

CNOOC LTD
Form 20-F
April 19, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

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

OR

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934
For the fiscal year ended December 31, 2017**

OR

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

OR

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

Date of event requiring this shell company report _____

Commission File Number 1-14966

CNOOC LIMITED

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Hong Kong

(Jurisdiction of incorporation or organization)

65th Floor, Bank of China Tower

One Garden Road, Central

Hong Kong

(Address of principal executive offices)

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Hong Kong

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(Name, telephone, e-mail and/or facsimile number and address of company contact person)

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

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

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

(Title of Class)

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

(Title of Class)

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

Shares 44,647,455,984

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

Yes No

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

Yes No

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

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

Yes No

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

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

Emerging growth company

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

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

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

U.S. GAAP

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

Other

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

Item 17 Item 18

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

Yes No

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

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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;

“NYSE” are to the New York Stock Exchange;

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

“TSX” are to the Toronto Stock Exchange; and

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

Conventions

We publish our financial statements in Renminbi. Unless otherwise indicated, we have translated amounts from Renminbi into U.S. dollars solely for the convenience of the reader at the noon buying rate for cable transfers

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of Renminbi per U.S. dollar certified for customs purposes by the Federal Reserve Bank of New York, as set forth in the H.10 weekly statistical release of the Federal Reserve Board on December 29, 2017 of US\$1.00=Rmb 6.5063. We have translated amounts in Hong Kong dollars solely for the convenience of the reader at the noon buying rate for cable transfers of Hong Kong dollars per U.S. dollar certified for customs purposes by the Federal Reserve Bank of New York, as set forth in the H.10 weekly statistical release of the Federal Reserve Board on December 31, 2017 of US\$1.00=HK\$ 7.8128. We have also translated amounts in Canadian dollars solely for the convenience of the reader at the noon buying rate for cable transfers of Canadian dollars per U.S. dollar certified for customs purposes by the Federal Reserve Bank of New York, as set forth in the H.10 weekly statistical release of the Federal Reserve Board on December 31, 2017 of US\$1.00=Cdn\$1.2517. We make no representation that the Renminbi amounts, Hong Kong dollar amounts or Canadian dollar amounts could have been, or could be, converted into U.S. dollars at those rates on December 31, 2017, or at all. For further information on exchange rates, see “Item 3—Key Information—Selected Financial Data.”

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

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

In calculating barrels-of-oil equivalent amounts, we have assumed that 6,000 cubic feet of natural gas equals one BOE, with the exception of natural gas from South America, Oceania, SES and Tangguh projects in Indonesia in Asia and Yacheng 13-1/13-4 gas fields in the Western South China Sea, where we have used energy equivalence for such conversion purpose.

Glossary of Technical Terms

Unless otherwise indicated in the context, references to:

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

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

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

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

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

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

“LNG” means liquefied natural gas.

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

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

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

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

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

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

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

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

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

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

“undeveloped oil and gas reserves” means reserves of any category that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

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

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

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(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.

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“wildcat well” means an exploratory well drilled on any rock formation for the purpose of searching for petroleum accumulations in an area or rock formation that has no known reserves or previous discoveries.

References to:

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

· mmbbls means million barrels;

· BOE means barrels-of-oil equivalent;

· mcf means thousand cubic feet;

· mmcf means million cubic feet;

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

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

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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, 2015, 2016 and 2017 included in this annual report on Form 20-F have been prepared in accordance with International Financial Reporting Standards, or IFRSs, as issued by the International Accounting Standards Board.

In accordance with rule amendments adopted by the U.S. Securities and Exchange Commission, or the SEC, which became effective on March 4, 2008, we are not required to provide reconciliation to Generally Accepted Accounting Principles in the United States.

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

Table of Contents**PART I****ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

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

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION**A. Selected Financial Data**

The following tables present selected historical financial data of our company as of and for the years ended December 31, 2013, 2014, 2015, 2016 and 2017. Except for amounts presented in U.S. dollars, the selected historical consolidated statement of financial position data and consolidated statement of profit or loss and other comprehensive income data as of and for the years ended December 31, 2013, 2014, 2015, 2016 and 2017 set forth below are derived from, should be read in conjunction with, and are qualified in their entirety by reference to, our consolidated financial statements and their notes under “Item 18—Financial Statements” and “Item 5—Operating and Financial Review and Prospects” in this annual report. As disclosed above under “Special Note on the Financial Information and Certain Statistical Information Presented in This Annual Report”, our consolidated financial statements as of and for the years ended December 31, 2013, 2014, 2015, 2016 and 2017 have been prepared and presented in accordance with IFRS.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

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

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

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

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

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

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

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

Oil and natural gas industry are very competitive.

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

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

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

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

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

It is expected that the CO₂ emissions will increase as our production grows. CO₂ emissions from flaring will increase as long as there are no proven and reliable gas gathering systems in place. With the coming into force of the Paris Agreement and the continuing growth of the public's awareness of climate change problems, the carbon emission policies of different countries are gradually enacted. The company will be supervised by relevant agencies and organizations in the future, if we are unable to find economically viable and publicly acceptable solutions that could reduce our CO₂ emissions for new and existing projects, we may experience additional costs, project delays, reduced production and reduced demand for the Company's products.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We face currency risks and liquidity risks.

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

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

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

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

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

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

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development

We were incorporated with limited liability on August 20, 1999 in Hong Kong under the Companies Ordinance (Chapter 32 of the Laws of Hong Kong, the predecessor to Chapter 622 of the Laws of Hong Kong, or the Hong Kong Companies Ordinance, which came into effect on March 3, 2014). Our company registration number in Hong Kong is 685974. Under the Hong Kong Companies Ordinance, we have the capacity, rights, powers and privileges of a natural person of full age and may do anything which we are permitted or required to do by our

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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 and subject to the undertakings below, we and our subsidiaries are the only vehicles through which CNOOC engages in oil and gas exploration, development, production and sales activities both in and outside the PRC.

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

CNOOC has undertaken to us that:

we will enjoy the exclusive right to exercise all of CNOOC's commercial and operational rights under PRC laws and regulations relating to the exploration, development, production and sales of oil and natural gas in offshore China;

it will transfer to us all of its rights and obligations under any new PSCs and geophysical exploration operations, except those relating to its administrative functions;

it will not engage or be interested, directly or indirectly, in oil and natural gas exploration, development, production and sales in or outside the PRC;

we will be able to participate jointly with CNOOC in negotiating new PSCs and to set out our views to CNOOC on the proposed terms of new PSCs;

we will have unlimited and unrestricted access to all data, records, samples and other original data owned by CNOOC relating to oil and natural gas resources;

we will have an option to invest in LNG projects in which CNOOC invested or proposed to invest, and CNOOC will at its own expense help us to procure all necessary government approvals needed for our participation in these projects; and

we will have an option to participate in other businesses related to natural gas in which CNOOC invested or proposed to invest, and CNOOC will procure all necessary government approvals needed for our participation in such business.

The undertakings from CNOOC will cease to have any effect:

if we become a wholly owned subsidiary of CNOOC;

if our securities cease to be listed on any stock exchange or automated trading system; or

12 months after CNOOC or any other PRC government-controlled entity ceases to be our controlling shareholder.

For information on our capital expenditures, see “Item 5—Operating and Financial Review and Prospects—Liquidity and Capital Resources—Cash Used in Investing Activities.”

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B. Business Overview

Overview

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

Competitive Strengths

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

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

Large and diversified asset base with significant exploitation opportunities

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

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

As of December 31, 2017, approximately 57.6% of our net proved reserves were classified as net proved undeveloped. Our large proved reserve base gives us the opportunity to achieve substantial production growth.

Sizable operating areas in offshore China with demonstrated exploration potential

We are the dominant oil and gas producer in offshore China, a region that we believe has substantial exploration upside. As of December 31, 2017, our total major exploration areas acreage in offshore China was approximately 257 thousand 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 2017, we and our foreign partners have together drilled a total of 116 exploratory wells in offshore China, of which 58 were wildcat wells. During the same year, we and our foreign partners made 17 new discoveries in offshore China.

Successful independent exploration and development track record

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

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

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

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

CNOOC holds exclusive right from the PRC government to enter into PSCs with foreign enterprises relating to the petroleum resources exploitation in offshore China. CNOOC assigned us all of its rights and obligations under then-existing PSCs in 1999 and has undertaken to assign to us its future PSCs except for those relating to its administrative functions. PSCs help us minimize our offshore China finding costs, exploration risks and capital requirements because our foreign partners are responsible for all costs associated with exploration under the usual case. Our foreign partners recover their exploration costs only when a commercially viable discovery is made and production begins.

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

Experienced management team and a high level of corporate governance standard

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

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

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

Business Strategy

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

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

Focus on reserve and production growth

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

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

Develop natural gas business

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

Maintain a prudent financial policy

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

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

Selected Operating and Reserves Data

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

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

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

Net Proved Reserves (end of period):

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

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

(2) Including our interest in equity method investees.

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

Summary of Oil and Gas Reserves

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

	Net proved reserves at December 31,		Net proved reserves at December 31, 2017				Total (mmboe)
	2015 (mmboe)	2016 (mmboe)	Crude Oil (mmbbls)	Natural Gas (bcf)	Synthetic Oil (mmbbls)	Bitumen (mmbbls)	
Developed							
Offshore China							
Bohai	603.1	600.8	623.9	224.0	—	—	661.3
Western South China Sea	169.0	165.5	99.0	465.1	—	—	177.4
Eastern South China Sea	299.9	285.2	164.1	778.8	—	—	293.9
East China Sea	30.9	34.9	6.2	106.4	—	—	24.0
Subtotal	1,102.9	1,086.4	893.3	1,574.3	—	—	1,156.6
Overseas							
Asia (excluding China)	118.8	160.3	35.3	557.9	—	—	133.4
Oceania	63.3	62.1	8.3	229.5	—	—	53.3
Africa	52.7	40.7	36.9	0.0	—	—	36.9
North America (excluding Canada)	112.6	124.1	122.8	278.3	—	—	169.2
Canada	216.6	155.7	0.0	24.2	141.8	46.2	192.0
South America	1.6	1.5	1.3	—	—	—	1.3
Europe	95.8	81.7	83.8	4.6	—	—	84.6
Subtotal	661.4	626.1	288.5	1,094.4	141.8	46.2	670.7
Total Developed	1,764.3	1,712.5	1,181.7	2,668.7	141.8	46.2	1,827.3
Undeveloped							
Offshore China							
Bohai	368.7	349.4	426.5	81.7	—	—	440.1
Western South China Sea	503.6	653.3	97.5	3,415.0	—	—	666.7
Eastern South China Sea	215.7	220.3	207.8	191.7	—	—	239.8
East China Sea	133.4	111.3	2.2	648.0	—	—	110.2
Subtotal	1,221.5	1,334.3	734.0	4,336.4	—	—	1,456.8
Overseas							
Asia (excluding China)	90.1	84.7	34.7	327.1	—	—	92.1
Oceania	27.5	15.3	2.4	67.6	—	—	15.7
Africa	113.9	97.3	100.0	—	—	—	100.0
North America (excluding Canada)	172.1	194.4	159.3	143.2	—	—	183.2
Canada	618.6	144.8	—	—	644.1	72.1	716.2
South America	—	—	78.4	—	—	—	78.4
Europe	8.0	0.1	4.5	0.2	—	—	4.6
Subtotal	1,030.3	536.6	379.2	538.2	644.1	72.1	1,190.1

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

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

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

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

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

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

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

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

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

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(million BOE)**

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

Proved Reserves

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

The changes in our proved reserves mainly include:

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

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

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

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

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

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

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

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

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

· The production of 469.9 million BOE in 2017.

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

Proved Undeveloped Reserves (PUD)

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

The changes in our proved undeveloped reserves mainly include:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The RMC's main responsibilities are to:

· review our reserve policies;

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

· select our reserve estimators and auditors.

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

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

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

Exploration, Development and Production

Summary

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

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

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

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

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

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

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

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

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

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

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

Exploration

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Engineering Construction, Development and Production

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

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