CNOOC LTD
Form 20-F
April 22, 2015

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

ýANNUAL 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
(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)

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

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

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

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

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

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

Shares	44,647,455,984

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

Yes ý 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 ý

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 ý 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 ý

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 ý 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 ý

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 ý

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

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TERMS AND CONVENTIONS

Definitions

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

- "CNOOC" are to our controlling shareholder, China National Offshore Oil Corporation, a PRC state-owned enterprise, or China National Offshore Oil Corporation and its subsidiaries (excluding us and our subsidiaries), as the case may be;
- "CNOOC Limited" are to CNOOC Limited, a Hong Kong limited liability company and the registrant of this annual report;
- "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.

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Conventions

We publish our financial statements in Renminbi. Unless otherwise indicated, we have translated amounts from Renminbi into U.S. dollars solely for the convenience of the reader at the noon buying rate for cable transfers of Renminbi per U.S. dollar certified for customs purposes by the Federal Reserve Bank of New York, as set forth in the H.10 weekly statistical release of the Federal Reserve Board on December 31, 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.

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- "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.

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(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;

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- 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.

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FORWARD-LOOKING STATEMENTS

This annual report includes "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, including statements regarding expected future events, business prospects or financial results. The words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", " "intends" and similar expressions are intended to identify such forward-looking statements.

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

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

These statements are based on assumptions and analysis made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual results and developments will meet our expectations and predictions depend on a number of risks and uncertainties which could cause our actual results, performance and financial condition to differ materially from our expectations, including but not limited to those associated with fluctuations in crude oil and natural gas prices, our exploration or development activities, our capital expenditure requirements, our business strategy, whether the transactions entered into by us can complete on schedule pursuant to their terms and timetable or at all, the highly competitive nature of the oil and natural gas industry, our foreign operations, environmental liabilities and compliance requirements, and economic and political conditions in the PRC and overseas. For a description of these and other risks and uncertainties, see "Item 3—Key Information—Risk Factors."

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

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

Our consolidated financial statements for the years ended December 31, 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.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

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

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

The following tables present selected historical financial data of our company as of and for the years ended December 31, 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	180,036	240,944	247,627	285,857	274,634	44,263
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	(108,891)	(150,337)	(160,486)	(207,354)	(193,719)	(31,222)
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	142	(563)	908	334	560	90
Profit before tax	72,603	92,565	90,172	80,851	82,513	13,299
Income tax expense	(18,193)	(22,310)	(26,481)	(24,390)	(22,314)	(3,596)
Profit for the year	54,410	70,255	63,691	56,461	60,199	9,703
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

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	As of December 31,					
	2010(1) Rmb	2011 Rmb	2012 Rmb (in millions)	2013 Rmb	2014 Rmb	2014 US$
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.

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	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:

	Noon Buying Rate			
Period	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	End	Average(1)	High	Low
		Noon Buying Rate (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.

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Period	End	Average(1)	High	Low
	Noon Buying Rate (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.

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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.

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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.

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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.

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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.

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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.

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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.

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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

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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).

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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:

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- 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.

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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.

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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."

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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	2013	Crude Oil	Natural Gas	Synthetic Oil	Bitumen	Total
	(mmboe)	(mmboe)	(mmbbls)	(bcf)	(mmbbls)	(mmbbls)	(mmboe) (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.

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

Total Net Proved Crude and Liquids Reserves
(mmbbls)

	As of December 31,		As of December 31, 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.

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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.

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The changes in our proved reserves mainly include:

l 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:

Ø 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

Ø 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.

l A decrease of 40.9 million BOE due to revision of previous estimates;
l A decrease of 14.8 million BOE due to disposal of assets; and
l 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 decrease 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:

l A decrease of 400.2 million BOE due to PUD converted to Proved Developed reserves (PD);

l A decrease of 177.7 million BOE due to revision of previous estimates;

l An increase of 469.3 million BOE due to new discoveries and extensions, details of which are described below:

Ø o 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

Ø o 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.

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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

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- 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.

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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.

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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	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.

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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.

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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.

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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.

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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.

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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.

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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 Bridas Corporation ("Bridas") in Argentina and a 10% interest in the PSC of the Libra oilfield in Brazil, among which, the Company's 50% interest in Bridas 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.

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Argentina

The Company and Bridas Energy Holding each hold 50% shareholding interest in Bridas and make joint management decisions. Bridas holds 40% interest in Pan American Energy ("PAE") in Argentina. Bridas 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 Bridas 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.

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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	Crude and Liquids	Gas	Crude and Liquids	Gas	
	(BOE/day)	(Bbls/day)	(Mmcf/day)	(US$/bbl)	(US$/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	—	—	—

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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	—

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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	—

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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 (km2)		Undeveloped Acreage (km2)	
	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

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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		14.1	12.4	10.6

	PLATTS Tapis(2)			
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.

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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	247,627	285,857	274,634

% of revenues sourced outside the PRC	25.4	%	32.9	%	34.9	%

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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 Riserpipe” 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.

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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 . 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.

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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.

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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:

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	Year ended December 31,	
	2012	2013