada, and any other region or country in which the Company conducts its business, including, but not limited to, securities laws, the Rules Governing

the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"), the New York Stock Exchange rules, the Toronto Stock Exchange Company Manual, environmental laws, insider trading and other market misconduct laws (including, but not limited to, the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) (the "SFO")) and the U.S. Foreign Corrupt Practices Act.

III. PROHIBITION AGAINST INSIDER TRADING/INSIDER DEALING AND PROCEDURE OF HANDLING INSIDE INFORMATION

The directors and Senior Officers who have access to, or knowledge of, material non-public information from or about our company are prohibited from buying, selling or otherwise trading in our stock or other securities of our company. The prohibition contained in this section not only applies to the directors and Senior Officers but also to any "manager, secretary of, or any other person involved in the management of, a corporation" (collectively, the "Managers"). "Material non-public" information includes any information, positive or negative, that has not yet been made available or disclosed to the public and that might be of significance to an investor, as part of the total mix of information, in deciding whether to buy or sell stock or other securities.

Such insiders are also prohibited from giving "tips" on material non-public information, that is, directly or indirectly disclosing such information to any other person, including family members, other relatives and friends, so that they may trade in our stock or other securities of our company. Furthermore, if, during the course of service with our company, any director, Senior Officer or Manager acquires material non-public information about another company, such as one of our customers or suppliers or our affiliates, or learn that our company is planning to enter into a major transaction with another company (such as an acquisition), the directors, Senior Officers or Managers are restricted from trading in the securities of the other company.

In the U.S., such "insider trading" is both unethical and illegal, with criminal penalties of up to US\$5 million and a jail term of up to 20 years and civil penalties in the U.S. of up to three times the illegal profit gained or loss avoided.

In Hong Kong, "insider dealing" within the meaning of the SFO is broadly similar to insider trading in the U.S. It also constitutes a criminal offence, subject to a maximum penalty of HK\$10,000,000 and 10 years' imprisonment.

In Canada, "insider trading" and "tipping" restrictions are generally similar to those in the U.S., with penalties including a fine of no more than CAD\$5,000,000 or imprisonment for a term of no more than 5 year less a day, or both, and also liable to compensate the counterparty to any trades for the damages that result from such trade.

In addition to prohibition from insider trading/insider dealing set forth above, Part XIVA of the SFO has been enacted and became effective on 1 January 2013. Such provisions impose statutory obligation of disclosure of price sensitive, or "inside" information by listed corporations, in addition to the disclosure obligations under the Listing Rules and

the Codes on Takeovers and Mergers and Share Repurchase. Consequential amendment to the Listing Rules also came into effect on the same day.

Under the SFO, “inside information”, in relation to a listed corporation, means specific information that is about (i) the corporation; (ii) a shareholder or officer of the corporation; or (iii) the listed securities of the corporation or their derivatives; and is not generally known to the persons who are accustomed or would be likely to deal in the listed securities of the corporation but would if generally known to them be likely to materially affect the price of the listed securities.

In general, listed corporation must, as soon as reasonably practicable after any inside information has come to its knowledge, disclose the information to the public. Although the disclosure obligation rests with the listed corporation, the listed corporation is considered to have knowledge of the inside information when (a) one or more of its officers (which include a director, manager (a person who, under the immediate authority of the Board, is charged with management responsibility affecting the whole of the listed corporation or a substantial part of the listed corporation) or secretary of, or any other person involved in the management (a person who discharges the role of a “manager”) of, the listed corporation) knows or ought reasonably to have known that information in the course of performing functions as officers of the listed corporation and (b) a reasonable person, acting as an officer of the corporation, would consider that the information is inside information in relation to the listed corporation. The listed corporation and its directors must take all reasonable steps to maintain strict confidentiality of inside information until it is announced.

In addition to the provisions under the SFO, where in the view of the Hong Kong Stock Exchange, there is or there is likely to be a false market in an issuer’s securities, the listed corporation must, as soon as reasonably practicable after consultation with the Hong Kong Stock Exchange, announce the information necessary to avoid a false market in its securities. Under the Listing Rules, a listed corporation must not divulge any information in such a way as to place in a privileged dealing position any person or class or category of persons. It must not release any information in such a way that transactions may be entered into at prices which do not reflect the latest available information.

According to the SFO, it is ultimately the responsibility of a listed corporation’s directors and senior officers to ensure that the listed corporation complies with the disclosure obligation. Accordingly, the Company’s directors and Senior Officers are obliged to take all reasonable measures to ensure proper safeguards exist to prevent the Company from breaching the statutory disclosure requirement, which would include the creation and maintenance of appropriate internal control and reporting systems. If a breach on the part of the Company is attributable to the failure to take all reasonable measures to ensure that proper safeguards exist by, or to any intentional, reckless or negligent conduct of, any directors or Senior Officers, the directors or Senior Officers concerned would also be liable.

IV. PROHIBITION AGAINST OTHER MARKET MISCONDUCT

The prohibition contained in this section is derived from Hong Kong laws and regulations. It not only applies to the directors and Senior Officers but also to the Managers. Each of the directors, Senior Officers and Managers is ethically and legally required to take all reasonable measures from time to time to ensure that proper safeguards exist to prevent our company from acting in a way which would result in our company perpetrating any “market misconduct” within the meaning of the SFO. Under Hong Kong laws, the directors, Senior Officers and Managers may be subject to criminal liability if they have actively participated in, consented to, or connived in the criminal misconduct of the corporation which they manage. Under the Hong Kong Securities and Futures Ordinance, “market misconduct” includes insider trading (see above) and the following:

(a) False Trading

False trading in our securities takes place if a person, whether in Hong Kong or overseas, does or causes anything to be done with the intention that, or being reckless as to whether, it has or is likely to have the effect of creating a false market in our securities. Creation of a false market includes activities undertaken by any person creating or maintaining an artificial price for our securities. The directors, Senior Officers and Managers are therefore obliged not to undertake any such activities and to have due regard to the prohibition against false trading in carrying out or authorizing transactions which may impact the price of our securities.

(b) Price Rigging

Price rigging occurs where a person, in Hong Kong or elsewhere, engages in a sale or purchase of securities, not involving change in the beneficial ownership of those securities and which has the effect of maintaining, increasing, reducing, stabilizing or causing fluctuations in the price of securities traded on a recognized stock exchange in Hong Kong or overseas. The directors, Senior Officers and Managers must not engage in any such transaction if price rigging, as described above, forms a purpose, even if not the dominant purpose, of the transaction. The onus will be on the relevant director, Senior Officers or Manager to establish that the purpose of any transaction which has the effect of price rigging did not include the purpose of creating a false or misleading appearance with respect to the price of our securities.

(c) Disclosure of False or Misleading Information Inducing Transactions

In broad terms, the SFO prohibits the disclosure of false or misleading information that is likely to induce another person to subscribe for, sell or buy securities or deal in futures contracts in Hong Kong. Accordingly, with respect to information disclosed to third parties or to the public generally and which may be expected to induce transactions in our securities (which could include, without limitation, information disclosed through or in the form of a prospectus or other offer memorandum, annual reports, periodic reports, press releases and announcements or through the release of financial information), the directors, Senior Officers and Managers are required to pay proper regard to the veracity

of any such information and to consider whether such information is misleading through the inclusion or omission of any material fact.

(d) Disclosure of Information About Prohibited Transactions

Disclosure of information concerning the effect on the price of our securities or futures contracts dealt in by our company, by a transaction carried out in breach of the market misconduct provisions relating to our securities or one of our affiliates or to the futures contracts is itself prohibited in circumstances where the person making the disclosure has been involved directly or indirectly in the transaction or has, or expects to receive, directly or indirectly a benefit as a result of the disclosure. Accordingly, the directors, Senior Officers and Managers should exercise caution and have regard to the relevant provisions of the SFO.

(e) Stock Market Manipulation

“Stock market manipulation” refers to two or more transactions in securities of a corporation that, by themselves or in conjunction with any other transactions, affects or likely to affect (by way of increasing, reducing, or stabilizing) the price of any securities traded on a recognized stock exchange in Hong Kong or overseas and with the intention of inducing another person to purchase or subscribe for, or to refrain from selling such securities or the securities of a related corporation. The directors, Senior Officers and Managers must ensure that no transactions in our securities or securities of our affiliates constitute stock market manipulation.

Each form of market misconduct identified above is unethical and illegal. All such market misconduct constitutes criminal offences in Hong Kong, with penalties of up to HK\$10,000,000 and 10 years’ imprisonment. An offender may also be liable to civil penalties and may be disqualified from acting as a director of, or participating in the management of, a listed or other specified corporation for a period of up to five years. In addition, as a part of this Code of Ethics, we have attached the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) issued by the Hong Kong Stock Exchange. All of our directors should comply with the Model Code; and all Senior Officers should follow the spirit of the Model Code in conducting their securities transactions. In most instances, Senior Officers who are not our directors are subject to the same ethical and legal requirements in securities transactions as our directors.

V. CONFLICTS OF INTEREST

Business decisions must be made in the best interest of our company, not motivated by personal interest or gain. Therefore, as a matter of our company policy, all directors and Senior Officers must avoid any actual or perceived conflict of interest. A “conflict of interest” occurs when an individual’s personal interests interfere or conflict in any way (or even appear to interfere or conflict) with the interests of our company. A conflict of

interest situation can arise when an employee takes actions or has interests (financial or other) that may make it difficult to perform his or her company work objectively and effectively. Conflicts of interest also may arise when an employee or a member of his or her family receives improper personal benefits as a result of his or her position in our company, regardless of whether such benefits are received from our company or a third party. In relation to loans to, or guarantees of obligations of, employees and their family members, please refer to our company's "Regulations on Prohibition of Provision of Loans to Directors and Senior Officers of CNOOC Limited". Directors and Senior Officers should also read carefully and comply with our company's "Regulations on the Management of Conflicts of Interest of CNOOC Limited".

It is difficult to identify exhaustively what constitutes a conflict of interest. For this reason, the directors and Senior Officers must avoid any situation in which their independent business judgment might appear to be compromised. Questions about potential conflicts of interest situations, and disclosure of these situations as they arise, should be addressed and reported to our Compliance Officer, General Counsel and/or a member of the Audit Committee.

VI. CORPORATE OPPORTUNITIES

All directors and Senior Officers are prohibited from: (a) taking themselves personally opportunities that properly belong to our company or are discovered through the use of corporate property, information or position; (b) using corporate property, information or position for personal gain; and (c) competing with our company. All directors and Senior Officers owe a duty to our company to advance its legitimate interests when the opportunity to do so arises.

VII. PROTECTION AND PROPER USE OF COMPANY ASSETS

All directors and Senior Officers must protect our assets and ensure their efficient use. Such assets include, without limitation, intellectual property such as our corporate name, logos, trademarks, patents, copyrights, confidential information, ideas, plans and strategies. Theft, carelessness and waste have a direct impact on our profitability. Any misuse or infringement of our company assets should be reported to our Compliance Officer, General Counsel and/or a member of the Audit Committee.

VIII. PUBLIC COMPANY REPORTING

As a result of our status as a public company in Hong Kong, the U.S. and Canada, we are required to file periodic and other reports with the Hong Kong Stock Exchange, the Hong Kong Securities and Futures Commission, the U.S. Securities and Exchange Commission and the Canadian securities regulatory authorities. Our company views its public disclosure responsibility seriously. To that end, in respect of the various disclosure and reporting obligations to which our company is from time to time subject in Hong Kong, in the U.S. and in Canada:

A. each of the directors and Senior Officers must take all reasonable steps to ensure that these reports and other public communications furnish the marketplace with full, fair, accurate, timely and understandable disclosure regarding the financial and business condition of our company;

B. each of the directors and Senior Officers must promptly bring to the attention of the Audit Committee any material information of which such director or Senior Officer may become aware that affects the disclosures made by our company in its public filings or otherwise would assist the Audit Committee in fulfilling its responsibilities as specified in applicable securities laws and regulations; and

C. each of the directors and Senior Officers must promptly bring to the attention of our Compliance Officer, General Counsel and/or the Audit Committee any information he or she may have concerning (i) significant deficiencies in the design or operation of internal controls that could adversely affect our company's ability to record, process, summarize and report financial data, or (ii) any fraud, whether or not material, involving management or other employees who have a significant role in our company's financial reporting, disclosures or internal controls.

IX. REPORTING ILLEGAL OR UNETHICAL BEHAVIOR

Each of the directors and Senior Officers has a duty to adhere to this Code of Ethics. Each of the directors and Senior Officers must also promptly bring to the attention of our Compliance Officer, General Counsel and/or the Audit Committee any information he or she may have concerning evidence of a material violation of the securities or other laws, rules or regulations applicable to our company and the operation of its business, by our company or any agent thereof, or of a violation of this Code of Ethics, including any actual or apparent conflicts of interest between personal and professional relationships, involving any management or other employees who have a significant role in our company's financial reporting, disclosures or internal controls. Confidentiality will be maintained to the fullest extent possible.

A director or Senior Officer will not be penalized for making a good-faith report of violations of this Code of Ethics or other illegal or unethical conduct, nor will we permit retaliation of any kind against anyone who makes a good-faith report. A director or Senior Officer who deliberately submits a false report of a violation, however, will be subject to disciplinary action. If a director or Senior Officer reports a violation and in some way also are involved in the violation, the fact that you stepped forward will be considered. If the result of an investigation indicates that corrective action is required, the Board will decide, or designate appropriate persons to decide, what actions to take, including, when appropriate, legal proceedings and disciplinary action up to and including termination, to rectify the problem and avoid the likelihood of its recurrence.

X. RELATIONSHIP WITH COMPANY MANUAL

This Code of Ethics supplements the existing policies and procedures already in place as stated in other company manuals and communicated to all employees. Certain policies referred to in this Code of Ethics are contained in their entirety in the other company manuals. The company manuals contain information that is proprietary and confidential, and our company hereby expressly denies waiving any right to assert claims that the contents of such company manuals are proprietary and/or confidential. This Code of Ethics and other company manuals are statements of goals and expectations for individual and business conduct. They are not intended to, and do not in any way constitute, an employment contract or an assurance of continued employment. Our company does not create any contractual rights by issuing this Code of Ethics or any company manual.

XI. AMENDMENT, MODIFICATION AND WAIVER

This Code of Ethics may be amended, modified or waived by the Board. Any change to, or waiver (whether explicit or implicit) of, this Code of Ethics must be disclosed to our stockholders either by including a statement in our annual report on Form 20-F filed with the U.S. Securities and Exchange Commission or by publishing a statement on our internet website, www.cnooltd.com.

XII. ACKNOWLEDGMENT

Each of the directors and Senior Officers is accountable for knowing and abiding by the policies contained in this Code of Ethics. Our company may require that the directors and Senior Officers sign an acknowledgment every year confirming that they have received and read this Code of Ethics, understand them and are complying with them.

Appendix 1:

Contact Information

Compliance Officer: Mr. Wu Guangqi
Address: Room 1828, CNOOC Plaza, 25 Chaoyangmenbei Dajie, Beijing, People's
Republic of China
Postcode: 100010
Tel: (86-10) 84522602
Email: wugq@cnooc.com.cn

General Counsel: Mr. Zhao Liguo
Address: Room 902, CNOOC Plaza, 25 Chaoyangmenbei Dajie, Beijing, People's
Republic of China
Postcode: 100010
Tel: (86-10) 84521178
Email: zhaolg@cnooc.com.cn

The above contact information shall be released as appendix according to changes of circumstances.

Appendix 2: Model Code for Securities Transactions by Directors of Listed Issuers by the Hong Kong Stock Exchange

1. This code (both the basic principles and the rules) sets a required standard against which directors must measure their conduct regarding transactions in securities of their listed issuers. Any breach of such required standard will be regarded as a breach of the Exchange Listing Rules. A director must seek to secure that all dealings in which he is or is deemed to be interested be conducted in accordance with this code.
2. A listed issuer may adopt its own code on terms no less exacting than those set out in this code if it so wishes. Any breach of such code will not be a breach of the Exchange Listing Rules unless it is also a breach of the required standard contained in this code.
3. The Exchange regards it as highly desirable that directors of a listed issuer should hold securities in the listed issuer.
4. Directors wishing to deal in any securities in a listed issuer must first have regard to the provisions of Parts XIII and XIV of the Securities and Futures Ordinance with respect to insider dealing and market misconduct. However, there are occasions where directors should not be free to deal in the listed issuer's securities even though the statutory requirements will not be contravened.
5. The single most important thrust of this code is that directors who are aware of or privy to any negotiations or agreements related to intended acquisitions or disposals which are notifiable transactions under Chapter 14 of the Exchange Listing Rules or

connected transactions under Chapter 14A of the Exchange Listing Rules or any inside information must refrain from dealing in the listed issuer's securities as soon as they become aware of them or privy to them until proper disclosure of the information in accordance with the Exchange Listing Rules. Directors who are privy to relevant negotiations or agreements or any inside information should caution those directors who are not so privy that there may be unpublished inside information and that they must not deal in the listed issuer's securities for a similar period.

6. In addition, a director must not make any unauthorised disclosure of confidential information, whether to co-trustees or to any other person (even those to whom he owes a fiduciary duty) or make any use of such information for the advantage of himself or others.

7. For the purpose of this code:

(a) "dealing" includes, subject to paragraph (d) below, any acquisition, disposal or transfer of, or offer to acquire, dispose of or transfer, or creation of pledge, charge or any other security interest in, any securities of the listed issuer or any entity whose assets solely or substantially comprise securities of the listed issuer, and the grant, acceptance, acquisition, disposal, transfer, exercise or discharge of any option (whether call, put or both) or other right or obligation, present or future, conditional or unconditional, to acquire, dispose of or transfer securities, or any interest in securities, of the listed issuer or any such entity, in each case whether or not for consideration and any agreements to do any of the foregoing, and "deal" shall be construed accordingly;

(b) "beneficiary" includes any discretionary object of a discretionary trust (where the director is aware of the arrangement) and any beneficiary of a non-discretionary trust;

(c) "securities" means listed securities and any unlisted securities that are convertible or exchangeable into listed securities and structured products (including derivative warrants), such as those described in Chapter 15A of the Exchange Listing Rules, issued in respect of the listed securities of a listed issuer;

(d) notwithstanding the definition of "dealing" in paragraph (a) above, the following dealings are not subject to the provisions of this code:

(i) taking up of entitlements under a rights issue, bonus issue, capitalisation issue or other offer made by the listed issuer to holders of its securities (including an offer of shares in lieu of a cash dividend) but, for the avoidance of doubt, applying for excess shares in a rights issue or applying for shares in excess of an assured allotment in an open offer is a "dealing";

(ii) allowing entitlements to lapse under a rights issue or other offer made by the listed issuer to holders of its securities (including an offer of shares in lieu of a

cash dividend);

(iii) undertakings to accept, or the acceptance of, a general offer for shares in the listed issuer made to shareholders other than those that are concert parties (as defined under the Takeovers Code) of the offeror;

(iv) exercise of share options or warrants or acceptance of an offer for shares pursuant to an agreement entered into with a listed issuer before a period during which dealing is prohibited under this code at the pre-determined exercise price, being a fixed monetary amount determined at the time of grant of the share option or warrant or acceptance of an offer for shares;

(v) an acquisition of qualification shares where, under the listed issuer's constitutional documents, the final date for acquiring such shares falls within a period when dealing is prohibited under this code and such shares cannot be acquired at another time;

(vi) dealing where the beneficial interest or interests in the relevant security of the listed issuer do not change;

(vii) dealing where a shareholder places out his existing shares in a "top-up" placing where the number of new shares subscribed by him pursuant to an irrevocable, binding obligation equals the number of existing shares placed out and the subscription price (after expenses) is the same as the price at which the existing shares were placed out; and

(viii) dealing where the beneficial ownership is transferred from another party by operation of law.

8. For the purpose of this code, the grant to a director of an option to subscribe or purchase his company's securities shall be regarded as a dealing by him, if the price at which such option may be exercised is fixed at the time of such grant. If, however, an option is granted to a director on terms whereby the price at which such option may be exercised is to be fixed at the time of exercise, the dealing is to be regarded as taking place at the time of exercise.

RULES

A. Absolute Prohibitions:

1. A director must not deal in any of the securities of the listed issuer at any time when he is in possession of inside information in relation to those securities, or where clearance to deal is not otherwise conferred upon him under rule B.8 of this code.

2. A director must not deal in the securities of a listed issuer when by virtue of his position as a director of another listed issuer, he is in possession of unpublished inside information in relation to those securities.

3. (a) A director must not deal in any securities of the listed issuer on any day on which its financial results are published and:

- (i) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
- (ii) (during the period of 30 days immediately preceding the publication date of the quarterly results (if any) and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results,

unless the circumstances are exceptional, for example, where a pressing financial commitment has to be met as described in section C below. In any event, the director must comply with the procedure in rules B.8 and B.9 of this code.

(b) The listed issuer must notify the Exchange in advance of the commencement of each period during which directors are not allowed to deal under rule A.3(a).

Note: Directors should note that the period during which they are not allowed to deal under rule A.3 will cover any period of delay in the publication of a results announcement.

4. Where a director is a sole trustee, the provisions of this code will apply to all dealings of the trust as if he were dealing on his own account (unless the director is a bare trustee and neither he nor any of his close associates is a beneficiary of the trust, in which case the provisions of this code will not apply).

5. Where a director deals in the securities of a listed issuer in his capacity as a co-trustee and he has not participated in or influenced the decision to deal in the securities and is not, and none of his close associates is, a beneficiary of the trust, dealings by the trust will not be regarded as his dealings.

6. The restrictions on dealings by a director contained in this code will be regarded as equally applicable to any dealings by the director's spouse or by or on behalf of any minor child (natural or adopted) and any other dealings in which for the purposes of Part XV of the Securities and Futures Ordinance he is or is to be treated as interested. It is the duty of the director, therefore, to seek to avoid any such dealing at a time when he himself is not free to deal.

7. When a director places investment funds comprising securities of the listed issuer under professional management, discretionary or otherwise, the managers must nonetheless be

made subject to the same restrictions and procedures as the director himself in respect of any proposed dealings in the listed issuer's securities.

B. Notification

8. A director must not deal in any securities of the listed issuer without first notifying in writing the chairman or a director (otherwise than himself) designated by the board for the specific purpose and receiving a dated written acknowledgement. In his own case, the chairman must first notify the board at a board meeting, or alternatively notify a director (otherwise than himself) designated by the board for the purpose and receive a dated written acknowledgement before any dealing. The designated director must not deal in any securities of the listed issuer without first notifying the chairman and receiving a dated written acknowledgement. In each case,

- (a) a response to a request for clearance to deal must be given to the relevant director within five business days of the request being made;
- (b) the clearance to deal in accordance with (a) above must be valid for no longer than five business days of clearance being received.

Note: For the avoidance of doubt, the restriction under A.1 of this code applies in the event that inside information develops following the grant of clearance.

9. The procedure established within the listed issuer must, as a minimum, provide for there to be a written record maintained by the listed issuer that the appropriate notification was given and acknowledged pursuant to rule B.8 of this code, and for the director concerned to have received written confirmation to that effect.

10. Any director of the listed issuer who acts as trustee of a trust must ensure that his cotrustees are aware of the identity of any company of which he is a director so as to enable them to anticipate possible difficulties. A director having funds under management must likewise advise the investment manager.

11. Any director who is a beneficiary, but not a trustee, of a trust which deals in securities of the listed issuer must endeavour to ensure that the trustees notify him after they have dealt in such securities on behalf of the trust, in order that he in turn may notify the listed issuer. For this purpose, he must ensure that the trustees are aware of the listed issuers of which he is a director.

12. The register maintained in accordance with Section 352 of the Securities and Futures Ordinance should be made available for inspection at every meeting of the board.

13. The directors of a company must as a board and individually endeavour to ensure that any employee of the company or director or employee of a subsidiary company who, because of his office or employment in the company or a subsidiary, is likely to be in possession of unpublished price-sensitive information in relation to the securities of any

listed issuer does not deal in those securities at a time when he would be prohibited from dealing by this code if he were a director.

C. Exceptional circumstances

14. If a director proposes to sell or otherwise dispose of securities of the listed issuer under exceptional circumstances where the sale or disposal is otherwise prohibited under this code, the director must, in addition to complying with the other provisions of this code, comply with the provisions of rule B.8 of this code regarding prior written notice and acknowledgement. The director must satisfy the chairman or the designated director that the circumstances are exceptional and the proposed sale or disposal is the only reasonable course of action available to the director before the director can sell or dispose of the securities. The listed issuer shall give written notice of such sale or disposal to the Exchange as soon as practicable stating why it considered the circumstances to be exceptional. The listed issuer shall publish an announcement in accordance with rule 2.07C immediately after any such sale or disposal and state that the chairman or the designated director is satisfied that there were exceptional circumstances for such sale or disposal of securities by the director. An example of the type of circumstances which may be considered exceptional for such purposes would be a pressing financial commitment on the part of the director that cannot otherwise be satisfied.

D. Disclosure

15. In relation to securities transactions by directors, a listed issuer shall disclose in its interim reports (and summary interim reports, if any) and the Corporate Governance Report contained in its annual reports (and summary financial reports, if any):

- (a) whether the listed issuer has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in this code;
- (b) having made specific enquiry of all directors, whether its directors have complied with, or whether there has been any non-compliance with, the required standard set out in this code and its code of conduct regarding securities transactions by directors; and
- (c) in the event of any non-compliance with the required standard set out in this code, details of such non-compliance and an explanation of the remedial steps taken by the listed issuer to address such non-compliance.

CERTIFICATIONS

I, Fanrong Li, certify that:

1. I have reviewed this annual report on Form 20-F of CNOOC Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 22, 2015

By: /S/Fanrong Li
Name: Fanrong Li
Title: Chief Executive Officer and President

CERTIFICATIONS

I, Hua Zhong, certify that:

1. I have reviewed this annual report on Form 20-F of CNOOC Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 22, 2015

By: /S/Hua Zhong
Name: Hua Zhong
Title: Chief Financial Officer

CERTIFICATIONS

The certifications set forth below are being submitted in connection with the Annual Report on Form 20-F for the year ended December 31, 2014 (the "Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Fanrong Li, the Chief Executive Officer and Hua Zhong, the Chief Financial Officer of CNOOC Limited, each certifies that, to the best of his knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of CNOOC Limited.

Date: April 22, 2015

By: /S/Fanrong Li
Name: Fanrong Li
Title: Chief Executive Officer and President

By: /S/Hua Zhong
Name: Hua Zhong
Title: Chief Financial Officer

CNOOC LIMITED

**Estimated
Future Reserves and Income
Attributable to Certain Leasehold Interests
and
Derived Through Certain Production Sharing Contracts**

SEC Parameters

**As of
December 31, 2014**

\\ Herman G. Acuna
Herman G. Acuna, P.E.
TBPE License No. 92254
Managing Senior Vice President – International

\\ Eric T. Nelson
Eric T. Nelson, P.E.
TBPE License No. 102286
Senior Vice President

[SEAL]

[SEAL]

RYDER SCOTT COMPANY, L.P.
TBPE Firm Registration No. F-1580

RYDER SCOTT COMPANY PETROLEUM CONSULTANTS



RYDER SCOTT COMPANY
PETROLEUM CONSULTANTS

TBPE REGISTERED ENGINEERING FIRM F-1580
1100 LOUISIANA SUITE 4600

HOUSTON, TEXAS 77002-5294

FAX (713) 651-0849
TELEPHONE (713) 651-9191

February 28, 2015

CNOOC Limited
No. 25, ChaoYangMenBei Dajie
DongCheng District
Beijing 100010
China

Gentlemen:

At your request, Ryder Scott Company, L.P. (Ryder Scott) has prepared an estimate of the proved reserves, future production and income attributable to certain leasehold interests and derived through certain production sharing contracts of CNOOC Limited (CNOOC) as of December 31, 2014. The subject properties are located in the countries of Australia, China, Indonesia, Nigeria and United States. The reserves and income data were estimated based on the definitions and disclosure guidelines of the United States Securities and Exchange Commission (SEC) contained in Title 17, Code of Federal Regulations, Modernization of Oil and Gas Reporting, Final Rule released January 14, 2009 in the Federal Register (SEC regulations). Our third party study, completed on February 20, 2015 and presented herein, was prepared for public disclosure by CNOOC in filings made with the SEC in accordance with the disclosure requirements set forth in the SEC regulations.

The properties evaluated by Ryder Scott account for a portion of CNOOC's total net proved, probable and possible reserves as of December 31, 2014. Based on information provided by CNOOC, the third party estimate conducted by Ryder Scott addresses 46 percent of the total proved developed net liquid hydrocarbon reserves, 69 percent of the total proved developed net gas reserves, 26 percent of the total proved undeveloped net liquid hydrocarbon reserves and 44 percent of the total proved undeveloped net gas reserves of CNOOC.

The estimated reserves and future net income amounts presented in this report, as of December 31, 2014, are related to hydrocarbon prices. The hydrocarbon prices used in the preparation of this report are based on the average prices during the 12-month period prior to the "as of date" of this report, determined as the unweighted arithmetic averages of the prices in effect on the first-day-of-the-month for each month within such period, unless prices were defined by contractual arrangements, as required by the SEC regulations. Actual future prices may vary significantly from the prices required by SEC regulations; therefore, volumes of reserves actually recovered and the amounts of income actually received may differ significantly from the estimated quantities presented in this report. The results of this study are summarized in the following table.

SUITE 600, 1015 4TH STREET, S.W.
621 17TH STREET, SUITE 1550

CALGARY, ALBERTA T2R 1J4
DENVER, COLORADO 80293-1501

TEL (403) 262-2799
TEL (303) 623-9147

FAX (403) 262-2790
FAX (303) 623-4258

SEC PARAMETERS
Estimated Net Reserves and Income Data
Attributable to Certain Leasehold Interests and
Derived Through Certain Production Sharing Contracts of
CNOOC Limited
As of December 31, 2014

	Proved			Total Proved
	Developed		Undeveloped	
	Producing	Non-Producing		
Net Remaining Reserves				
Oil/Condensate – Barrels	581,762,656	16,886,123	457,952,121	1,056,600,900
Plant Products – Barrels	31,727,819	2,335,927	25,027,206	59,090,952
Gas – MMCF	1,932,357	303,325	1,769,535	4,005,217
Income Data (M\$)				
Future Gross Revenue	\$ 68,211,142	\$ 3,862,533	\$ 53,217,517	\$ 125,291,192
Deductions	26,797,007	1,384,579	29,130,032	57,311,618
Future Net Income (FNI)	\$ 41,414,135	\$ 2,477,954	\$ 24,087,485	\$ 67,979,574
Discounted FNI @ 10%	\$ 31,174,586	\$ 1,877,765	\$ 12,572,551	\$ 45,624,902

Liquid hydrocarbons are expressed in standard 42 gallon barrels. All gas volumes are reported on an “as sold basis” expressed in millions of cubic feet (MMCF) at the official temperature and pressure bases of the areas in which the gas reserves are located. In this report, the revenues, deductions, and income data are expressed as thousands of U.S. dollars (M\$).

The estimates of the reserves, future production, and income attributable to properties in this report were prepared using the economic software package Cashflow, a proprietary program of Ryder Scott. Ryder Scott notes that certain summaries and calculations may vary due to rounding and may not exactly match the sum of the properties being summarized. Furthermore, one line economic summaries may vary slightly from the more detailed cash flow projections of the same properties, also due to rounding. The rounding differences are not material.

The future gross revenue is after the deduction of the Natural Resource Tax and Value Added Tax (VAT) in China and the Petroleum Resource Rent Tax (PRRT) in Australia which are shown as “production taxes.” The deductions incorporate the normal direct costs of operating the wells, “Windfall Profits Taxes” in China, recompletion costs, development costs, certain abandonment costs net of salvage and Domestic Market Obligation fees in Indonesia which are shown as “other” deductions. The future net income is before the deduction of foreign government income taxes and general administrative overhead, and has not been adjusted for outstanding loans that may exist, nor does it include any adjustment for cash on hand or undistributed income. Liquid hydrocarbon reserves account for approximately 79 percent and gas reserves account for the remaining 21 percent of total future gross revenue from proved reserves.

The discounted future net income shown above was calculated using a discount rate of 10 percent per annum compounded monthly. Future net income was discounted at four other discount rates which were also compounded monthly. These results are shown in summary form as follows.

RYDER SCOTT COMPANY PETROLEUM CONSULTANTS

Discount Rate Percent	Discounted Future Net Income (M\$)
	As of December 31, 2014
	Total Proved
7	\$50,664,764
8	\$48,874,965
9	\$47,198,710
11	\$44,144,086

The results shown above are presented for your information and should not be construed as our estimate of fair market value.

Reserves Included in This Report

The proved reserves included herein conform to the definition as set forth in the Securities and Exchange Commission's Regulations Part 210.4-10 (a). An abridged version of the SEC reserves definitions from 210.4-10(a) entitled "Petroleum Reserves Definitions" is included as an attachment to this report.

The various proved reserve status categories are defined under the attachment entitled "Petroleum Reserves Status Definitions and Guidelines" in this report. The proved developed non-producing reserves included herein consist of the shut-in and behind pipe categories.

No attempt was made to quantify or otherwise account for any accumulated gas production imbalances that may exist. The proved gas volumes included herein do not attribute gas consumed in operations as reserves.

Reserves are "estimated remaining quantities of oil and gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations." All reserve estimates involve an assessment of the uncertainty relating the likelihood that the actual remaining quantities recovered will be greater or less than the estimated quantities determined as of the date the estimate is made. The uncertainty depends chiefly on the amount of reliable geologic and engineering data available at the time of the estimate and the interpretation of these data. The relative degree of uncertainty may be conveyed by placing reserves into one of two principal categories, either proved or unproved. Unproved reserves are less certain to be recovered than proved reserves, and may be further sub-categorized as probable and possible reserves to denote progressively increasing uncertainty in their recoverability. At CNOOC's request, this report addresses only the proved reserves attributable to the properties evaluated herein.

Proved oil and gas reserves are "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." The proved reserves included herein were estimated using deterministic methods. The SEC has defined reasonable certainty for proved reserves, when based on deterministic methods, as a "high degree of confidence that the quantities will be recovered."

Proved reserve estimates will generally be revised only as additional geologic or engineering data become available or as economic conditions change. For proved reserves, the SEC states that "as changes due to increased availability of geoscience (geological, geophysical, and geochemical), engineering, and economic data are made to the estimated ultimate recovery (EUR) with time, reasonably certain EUR is much more likely to increase or remain constant than to decrease." Moreover, estimates of proved reserves may be revised as a result of future operations, effects of regulation by governmental agencies or geopolitical or economic risks. Therefore, the proved reserves included in this report are estimates only and should not be construed as being exact quantities, and if recovered, the revenues therefrom, and the actual costs related thereto, could be more or less than the estimated amounts.

RYDER SCOTT COMPANY PETROLEUM CONSULTANTS

The proved reserves reported herein are limited to the period prior to expiration of current contracts providing the legal rights to produce, or a revenue interest in such production, unless evidence indicates that contract renewal is reasonably certain. Furthermore, properties in the different countries may be subjected to significantly varying contractual fiscal terms that affect the net revenue to CNOOC for the production of these volumes. The prices and economic return received for these net volumes can vary significantly based on the terms of these contracts. Therefore, when applicable, Ryder Scott reviewed the fiscal terms of such contracts and discussed with CNOOC the net economic benefit attributed to such operations for the determination of the net hydrocarbon volumes and income thereof. Ryder Scott has not conducted an exhaustive audit or verification of such contractual information. Neither our review of such contractual information nor our acceptance of CNOOC's representations regarding such contractual information should be construed as a legal opinion on this matter.

This report includes certain volumes of proved reserves attributable to royalties owed to the host government that are treated as taxes to be paid in cash. In Australia, the government has received the royalty payments in cash, and CNOOC is reasonably certain the government will continue to receive its royalty in cash. These future royalty payments, if converted to reserves, are equivalent to 0.5 percent of CNOOC's total net proved reserves as evaluated by Ryder Scott on a barrel equivalent (BOE) basis calculated by converting natural gas using a factor of 6,000 cubic feet of natural gas per one barrel of oil equivalent.

Ryder Scott did not evaluate the country and geopolitical risks in the countries where CNOOC operates or has interests. CNOOC's operations may be subject to various levels of governmental controls and regulations. These controls and regulations may include, but may not be limited to, matters relating to land tenure and leasing, the legal rights to produce hydrocarbons including the granting, extension or termination of production sharing contracts, the fiscal terms of various production sharing contracts, drilling and production practices, environmental protection, marketing and pricing policies, royalties, various taxes and levies including income tax and are subject to change from time to time. Such changes in governmental regulations and policies may cause volumes of proved reserves actually recovered and amounts of proved income actually received to differ significantly from the estimated quantities.

The estimates of proved reserves presented herein were based upon a detailed study of the properties in which CNOOC owns and derives an interest; however, we have not made any field examination of the properties. No consideration was given in this report to potential environmental liabilities that may exist nor were any costs included for potential liabilities to restore and clean up damages, if any, caused by past operating practices.

Estimates of Reserves

The estimation of reserves involves two distinct determinations. The first determination results in the estimation of the quantities of recoverable oil and gas and the second determination results in the estimation of the uncertainty associated with those estimated quantities in accordance with the definitions set forth by the Securities and Exchange Commission's Regulations Part 210.4-10(a). The process of estimating the quantities of recoverable oil and gas reserves relies on the use of certain generally accepted analytical procedures. These analytical procedures fall into three broad categories or methods: (1) performance-based methods; (2) volumetric-based methods; and (3) analogy. These methods may be used singularly or in combination by the reserve evaluator in the process of estimating the quantities of reserves. Reserve evaluators must select the method or combination of methods which in their professional judgment is most appropriate given the nature and amount of reliable geoscience and engineering data available at the time of the estimate, the established or anticipated performance characteristics of the reservoir being evaluated and the stage of development or producing maturity of the property.

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In many cases, the analysis of the available geoscience and engineering data and the subsequent interpretation of this data may indicate a range of possible outcomes in an estimate, irrespective of the method selected by the evaluator. When a range in the quantity of reserves is identified, the evaluator must determine the uncertainty associated with the incremental quantities of the reserves. If the reserve quantities are estimated using the deterministic incremental approach, the uncertainty for each discrete incremental quantity of the reserves is addressed by the reserve category assigned by the evaluator. Therefore, it is the categorization of reserve quantities as proved, probable and/or possible that addresses the inherent uncertainty in the estimated quantities reported. For proved reserves, uncertainty is defined by the SEC as reasonable certainty wherein the "quantities actually recovered are much more likely than not to be achieved." The SEC states that "probable reserves are those additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are as likely as not to be recovered." The SEC states that "possible reserves are those additional reserves that are less certain to be recovered than probable reserves and the total quantities ultimately recovered from a project have a low probability of exceeding proved plus probable plus possible reserves." All quantities of reserves within the same reserve category must meet the SEC definitions as noted above.

Estimates of reserves quantities and their associated reserve categories may be revised in the future as additional geoscience or engineering data become available. Furthermore, estimates of reserves quantities and their associated reserve categories may also be revised due to other factors such as changes in economic conditions, results of future operations, effects of regulation by governmental agencies or geopolitical or economic risks as previously noted herein.

The proved reserves for the properties included herein were estimated by performance methods, the volumetric method, analogy or a combination of methods. The following table summarizes the approximate percent of reserves estimated by each of these methods.

Method	Approximate Percent Proved Reserves Estimated by the Various Methods			
	Liquid Hydrocarbons		Gas	
	Developed	Undeveloped	Developed	Undeveloped
Performance	66%	0%	40%	0%
Volumetric	4%	35%	34%	64%
Analogy	1%	23%	0%	9%
Combination	29%	42%	26%	27%

These performance methods include, but may not be limited to, decline curve analysis and material balance which utilized extrapolations of historical production and pressure data available through October 31, 2014 in those cases where such data were considered to be definitive. The data utilized in this analysis were supplied to Ryder Scott by CNOOC and were considered sufficient for the purpose thereof. The volumetric method, analogy or a combination of methods were used where there were inadequate historical performance data to establish a definitive trend and where the use of production performance data as a basis for the reserve estimates was considered to be inappropriate.

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The volumetric analysis utilized pertinent well and seismic data supplied to Ryder Scott by CNOOC that were available through October 31, 2014. The data utilized from the analogues as well as the well and seismic data incorporated into our volumetric analysis were considered sufficient for the purpose thereof.

To estimate economically recoverable proved oil and gas reserves and related future net cash flows, we consider many factors and assumptions including, but not limited to, the use of reservoir parameters derived from geological, geophysical and engineering data that cannot be measured directly, economic criteria based on current costs and SEC pricing requirements, and forecasts of future production rates. Under the SEC regulations 210.4-10(a)(22)(v) and (26), proved reserves must be anticipated to be economically producible from a given date forward based on existing economic conditions including the prices and costs at which economic producibility from a reservoir is to be determined. While it may reasonably be anticipated that the future prices received for the sale of production and the operating costs and other costs relating to such production may increase or decrease from those under existing economic conditions, such changes were, in accordance with rules adopted by the SEC, omitted from consideration in making this evaluation.

CNOOC has informed us that they have furnished us all of the material accounts, records, geological and engineering data, and reports and other data required for this investigation. In preparing our forecast of future proved production and income, we have relied upon data furnished by CNOOC with respect to property interests owned or derived, production and well tests from examined wells, normal direct costs of operating the wells or leases, other costs such as transportation and/or processing fees, Natural Resource Tax, Value Added Tax and Windfall Profits Taxes in China, Petroleum Resource Rent Tax in Australia and Domestic Market Obligation fees in Indonesia, recompletion and development costs, development plans, abandonment costs after salvage, product prices based on the SEC regulations, adjustments or differentials to product prices, geological structural and isochore maps, well logs, core analyses and pressure measurements. Ryder Scott reviewed such factual data for its reasonableness; however, we have not conducted an independent verification of the data furnished by CNOOC. We consider the factual data used in this report appropriate and sufficient for the purpose of preparing the estimates of reserves and future net revenues herein.

In summary, we consider the assumptions, data, methods and analytical procedures used in this report appropriate for the purpose hereof, and we have used all such methods and procedures that we consider necessary and appropriate to prepare the estimates of reserves herein. The proved reserves included herein were determined in conformance with the United States Securities and Exchange Commission (SEC) Modernization of Oil and Gas Reporting; Final Rule, including all references to Regulation S-X and Regulation S-K, referred to herein collectively as the "SEC Regulations." In our opinion, the proved reserves presented in this report comply with the definitions, guidelines and disclosure requirements as required by the SEC regulations.

Future Production Rates

For wells currently on production, our forecasts of future production rates are based on historical performance data. If no production decline trend has been established, future production rates were held constant, or adjusted for the effects of curtailment where appropriate, until a decline in ability to produce was anticipated. An estimated rate of decline was then applied to depletion of the reserves. If a decline trend has been established, this trend was used as the basis for estimating future production rates.

Test data and other related information were used to estimate the anticipated initial production rates for those wells or locations that are not currently producing. For reserves not yet on production,

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sales were estimated to commence at an anticipated date furnished by CNOOC. Wells or locations that are not currently producing may start producing earlier or later than anticipated in our estimates due to unforeseen factors causing a change in the timing to initiate production. Such factors may include delays due to weather, the availability of rigs, the sequence of drilling, completing and/or recompleting wells and/or constraints set by regulatory bodies.

The future production rates from wells currently on production or wells or locations that are not currently producing may be more or less than estimated because of changes including, but not limited to, reservoir performance, operating conditions related to surface facilities, compression and artificial lift, pipeline capacity and/or operating conditions, producing market demand and/or allowables or other constraints set by regulatory bodies.

Hydrocarbon Prices

The hydrocarbon prices used herein are based on SEC price parameters using the average prices during the 12-month period prior to the "as of date" of this report, determined as the unweighted arithmetic averages of the prices in effect on the first-day-of-the-month for each month within such period, unless prices were defined by contractual arrangements. For hydrocarbon products sold under contract, the contract prices, including fixed and determinable escalations, exclusive of inflation adjustments, were used until expiration of the contract. Upon contract expiration, the prices were adjusted to the 12-month unweighted arithmetic average as previously described.

CNOOC furnished us with the above mentioned average prices in effect on December 31, 2014. These initial SEC hydrocarbon prices were determined using the 12-month average first-day-of-the-month benchmark prices appropriate to the geographic area where the hydrocarbons are sold. These benchmark prices are prior to the adjustments for differentials as described herein. The following table summarizes the "benchmark prices" and "price reference" used for the geographic areas included in the report. In certain geographic areas, the price reference and benchmark prices may be defined by contractual arrangements.

The product prices that were actually used to determine the future gross revenue for each property reflect adjustments to the benchmark prices for gravity, quality, local conditions, gathering and transportation fees and/or distance from market, referred to herein as "differentials." For the North America Region, the differentials also include midstream gas gathering and processing fees, which exceed the benchmark gas price and result in the negative realized gas prices shown in the following table. This is more than offset by the value of the plant liquids derived from the gas. The differentials used in the preparation of this report were furnished to us by CNOOC. The differentials furnished by CNOOC were reviewed by us for their reasonableness using information furnished by CNOOC for this purpose.

In addition, the following table summarizes the net volume weighted benchmark prices adjusted for differentials and referred to herein as the "average realized prices." The average realized prices shown in the table below were determined from the total future gross revenue before production taxes and the total net reserves for the geographic area and presented in accordance with SEC disclosure requirements for each of the geographic areas included in the report.

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Geographic Area	Product	Price Reference	Average Benchmark Prices ⁽¹⁾	Average Realized Prices
China	Oil/Condensate	Daqing	\$99.32/Bbl	\$99.64/Bbl
		Duri	\$99.78/Bbl	
		Tapis	\$108.75/Bbl	
		WTI Cushing	\$94.99/Bbl	
	NGLs	Jinzhou	\$918.61/MT	\$72.56/Bbl
	Gas	Maoming	\$941.35/MT	
Asia	Oil/Condensate	Gas Sales Agreements		\$100.01/Bbl
		Cinta	\$100.65/Bbl	
		Bontang Return Condensate	\$95.10/Bbl	
		Lalang	\$103.74/Bbl	
		Senipah Condensate	\$99.95/Bbl	
	NGLs	Widuri	\$100.76/Bbl	\$87.59/Bbl
	Gas	Bontang Return Condensate		\$95.10/Bbl
		Gas Sales Agreements		
JCC		\$102.25/Bbl	\$10.57/MCF	
	SoCal Border (ICE)	\$4.59/MMBTU		
Oceania	Oil/Condensate	Brent	\$101.30/Bbl	\$93.60/Bbl
	NGLs	Saudi CP	\$801.80/MT	\$97.99/Bbl
	Gas	JCC	\$102.25/Bbl	\$3.23/MCF
		Gas Sales Agreements		
North America	Oil/Condensate	WTI Cushing	\$94.99/Bbl	\$90.25/Bbl
	NGLs	WTI Cushing	\$94.99/Bbl	\$16.15/Bbl
	Gas	Henry Hub	\$4.30/MMBTU	\$-0.50/MCF ⁽²⁾
Nigeria	Oil/Condensate	Brent	\$101.30/Bbl	\$101.65/Bbl

(1) In this report, the benchmark prices for certain NGLs were based on U.S. dollars per metric ton (MT).

(2) Negative realized gas price due to adjustments for certain gathering and processing fees.

The effects of derivative instruments designated as price hedges of oil and gas quantities are not reflected in our individual property evaluations.

Costs

Operating costs for the leases and wells in this report are based on the operating expense reports of CNOOC and include only those costs directly applicable to the leases or wells. The operating costs include a portion of general and administrative costs allocated directly to the leases and wells. The operating costs furnished to us were accepted as factual data and reviewed by us for their reasonableness; however, we have not conducted an independent verification of the operating cost data used by CNOOC. No deduction was made for loan repayments, interest expenses or exploration and development prepayments that were not charged directly to the leases or wells.

Development costs were furnished to us by CNOOC and are based on authorizations for expenditure for the proposed work or actual costs for similar projects. The development costs furnished to us were accepted as factual data and reviewed by us for their reasonableness; however,

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we have not conducted an independent verification of these costs. The estimated net cost of abandonment after salvage was included for properties where abandonment costs net of salvage were significant. The estimates of the net abandonment costs furnished by CNOOC were accepted without independent verification.

The proved developed non-producing and undeveloped reserves in this report have been incorporated herein in accordance with CNOOC's plans to develop these reserves as of December 31, 2014. The implementation of CNOOC's development plans as presented to us and incorporated herein is subject to the approval process adopted by CNOOC's management. As the result of our inquiries during the course of preparing this report, CNOOC has informed us that the development activities included herein have been subjected to and received the internal approvals required by CNOOC's management at the appropriate local, regional and/or corporate level. In addition to the internal approvals as noted, certain development activities may still be subject to specific partner AFE processes, Joint Operating Agreement (JOA) requirements or other administrative approvals external to CNOOC. Additionally, CNOOC has informed us that they are not aware of any legal, regulatory or political obstacles that would significantly alter their plans. While these plans could change from those under existing economic conditions as of December 31, 2014, such changes were, in accordance with rules adopted by the SEC, omitted from consideration in making this evaluation.

The initial production date of certain proved undeveloped gas fields/reservoirs in Australia, China and Indonesia were scheduled beyond the SEC nominal 5 year development period because these fields/reservoirs are associated with long term gas contracts or LNG sales, and their gas deliverability are not needed within the 5 year period. The reserves from these fields/reservoirs represent 3.2 percent of the total net proved reserves of CNOOC as evaluated by Ryder Scott on a barrel equivalent (BOE) basis using the conversion factor as previously noted. CNOOC and its partners anticipated for these fields/reservoirs to be developed prior to the expiration of the long term gas sales and LNG sales and purchase agreement period.

Current costs used by CNOOC were held constant throughout the life of the properties.

Standards of Independence and Professional Qualification

Ryder Scott is an independent petroleum engineering consulting firm that has been providing petroleum consulting services throughout the world since 1937. Ryder Scott is employee-owned and maintains offices in Houston, Texas; Denver, Colorado; and Calgary, Alberta, Canada. We have over eighty engineers and geoscientists on our permanent staff. By virtue of the size of our firm and the large number of clients for which we provide services, no single client or job represents a material portion of our annual revenue. We do not serve as officers or directors of any privately-owned or publicly-traded oil and gas company and are separate and independent from the operating and investment decision-making process of our clients. This allows us to bring the highest level of independence and objectivity to each engagement for our services.

Ryder Scott actively participates in industry-related professional societies and organizes an annual public forum focused on the subject of reserves evaluations and SEC regulations. Many of our staff have authored or co-authored technical papers on the subject of reserves related topics. We encourage our staff to maintain and enhance their professional skills by actively participating in ongoing continuing education.

Prior to becoming an officer of the Company, Ryder Scott requires that staff engineers and geoscientists have received professional accreditation in the form of a registered or certified professional engineer's license or a registered or certified professional geoscientist's license, or the equivalent thereof, from an appropriate governmental authority or a recognized self-regulating professional organization.

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We are independent petroleum engineers with respect to CNOOC. Neither we nor any of our employees have any financial interest in the subject properties and neither the employment to do this work nor the compensation is contingent on our estimates of reserves for the properties which were reviewed.

The results of this study, presented herein, are based on technical analysis conducted by teams of geoscientists and engineers from Ryder Scott. The professional qualifications of the undersigned, the technical person primarily responsible for overseeing the evaluation of the reserves information discussed in this report, are included as an attachment to this letter.

Terms of Usage

The results of our third party study, presented in report form herein, were prepared in accordance with the disclosure requirements set forth in the SEC regulations and intended for public disclosure as an exhibit in filings made with the SEC by CNOOC Limited.

CNOOC makes periodic filings on Form 20-F with the SEC under the 1934 Exchange Act. Furthermore, CNOOC has certain registration statements filed with the SEC under the 1933 Securities Act into which any subsequently filed Form 20-F is incorporated by reference. We have consented to the incorporation by reference in the registration statements on Form F-3 of CNOOC of the references to our name as well as to the references to our third party report for CNOOC, which appears in the December 31, 2014 annual report on Form 20-F of CNOOC. Our written consent for such use is included as a separate exhibit to the filings made with the SEC by CNOOC.

We have provided CNOOC Limited with a digital version of the original signed copy of this report letter. In the event there are any differences between the digital version included in filings made by CNOOC Limited and the original signed report letter, the original signed report letter shall control and supersede the digital version.

The data and work papers used in the preparation of this report are available for examination by authorized parties in our offices. Please contact us if we can be of further service.

Very truly yours,

RYDER SCOTT COMPANY, L.P.
TBPE Firm Registration No. F-1580

\\ Herman G. Acuna

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TBPE License No. 92254
Managing Senior Vice President–International

[SEAL]

\\ Eric T. Nelson

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Senior Vice President

[SEAL]

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Professional Qualifications of Primary Technical Person

The conclusions presented in this report are the result of technical analysis conducted by teams of geoscientists and engineers from Ryder Scott Company, L.P. Herman G. Acuña was the primary technical person responsible for overseeing the independent estimation of the reserves, future production and income to render the audit conclusions of the report.

Mr. Acuña, an employee of Ryder Scott Company, L.P. (Ryder Scott) since 1997, is a Managing Senior International Vice President and Board Member. He serves as an Engineering Group Coordinator responsible for coordinating and supervising staff and consulting engineers of the company in ongoing reservoir evaluation studies worldwide. Before joining Ryder Scott, Mr. Acuña served in a number of engineering positions with Exxon. For more information regarding Mr. Acuña's geographic and job specific experience, please refer to the Ryder Scott Company website at www.ryderscott.com.

Mr. Acuña earned a Bachelor (Cum Laude) and a Masters (Magna Cum Laude) of Science degree in Petroleum Engineering from The University of Tulsa in 1987 and 1989 respectively. He is a registered Professional Engineer in the State of Texas, a member of the Association of International Petroleum Negotiators (AIPN) and the Society of Petroleum Engineers (SPE).

In addition to gaining experience and competency through prior work experience, the Texas Board of Professional Engineers requires a minimum of fifteen hours of continuing education annually, including at least one hour in the area of professional ethics, which Mr. Acuña fulfills. Mr. Acuña has attended formalized training and conferences including dedicated to the subject of the definitions and disclosure guidelines contained in the United States Securities and Exchange Commission Title 17, Code of Federal Regulations, Modernization of Oil and Gas Reporting, Final Rule released January 14, 2009 in the Federal Register. Mr. Acuña has recently taught various company reserves evaluation schools in Argentina, China, Denmark, Spain and the U.S.A. Mr. Acuña has participated in various capacities in reserves conferences such as being a panelist at Trinidad and Tobago's Petroleum Conference, delivering the reserves evaluation seminar during IAPG convention in Mendoza, Argentina and chairing the first Reserves Evaluation Conference in the Middle East in Dubai, U.A.E.

Based on his educational background, professional training and over 20 years of practical experience in petroleum engineering and the estimation and evaluation of petroleum reserves, Mr. Acuña has attained the professional qualifications as a Reserves Estimator and Reserves Auditor set forth in Article III of the "Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information" promulgated by the Society of Petroleum Engineers as of February 19, 2007.

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PETROLEUM RESERVES DEFINITIONS

As Adapted From:
RULE 4-10(a) of REGULATION S-X PART 210
UNITED STATES SECURITIES AND EXCHANGE COMMISSION (SEC)

PREAMBLE

On January 14, 2009, the United States Securities and Exchange Commission (SEC) published the "Modernization of Oil and Gas Reporting; Final Rule" in the Federal Register of National Archives and Records Administration (NARA). The "Modernization of Oil and Gas Reporting; Final Rule" includes revisions and additions to the definition section in Rule 4-10 of Regulation S-X, revisions and additions to the oil and gas reporting requirements in Regulation S-K, and amends and codifies Industry Guide 2 in Regulation S-K. The "Modernization of Oil and Gas Reporting; Final Rule", including all references to Regulation S-X and Regulation S-K, shall be referred to herein collectively as the "SEC regulations". The SEC regulations take effect for all filings made with the United States Securities and Exchange Commission as of December 31, 2009, or after January 1, 2010. Reference should be made to the full text under Title 17, Code of Federal Regulations, Regulation S-X Part 210, Rule 4-10(a) for the complete definitions (direct passages excerpted in part or wholly from the aforementioned SEC document are denoted in italics herein).

Reserves are estimated remaining quantities of oil and gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. All reserve estimates involve an assessment of the uncertainty relating the likelihood that the actual remaining quantities recovered will be greater or less than the estimated quantities determined as of the date the estimate is made. The uncertainty depends chiefly on the amount of reliable geologic and engineering data available at the time of the estimate and the interpretation of these data. The relative degree of uncertainty may be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Unproved reserves are less certain to be recovered than proved reserves and may be further sub-classified as probable and possible reserves to denote progressively increasing uncertainty in their recoverability. Under the SEC regulations as of December 31, 2009, or after January 1, 2010, a company may optionally disclose estimated quantities of probable or possible oil and gas reserves in documents publicly filed with the SEC. The SEC regulations continue to prohibit disclosure of estimates of oil and gas resources other than reserves and any estimated values of such resources in any document publicly filed with the SEC unless such information is required to be disclosed in the document by foreign or state law as noted in §229.1202 Instruction to Item 1202.

Reserves estimates will generally be revised only as additional geologic or engineering data become available or as economic conditions change.

Reserves may be attributed to either natural energy or improved recovery methods. Improved recovery methods include all methods for supplementing natural energy or altering natural forces in the reservoir to increase ultimate recovery. Examples of such methods are pressure maintenance, natural gas cycling, waterflooding, thermal methods, chemical flooding, and the use of miscible and immiscible displacement fluids. Other improved recovery methods may be developed in the future as petroleum technology continues to evolve.

Reserves may be attributed to either conventional or unconventional petroleum accumulations. Petroleum accumulations are considered as either conventional or unconventional based on the nature of their in-place characteristics, extraction method applied, or degree of processing prior to sale. Examples of unconventional petroleum accumulations include coalbed or coalseam methane

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(CBM/CSM), basin-centered gas, shale gas, gas hydrates, natural bitumen and oil shale deposits. These unconventional accumulations may require specialized extraction technology and/or significant processing prior to sale.

Reserves do not include quantities of petroleum being held in inventory.

Because of the differences in uncertainty, caution should be exercised when aggregating quantities of petroleum from different reserves categories.

RESERVES (SEC DEFINITIONS)

Securities and Exchange Commission Regulation S-X §210.4-10(a)(26) defines reserves as follows:

Reserves. *Reserves are estimated remaining quantities of oil and gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce or a revenue interest in the production, installed means of delivering oil and gas or related substances to market, and all permits and financing required to implement the project.*

Note to paragraph (a)(26): Reserves should not be assigned to adjacent reservoirs isolated by major, potentially sealing, faults until those reservoirs are penetrated and evaluated as economically producible. Reserves should not be assigned to areas that are clearly separated from a known accumulation by a non-productive reservoir (i.e., absence of reservoir, structurally low reservoir, or negative test results). Such areas may contain prospective resources (i.e., potentially recoverable resources from undiscovered accumulations).

PROVED RESERVES (SEC DEFINITIONS)

Securities and Exchange Commission Regulation S-X §210.4-10(a)(22) defines proved oil and gas reserves as follows:

Proved oil and gas reserves. *Proved oil and gas reserves are 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 geoscience and engineering data.*

PROVED RESERVES (SEC DEFINITIONS) CONTINUED

(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 geoscience, 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 geoscience, 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.

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PETROLEUM RESERVES STATUS DEFINITIONS AND GUIDELINES

**As Adapted From:
RULE 4-10(a) of REGULATION S-X PART 210
UNITED STATES SECURITIES AND EXCHANGE COMMISSION (SEC)**

and

**PETROLEUM RESOURCES MANAGEMENT SYSTEM (SPE-PRMS)
Sponsored and Approved by:
SOCIETY OF PETROLEUM ENGINEERS (SPE)
WORLD PETROLEUM COUNCIL (WPC)
AMERICAN ASSOCIATION OF PETROLEUM GEOLOGISTS (AAPG)
SOCIETY OF PETROLEUM EVALUATION ENGINEERS (SPEE)**

Reserves status categories define the development and producing status of wells and reservoirs. Reference should be made to Title 17, Code of Federal Regulations, Regulation S-X Part 210, Rule 4-10(a) and the SPE-PRMS as the following reserves status definitions are based on excerpts from the original documents (direct passages excerpted from the aforementioned SEC and SPE-PRMS documents are denoted in italics herein).

DEVELOPED RESERVES (SEC DEFINITIONS)

Securities and Exchange Commission Regulation S-X §210.4-10(a)(6) defines developed oil and gas reserves as follows:

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 a well.

Developed Producing (SPE-PRMS Definitions)

While not a requirement for disclosure under the SEC regulations, developed oil and gas reserves may be further sub-classified according to the guidance contained in the SPE-PRMS as Producing or Non-Producing.

Developed Producing Reserves

Developed Producing Reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate.

Improved recovery reserves are considered producing only after the improved recovery project is in operation.

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Developed Non-Producing

Developed Non-Producing Reserves include shut-in and behind-pipe reserves.

Shut-In

Shut-in Reserves are expected to be recovered from:

- (1) completion intervals which are open at the time of the estimate, but which have not started producing;*
- (2) wells which were shut-in for market conditions or pipeline connections; or*
- (3) wells not capable of production for mechanical reasons.*

Behind-Pipe

Behind-pipe Reserves are expected to be recovered from zones in existing wells, which will require additional completion work or future re-completion prior to start of production.

In all cases, production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well.

UNDEVELOPED RESERVES (SEC DEFINITIONS)

Securities and Exchange Commission Regulation S-X §210.4-10(a)(31) defines undeveloped oil and gas reserves as follows:

Undeveloped oil and gas reserves are reserves of any category that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

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

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

(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, as defined in paragraph (a)(2) of this section, or by other evidence using reliable technology establishing reasonable certainty.

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CNOOC LIMITED

Estimated

Future Reserves and Income

CNOOC's 20% Ownership of

Pan American Energy LLC

SEC Parameters

As of

December 31, 2014

\s\ Gualé Ramirez
Gualé Ramirez, P.E.
TBPE License No. 48318
Managing Senior Vice President – International

\s\ Eric T. Nelson
Eric T. Nelson, P.E.
TBPE License No. 102286
Senior Vice President

[SEAL]

[SEAL]

RYDER SCOTT COMPANY, L.P.
TBPE Firm Registration No. F-1580

RYDER SCOTT COMPANY PETROLEUM CONSULTANTS



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February 28, 2015

CNOOC Limited
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DongCheng District
Beijing 100010
China

Gentlemen:

At your request, Ryder Scott Company, L.P. (Ryder Scott) has prepared an estimate of the proved reserves, future production and income attributable to CNOOC Limited's 20 percent ownership of Pan American Energy LLC (Pan American) as of December 31, 2014. The subject properties are located in the country of Argentina. The reserves and income data were estimated based on the definitions and disclosure guidelines of the United States Securities and Exchange Commission (SEC) contained in Title 17, Code of Federal Regulations, Modernization of Oil and Gas Reporting, Final Rule released January 14, 2009 in the Federal Register (SEC regulations). Our third party study, completed on February 20, 2015 and presented herein, was prepared for public disclosure by CNOOC in filings made with the SEC in accordance with the disclosure requirements set forth in the SEC regulations.

The properties evaluated by Ryder Scott account for a portion of CNOOC's total net proved reserves as of December 31, 2014. Based on information provided by CNOOC, the third party estimate conducted by Ryder Scott addresses 0.10 percent of the total proved developed net liquid hydrocarbon reserves, 2.64 percent of the total proved developed net gas reserves, 0.06 percent of the total proved undeveloped net liquid hydrocarbon reserves and 3.19 percent of the total proved undeveloped net gas reserves of CNOOC.

The estimated reserves and future net income amounts presented in this report, as of December 31, 2014, are related to hydrocarbon prices. The hydrocarbon prices used in the preparation of this report are based on the average prices during the 12-month period prior to the "as of date" of this report, determined as the unweighted arithmetic averages of the prices in effect on the first-day-of-the-month for each month within such period, unless prices were defined by contractual arrangements, as required by the SEC regulations. Actual future prices may vary significantly from the prices required by SEC regulations; therefore, volumes of reserves actually recovered and the amounts of income actually received may differ significantly from the estimated quantities presented in this report. The results of this study are summarized in the following table.

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SEC PARAMETERS
Estimated Net Reserves and Income Data
CNOOC Limited's 20% Ownership of
Pan American Energy, LLC
As of December 31, 2014

	Proved – SEC Definitions			Total Proved
	Developed		Undeveloped	
	Producing	Non-Producing		
Net Remaining Reserves				
Oil/Cond/Gasoline – Barrels	1,354,030	38,172	1,153,344	2,545,546
Gas – MMCF	83,228	2,472	128,056	213,756
Income Data (M\$)				
Future Gross Revenue	\$ 362,549	\$ 14,476	\$ 660,491	\$ 1,037,516
Deductions	199,048	6,298	319,625	524,971
Future Net Income (FNI)	\$ 163,501	\$ 8,178	\$ 340,866	\$ 512,545
Discounted FNI @ 10%	\$ 127,242	\$ 6,378	\$ 149,634	\$ 283,254

Liquid hydrocarbons are expressed in standard 42 gallon barrels and include volumes of gasoline, which are stripped from the gas and sold as oil. All gas volumes are reported on an "as sold basis" expressed in millions of cubic feet (MMCF) at the official temperature and pressure bases of the areas in which the gas reserves are located. In this report, the revenues, deductions, and income data are expressed as thousands of U.S. dollars (M\$).

The estimates of the reserves, future production, and income attributable to properties in this report were prepared using the economic software package Aries™ System Petroleum Economic Evaluation Software, a copyrighted program of Halliburton. Ryder Scott has found this program to be generally acceptable, but notes that certain summaries and calculations may vary due to rounding and may not exactly match the sum of the properties being summarized. Furthermore, one line economic summaries may vary slightly from the more detailed cash flow projections of the same properties, also due to rounding. The rounding differences are not material.

The future gross revenue is not subject to direct production taxes. The deductions incorporate the normal direct costs of operating the wells, recompletion costs, development costs, provincial royalty payments and certain abandonment costs net of salvage. The future net income is before the deduction of Argentine federal income taxes and general administrative overhead, and has not been adjusted for outstanding loans that may exist nor does it include any adjustment for cash on hand or undistributed income.

Gas reserves account for approximately 80.8 percent of the total future gross revenue from proved reserves, and liquid hydrocarbon reserves account for the remaining 19.2 percent of the total future gross revenue from proved reserves.

The discounted future net income shown above was calculated using a discount rate of 10 percent per annum compounded monthly. Future net income was discounted at four other discount rates which were also compounded monthly. These results are shown in summary form as follows.

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Discount Rate Percent	Discounted Future Net Income (M\$)
	As of December 31, 2014
	Total Proved
7	\$334,113
8	\$315,877
9	\$298,964
11	\$268,638

The results shown above are presented for your information and should not be construed as our estimate of fair market value.

Reserves Included in This Report

The proved reserves included herein conform to the definition as set forth in the Securities and Exchange Commission's Regulations Part 210.4-10 (a). An abridged version of the SEC reserves definitions from 210.4-10(a) entitled "Petroleum Reserves Definitions" is included as an attachment to this report.

The various proved reserve status categories are defined under the attachment entitled "Petroleum Reserves Status Definitions and Guidelines" in this report. The proved developed non-producing reserves included herein consist of the shut-in and behind pipe categories.

No attempt was made to quantify or otherwise account for any accumulated gas production imbalances that may exist. The proved gas volumes presented herein do not include gas consumed in operations as reserves.

Reserves are "estimated remaining quantities of oil and gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations." All reserve estimates involve an assessment of the uncertainty relating the likelihood that the actual remaining quantities recovered will be greater or less than the estimated quantities determined as of the date the estimate is made. The uncertainty depends chiefly on the amount of reliable geologic and engineering data available at the time of the estimate and the interpretation of these data. The relative degree of uncertainty may be conveyed by placing reserves into one of two principal categories, either proved or unproved. Unproved reserves are less certain to be recovered than proved reserves, and may be further sub-categorized as probable and possible reserves to denote progressively increasing uncertainty in their recoverability. At CNOOC's request, this report addresses only the proved reserves attributable to the properties evaluated herein.

Proved oil and gas reserves are "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." The proved reserves included herein were estimated using deterministic methods. The SEC has defined reasonable certainty for proved reserves, when based on deterministic methods, as a "high degree of confidence that the quantities will be recovered."

Proved reserve estimates will generally be revised only as additional geologic or engineering data become available or as economic conditions change. For proved reserves, the SEC states that "as changes due to increased availability of geoscience (geological, geophysical, and geochemical), engineering, and economic data are made to the estimated ultimate recovery (EUR) with time,

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reasonably certain EUR is much more likely to increase or remain constant than to decrease.” Moreover, estimates of proved reserves may be revised as a result of future operations, effects of regulation by governmental agencies or geopolitical or economic risks. Therefore, the proved reserves included in this report are estimates only and should not be construed as being exact quantities, and if recovered, the revenues therefrom, and the actual costs related thereto, could be more or less than the estimated amounts.

The proved reserves reported herein are limited to the period prior to expiration of current contracts providing the legal rights to produce, or a revenue interest in such production, unless evidence indicates that contract renewal is reasonably certain. Furthermore, properties in the country of Argentina may be subjected to significantly varying contractual fiscal terms that affect the net revenue to Pan American and/or CNOOC for the production of these volumes. The prices and economic return received for these net volumes can vary significantly based on the terms of these contracts. Therefore, when applicable, Ryder Scott reviewed the fiscal terms of such contracts and discussed with Pan American the net economic benefit attributed to such operations for the determination of the net hydrocarbon volumes and income thereof. Ryder Scott has not conducted an exhaustive audit or verification of such contractual information. Neither our review of such contractual information nor our acceptance of Pan American's representations regarding such contractual information should be construed as a legal opinion on this matter.

Ryder Scott did not evaluate the country and geopolitical risks in Argentina where CNOOC has interests. Pan American's and CNOOC's operations may be subject to various levels of governmental controls and regulations. These controls and regulations may include, but may not be limited to, matters relating to land tenure and leasing, the legal rights to produce hydrocarbons including the granting, extension or termination of production sharing contracts, the fiscal terms of various production sharing contracts, drilling and production practices, environmental protection, marketing and pricing policies, royalties, various taxes and levies including income tax and are subject to change from time to time. Such changes in governmental regulations and policies may cause volumes of proved reserves actually recovered and amounts of proved income actually received to differ significantly from the estimated quantities.

The estimates of proved reserves presented herein were based upon a detailed study of the properties in which CNOOC owns or derives an interest; however, we have not made any field examination of the properties. No consideration was given in this report to potential environmental liabilities that may exist nor were any costs included for potential liabilities to restore and clean up damages, if any, caused by past operating practices.

Estimates of Reserves

The estimation of reserves involves two distinct determinations. The first determination results in the estimation of the quantities of recoverable oil and gas and the second determination results in the estimation of the uncertainty associated with those estimated quantities in accordance with the definitions set forth by the Securities and Exchange Commission's Regulations Part 210.4-10(a). The process of estimating the quantities of recoverable oil and gas reserves relies on the use of certain generally accepted analytical procedures. These analytical procedures fall into three broad categories or methods: (1) performance-based methods; (2) volumetric-based methods; and (3) analogy. These methods may be used singularly or in combination by the reserve evaluator in the process of estimating the quantities of reserves. Reserve evaluators must select the method or combination of methods which in their professional judgment is most appropriate given the nature and amount of reliable geoscience and engineering data available at the time of the estimate, the established or anticipated performance characteristics of the reservoir being evaluated and the stage of development or producing maturity of the property.

RYDER SCOTT COMPANY PETROLEUM CONSULTANTS

In many cases, the analysis of the available geoscience and engineering data and the subsequent interpretation of this data may indicate a range of possible outcomes in an estimate, irrespective of the method selected by the evaluator. When a range in the quantity of reserves is identified, the evaluator must determine the uncertainty associated with the incremental quantities of the reserves. If the reserve quantities are estimated using the deterministic incremental approach, the uncertainty for each discrete incremental quantity of the reserves is addressed by the reserve category assigned by the evaluator. Therefore, it is the categorization of reserve quantities as proved, probable and/or possible that addresses the inherent uncertainty in the estimated quantities reported. For proved reserves, uncertainty is defined by the SEC as reasonable certainty wherein the "quantities actually recovered are much more likely than not to be achieved." The SEC states that "probable reserves are those additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are as likely as not to be recovered." The SEC states that "possible reserves are those additional reserves that are less certain to be recovered than probable reserves and the total quantities ultimately recovered from a project have a low probability of exceeding proved plus probable plus possible reserves." All quantities of reserves within the same reserve category must meet the SEC definitions as noted above.

Estimates of reserves quantities and their associated reserve categories may be revised in the future as additional geoscience or engineering data become available. Furthermore, estimates of reserves quantities and their associated reserve categories may also be revised due to other factors such as changes in economic conditions, results of future operations, effects of regulation by governmental agencies or geopolitical or economic risks as previously noted herein.

The proved reserves for the properties included herein were estimated by performance methods, the volumetric method, analogy or a combination of methods. The following table summarizes the approximate percent of reserves estimated by each of these methods.

Method	Approximate Percent of Proved Reserves Estimated by the Various Methods			
	Liquid Hydrocarbons		Gas	
	Developed	Undeveloped	Developed	Undeveloped
Performance	81%	0%	73%	0%
Volumetric	18%	86%	26%	78%
Analogy	1%	14%	1%	22%

These performance methods include, but may not be limited to, decline curve analysis and material balance which utilized extrapolations of historical production and pressure data available through October 31, 2014 in those cases where such data were considered to be definitive. The data utilized in this analysis were supplied to Ryder Scott by Pan American and were considered sufficient for the purpose thereof. The volumetric method, analogy or a combination of methods were used where there were inadequate historical performance data to establish a definitive trend and where the use of production performance data as a basis for the reserve estimates was considered to be inappropriate. The volumetric analysis utilized pertinent well and seismic data supplied to Ryder Scott by Pan American that were available through December 31, 2014. The data utilized from the analogues as well as the well and seismic data incorporated into our volumetric analysis were considered sufficient for the purpose thereof.

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To estimate economically recoverable proved oil and gas reserves and related future net cash flows, we consider many factors and assumptions including, but not limited to, the use of reservoir parameters derived from geological, geophysical and engineering data that cannot be measured directly, economic criteria based on current costs and SEC pricing requirements, and forecasts of future production rates. Under the SEC regulations 210.4-10(a) (22)(v) and (26), proved reserves must be anticipated to be economically producible from a given date forward based on existing economic conditions including the prices and costs at which economic producibility from a reservoir is to be determined. While it may reasonably be anticipated that the future prices received for the sale of production and the operating costs and other costs relating to such production may increase or decrease from those under existing economic conditions, such changes were, in accordance with rules adopted by the SEC, omitted from consideration in making this evaluation.

Pan American has informed us that they have furnished us all of the material accounts, records, geological and engineering data, and reports and other data required for this investigation. In preparing our forecast of future proved production and income, we have relied upon data furnished by Pan American with respect to property interests owned by CNOOC, production and well tests from examined wells, normal direct costs of operating the wells or contracts, other costs such as transportation and/or processing fees, provincial royalty payments, recompletion and development costs, development plans, abandonment costs after salvage, product prices based on the SEC regulations, adjustments or differentials to product prices, geological structural and isochore maps, well logs, core analyses, and pressure measurements. Ryder Scott reviewed such factual data for its reasonableness; however, we have not conducted an independent verification of the data furnished by Pan American. We consider the factual data used in this report appropriate and sufficient for the purpose of preparing the estimates of reserves and future net revenues herein.

In summary, we consider the assumptions, data, methods and analytical procedures used in this report appropriate for the purpose hereof, and we have used all such methods and procedures that we consider necessary and appropriate to prepare the estimates of reserves herein. The proved reserves included herein were determined in conformance with the United States Securities and Exchange Commission (SEC) Modernization of Oil and Gas Reporting; Final Rule, including all references to Regulation S-X and Regulation S-K, referred to herein collectively as the "SEC Regulations." In our opinion, the proved reserves presented in this report comply with the definitions, guidelines and disclosure requirements as required by the SEC regulations.

Future Production Rates

For wells currently on production, our forecasts of future production rates are based on historical performance data. If no production decline trend has been established, future production rates were held constant, or adjusted for the effects of curtailment where appropriate, until a decline in ability to produce was anticipated. An estimated rate of decline was then applied to depletion of the reserves. If a decline trend has been established, this trend was used as the basis for estimating future production rates.

Test data and other related information were used to estimate the anticipated initial production rates for those wells or locations that are not currently producing. For reserves not yet on production, sales were estimated to commence at an anticipated date furnished by Pan American. Wells or locations that are not currently producing may start producing earlier or later than anticipated in our estimates due to unforeseen factors causing a change in the timing to initiate production. Such factors may include delays due to weather, the availability of rigs, the sequence of drilling, completing and/or recompleting wells and/or constraints set by regulatory bodies.

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The future production rates from wells currently on production or wells or locations that are not currently producing may be more or less than estimated because of changes including, but not limited to, reservoir performance, operating conditions related to surface facilities, compression and artificial lift, pipeline capacity and/or operating conditions, producing market demand and/or allowables or other constraints set by regulatory bodies.

Hydrocarbon Prices

The hydrocarbon prices used herein are based on SEC price parameters using the average prices during the 12-month period prior to the "as of date" of this report, determined as the unweighted arithmetic averages of the prices in effect on the first-day-of-the-month for each month within such period, unless prices were defined by contractual arrangements. For hydrocarbon products sold under contract, the contract prices, including fixed and determinable escalations, exclusive of inflation adjustments, were used until expiration of the contract. Upon contract expiration, the prices were adjusted to the 12-month unweighted arithmetic average as previously described.

Pan American furnished us with the above mentioned average prices in effect on December 31, 2014. These initial SEC hydrocarbon prices were determined using the 12-month average first-day-of-the-month benchmark prices appropriate to the geographic area where the hydrocarbons are sold. These benchmark prices are prior to the adjustments for differentials as described herein. The table below summarizes the "benchmark prices" and "price reference" used for the geographic areas included in the report. In certain geographic areas, the price reference and benchmark prices may be defined by contractual arrangements.

The product prices that were actually used to determine the future gross revenue for each property reflect adjustments to the benchmark prices for gravity, quality, local conditions, gathering and transportation fees, buoy and storage fees, turnover tax fees and/or distance from market, referred to herein as "differentials." The differentials used in the preparation of this report were furnished to us by Pan American. The differentials furnished to us were accepted as factual data and reviewed by us for their reasonableness; however, we have not conducted an independent verification of the data used by Pan American to determine these differentials.

Certain gas prices for low permeability reservoirs, economically marginal, and capital intensive projects were provided by Pan American based on governmental price allowances for such gas. These price allowances are approved by the Argentine government on a case by case basis. Such higher gas price allowances under a program designated as "Gas Plus" by the Argentine government are being paid for volumes of gas delivered by Pan American from certain properties that meet these higher gas price criteria.

In addition, the table below summarizes the net volume weighted benchmark prices adjusted for differentials and referred to herein as the "average realized prices." The average realized prices shown in the following table were determined from the total future gross revenue before production taxes and the total net reserves for the geographic area and presented in accordance with SEC disclosure requirements for each of the geographic areas included in the report.

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Geographic Area	Product	Price Reference	Average Benchmark Prices	Average Realized Prices
South America	Oil/Cond/Gasoline	WTI Cushing	\$94.99/Bbl	\$78.65/Bbl
	Gas	Various Contracts		\$3.92/MCF

The effects of derivative instruments designated as price hedges of oil and gas quantities are not reflected in our individual property evaluations.

Costs

Operating costs for the properties and wells in this report were furnished by Pan American and are based on their operating expense reports. These costs include only those costs directly applicable to the properties or wells. The operating costs include a portion of general and administrative costs allocated directly to the properties and wells. For operated properties, the operating costs include an appropriate level of corporate general administrative and overhead costs. The operating costs for non-operated properties include the overhead costs that are allocated directly to the properties and wells under terms of operating agreements. The operating costs furnished to us were accepted as factual data and reviewed by us for their reasonableness; however, we have not conducted an independent verification of the operating cost data used by Pan American. No deduction was made for loan repayments, interest expenses, or exploration and development prepayments that were not charged directly to the properties or wells.

Development costs were furnished to us by Pan American and are based on authorizations for expenditure for the proposed work or actual costs for similar projects. The development costs furnished to us were accepted as factual data and reviewed by us for their reasonableness; however, we have not conducted an independent verification of these costs. The estimated net cost of abandonment after salvage was included for properties where abandonment costs net of salvage were significant. The estimates of the net abandonment costs furnished by Pan American were accepted without independent verification.

The proved developed non-producing and undeveloped reserves in this report have been incorporated herein in accordance with Pan American's and CNOOC's plans to develop these reserves as of December 31, 2014. The implementation of Pan American's development plans as presented to us and incorporated herein is subject to the approval process adopted by Pan American's management. As the result of our inquiries during the course of preparing this report, Pan American and CNOOC have informed us that the development activities included herein have been subjected to and received the internal approvals required by Pan American's management at the appropriate local, regional and/or corporate level. In addition to the internal approvals as noted, certain development activities may still be subject to specific partner AFE processes, Joint Operating Agreement (JOA) requirements or other administrative approvals external to Pan American and CNOOC. Additionally, Pan American has informed us that they are not aware of any legal, regulatory or political obstacles that would significantly alter their plans. While these plans could change from those under existing economic conditions as of December 31, 2014, such changes were, in accordance with rules adopted by the SEC, omitted from consideration in making this evaluation.

The plan of development for the gas reserves to be produced from the offshore fields in the Austral Basin calls for five future wells in the Carina field and three in the Vega Pleyade field which are scheduled to be drilled beyond five years from the date they were initially categorized as proved

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undeveloped. Pan American has provided us with a letter explaining the reasons for such a delay. In our opinion, Pan American has a coherent and reasonable explanation for deferring the drilling of these wells as scheduled and we have assigned the reserves corresponding to this development as proven.

Current costs were held constant throughout the life of the properties.

Standards of Independence and Professional Qualification

Ryder Scott is an independent petroleum engineering consulting firm that has been providing petroleum consulting services throughout the world since 1937. Ryder Scott is employee-owned and maintains offices in Houston, Texas; Denver, Colorado; and Calgary, Alberta, Canada. We have over eighty engineers and geoscientists on our permanent staff. By virtue of the size of our firm and the large number of clients for which we provide services, no single client or job represents a material portion of our annual revenue. We do not serve as officers or directors of any privately-owned or publicly-traded oil and gas company and are separate and independent from the operating and investment decision-making process of our clients. This allows us to bring the highest level of independence and objectivity to each engagement for our services.

Ryder Scott actively participates in industry-related professional societies and organizes an annual public forum focused on the subject of reserves evaluations and SEC regulations. Many of our staff have authored or co-authored technical papers on the subject of reserves related topics. We encourage our staff to maintain and enhance their professional skills by actively participating in ongoing continuing education.

Prior to becoming an officer of the Company, Ryder Scott requires that staff engineers and geoscientists have received professional accreditation in the form of a registered or certified professional engineer's license or a registered or certified professional geoscientist's license, or the equivalent thereof, from an appropriate governmental authority or a recognized self-regulating professional organization.

We are independent petroleum engineers with respect to CNOOC Limited and Pan American. Neither we nor any of our employees have any financial interest in the subject properties and neither the employment to do this work nor the compensation is contingent on our estimates of reserves for the properties which were reviewed.

The results of this study, presented herein, are based on technical analysis conducted by teams of geoscientists and engineers from Ryder Scott. The professional qualifications of the undersigned, the technical person primarily responsible for overseeing the evaluation of the reserves information discussed in this report, are included as an attachment to this letter.

Terms of Usage

The results of our third party study, presented in report form herein, were prepared in accordance with the disclosure requirements set forth in the SEC regulations and intended for public disclosure as an exhibit in filings made with the SEC by CNOOC Limited.

CNOOC makes periodic filings on Form 20-F with the SEC under the 1934 Exchange Act. Furthermore, CNOOC has certain registration statements filed with the SEC under the 1933 Securities Act into which any subsequently filed Form 20-F is incorporated by reference. We have consented to the incorporation by reference in the registration statements on Form F-3 of CNOOC of the references

RYDER SCOTT COMPANY PETROLEUM CONSULTANTS

to our name as well as to the references to our third party report for CNOOC, which appears in the December 31, 2014 annual report on Form 20-F of CNOOC. Our written consent for such use is included as a separate exhibit to the filings made with the SEC by CNOOC.

We have provided CNOOC Limited with a digital version of the original signed copy of this report letter. In the event there are any differences between the digital version included in filings made by CNOOC Limited and the original signed report letter, the original signed report letter shall control and supersede the digital version.

The data and work papers used in the preparation of this report are available for examination by authorized parties in our offices. Please contact us if we can be of further service.

Very truly yours,

RYDER SCOTT COMPANY, L.P.
TBPE Firm Registration No. F-1580

\\ Guale Ramirez

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TBPE License No. 48318
Managing Senior Vice President–International

[SEAL]

\\ Eric T. Nelson

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Senior Vice President

[SEAL]

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Professional Qualifications of Primary Technical Person

The conclusions presented in this report are the result of technical analysis conducted by teams of geoscientists and engineers from Ryder Scott Company, L.P. Guadalupe Ramirez was the primary technical person responsible for overseeing the estimate of the reserves, future production and income.

Mr. Ramirez, an employee of Ryder Scott Company, L.P. (Ryder Scott) since 1981, is a Managing Senior Vice President and also serves as a member of the Board of Directors. He is responsible for coordinating and supervising staff and consulting engineers of the company in ongoing reservoir evaluation studies worldwide. Before joining Ryder Scott, Mr. Ramirez served in a number of engineering positions with Sun Oil Company and Natomas North America. For more information regarding Mr. Ramirez's geographic and job specific experience, please refer to the Ryder Scott Company website at www.ryderscott.com/Company/Employees.

Mr. Ramirez earned a Bachelor of Science Degree in Mechanical Engineering with honors from Texas A&M University in 1976 and is a licensed Professional Engineer in the State of Texas. He is also a member of the Society of Petroleum Engineers and Society of Petroleum Evaluation Engineers.

In addition to gaining experience and competency through prior work experience, the Texas Board of Professional Engineers requires a minimum of fifteen hours of continuing education annually, including at least one hour in the area of professional ethics, which Mr. Ramirez fulfills. As part of his 2014 continuing education hours, Mr. Ramirez attended an internally received 10 hours of formalized training as well as a day-long public forum, the 2013 RSC Reserves Conference relating to the definitions and disclosure guidelines contained in the United States Securities and Exchange Commission Title 17, Code of Federal Regulations, Modernization of Oil and Gas Reporting, Final Rule released January 14, 2009 in the Federal Register. Mr. Ramirez has also presented courses on the new SEC and SPE-PRMS reserves definitions on various occasions during 2011, 2012 and 2013 and received 40 hours of formalized external training during 2014, covering such topics as the Guidelines for Application of the SPE/WPC/AAPG/SPEE Petroleum Resources Management System, reservoir engineering, geoscience and petroleum economics evaluation methods, procedures and software, unconventional resources and ethics for consultants.

Based on his educational background, professional training and more than 35 years of practical experience in the estimation and evaluation of petroleum reserves, Mr. Ramirez has attained the professional qualifications as a Reserves Estimator and Reserves Auditor set forth in Article III of the "Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information" promulgated by the Society of Petroleum Engineers as of February 19, 2007.

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PETROLEUM RESERVES DEFINITIONS

As Adapted From:
RULE 4-10(a) of REGULATION S-X PART 210
UNITED STATES SECURITIES AND EXCHANGE COMMISSION (SEC)

PREAMBLE

On January 14, 2009, the United States Securities and Exchange Commission (SEC) published the "Modernization of Oil and Gas Reporting; Final Rule" in the Federal Register of National Archives and Records Administration (NARA). The "Modernization of Oil and Gas Reporting; Final Rule" includes revisions and additions to the definition section in Rule 4-10 of Regulation S-X, revisions and additions to the oil and gas reporting requirements in Regulation S-K, and amends and codifies Industry Guide 2 in Regulation S-K. The "Modernization of Oil and Gas Reporting; Final Rule", including all references to Regulation S-X and Regulation S-K, shall be referred to herein collectively as the "SEC regulations". The SEC regulations take effect for all filings made with the United States Securities and Exchange Commission as of December 31, 2009, or after January 1, 2010. Reference should be made to the full text under Title 17, Code of Federal Regulations, Regulation S-X Part 210, Rule 4-10(a) for the complete definitions (direct passages excerpted in part or wholly from the aforementioned SEC document are denoted in italics herein).

Reserves are estimated remaining quantities of oil and gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. All reserve estimates involve an assessment of the uncertainty relating the likelihood that the actual remaining quantities recovered will be greater or less than the estimated quantities determined as of the date the estimate is made. The uncertainty depends chiefly on the amount of reliable geologic and engineering data available at the time of the estimate and the interpretation of these data. The relative degree of uncertainty may be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Unproved reserves are less certain to be recovered than proved reserves and may be further sub-classified as probable and possible reserves to denote progressively increasing uncertainty in their recoverability. Under the SEC regulations as of December 31, 2009, or after January 1, 2010, a company may optionally disclose estimated quantities of probable or possible oil and gas reserves in documents publicly filed with the SEC. The SEC regulations continue to prohibit disclosure of estimates of oil and gas resources other than reserves and any estimated values of such resources in any document publicly filed with the SEC unless such information is required to be disclosed in the document by foreign or state law as noted in §229.1202 Instruction to Item 1202.

Reserves estimates will generally be revised only as additional geologic or engineering data become available or as economic conditions change.

Reserves may be attributed to either natural energy or improved recovery methods. Improved recovery methods include all methods for supplementing natural energy or altering natural forces in the reservoir to increase ultimate recovery. Examples of such methods are pressure maintenance, natural gas cycling, waterflooding, thermal methods, chemical flooding, and the use of miscible and immiscible displacement fluids. Other improved recovery methods may be developed in the future as petroleum technology continues to evolve.

Reserves may be attributed to either conventional or unconventional petroleum accumulations. Petroleum accumulations are considered as either conventional or unconventional based on the nature of their in-place characteristics, extraction method applied, or degree of processing prior to sale.

RYDER SCOTT COMPANY PETROLEUM CONSULTANTS

Examples of unconventional petroleum accumulations include coalbed or coalseam methane (CBM/CSM), basin-centered gas, shale gas, gas hydrates, natural bitumen and oil shale deposits. These unconventional accumulations may require specialized extraction technology and/or significant processing prior to sale.

Reserves do not include quantities of petroleum being held in inventory.

Because of the differences in uncertainty, caution should be exercised when aggregating quantities of petroleum from different reserves categories.

RESERVES (SEC DEFINITIONS)

Securities and Exchange Commission Regulation S-X §210.4-10(a)(26) defines reserves as follows:

Reserves. *Reserves are estimated remaining quantities of oil and gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce or a revenue interest in the production, installed means of delivering oil and gas or related substances to market, and all permits and financing required to implement the project.*

Note to paragraph (a)(26): Reserves should not be assigned to adjacent reservoirs isolated by major, potentially sealing, faults until those reservoirs are penetrated and evaluated as economically producible. Reserves should not be assigned to areas that are clearly separated from a known accumulation by a non-productive reservoir (i.e., absence of reservoir, structurally low reservoir, or negative test results). Such areas may contain prospective resources (i.e., potentially recoverable resources from undiscovered accumulations).

PROVED RESERVES (SEC DEFINITIONS)

Securities and Exchange Commission Regulation S-X §210.4-10(a)(22) defines proved oil and gas reserves as follows:

Proved oil and gas reserves. *Proved oil and gas reserves are 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 geoscience and engineering data.*

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PROVED RESERVES (SEC DEFINITIONS) CONTINUED

(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 geoscience, 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 geoscience, 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.

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PETROLEUM RESERVES STATUS DEFINITIONS AND GUIDELINES

**As Adapted From:
RULE 4-10(a) of REGULATION S-X PART 210
UNITED STATES SECURITIES AND EXCHANGE COMMISSION (SEC)**

and

**PETROLEUM RESOURCES MANAGEMENT SYSTEM (SPE-PRMS)
Sponsored and Approved by:
SOCIETY OF PETROLEUM ENGINEERS (SPE)
WORLD PETROLEUM COUNCIL (WPC)
AMERICAN ASSOCIATION OF PETROLEUM GEOLOGISTS (AAPG)
SOCIETY OF PETROLEUM EVALUATION ENGINEERS (SPEE)**

Reserves status categories define the development and producing status of wells and reservoirs. Reference should be made to Title 17, Code of Federal Regulations, Regulation S-X Part 210, Rule 4-10(a) and the SPE-PRMS as the following reserves status definitions are based on excerpts from the original documents (direct passages excerpted from the aforementioned SEC and SPE-PRMS documents are denoted in italics herein).

DEVELOPED RESERVES (SEC DEFINITIONS)

Securities and Exchange Commission Regulation S-X §210.4-10(a)(6) defines developed oil and gas reserves as follows:

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 a well.*

Developed Producing (SPE-PRMS Definitions)

While not a requirement for disclosure under the SEC regulations, developed oil and gas reserves may be further sub-classified according to the guidance contained in the SPE-PRMS as Producing or Non-Producing.

Developed Producing Reserves

Developed Producing Reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate.

Improved recovery reserves are considered producing only after the improved recovery project is in operation.

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Developed Non-Producing

Developed Non-Producing Reserves include shut-in and behind-pipe reserves.

Shut-In

Shut-in Reserves are expected to be recovered from:

- (1) completion intervals which are open at the time of the estimate, but which have not started producing;*
- (2) wells which were shut-in for market conditions or pipeline connections; or*
- (3) wells not capable of production for mechanical reasons.*

Behind-Pipe

Behind-pipe Reserves are expected to be recovered from zones in existing wells, which will require additional completion work or future re-completion prior to start of production.

In all cases, production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well.

UNDEVELOPED RESERVES (SEC DEFINITIONS)

Securities and Exchange Commission Regulation S-X §210.4-10(a)(31) defines undeveloped oil and gas reserves as follows:

Undeveloped oil and gas reserves are reserves of any category that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

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

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

(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, as defined in paragraph (a)(2) of this section, or by other evidence using reliable technology establishing reasonable certainty.

INDEPENDENT LETTER

**THE GREATER ANGOSTURA FIELDS,
BLOCK 2C, TRINIDAD & TOBAGO
ESTIMATED PROVED RESERVES AND FINANCIAL DATA, BASED ON SEC RULES**

Prepared for

CNOOC LIMITED

As at 31st December, 2014

February, 2015

GAFFNEY, CLINE & ASSOCIATES (CONSULTANTS) PTE LTD

This summary letter is based on Gaffney, Cline & Associates' official report and has been provided at the request of CNOOC Limited.

SML/YDH/dh/L0070/2015/PS-14-2093

28th February, 2015

CNOOC Limited
No. 25, Chaoyangmenbei Dajie
Dongcheng District
Beijing 100010, P.R. China

Gentlemen,

INDEPENDENT LETTER

**THE GREATER ANGOSTURA FIELDS,
BLOCK 2C, TRINIDAD & TOBAGO
ESTIMATED PROVED RESERVES AND FINANCIAL DATA, BASED ON SEC RULES
As at 31st December, 2014**

At the request of CNOOC Limited (CNOOC), Gaffney, Cline & Associates (GCA) has prepared an independent estimate of the proved reserves and financial data attributable to certain participating interests owned by CNOOC as at 31st December, 2014. The reserves and income data were estimated based on Rules of the United States Securities and Exchange Commission (SEC) contained in Title 17, Code of Federal Regulations, Modernization of Oil and Gas Reporting, Final Rule released 14th January, 2009 in the Federal Register, including all references to Regulation S-X and Regulation S-K (SEC Rules). GCA's independent study, completed on 28th February, 2015 and summarized herein, was prepared for public disclosure by CNOOC in filings made with the SEC in accordance with the disclosure requirements set forth in the SEC Rules. In GCA's opinion, the assumptions, data, methods, and procedures used in the preparation of this report are appropriate for such purpose and have been carried out in line with the SEC Oil and Gas Reserves Definitions attached hereto as an Attachment.

The subject properties in Block 2C are located 24 miles offshore east coast of Trinidad & Tobago. Based on information provided by CNOOC, the Proved reserves estimates for properties evaluated by GCA for this report represent approximately 0.3 percent of CNOOC's total net proved reserves as at 31st December, 2014. GCA is not in a position to verify this statement as it was not requested to review all CNOOC's other oil and gas assets.

GCA prepared an independent assessment of the reserves based on data and interpretations provided by CNOOC. GCA checked and verified the in place volume estimation. GCA reviewed the well and reservoir performances employing Decline Curve Analysis (DCA) and material balance techniques. Economic models were constructed based on terms of the PSC as provided by CNOOC, in order to calculate CNOOC's Net Entitlement volumes, which are made up of CNOOC's share of contractors revenue (Petroleum Cost Recovery and Profit Oil) converted to volumetric equivalents.

The oil price used for these computations was calculated with reference to the un-weighted 12-month arithmetic average of the first-day-of-the month Brent Crude Oil price for each month within the 12-month period (January to December, 2014). Based on the data collated

by GCA for 2014, the average Brent Crude Oil price was US\$103.17/Bbl. The price received for crude oil sales from Block 2C averaged US\$104.23/Bbl in 2014, which represents a premium of US\$1.06/Bbl to the reference Brent Crude Oil price. This price differential was applied to the reference price for the calculation of reserves and revenues. No price escalation, or cost inflation, has been included in the evaluation.

The gas prices used were based on the gas sales information for 2014 provided by CNOOC. The gas price forecast was estimated at US\$3.78/MMBtu, and this price was maintained for the life of the fields considered in this report.

Actual future prices may vary significantly from the prices required by SEC Rules; therefore, volumes of reserves actually recovered and the amounts of income actually received may differ significantly from the estimated quantities presented in this report. The results of this study are summarized in the following table. Reserves net to CNOOC are quoted as Net Entitlement Reserves reflecting the terms of the PSC.

**Estimated Net Reserves and Financial Data
As at 31st December, 2014**

	Proved			
	Developed		Undeveloped	Total Proved
	Producing	Non-Producing		
Net Reserves				
Oil/Condensate – Mstb	513	0	58	571
Gas – MMscf	39,558	0	31,240	70,798
Income Data (M\$)				
Future Gross Revenue	\$ 153,572	\$ 0	\$ 100,615	\$ 254,082
Deductions	\$ 77,600	\$ 0	\$ 59,713	\$ 137,313
Future Net Income (FNI)	\$ 75,972	\$ 0	\$ 40,902	\$ 116,769
Discounted FNI @ 10%	\$ 61,637	\$ 0	\$ 23,189	\$ 84,826

Liquid hydrocarbons are expressed in thousands of standard (42 gallon) barrels (Mstb). All gas volumes are reported on an “as sold basis” expressed in millions of cubic feet (MMscf) at standard temperature (60 °F) and pressure (14.7 psia). In this report, the revenues, deductions and income data are expressed in thousands of US dollars (M\$).

The future gross revenue represents CNOOC’s net entitlement under the PSC (Cost Recovery plus Profit Share). Deductions represent CNOOC’s 12.5% share of project Capital Expenditure, Operating Expenditure and Abandonment Costs (ABEX). Future Net Income represents CNOOC’s Profit Share, net of ABEX, under the terms of the PSC.

The results included herein were prepared in accordance with the disclosure requirements set forth in the SEC Rules and intended for public disclosure as an exhibit in filings made with the SEC by CNOOC.

BASIS OF OPINION

This document reflects GCA's informed professional judgment based on accepted standards of professional investigation and, as applicable, the data and information provided by CNOOC, the limited scope of engagement, and the time permitted to conduct the evaluation.

In line with those accepted standards, this document does not in any way constitute or make a guarantee or prediction of results, and no warranty is implied or expressed that actual outcome will conform to the outcomes presented herein. GCA has not independently verified any information provided by, or at the direction of, CNOOC, and has accepted the accuracy and completeness of this data. GCA has no reason to believe that any material facts have been withheld, but does not warrant that its inquiries have revealed all of the matters that a more extensive examination might otherwise disclose.

The opinions expressed herein are subject to and fully qualified by the generally accepted uncertainties associated with the interpretation of geoscience and engineering data and do not reflect the totality of circumstances, scenarios and information that could potentially affect decisions made by the report's recipients and/or actual results. The opinions and statements contained in this report are made in good faith and in the belief that such opinions and statements are representative of prevailing physical and economic circumstances.

In the preparation of this report, GCA has used definitions contained within Part 210 Rule 4-10(a) of Regulation S-X of the US Securities and Exchange Commission (see **Attachment I**).

There are numerous uncertainties inherent in estimating reserves and resources, and in projecting future production, development expenditures, operating expenses and cash flows. Oil and gas resources assessments must be recognized as a subjective process of estimating subsurface accumulations of oil and gas that cannot be measured in an exact way. Estimates of oil and gas resources prepared by other parties may differ, perhaps materially, from those contained within this report.

The accuracy of any resource estimate is a function of the quality of the available data and of engineering and geological interpretation. Results of drilling, testing and production that post-date the preparation of the estimates may justify revisions, some or all of which may be material. Accordingly, resource estimates are often different from the quantities of oil and gas that are ultimately recovered, and the timing and cost of those volumes that are recovered may vary from that assumed.

Oil and condensate volumes are reported in thousands of standard barrels at stock tank conditions (Mstb). Gas volumes are reported in millions of cubic feet (MMscf) at standard conditions. Standard conditions are defined as 14.7 psia and 60° Fahrenheit.

GCA prepared an independent assessment of the reserves based on data and interpretations provided by CNOOC.

Definition of Reserves

Reserves are estimated remaining quantities of oil and gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce, or a revenue interest in, the production, installed means of delivering oil and gas or related substances to market, and all permits and financing required to implement the project.

GCA is not aware of any potential changes in regulations applicable to these fields that could affect the ability of CNOOC to produce the estimated reserves.

Reserves are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by development and production status. All categories of reserves volumes quoted herein have been derived within the context of an economic limit test (ELT) assessment (pre-tax and exclusive of accumulated depreciation amounts) prior to any Net Present Value (NPV) analysis.

Reserves net to CNOOC are quoted as Net Entitlement Reserves, reflecting the terms of the applicable Production Sharing Contract (PSC). Lease fuel has been excluded from the reserve volumes.

GCA has not undertaken a site visit and inspection because it was not necessary and not required within the scope of work. As such, GCA is not in a position to comment on the operations or facilities in place, their appropriateness and condition, or whether they are in compliance with the regulations pertaining to such operations. Further, GCA is not in a position to comment on any aspect of health, safety, or environment of such operation.

This report has been prepared based on GCA's understanding of the effects of petroleum legislation and other regulations that currently apply to these properties. However, GCA is not in a position to attest to property title or rights, conditions of these rights (including environmental and abandonment obligations), or any necessary licenses and consents (including planning permission, financial interest relationships, or encumbrances thereon for any part of the appraised properties).

Use of Net Present Values

It should be clearly noted that the Net Present Values (NPV) contained herein do not represent a GCA opinion as to the market value of the subject property, nor any interest in it. In assessing a likely market value, it would be necessary to take into account a number of additional factors (e.g., capability, technology, project approvals, capacity, infrastructure, commercial negotiations, market, and changes to regulatory landscape).

QUALIFICATIONS

In performing this study, GCA is not aware that any conflict of interest has existed. As an independent consultancy, GCA is providing impartial technical, commercial, and strategic advice within the energy sector. GCA's remuneration was not in any way contingent on the contents of this report.

In the preparation of this document, GCA has maintained, and continues to maintain, a strict independent consultant-client relationship with CNOOC. Furthermore, the management and employees of GCA have no interest in any of the assets evaluated or are related with the analysis performed, as part of this report.

Staff members who prepared this report hold appropriate professional and educational qualifications and have the necessary levels of experience and expertise to perform the work.

The qualifications of the technical person primarily responsible for overseeing this estimate are included in **Attachment II**.

This letter should not be used for purposes other than those for which it is intended. This letter should not be reproduced, either in whole or part, without the written permission of GCA. CNOOC will obtain GCA's prior written or email approval for the use with third parties and context of the use with third parties of any results, statements or opinions expressed by GCA

to CNOOC, which are attributed to GCA. Such requirement of approval shall include, but not be confined to, statements or references in documents of a public or semi-public nature such as loan agreements, prospectuses, reserve statements, websites, press releases, etc.

As independent reserve engineers/advisors for CNOOC, GCA hereby confirms that it has granted and not withdrawn its consent to the references to GCA and to the inclusion of information contained in our report entitled "*Executive Report for Reserves Estimation of the Greater Angostura Fields in Block 2C, Trinidad & Tobago as at 31st December, 2014*" as of 28th February, 2015 prepared for CNOOC, and to the annexation of our report as an exhibit in CNOOC's annual report on Form 20-F for the fiscal year ended 31st December, 2014.

Yours faithfully,
GAFFNEY, CLINE & ASSOCIATES (CONSULTANTS) PTE LTD

/s/Hu Yundong
Project Manager – Dr Hu Yundong
Senior Advisor

/s/ Stephen Lane
Project Reviewer - Stephen Lane
Technical Director

Attachments:

- I. SEC Reserves Definitions
 - II. Technical Qualifications
-

Attachment I
SEC Reserve Definitions

**U.S. SECURITIES AND EXCHANGE COMMISSION (SEC)
MODERNIZATION OF OIL AND GAS REPORTING¹**

Oil and Gas Reserves Definitions and Reporting

(a) Definitions

(1) Acquisition of properties. Costs incurred to purchase, lease or otherwise acquire a property, including costs of lease bonuses and options to purchase or lease properties, the portion of costs applicable to minerals when land including mineral rights is purchased in fee, brokers' fees, recording fees, legal costs, and other costs incurred in acquiring properties.

(2) Analogous reservoir. Analogous reservoirs, as used in resources assessments, have similar rock and fluid properties, reservoir conditions (depth, temperature, and pressure) and drive mechanisms, but are typically at a more advanced stage of development than the reservoir of interest and thus may provide concepts to assist in the interpretation of more limited data and estimation of recovery. When used to support proved reserves, an "analogous reservoir" refers to a reservoir that shares the following characteristics with the reservoir of interest:

- (i) Same geological formation (but not necessarily in pressure communication with the reservoir of interest);
- (ii) Same environment of deposition;
- (iii) Similar geological structure; and
- (iv) Same drive mechanism.

Instruction to paragraph (a)(2): Reservoir properties must, in the aggregate, be no more favorable in the analog than in the reservoir of interest.

(3) Bitumen. Bitumen, sometimes referred to as natural bitumen, is petroleum in a solid or semi-solid state in natural deposits with a viscosity greater than 10,000 centipoise measured at original temperature in the deposit and atmospheric pressure, on a gas free basis. In its natural state it usually contains sulfur, metals, and other non-hydrocarbons.

(4) Condensate. Condensate is a mixture of hydrocarbons that exists in the gaseous phase at original reservoir temperature and pressure, but that, when produced, is in the liquid phase at surface pressure and temperature.

(5) Deterministic estimate. The method of estimating reserves or resources is called deterministic when a single value for each parameter (from the geoscience, engineering, or economic data) in the reserves calculation is used in the reserves estimation procedure.

(6) Developed oil and gas reserves. Developed oil and gas reserves are reserves of any category that can be expected to be recovered:

¹ Extracted from 17 CFR Parts 210, 211, 229, and 249 [Release Nos. 33-8995; 34-59192; FR-78; File No. S7-15-08] RIN 3235-AK00].

- (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 a well.
- (7) Development costs. Costs incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas. More specifically, development costs, including depreciation and applicable operating costs of support equipment and facilities and other costs of development activities, are costs incurred to:
- (i) Gain access to and prepare well locations for drilling, including surveying well locations for the purpose of determining specific development drilling sites, clearing ground, draining, road building, and relocating public roads, gas lines, and power lines, to the extent necessary in developing the proved reserves.
 - (ii) Drill and equip development wells, development-type stratigraphic test wells, and service wells, including the costs of platforms and of well equipment such as casing, tubing, pumping equipment, and the wellhead assembly.
 - (iii) Acquire, construct, and install production facilities such as lease flow lines, separators, treaters, heaters, manifolds, measuring devices, and production storage tanks, natural gas cycling and processing plants, and central utility and waste disposal systems.
 - (iv) Provide improved recovery systems.
- (8) Development project. A development project is the means by which petroleum resources are brought to the status of economically producible. As examples, the development of a single reservoir or field, an incremental development in a producing field, or the integrated development of a group of several fields and associated facilities with a common ownership may constitute a development project.
- (9) Development well. A well drilled within the proved area of an oil or gas reservoir to the depth of a stratigraphic horizon known to be productive.
- (10) Economically producible. The term economically producible, as it relates to a resource, means a resource which generates revenue that exceeds, or is reasonably expected to exceed, the costs of the operation. The value of the products that generate revenue shall be determined at the terminal point of oil and gas producing activities as defined in paragraph (a)(16) of this section.
- (11) Estimated ultimate recovery (EUR). Estimated ultimate recovery is the sum of reserves remaining as of a given date and cumulative production as of that date.
- (12) Exploration costs. Costs incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects of containing oil and gas reserves, including costs of drilling exploratory wells and exploratory-type stratigraphic

test wells. Exploration costs may be incurred both before acquiring the related property (sometimes referred to in pail as prospecting costs) and after acquiring the property. Principal types of exploration costs, which include depreciation and applicable operating costs of support equipment and facilities and other costs of exploration activities, are:

- (i) Costs of topographical, geographical and geophysical studies, rights of access to properties to conduct those studies, and salaries and other expenses of geologists, geophysical crews, and others conducting those studies. Collectively, these are sometimes referred to as geological and geophysical or "G&G" costs.
- (ii) Costs of carrying and retaining undeveloped properties, such as delay rentals, ad valorem taxes on properties, legal costs for title defense, and the maintenance of land and lease records.
- (iii) Dry hole contributions and bottom hole contributions.
- (iv) Costs of drilling and equipping exploratory wells.
- (v) Costs of drilling exploratory-type stratigraphic test wells.

(13) Exploratory well. An exploratory well is a well drilled to find a new field or to find 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 as those items are defined in this section.

(14) Extension well. An extension well is a well drilled to extend the limits of a known reservoir.

(15) Field. An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature and/or stratigraphic condition. There may be two or more reservoirs in a field which are separated vertically by intervening impervious strata, or laterally by local geologic barriers, or by both. Reservoirs that are associated by being in overlapping or adjacent fields may be treated as a single or common operational field. The geological terms "structural feature" and "stratigraphic condition" are intended to identify localized geological features as opposed to the broader terms of basins, trends, provinces, plays, areas-of-interest, etc.

(16) Oil and gas producing activities.

- (i) Oil and gas producing activities include:
 - (A) The search for crude oil, including condensate and natural gas liquids, or natural gas ("oil and gas") in their natural states and original locations;
 - (B) The acquisition of property rights or properties for the purpose of further exploration or for the purpose of removing the oil or gas from such properties;
 - (C) The construction, drilling, and production activities necessary to retrieve oil and gas from their natural reservoirs, including the acquisition, construction, installation, and maintenance of field gathering and storage systems, such as:

- (1) Lifting the oil and gas to the surface; and
- (2) Gathering, treating, and field processing (as in the case of processing gas to extract liquid hydrocarbons); and
- (D) Extraction of saleable hydrocarbons, in the solid, liquid, or gaseous state, from oil sands, shale, coalbeds, or other nonrenewable natural resources which are intended to be upgraded into synthetic oil or gas, and activities undertaken with a view to such extraction.

Instruction 1 to paragraph (a)(16)(i): The oil and gas production function shall be regarded as ending at a "terminal point", which is the outlet valve on the lease or field storage tank. If unusual physical or operational circumstances exist, it may be appropriate to regard the terminal point for the production function as:

- a. The first point at which oil, gas, or gas liquids, natural or synthetic, are delivered to a main pipeline, a common carrier, a refinery, or a marine terminal; and
- b. In the case of natural resources that are intended to be upgraded into synthetic oil or gas, if those natural resources are delivered to a purchaser prior to upgrading, the first point at which the natural resources are delivered to a main pipeline, a common carrier, a refinery, a marine terminal, or a facility which upgrades such natural resources into synthetic oil or gas.

Instruction 2 to paragraph (a)(16)(i): For purposes of this paragraph (a)(16), the term saleable hydrocarbons means hydrocarbons that are saleable in the state in which the hydrocarbons are delivered.

- (ii) Oil and gas producing activities do not include:
 - (A) Transporting, refining, or marketing oil and gas;
 - (B) Processing of produced oil, gas or natural resources that can be upgraded into synthetic oil or gas by a registrant that does not have the legal right to produce or a revenue interest in such production;
 - (C) Activities relating to the production of natural resources other than oil, gas, or natural resources from which synthetic oil and gas can be extracted; or
 - (D) Production of geothermal steam.
- (17) Possible reserves. Possible reserves are those additional reserves that are less certain to be recovered than probable reserves.
 - (i) When deterministic methods are used, the total quantities ultimately recovered from a project have a low probability of exceeding proved plus probable plus possible reserves. When probabilistic methods are used, there should be at least a 10% probability that the total quantities ultimately recovered will equal or exceed the proved plus probable plus possible reserves estimates.

- (ii) Possible reserves may be assigned to areas of a reservoir adjacent to probable reserves where data control and interpretations of available data are progressively less certain. Frequently, this will be in areas where geoscience and engineering data are unable to define clearly the area and vertical limits of commercial production from the reservoir by a defined project.
 - (iii) Possible reserves also include incremental quantities associated with a greater percentage recovery of the hydrocarbons in place than the recovery quantities assumed for probable reserves.
 - (iv) The proved plus probable and proved plus probable plus possible reserves estimates must be based on reasonable alternative technical and commercial interpretations within the reservoir or subject project that are clearly documented, including comparisons to results in successful similar projects.
 - (v) Possible reserves may be assigned where geoscience and engineering data identify directly adjacent portions of a reservoir within the same accumulation that may be separated from proved areas by faults with displacement less than formation thickness or other geological discontinuities and that have not been penetrated by a wellbore, and the registrant believes that such adjacent portions are in communication with the known (proved) reservoir. Possible reserves may be assigned to areas that are structurally higher or lower than the proved area if these areas are in communication with the proved reservoir.
 - (vi) Pursuant to paragraph (a)(22)(iii) of this section, where direct observation has defined a highest known oil (HKO) elevation and the potential exists for an associated gas cap, proved oil reserves should be assigned in the structurally higher portions of the reservoir above the HKO only if the higher contact can be established with reasonable certainty through reliable technology. Portions of the reservoir that do not meet this reasonable certainty criterion may be assigned as probable and possible oil or gas based on reservoir fluid properties and pressure gradient interpretations.
- (18) Probable reserves. Probable reserves are those additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are as likely as not to be recovered.
- (i) When deterministic methods are used, it is as likely as not that actual remaining quantities recovered will exceed the sum of estimated proved plus probable reserves. When probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the proved plus probable reserves estimates.
 - (ii) Probable reserves may be assigned to areas of a reservoir adjacent to proved reserves where data control or interpretations of available data are less certain, even if the interpreted reservoir continuity of structure or productivity does not meet the reasonable certainty criterion. Probable reserves may be assigned to areas that are structurally higher than the proved area if these areas are in communication with the proved reservoir.

(iii) Probable reserves estimates also include potential incremental quantities associated with a greater percentage recovery of the hydrocarbons in place than assumed for proved reserves.

(iv) See also guidelines in paragraphs (a)(17)(iv) and (a)(17)(vi) of this section.

(19) Probabilistic estimate. The method of estimation of reserves or resources is called probabilistic when the full range of values that could reasonably occur for each unknown parameter (from the geoscience and engineering data) is used to generate a full range of possible outcomes and their associated probabilities of occurrence.

(20) Production costs.

(i) Costs incurred to operate and maintain wells and related equipment and facilities, including depreciation and applicable operating costs of support equipment and facilities and other costs of operating and maintaining those wells and related equipment and facilities, they become part of the cost of oil and gas produced. Examples of production costs (sometimes called lifting costs) are:

(A) Costs of labor to operate the wells and related equipment and facilities.

(B) Repairs and maintenance.

(C) Materials, supplies, and fuel consumed and supplies utilized in operating the wells and related equipment and facilities.

(D) Property taxes and insurance applicable to proved properties and wells and related equipment and facilities.

(E) Severance taxes.

(ii) Some support equipment or facilities may serve two or more oil and gas producing activities and may also serve transportation, refining, and marketing activities. To the extent that the support equipment and facilities are used in oil and gas producing activities, their depreciation and applicable operating costs become exploration, development or production costs, as appropriate. Depreciation, depletion, and amortization of capitalized acquisition, exploration, and development costs are not production costs but also become part of the cost of oil and gas produced along with production (lifting) costs identified above.

(21) Proved area. The part of a property to which proved reserves have been specifically attributed.

(22) Proved oil and gas reserves. Proved oil and gas reserves are 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 geoscience 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 geoscience, 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 geoscience, 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.

(23) Proved properties. Properties with proved reserves.

(24) Reasonable certainty. If deterministic methods are used, reasonable certainty means a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate. A high degree of confidence exists if the quantity is much more likely to be achieved than not, and, as changes due to increased availability of geoscience (geological, geophysical, and geochemical), engineering, and economic data are made to estimated ultimate recovery (EUR) with time, reasonably certain EUR is much more likely to increase or remain constant than to decrease.

(25) Reliable technology. Reliable technology is a grouping of one or more technologies (including computational methods) that has been field tested and has been demonstrated to provide reasonably certain results with consistency and repeatability in the formation being evaluated or in an analogous formation.

(26) Reserves. Reserves are estimated remaining quantities of oil and gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce or a revenue interest in the production, installed means of delivering oil and gas or related substances to market, and all permits and financing required to implement the project.

Note to paragraph (a)(26): Reserves should not be assigned to adjacent reservoirs isolated by major, potentially sealing, faults until those reservoirs are penetrated and evaluated as economically producible. Reserves should not be assigned to areas that are clearly separated from a known accumulation by a non-productive reservoir (i.e., absence of reservoir, structurally low reservoir, or negative test results). Such areas may contain prospective resources (i.e., potentially recoverable resources from undiscovered accumulations).

(27) Reservoir. A porous and permeable underground formation containing a natural accumulation of producible oil and/or gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.

(28) Resources. Resources are quantities of oil and gas estimated to exist in naturally occurring accumulations. A portion of the resources may be estimated to be recoverable, and another portion may be considered to be unrecoverable. Resources include both discovered and undiscovered accumulations.

(29) Service well. A well drilled or completed for the purpose of supporting production in an existing field. Specific purposes of service wells include gas injection, water injection, steam injection, air injection, salt-water disposal, water supply for injection, observation, or injection for in-situ combustion.

(30) Stratigraphic test well. A stratigraphic test well is a drilling effort, geologically directed, to obtain information pertaining to a specific geologic condition. Such wells customarily are drilled without the intent of being completed for hydrocarbon production. The classification also includes tests identified as core tests and all types of expendable holes related to hydrocarbon exploration. Stratigraphic tests are classified as "exploratory type" if not drilled in a known area or "development type" if drilled in a known area.

(31) Undeveloped oil and gas reserves. Undeveloped oil and gas reserves are reserves of any category that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

- (i) Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.
- (ii) Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances, justify a longer time.
- (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, as defined in paragraph (a)(2) of this section, or by other evidence using reliable technology establishing reasonable certainty.

(32) Unproved properties. Properties with no proved reserves.

Attachment II
Technical Qualifications

TECHNICAL QUALIFICATIONS

GCA is an independent international energy advisory group of more than 50 years' standing, whose expertise includes petroleum reservoir evaluation and economic analysis.

The report is based on information compiled by professional staff members who are full time employees of GCA.

Staff who participated in the compilation of this report include Mr. Stephen M. Lane, Mr. David S. Ahye, Mr. Chew Hai Hong, Mr. Andrew B. Duncan, Mr. Paul McGhee, Dr. Hu Yundong, Dr. Azlan Abdul Majid and Ms. Tianjiao Yan. All hold degrees in geoscience, petroleum engineering or related discipline.

Mr. Lane holds a BSc (Hons) in Geology, is a member of the Society of Petroleum Engineers and is a very experienced Geoscientist and Petrophysicist with over 30 years' background in providing geological and petrophysical expertise to clients worldwide. He has particular involvement as lead petrophysicist/geologist and Project Manager in many oil and gas reserve certifications both for project finance and for SEC reporting purposes, frequent involvement in the valuation of E&P assets for acquisition and divestment purposes and production of public documents such as Competent Person's Reports.

Mr. Ahye holds a B.Sc (Hons) in Chemical Engineering, is a member of the Society of Petroleum Engineers and the South East Asia Petroleum Exploration Society, and has more than 35 years industry experience worldwide.

Mr. Chew holds a BE (Hons) in Civil Engineering and an MBA, is a member of the Society of Petroleum Engineers, a fellow of Institution of Engineers Malaysia, and a professional engineer registered with the Board of Engineers Malaysia, and has more than 30 years petroleum industry experience.

Mr. Duncan holds a B.Sc in Civil Engineering, is a chartered member of the Institute of Mechanical Engineers, member of the Society of Petroleum Engineers and the Association of International Petroleum Negotiators, and has more than 30 years industry experience.

Mr. McGhee holds a B.Sc (Hons) in Chemical Engineering, is a member of the Society of Petroleum Engineers and the Association of International Petroleum Negotiators, and has more than 25 years industry experience.

Dr. Hu holds a PhD in Petroleum Geology, is a member of the Society of Petroleum Engineers and a Registered Mineral Reserve Evaluator of the P.R. China, and has more than 30 years industry experience in China.

Dr. Majid holds a PhD and a M.Eng. in Chemical Engineering, is a member of the Society of Petroleum Engineers and the Society of Professional Well Log Analysts, and has about 10 years of world-wide experience.

Ms. Yan holds a B.Sc in Economics and Mathematics and a M.Sc in Economics, is a member of the Society of Petroleum Engineers and the Association of International Petroleum Negotiators

INDEPENDENT LETTER

**THE MISSAN OIL FIELDS IN EASTERN IRAQ
ESTIMATED PROVED RESERVES AND FINANCIAL DATA, BASED ON SEC RULES**

Prepared for

CNOOC LIMITED

As at 31st December, 2014

February, 2015

GAFFNEY, CLINE & ASSOCIATES (CONSULTANTS) PTE LTD

This summary letter is based on Gaffney, Cline & Associates' official report and has been provided at the request of CNOOC Limited.

SML/YDH/dh/L0071/2015/PS-14-2092

28th February, 2015

CNOOC Limited

No. 25, Chaoyangmenbei Dajie
Dongcheng District
Beijing 100010, P.R. China

Gentlemen:

INDEPENDENT LETTER

**THE MISSAN OIL FIELDS IN EASTERN IRAQ
ESTIMATED PROVED RESERVES AND FINANCIAL DATA, BASED ON SEC RULES
As at 31st December, 2014**

At the request of CNOOC Limited (CNOOC), Gaffney, Cline & Associates (GCA) has prepared an independent estimate of the proved reserves and financial data attributable to certain participating interests owned by CNOOC as at 31st December, 2014. The reserves and income data were estimated based on Rules of the United States Securities and Exchange Commission (SEC) contained in Title 17, Code of Federal Regulations, Modernization of Oil and Gas Reporting, Final Rule released 14th January, 2009 in the Federal Register, including all references to Regulation S-X and Regulation S-K (SEC Rules). GCA's independent study, completed on 28th February, 2015 and summarized herein, was prepared for public disclosure by CNOOC in filings made with the SEC in accordance with the disclosure requirements set forth in the SEC Rules. In GCA's opinion, the assumptions, data, methods, and procedures used in the preparation of this report are appropriate for such purpose and have been carried out in line with the SEC Oil and Gas Reserves Definitions attached hereto as an Attachment.

The subject properties of the Missan Oil Fields (Missan) are located in eastern Iraq, 350 km southeast of Baghdad. Based on information provided by CNOOC, the Proved reserves estimates for properties evaluated by GCA for this report represent approximately 0.5 percent of CNOOC's total net proved reserves as at 31st December, 2014. GCA is not in a position to verify this statement as it was not requested to review all CNOOC's other oil and gas assets.

CNOOC have signed a 20-year Technical Service Contract (TSC) with the Missan Oil Company of The Iraqi Ministry of Oil (MOC) for the rehabilitation of improved production and enhanced recovery of petroleum from Missan. CNOOC is the lead contractor of, and holds a 63.75% participating interest in, the project.

The oil reserves and financial data reported herein were estimated on the basis of SEC Rules. GCA has classified as Reserves those hydrocarbon volumes that would be economically recoverable as a result of implementing the Rehabilitation Plan only.

In line with the foregoing, the statement of reserves, presented herein, is based on a program that is expected to be superseded by the redevelopment activities proposed under the Enhanced Redevelopment Period (ERP) submitted by CNOOC in 2014. As such, the volumes actually recovered under the enlarged plan are expected to be significantly greater than those presented. However, should the ERP not be approved, it is possible that CNOOC would be seen as in default of the contract and there could be an early termination and a consequential reduction in reserves.

Under the terms of the TSC, the Contractor is entitled to use any quantity of Associated Gas from the oil reservoirs necessary for Petroleum Operations and for power generation. However, all Associated Gas that is not used in Petroleum Operations or for power generation "shall be delivered unprocessed to MOC". Thus, the contractor has no entitlement to any gas reserves.

Economic models were constructed based on terms of the TSC as provided by CNOOC, in order to calculate CNOOC's Net Entitlement volumes, which are made up of CNOOC's share of Service Fees (Petroleum Cost Recovery and Remuneration Fees) plus Supplementary Fees, converted to volumetric equivalents. The economic tests for the reserve volumes as at 31st December, 2014 were based on a prior twelve-month first-day-of-the-month average reference price for UK North Sea Brent crude of US\$101.30/barrel, corrected for location and quality to an average sales price of US\$94.38/Bbl. No price escalation, or cost inflation, has been included in the evaluation.

Future capital costs were derived from development plans prepared by CNOOC for the field. Recent historical operating expense data were utilized as the basis for operating cost projections. GCA found that CNOOC has projected sufficient capital investments and operating expenses to produce economically the projected volumes recoverable from the development activities planned under the Rehabilitation Plan of the contract.

Actual future prices may vary significantly from the prices required by SEC Rules; therefore, volumes of reserves actually recovered and the amounts of income actually received may differ significantly from the estimated quantities presented in this report. The results of this study are summarized in the following table. Reserves net to CNOOC are quoted as Net Entitlement Reserves reflecting the terms of the TSC.

**Estimated Net Reserves and Financial Data
As at 31st December, 2014**

	Proved			
	Developed		Undeveloped	Total Proved
	Producing	Non-Producing		
Net Reserves				
Oil/Condensate – Mstb	4,789	0	19,225	24,014
Income Data (M\$)				
Future Gross Revenue	\$ 556,012.1	\$ 0	\$ 1,691,514.0	\$ 2,247,526.1
Deductions	\$ 480,788.7	\$ 0	\$ 1,645,657.6	\$ 2,126,446.3
Future Net Income (FNI)	\$ 75,223.4	\$ 0	\$ 45,856.4	\$ 121,079.8
Discounted FNI @ 10%	\$ 67,351.4	\$ 0	-\$ 42,545.6	\$ 24,805.8

Liquid hydrocarbons are expressed in thousands of standard (42 gallon) barrels (MBbl). In this report, the revenues, deductions and income data are expressed in thousands of US dollars (M\$).

The future gross revenue represents CNOOC's net entitlement share of Service Fees (Petroleum Cost Recovery plus Remuneration Fees) due under the Technical Service Contract (TSC). Deductions represent CNOOC's 85% (i.e. 63.75%/75% of total project) share of project Capital Expenditure, Operating Expenditure, contractual Supplementary Costs, State partner 'carry' and Training Fees. Future Net Income represents CNOOC's Future Gross Revenue less costs incurred, and on a post-tax basis, under the terms of the TSC.

The results included herein were prepared in accordance with the disclosure requirements set forth in the SEC Rules and intended for public disclosure as an exhibit in filings made with the SEC by CNOOC.

BASIS OF OPINION

This document reflects GCA's informed professional judgment based on accepted standards of professional investigation and, as applicable, the data and information provided by CNOOC, the limited scope of engagement, and the time permitted to conduct the evaluation.

In line with those accepted standards, this document does not in any way constitute or make a guarantee or prediction of results, and no warranty is implied or expressed that actual outcome will conform to the outcomes presented herein. GCA has not independently verified any information provided by, or at the direction of, CNOOC, and has accepted the accuracy and completeness of this data. GCA has no reason to believe that any material facts have been withheld, but does not warrant that its inquiries have revealed all of the matters that a more extensive examination might otherwise disclose.

The opinions expressed herein are subject to and fully qualified by the generally accepted uncertainties associated with the interpretation of geoscience and engineering data and do not reflect the totality of circumstances, scenarios and information that could potentially affect decisions made by the report's recipients and/or actual results. The opinions and statements contained in this report are made in good faith and in the belief that such opinions and statements are representative of prevailing physical and economic circumstances.

In the preparation of this report, GCA has used definitions contained within Part 210 Rule 4-10(a) of Regulation S-X of the US Securities and Exchange Commission (see **Attachment I**).

There are numerous uncertainties inherent in estimating reserves and resources, and in projecting future production, development expenditures, operating expenses and cash flows. Oil and gas resources assessments must be recognized as a subjective process of estimating subsurface accumulations of oil and gas that cannot be measured in an exact way. Estimates of oil and gas resources prepared by other parties may differ, perhaps materially, from those contained within this report.

The accuracy of any resource estimate is a function of the quality of the available data and of engineering and geological interpretation. Results of drilling, testing and production that post-date the preparation of the estimates may justify revisions, some or all of which may be material. Accordingly, resource estimates are often different from the quantities of oil and gas that are ultimately recovered, and the timing and cost of those volumes that are recovered may vary from that assumed.

Oil and condensate volumes are reported in thousands of standard barrels at stock tank conditions (MMstb). Standard conditions are defined as 14.7 psia and 60° Fahrenheit.

GCA prepared an independent assessment of the reserves based on data and interpretations provided by CNOOC.

Definition of Reserves

Reserves are estimated remaining quantities of oil and gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce, or a revenue interest in, the production, installed means of delivering oil and gas or related substances to market, and all permits and financing required to implement the project.

GCA is not aware of any potential changes in regulations applicable to these fields that could affect the ability of CNOOC to produce the estimated reserves.

Reserves are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by development and production status. All categories of reserves volumes quoted herein have been derived within the context of an economic limit test (ELT) assessment (pre-tax and exclusive of accumulated depreciation amounts) prior to any Net Present Value (NPV) analysis.

Reserves net to CNOOC are quoted as Net Entitlement Reserves, reflecting the terms of the applicable Technical Service Contract (TSC). Lease fuel has been excluded from the reserve volumes.

GCA has not undertaken a site visit and inspection because it was not required within the scope of work. As such, GCA is not in a position to comment on the operations or facilities in place, their appropriateness and condition, or whether they are in compliance with the regulations pertaining to such operations. Further, GCA is not in a position to comment on any aspect of health, safety, or environment of such operation.

This report has been prepared based on GCA's understanding of the effects of petroleum legislation and other regulations that currently apply to these properties. However, GCA is not in a position to attest to property title or rights, conditions of these rights (including environmental and abandonment obligations), or any necessary licenses and consents (including planning permission, financial interest relationships, or encumbrances thereon for any part of the appraised properties).

Use of Net Present Values

It should be clearly noted that the Net Present Values (NPV) contained herein do not represent a GCA opinion as to the market value of the subject property, nor any interest in it. In assessing a likely market value, it would be necessary to take into account a number of additional factors (e.g., capability, technology, project approvals, capacity, infrastructure, commercial negotiations, market, and changes to regulatory landscape).

QUALIFICATIONS

In performing this study, GCA is not aware that any conflict of interest has existed. As an independent consultancy, GCA is providing impartial technical, commercial, and strategic advice within the energy sector. GCA's remuneration was not in any way contingent on the contents of this report.

In the preparation of this document, GCA has maintained, and continues to maintain, a strict independent consultant-client relationship with CNOOC. Furthermore, the management and employees of GCA have no interest in any of the assets evaluated or are related with the analysis performed, as part of this report.

Staff members who prepared this report hold appropriate professional and educational qualifications and have the necessary levels of experience and expertise to perform the work.

The qualifications of the technical person primarily responsible for overseeing this estimate are included in **Attachment II**.

This letter should not be used for purposes other than those for which it is intended. This letter should not be reproduced, either in whole or part, without the written permission of GCA. CNOOC will obtain GCA's prior written or email approval for the use with third parties and context of the use with third parties of any results, statements or opinions expressed by GCA to CNOOC, which are attributed to GCA. Such requirement of approval shall include, but not be confined to, statements or references in documents of a public or semi-public nature such as loan agreements, prospectuses, reserve statements, websites, press releases, etc.

As independent reserve engineers/advisors for CNOOC, GCA hereby confirms that it has granted and not withdrawn its consent to the references to GCA and to the inclusion of information contained in our report entitled "*Executive Report for Reserves Estimation of the Missan Fields in Eastern Iraq as at 31st December, 2014*" as of 28th February, 2015 prepared for CNOOC, and to the annexation of our report as an exhibit in CNOOC's annual report on Form 20-F for the fiscal year ended 31st December, 2014.

Yours faithfully,
GAFFNEY, CLINE & ASSOCIATES (CONSULTANTS) PTE LTD

/s/Hu Yundong
Project Manager – Dr Hu Yundong
Senior Advisor

/s/Stephen M. Lane
Project Reviewer - Stephen M. Lane
Technical Director

Attachments:

- I. SEC Reserves Definitions
- II. Technical Qualifications

Attachment I
SEC Reserve Definitions

**U.S. SECURITIES AND EXCHANGE COMMISSION (SEC)
MODERNIZATION OF OIL AND GAS REPORTING¹**

Oil and Gas Reserves Definitions and Reporting

(a) Definitions

(1) Acquisition of properties. Costs incurred to purchase, lease or otherwise acquire a property, including costs of lease bonuses and options to purchase or lease properties, the portion of costs applicable to minerals when land including mineral rights is purchased in fee, brokers' fees, recording fees, legal costs, and other costs incurred in acquiring properties.

(2) Analogous reservoir. Analogous reservoirs, as used in resources assessments, have similar rock and fluid properties, reservoir conditions (depth, temperature, and pressure) and drive mechanisms, but are typically at a more advanced stage of development than the reservoir of interest and thus may provide concepts to assist in the interpretation of more limited data and estimation of recovery. When used to support proved reserves, an "analogous reservoir" refers to a reservoir that shares the following characteristics with the reservoir of interest:

- (i) Same geological formation (but not necessarily in pressure communication with the reservoir of interest);
- (ii) Same environment of deposition;
- (iii) Similar geological structure; and
- (iv) Same drive mechanism.

Instruction to paragraph (a)(2): Reservoir properties must, in the aggregate, be no more favorable in the analog than in the reservoir of interest.

(3) Bitumen. Bitumen, sometimes referred to as natural bitumen, is petroleum in a solid or semi-solid state in natural deposits with a viscosity greater than 10,000 centipoise measured at original temperature in the deposit and atmospheric pressure, on a gas free basis. In its natural state it usually contains sulfur, metals, and other non-hydrocarbons.

(4) Condensate. Condensate is a mixture of hydrocarbons that exists in the gaseous phase at original reservoir temperature and pressure, but that, when produced, is in the liquid phase at surface pressure and temperature.

(5) Deterministic estimate. The method of estimating reserves or resources is called deterministic when a single value for each parameter (from the geoscience, engineering, or economic data) in the reserves calculation is used in the reserves estimation procedure.

(6) Developed oil and gas reserves. Developed oil and gas reserves are reserves of any category that can be expected to be recovered:

¹ Extracted from 17 CFR Parts 210, 211, 229, and 249 [Release Nos. 33-8995; 34-59192; FR-78; File No. S7-15-08] RIN 3235-AK00].

- (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 a well.
- (7) Development costs. Costs incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas. More specifically, development costs, including depreciation and applicable operating costs of support equipment and facilities and other costs of development activities, are costs incurred to:
- (i) Gain access to and prepare well locations for drilling, including surveying well locations for the purpose of determining specific development drilling sites, clearing ground, draining, road building, and relocating public roads, gas lines, and power lines, to the extent necessary in developing the proved reserves.
 - (ii) Drill and equip development wells, development-type stratigraphic test wells, and service wells, including the costs of platforms and of well equipment such as casing, tubing, pumping equipment, and the wellhead assembly.
 - (iii) Acquire, construct, and install production facilities such as lease flow lines, separators, treaters, heaters, manifolds, measuring devices, and production storage tanks, natural gas cycling and processing plants, and central utility and waste disposal systems.
 - (iv) Provide improved recovery systems.
- (8) Development project. A development project is the means by which petroleum resources are brought to the status of economically producible. As examples, the development of a single reservoir or field, an incremental development in a producing field, or the integrated development of a group of several fields and associated facilities with a common ownership may constitute a development project.
- (9) Development well. A well drilled within the proved area of an oil or gas reservoir to the depth of a stratigraphic horizon known to be productive.
- (10) Economically producible. The term economically producible, as it relates to a resource, means a resource which generates revenue that exceeds, or is reasonably expected to exceed, the costs of the operation. The value of the products that generate revenue shall be determined at the terminal point of oil and gas producing activities as defined in paragraph (a)(16) of this section.
- (11) Estimated ultimate recovery (EUR). Estimated ultimate recovery is the sum of reserves remaining as of a given date and cumulative production as of that date.
- (12) Exploration costs. Costs incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects of containing oil and gas reserves, including costs of drilling exploratory wells and exploratory-type stratigraphic

test wells. Exploration costs may be incurred both before acquiring the related property (sometimes referred to in pail as prospecting costs) and after acquiring the property. Principal types of exploration costs, which include depreciation and applicable operating costs of support equipment and facilities and other costs of exploration activities, are:

- (i) Costs of topographical, geographical and geophysical studies, rights of access to properties to conduct those studies, and salaries and other expenses of geologists, geophysical crews, and others conducting those studies. Collectively, these are sometimes referred to as geological and geophysical or "G&G" costs.
- (ii) Costs of carrying and retaining undeveloped properties, such as delay rentals, ad valorem taxes on properties, legal costs for title defense, and the maintenance of land and lease records.
- (iii) Dry hole contributions and bottom hole contributions.
- (iv) Costs of drilling and equipping exploratory wells.
- (v) Costs of drilling exploratory-type stratigraphic test wells.

(13) Exploratory well. An exploratory well is a well drilled to find a new field or to find 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 as those items are defined in this section.

(14) Extension well. An extension well is a well drilled to extend the limits of a known reservoir.

(15) Field. An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature and/or stratigraphic condition. There may be two or more reservoirs in a field which are separated vertically by intervening impervious strata, or laterally by local geologic barriers, or by both. Reservoirs that are associated by being in overlapping or adjacent fields may be treated as a single or common operational field. The geological terms "structural feature" and "stratigraphic condition" are intended to identify localized geological features as opposed to the broader terms of basins, trends, provinces, plays, areas-of-interest, etc.

(16) Oil and gas producing activities.

- (i) Oil and gas producing activities include:
 - (A) The search for crude oil, including condensate and natural gas liquids, or natural gas ("oil and gas") in their natural states and original locations;
 - (B) The acquisition of property rights or properties for the purpose of further exploration or for the purpose of removing the oil or gas from such properties;
 - (C) The construction, drilling, and production activities necessary to retrieve oil and gas from their natural reservoirs, including the acquisition, construction, installation, and maintenance of field gathering and storage systems, such as:

- (1) Lifting the oil and gas to the surface; and
- (2) Gathering, treating, and field processing (as in the case of processing gas to extract liquid hydrocarbons); and
- (D) Extraction of saleable hydrocarbons, in the solid, liquid, or gaseous state, from oil sands, shale, coalbeds, or other nonrenewable natural resources which are intended to be upgraded into synthetic oil or gas, and activities undertaken with a view to such extraction.

Instruction 1 to paragraph (a)(16)(i): The oil and gas production function shall be regarded as ending at a “terminal point”, which is the outlet valve on the lease or field storage tank. If unusual physical or operational circumstances exist, it may be appropriate to regard the terminal point for the production function as:

- a. The first point at which oil, gas, or gas liquids, natural or synthetic, are delivered to a main pipeline, a common carrier, a refinery, or a marine terminal; and
- b. In the case of natural resources that are intended to be upgraded into synthetic oil or gas, if those natural resources are delivered to a purchaser prior to upgrading, the first point at which the natural resources are delivered to a main pipeline, a common carrier, a refinery, a marine terminal, or a facility which upgrades such natural resources into synthetic oil or gas.

Instruction 2 to paragraph (a)(16)(i): For purposes of this paragraph (a)(16), the term saleable hydrocarbons means hydrocarbons that are saleable in the state in which the hydrocarbons are delivered.

- (ii) Oil and gas producing activities do not include:
 - (A) Transporting, refining, or marketing oil and gas;
 - (B) Processing of produced oil, gas or natural resources that can be upgraded into synthetic oil or gas by a registrant that does not have the legal right to produce or a revenue interest in such production;
 - (C) Activities relating to the production of natural resources other than oil, gas, or natural resources from which synthetic oil and gas can be extracted; or
 - (D) Production of geothermal steam.

(17) Possible reserves. Possible reserves are those additional reserves that are less certain to be recovered than probable reserves.

- (i) When deterministic methods are used, the total quantities ultimately recovered from a project have a low probability of exceeding proved plus probable plus possible reserves. When probabilistic methods are used, there should be at least a 10% probability that the total quantities ultimately recovered will equal or exceed the proved plus probable plus possible reserves estimates.

- (ii) Possible reserves may be assigned to areas of a reservoir adjacent to probable reserves where data control and interpretations of available data are progressively less certain. Frequently, this will be in areas where geoscience and engineering data are unable to define clearly the area and vertical limits of commercial production from the reservoir by a defined project.
 - (iii) Possible reserves also include incremental quantities associated with a greater percentage recovery of the hydrocarbons in place than the recovery quantities assumed for probable reserves.
 - (iv) The proved plus probable and proved plus probable plus possible reserves estimates must be based on reasonable alternative technical and commercial interpretations within the reservoir or subject project that are clearly documented, including comparisons to results in successful similar projects.
 - (v) Possible reserves may be assigned where geoscience and engineering data identify directly adjacent portions of a reservoir within the same accumulation that may be separated from proved areas by faults with displacement less than formation thickness or other geological discontinuities and that have not been penetrated by a wellbore, and the registrant believes that such adjacent portions are in communication with the known (proved) reservoir. Possible reserves may be assigned to areas that are structurally higher or lower than the proved area if these areas are in communication with the proved reservoir.
 - (vi) Pursuant to paragraph (a)(22)(iii) of this section, where direct observation has defined a highest known oil (HKO) elevation and the potential exists for an associated gas cap, proved oil reserves should be assigned in the structurally higher portions of the reservoir above the HKO only if the higher contact can be established with reasonable certainty through reliable technology. Portions of the reservoir that do not meet this reasonable certainty criterion may be assigned as probable and possible oil or gas based on reservoir fluid properties and pressure gradient interpretations.
- (18) Probable reserves. Probable reserves are those additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are as likely as not to be recovered.
- (i) When deterministic methods are used, it is as likely as not that actual remaining quantities recovered will exceed the sum of estimated proved plus probable reserves. When probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the proved plus probable reserves estimates.
 - (ii) Probable reserves may be assigned to areas of a reservoir adjacent to proved reserves where data control or interpretations of available data are less certain, even if the interpreted reservoir continuity of structure or productivity does not meet the reasonable certainty criterion. Probable reserves may be assigned to areas that are structurally higher than the proved area if these areas are in communication with the proved reservoir.

(iii) Probable reserves estimates also include potential incremental quantities associated with a greater percentage recovery of the hydrocarbons in place than assumed for proved reserves.

(iv) See also guidelines in paragraphs (a)(17)(iv) and (a)(17)(vi) of this section.

(19) Probabilistic estimate. The method of estimation of reserves or resources is called probabilistic when the full range of values that could reasonably occur for each unknown parameter (from the geoscience and engineering data) is used to generate a full range of possible outcomes and their associated probabilities of occurrence.

(20) Production costs.

(i) Costs incurred to operate and maintain wells and related equipment and facilities, including depreciation and applicable operating costs of support equipment and facilities and other costs of operating and maintaining those wells and related equipment and facilities, they become part of the cost of oil and gas produced. Examples of production costs (sometimes called lifting costs) are:

(A) Costs of labor to operate the wells and related equipment and facilities.

(B) Repairs and maintenance.

(C) Materials, supplies, and fuel consumed and supplies utilized in operating the wells and related equipment and facilities.

(D) Property taxes and insurance applicable to proved properties and wells and related equipment and facilities.

(E) Severance taxes.

(ii) Some support equipment or facilities may serve two or more oil and gas producing activities and may also serve transportation, refining, and marketing activities. To the extent that the support equipment and facilities are used in oil and gas producing activities, their depreciation and applicable operating costs become exploration, development or production costs, as appropriate. Depreciation, depletion, and amortization of capitalized acquisition, exploration, and development costs are not production costs but also become part of the cost of oil and gas produced along with production (lifting) costs identified above.

(21) Proved area. The part of a property to which proved reserves have been specifically attributed.

(22) Proved oil and gas reserves. Proved oil and gas reserves are 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 geoscience 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 geoscience, 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 geoscience, 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.

(23) Proved properties. Properties with proved reserves.

(24) Reasonable certainty. If deterministic methods are used, reasonable certainty means a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate. A high degree of confidence exists if the quantity is much more likely to be achieved than not, and, as changes due to increased availability of geoscience (geological, geophysical, and geochemical), engineering, and economic data are made to estimated ultimate recovery (EUR) with time, reasonably certain EUR is much more likely to increase or remain constant than to decrease.

(25) Reliable technology. Reliable technology is a grouping of one or more technologies (including computational methods) that has been field tested and has been demonstrated to provide reasonably certain results with consistency and repeatability in the formation being evaluated or in an analogous formation.

(26) Reserves. Reserves are estimated remaining quantities of oil and gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce or a revenue interest in the production, installed means of delivering oil and gas or related substances to market, and all permits and financing required to implement the project.

Note to paragraph (a)(26): Reserves should not be assigned to adjacent reservoirs isolated by major, potentially sealing, faults until those reservoirs are penetrated and evaluated as economically producible. Reserves should not be assigned to areas that are clearly separated from a known accumulation by a non-productive reservoir (i.e., absence of reservoir, structurally low reservoir, or negative test results). Such areas may contain prospective resources (i.e., potentially recoverable resources from undiscovered accumulations).

(27) Reservoir. A porous and permeable underground formation containing a natural accumulation of producible oil and/or gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.

(28) Resources. Resources are quantities of oil and gas estimated to exist in naturally occurring accumulations. A portion of the resources may be estimated to be recoverable, and another portion may be considered to be unrecoverable. Resources include both discovered and undiscovered accumulations.

(29) Service well. A well drilled or completed for the purpose of supporting production in an existing field. Specific purposes of service wells include gas injection, water injection, steam injection, air injection, salt-water disposal, water supply for injection, observation, or injection for in-situ combustion.

(30) Stratigraphic test well. A stratigraphic test well is a drilling effort, geologically directed, to obtain information pertaining to a specific geologic condition. Such wells customarily are drilled without the intent of being completed for hydrocarbon production. The classification also includes tests identified as core tests and all types of expendable holes related to hydrocarbon exploration. Stratigraphic tests are classified as "exploratory type" if not drilled in a known area or "development type" if drilled in a known area.

- (31) Undeveloped oil and gas reserves. Undeveloped oil and gas reserves are reserves of any category that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.
- (i) Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.
 - (ii) Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances, justify a longer time.
 - (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, as defined in paragraph (a)(2) of this section, or by other evidence using reliable technology establishing reasonable certainty.
- (32) Unproved properties. Properties with no proved reserves.

Attachment II
Technical Qualifications

TECHNICAL QUALIFICATIONS

GCA is an independent international energy advisory group of 50 years' standing, whose expertise includes petroleum reservoir evaluation and economic analysis.

The report is based on information compiled by professional staff members who are full time employees of GCA. Staff who participated in the compilation of this report mainly include Mr. Stephen M. Lane, Dr. Hu Yundong, Mr. Gary William Holmes, Mr. Adam K. Becis and Mr. Paul McGhee. All hold degrees in geoscience, petroleum engineering or related discipline.

Mr. Lane holds a BSc (Hons) in Geology, is a member of the Society of Petroleum Engineers and is a very experienced Geoscientist and Petrophysicist with over 30 years' background in providing geological and petrophysical expertise to clients worldwide. He has particular involvement as lead petrophysicist/geologist and Project Manager in many oil and gas reserve certifications both for project finance and for SEC reporting purposes, frequent involvement in the valuation of E&P assets for acquisition and divestment purposes and production of public documents such as Competent Person's Reports.

Dr. Hu holds a PhD in Petroleum Geology, is a member of the Society of Petroleum Engineers and a Registered Mineral Reserve Evaluator of the P.R. China, and has more than 30 years industry experience in China.

Mr. Holmes holds a BSc (Hons) in Geology and Geography, is a member of Society of Petroleum Engineers, Petroleum Exploration Society of Great Britain, South East Asia Petroleum Exploration Society and London Petrophysical Society, and has 30 years international experience in Exploration and Production, with key strengths includes innovative approach to integrated formation evaluation, field studies and operations.

Mr. Becis holds a Master of Business Administration, a BSc in Commerce and a BSc in Petroleum Engineering, is a member of the Society of Petroleum Engineers, the Southeast Asia Petroleum Exploration Society and the Australian Chamber of Commerce - Singapore. He is Reservoir Engineer with 8 years of world-wide experience.

Mr. McGhee holds a B.Sc in Chemical Engineering, is a member of the Society of Petroleum Engineers and the Association of International Petroleum Negotiators, and has more than 25 years industry experience, with a background in the fiscal modeling and economic evaluation of numerous petroleum producing nations.

**Hydrocarbon Liquids & Natural Gas
Reserves Report at Year End 2014**

**Cerro Dragon, Anticlinal Funes, Estancia la
Escondida, Piedra Clavada, Koluel Kaike
and Acambuco in Argentina
and
Caipipendi in Bolivia**

Prepared For:

CNOOC LIMITED

January, 2015

Victor Wayne Taylor
Texas, USA PE License# 71417
Principal Engineer



RESERVE LETTER



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January 31, 2015

CNOOC Limited

No. 25, Chaoyangmenbei Dajie
Dongcheng District
Beijing 100010, P.R. China

Gentlemen:

As per your request, RPS has prepared an estimate of the proved reserves, future production and income attributable to certain leasehold interests owned by CNOOC Limited as of December 31, 2014. The reserves and income data were estimated based on the definitions and disclosure guidelines of the United States Securities and Exchange Commission (SEC) contained in Title 17, Code of Federal Regulations, Modernization of Oil and Gas Reporting, Final Rule released January 14, 2009 in the Federal Register, including all references to Regulation S-X and Regulation S-K (SEC regulations). Our third party revision, completed on January 27, 2015 and presented herein, was prepared for public disclosure by CNOOC Limited in filings made with the SEC in accordance with the disclosure requirements set forth in the SEC regulations. The estimated reserves and future net income amounts presented in this report, as of December 31, 2014, are based on the reserve estimate review that RPS performed for PAE's year-end 2014 reserve report. In our opinion, the assumptions, data, methods, and procedures used in the preparation of this report are appropriate for such purpose.

CNOOC Limited holds 50% interest in Bidas Corporation and Bidas Corporation holds 40% interests in PAE. Therefore CNOOC Limited, through Bidas Corporation, owns 20% of participating interests in PAE.

The subject properties are located in Argentina and Bolivia, South America. The properties evaluated by RPS account for a portion of CNOOC Limited's total net proved reserves as of December 31, 2014.

	Area	CNOOC Limited Net WI %
ARGENTINA	Cerro Dracon	20.0%
	Anticlinal Funes	16.0%
	Estancia la Escondida	5.0%
	Piedra Clavada	20.0%
	Koluel Kaike	20.0%
	Acambuco	10.4%
BOLIVIA	Caipipendi	5.0%

Based on information provided by CNOOC, the third party estimate conducted by RPS addresses 5.6 percent of the Total Proved reserves of CNOOC, on a barrel oil equivalent basis (BOE).



The estimated reserves and future net income amounts presented in this report, as of December 31, 2014, are related to hydrocarbon prices. The hydrocarbon prices used in the preparation of this report are based on the average prices during the 12-month period prior to the ending date of the period covered in this report, determined as the unweighted arithmetic averages of the prices in effect on the first-day-of-the-month for each month within such period, unless prices were defined by regulatory or contractual arrangements, as required by the SEC regulations. Actual future prices may vary significantly from the prices required by SEC regulations; therefore, volumes of reserves actually recovered and the amounts of income actually received may differ significantly from the estimated quantities presented in this report. The results of this study are summarized in the following table.

SEC PARAMETERS
Estimated Net CNOOC Limited Reserves and Income Data
As of December 31, 2014

<u>NET REMAINING RESERVES</u>		Total Argentina	Total Bolivia	Total
Oil/Condensate/ Gasoline Mbbbl	Proved			
	Developed	96,498	3,907	100,405
	Undeveloped	96,418	330	96,748
	Total Proved	192,916	4,237	197,153
GAS MMcf <i>*includes sales & field usage</i>	Proved			
	Developed	190,887	115,263	306,150
	Undeveloped	95,542	13,948	109,490
	Total Proved	286,429	129,211	415,640
GAS Sales MMcf	Proved			
	Developed	129,533	113,582	243,115
	Undeveloped	60,976	13,745	74,721
	Total Proved	190,509	127,327	317,836

Mbbbl = Thousand (10³) Barrels; MMcf = Million (10⁶) Cubic Feet



INCOME DATA (MUS\$)		Total Argentina	Total Bolivia	Total
Future Net Revenue	Proved			
	Developed	5,708,771	324,160	6,032,931
	Undeveloped	5,534,595	38,429	5,573,024
	Total Proved	11,243,366	362,589	11,605,955
Operating Expenses	Proved			
	Developed	2,154,162	95,260	2,249,422
	Undeveloped	1,838,301	10,979	1,849,280
	Total Proved	3,992,463	106,239	4,098,702
Capital Expenditures	Proved			
	Developed	421,058	5,135	426,193
	Undeveloped	1,253,808	3,832	1,257,640
	Total Proved	1,674,866	8,967	1,683,833
Future Net Income (FNI)	Proved			
	Developed	3,133,550	223,765	3,357,315
	Undeveloped	2,442,486	23,619	2,466,105
	Total Proved	5,576,036	247,384	5,823,420
Discounted FNI @ 10 %	Proved			
	Developed	1,556,479	152,771	1,709,250
	Undeveloped	627,687	13,453	641,140
	Total Proved	2,184,166	166,224	2,350,390

MUS\$ = Thousand (10³) US Dollars

Note: Liquid hydrocarbons are expressed in standard 42 gallon barrels. All gas volumes reported include gas sales and fuel gas expressed in millions of cubic feet (MMCF) at the official temperature and pressure bases of the areas in which the gas reserves are located. In this report, the revenues, deductions and income data are expressed as thousands of U.S. dollars (M\$).

Note: Values by property are shown in Table 1 included in the report.

Note: The future gross revenue is after the deduction of royalty and turnover taxes in Argentina, and royalty IDH & YPFB Part in Bolivia. The deductions incorporate the normal direct costs of operating the wells, recompletion costs, development costs, certain abandonment costs, which are shown as "other" deductions. The future net income is before the deduction of foreign government income taxes and general administrative overhead, and has not been adjusted for outstanding loans that may exist, nor does it include any adjustment for cash on hand or undistributed income.

The discounted future net income shown above was calculated using a discount rate of 10 percent per annum compounded monthly. Future net income was discounted at four other discount rates which were also compounded monthly. These results are shown in summary form as follows:



Total Proved Discounted Future Net Income As of December 31, 2014			
Discount Rate (Percent)	Argentina (MUS\$)	Bolivia (MUS\$)	Total (MUS\$)
7.0%	\$ 2,770,955	\$ 184,938	\$ 2,955,893
8.0%	\$ 2,551,192	\$ 178,284	\$ 2,729,476
9.0%	\$ 2,356,841	\$ 172,058	\$ 2,528,899
10.0%	\$ 2,184,166	\$ 166,224	\$ 2,350,390
11.0%	\$ 2,030,085	\$ 160,750	\$ 2,190,835

The results shown above are presented for your information and should not be construed as our estimate of fair market value.

Reserves Included in This Report

The proved reserves included herein conform to the definition as set forth in the Securities and Exchange Commission's Rules and Regulations Part 210.4-10(a). An abridged version of the SEC reserves definitions from Part 210.4-10(a) entitled "Petroleum Reserves Definitions" is included as an attachment to this report.

The various proved reserve status categories are defined under the attachment entitled "Petroleum Reserves Definitions" in this report. The proved developed non-producing reserves included herein consist of the shut-in and behind-pipe categories.

Reserves are "estimated remaining quantities of oil and gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations." All reserve estimates involve an assessment of the uncertainty relating the likelihood that the actual remaining quantities recovered will be greater or less than the estimated quantities determined as of the date the estimate is made. The uncertainty depends chiefly on the amount of reliable geologic and engineering data available at the time of the estimate and the interpretation of these data. The relative degree of uncertainty may be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Unproved reserves are less certain to be recovered than proved reserves, and may be further sub-classified as probable and possible reserves to denote progressively increasing uncertainty in their recoverability. At CNOOC Limited's request, this report addresses only the proved reserves attributable to the properties evaluated herein.

Proved reserve estimates will generally be revised only as additional geologic or engineering data become available or as economic conditions change. For proved reserves, the SEC states that "as changes due to increased availability of geoscience (geological, geophysical, and geochemical), engineering, and economic data are made to the estimated ultimate recovery (EUR) with time, reasonably certain EUR is much more likely to increase or remain constant than to decrease." Moreover, estimates of proved reserves may be revised as a result of future operations, effects of regulation by governmental agencies or geopolitical or economic risks.

Therefore, the proved reserves included in this report are estimates only and should not be construed as being exact quantities, and if recovered, the revenues therefrom, and the actual costs related thereto, could be more or less than the estimated amounts.



The proved reserves reported herein are limited to the period prior to expiration of current contracts providing the legal rights to produce, or a revenue interest in such production, unless evidence indicates that contract renewal is reasonably certain. Furthermore, properties in the different countries may be subjected to significantly varying contractual fiscal terms that affect the net revenue to CNOOC Limited for the production of these volumes. The prices and economic return received for these net volumes can vary significantly based on the terms of these contracts.

Estimates of Reserves

The estimation of reserves involves two distinct determinations. The first determination results in the estimation of the quantities of recoverable oil and gas and the second determination results in the estimation of the uncertainty associated with those estimated quantities in accordance with the definitions set forth by Part 210.4-10(a). The process of estimating the quantities of recoverable oil and gas reserves relies on the use of certain generally accepted analytical procedures. These analytical procedures fall into three broad categories or methods: (1) performance-based methods; (2) volumetric-based methods; and (3) analogy. These methods may be used singularly or in combination by the reserve evaluator in the process of estimating the quantities of reserves. Reserve evaluators must select the method or combination of methods which in their professional judgment is most appropriate given the nature and amount of reliable geoscience and engineering data available at the time of the estimate, the established or anticipated performance characteristics of the reservoir being evaluated and the stage of development or producing maturity of the property.

These performance methods include, but may not be limited to, decline curve analysis and material balance which utilized extrapolations of historical production and pressure data available through December 31, 2014 in those cases where such data were considered to be definitive. The volumetric method, analogy or a combination of methods were used where there were inadequate historical performance data to establish a definitive trend and where the use of production performance data as a basis for the reserve estimates was considered to be inappropriate. The volumetric analysis utilized pertinent well and seismic data supplied to RPS by PAE that were available through December 31, 2014. The data utilized from the analogues as well as the well and seismic data incorporated into our volumetric analysis were considered sufficient and appropriate for the purpose thereof.

In many cases, the analysis of the available geoscience and engineering data and the subsequent interpretation of this data may indicate a range of possible outcomes in an estimate, irrespective of the method selected by the evaluator. When a range in the quantity of reserves is identified, the evaluator must determine the uncertainty associated with the incremental quantities of the reserves. Therefore, it is the classification of reserve quantities as proved, probable and/or possible that addresses the inherent uncertainty in the estimated quantities reported. All quantities of reserves within the same reserve class must meet the SEC definitions.

To estimate economically recoverable proved oil and gas reserves and related future net cash flows, we consider many factors and assumptions including, but not limited to, the use of reservoir parameters derived from geological, geophysical and engineering data that cannot be measured directly, economic criteria based on current costs and SEC pricing requirements, and forecasts of future production rates.

PAE has made all of the material accounts, records, geological and other data required for this investigation available to us. In preparing our forecast of future proved production and income, we have relied upon data furnished by PAE, CNOOC's Limited joint venture partner. RPS considers the factual data used in this report appropriate and sufficient for the purpose of preparing the estimates of reserves and future net revenues herein.



Estimates of reserves quantities and their associated reserve class and categories may be revised in the future as additional geoscience or engineering data become available. Furthermore, estimates of reserves quantities and their associated reserve class and categories may also be revised due to other factors such as changes in economic conditions, results of future operations, effects of regulation by governmental agencies or geopolitical or economic risks as previously noted herein.

In summary, we consider the assumptions, data, methods and analytical procedures used in this report appropriate for the purpose hereof, and we have used all such methods and procedures that we consider necessary and appropriate to prepare the estimates of reserves herein. The proved reserves included herein were determined in conformance with SEC regulations. In our opinion, the proved reserves presented in this report comply with the definitions, guidelines and disclosure requirements as required by the SEC regulations.

Future Production Rates

For wells currently on production, our forecasts of future production rates are based on historical performance data. If no production decline trend has been established, future production rates were held constant, or adjusted for the effects of curtailment where appropriate, until a decline in ability to produce was anticipated, in which case an estimated rate of decline was then applied to depletion of the reserves. If a decline trend has been established, this trend was used as the basis for estimating future production rates.

Test data and other related information were used to estimate the anticipated initial production rates for those wells or locations that are not currently producing. For reserves not yet on production, sales were estimated to commence at an anticipated date furnished by PAE. Wells or locations that are not currently producing may start producing earlier or later than anticipated in our estimates due to unforeseen factors causing a change in the timing to initiate production. Such factors may include delays due to weather, the availability of rigs, the sequence of drilling, completing and/or recompleting wells and/or constraints set by regulatory bodies.

The future production rates from wells currently on production or wells or locations that are not currently producing may be more or less than estimated because of changes including, but not limited to, reservoir performance, operating conditions related to surface facilities, compression and artificial lift, pipeline capacity and/or operating conditions, producing market demand and/or allowable or other constraints set by regulatory bodies.

Hydrocarbon Prices

The hydrocarbon prices used herein are based on SEC price parameters using the average prices during the 12-month period prior to the ending date of the period covered in this report, determined as the unweighted arithmetic averages of the prices in effect on the first-day-of-the-month for each month within such period, unless prices were defined by regulatory and contractual arrangements. For hydrocarbon products sold under contract, the contract prices, including fixed and determinable escalations, exclusive of inflation adjustments, were used until expiration of the contract. Upon contract expiration, the prices were adjusted to the 12-month unweighted arithmetic average as previously described.

The product prices that were actually used to determine the future gross revenue for each property reflect adjustments to the benchmark prices for gravity, quality, local conditions, gathering and transportation fees and/or distance from market, referred to herein as "differentials." The differentials used in the preparation of this report were furnished by PAE and reviewed by RPS for their reasonableness.

**Costs**

Operating costs for the leases and wells in this report are based on the operating expense reports of PAE and include only those costs directly applicable to the leases or wells. The operating costs include a portion of general and administrative costs allocated directly to the leases and wells. The operating costs furnished to us were accepted as factual data and reviewed by us for their reasonableness; however, we have not conducted an independent verification of the operating cost data used by PAE. No deduction was made for loan repayments, interest expenses or exploration and development prepayments that were not charged directly to the leases or wells.

Development costs were furnished to us by PAE and are based on authorizations for expenditure for the proposed work or actual costs for similar projects. The development costs furnished to us were accepted as factual data and reviewed by us for their reasonableness; however, we have not conducted an independent verification of these costs. The estimates of the net abandonment costs furnished by PAE were accepted without independent verification. Current costs used by PAE were held constant throughout the life of the properties.

Standards of Independence and Professional Qualification

RPS is a multi-disciplinary consultancy, providing technical, commercial and project management support services in the fields of operations, geoscience, engineering and health, safety and environment to the energy sector worldwide. RPS's clients around the world include governments, national oil companies, integrated majors, independents, and start-ups, legal and financial institutions.

RPS USA is part of the larger UK based RPS Group plc that employs nearly 5,000 staff based in offices located in the UK, Ireland, the Netherlands, USA, Canada, Australia and Brazil.

As an independent and experienced consultancy company with a global capability, RPS is well qualified to provide both technical and economic assessments of reserves/resources, prospect evaluation, field discoveries and producing fields. In the Oil and Gas Sector, RPS personnel have provided Competent Persons reports for inclusion in both public and private circulars for funding purposes. We have provided investors with confidential valuations and assessments during mergers and acquisitions. Asset appraisal and valuation have always been a core element of RPS consulting business.

As indicated above, this study was based on data supplied by PAE. The supplied information was reviewed for reasonableness from a technical perspective. As is common in oil field situations, basic physical measurements taken over time cannot be verified independently in retrospect. As such, beyond the application of normal professional judgment, such data must be accepted as representative. While we are not aware of any falsification of records or data pertinent to the results of this study, RPS does not warrant the accuracy of the data and accepts no liability for any losses from actions based upon reliance on data, which is subsequently shown to be falsified or erroneous.

RPS personnel who prepared this report are degreed professionals with the appropriate qualifications and experience to complete the estimate work. RPS and its staff do not claim expertise in accounting, legal and environmental matters, and opinions on such matters do not form part of this report.



The results and conclusions represent informed professional judgments based on the data available and time frame allowed to perform this work. No warranty is implied or expressed that actual results will conform to these estimates. RPS accepts no liability for actions or losses derived from reliance on this report or the data on which it was based.

Terms of Usage

The results of our third party study, presented in report form herein, were prepared in accordance with the disclosure requirements set forth in the SEC regulations and intended for public disclosure as an exhibit in filings made with the SEC by CNOOC Limited.

Very truly yours,
RPS

/s/ Victor Wayne Taylor
Victor Wayne Taylor
PE License# 71417
Principal Engineer



RYDER SCOTT COMPANY
PETROLEUM CONSULTANTS

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February 28, 2015

CNOOC Limited
 No. 25, ChaoYangMenBei Dajie
 DongCheng District
 Beijing 100010
 China

Gentlemen:

At your request, Ryder Scott Company, L.P. (Ryder Scott) has reviewed the methods and procedures for estimating the proved reserves attributable to certain interests of CNOOC Limited (CNOOC) located in China as of December 31, 2014, as prepared by the engineering and geological staff of CNOOC. The methods and procedures followed by CNOOC for estimating these reserves were based on the definitions and disclosure guidelines of the United States Securities and Exchange Commission (SEC) contained in Title 17, Code of Federal Regulations, Modernization of Oil and Gas Reporting, Final Rule released January 14, 2009 in the Federal Register (SEC regulations).

The properties subjected to the procedural audit by Ryder Scott account for a portion of CNOOC's total net proved reserves as of December 31, 2014 in China. Based on information provided by CNOOC, the procedural audit conducted by Ryder Scott addresses the following percentage of the total proved reserves of CNOOC as summarized in the following table:

Reserves Categories	Net Liquid Hydrocarbon Reserves		Net Gas Reserves	
	Developed	Undeveloped	Developed	Undeveloped
Proved	19.4%	25.5%	9.8%	28.1%

In our opinion, the overall procedures and methodologies utilized in determining the reserves for the reviewed properties as estimated by CNOOC are reasonable and consistent with industry standards. In summary, we consider that the assumptions, data, methods and analytical procedures used by CNOOC are appropriate for the purpose of preparing their estimates of reserves. This procedural review does not offer an opinion as to the reasonableness of the actual estimated reserve quantities as this was outside the scope of the procedural audit.

Ryder Scott Procedural Audit

In order to arrive at our conclusions and to substantiate our opinion relative to CNOOC's procedures and methodologies in estimating proved reserves, we have conducted our investigation in a manner that closely conforms to the SPE auditing standards for a reserves audit. Under Paragraph 2.2(f) of the SPE auditing standards, a reserves audit is defined as follows:

2.2 (f) *Reserves Audit.* A Reserves Audit is the process of reviewing certain of the pertinent facts interpreted and assumptions made that have resulted in an estimate of reserves and/or Reserves Information prepared by others and the rendering of an opinion about (1) the appropriateness of the methodologies employed, (2) the adequacy and quality of the data relied

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upon, (3) the depth and thoroughness of the reserves estimation process, (4) the classification of reserves appropriate to the relevant definitions used, and (5) the reasonableness of the estimated reserves quantities and/or the Reserves Information. The term "reasonableness" cannot be defined with precision but should reflect a quantity and/or value difference of not more than plus or minus 10%, or the subject Reserves Information does not meet minimum recommended audit standards. This tolerance can be applied to any level of reserves or Reserves Information aggregation, depending upon the nature of the assignment, but is most often limited to Proved Reserves Information. A separate predetermined and disclosed tolerance may be appropriate for other reserves classifications. Often a reserves audit includes a detailed review of certain critical assumptions and independent assessments with acceptance of other information less critical to the reserves estimation. Typically, a reserves audit letter or report is prepared, clearly stating the assumptions made. A reserves audit should be of sufficient rigor to determine the appropriate reserves classification for all reserves in the property set evaluated and to clearly state the reserves classification system being utilized. In contrast to the term "audit" as used in a financial sense, a reserves audit is generally less rigorous than a reserves report.

Our procedural review, however, differs from an SPE reserves audit in that we did not conduct our investigation with sufficient rigor to express an opinion as to "(5) the reasonableness of the estimated reserve quantities and/or the Reserves Information" as required under item (5) Paragraph 2.2(f) of the SPE auditing standards for a reserves audit. Our review should not be construed to be a complete and comprehensive appraisal of the subject properties or deemed to convey the same level of information contained in a third party reserves audit or reserves evaluation report. Ryder Scott was not engaged to render an opinion as to the reasonableness of reserves quantities being prepared by CNOOC.

Procedural Audit Opinion

In our opinion, CNOOC's estimates of future reserves for the reviewed properties were prepared in accordance with generally accepted petroleum engineering and evaluation principles for the estimation of future reserves as set forth in the Society of Petroleum Engineers in Paragraph 2.2(f) of the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information (SPE Auditing Standards), and we found no bias in the utilization and analysis of data in estimates for these properties.

Certain technical personnel of CNOOC are responsible for the preparation of reserve estimates. These personnel assembled the necessary data and maintained the data and workpapers in an orderly manner. We consulted with these technical personnel and had access to their workpapers and supporting data in the course of our review.

In conducting this procedural audit, Ryder Scott has used all methods and procedures that we considered necessary and appropriate to prepare this report.

Standards of Independence and Professional Qualification

Ryder Scott is an independent petroleum engineering consulting firm that has been providing petroleum consulting services throughout the world since 1937. Ryder Scott is employee-owned and maintains offices in Houston, Texas; Denver, Colorado; and Calgary, Alberta, Canada. We have over eighty engineers and geoscientists on our permanent staff. By virtue of the size of our firm and the large number of clients for which we provide services, no single client or job represents a material portion of our annual revenue. We do not serve as officers or directors of any privately-owned or publicly-traded oil and gas company and are separate and independent from the operating and investment decision-making process of our clients. This allows us to bring the highest level of independence and objectivity to each engagement for our services.

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Ryder Scott actively participates in industry-related professional societies and organizes an annual public forum focused on the subject of reserves evaluations and SEC regulations. Many of our staff have authored or co-authored technical papers on the subject of reserves related topics. We encourage our staff to maintain and enhance their professional skills by actively participating in ongoing continuing education.

Prior to becoming an officer of the Company, Ryder Scott requires that staff engineers and geoscientists have received professional accreditation in the form of a registered or certified professional engineer's license or a registered or certified professional geoscientist's license, or the equivalent thereof, from an appropriate governmental authority or a recognized self-regulating professional organization.

We are independent petroleum engineers with respect to CNOOC. Neither we nor any of our employees have any financial interest in the subject properties and neither the employment to do this work nor the compensation is contingent on our estimates of reserves for the properties which were reviewed.

The results of this procedural audit, presented herein, are based on the procedural reviews conducted by teams of geoscientists and engineers from Ryder Scott. The professional qualifications of the undersigned, the technical person primarily responsible for overseeing the evaluation of the reserves information discussed in this report, are included as an attachment to this letter.

Terms of Usage

We have provided CNOOC with a digital version of the original signed copy of this report letter. In the event there are any differences between the digital version and the original signed report letter, the original signed report letter shall control and supersede the digital version.

This report was prepared for the exclusive use of CNOOC Limited we and hereby consent to the references to our name as well as the filing of this procedural audit letter as an exhibit to CNOOC Limited's annual report on Form 20-F for the fiscal year ended December 31, 2014. The data and work papers used in the preparation of this report are available for examination by authorized parties in our offices. Please contact us if we can be of further service.

Very truly yours,

RYDER SCOTT COMPANY, L.P.
TBPE Firm Registration No. F-1580

\\ Herman G. Acuna

Herman G. Acuna, P.E.
TBPE License No. 92254
Managing Senior Vice President-International

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Professional Qualifications of Primary Technical Person

The conclusions presented in this report are the result of technical analysis conducted by teams of geoscientists and engineers from Ryder Scott Company, L.P. Herman G. Acuña was the primary technical person responsible for overseeing the independent estimation of the reserves, future production and income to render the audit conclusions of the report.

Mr. Acuña, an employee of Ryder Scott Company, L.P. (Ryder Scott) since 1997, is a Managing Senior International Vice President and Board Member. He serves as an Engineering Group Coordinator responsible for coordinating and supervising staff and consulting engineers of the company in ongoing reservoir evaluation studies worldwide. Before joining Ryder Scott, Mr. Acuña served in a number of engineering positions with Exxon. For more information regarding Mr. Acuña's geographic and job specific experience, please refer to the Ryder Scott Company website at www.ryderscott.com.

Mr. Acuña earned a Bachelor (Cum Laude) and a Masters (Magna Cum Laude) of Science degree in Petroleum Engineering from The University of Tulsa in 1987 and 1989 respectively. He is a registered Professional Engineer in the State of Texas, a member of the Association of International Petroleum Negotiators (AIPN) and the Society of Petroleum Engineers (SPE).

In addition to gaining experience and competency through prior work experience, the Texas Board of Professional Engineers requires a minimum of fifteen hours of continuing education annually, including at least one hour in the area of professional ethics, which Mr. Acuña fulfills. Mr. Acuña has attended formalized training and conferences including dedicated to the subject of the definitions and disclosure guidelines contained in the United States Securities and Exchange Commission Title 17, Code of Federal Regulations, Modernization of Oil and Gas Reporting, Final Rule released January 14, 2009 in the Federal Register. Mr. Acuña has recently taught various company reserves evaluation schools in Argentina, China, Denmark, Spain and the U.S.A. Mr. Acuña has participated in various capacities in reserves conferences such as being a panelist at Trinidad and Tobago's Petroleum Conference, delivering the reserves evaluation seminar during IAPG convention in Mendoza, Argentina and chairing the first Reserves Evaluation Conference in the Middle East in Dubai, U.A.E.

Based on his educational background, professional training and over 20 years of practical experience in petroleum engineering and the estimation and evaluation of petroleum reserves, Mr. Acuña has attained the professional qualifications as a Reserves Estimator and Reserves Auditor set forth in Article III of the "Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information" promulgated by the Society of Petroleum Engineers as of February 19, 2007.

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PETROLEUM RESERVES DEFINITIONS

As Adapted From:
RULE 4-10(a) of REGULATION S-X PART 210
UNITED STATES SECURITIES AND EXCHANGE COMMISSION (SEC)

PREAMBLE

On January 14, 2009, the United States Securities and Exchange Commission (SEC) published the "Modernization of Oil and Gas Reporting; Final Rule" in the Federal Register of National Archives and Records Administration (NARA). The "Modernization of Oil and Gas Reporting; Final Rule" includes revisions and additions to the definition section in Rule 4-10 of Regulation S-X, revisions and additions to the oil and gas reporting requirements in Regulation S-K, and amends and codifies Industry Guide 2 in Regulation S-K. The "Modernization of Oil and Gas Reporting; Final Rule", including all references to Regulation S-X and Regulation S-K, shall be referred to herein collectively as the "SEC regulations". The SEC regulations take effect for all filings made with the United States Securities and Exchange Commission as of December 31, 2009, or after January 1, 2010. Reference should be made to the full text under Title 17, Code of Federal Regulations, Regulation S-X Part 210, Rule 4-10(a) for the complete definitions (direct passages excerpted in part or wholly from the aforementioned SEC document are denoted in italics herein).

Reserves are estimated remaining quantities of oil and gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. All reserve estimates involve an assessment of the uncertainty relating the likelihood that the actual remaining quantities recovered will be greater or less than the estimated quantities determined as of the date the estimate is made. The uncertainty depends chiefly on the amount of reliable geologic and engineering data available at the time of the estimate and the interpretation of these data. The relative degree of uncertainty may be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Unproved reserves are less certain to be recovered than proved reserves and may be further sub-classified as probable and possible reserves to denote progressively increasing uncertainty in their recoverability. Under the SEC regulations as of December 31, 2009, or after January 1, 2010, a company may optionally disclose estimated quantities of probable or possible oil and gas reserves in documents publicly filed with the SEC. The SEC regulations continue to prohibit disclosure of estimates of oil and gas resources other than reserves and any estimated values of such resources in any document publicly filed with the SEC unless such information is required to be disclosed in the document by foreign or state law as noted in §229.1202 Instruction to Item 1202.

Reserves estimates will generally be revised only as additional geologic or engineering data become available or as economic conditions change.

Reserves may be attributed to either natural energy or improved recovery methods. Improved recovery methods include all methods for supplementing natural energy or altering natural forces in the reservoir to increase ultimate recovery. Examples of such methods are pressure maintenance, natural gas cycling, waterflooding, thermal methods, chemical flooding, and the use of miscible and immiscible displacement fluids. Other improved recovery methods may be developed in the future as petroleum technology continues to evolve.

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Reserves may be attributed to either conventional or unconventional petroleum accumulations. Petroleum accumulations are considered as either conventional or unconventional based on the nature of their in-place characteristics, extraction method applied, or degree of processing prior to sale. Examples of unconventional petroleum accumulations include coalbed or coalseam methane (CBM/CSM), basin-centered gas, shale gas, gas hydrates, natural bitumen and oil shale deposits. These unconventional accumulations may require specialized extraction technology and/or significant processing prior to sale.

Reserves do not include quantities of petroleum being held in inventory.

Because of the differences in uncertainty, caution should be exercised when aggregating quantities of petroleum from different reserves categories.

RESERVES (SEC DEFINITIONS)

Securities and Exchange Commission Regulation S-X §210.4-10(a)(26) defines reserves as follows:

Reserves. *Reserves are estimated remaining quantities of oil and gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce or a revenue interest in the production, installed means of delivering oil and gas or related substances to market, and all permits and financing required to implement the project.*

Note to paragraph (a)(26): Reserves should not be assigned to adjacent reservoirs isolated by major, potentially sealing, faults until those reservoirs are penetrated and evaluated as economically producible. Reserves should not be assigned to areas that are clearly separated from a known accumulation by a non-productive reservoir (i.e., absence of reservoir, structurally low reservoir, or negative test results). Such areas may contain prospective resources (i.e., potentially recoverable resources from undiscovered accumulations).

PROVED RESERVES (SEC DEFINITIONS)

Securities and Exchange Commission Regulation S-X §210.4-10(a)(22) defines proved oil and gas reserves as follows:

Proved oil and gas reserves. *Proved oil and gas reserves are 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 geoscience and engineering data.*

PROVED RESERVES (SEC DEFINITIONS) CONTINUED

(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 geoscience, 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 geoscience, 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.

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PETROLEUM RESERVES STATUS DEFINITIONS AND GUIDELINES

**As Adapted From:
RULE 4-10(a) of REGULATION S-X PART 210
UNITED STATES SECURITIES AND EXCHANGE COMMISSION (SEC)**

and

**PETROLEUM RESOURCES MANAGEMENT SYSTEM (SPE-PRMS)
Sponsored and Approved by:
SOCIETY OF PETROLEUM ENGINEERS (SPE)
WORLD PETROLEUM COUNCIL (WPC)
AMERICAN ASSOCIATION OF PETROLEUM GEOLOGISTS (AAPG)
SOCIETY OF PETROLEUM EVALUATION ENGINEERS (SPEE)**

Reserves status categories define the development and producing status of wells and reservoirs. Reference should be made to Title 17, Code of Federal Regulations, Regulation S-X Part 210, Rule 4-10(a) and the SPE-PRMS as the following reserves status definitions are based on excerpts from the original documents (direct passages excerpted from the aforementioned SEC and SPE-PRMS documents are denoted in italics herein).

DEVELOPED RESERVES (SEC DEFINITIONS)

Securities and Exchange Commission Regulation S-X §210.4-10(a)(6) defines developed oil and gas reserves as follows:

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 a well.

Developed Producing (SPE-PRMS Definitions)

While not a requirement for disclosure under the SEC regulations, developed oil and gas reserves may be further sub-classified according to the guidance contained in the SPE-PRMS as Producing or Non-Producing.

Developed Producing Reserves

Developed Producing Reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate.

Improved recovery reserves are considered producing only after the improved recovery project is in operation.

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Developed Non-Producing

Developed Non-Producing Reserves include shut-in and behind-pipe reserves.

Shut-In

Shut-in Reserves are expected to be recovered from:

- (1) completion intervals which are open at the time of the estimate, but which have not started producing;*
- (2) wells which were shut-in for market conditions or pipeline connections; or*
- (3) wells not capable of production for mechanical reasons.*

Behind-Pipe

Behind-pipe Reserves are expected to be recovered from zones in existing wells, which will require additional completion work or future re-completion prior to start of production.

In all cases, production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well.

UNDEVELOPED RESERVES (SEC DEFINITIONS)

Securities and Exchange Commission Regulation S-X §210.4-10(a)(31) defines undeveloped oil and gas reserves as follows:

Undeveloped oil and gas reserves are reserves of any category that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

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

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

(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, as defined in paragraph (a)(2) of this section, or by other evidence using reliable technology establishing reasonable certainty.

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February 28, 2015

CNOOC Limited
c/o Nexen Energy ULC
801-7th Avenue S.W.
Calgary, Alberta T2P 3P7
Canada

Re: Ryder Scott Company L.P. – Report of Third Party for certain properties located in the United States Gulf of Mexico with interests owned by CNOOC Limited

Gentlemen:

Pursuant to your request, Ryder Scott Company L.P. (“Ryder Scott”) has conducted an independent audit of CNOOC Limited’s (“CNOOC”) proved oil, natural gas liquids (NGL), and gas reserves for certain properties owned by CNOOC and managed by its wholly-owned subsidiary, Nexen Energy ULC (“Nexen”), in the United States Gulf of Mexico Deep Water. The properties audited are listed in Table 1. CNOOC has represented that these properties account for one percent of its total company proved reserves on an equivalent barrel basis as of December 31, 2014, and that its reserves estimates have been prepared in accordance with the United States Securities and Exchange Commission (SEC) definitions. We have reviewed information provided to us by Nexen on behalf of CNOOC that it represents to be its estimates of the reserves, as of December 31, 2014, for the same properties as those which we audited. This report was prepared in accordance with guidelines specified in Item 1202(a)(8) of Regulation S-K and is to be used for inclusion in certain filings of the SEC.

The proved reserves included herein are the reserves as represented by CNOOC. Gross reserves are defined as the total estimated petroleum to be produced from these properties after December 31, 2014. Working interest reserves are defined as that portion of the gross reserves attributable to the interests owned by CNOOC after deducting all working interests owned by others. Net reserves are defined as working interest reserves after the deduction of royalties.

Estimates of oil, condensate and NGL (collectively “Liquids”), and natural gas should be regarded only as estimates that may change as further production history and additional information become available. Not only are such reserves estimates based on that information which is currently available, but such estimates are also subject to the uncertainties inherent in the application of judgmental factors in interpreting such information.

Data used in this audit were obtained from reviews with Nexen personnel, Nexen files, from records on file with the appropriate regulatory agencies, and from public sources. In the preparation of this report we have relied, without independent verification, upon such information furnished by Nexen with respect to property interests, production from such properties, current costs of operation and development, prices for production, agreements relating to current and future operations and sale of production, and various other information and data that were accepted as represented. Furthermore, if in the course of our examination something came to our attention which brought into question the

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validity or sufficiency of any of such information or data, we did not rely on such information or data until we had satisfactorily resolved our questions relating thereto or had independently verified such information or data. A field examination of the properties was not considered necessary for the purposes of this report.

Methodology and Procedures

The process of estimating reserves requires complex judgments and decision-making based on available geological, geophysical, engineering and economic data. To estimate the economically recoverable oil and natural gas reserves and related future net cash flows, we consider many factors and make assumptions including:

- reservoir characteristics based on geological, geophysical and engineering assessments;
- future production rates based on historical performance and expected future operating and investment activities;
- quality differentials and hydrocarbon prices as required by SEC guidelines;
- assumed effects of regulation by governmental agencies; and
- future development and operating costs.

Estimates of reserves were prepared using standard geological and engineering methods generally accepted by the petroleum industry as presented in the publication of the Society of Petroleum Engineers entitled "Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information (Revision as of February 19, 2007)." 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.

Discovered oil and natural gas reserves are generally only produced when they are economically recoverable. As such, oil and gas prices, and capital and operating costs have an impact on whether reserves will ultimately be produced. As required by SEC rules, reserves represent the quantities that are expected to be economically recoverable using existing prices and costs. Estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change.

Reserves estimates in this report were based upon 2014 first-of-the month fiscal average pricing using benchmark pricing. Oil price was based upon the West Texas Intermediate at Cushing crude oil benchmark of US\$94.99 per barrel, while gas price was based upon the Henry Hub benchmark of US\$4.30 per mmbtu. Specific oil pricing for each field was adjusted for historical quality and transportation cost differentials. The resulting adjusted price is referred to as the "realized price." For total proved reserves, the estimated realized price is US\$92.80 per barrel of oil and US\$4.26 per thousand cubic feet of gas, based upon a volume weighted average of the properties audited.

Generally, operations are subject to various levels of government controls and regulations. These laws and regulations may include matters relating to land tenure, drilling, production practices, environmental protection, marketing and pricing policies, royalties, various taxes and levies including income tax, and foreign trade and investment, that are subject to change from time to time. Current

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legislation is generally a matter of public record, and additional legislation or amendments that will affect reserves or when any such proposals, if enacted, might become effective generally cannot be predicted. Changes in government regulations could affect reserves or related economics. In the regions that are currently being audited we believe we have applied existing regulations appropriately.

CNOOC Estimates

Nexen on behalf of CNOOC has represented that estimated proved reserves attributable to the audited properties are based on SEC definitions. It represents that its estimates of the reserves attributable to these properties represent one percent of its total company proved reserves on an equivalent basis are as follows, expressed in thousands of barrels (Mbb), millions of cubic feet (MMcf) and thousands of barrels of oil equivalent (Mboe):

CNOOC's Estimate of Reserves as of December 31, 2014
Selected Gulf of Mexico Properties Audited by Ryder Scott Company L.P.

CNOOC Reserves	Liquids (Mbb)	Natural Gas (MMcubic feet)	Oil Equivalent (Mboe)
Working Interest (after royalty)			
Total Proved	33,812	3,240	34,352

Note: Natural Gas is converted to oil equivalent using a factor of 6,000 cubic feet of gas per 1 barrel of oil equivalent based on an energy equivalent basis.

Reserves Audit Opinion

In our opinion, the information relating to estimated proved reserves of oil, condensate, natural gas liquids, and gas contained in this report has been prepared in accordance with Paragraphs 932-235-50-4, 932-235-50-6, 932-235-50-7 and 932-235-50-9 of the Accounting Standards Update 932-235-50, *Extractive Industries – Oil and Gas (Topic 932): Oil and Gas Reserve Estimation and Disclosures* (January 2010) of the Financial Accounting Standards Board and Rules 4–10(a) (1)–(32) of Regulation S–X and Rules 302(b), 1201, and 1202(a) (1), (2), (3), (4), (5), (8) of Regulation S-K of the Securities and Exchange Commission.

We have examined the assumptions, data, methods, procedures and proved reserves prepared by Nexen on behalf of CNOOC. In our opinion, the proved reserves for the reviewed properties as estimated by CNOOC are, in aggregate on the basis of equivalent barrels, reasonable because when compared to our estimates, or if we were to prepare our own detailed estimates, reflect a difference of not more than plus or minus 10 percent.

Ryder Scott has used all data, assumptions, procedures and methods that it considers necessary to prepare this report. Ryder Scott is an independent petroleum engineering consulting firm that has been providing petroleum consulting services throughout the world for over seventy-five years. Ryder Scott does not have any financial interest, including stock ownership, in CNOOC. Our fees were not contingent on the results of our audit.

The professional qualifications for Mr. Richard J. Savoie, the technical person primarily responsible for estimating and auditing the reserves information discussed in this letter report, are included as an attachment to this letter.

RYDER SCOTT COMPANY PETROLEUM CONSULTANTS

This letter report has been prepared at the request of Nexen on behalf of CNOOC.

Sincerely,

RYDER SCOTT COMPANY, L.P.
TBPE Firm Registration No. F-1580

/s/ Richard J. Savoie

Richard J. Savoie, P. E.
TBPE License No. 40538
Senior Vice President

RJS/pl

cc: Mr. Craig Beattie,
VP, Development Excellence
Nexen Energy ULC.

Sydney Frazer,
Deloitte LLP

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Professional Qualifications of Primary Technical Person

The conclusions presented in this report are the result of technical analysis conducted by teams of geoscientists and engineers from Ryder Scott Company, L.P. Richard J. Savoie was the primary technical person responsible for overseeing the estimate of the reserves, future production and income prepared by Ryder Scott presented herein.

Mr. Savoie, an employee of Ryder Scott Company L.P. (Ryder Scott) since 1997, is a Senior Vice President and also serves as an Engineering Group Coordinator responsible for coordinating and supervising staff and consulting engineers of the company in ongoing reservoir evaluation studies worldwide. Before joining Ryder Scott, Mr. Savoie served in a number of engineering positions with Shell Oil Company, Union Texas Petroleum, Kaneb Operating Company, Ltd., Amax Oil and Gas, Inc., and Amerac Energy Corporation. For more information regarding Mr. Savoie's geographic and job specific experience, please refer to the Ryder Scott Company website at www.ryderscott.com/Company/Employees.

Mr. Savoie earned a Bachelor of Science degree in Petroleum Engineering from Louisiana State University in 1968 and is a registered Professional Engineer in the State of Texas. He is also a member of the Society of Petroleum Engineers.

In addition to gaining experience and competency through prior work experience, the Texas Board of Professional Engineers requires a minimum of fifteen hours of continuing education annually, including at least one hour in the area of professional ethics, which Mr. Savoie fulfills. As part of his 2014 continuing education hours, Mr. Savoie attended 7.3 hours of formalized training including the 2014 RSC Reserves Conference and various professional society presentations specifically relating to the definitions and disclosure guidelines contained in the United States Securities and Exchange Commission Title 17, Code of Federal Regulations, Modernization of Oil and Gas Reporting, Final Rule released January 14, 2009 in the Federal Register. Mr. Savoie attended an additional 11 hours of formalized in-house training covering such topics as the SPE/WPC/AAPG/SPEE Petroleum Resources Management System, reservoir engineering, geoscience and petroleum economics evaluation methods, procedures and software and ethics for consultants.

Based on his educational background, professional training and more than 46 years of practical experience in the estimation and evaluation of petroleum reserves, Mr. Savoie has attained the professional qualifications as a Reserves Estimator and Reserves Auditor set forth in Article III of the "Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information" promulgated by the Society of Petroleum Engineers as of February 19, 2007.

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Table 1
Nexen Properties Evaluated by Ryder Scott Company L.P.
United States: Gulf of Mexico properties
As of December 31, 2014

Deep Water Properties

Appomattox
Stampede

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February 28, 2015

CNOOC Limited
c/o Nexen Energy ULC
801 – 7th Avenue S.W.
Calgary, Alberta
T2P 3P7

Re: McDaniel & Associates - Report of Third Party for certain Canadian Oil Sands properties owned by CNOOC Limited

Gentlemen:

Pursuant to your request, McDaniel and Associates (“McDaniel”) has conducted an independent audit of CNOOC Limited’s (“CNOOC”) proved synthetic crude oil and bitumen reserves, as of December 31, 2014, for certain Canadian Oil Sands properties owned by CNOOC and managed by its wholly-owned subsidiary, Nexen Energy ULC (“Nexen”), as shown in Table 1. CNOOC has represented that these properties account for 17 percent of its total company proved reserves on an equivalent barrel basis as of December 31, 2014, and that its reserves estimates have been prepared in accordance with the United States Securities and Exchange Commission (SEC) definitions. We have reviewed information provided to us by Nexen on behalf of CNOOC that it represents to be its estimates of the reserves, as of December 31, 2014, for the same properties as those which we audited. The completion date of our report is January 21, 2015. This report was prepared in accordance with guidelines specified in Item 1202 (a)(8) of Regulation S-K and is to be used for inclusion in certain filings of the SEC.

Reserves included herein are expressed as reserves as represented by CNOOC. Gross reserves are defined as the total estimated petroleum to be produced from these properties after December 31, 2014. Working interest reserves are defined as that portion of the gross reserves attributable to the interests owned by CNOOC after deducting all working interests owned by others. Net reserves are defined as working interest reserves after the deduction of royalties.

Estimates of synthetic crude oil and bitumen should be regarded only as estimates that may change as further production history and additional information become available. Not only are such reserves estimates based on that information which is currently available, but such estimates are also subject to the uncertainties inherent in the application of judgmental factors in interpreting such information.

Data used in this audit were obtained from reviews with Nexen personnel, Nexen files, from records on file with the appropriate regulatory agencies, and from public sources. In the preparation of this report we have relied, without independent verification, upon such information furnished by Nexen with respect to property interests, production from such properties, current costs of operation and development, prices for

2200, Bow Valley Square 3, 255 - 5 Avenue SW, Calgary AB T2P 3G6 Tel: (403) 262-5506 Fax: (403) 233-2744 www.mcdan.com

production, agreements relating to current and future operations and sale of production, and various other information and data that were accepted as represented. Furthermore, if in the course of our examination something came to our attention which brought into question the validity or sufficiency of any of such information or data, we did not rely on such information or data until we had satisfactorily resolved our questions relating thereto or had independently verified such information or data. A field examination of the properties was not considered necessary for the purposes of this report.

Methodology and Procedures

The process of estimating reserves requires complex judgments and decision-making based on available geological, geophysical, engineering and economic data. To estimate the economically recoverable oil, synthetic crude oil and natural gas reserves, and related future net cash flows, we consider many factors and make assumptions including:

- expected reservoir characteristics based on geological, geophysical and engineering assessments;
- future production rates based on historical performance and expected future operating and investment activities;
- future oil and gas prices and quality differentials;
- assumed effects of regulation by governmental agencies; and
- future development and operating costs

Estimates of reserves were prepared using standard geological and engineering methods generally accepted by the petroleum industry as presented in the publication of the Society of Petroleum Engineers entitled "Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information (Revision as of February 19, 2007)." 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.

Discovered oil and natural gas reserves are generally only produced when they are economically recoverable. As such, oil and gas prices, and capital and operating costs have an impact on whether reserves will ultimately be produced. As required by SEC rules, reserves represent the quantities that are expected to be economically recoverable using existing prices and costs. Estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change.

The proved reserves estimates in this report were based upon 2014 first-of-the-month fiscal average pricing using benchmark pricing. Oil prices were primarily based upon West Texas Intermediate at Cushing crude oil benchmark of US\$94.99 per barrel and Western Canadian Select at Hardisty benchmark of US\$76.78 per barrel. Specific pricing for each field was adjusted for historical quality and transportation cost differentials, and for currency exchange rates. The resulting adjusted price is referred

to as the “realized price.” For total proved reserves, the estimated realized prices were US\$60.65 per barrel of Bitumen and US\$92.44 per barrel of synthetic crude oil, based upon a volume weighted average of the properties evaluated.

Generally, operations are subject to various levels of government controls and regulations. These laws and regulations may include matters relating to land tenure, drilling, production practices, environmental protection, marketing and pricing policies, royalties, various taxes and levies including income tax, and foreign trade and investment, that are subject to change from time to time. Current legislation is generally a matter of public record, and additional legislation or amendments that will affect reserves or when any such proposals, if enacted, might become effective generally cannot be predicted. Changes in government regulations could affect reserves or related economics. In the regions that are currently being evaluated we believe we have applied existing regulations appropriately.

CNOOC Estimates

Nexen on behalf of CNOOC has represented that estimated proved reserves attributable to the audited properties are based on SEC definitions. CNOOC represents that its estimates of the reserves attributable to these properties represent 17 percent of its total company proved reserves after royalties on an equivalent basis and are as follows, expressed in thousands of barrels (Mbbbl), and thousands of barrels of oil equivalent (Mboe):

**CNOOC’s estimate of Reserves as of December 31, 2014
 Certain Canadian Fields Audited by McDaniel & Associates
 Oil Sands**

CNOOC Reserves	Synthetic Crude Oil (Mbbbl)	Bitumen (Mbbbl)	Oil Equivalent (Mboe)
Working Interest Reserves (after royalties)			
Proved	749,867	31,426	781,293

Note: Gas is converted to oil equivalent using a factor of 6,000 cubic feet of gas per 1 barrel of oil equivalent based on an energy equivalent basis.

Reserves Audit Opinion

McDaniel has used all data, assumptions, procedures and methods that it considers necessary to prepare this report.

In our opinion, the information relating to estimated proved reserves of synthetic crude oil and bitumen contained in this opinion has been prepared in accordance with Paragraphs 932-235-50-4, 932-235-50-6, 932-235-50-7 and 932-235-50-9 of the Accounting Standards Update 932-235-50, *Extractive Industries – Oil and Gas (Topic 932): Oil and Gas Reserve Estimation and Disclosures* (January 2010) of the



Financial Accounting Standards Board and Rules 4–10(a) (1)–(32) of Regulation S–X and Rules 302(b), 1201, and 1202(a) (1), (2), (3), (4), (5), (8) of Regulation S-K of the Securities and Exchange Commission.

We have examined the assumptions, data, methods procedures and proved reserves estimates prepared by Nexen on behalf of CNOOC. In our opinion, the proved reserves for the reviewed properties as estimated by CNOOC are, in aggregate on the basis of equivalent barrels, reasonable because when compared to our estimates, or if we were to perform our own detailed estimates, reflect a difference of not more than plus or minus 10 percent.

The analyses of these properties, as reported herein, were conducted within the context of an audit of a distinct group of properties in aggregate as part of the total corporate level reserves. Extraction and use of these analyses outside of this context may not be appropriate without supplementary due diligence.

McDaniel is an independent petroleum engineering consulting firm that has been providing petroleum consulting services throughout the world for over 50 years. McDaniel does not have any financial interest, including stock ownership, in CNOOC. Our fees were not contingent on the results of our evaluation. This letter report has been prepared at the request of Nexen on behalf of CNOOC.

This report was prepared by McDaniel & Associates Consultants Ltd. for the exclusive use of CNOOC. It is not to be reproduced, distributed, or made available, in whole or in part to any person, company, or organization other than CNOOC without the knowledge and consent of McDaniel & Associates Consultants Ltd. We reserve the right to revise any of the estimates provided herein if any relevant data existing prior to preparation of this report was not made available or if any data provided was found to be erroneous.

If there are any questions, please contact the writer directly at (403) 218-1379.

Sincerely,

McDaniel & Associates Consultants Ltd.

/s/ P. A. Welch

P. A. Welch, P. Eng.

CC: Mr. Doug Huff, P. Eng., Manager, Reservoir Engineering, Long Lake Development
Ms. Charishe Amante, P. Eng., Corporate Reserves Analyst
Sydney Frazer, Deloitte LLP



Table 1
CNOOC Properties Audited by McDaniel & Associates
Select Canadian Oil Sands Properties
December 31, 2014

	BUSINESS UNIT	FIELD NAME
1	OIL SANDS	LONG LAKE
2	OIL SANDS	KINOSIS
3	OIL SANDS	HANGINGSTONE
4	OIL SANDS	SYNCRUDE



DeGolyer and MacNaughton5001 Spring Valley Road
Suite 800 East

Dallas, Texas 75244

February 28, 2015

CNOOC Limited
c/o Nexen Energy ULC
801-7th Avenue S.W
Calgary, AB
T2P 3P7

Re: DeGolyer and MacNaughton - Report of Third Party for certain United Kingdom, Nigerian, and Canadian Shale Gas properties owned by CNOOC Limited

Gentlemen:

Pursuant to your request, we have conducted an independent reserves audit of CNOOC Limited's (CNOOC) proved oil, condensate, natural gas liquids (NGL), and natural gas reserves, as of December 31, 2014, for certain fields owned by CNOOC and managed by its wholly owned subsidiary, Nexen Energy ULC (Nexen), in the United Kingdom, Nigeria, and Canada as shown in Table 1. This audit was completed on February 28, 2015. CNOOC has represented that these properties account for 5 percent of its total proved reserves in its United Kingdom, Nigeria, and Canadian shale gas properties on an equivalent barrel basis as of December 31, 2014, and that its reserves estimates have been prepared in accordance with the United States Securities and Exchange Commission (SEC) definitions. We have reviewed information provided to us by Nexen on behalf of CNOOC that it represents to be its estimates of the reserves, as of December 31, 2014, for the same properties as those which we audited. This report was prepared in accordance with guidelines specified in Item 1202(a)(8) of Regulation S-K and is to be used for inclusion in certain filings of the SEC.

Reserves included herein are expressed as reserves as represented by CNOOC. Gross reserves are defined as the total estimated petroleum to be produced from these properties after December 31, 2014. Working interest reserves are defined as that portion of the gross reserves attributable to the interests owned by

CNOOC after deducting all interests owned by others. Net reserves are defined as working interest reserves after deductions for royalties.

Estimates of oil, condensate, and NGL (collectively Liquids), and natural gas should be regarded only as estimates that may change as further production history and additional information become available. Not only are such reserves estimates based on that information which is currently available, but such estimates are also subject to the uncertainties inherent in the application of judgmental factors in interpreting such information.

Data used in this audit were obtained from reviews with Nexen personnel, Nexen files, from records on file with the appropriate regulatory agencies, and from public sources. In the preparation of this report we have relied, without independent verification, upon such information furnished by Nexen with respect to property interests, production from such properties, current costs of operation and development, prices for production, agreements relating to current and future operations and sale of production, and various other information and data that were accepted as represented. Furthermore, if in the course of our examination something came to our attention which brought into question the validity or sufficiency of any of such information or data, we did not rely on such information or data until we had satisfactorily resolved our questions relating thereto or had independently verified such information or data. A field examination of the properties was not considered necessary for the purposes of this report.

Methodology and Procedures

The process of estimating reserves requires complex judgments and decision-making based on available geological, geophysical, engineering, and economic data. To estimate the economically recoverable oil and natural gas reserves and related future net cash flows, we consider many factors and make assumptions including:

- Expected reservoir characteristics based on geological, geophysical, and engineering assessments.
 - Future production rates based on historical performance and expected future operating and investment activities.
 - Future oil and gas prices and quality differentials.
 - Assumed effects of regulation by governmental agencies. Future development and operating costs.
 - Future development and operating costs.
-

DeGolyer and MacNaughton

Estimates of reserves were prepared by the use of appropriate geologic, and evaluation principles and techniques that are in accordance with practices generally accepted by the petroleum industry as presented in the publication of the Society of Petroleum Engineers entitled "Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information (Revision as of February 19, 2007)." 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.

Discovered oil and natural gas reserves are generally only produced when they are economically recoverable. As such, oil and gas prices, and capital and operating costs have an impact on whether reserves will ultimately be produced. As required by SEC rules, reserves represent the quantities that are expected to be economically recoverable using existing prices and costs. Estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change.

Generally, operations are subject to various levels of government controls and regulations. These laws and regulations may include matters relating to land tenure, drilling, production practices, environmental protection, marketing and pricing policies, royalties, various taxes and levies including income tax, and foreign trade and investment, that are subject to change from time to time. Current legislation is generally a matter of public record, and additional legislation or amendments that will affect reserves or when any such proposals, if enacted, might become effective generally cannot be predicted. Changes in government regulations could affect reserves or related economics. In the regions that are currently being audited we believe existing regulations have been applied appropriately.

Reserves estimates in this report are based upon 2014 first-day-of-the month fiscal average pricing using benchmark pricing. For the United Kingdom, the 2014 oil price is based upon Brent benchmark of U.S.\$101.27 per barrel, while the gas price is based upon National Balancing Point benchmark of U.K.£ 0.51 per therm. For Nigeria, the oil price is based upon the Brent benchmark of U.S.\$101.27 per barrel. For Canada, the shale gas price is based upon the AECO benchmark of CDN\$4.38 per gigajoule. Specific pricing for each field was adjusted for historical quality and transportation costs. The resulting adjusted price is referred to as the "realized price." For total proved reserves, the estimated realized prices were

DeGolyer and MacNaughton

U.S.\$100.78 per barrel and U.S.\$7.04 per thousand cubic feet of gas for the United Kingdom, U.S.\$98.98 per barrel of oil for Nigeria, and U.S.\$4.01 per thousand cubic feet of gas for Canadian shale gas based upon a volume weighted average of the properties evaluated.

Certain properties in which CNOOC has an interest are subject to the terms of various profit sharing or joint operating agreements. The terms of these agreements generally allow for working interest participants to be reimbursed for portions of capital costs and operating expenses and to share in the profits. The reimbursements and profit proceeds are converted to a barrel of oil equivalent or standard cubic foot of gas equivalent by dividing by product prices to determine the "entitlement quantities." These entitlement quantities are equivalent in principle to net reserves and are used to calculate an equivalent net share, termed an "entitlement interest." In this report, CNOOC reserves or interest for certain properties subject to these agreements is the entitlement based on CNOOC's working interest.

CNOOC Estimates

Nexen on behalf of CNOOC has represented that its estimated proved reserves attributable to the audited properties are based on SEC definitions. CNOOC represents that its estimates of the reserves attributable to these properties representing 5 percent of its total company proved reserves on an equivalent basis are as follows, expressed in thousands of barrels (Mbbbl), millions of cubic feet (MMcf), and thousands of barrels of oil equivalent (Mboe):

**CNOOC's Estimate of Reserves as of December 31, 2014
Select United Kingdom, Nigerian, and Canadian Fields
Working Interest Reserves (after royalties) – Net Reserves**

Audited by DeGolyer and MacNaughton			
CNOOC Reserves	Liquids (Mbbbl)	Natural Gas (MMcf)	Oil Equivalent (Mboe)
Proved	165,546	250,539	207,303

Note: Gas is converted to oil equivalent using a factor of 6,000 cubic feet of gas per 1 barrel of oil equivalent based on an energy equivalent basis.

DeGolyer and MacNaughton

Reserves Audit Opinion

In our opinion, the assumptions, data, methods, and procedures used in connection with the preparation of the report are appropriate for the purpose served by this report.

In our opinion, the information relating to estimated proved reserves of oil, condensate, natural gas liquids, and gas contained in this report has been prepared in accordance with Paragraphs 932-235-50-4, 932-235-50-6, 932-235-50-7, and 932-235-50-9 of the Accounting Standards Update 932-235-50, Extractive Industries – Oil and Gas (Topic 932): Oil and Gas Reserve Estimation and Disclosures (January 2010) of the Financial Accounting Standards Board and Rules 4–10 (a) (1)–(32) of Regulation S–X and Rules 302(b), 1201, and 1202(a) (1), (2), (3), (4), (5), (8) of Regulation S–K of the Securities and Exchange Commission; provided, however, that estimates of proved developed and proved undeveloped reserves are not presented at the beginning of the year.

We have examined the assumptions, data, methods, procedures and proved reserves estimates prepared by Nexen on behalf of CNOOC. In our opinion, the proved reserves for the reviewed properties as estimated by CNOOC are, in aggregate, on the basis of equivalent barrels, reasonable because when compared to our estimates, or if we were to perform our own detailed estimates, reflect a difference of not more than plus or minus 10 percent.

While the oil and gas industry may be subject to regulatory changes from time to time that could affect an industry participant's ability to recover its oil and gas reserves, we are not aware of any such governmental actions which would restrict the recovery of the December 31, 2014, estimated oil and gas reserves.

DeGolyer and MacNaughton

DeGolyer and MacNaughton is an independent petroleum engineering consulting firm that has been providing petroleum consulting services throughout the world since 1936. DeGolyer and MacNaughton does not have any financial interest, including stock ownership, in CNOOC. Our fees were not contingent on the results of our evaluation. This letter report has been prepared at the request of Nexen on behalf of CNOOC.

Submitted,

/s/ Lloyd W. Cade

DeGOLYER and MacNAUGHTON

Texas Registered Engineering Firm F-716

CC: Mr. Craig Beattie, VP – Development Excellence
Mr. David Richardson, P. Eng., Canadian Oil and Gas, Division Reserves Manager
Deloitte & Touche LLP, Attn: Huili Li

[Seal]

/s/ Lloyd W. Cade
Lloyd W. Cade, P.E.
Senior Vice President
DeGolyer and MacNaughton

CERTIFICATE of QUALIFICATION

I, Lloyd W. Cade Petroleum Engineer with DeGolyer and MacNaughton, 5001 Spring Valley Road, Suite 800 East, Dallas, Texas, 75244 U.S.A., hereby certify:

1. That I am a Senior Vice President with DeGolyer and MacNaughton, which company did prepare the letter report addressed to CNOOC dated February 28, 2015, and that I, as Senior Vice President, was responsible for the preparation of this report.
2. That I attended Kansas State University, and that I graduated with a Bachelor of Science degree in Mechanical Engineering in the year 1982; that I am a Registered Professional Engineer in the State of Texas; that I am a member of the International Society of Petroleum Engineers; and that I have in excess of 32 years of experience in oil and gas reservoir studies and reserves evaluations.

SIGNED: February 28, 2015

[Seal] /s/ Lloyd W. Cade
Lloyd W. Cade, P.E.
Senior Vice President
DeGolyer and MacNaughton

TABLE 1
CNOOC FIELDS AUDITED by DeGOLYER and MacNAUGHTON as of
DECEMBER 31, 2014

Properties	Fields
United Kingdom	Buzzard Golden Eagle Area (Including Peregrine and Solitaire) Rochelle Scott Telford
Nigeria	Usan (Block OML-138)
Canada	Dilly Creek

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference of our report dated March 22, 2013 with respect to the consolidated financial statements of CNOOC Limited for the year ended December 31, 2012, included in this Annual Report on Form 20-F for the year ended December 31, 2014 in the Registration Statements on Form F-3 (File No(s). 333-187114 and 333-188261) filed with the Securities and Exchange Commission.

/s/ Ernst & Young
Hong Kong

April 22, 2015

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement on Form F-3 (File No. 333-187114) and the Post-Effective Amendment No.1 to the Registration Statement on Form F-3 (File No. 333-188261) of our reports dated March 27, 2015 relating to the consolidated financial statements of CNOOC Limited and its subsidiaries as of December 31, 2014 and 2013 and for the two years in the period ended December 31, 2014, and the effectiveness of CNOOC Limited and its subsidiaries' internal control over financial reporting as of December 31, 2014, appearing in this Annual Report on Form 20-F for the year ended December 31, 2014.

/s/ Deloitte Touche Tohmatsu
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
April 22, 2015

[LETTERHEAD OF RYDER SCOTT COMPANY, L.P.]

Consent of Independent Consultant

We consent to the reference to our firm in the form and context in which they appear in this Annual Report on Form 20-F, the inclusion of our reports herein, and to the incorporation by the reference in any Registration Statement on Form F-3 and related Prospectus Supplements of CNOOC Limited for the registration of debt securities and guarantees previously filed with the Securities and Exchange Commission.

/s/ Ryder Scott Company,
L.P.
Ryder Scott Company, L.P.

TBPE Firm Registration No.
F-1580

Houston, Texas

April 21, 2015

[LETTERHEAD OF GAFFNEY, CLINE & ASSOCIATES (CONSULTANTS)PTE LTD.]

YDH/dh/PS-13-2127&PS-13-2128/2014/L0090a

22nd April, 2015

CNOOC Limited
No. 25, Chaoyangmenbei Dajie
Dongcheng District
Beijing 100010, P.R. China

Dear Sir,

Consent of Independent Consultant

We consent to the reference to our firm in the form and context in which they appear in this Annual Report on Form 20-F, the inclusion of our reports herein, and to the incorporation by the reference in any Registration Statement on Form F-3 and related Prospectus Supplements of CNOOC Limited for the registration of debt securities and guarantees previously filed with the Securities and Exchange Commission.

Yours sincerely,
GAFFNEY, CLINE & ASSOCIATES (CONSULTANTS) PTE LTD

/s/ Stephen M. Lane
Stephen M. Lane
Technical Director

Consent of Independent Consultant

We consent to the reference to our firm in the form and context in which they appear in this Annual Report on Form 20-F, the inclusion of our reports dated January 31, 2015 herein, and to the incorporation by reference in any Registration Statement on Form F-3 and related Prospectus Supplements of CNOOC Limited for the registration of debt securities and guarantees previously filed with the Securities and Exchange Commission.

RPS

By: /s/ Debbie Perkins
Name: Debbie Perkins
Title: Vice President

Houston, Texas

March 31, 2015

[LETTERHEAD OF MCDANIEL & ASSOCIATES CONSULTANTS LTD.]

Consent of Independent Consultant

We consent to the reference to our firm in the form and context in which they appear in this Annual Report on Form 20-F, the inclusion of our reports herein, and to the incorporation by reference in any Registration Statement on Form F-3 and related Prospectus Supplements of CNOOC Limited for the registration of debt securities and guarantees previously filed with the Securities and Exchange Commission.

MCDANIEL & ASSOCIATES CONSULTANTS LTD.

By: /s/ P. A. Welch, P. Eng.
Name: P. A. Welch, P. Eng.
Title: President & Managing Director

McDaniel & Associates Consultants Ltd.
2200, Bow Valley Square 3,
255 - 5 Avenue S.W. Calgary, Alberta,
T2P 3G6 Canada

April 22, 2015

[LETTERHEAD OF DEGOLYER AND MACNAUGHTON]

Consent of DeGolyer and MacNaughton

We consent to the reference to our firm in the form and context in which they appear in this Annual Report on Form 20-F of CNOOC Limited, the inclusion of our report dated February 28, 2015, herein, and to the incorporation by reference in any Registration Statement on Form F-3 and related Prospectus Supplements of CNOOC Limited for the registration of debt securities and guarantees previously filed with the Securities and Exchange Commission.

/s/ DeGolyer and MacNaughton
DeGolyer and MacNaughton
Texas Registered Engineering Firm F-716

Dallas, Texas

April 22, 2015