

CNOOC LTD  
Form 20-F  
April 21, 2017  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

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

**OR**

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

**For the fiscal year ended December 31, 2016**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**OR**

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

**Date of event requiring this shell company report \_\_\_\_\_**

**Commission File Number 1-14966**

**CNOOC LIMITED**

**(Exact name of Registrant as specified in its charter)**

N/A

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

**Hong Kong**

**(Jurisdiction of incorporation or organization)**

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

**One Garden Road, Central**

**Hong Kong**

**(Address of principal executive offices)**

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

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

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

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

**(Title of Class)**

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

**(Title of Class)**

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

Shares 44,647,455,984

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

Yes  No

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

Yes  No

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

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

Yes  No

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

Yes  No

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

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Large accelerated filer  Accelerated filer  Non-accelerated filer

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

U.S. GAAP

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

Other

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

Item 17  Item 18

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

Yes  No

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

**Table of Contents**

Page

<u>TERMS AND CONVENTIONS</u>	<u>4</u>
<u>SPECIAL NOTE ON THE FINANCIAL INFORMATION AND CERTAIN STATISTICAL INFORMATION PRESENTED IN THIS ANNUAL REPORT</u>	<u>10</u>
<u>ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u>	<u>11</u>
<u>ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE</u>	<u>11</u>
<u>ITEM 3. KEY INFORMATION</u>	<u>11</u>
<u>A. Selected Financial Data</u>	<u>11</u>
<u>B. Capitalization and Indebtedness</u>	<u>14</u>
<u>C. Reasons for the Offer and Use of Proceeds</u>	<u>14</u>
<u>D. Risk Factors</u>	<u>14</u>
<u>ITEM 4. INFORMATION ON THE COMPANY</u>	<u>19</u>
<u>A. History and Development</u>	<u>19</u>
<u>B. Business Overview</u>	<u>21</u>
<u>C. Organizational Structure</u>	<u>56</u>
<u>D. Property, plants and equipment</u>	<u>56</u>
<u>ITEM 4A. unresolved staff comments</u>	<u>57</u>
<u>ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	<u>57</u>
<u>A. Operating Results</u>	<u>57</u>
<u>B. Liquidity and Capital Resources</u>	<u>69</u>
<u>C. Research and Development, Patents and Licenses, etc.</u>	<u>72</u>
<u>D. Trend Information</u>	<u>72</u>
<u>E. Off-Balance Sheet Arrangements</u>	<u>73</u>
<u>F. Tabular Disclosure of Contractual Obligations</u>	<u>73</u>
<u>G. Safe Harbor</u>	<u>73</u>
<u>ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	<u>73</u>
<u>A. Directors and Senior Management</u>	<u>73</u>
<u>B. Compensation</u>	<u>83</u>
<u>C. Board Practice</u>	<u>83</u>
<u>D. Employees</u>	<u>86</u>
<u>E. Share Ownership</u>	<u>86</u>
<u>ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	<u>87</u>
<u>A. Major Shareholders</u>	<u>87</u>
<u>B. Related Party Transactions</u>	<u>88</u>
<u>C. Interests of Experts and Counsel</u>	<u>92</u>
<u>ITEM 8. FINANCIAL INFORMATION</u>	<u>92</u>
<u>A. Consolidated Statements and Other Financial Information</u>	<u>92</u>
<u>B. Significant Changes</u>	<u>95</u>
<u>ITEM 9. THE OFFER AND LISTING</u>	<u>95</u>
<u>ITEM 10. ADDITIONAL INFORMATION</u>	<u>96</u>
<u>A. Share Capital</u>	<u>96</u>
<u>B. Memorandum and Articles of Association</u>	<u>96</u>
<u>C. Material Contracts</u>	<u>99</u>
<u>D. Exchange Controls</u>	<u>99</u>

<u>E. Taxation</u>	<u>99</u>
<u>F. Dividends and Paying Agents</u>	<u>104</u>
<u>G. Statement by Experts</u>	<u>104</u>
<u>H. Documents on Display</u>	<u>104</u>
<u>I. Subsidiary Information</u>	<u>104</u>
<u>ITEM 11. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>104</u>
<u>Item 12. Description of Securities other than equity securities</u>	<u>105</u>
<u>A. Debt Securities</u>	<u>105</u>
<u>B. Warrants and Rights</u>	<u>106</u>
<u>C. Other Securities</u>	<u>106</u>
<u>D. American Depositary shares</u>	<u>106</u>
<u>PART II</u>	<u>107</u>
<u>ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	<u>107</u>
<u>ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	<u>108</u>
<u>A. Material Modifications to the Instruments Defining the Rights of Security Holders</u>	<u>108</u>

<u>B. Material Modifications to the Rights of Registered Securities by Issuing or Modifying any Other Class of Securities</u>	<u>108</u>
<u>C. Withdrawal or Substitution of a Material Amount of the Assets Securing any Registered Securities</u>	<u>108</u>
<u>D. Change of Trustees or Paying Agents for any Registered Securities</u>	<u>108</u>
<u>E. Use of Proceeds</u>	<u>108</u>
<u>ITEM 15. CONTROLS AND PROCEDURES</u>	<u>108</u>
<u>ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT</u>	<u>109</u>
<u>ITEM 16B. CODE OF ETHICS</u>	<u>109</u>
<u>ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	<u>109</u>
<u>ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	<u>110</u>
<u>ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	<u>110</u>
<u>ITEM 16f. Change in Registrant's Certifying Accountant</u>	<u>110</u>
<u>ITEM 16g. Corporate Governance</u>	<u>110</u>
<u>Item 16H. MINE SAFETY DISCLOSURE</u>	<u>110</u>
<u>PART III</u>	<u>111</u>
<u>ITEM 17. FINANCIAL STATEMENTS</u>	<u>111</u>
<u>ITEM 18. FINANCIAL STATEMENTS</u>	<u>111</u>
<u>ITEM 19. EXHIBITS</u>	<u>111</u>



Table of Contents

TERMS AND CONVENTIONS

Definitions

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

“CNOOC” are to our controlling shareholder, China National Offshore Oil Corporation, a PRC state-owned enterprise, or China National Offshore Oil Corporation and its subsidiaries (excluding us and our subsidiaries), as the case may be;

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

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

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

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

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

1 “China” or “PRC” are to the People’s Republic of China, excluding for purposes of geographical reference in this annual report, the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan;

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

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

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

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

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

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

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

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

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

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

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

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

## Table of Contents

### Conventions

We publish our financial statements in Renminbi. Unless otherwise indicated, we have translated amounts from Renminbi into U.S. dollars solely for the convenience of the reader at the noon buying rate for cable transfers of Renminbi per U.S. dollar certified for customs purposes by the Federal Reserve Bank of New York, as set forth in the H.10 weekly statistical release of the Federal Reserve Board on December 31, 2016 of US\$1.00=Rmb 6.9430. We have translated amounts in Hong Kong dollars solely for the convenience of the reader at the noon buying rate for cable transfers of Hong Kong dollars per U.S. dollar certified for customs purposes by the Federal Reserve Bank of New York, as set forth in the H.10 weekly statistical release of the Federal Reserve Board on December 31, 2016 of US\$1.00=HK\$ 7.7534. We have also translated amounts in Canadian dollars solely for the convenience of the reader at the noon buying rate for cable transfers of Canadian dollars per U.S. dollar certified for customs purposes by the Federal Reserve Bank of New York, as set forth in the H.10 weekly statistical release of the Federal Reserve Board on December 31, 2016 of US\$1.00=Cdn\$1.3426. We make no representation that the Renminbi amounts, Hong Kong dollar amounts or Canadian dollar amounts could have been, or could be, converted into U.S. dollars at those rates on December 31, 2016, or at all. For further information on exchange rates, see “Item 3—Key Information—Selected Financial Data.”

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

For the years 2014, 2015 and 2016, approximately 52%, 62% and 60%, respectively, of our reserves were evaluated by our internal reserve evaluation staff, and the remaining were based upon estimates prepared by independent petroleum engineering consulting companies and reviewed by us. Our reserve data for 2014, 2015 and 2016 were prepared in accordance with the SEC’s final rules on “Modernization of Oil and Gas Reporting”, which became effective for accounting periods ended on or after December 31, 2009. Except as otherwise stated, all amounts of reserve and production in this report include our interests in equity method investees.

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

### Glossary of Technical Terms

Unless otherwise indicated in the context, references to:

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

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

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

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

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

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

Table of Contents

1 “LNG” means liquefied natural gas.

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

“proved oil and gas reserves” means those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible—from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations— prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

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

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

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

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

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

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

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

<sup>1</sup>“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.

6

Table of Contents

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

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

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

For further definitions relating to reserves:

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

<sup>1</sup> 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.

<sup>1</sup> “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.

<sup>1</sup> “seismic data” means data recorded in either two-dimensional (2D) or three-dimensional (3D) form from sound wave reflections off of subsurface geology.

“success” means a discovery of oil or gas by an exploratory well. Such an exploratory well is a successful well and is also known as a discovery. A successful well is commercial, which means there are enough hydrocarbon deposits discovered for economical recovery.

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

References to:

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

1 mmbbls means million barrels;

7



Table of Contents

1 BOE means barrels-of-oil equivalent;

1 mcf means thousand cubic feet;

1 mmcf means million cubic feet;

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

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

8

Table of Contents

**FORWARD-LOOKING STATEMENTS**

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

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

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

· future earnings and cash flow, and

· our estimated financial information.

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

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

Table of Contents

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

Our consolidated financial statements for the years ended December 31, 2014, 2015 and 2016 included in this annual report on Form 20-F have been prepared in accordance with International Financial Reporting Standards, or IFRSs, as issued by the International Accounting Standards Board.

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

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

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, 2012, 2013, 2014, 2015 and 2016. Except for amounts presented in U.S. dollars, the selected historical consolidated statement of financial position data and consolidated statement of profit or loss and other comprehensive income data as of and for the years ended December 31, 2012, 2013, 2014, 2015 and 2016 set forth below are derived from, should be read in conjunction with, and are qualified in their entirety by reference to, our consolidated financial statements and their notes under “Item 18—Financial Statements” and “Item 5—Operating and Financial Review and Prospects” in this annual report. As disclosed above under “Special Note on the Financial Information and Certain Statistical Information Presented in This Annual Report”, our consolidated financial statements as of and for the years ended December 31, 2012, 2013, 2014, 2015 and 2016 have been prepared and presented in accordance with IFRS.

	<b>Year ended December 31,</b>					
	2012	2013	2014	2015	2016	2016
	Rmb	Rmb	Rmb	Rmb	Rmb	US\$
	(in millions, except per share and per ADS data)					
Statement of profit or loss and other Comprehensive Income Data:						
Operating revenues:						
Oil and gas sales	194,774	226,445	218,210	146,597	121,325	17,475
Marketing revenues	50,771	55,495	50,263	21,422	20,310	2,925
Other income	2,082	3,917	6,161	3,418	4,855	699

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

Table of Contents

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

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

Earnings per share (basic) and earnings per ADS (basic) for each year from 2012 to 2016 have been computed, without considering the dilutive effect of the shares underlying our share option schemes by dividing profit by the weighted average number of shares and the weighted average number of ADSs of 44,646,305,984 and (2) 446,463,060, respectively, for 2012, 44,646,825,847 and 446,468,258, respectively, for 2013, and 44,647,455,984 and 446,474,560, respectively, for 2014, 44,647,455,984 and 446,474,560, respectively, for 2015, and 44,647,455,984 and 446,474,560, respectively, for 2016, in each case based on a ratio of 100 shares to one ADS.

Earnings per share (diluted) and earnings per ADS (diluted) for each year from 2012 to 2016 have been computed, after considering the dilutive effect of the shares underlying our share option schemes by using 44,808,042,330 (3) shares and 448,080,423 ADSs for 2012, 44,787,119,089 shares and 447,871,191 ADSs for 2013, 44,734,774,504 shares and 447,347,745 ADSs for 2014, 44,684,819,053 shares and 446,848,191 ADSs for 2015, and 44,659,140,488 shares and 446,591,405 ADSs for 2016.

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

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

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



Table of Contents

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

Period	Noon Buying Rate			
	End	<u>Average<sup>(1)</sup></u>	High	Low
	(Rmb per US\$1.00)			
2012	6.2301	6.2990	6.3879	6.2221
2013	6.0537	6.1412	6.2438	6.0537
2014	6.2046	6.1704	6.2591	6.0402
2015	6.4778	6.2869	6.4896	6.1870
2016	6.9430	6.6549	6.9580	6.4480
October 2016	6.7735	—	6.7819	6.6685
November 2016	6.8837	—	6.9195	6.7534
December 2016	6.9430	—	6.9580	6.8771
January 2017	6.8768	—	6.9575	6.8360
February 2017	6.8665	—	6.8821	6.8517
March 2017	6.8832	—	6.9132	6.8687

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

On March 31, 2017, the noon buying rate between U.S. dollars and Renminbi as set forth in the H.10 weekly statistical release of the Federal Reserve Board was Rmb 6.8832 to US\$1.00.

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

Period	Noon Buying Rate			
	End	<u>Average<sup>(1)</sup></u>	High	Low
	(HK\$ per US\$1.00)			
2012	7.7507	7.7556	7.7699	7.7493
2013	7.7539	7.7565	7.7654	7.7503
2014	7.7531	7.7554	7.7669	7.7495
2015	7.7507	7.7529	7.7686	7.7495
2016	7.7534	7.7618	7.8270	7.7505
October 2016	7.7549	—	7.7600	7.7536
November 2016	7.7566	—	7.7581	7.7546
December 2016	7.7534	—	7.7674	7.7534
January 2017	7.7579	—	7.7580	7.7540
February 2017	7.7627	—	7.7627	7.7575
March 2017	7.7714	—	7.7714	7.7611

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

On March 31, 2017, the noon buying rate between U.S. dollars and Hong Kong dollars as set forth in the H.10 weekly statistical release of the Federal Reserve Board was HK\$7.7714 to US\$1.00.

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

Period	Noon Buying Rate			
	End	<u>Average<sup>(1)</sup></u>	High	Low
	(Cdn\$ per US\$1.00)			
2012	0.9958	0.9994	1.0417	0.971
2013	1.0637	1.0347	1.0697	0.9839
2014	1.1601	1.1083	1.1644	1.0612
2015	1.3839	1.2906	1.3989	1.1725
2016	1.3426	1.3229	1.4592	1.2544
October 2016	1.3403	—	1.3403	1.3105
November 2016	1.3425	—	1.3581	1.3335
December 2016	1.3426	—	1.3555	1.3119
January 2017	1.3030	—	1.3437	1.3030
February 2017	1.3247	—	1.3247	1.3003
March 2017	1.3321	—	1.3504	1.3278

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

Table of Contents

On March 31, 2017, the noon buying rate between U.S. dollars and Canadian dollars as set forth in the H.10 weekly statistical release of the Federal Reserve Board was Cdn\$1.3321 to US\$1.00.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

It is expected that the CO<sub>2</sub> emissions will increase as our production grows. CO<sub>2</sub> emissions from flaring will increase as long as there are no gas gathering systems in place. Over time, we expect that a growing share of our CO<sub>2</sub>

emissions will be subject to supervision and result in an increase in our costs. Furthermore, the public's continued and increased attention to climate changes, including activities organized by non-governmental and political organizations, is likely to lead to implementation of additional regulations on reducing greenhouse gas emissions. If we are unable to find economically viable and publicly acceptable solutions that could reduce our CO<sub>2</sub> emissions for new and existing projects, we may experience additional costs, project delays, reduced production and reduced demand for the Company's products.

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

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

Table of Contents

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

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

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

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

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

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

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

As required by the Iran Threat Reduction and Syria Human Rights Act of 2012, which added a disclosure requirement to the Securities Exchange Act of 1934, we are providing certain information regarding our non-controlled affiliates' activities. To our knowledge, in 2016, China Oilfield Services



Table of Contents

Limited (COSL), one of our non-controlled affiliates, provided certain drilling and other related services in Iran and another non-controlled affiliate of ours was engaged in submarine cable installation and trenching services in Iran. We cannot predict at this time whether U.S. sanctions will be imposed on any of our affiliates.

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

Our exploration and development activities involve inherent risks, including the risk of not discovering commercially productive oil or gas reservoirs and that the wells we drill may not be able to commence production or may not be sufficiently productive to generate a return of our partial or full investments. In addition, approximately 51.2% of our proved reserves were undeveloped as of December 31, 2016. Our future success depends on our ability to develop these reserves in a timely and cost-effective manner. There are various risks in developing reserves, mainly including construction, operational, geophysical, geological and regulatory risks.

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

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

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

Technology and innovation are vital for us in meeting the global energy demands in a competitive environment. For example, we strive to rely on technologies and innovations to enhance our competitiveness in the development of unconventional oil and gas resources, including oil sands, shale oil and gas and coalbed methane, and deep water exploration and development. In the context of an operating environment with stricter environmental compliance standards and requirements, although current knowledge recognise these newly developed technologies as safe to the environment, there still exists unknown or unpredictable elements that may have an impact on the environment. This may in turn harm our reputation and operation, increase our costs or even result in litigations and sanctions. We may face risks in failing to meet the required environmental standards if our technologies in unconventional oil and gas operations are not sophisticated.

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

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

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

Currently, CNOOC indirectly owns or controls 64.44% of our shares. As a result, CNOOC is able to control our board composition, or our Board, determine the time and amount in dividend payments, and

Table of Contents

controls us in various aspects. Under current PRC laws, CNOOC has the exclusive right to enter into PSCs with foreign enterprises for the petroleum resources exploitation in offshore China. Although CNOOC has undertaken to transfer all of its rights and obligations under any new PSCs to us (except for those relating to administrative functions as a state-owned company), our strategies, results of operations and financial position may be adversely affected in the event CNOOC takes actions that favour its own interests over ours.

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

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

Our oil and gas transportation involves marine, land and pipeline transportation, which are subject to hazards such as capsizing, collision, acts of piracy and damage or loss from severe weather conditions, explosions, oil and gas spills and leakages. These hazards could result in serious personal injury or loss of human life, significant damage to property and equipment, environmental pollution, impairment of operations, risk of financial loss and reputation harm. We may not be insured against all of these risks and uninsured losses and liabilities arising from these hazards could reduce the funds available to us for financing, exploration and investment, which may have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development

We were incorporated with limited liability on August 20, 1999 in Hong Kong under the Companies Ordinance (Chapter 32 of the Laws of Hong Kong, the predecessor to Chapter 622 of the Laws of Hong Kong, or the Hong Kong Companies Ordinance, which came into effect on March 3, 2014). Our company registration number in Hong Kong is 685974. Under the Hong Kong Companies Ordinance, we have the capacity, rights, powers and privileges of a natural person of full age and may do anything which we are permitted or required to do by our articles of association or any enactment or rule of law. Our registered office is located at 65<sup>th</sup> Floor, Bank of China Tower, One Garden Road, Central, Hong Kong, and our telephone number is 852-2213-2500.

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

Table of Contents

administration and development of PRC offshore petroleum operations with foreign oil and gas companies.

Prior to CNOOC's reorganization in 1999, CNOOC and its various subsidiaries performed both commercial and administrative functions relating to oil and natural gas exploration and development in offshore China.

In 1999, CNOOC transferred all of its then current operational and commercial interests in its offshore petroleum business, including the related assets and liabilities, to us. As a result and subject to the undertakings below, we and our subsidiaries are the only vehicles through which CNOOC engages in oil and gas exploration, development, production and sales activities both in and outside the PRC.

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

CNOOC has undertaken to us that:

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

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

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

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

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

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

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

The undertakings from CNOOC will cease to have any effect:

- if we become a wholly owned subsidiary of CNOOC;
- if our securities cease to be listed on any stock exchange or automated trading system; or
- 12 months after CNOOC or any other PRC government-controlled entity ceases to be our controlling shareholder.

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



Table of Contents

B. Business Overview

Overview

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

Competitive Strengths

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

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

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

We have a large net proved reserve base spread across offshore China and globally. As of December 31, 2016, we had approximately 3.9 billion BOE of net proved reserves. Our core operating area, offshore China, contributed to approximately 62.5% of our net proved reserves, while overseas contributed to the balance of 37.5%.

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

As of December 31, 2016, approximately 51.2% of our net proved reserves were classified as net proved undeveloped. Our large proved reserve base gives us the opportunity to achieve substantial production growth.

*Sizable operating areas in offshore China with demonstrated exploration potential*

We are the dominant oil and gas producer in offshore China, a region that we believe has substantial exploration upside. As of December 31, 2016, our total major exploration areas acreage in offshore China was approximately 257,000 thousand km<sup>2</sup>. We believe that offshore China is relatively underexplored, compared to other prolific offshore exploration areas such as the shallow water of the U.S. Gulf of Mexico, providing us with substantial exploration upside.

We have maintained an active drilling exploration program, which continues to demonstrate the exploration potential of offshore China. During 2016, we and our foreign partners have together drilled a total of 116 exploratory wells in offshore China, of which 53 were wildcat wells. During the same year, we and our foreign partners made 12 new discoveries in offshore China.

Table of Contents

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

We have a strong record of growing our reserves base for oil and natural gas, both independently and with our foreign partners through PSCs. In recent years, we have been adding reserves and production mainly through independent exploration and development. As of the end of 2016, in offshore China, approximately 84.4% of our net proved reserves were independent and approximately 75.3% of our production came from independent projects.

In 2016, in offshore China, our independent exploration resulted in 12 new discoveries. We also successfully appraised 18 oil and gas structures. On the development front, our major new development projects progressed smoothly with four new projects on stream in offshore China.

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

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

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

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

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

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

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

## Business Strategy

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

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

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

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

Table of Contents

We increase our production primarily through the development of proved undeveloped reserves. As of December 31, 2016, approximately 51.2% of our proved reserves were classified as proved undeveloped, which provides a solid resource base for maintaining stable production in the future.

*Develop natural gas business*

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

*Maintain a prudent financial policy*

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

In 2016, we continued our efforts to lower costs and enhance efficiency through innovation in technology and management. Operating expenses per BOE decreased for the third consecutive year. Under low oil price environment, we attached more importance to cash flow management and maintained a healthy financial position.

Selected Operating and Reserves Data

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

Our reserve data for 2014, 2015 and 2016 were prepared in accordance with the SEC's final rules on "Modernization of Oil and Gas Reporting", which became effective for accounting periods ended on or after December 31, 2009.

<b>Year ended December 31,</b>		
<b>2014</b>	<b>2015</b>	<b>2016</b>

**Net Production<sup>(2)</sup>:**

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

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

(2) Including our interest in equity method investees.

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

Table of Contents

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

*Summary of Oil and Gas Reserves*

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

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

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



Table of Contents

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

**Total Net Proved Crude and Liquids Reserves**  
(mmbbls)

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

(1) Including Synthetic oil 155.7 mmbbls.

(2) Including Synthetic oil 144.8 mmbbls.

Table of Contents**Total Net Proved Natural Gas Reserves  
(bcf)**

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

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

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

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

*Proved Reserves*

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

Table of Contents

The changes in our proved reserves mainly include:

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

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

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

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

1 The production of 476.9 million BOE in 2016.

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

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

The changes in our proved undeveloped reserves mainly include:

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

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

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

Offshore China: the discoveries and extensions of oil and gas reserves in the amount of 298.8 million BOE, which are primarily attributable to fields such as Luda16-3, Caofeidian12-6, Lingshui25-1, Lingshui18-1 and Lufen15-1 etc.; and

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

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

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

As of December 31, 2016, 38.8 million BOE of our proved undeveloped reserves were first booked before 2011. These proved undeveloped reserves were mainly located in East China Sea, Bohai and Western South China Sea, including (i) 7.7 million BOE in East China Sea, which are under construction; (ii) 6.5 million BOE in Bohai, including Qinghuangdao 33-1S oil field which is scheduled to come on stream in 2019; and (iii) 24.6 million BOE in Western South China Sea, including Wenchang 9-2/9-3/10-3 gas fields whose ODP was amended due to gas market change and expected to be online in 2018. The development of proved undeveloped reserves relating to the above projects was not completed

## Table of Contents

within five years from initial booking due to the specific circumstances associated with the relevant development activities and delivery obligations. The Company books proved reserves for which development is scheduled to commence after more than five years only if these proved reserves satisfy the SEC's standards for attribution of proved status and the Company's management has reasonable certainty that these proved reserves will be produced.

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

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

For 2014, 2015 and 2016, approximately 52%, 62% and 60 % respectively, of our reserves were evaluated by our internal reserves evaluation staff, and the remaining were based upon estimates prepared by independent petroleum engineering consulting companies and reviewed by us. Except as otherwise stated, all amounts of reserves in this report include our interests in equity method investees.

In 2016, we engaged Ryder Scott Company, L.P., Gaffney, Cline & Associates (Consultants) Pte Ltd. and RPS as independent third party consulting firms to perform annual estimates for our net proved oil and gas reserves under our consolidated subsidiaries. For each independent third party consulting firm, a report of third party letter has been prepared which summarizes the work undertaken, the assumptions, data, methods and procedures they used and provides their reserves estimate. These reports have been included as appendices to this document. Of the total net proved oil and gas reserves evaluated by our internal reserve evaluation staff, we engaged independent third party consulting firms Ryder Scott Company, L.P. and McDaniel & Associates Consultants Ltd. to perform annual audits for over 21% of the internally evaluated reserves to provide validation of our processes and estimates. For each independent third party consulting firm, a report of third party letter has been prepared which summarizes the work undertaken, the assumptions, data, methods and procedures they used and concludes with their opinion concerning the reasonableness of the estimated reserves quantities or reserves processes. These reports have been included as appendices to this document.

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

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

The RMC's main responsibilities are to:

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

## Table of Contents

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

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

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

## Exploration, Development and Production

### *Summary*

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

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

In its PSC operations, CNOOC, the Company's controlling shareholder, has the exclusive right to explore and develop oil and natural gas in offshore China in cooperation with foreign partners through PSCs. CNOOC has transferred to the Company all of its rights and obligations under all the PSCs (except those relating to its management and regulatory function as a state-owned company), including new PSCs that will be signed in the future.



After years of hard work, we have established our presence in more than 20 countries and regions. Our overseas assets account for over 50% of the Company's total assets. With its diversified portfolio of high-quality assets, the Company actively participates in numerous world-class oil and gas projects, becoming one of the world's leading industry players. Currently, the Company holds interests in oil and natural gas blocks in Indonesia, Australia, Nigeria, Uganda, Argentina, the U.S., Canada, the United Kingdom, Brazil and various other countries. As of the end of 2016, approximately 37.5% of the Company's net proved reserves and approximately 34.8% of its net production were derived from overseas.

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

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

## Table of Contents

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

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

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

## *Exploration*

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

*Engineering Construction, Development and Production*

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

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

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

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

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

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

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

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

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

## Regional Overview

### Offshore China

#### *Bohai*

Bohai is the most important crude oil producing area for the Company. The crude oil produced in this region is mainly heavy oil. As of the end of 2016, the reserve and daily production volume in Bohai were 950.2 million BOE and 477,380 BOE/day, respectively, representing approximately 24.5% and 36.6% of the Company's total reserves and daily production, respectively. The operation area in Bohai is mainly shallow water with a depth of 10 to 30 meters.

Bohai has rich oil and gas resources and has been one of the Company's primary areas for exploration and development. In 2016, the Company made seven successful discoveries in Bohai, namely

## Table of Contents

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

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

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

### *Western South China Sea*

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

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

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

### *Eastern South China Sea*



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

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

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

Table of Contents

*East China Sea*

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

Overseas

*Asia (excluding China)*

Asia (excluding China) was the first overseas region that the Company entered into and has become one of its major overseas oil and gas producing areas. Currently, the Company holds oil and gas assets mainly in Indonesia and Iraq. As of the end of 2016, the reserves and daily production volume derived from Asia (excluding China) reached 245.0 million BOE and 75,780 BOE/day, respectively, representing approximately 6.3% and 5.8% of the Company's total reserves and daily production, respectively.

*Indonesia*

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

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

*Iraq*

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

In 2016, the Company continuously drilled development wells, increased workload, implementing water injection plan and reinforced management of operation and maintenance under the Iraq project, resulting in a steady increase of daily net production to approximately 33,000 barrels per day.

### *Oceania*

Currently, the Company's oil and gas assets in Oceania are mainly located in Australia and Papua New Guinea. As of the end of 2016, the reserves and daily production volume derived from Oceania reached 77.4 million BOE and 26,107 BOE/day, respectively, representing approximately 2.0% and 2.0% of the Company's total reserves and daily production, respectively.

### *Australia*

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

In 2016, the North West Shelf LNG Project generated stable production and achieved favorable economic returns.

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

Table of Contents

*Other Regions in Oceania*

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

*Africa*

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

*Nigeria*

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

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

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

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

### *Uganda*

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

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

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

### *Other Regions in Africa*

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

### *North America*

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

Table of Contents

reserves and daily production, respectively.

*The U.S.*

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

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

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

*Canada*

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

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

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

*Other Regions in North America*

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

*South America*

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

*Argentina*

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

## Table of Contents

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

### *Brazil*

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

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

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

### *Other Regions in South America*

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

### *Europe*

The Company holds interests in several oil and gas fields such as Buzzard and Golden Eagle in the North Sea. As of the end of 2016, the Company's reserves and daily production volume derived from Europe reached 81.8 million BOE and 104,473 BOE/day, respectively, representing approximately 2.1% and 8.0% of the Company's total reserves and daily production, respectively.

### *United Kingdom*



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

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

#### *Other Regions in Europe*

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

#### Other Oil and Gas Data

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

The following table sets forth our net production, average sales price and average production cost (excluding ad valorem and severance taxes) in the years of 2014, 2015 and 2016.

Table of Contents

	Net Production			Average Sales Price		Average
	Total	Crude and Liquids	Gas	Crude and Gas		Production
				Liquids		Cost
(BOE/day)	(Bbls/day)	(Mmcf/day)	(US\$/bbl)	(US\$/Mmcf)	(US\$/BOE)	
2016						
Offshore China						
Bohai	477,380	455,002	134.3	—	—	—
Western South China Sea	144,835	98,351	273.9	—	—	—
Eastern South China Sea	213,835	182,848	185.9	—	—	—
East China Sea	12,273	3,177	54.6	—	—	—
Subtotal	848,322	739,378	648.7	42.88	6,663	6.36
Overseas						
Asia (excluding China)	75,780	48,577	150.2	33.17	6,243	11.45
Oceania	26,107	4,278	111.4	40.97	3,176	7.57
Africa	80,297	80,297	—	42.90	—	5.72
North America (excluding Canada)	69,290	48,078	127.3	34.81	2,390	4.63
Canada	48,448	40,304	48.9	28.24	1,345	24.24
South America	926	926	—	32.48	—	8.14
Europe	104,473	98,672	34.8	41.78	4,061	6.83
Subtotal	405,320	321,131	472.5	38.00	3,815	9.23
Total	1,253,643	1,060,509	1,121.2	41.40	5,463	7.29
Equity method investees	49,280	22,592	155.0	—	—	—
2015						
Offshore China						
Bohai	500,719	477,904	136.9	—	—	—
Western South China Sea	143,676	89,958	314.3	—	—	—
Eastern South China Sea	229,679	190,525	234.9	—	—	—
East China Sea	10,271	2,632	45.8	—	—	—
Subtotal	884,346	761,019	731.9	53.05	8,175	7.64
Overseas						
Asia (excluding China)	70,987	45,640	140.0	46.82	7,615	15.19
Oceania	21,673	3,350	93.5	53.40	3,166	8.19
Africa	83,677	83,677	—	51.01	—	6.42
North America (excluding Canada)	76,915	54,692	134.6	34.92	272	5.74
Canada	58,115	46,712	68.4	45.14	1,704	30.96
South America	1,110	1,110	—	40.81	—	10.73
Europe	110,842	103,258	45.5	51.61	5,843	10.62
Subtotal	423,319	338,440	482.1	47.21	3,704	12.38
Total	1,307,664	1,099,459	1,214.0	51.27	6,395	9.18
Equity method investees	50,357	24,588	149.6	—	—	—
2014						
Offshore China						



Table of Contents

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

*Drilling and Other Exploratory and Development Activities*

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

	Net Exploratory Wells Drilled			Net Development Wells Drilled		
	Total	Productive	Dry	Total	Productive	Dry
2016						
Offshore China						
Independent						
Bohai	56	41	15	87.0	87.0	—
Western South China Sea	27	9	18	24.0	24.0	—
Eastern South China Sea	24	7	17	22.0	22.0	—
East China Sea	4	1	3	—	—	—
Subtotal	111	58	53	133.0	133.0	—
PSCs						
Bohai	1	—	1	1.5	1.5	—
Western South China Sea	3	—	3	—	—	—
Eastern South China Sea	1	1	—	—	—	—
East China Sea	—	—	—	6.5	6.5	—
Subtotal	5	1	4	8.0	8.0	—
Overseas						

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

Table of Contents

## 2015

## Offshore China

## Independent

Bohai	50	35	15	129	129	—
Western South China Sea	31	12	19	32	32	—
Eastern South China Sea	27	4	23	40	39	—
East China Sea	6	4	2	—	—	—
Subtotal	114	55	59	201	200	—

## PSCs

Bohai	3	—	3	40.0	40.0	—
Western South China Sea	3	—	3	0.6	0.6	—
Eastern South China Sea	1	—	1	3.0	3.0	—
East China Sea	2	—	2	4.0	4.0	—
Subtotal	9	—	9	47.6	47.6	—

## Overseas

Asia (excluding China)	—	—	—	20.4	20.4	—
Oceania	—	—	—	—	—	—
Africa	1.2	1.2	—	5.9	5.9	—
North America	0.5	—	0.5	174.4	174.4	—
South America	0.6	0.6	—	0.4	0.4	—
Europe	0.7	—	0.7	4	3	1
Subtotal	2.9	1.7	1.1	205.1	204.1	1

## 2014

## Offshore China

## Independent

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

## PSCs

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

## Overseas

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



Table of Contents***Present Activities***

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

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

***Oil and Gas Properties, Wells, Operations, and Acreage***

The following table sets forth our productive wells, developed acreage and undeveloped acreage as of December 31, 2016.

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



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

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

**Delivery Commitment**

We have certain delivery commitments under the take-or-pay contracts for sales of natural gas. In 2016, the annual sales from our largest gas contract contributed to only approximately 3% of our total oil

Table of Contents

and gas sales and the total revenues from gas sales accounted for approximately 10.2 % of our total revenues in 2016. Moreover, the total gas quantities that are subject to delivery commitments under existing contracts or agreements are not significant to the Company. Therefore, we believe that we did not have any material delivery commitment as of the end of 2016.

**Sales and Marketing***Sales of Crude Oil*

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

The Company's crude oil sales prices are mainly determined by the prices of international benchmark crude oil of similar quality, with certain premiums or discounts subject to prevailing market conditions. Although the prices are quoted in U.S. dollars, customers in China usually pay by Renminbi. The Company currently sells three types of crude oil in China, namely, heavy crude, medium crude and light crude, which are benchmarked by Duri, Daqing, and Tapis, respectively, all of which are the benchmarking crude oil prices in the Far East. Beginning in 2017, the benchmark price for crude oil sold in China is changed to Brent. The Company's major customers in China are Sinopec, PetroChina and CNOOC. The crude oil produced overseas and sold in the international markets is benchmarked at the Brent and WTI oil prices.

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

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

		Year ended December 31,		
		2014	2015	2016
<b>Sales and Marketing Volumes (mmbbls)<sup>(1)</sup></b>	Benchmark Prices			
Light Crude	PLATTS Tapis <sup>(2)</sup>	10.6	22.9	20.8

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

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

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

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

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

### ***Sales of Natural Gas***

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

Table of Contents

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

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

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

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

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

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

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

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

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

#### Procurement of Services

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

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

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

Table of Contents

**Research and Development**

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

*Major Scientific Project Development*

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

*Innovative Development of Key Technologies*

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

Health, Safety and Environmental Protection (“HSE”)

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

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

## Table of Contents

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

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

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

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

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

## **Operating Hazards and Uninsured Risks**

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



The Company further strengthened safety in production, intensifying its efforts to identify and eliminate potential risks, giving special attention to preventing operational accidents in key and high-risk areas. It also improved the implementation of safety standards and deepened safety awareness across all levels of the organization. In 2016, the Company completed full system safety inspections, including the special supervision of safety production, a special safety check on storage tank fields and a year-end major check on safety production. For HSE risks in particular operating units, the Company organized special examinations. Through examinations and inspections, the Company effectively met CNOOC Limited's management requirements, urged affiliated units to act in accordance with the law, and promoted the continuous improvement of HSE management. In 2016, 539 inspection teams were organized to conduct safety inspections in 1,027 working units, during which 10,498 hazards were discovered and eliminated.

## Table of Contents

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

Based on hazard identification and risk analysis, the Company continued to improve its emergency management mechanisms. In 2016, the Company further refined the crisis management plan, integrated emergency management information systems, developed a mobile application for emergency management, improved the ICS system, and strengthened emergency drills to improve the system's risk resistance and reduce the effect of emergencies to the greatest extent possible.

As part of the protection against operating hazards, we maintain insurance coverage against some, but not all, potential losses, including the loss of wells, blowouts, pipeline leakage or other damage, certain costs of pollution control and physical damages on certain assets. Our insurance coverage includes offshore oil and gas field properties all risks insurance and construction insurance, protection and indemnity insurance, operator extra expenses insurance, marine cargo insurance and third party liabilities and comprehensive general liability insurance. The operators of the projects in which we participate overseas are required by local law to purchase insurance policies customarily taken out by international oil and gas companies.

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

As of December 31, 2016, we have purchased a number of insurance policies with varying policy coverage and limits to meet our risk management requirements and cover our potential liabilities arising from accidents at any of our offshore and onshore locations. We maintain insurance for costs relating to property damage to our facilities, control of well including drilling relief wells, removal of wreck, pollution clean-up, liability for bodily injury and property damage to third parties. The policy limits and other terms and conditions of these insurance policies comply with all applicable laws and regulations in the PRC and other relevant jurisdictions. However, we may not have sufficient coverage for some of the risks we face, either because insurance is not available or because of high premium costs. See "Item 3—Key Information—Risk Factors—Risks Relating to Our Operations—Extreme weather conditions may have a material adverse impact on us and could result in losses that are not covered by insurance."

We have maintained varied insurance policies for our domestic assets and operational insurance policies and construction insurance policies, with different policy limits and deductibles. We also purchase operator's extra-expense

up to US\$100 million and third-party liabilities insurance up to US\$200 million for our working interests. As for deep-water wells, we are insured for our working interest up to US\$250 million for costs related to control of the well. The deductible for each insurance policy mainly ranges from US\$2 million to US\$5 million for different types of insurance policies. For overseas operation and assets, we are insured for amounts up to the replacement cost value of our assets for property damage and up to US\$400 million for operators extra expense. Additionally, we purchase insurance covering liability for bodily injury and property damage to third parties with limits of up to US\$485 million. This cover protects against liability that arises from sudden and accidental pollution or from other causes. For declared deep-water wells, we are insured for our working interest share of up to US\$750 million for costs related to control of the well.

For all of our offshore operations, we have conducted comprehensive environmental impact evaluations and adopted emergency plans to deal with potential oil spills. Pursuant to the requirements of

## Table of Contents

the PRC government, the evaluations and plans for our offshore operations in the PRC have been reviewed and approved by the industry experts and have been filed with the PRC government. The evaluations and plans for our offshore operations overseas have complied with the legal and regulatory requirements of the relevant local jurisdictions.

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

## Competition

### *Domestic Competition*

The oil and gas industry is very competitive. We compete in the PRC and in international markets for customers as well as capital to finance our exploration, development and production activities. Our principal competitors in the PRC are PetroChina and Sinopec.

We price our crude oil on the basis of comparable crude oil prices in the international market. The majority of our customers for crude oil are refineries affiliated with CNOOC, Sinopec and PetroChina to which we have been selling crude oil, from time to time. Based on our past experiences with these refineries, we believe that we have established stable business relationships with them.

We are the dominant player in the oil and gas industry in offshore China and, through CNOOC, are the only company permitted to engage in oil and gas exploration and production in offshore China with foreign parties under PSCs. We may face increasing competition in the future from other oil and gas companies in obtaining new PRC offshore oil and gas properties, or, as a result of changes in current PRC laws or regulations permitting an expansion of existing companies' activities or new entrants into the industry.

As part of our business strategy, we intend to expand our natural gas business to meet rapidly increasing domestic demand. Our principal competitors in the PRC natural gas market are PetroChina and Sinopec.

*Foreign Competition*

Imports of crude oil are subject to import licenses, handling fees and other restrictions. The PRC government also restricts the availability of foreign exchange with which the imports must be purchased. The combination of licenses and restrictions on foreign exchange has, to some extent, limited the competition from imported crude oil.

As a result of China joining the World Trade Organization as a full member on December 11, 2001, it is required to further reduce its import tariffs and other trade barriers over time, including with respect to certain categories of petroleum and crude oil. At present, CNOOC, Sinopec, PetroChina and several other domestic state-owned enterprises have received permission to import crude oil on their own. Foreign owned or foreign invested entities and other non-state-owned enterprises are subject to certain import quotas.

Table of Contents

## Segment Information

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

	Year ended December 31,		2015		2016	
	2014		Rmb in	%	Rmb in	%
	millions	%	millions	%	millions	%
Exploration and production	223,741	81.5	149,582	87.3	125,611	85.7
Trading businesses	50,263	18.3	21,438	12.5	20,310	13.9
Corporate and elimination	630	0.2	417	0.2	569	0.4
Total operating revenues	274,634	100.0	171,437	100.0	146,490	100.0

We are mainly engaged in the exploration, development, production and sales of crude oil and natural gas primarily in offshore China. For the year ended December 31, 2016, approximately 70.2% of our total revenue was sourced in the PRC. Our overseas activities are mainly conducted in Canada, the United States of America, United Kingdom, Nigeria, Argentina, Indonesia, Uganda, Iraq, Brazil and Australia, etc.

**Regulatory Framework in the PRC***Government Control*

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

We explore and develop our offshore China reserves under exploration and production licenses granted by the PRC government. Exploration licenses, which are generally granted for individual blocks, require holders to make an annual minimum exploration investment and pay an annual exploration license fee. The annual minimum investment and license fees are based on the area under license and increase over the life of the exploration license. Production licenses, which are generally granted for individual fields, require holders to pay an annual production right usage fee based on the area under license. All of our proved reserves in offshore China are under production licenses granted by the PRC government.

Since the early 1980s, the PRC government has adopted policies and measures to encourage the development of the offshore petroleum industry. These policies and measures, which were applicable to CNOOC's operations prior to the reorganization, became applicable to our operations in accordance with an undertaking agreement between us and CNOOC. As approved by the PRC government, these policies and measures have provided us with benefits mainly including the exclusive right to explore for, develop and produce petroleum in designated areas in offshore China in cooperation with foreign enterprises and to sell petroleum in China, and the flexibility to set our prices in accordance with international market prices and determine where to sell our crude oil.

Table of Contents

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

*Fiscal Regimes for Independent Operations*

*Taxation*

We are subject to income taxes on an entity basis on income arising in or derived from the tax jurisdictions in which we and each of our subsidiaries are domiciled and operate. Our profits arising in or derived from Hong Kong are subject to tax at a rate of 16.5%.

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

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

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

The PRC corporate income tax is levied based on taxable income, including income from both operations and other components of earnings, as determined in accordance with the generally accepted accounting principles in the PRC, or PRC GAAP.

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

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



VAT at the rates from 13% to 17% on taxable sales under independent oil and gas fields since May 1, 2016 under “Provisional Regulations on VAT of the PRC” and relevant detailed rules according to the “Circular on Certain Policies on the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax” (Cai Shui [2016] No.39), which replaced the production tax at the rate of 5% on production under independent oil and gas fields before May 1, 2016.

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

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

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

Export tariff at the rate of 5% on the export value of petroleum oil;

Table of Contents

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

We calculate our deferred tax to account for the temporary differences between our tax base, which is used for income tax reporting and prepared in accordance with applicable tax guidelines, and our accounting base, which is prepared in accordance with applicable financial reporting requirements. The temporary differences include accelerated amortization allowances for oil and gas properties, which are partially offset by provisions for dismantlement and for impairment of property, plant and equipment and write-off of unsuccessful exploratory drilling. As of December 31, 2014, 2015 and 2016, we had Rmb (14,312) million, Rmb 1,948 million and Rmb 19,174 million (US\$2,761 million) respectively, in net deferred tax assets/(liabilities). See note 11 to our consolidated financial statements included elsewhere in this annual report.

*Royalty*

Royalties paid to the PRC government are based on our gross production from both independent operations and oil and gas fields under PSCs. The amount of the royalties varies up to 12.5% based on the annual production of the relevant property. The PRC government has provided us, among other companies, with a royalty exemption in each field for up to one million tons, or approximately seven million BOE, per year for our crude oil production and for up to 2 billion cubic meters (approximately 70.6 billion cubic feet or 11.8 million BOE) per year for our natural gas production. The limits in these exemptions apply to our total production from both independent properties and properties under PSCs.

In 2011, the State Council of the PRC amended the Provisional Regulation of PRC Resource Tax. As a result, since November 1, 2011, the royalties payable to the PRC government have been replaced by resource tax, currently at 6% (5% before December 1, 2014) of the sales revenues from crude oil and natural gas. The PSCs that were signed before November 1, 2011 are not affected by the amendment of the Provisional Regulation of PRC Resource Tax and we continue to pay royalties to the PRC government for these PSCs.

*Special Oil Gain Levy*

In March 2006, the PRC government imposed a special oil gain levy at progressive rates from 20% to 40% on any income derived from sales of locally produced crude oil by an oil exploration and production company at a price that exceeds US\$40 per barrel. In December 2011, the PRC government increased the threshold of the special oil gain levy

from US\$40 per barrel to US\$55 per barrel, with effect from November 1, 2011. In December 2014, the PRC government has decided to increase the threshold of the special oil gain levy from US\$55 per barrel to US\$65 per barrel, with effect from January 1, 2015. The special oil gain levy is collected on a quarterly basis. For the years ended December 31, 2014, 2015 and 2016 we incurred approximately Rmb 19,072 million, Rmb 59 million and nil for the Special Oil Gain Levy.

As international oil prices, the exchange rate of Renminbi and our crude oil production fluctuate, we cannot ascertain the full impact of the Special Oil Gain Levy going forward.

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

<b>Realized Oil Price (US\$/bbl)</b>	<b>Rate of the Levy</b>
65-70 (Include 70)	20%
70-75 (Include 75)	25%

Table of Contents

75-80 (Include 80)	30%
80-85 (Include 85)	35%
Above 85	40%

*Fiscal Regimes for PSC Operations*

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

Under our PSCs, production of crude oil and gas is allocated among us, the foreign partners and the PRC government according to a formula contained in the contracts. Under this formula, a percentage of production under our PSCs is allocated to the PRC government as its share oil.

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

Under PRC law, only a state-owned company, such as CNOOC, may negotiate a PSC with foreign enterprises. CNOOC assigned to us all of its rights and obligations under then-existing PSCs in 1999 and has undertaken to assign to us its future PSCs except for those relating to CNOOC's administrative functions as a state-owned oil company.

*Bidding Process*

CNOOC and foreign enterprises enter into new PSCs primarily through bidding process organized by CNOOC and direct negotiation. During a typical bidding process, CNOOC determines which blocks are open for bidding and invites foreign enterprises to bid. Potential bidders are required to provide information, including minimum work commitments, exploration expenditures and percentages of share oil payable to the PRC government; and CNOOC evaluates each bid and negotiates a PSC with the successful bidder. CNOOC has agreed to allow us to participate in all negotiations for new PSCs.

*Terms of PSCs*

*Term of Length.* PSCs typically last for 30 years: (1) the *exploration* period is generally divided into three phases, with three years, two years and two years, respectively. During the *exploration* period, exploratory and appraisal work is conducted in order to discover petroleum and to enable the parties to determine the commercial viability of any petroleum discovery; (2) the *development* period begins when the relevant PRC regulatory authorities have approved the overall development program and ends when the design, construction, installation, drilling and related research work for the realization of petroleum production as planned have been completed; and (3) the *production* period begins when commercial production commences and usually lasts for 15 years for oil and 20 years for natural gas.

*Minimum Work Commitment.* The foreign partners must complete a minimum amount of work during the exploration period, generally including: drilling a minimum number of wildcat(s); acquiring a fixed amount of seismic data; and incurring a minimum amount of exploration expenditures. Foreign partners may be required to pay all exploration costs, which can be recovered according to the production sharing formula after commercial discoveries are made and production begins. Foreign partners are required to relinquish 25% of the contract area, excluding the development and production areas, to CNOOC at the end of each phase of the exploration period and to relinquish all areas, excluding the development areas, production areas and areas under evaluation, to CNOOC at the end of the exploration period.

Table of Contents

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

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

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

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

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

paid to the PRC government.

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

We calculate and pay oil and gas production tax and royalty (or resource tax) to the PRC government on a monthly basis and make adjustments for any overpayment or underpayment at the end of the year. The foreign partners have the right to either take possession of their allocable remainder oil for sale in the international market, or entrust us to sell such crude oil on their behalf in the PRC market.

*Management and Operator.* A party will be designated as the operator to undertake the execution of the petroleum operations which includes preparing work programs and budgets, procuring equipment and materials relating to operations, establishing insurance programs, and issuing cash-call notices to the parties to the PSC to raise funds.

A joint management committee will be set up to perform supervisory functions. Each of us and the foreign partners has the right to appoint an equal number of representatives to form the joint management committee. We designate the chairman of the committee and the foreign partners as a group designate the vice chairman. The joint management committee has the authority to make decisions on matters including reviewing and approving operational and budgetary plans, determining the commercial viability of each petroleum discovery, reviewing and adopting the overall development program; and approving significant procurements and expenditures as well as insurance coverage.

## Table of Contents

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

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

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

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

## Regulatory Framework Overseas

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

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

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



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

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

Table of Contents

**Taxation**

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

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

**Environmental Regulation**

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

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

The PRC national and local environmental laws and regulations impose fees for the discharge of waste substances above prescribed levels, require the payment of fines for serious violations and provide that the PRC national and local governments, State Oceanic Administration or national and local environmental protection bureaus may at their own discretion close or suspend any facility which fails to comply with orders requiring it to cease or cure operations causing environmental damage.

The PRC and overseas environmental laws require offshore petroleum investors to pay abandonment costs. Our financial statements include provisions for costs associated with the dismantlement of oil and gas fields as of December 31, 2014, 2015 and 2016 of approximately Rmb 52,889 million, Rmb 50,063 million and Rmb 50,888 million (US\$7,329 million), respectively.

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

Environmental protection and prevention costs and expenses in connection with the operation of offshore petroleum exploitation are covered either under PSCs, or by us for independent operations. Each platform has its own environmental protection and safety staff responsible for monitoring and operating the environmental protection equipment. However, no assurance can be given that the PRC government will not impose new or stricter regulations which would require additional environmental protection expenditures.

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

## Table of Contents

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

## **Patents and Trademarks**

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

## **Employees and Employee Benefits**

During the years ended December 31, 2014, 2015 and 2016, we employed 21,046 persons, 20,585 persons and 19,718 persons, respectively. Of the 19,718 employees we employed as of December 31, 2016, approximately 74.9 % were involved in oil exploration, development and production activities, approximately 3.4 % were involved in accounting and finance work and the remainder were senior management and others. Part of the workers for the operation of the oil and gas fields, maintenance and ancillary service are hired on a contract basis.

We have a union that protects employees' rights, organizes educational programs, assists in the fulfillment of economic objectives, encourages employee participation in management decisions, and assists in mediating disputes between us and individual employees.

We have not been subject to any strikes or other labor disturbances and believe that relations with our employees are good.

The total remuneration of employees includes salary, bonuses and allowances. Bonus for any given period is based primarily on individual and our performance. Employees also receive health benefits and other miscellaneous subsidies.

We have implemented an occupational health and safety program similar to that employed by other international oil and gas companies. Under this program, we closely monitor and record health and safety incidents and promptly report them to government agencies and organizations. We believe this program is broadly in line with the United States government's Occupational Safety & Health Administration guidelines.

All full-time employees in the PRC are covered by a government-regulated pension and are entitled to an annual pension at their retirement dates. The PRC government is responsible for the pension liabilities to these retired employees under this government pension plan. The actual pension payable to each retiree is subject to a formula based on the status of the individual pension account, general salary and inflation movements. We are required to make monthly contributions to the government pension plan at rates ranging from 11% to 22% of our employees' salaries, with each employee contributing 8% of his or her salary for retirement. The contributions vary from region to region.

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

For further details regarding retirement benefits, see note 30 to our consolidated financial statements included elsewhere in this annual report.

As an oil and gas exploration and production company operating in highly competitive markets, we depend in large part on our employees for effective and efficient operations. We devote significant resources to train our employees. During 2016, we held 64 core training workshops, which were attended by approximately 3,654 person-times of participants. To ensure smooth implementation of our overseas strategy, we have established an international human resources system to attract and retain talent in the international market. In order to enhance the planning and budget control of our labor costs, we have installed target benchmarks in performance appraisals to guide various business units to cut their labor costs and to increase the accuracy of their budgets.

Table of Contents

C. Organizational Structure

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

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

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

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

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

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

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

d. Property, plants and equipment

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



Table of Contents

ITEM 4A. unresolved staff comments

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Operating Results

*You should read the following discussion and analysis in conjunction with our consolidated financial statements, selected historical consolidated financial data and operating and reserves data, in each case together with the accompanying notes, contained in this annual report. Certain statements set forth below constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995. See “Forward-Looking Statements.”*

Overview

Our revenues and profitability are largely determined by our production volume and the prices we realize on our crude oil and natural gas, as well as the costs of our exploration and development activities. Although crude oil prices depend on various market factors and have been volatile historically, our total net production volume has increased over the past few years.

**Factors Affecting Our Results of Operations**

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

Oil and Gas Prices

Substantially all of our revenues are from the sales of oil and natural gas. Therefore, one of the primary factors affecting our revenues is the prices for crude oil and natural gas. Crude oil prices are subject to fluctuations due to market uncertainty and various other factors that are beyond our control, including, but not limited to overall



economic conditions, supply and demand dynamics for crude oil and natural gas, political developments, the ability of petroleum producing nations to set and maintain production levels and prices, the price and availability of other energy sources and weather conditions.

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

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

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

Table of Contents

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

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

## Production and Sales Volumes

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

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

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

	Year ended December 31,		
	2014	2015	2016
Net production of crude oil (bbl/day) <sup>(1)</sup>	955,647	1,124,047	1,083,101
Net production of natural gas (mmcf/day) <sup>(1)</sup>	1,330.1	1,363.6	1,276.2

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(1) Including our interest in equity method investees.

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

## Critical Accounting Policies

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

### *Oil and Gas Properties*

For oil and gas exploration, we have adopted the successful efforts method of accounting. As a result, we capitalize initial acquisition costs of oil and gas properties. Impairment of initial acquisition costs is recognized as exploration expenses based on exploratory experience and management judgment which includes, but is not limited to, that any dry hole has been drilled on the property; that the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale; and that the period during which we have the right to explore in the specific area has expired or will expire in the near future and is not expected to be renewed. Upon discovery of

## Table of Contents

commercial reserves, we transfer acquisition costs to proved properties and capitalize the costs of drilling and equipping successful exploratory wells, all development expenditure on construction, installation or completion of infrastructure facilities such as platforms, pipelines, processing plants and the drilling of development wells, and the building of enhanced recovery facilities, including those renewals and betterments that extend the economic lives of the assets, and the related borrowing costs.

The costs incurred in installing enhanced recovery facilities are capitalized together with the development costs of the relevant oil and gas properties. We treat the costs of unsuccessful exploratory wells and all other exploration costs as expenses when incurred. Productive oil and gas properties and other tangible and intangible costs of producing properties are depreciated using the unit-of-production method on a property-by-property basis under which the ratio of produced oil and gas to the estimated remaining proved developed reserves is used to determine the provision of depreciation, depletion and amortization. Common facilities that are built specifically to service production directly attributed to designated oil and gas properties are amortized based on the proved developed reserves of the respective oil and gas properties on a pro-rata basis. Common facilities that are not built specifically to service identified oil and gas properties are depreciated using the straight-line method over their estimated useful lives. Costs associated with significant development projects are not depreciated until commercial production commences and the reserves related to those costs are excluded from the calculation of depreciation. We amortize capitalized acquisition costs of proved properties by the unit-of-production method on a property-by-property basis based on the total estimated proved reserves.

We recognized the amount of the estimated cost of dismantlement discounted to its present value using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Changes in the estimated timing of dismantlement or dismantlement cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. We included the unwinding of the discount on the dismantlement provision as a finance cost.

### *Reserves Estimation*

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

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

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

We make an assessment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, or when there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. In any event, we would make an estimate of the asset's recoverable amount, which is calculated as the higher of the asset's value in use or its fair value less costs to sell. We recognize an impairment loss only if the carrying amount of an asset exceeds its recoverable amount. We charge an impairment loss to the consolidated statement of profit or loss and other comprehensive income in the period in which it arises. A reversal of an impairment loss is credited to the consolidated statement of profit or loss and other comprehensive income in the period in which it arises.

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

## Table of Contents

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

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

The sensitivity analysis for the impairment testing involves estimates and judgments to consider numerous assumptions comprehensively. Those assumptions interact on each other and interrelate with each other complexly and do not have fixed patterns along with the changes in price. Accordingly, the Company believes that the preparation of the sensitivity analysis for the impairment testing will be impracticable. Changes in assumptions could affect impairment charges and reversals in income statement, and the carrying amounts of assets in balance sheet.

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

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

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

## ***Joint Arrangements***

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

### ***Joint Operations***

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

### ***Joint Venture***

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

## Table of Contents

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

### *Fair Value*

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

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

### *Provisions*

We recognize a provision when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation provided that a reliable estimate can be made of the amount of the obligation. When the effect of discounting is material, the amount recognized for a provision is the present value at the reporting date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated statement of profit or loss and other comprehensive income.

We make provisions for dismantlement based on the present value of our future costs expected to be incurred, on a property-by-property basis, in respect of our expected dismantlement and abandonment costs at the end of the related oil exploration and recovery activities.

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

### *Deferred Tax*



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

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

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

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

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

Table of Contents***Recognition of Revenue from Oil and Gas Sales and Marketing***

We recognize revenue when it is probable that the economic benefits will flow to us and when the revenue can be measured reliably. For oil and gas sales, our revenues represent the invoiced value of sales of oil and gas attributable to our interests, net of royalties and obligations to governments and other mineral interest owners. We have adopted a net basis of reporting for royalties and government share oil when we have no legal rights to the underlying reserves. As such, we act as an agent for the relevant governments or royalty holders when we sell the portion of oil and gas on their behalves. Sales are recognized when the significant risks and rewards of ownership of oil and gas have been transferred to customers. Oil and gas lifted and sold by us above or below our participating interests in any PSC result in overlifts and underlifts. We record these transactions in accordance with the entitlement method under which overlifts are recorded as liabilities and underlifts are recorded as assets at year-end oil prices. Settlement will be in kind or in cash when the liftings are equalized or in cash when production ceases. We enter into gas sales contracts with customers which often contain take-or-pay clauses. Under these contracts, we make a long term supply commitment in return for a commitment from the buyer to pay for minimum quantities, whether or not it takes delivery. These commitments contain protective provisions, such as force majeure provision, and adjustment provisions. If a buyer has a right to get a “make up” delivery at a later date, revenue recognition is deferred. If no such option exists according to the contract terms, revenue is recognized when the take-or-pay penalty is triggered.

Our marketing revenues principally represent sales of oil and gas purchased from the foreign partners under our PSCs and revenues from the trading of oil and gas through our subsidiaries. The cost of the oil and gas sold is included in crude oil and product purchases.

## Results of Operations

## Overview

The following table summarizes the components of our revenues and net production as percentages of our total revenues and total net production for the periods indicated:

	<b>Year ended December 31,</b>					
	<b>2014</b>		<b>2015</b>		<b>2016</b>	
	(Rmb in millions, except percentages and production data )					
Revenues:						
Oil and gas sales:						
Crude oil	200,991	73.2 %	128,929	75.2 %	106,448	72.7 %
Natural gas	17,219	6.3 %	17,668	10.3 %	14,877	10.1 %

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Total oil and gas sales	218,210	79.5 %	146,597	85.5 %	121,325	82.8 %
Marketing revenues	50,263	18.3 %	21,422	12.5 %	20,310	13.9 %
Other income	6,161	2.2 %	3,418	2.0 %	4,855	3.3 %
Total revenues	274,634	100 %	171,437	100 %	146,490	100 %
<b>Net production (million BOE)<sup>(1)</sup>:</b>						
Crude oil	348.8	80.6 %	410.3	82.8 %	396.4	83.1 %
Natural gas	83.7	19.4 %	85.4	17.2 %	80.5	16.9 %
Total net production	432.5	100 %	495.7	100 %	476.9	100 %

(1) Including our interest in equity method investees.

Table of Contents

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

	Year ended December 31,		
	2014	2015	2016
<b>Operating Revenues:</b>			
Oil and gas sales	79.5 %	85.5 %	82.8 %
Marketing revenues	18.3 %	12.5 %	13.9 %
Other income	2.2 %	2.0 %	3.3 %
Total revenues	100.0%	100.0%	100.0 %
<b>Expenses:</b>			
Operating expenses	(11.4 )%	(16.5 )%	(15.8 )%
Taxes other than income tax	(4.3 )%	(6.3 )%	(4.7 )%
Exploration expenses	(4.2 )%	(5.8 )%	(5.0 )%
Depreciation, depletion and amortization	(21.2 )%	(42.8 )%	(47.0 )%
Special oil gain levy	(6.9 )%	0.0 %	0.0 %
Impairment and provision	(1.5 )%	(1.6 )%	(8.3 )%
Crude oil and product purchases	(17.4 )%	(11.6 )%	(13.0 )%
Selling and administrative expenses	(2.4 )%	(3.3 )%	(4.4 )%
Others	(1.2 )%	(1.8 )%	(3.3 )%
Total expenses	(70.5 )%	(89.8 )%	(101.6)%
Interest income	0.4 %	0.5 %	0.6 %
Finance costs	(1.7 )%	(3.6 )%	(4.3 )%
Exchange gain, net	0.4 %	(0.1 )%	(0.5 )%
Investment income	1.0 %	1.4 %	1.9 %
Share of profits of associates	0.1 %	0.1 %	(0.4 )%
Share of profits/(losses) of a joint venture	0.3 %	1.0 %	0.4 %
Non-operating income/(expenses), net	0.2 %	0.4 %	0.4 %
Profit before tax	30.0 %	10.0 %	(3.6 )%
Income tax expense	(8.1 )%	1.8 %	4.0 %
Profit for the year	21.9 %	11.8 %	0.4 %

## Calculation of Revenues

*China*

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

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

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

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

#### *Indonesia*

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

Table of Contents

*Iraq*

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

*Australia*

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

*Nigeria*

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

*Trinidad and Tobago*

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

*The U.S. and Canada*

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

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

*United Kingdom*

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

*Unconsolidated Investees*

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

**2016 versus 2015**

*Consolidated net profit*

Our consolidated net profit decreased 96.9% to Rmb 637 million (US\$91.7 million) in 2016 from Rmb 20,246 million in 2015, primarily as a result of the decrease in profitability under the low international oil price environment and impairment charge.

*Revenues*

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

Table of Contents

	2016	2015	Change	Change (%)
Oil and gas sales (Rmb million)	121,325	146,597	(25,272)	(17.2)%
Crude and liquids	106,448	128,929	(22,481)	(17.4)%
Natural gas	14,877	17,668	(2,791)	(15.8)%
Sales volume (million BOE)*	458.3	480.1	(21.8)	(4.5)%
Crude and liquids (million barrels)	387.6	404.0	(16.4)	(4.1)%
Natural gas (bcf)	410	444	(34)	(7.5)%
Realized prices				
Crude and liquids (US\$/barrel)	41.40	51.27	(9.87)	(19.3)%
Natural gas (US\$/mcf)	5.46	6.39	(0.93)	(14.6)%
Net production (million BOE)	476.9	495.7	(18.8)	(3.8)%
China	311.1	323.4	(12.3)	(3.8)%
Overseas	165.8	172.3	(6.5)	(3.8)%

\* Excluding our interest in equity-accounted investees.

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

*Operating expenses*

Our operating expenses decreased 18.2% to Rmb 23,211 million (US\$3,343.1 million) in 2016 from Rmb 28,372 million in 2015, attributable from effective cost control. The operating expenses per BOE decreased 14.9% to Rmb 50.6 (US\$7.29) per BOE in 2016 from 59.4 (US\$9.18) per BOE in 2015. Operating expenses per BOE offshore China decreased 10.9% to Rmb 44.1 (US\$6.36) per BOE in 2016 from Rmb 49.5 (US\$7.64) per BOE in 2015. Overseas operating expenses per BOE decreased 20.1% to Rmb 64.1 (US\$9.23) per BOE in 2016 from Rmb 80.2 (US\$12.38) per BOE in 2015.

*Taxes other than income tax*

Our taxes other than income tax decreased 35.6% to Rmb 6,941 million (US\$999.7 million) in 2016 from Rmb 10,770 million in 2015. The decrease was mainly due to the decrease in oil and gas revenue. In addition, the transfer from 5% production tax to regular VAT in independent oil and gas fields in China brought further decrease.



*Exploration expenses*

Our exploration expenses decreased 25.7% to Rmb 7,359 million (US\$1,059.9 million) in 2016 from Rmb 9,900 million in 2015, due to the dry hole expense decreased significantly compared to 2015 under strengthening intensify of exploration appraisal during the year and reducing the proportion of high risk and high cost wells. Meanwhile, the seismic expense decreased as compared to 2015 under the circumstance of increasing workload of 3D seismic data collection, resulting from continued strengthening of geological research and improvement in the operation standards.

*Depreciation, depletion and amortization*

Our depreciation, depletion and amortization decreased 6.2% to Rmb 68,907 million (US\$9,924.7million) in 2016 from Rmb 73,439 million in 2015, resulting from the decrease of production volume. Our average depreciation, depletion and amortization per BOE, excluding the dismantlement-related depreciation, depletion and amortization, increased 0.2% to Rmb 146.8 (US\$21.14) per BOE in 2016 from Rmb 146.4 (US\$22.61) per BOE in 2015.

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

Table of Contents

dismantling costs per BOE decreased 54.0% to Rmb 3.42 (US\$0.49) per BOE in 2016 from Rmb 7.43 (US\$1.15) per BOE in 2015, primarily due to the fact that the expected dismantlement costs in independent oil and gas fields no longer included the relevant taxes after the replacement of business tax with VAT in China.

*Impairment, provision and write off*

Our impairment and provision increased 343.2% to Rmb 12,171 million (US\$1,753.0 million) in 2016 from Rmb 2,746 million in 2015. In 2016, certain oil and gas properties located in North America, Europe and Africa were impaired, which was reflected by the revision of the estimation for the oil price forecast and the adjustment in operating plan for oil sand assets in Canada. Meanwhile, the Company wrote off certain oil and gas assets in North America due to the expired lease contracts. Approximately Rmb 823 million was included in the exploration expenses, and Rmb 605 million was included in the depreciation, depletion and amortization charge, respectively. Please refer to Note 14 to the Consolidated Financial Statement of this annual report. In addition, the Company had an approximately Rmb 1,403 million bad debt provision, which was classified as impairment and provision due to risk associated with the collection of Nigeria trade receivable. Please refer to Note 7 to the Consolidated Financial Statement of this annual report.

*Selling and administrative expenses*

Our selling and administrative expenses increased 13.8 % to Rmb 6,493 million (US\$935.2million) in 2016 from Rmb 5,705 million in 2015 due to the increasing of transportation costs in North America resulting from technology improvement of some production facilities. Our selling and administrative expenses per BOE increased 18.4% to Rmb 14.15 (US\$2.04) per BOE in 2016 from 11.95 (US\$1.85) per BOE in 2015.

*Exchange losses, net*

Our net exchange losses increased 452.4% to Rmb 790 million (US\$113.8 million) in 2016 from Rmb 143 million in 2015, primarily as a result of the increase in exchange losses as a result of Rmb, GBP and CAD fluctuation against the US dollars.

*Investment income*

Our investment income increased 15.7% to Rmb 2,774 million (US\$399.5 million) in 2016 from Rmb 2,398 million in 2015, primarily attributable to the increase in return on corporate wealth management products and money market funds held by the Company.

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

Our share of losses of associates and a joint venture changed 104.0% to Rmb 76 million (US\$10.9 million) in 2016, while in 2015 we shared profits of Rmb 1,903 million, primarily attributable to losses from sales of shares of Northern Cross (Yukon) Limited located in Canada and decreases in profitability of some associates and a joint venture due to continuous decline in oil price.

*Income tax credit*

Our income tax credit increased 89.7% to Rmb 5,912 million (US\$851.5 million) in 2016 from Rmb 3,116 million in 2015, mainly because of an increase in deferred tax credit recognized on temporary differences and tax losses in overseas and a decrease in income tax expense due to decreased profit in China. In addition the UK government reduced the combined income tax rate on North Sea oil and gas activities from 50% to 40% and resulted in a one-time reversal of net deferred tax liability.

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

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

*Revenues*

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

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

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

*Operating expenses*

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

*Taxes other than income tax*

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

*Exploration expenses*

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

*Depreciation, depletion and amortization*

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

## Table of Contents

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

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

### *Special Oil Gain Levy*

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

### *Impairment, provision and write off*

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

### *Selling and administrative expenses*

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

*Finance costs/Interest income*

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

*Exchange gains, net*

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

Table of Contents*Investment income*

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

*Share of profits of associates/a joint venture*

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

*Income tax expense*

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

## B. Liquidity and Capital Resources

Our primary source of cash during 2016 was cash flows from operating activities. We used cash primarily to fund capital expenditure and dividends. The following table summarizes our cash flows for the periods presented:

	Year ended December 31,		
	2014	2015	2016
	(Rmb in millions)		
Cash generated from (used for):			
Operating activities	110,508	80,095	72,863
Investing activities	(90,177 )	(76,495 )	(27,953 )
Financing activities	(19,486 )	(6,893 )	(43,240 )
Net increase/(decrease) in cash and cash equivalents	845	(3,293 )	1,670



### Cash Generated from operating activities

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

### Cash Used in Investing Activities

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

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

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

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

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

We have debt service obligations consisting of principal and interest payments on our outstanding indebtedness. The following table summarizes the maturities of our long-term debt (including the current portion) outstanding as of December 31, 2016.

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

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

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

In 2014, 2015 and 2016, we paid dividends totaling Rmb 20,216 million, Rmb 20,419 million and Rmb 14,245 million (US\$2,052 million) (before PRC withholding tax deducted), respectively. The payment and the amount of any dividends in the future will depend on our results of operations, cash flows, financial condition, the payment by our subsidiaries of cash dividends to us, future prospects and other factors which our directors may consider relevant. The amount of dividends we paid historically is not indicative of the dividends that we will pay in the future.

We believe our future cash flows from operations, borrowing capacity and funds raised from our debt offerings will be sufficient to fund planned capital expenditures and investments, debt maturities and working capital requirements through at least 2017. However, our ability to obtain adequate financing to satisfy our capital expenditures and debt service requirements may be limited by our financial condition and results of operations and the liquidity of international and domestic financial markets. See “Item 3—Key Information—Risk Factors—Risks Relating to Our Operations—Our future prospects largely depend on our capital expenditures, which are subject to various risks.”

### **Capital Expenditures**

For 2017, we have budgeted Rmb 60-70 billion for capital expenditures for exploration and development. The following table sets forth the Company’s actual or budgeted capital expenditures on an accrual basis for the periods indicated.

Table of Contents

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

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

<sup>(2)</sup> Figures for 2017 represent our budgeted capital expenditures.

In addition to the budgeted development and exploration expenditures relating to the oil and gas properties described above, we may make additional capital expenditures and investments consistent with our business strategy. See “Item 4—Information on the Company—Business Overview—Business Strategy.” We expect to fund our capital expenditures with our cash flows from operations and external financing.

Our ability to maintain and grow our revenues, profit and cash flows depends upon continued capital spending. Generally, we adjust our capital expenditure and investment budget on an annual basis. Our capital expenditure plans are subject to a number of risks, contingencies and other factors, some of which are beyond our control. Therefore, our actual future capital expenditures and investments will likely be different from our current planned amounts, and such differences may be significant. See “Item 3—Key Information—Risk Factors—Risks Relating to Our Operations—Our future prospects largely depend on our capital expenditures, which are subject to various risks.”

**Holding Company Structure**

We are a holding company. Our entire oil and gas exploration, development, production and sales business in the PRC is owned and conducted by CNOOC China Limited, our wholly owned subsidiary in the PRC. Our oil and gas exploration, development and production business outside the PRC is owned and conducted by CNOOC International Limited, our wholly owned subsidiary incorporated in the British Virgin Islands, or owned and conducted by Nexen

Energy ULC, a wholly-owned subsidiary of the Company located in Canada, or directly owned by our company itself. International sales of crude oil and natural gas are conducted by China Offshore Oil (Singapore) International Pte Ltd, our wholly owned subsidiary incorporated in Singapore. Nexen Energy ULC sells its crude oil and synthetic oil to international markets separately. Accordingly, our future cash flows will consist principally of dividends from our subsidiaries. The subsidiaries' ability to pay dividends to us is subject to various restrictions, including legal restrictions in their jurisdictions of incorporation. For example, legal restrictions in the PRC permit payment of dividends only out of profit determined in accordance with PRC accounting standards and regulations. In addition, under PRC law, CNOOC China Limited should set aside a portion of its profit each year to fund certain reserve funds until the total amount of such funds is up to 50% of the registered capital of CNOOC China Limited. These reserves are not distributable as cash dividends.

#### Inflation/Deflation

According to the China Statistical Bureau, as represented by the general consumer price index, China experienced an overall inflation rate of 2.0%, 1.4% and 3.0% in 2014, 2015 and 2016, respectively. Neither deflation nor inflation has had a significant impact on our results of operations in the respective years.

Table of Contents

Impact of Recently Issued Accounting Standards

IFRS and HKFRS

We have adopted the IFRS as issued by the IASB since January 1, 2008. Therefore, our consolidated financial statements for 2016 have been prepared in due compliance with both IFRS and HKFRS. The accounting policies adopted are consisted with those of the year ended December 31, 2015, except for the first time adoption of the amendments to IFRS/HKFRS effective for the Group's financial year beginning on January 1, 2016 (the "Amendments"). The adoption of those Amendments upon their effective dates has had no material impact on the accounting policies, the disclosures or the amounts recognized in the consolidated financial statements of the Group.

Besides, a number of new and revised IFRSs and HKFRSs have been issued and would become effective for annual periods beginning on or after January 1, 2017. For details, please refer to notes 2.1 and 2.2 to our consolidated financial statements included elsewhere in this annual report.

C. Research and Development, Patents and Licenses, etc.

See "Item 4—Information on the Company—Business Overview—Research and Development", "Item 4—Information on the Company—Business Overview—Patents and Trademarks".

D. Trend Information

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

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

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

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

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

Other than as disclosed in the paragraphs above under Item 5.D, we are not aware of any trends that are reasonably likely to have a material effect on our net sales or revenues, income from continuing operations, profitability, liquidity or capital resources, or that would cause reported financial information not necessarily to be indicative of future operating results or financial conditions. You are urged to read

Table of Contents

the forward-looking statements contained elsewhere in this annual report, the cautionary statement on page 9 and the Risk factors on pages 14, which describe the risks and uncertainties that may cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. The Company provides no commitment to update the forward-looking statements or to publish financial projections for forward-looking statements in the future.

## E. Off-Balance Sheet Arrangements

None.

## F. Tabular Disclosure of Contractual Obligations

The following table sets forth information regarding our contractual obligations as of December 31, 2016.

<u>Contractual Obligations</u>	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	Rmb million	Rmb million	Rmb million	Rmb million	Rmb million
Long-term debt obligations <sup>(1)</sup>	134,159	9,318	7,734	21,133	95,974
Operating lease obligations	13,017	2,695	2,711	1,769	5,842
Provision for dismantlement <sup>(2)</sup>	50,888	462			50,426
Total	198,064	12,475	10,445	22,902	152,242

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

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

As of December 31, 2014, 2015 and 2016, we had the following capital commitments, principally for the construction and purchase of property, plant and equipment:

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



G.

Safe Harbor

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

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A.

Directors and Senior Management

In accordance with Hong Kong law and our articles of association, our affairs are managed by our Board, which has nine members, including two executive directors, three non-executive directors and four independent non-executive directors as of April 18, 2017. Hua Yang was re-designated as Executive Director and appointed as Chief Executive Officer and Guangyu Yuan was appointed as Executive Director and President both with effect from June 15, 2016. Fanrong Li resigned as Executive Director, Chief Executive Officer and President with effect from June 15, 2016. Guangqi Wu was re-designated as Non-executive Director and also resigned as the Compliance Officer of the Company with effect from June 15, 2016. Jian Liu was appointed as Vice Chairman and Non-executive Director with effect from December 20, 2016. Bo Lv resigned as Non-executive Director with effect from December 20, 2016. Guangyu Yuan resigned as the President and was appointed as the Chief Executive Officer with effect from April 18, 2017. Keqiang Xu was appointed as Executive Director and President of the Company with effect from April 18, 2017. Hua Yang resigned as Chief Executive Officer and was re-designated as Non-executive Director with effect from April 18, 2017.

Table of Contents

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

Name	Year of Birth	Position
Guangyu Yuan	1959	Executive Director and Chief Executive Officer (appointed as Chief Executive Officer and resigned as President effective April 18, 2017)
Xu Keqiang	1971	Executive Director and President (effective April 18, 2017)
Fanrong Li	1963	Executive Director, Chief Executive Officer and President (resigned effective June 15, 2016)
Hua Yang	1961	Chairman of the Board and Non-executive Director (re-designated as Non-executive Director and resigned as Chief Executive Officer effective April 18, 2017)
Jian Liu	1958	Vice Chairman and Non-executive Director (effective December 20, 2016)
Guangqi Wu	1957	Non-executive Director (re-designated as Non-executive Director and resigned as Compliance Officer effective June 15, 2016)
Bo Lv	1962	Non-executive Director (resigned effective December 20, 2016)
Sung Hong Chiu	1947	Independent Non-executive Director
Lawrence J. Lau	1944	Independent Non-executive Director
Aloysius Hau Yin Tse	1948	Independent Non-executive Director
Kevin G. Lynch	1951	Independent Non-executive Director
Wei Chen	1958	Executive Vice President, General Counsel and Compliance Officer (appointed as General Counsel and Compliance Officer effective May 2016)
Weilin Zhu	1956	Executive Vice President (retired effective May 2016)
Bi Chen	1961	Executive Vice President (resigned effective May 2016)
Yuhong Xie	1961	Executive Vice President and General Manager of Exploration Department (effective May 2016)
Yong Li	1963	Executive Vice President and General Manager of CNOOC China Limited Tianjin Branch (effective June 2016)

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Guohua Zhang	1960	Senior Vice President and General Manager of CNOOC China Limited Zhanjiang Branch
Hua Zhong	1960	Chief Financial Officer
Yunhua Deng	1963	Deputy Chief Exploration Engineer and Deputy Director of Beijing Research Center of CNOOC China Limited
Lisong Song	1957	Chief Safety Official and General Manager of the Quality, Health, Safety and Environmental Protection Department (effective September 2016)

Table of Contents

Vice President (effective February 2017);

Zaisheng Liu	1962	Director of Beijing Research Center of CNOOC China Limited, General Manager of CNOOC China Limited Beijing Branch, Director of CNOOC Energy Technology Development Research Institute and General Manager of CNOOC Energy Technology Development Research Institute Company Limited (from April 2016 to November 2016)
Zongjie Qiu	1958	Vice President and General Manager of Development and Production Department (effective February 2017)
Jiewen Li	1965	Joint Company Secretary and General Manager (Director) of Investor Relations Department (Office for the Board of Directors)
May Sik Yu Tsue	1973	Joint Company Secretary

We have a management team with extensive experience in the oil and gas industry. As a result of our cooperation with international oil and gas companies, the management team and staff have had the opportunities to work closely with foreign partners both within and outside China. Such opportunities, in conjunction with management exchange programs with foreign partners, have provided valuable training to our personnel in international management practices. A description of the business experience and present position of each director and senior officer is provided below. Our registered office is located at 65<sup>th</sup> Floor, Bank of China Tower, One Garden Road, Central, Hong Kong.

Table of Contents**Executive Directors**

**Guangyu Yuan** Born in 1959, Mr. Yuan is a professor-level senior engineer. He graduated from China University of Petroleum with a bachelor's degree in drilling engineering. He graduated from the EMBA program of China Europe International Business School in 2007 with an MBA degree. Mr. Yuan joined CNOOC in 1982 and has over 30 years of experience in the oil and gas industry. From February 1993 to October 2001, Mr. Yuan served as Deputy Manager of CNOOC Bohai Drilling Company, Deputy General Manager of CNOOC China Offshore Oil Northern Drilling Company, Deputy General Manager of the Operational Department of CNOOC, General Manager of CNOOC China Offshore Oil Northern Drilling Company. From October 2001 to January 2009, Mr. Yuan served as General Manager and President of CNOOC Services, and Vice Chairman of the Board of Directors, Chief Executive Officer and President of China Oilfield Services Limited (a company listed on The Stock Exchange of Hong Kong Limited and Shanghai Stock Exchange). In November 2006, Mr. Yuan was appointed as the Assistant President of CNOOC. In January 2009, Mr. Yuan was appointed as the Executive Vice President of the Company. In April 2013, Mr. Yuan was appointed as Director of Bohai Petroleum Administrative Bureau of CNOOC and General Manager of CNOOC China Limited Tianjian Branch, a subsidiary of the Company. Mr. Yuan also serves as the Director and General Manager of CNOOC China Limited and the Director of CNOOC International Limited, both subsidiaries of the Company. He was appointed as the Chairman of CNOOC International Limited with effect from June 15, 2016. Mr. Yuan was appointed as an Executive Director and President of the Company with effect from June 15, 2016. Mr. Yuan was appointed as the Chief Executive Officer of the Company and resigned as the President of the Company with effect from April 18, 2017.

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

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

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

### **Non-executive Directors**

**Hua Yang** Born in 1961, Mr. Yang is a professor-level senior economist and graduated from China University of Petroleum with a B.S. degree in petroleum engineering. He also received an MBA degree from the Sloan School of Management at MIT as a Sloan Fellow. Mr. Yang joined CNOOC in 1982 and has over 30 years of experience in petroleum exploration and production. From 1982 to 1992, Mr. Yang served in a number of positions in CNOOC Research Center including the Director of Field Development Department, the Manager of Reservoir Engineering Department and the Project Manager. Thereafter, Mr. Yang was mainly involved in international business, M&A, corporate finance and capital market operations. From 1993 to 1999, he served as the Deputy Chief Geologist, the Deputy Director and the Acting Director for Overseas Development Department of CNOOC and the Vice President of CNOOC International Limited. From 1999 to 2011, Mr. Yang served in a number of

Table of Contents

positions in the Company including Senior Vice President, Chief Financial Officer, Executive Vice President, President and Chief Executive Officer. Mr. Yang also served as an Assistant President of CNOOC from November 2006 to April 2010 and as Vice President of CNOOC from April 2010 to August 2011. Mr. Yang served as Director and President of CNOOC from August 2011 to April 2015. He was appointed as Chairman of CNOOC in April 2015. He was appointed as the Chairman and Director of Nexen Energy ULC, a subsidiary of the Company, with effect from June 15, 2016. He also served as Chairman, Director and President of CNOOC Southeast Asia Limited, Chairman, Director and General Manager of CNOOC China Limited and Chairman and Director of CNOOC International Limited, all being subsidiaries of the Company. He also served as Director of CNOOC Finance Corporation Limited, a subsidiary of CNOOC. Mr. Yang was appointed as an Executive Director of the Company with effect from August 31, 2005 and was the Vice Chairman of the Board of the Company from September 16, 2010 to May 19, 2015, and was re-designated from an Executive Director to a Non-Executive Director of the Company with effect from November 23, 2011. Mr. Yang was appointed as Chairman of the Board and Chairman of the Nomination Committee of the Company with effect from May 19, 2015. Mr. Yang was re-designated from a Non-executive Director to an Executive Director and appointed as the Chief Executive Officer of the Company with effect from June 15, 2016. Mr. Yang was re-designated from an Executive Director to a Non-Executive Director of the Company and resigned as the Chief Executive Officer with effect from April 18, 2017.

**Jian Liu** Born in 1958, Mr. Liu is a professor-level senior engineer. He graduated from Huazhong University of Science and Technology with a Bachelor degree and he received his MBA degree from Tianjin University. Mr. Liu first joined CNOOC in 1982 and has over 30 years of experience in the oil and gas industry. He served as the manager of CNOOC Bohai Corporation Oil Production Company, a subsidiary of CNOOC, Deputy General Manager of the Tianjin Branch and the General Manager of the Zhanjiang Branch of CNOOC China Limited, a subsidiary of the Company. From 2003 to 2009, Mr. Liu served as Senior Vice President and General Manager of the Development and Production Department and Executive Vice President of the Company, primarily responsible for the offshore oil and gas fields development and production of the Company. Mr. Liu served as an Assistant President of CNOOC from November 2006 to April 2010 and as a Vice President of CNOOC from April 2010 to August 2015. In August 2015, Mr. Liu was appointed as the General Manager of CNOOC. Mr. Liu also served as the director of CNOOC China Limited, CNOOC International Limited and CNOOC Southeast Asia Limited, all being subsidiaries of the Company. Besides, Mr. Liu served as the Chief Executive Officer, Vice Chairman and Chairman of China Oilfield Services Limited (a company listed on The Stock Exchange of Hong Kong Limited and Shanghai Stock Exchange) from March 2009 to December 2016 and Chairman of Offshore Oil Engineering Co. Ltd. (a company listed on the Shanghai Stock Exchange) from December 2010 to November 2016. He was appointed as Chairman and Director of CNOOC China Limited, a subsidiary of the Company, with effect from February 28, 2017. Mr. Liu was appointed as the Vice Chairman and a Non-executive Director of the Company with effect from December 20, 2016.

**Guangqi Wu** Born in 1957, Mr. Wu is a geologist, professor-level senior economist, Certified Senior Enterprise Risk Manager and Certified Internal Auditor and graduated with a B.S. degree from the Ocean University of China, majoring in Marine Geology. He also holds a master degree in Management from China University of Petroleum and a doctor degree in Management from Huazhong University of Science and Technology. Mr. Wu joined CNOOC in 1982. From 1994 to 2001, he served as the Deputy General Manager of CNOOC Oil Technical Services Company, a subsidiary of CNOOC, the Director of the Administration Department of CNOOC and the Director of the Ideology Affairs Department of CNOOC successively. Mr. Wu was appointed as an Assistant President of CNOOC in 2003, and has been the Vice President of CNOOC since 2004. Mr. Wu also serves as the Chairman of CNOOC Marine Environment and Ecology Protection Foundation, and served as the Vice Chairman of China Association of Risk Professionals, the Vice Chairman of China Association of Oceanic Engineering, the Director-General of National

Energy Deepwater Oil & Gas Engineering Technology Research Centre Council. Mr. Wu served as an Independent Non-executive Director of China Yangtze Power Limited, a company listed on the Shanghai Stock Exchange, from May 2003 to July 2010. Mr. Wu has served as the Compliance Officer of the Company since June 1, 2005 and he also serves as a Director of CNOOC International Limited and served as a Director of CNOOC China Limited, all being the subsidiaries of the Company. Mr. Wu was appointed as an Executive Director of the Company with effect from June 1, 2005. Mr. Wu has been re-designated from an Executive Director to a Non-executive Director of the Company and has resigned as the Compliance Officer of the Company with effect from June 15, 2016.

**Bo Lv** Born in 1962, Mr. Lv is a senior economist and received a Bachelor of Science degree in Management from China University of Mining and Technology and an MBA degree from China Europe International Business School. Since 1985, he worked in the Ministry of Coal Industry, the Ministry of Energy and the Organization Department of the Communist Party of China Central Committee and served in a number of positions, including a Vice-Director-level official in the Personnel and Labor Department of the Ministry of Energy, Vice Director and Director of Economic and Technology Cadre Bureau of the Organization Department of the Communist Party of China Central Committee, Directors of the Fourth and Fifth Cadre Bureaus of the Organization Department of the Communist Party of China Central Committee. Mr. Lv joined CNOOC in 2002 and served as the Director of the Human Resources Department of CNOOC. In November 2006, Mr. Lv became the Assistant President of CNOOC. In April 2010, Mr. Lv was appointed as the Vice President of CNOOC. Since December 2012, he has also served as Chairman of the Board of CNOOC Energy Technology and Services Limited, a subsidiary of CNOOC. Mr. Lv was appointed as a Non-executive Director of the Company on November 27, 2013, and such appointment took effect from January 1, 2014. Mr. Lv resigned from his position as a Non-executive Director of the Company with effect from December 20, 2016.

### **Independent Non-executive Directors**

**Sung Hong Chiu** Born in 1947, Mr. Chiu received an LL.B. degree from the University of Sydney. He was admitted as a solicitor of the Supreme Court of New South Wales and the High Court of Australia. He has over 30 years' experience in legal practice and had been a director of a listed company in Australia. Mr. Chiu was the founding member of the Board of Trustees of the Australian Nursing Home Foundation and served as the General Secretary of the Australian Chinese Community Association of New South Wales. Mr. Chiu is also an Independent Non-executive Director of Tianda Pharmaceuticals Limited (formerly Yunnan Enterprises Holdings Limited, Tianda Holdings Limited) since April 2008, a company listed on The Stock Exchange of Hong Kong Limited. Mr. Chiu is also an Independent Non-



Table of Contents

executive Director of Bank of China (Australia) Limited (a wholly subsidiary of Bank of China Limited). Mr. Chiu was appointed as an Independent Non-executive Director of the Company with effect from September 7, 1999.

**Lawrence J. Lau** Born in 1944, Professor Lau graduated with a B.S. (with Great Distinction) in Physics from Stanford University in 1964, and received his M.A. and Ph.D. degrees in Economics from the University of California at Berkeley in 1966 and 1969 respectively. He joined the faculty of the Department of Economics at Stanford University in 1966, becoming Professor of Economics in 1976, the first Kwoh-Ting Li Professor in Economic Development in 1992, and Kwoh-Ting Li Professor in Economic Development, Emeritus in 2006. From 2004 to 2010, Professor Lau served as Vice-chancellor (President) of The Chinese University of Hong Kong. From September 2010 to September 2014, Professor Lau served as Chairman of CIC International (Hong Kong) Co., Limited. Professor Lau specializes in economic development, economic growth, and the economies of East Asia, including that of China. He has authored, co-authored, or edited seven books and published more than 180 articles and notes in professional journals. Professor Lau is a member of the 12th National Committee of the Chinese People's Political Consultative Conference and a Vice-Chairman of its Economics Subcommittee. Professor Lau also serves as a member of the Hong Kong Special Administrative Region Exchange Fund Advisory Committee and Chairman of its Governance Sub-Committee, and a member of its Currency Board Sub-committee and Investment Sub-Committee, and Chairman of Board of Directors of the Chinese University of Hong Kong (Shenzhen) Advanced Finance Institute, aka Shenzhen Finance Institute. In addition, he also serves as a Member and Chairman of the Prize Recommendation Committee, LUI Che Woo Prize Company, as well as a Vice-Chairman of Our Hong Kong Foundation. He was appointed a Justice of the Peace in Hong Kong in July 2007. He currently serves as the Ralph and Claire Landau Professor of Economics at the Institute of Global Economics and Finance, The Chinese University of Hong Kong, an Independent Non-executive Director of AIA Group Limited, and an Independent Non-executive Director of Hysan Development Company Limited, both of which are listed on the Hong Kong Stock Exchange, and an Independent Director of Far EasTone Telecommunications Company Limited, Taipei, which is listed on the Taiwan Stock Exchange. Professor Lau was appointed as an Independent Non-executive Director of the Company with effect from August 31, 2005.

**Aloysius Hau Yin Tse** Born in 1948, Mr. Tse is a fellow of The Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Mr. Tse is a past president and a former member of the Audit Committee of the HKICPA. He joined KPMG in 1976, became a partner in 1984 and retired in March 2003. Mr. Tse was a non-executive Chairman of KPMG's operations in the PRC and a member of the KPMG China advisory board from 1997 to 2000. Mr. Tse is currently an independent non-executive director of China Telecom Corporation Limited, SJM Holdings Limited, Sinofert Holdings Limited and China Huarong Asset Management Company, Limited, companies listed on The Stock Exchange of Hong Kong Limited. From 2004 to 2010, he was an independent non-executive director of China Construction Bank Corporation, which is listed on the HKSE Main Board. From 2005 to 2016, Mr. Tse was also an independent non-executive director of Daohe Global Group Limited (formerly known as Linmark Group Limited), which is listed on the HKSE Main Board. Mr. Tse is currently an independent non-executive director of CCB International (Holdings) Limited, a wholly owned subsidiary of China Construction Bank Corporation and OCBC Wing Hang Bank Limited (formerly named as Wing Hang Bank Limited whose shares were delisted from The Stock Exchange of Hong Kong Limited with effect from October 16, 2014). Mr. Tse is also a member of the International Advisory Council of the People's Municipal Government of Wuhan. Mr. Tse was appointed as an Independent Non-executive Director of the Company with effect from June 8, 2005.

**Kevin G. Lynch** Born in 1951, Mr. Lynch obtained a B.A. degree from Mount Allison University, a M.A. degree in Economics from the University of Manchester, and a doctorate degree in Economics from McMaster University. He also holds ten honorary degrees. Mr. Lynch was made a life Member of the Privy Council for Canada, and an Officer of the Order of Canada. He is the Vice Chairman of BMO Financial Group and also a distinguished former public servant with 33 years of service with the Government of Canada. Mr. Lynch served as Deputy Minister of Industry of Canada from 1995 to 2000, Deputy Minister of Finance of Canada from 2000 to 2004, Executive Director at the International

Table of Contents

Monetary Fund from 2004 to 2006 and was appointed as Clerk of the Privy Council for Canada, Secretary to the Cabinet and Head of the Public Service from 2006 to 2009. Mr. Lynch is the Chancellor of the University of King's College, Senior Fellow of Massey College, former Chair of the Board of Governors of the University of Waterloo, Chair of the Canadian Ditchley Foundation, and past Chair of the World Economic Forum's Global Policy Council on the Global Financial System. He also serves on other boards including the Killam Trusts, Sobey Foundation, Communitech, the Governor General's Rideau Hall Foundation, the Asia Pacific Foundation of Canada. Mr. Lynch is currently a director of Empire Company Limited (Sobey's) listed on the Toronto Stock Exchange, a director of Canadian National Railway Company listed on the Toronto Stock Exchange and New York Stock Exchange, and Co-chair of Ontario Economic Summit. Mr. Lynch was appointed as an Independent Non-executive Director of the Company on November 27, 2013, and such appointment took effect from March 1, 2014.

**Other Members of Senior Management**

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

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

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

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

Table of Contents

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

**Yuhong Xie** Born in 1961, Mr. Xie is an Executive Vice President and General Manager of Exploration Department of the Company as well as a professor-level senior engineer. Mr. Xie obtained a Ph.D. Degree from China University of Geosciences in 2005. From 1982 to 1995, Mr. Xie served as an engineer of Research Institute and Exploration Department of CNOOC Naihui West Corporation. From 1995 to 1996, he served as the Deputy Manager of Exploration Department of CNOOC Naihui West Corporation. From 1996 to 1999, he served as Manager of Tepu Company of CNOOC Naihui West Corporation, Deputy Chief Earth Physicist and Manager of Exploration Department of Naihui West Corporation. From 2001 to 2005, he was Deputy Chief Manager of CNOOC China Limited Zhanjiang Branch. From 2005 to 2013, he served as the Chief Manager of CNOOC China Limited Zhanjiang Branch. From 2013 to 2015, he was appointed as the Director of Naihui West Petroleum Administrative Bureau of CNOOC. In July 2015, he was appointed as Deputy Chief Geologist of CNOOC, Deputy Chief Geologist and General Manager of Exploration Department of the Company. In May 2016, he was appointed as the Chief Geologist of CNOOC, an Executive Vice President and General Manager of Exploration Department of the Company.

**Yong Li** Born in 1963, Mr. Li is an Executive Vice President of the Company and General Manager of CNOOC China Limited Tianjin Branch. He is a senior engineer. He received his B.S. degree from Southwest Petroleum University, master of Petroleum Economics from Scuola E Mattei of Italy and MBA from Peking University. He has over 30 years of experience in the oil and gas industry. Mr. Li joined CNOOC in 1984 and previously served as Comprehensive Technology Manager and Drilling Manager of Exploration Department of CNOOC, Director of Drilling Office of Exploration and Development Department of the Company. In April 2003, he was appointed as Deputy General Manager of Tianjin Branch of CNOOC (China) Limited. In October 2005, he was appointed as Executive Vice President and Chief Operating Officer of COSL. In April 2009, he was appointed as Executive Director and President of COSL. In September 2010, he served as Executive Director, Chief Executive Officer and President of COSL. In June 2016, he was appointed as Assistant President of CNOOC, Executive Vice President of the Company, Director of CNOOC Bohai Petroleum Administration Bureau and General Manager of CNOOC China Limited Tianjin Branch.

**Guohua Zhang** Born in 1960, Mr. Zhang is a Senior Vice President of the Company and the General Manager of CNOOC China Limited Zhanjiang Branch. He is a professor-level senior engineer. He graduated from Shandong Oceanographic Institute (now Ocean University of China) with a bachelor degree. He studied in the Business Institute of University of Alberta in Canada in 2001. He joined CNOOC in 1982 and served as Deputy Chief Geologist and Manager of Exploration Department of CNOOC Naihui West Corporation, a subsidiary of CNOOC, Chief Geologist of CNOOC Research Center, Assistant to General Manager of CNOOC China Limited and the General Manager of Exploration Department of the Company. In March 2003, he was appointed as Senior Vice President of the Company. In October 2005, Mr. Zhang was appointed as Senior Vice President of the Company and General Manager of CNOOC China Limited Shanghai Branch. In July 2009, he was appointed as Director of Donghai Petroleum

Administrative Bureau of CNOOC. In July 2015, he was appointed as Director of Nanhai West Petroleum Administrative Bureau of CNOOC and General Manager of CNOOC China Limited Zhanjiang Branch.

**Hua Zhong** Born in 1960, Mr. Zhong is Chief Financial Officer of the Company. Mr. Zhong is a professor-level senior economist and senior engineer and graduated from Southwest Petroleum Institute (now Southwest Petroleum University) with a bachelor's degree in Oil Exploitation. He received a master's degree in Petroleum Engineering from Heriot-Watt University in the United Kingdom. He joined

Table of Contents

CNOOC in 1982, and has been working in the oil and gas industry for over 30 years. From 1982 to 1999, Mr. Zhong served as Petroleum Engineer of China Offshore Oil Nanhai West Corporation (“COONWC”), Expro Northsea Staff in UK, Deputy Manager of Downhole Services Company of Oil Production Company of COONWC, Manager of Wei 10-3 Oilfield, Oilfield Superintendent of CNOOC Indonesia Project, Supervisor of Ya 2-1-3 HTHP Well Testing Project, Deputy Manager of Drilling and Exploitation Institute, Manager of Science and Technology Development Department and Manager of Administration Department of COONWC. From September 1999 to October 2005, Mr. Zhong was General Manager of Administration Department and General Manager and Director of Development and Planning Department of the Company. From August 2005 to September 2010, Mr. Zhong served as Vice President, Executive Vice President and Chief Financial Officer of China Oilfield Services Limited, a company listed on The Stock Exchange of Hong Kong Limited and Shanghai Stock Exchange, a subsidiary of CNOOC. On September 16, 2010, Mr. Zhong was appointed as Chief Financial Officer of the Company. From March 2012 to November 2015, Mr. Zhong served as Joint Company Secretary of the Company.

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

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

**Zaisheng Liu** Born in 1962, Mr. Liu is a Vice President of the Company and Director of Beijing Research Center of CNOOC China Limited, General Manager of CNOOC China Limited Beijing Branch, Director of CNOOC Energy Technology Development Research Institute and General Manager of CNOOC Energy Technology Development Research Institute Company Limited. Mr. Liu graduated from Southwest Petroleum Institute (now Southwest Petroleum University) with a bachelor's degree. From



Table of Contents

1983 to 1994, he served as Deputy Manager of District Research First Team of Exploration and Development Department Research Institute of Nanhai East Oil Corporation of CNOOC. From 1994 to 1997, he served as Principal of Seismic Engineer and Principal of Geologist of Exploration and Development Department of Nanhai East Oil Corporation of CNOOC. From 1997 to 1999, he served as Deputy Manager of Exploration and Development Department of Nanhai East Oil Corporation of CNOOC. From 1997 to 2001, he served as Deputy Director of Scientific and Technology Research Institute of Nanhai East Oil Corporation of CNOOC. From 2001 to 2004, he served as Director of Nanhai East Institute of the Research Center of CNOOC China Limited. From 2004 to 2009, he served as Manager, Assistant to General Manager, Deputy General Manager and Acting General Manager of Technology Department of CNOOC China Limited Shenzhen Branch respectively. From 2009 to 2016, he served as General Manager of CNOOC China Limited Shenzhen Branch and Director of Nanhai East Petroleum Administrative Bureau of CNOOC and General Manager of CNOOC Deepwater Development Limited respectively. From April to November 2016, he served as Director of Beijing Research Center of CNOOC China Limited, General Manager of CNOOC China Limited Beijing Branch, and General Director of CNOOC Energy Technology Development Research Institute and General Manager of CNOOC Energy Technology Development Research Institute Company Limited. In February 2017, Mr. Liu was appointed as a Vice President of the Company.

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

**Joint Company Secretaries**

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

of the Company since October 2015. Ms. Li was appointed as Joint Company Secretary of the Company with effective from November 27, 2015.

**May Sik Yu Tsue** Born in 1973, Ms. Tsue Sik Yu, May is the Joint Company Secretary of the Company. She graduated from Curtin University of Technology in Australia with a bachelor of commerce in accounting. Ms. Tsue furthered her education at The Hong Kong Polytechnic University in Master of Corporate Governance from 2004 to 2006, and MBA from The University of Hong Kong from 2014 to 2016. She is a fellow member of both the Institute of Chartered Secretaries and Administrators and the

Table of Contents

Hong Kong Institute of Chartered Secretaries since 2012 and became a member of Company Secretaries Panel and Advisor for Academy of Professional Certification in the same year, and became a member of ACCA since 2016. Furthermore, she is also a fellow member and certified risk trainer of the Institute of Crisis and Risk Management and an associate member of CPA Australia. From August 1998 to March 1999, Ms. Tsue worked in LG International (HK) Ltd. as a senior accounts clerk. Ms. Tsue joined China Ocean Oilfield Services (HK) Limited in 1999 as an accountant. She helped to manage the finance of the CNOOC Insurance Limited since 2000 and became its employee in 2004 as a manager of finance department. She serves as company secretary of CNOOC Insurance Limited since March 2007. Ms. Tsue was appointed as Joint Company Secretary of the Company with effect from 25 November 2008.

**B. Compensation**

The aggregate amount of fees, salaries, bonus, housing allowances, other allowances and benefits in kind paid to our directors for the year ended December 31, 2016 was Rmb 4,802,831 (US\$691,752), while the amount paid to our other senior management for the same period was Rmb 6,649,703 (US\$957,756). In addition, under our pension plan for 2016, we set aside an aggregate amount of Rmb 1,177,910 (US\$169,654) for pension and similar benefits for our directors (other than independent non-executive directors) and senior management. Our directors (other than independent non-executive directors) and senior management contributed an additional Rmb 353,236 (US\$50,877) to the pension plan for 2016. Each director's annual compensation, including fees, salaries, allowances, benefits in kind, pension benefits and share option benefits, is disclosed in note 9 to our consolidated financial statements included elsewhere in this annual report. Note 10 to our consolidated financial statements included elsewhere in this annual report discloses our five highest paid employees during 2016. For further details regarding share options granted to our directors, officers and employees, see "Item 6—Directors, Senior Management and Employees—Share Ownership." For further details regarding our employee compensation, see "Item 4—Information on the Company—Business Overview—Employees and Employee Benefits."

**C.****Board Practice****Committees**

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

The main responsibilities and authorities of our remuneration committee include making recommendations to our Board on our policy and structure of the remuneration of our directors and senior management, determining the service contracts and specific remuneration packages for all executive directors and senior management, such as benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and making recommendations to our Board on the remuneration of non-executive directors and independent non-executive directors. Bo Lv resigned as Non-executive Director with effect from December 20, 2016 and Guangqi Wu has been appointed and replaced Bo Lv as a member of our remuneration committee on the same day. Since December 20, 2016, our remuneration committee consisted of two independent non-

## Table of Contents

executive directors (Sung Hong Chiu as chairman and Aloysius Hau Yin Tse) and one non-executive director (Guangqi Wu). Our remuneration committee charter is available on our website, [www.cnooc ltd.com](http://www.cnooc ltd.com).

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

For information on our audit committee financial expert and our code of ethics, see “Item 16A—Audit Committee Financial Expert,” and “Item 16B—Code of Ethics.”

## **Directors Service Contracts**

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

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

We are incorporated under the laws of Hong Kong. The principal trading market for our shares is the Hong Kong Stock Exchange. In addition, because our shares are registered with the United States Securities and Exchange Commission and are listed on the New York Stock Exchange, or the NYSE, we are subject to certain corporate governance requirements. However, many of the corporate governance rules in the NYSE Listed Company Manual, or the NYSE Standards, do not apply to us as a “foreign private issuer” and we are permitted to follow the corporate governance practices in Hong Kong in lieu of most corporate governance standards contained in the NYSE Standards. Section 303A.11 of the NYSE Standards requires NYSE-listed foreign private issuers to describe the significant differences between their corporate governance practices and the corporate governance standards applicable to U.S. domestic companies listed on the NYSE, or U.S. domestic issuers. We set forth below a brief summary of such significant differences.

### 1. Board and Committee Independence

While NYSE Standards require U.S. domestic issuers to have a majority of independent directors, we are not subject to this requirement. Four of our nine directors are independent non-executive directors.

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

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

## Table of Contents

### 2. Audit Committee

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

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

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

### 3. Remuneration Committee

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

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

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

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



Table of Contents

## 4. Nomination Committee

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

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

## 5. Corporate Governance Guidelines

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

## D. Employees

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

## E. Share Ownership

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

Name of Grantee	Number of shares involved in	Number of shares involved in	Date of Grant	<b>Date of Expiration</b> <sup>(1)</sup>	Closing price per share	Exercise Price (HK\$)
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	the options outstanding as of January 1, 2016	the options outstanding as of April 18, 2017			immediately before the date of grant (HK\$)	
<b>Executive Director:</b>						
Guangyu Yuan	1,857,000	1,857,000	May 27, 2009	May 27, 2019	9.33	9.93
	1,899,000	1,899,000	May 20, 2010	May 20, 2020	12.22	12.696
<b>Non-executive</b>						
<b>Directors:</b>						
Hua Yang	1,770,000	–	June 14, 2006	June 14, 2016	5.30	5.56
	1,857,000	1,857,000	May 25, 2007	May 25, 2017	7.43	7.29
	1,857,000	1,857,000	May 29, 2008	May 29, 2018	14.20	14.828
	2,835,000	2,835,000	May 27, 2009	May 27, 2019	9.33	9.93
	2,000,000	2,000,000	May 20, 2010	May 20, 2020	12.22	12.696
Guangqi Wu	1,770,000	–	June 14, 2006	June 14, 2016	5.30	5.56
	1,857,000	1,857,000	May 25, 2007	May 25, 2017	7.43	7.29
	1,857,000	1,857,000	May 29, 2008	May 29, 2018	14.20	14.828
	1,857,000	1,857,000	May 27, 2009	May 27, 2019	9.33	9.93
	1,857,000	1,857,000	May 20, 2010	May 20, 2020	12.22	12.696

Table of Contents

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

*Except for share options granted under the Pre-Global Offering Share Option Scheme, all share options granted are subject to a vesting schedule pursuant to which one third of the options granted vest on the first, second and third anniversaries of the date of grant, respectively, such that the options granted are fully vested on the third anniversary of the date of grant.*

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

As of December 31, 2016, we had 187,529,000 share options outstanding under our share option schemes, which represented approximately 0.42% of our shares in issue as of that date.

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

As of April 18, 2017, none of our directors or employees owned 1% or more of our shares including the shares underlying the share options granted as of that date.

## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

## A.

## Major Shareholders

The following table sets forth information regarding the ownership of our outstanding shares by major shareholders as of March 31, 2017.

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

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

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

As of March 31, 2017, 10,223,160 ADSs, representing approximately 2.3% of our then outstanding shares, were held of record in the form of ADSs. At such date, the number of registered ADS holders in the United States was 56.

Table of Contents

B. Related Party Transactions

Overview

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

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

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

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

**Categories of Continuing Connected Transactions**

As we are controlled by CNOOC, transactions with CNOOC, its subsidiaries and associates are deemed to be related party transactions. We entered into a comprehensive framework agreement with CNOOC on November 6, 2013 for the provision (1) by us to CNOOC and/or its associates and (2) by CNOOC and/or its associates to us, of a range of products and services which may be required and requested from time to time by either party and/or its associates in respect of the continuing connected transactions. The term of the comprehensive framework agreement is for a period of three years from January 1, 2014. The comprehensive framework agreement is substantially on the same terms as the terms contained in the comprehensive framework agreements entered into by us on November 1, 2010. The continuing connected transactions under such comprehensive framework agreement and the relevant annual caps for the three years from January 1, 2014 were approved by our independent shareholders on November 27, 2013. The approved continuing connected transactions are as follows:

1.

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

- (a) Provision of exploration and support services
- (b) Provision of oil and gas development and support services
- (c) Provision of oil and gas production and support services
- (d) Provision of marketing, management and ancillary services

(e) FPSO vessel leases

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

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

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

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

Table of Contents

*Pricing principles*

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

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

(i) state-prescribed prices; or

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

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

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

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

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

## Disclosure and/or Independent Shareholders' Approval Requirements

Under the Hong Kong Stock Exchange Listing Rules, the following categories of continuing connected transactions are exempted from the independent shareholders' approval requirement but are subject to the announcement, annual report and annual review requirements set out in the Hong Kong Stock Exchange Listing Rules, because each of the percentage ratios for these categories under the Hong Kong Stock Exchange Listing Rules (other than the profits ratio), where applicable, is expected to be less than 5% on an annual basis:

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

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

- (a) Provision of exploration and support services;
- (b) Provision of oil and gas development and support services;



Table of Contents

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

We obtained independent shareholders' approval at the extraordinary general meetings held on November 27, 2013 for the non-exempt continuing connected transactions and relevant annual caps for the period from January 1, 2014 to December 31, 2016, respectively. The annual caps for our continuing connected transactions with CNOOC and/or its associates are specified as follows:

<b>Categories of Continuing Connected Transactions</b>	<b>Relevant Annual Caps</b>
<i>Provision of exploration, oil and gas development, oil and gas production as well as marketing, management and ancillary services by CNOOC and/or its associates to us</i>	For the three years ending December 31, 2016,  Rmb 15,000 million,  Rmb 16,100 million and  Rmb 17,200 million respectively
(a) Provision of exploration and support services	For the three years ending December 31, 2016  Rmb 47,200 million,  Rmb 49,600 million and  Rmb 52,100 million, respectively
(b) Provision of oil and gas development and support services	For the three years ending December 31, 2016,  Rmb 10,500 million,  Rmb 11,600 million and  Rmb 12,800 million, respectively
(c) Provision of oil and gas production and support services	For the three years ending December 31, 2016,  Rmb 1,408 million,
(d) Provision of marketing, management and ancillary services	For the three years ending December 31, 2016,  Rmb 1,408 million,

Rmb 1,875 million and

Rmb 2,075 million, respectively

For the three years ending December 31, 2016,

Rmb 1,450 million,

(e) FPSO vessel leases

Rmb 2,180 million and

Rmb 2,350 million, respectively

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

For the three years ending December 31, 2016,

Rmb 100 million,

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

Rmb 100 million and

Rmb 100 million, respectively

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

For the three years ending December 31, 2016,

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

Rmb 346,700 million,

Rmb 438,600 million and

Rmb 504,400 million, respectively

For the three years ending December 31, 2016,

Rmb 30,700 million,

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

Rmb 38,900 million and

Rmb 44,700 million, respectively

Table of Contents

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

The non-exempt continuing connected transactions for the year ended December 31, 2016 to which any member of us was a party were entered into by us:

(i) in the ordinary and usual course of our business;

(ii) on normal commercial terms or better; and

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

We confirmed that the annual amount of each category of the non-exempt continuing connected transactions for the year ended December 31, 2016 did not exceed the applicable annual caps; and we have complied with other relevant provisions of the Hong Kong Stock Exchange Listing Rules in relation to each category of the non-exempt continuing connected transactions.

We expected to continue the continuing connected transactions contemplated under such comprehensive framework agreement after December 31, 2016. Therefore, we entered into a new comprehensive framework agreement with CNOOC on November 15, 2016. The term of the new comprehensive framework agreement is for a period of three years from January 1, 2017. The new comprehensive framework agreement is substantially on the same terms as the terms contained in the comprehensive framework agreement entered into by the Company on November 6, 2013, with more details about the pricing principles. The continuing connected transactions under the new comprehensive framework agreement and the relevant annual caps for the three years from January 1, 2017 were approved by the independent shareholders of the Company on December 1, 2016. For details of such relevant annual caps, please refer to the reports in the form of Form 6-K filed by us through EDGAR on November 15, 2016 and November 16, 2016, respectively.

**Transactions with CNOOC Finance Corporation Limited**

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

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

We confirmed that the maximum daily outstanding balance of deposits (including accrued interests but excluding funds placed for the purpose of extending entrustment loans pursuant to the entrustment loan services) placed by us with CNOOC Finance did not exceed Rmb 22 billion from

Table of Contents

January 1, 2016 to December 31, 2016.

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

**Borrowings from CNOOC**

In September 2014, CNOOC provided CNOOC International Limited, a wholly-owned subsidiary of us a five-year uncommitted revolving loan facility for general purposes, with the principal amount of US\$135 million of 0.95% per annum. As at March 31, 2017, the withdrawal amount of the loan was US\$130 million; In December 2014, CNOOC provided us a five-year uncommitted revolving loan facility for general purposes, with the principal amount of US\$600 million of 0.95% per annum. As at March 31, 2017, the withdrawal amount of the loan was US\$564 million. All the loans above are unsecured.

C. Interests of Experts and Counsel

Not applicable.

**ITEM 8. FINANCIAL INFORMATION**

A. Consolidated Statements and Other Financial Information

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

## Legal Proceedings

As at December 31, 2016, the Company was not involved in any material litigation or arbitration and no material litigation or arbitration were pending or threatened or made against the Company so far as the Company is aware.

## Dividend Distribution Policy

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

Dividends may be paid only out of our distributable profits as permitted under Hong Kong law, which does not restrict the payment of dividends to nonresident holders of our securities. To the extent

Table of Contents

profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations.

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

In 2014, we declared and paid dividends totaling Rmb 20,216 million. In 2015, we declared and paid dividends totaling Rmb 20,419 million. In 2016, we declared and paid dividends totaling Rmb 14,244 million (US\$2,052 million). The amount of dividends we paid historically is not indicative of the dividends that we will pay in the future.

Substantially all our dividend payments result from dividends paid to us by CNOOC China Limited. CNOOC China Limited must follow the laws and regulations of the PRC and its articles of association in determining its dividends. As a wholly foreign owned enterprise in China, CNOOC China Limited has to provide for a reserve fund and staff and workers' bonus and welfare fund, each of which is appropriated from net profit after taxation but before dividend distribution according to the prevailing accounting rules and regulations in the PRC. CNOOC China Limited is required to allocate at least 10% of its net profit to the reserve fund until the balance of this fund has reached 50% of its registered capital, which amount was reached in 2009. Appropriations to the staff and workers' bonus and welfare fund, which are determined at the discretion of the directors of CNOOC China Limited, are charged to expense as incurred in our consolidated financial statements, which were prepared under IFRS. In accordance with the "Temporary Regulation for Safety Expense Financial Management of High Risk Industry" and the implementation guidance issued by the Ministry of Finance of the PRC, a safety fund has been accrued for our oil and gas exploration and production activities within the PRC. The accrued safety fund will be utilized for improving the safety conditions of our production. Included in other reserves was a provision for safety fund under the PRC regulation amounting to Rmb 701.4 million (US\$101 million) in 2016, which was Rmb 733.7 million in 2015. None of the contributions of CNOOC China Limited to these statutory funds may be used for dividend purposes.

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

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

	<u>of Net Profits</u>		<u>of Net Profits</u>		<u>of Net Profits</u>	
Reserve fund	—	—	—	—	—	—
Staff and workers' bonus and welfare fund	0.2%	102	—	—	—	—
Safety fund	1.1%	692	3.6%	733.7	110.7%	705.1
<b>Contingencies</b>						

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

On August 10, 2015, the Company received a Notice Calling for Responses from the Qingdao Maritime Court of the People’s Republic of China for a public interest action filed by China Biodiversity Conservation and Green Development Foundation (the “Plaintiff”) in relation to the Penglai 19-3 Oilfield Oil Spill Accidents (the “Claim”). The Claim is lodged against COPC and



Table of Contents

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

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

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

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

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

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

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

The Group is subject to tax in numerous jurisdictions around the world. There are audits in progress and items under review. Difference in positions taken by taxation authorities over the interpretation and application of tax laws and regulations may increase the Group's tax liability. Management has assessed the possible future outcome of matters that are currently under dispute. The

Table of Contents

Company believes that an adequate provision for future tax liability has been included in the consolidated financial statements based on available information.

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

### B. Significant Changes

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

## ITEM 9. THE OFFER AND LISTING

Not applicable, except for Item 9.A.4 and Item 9.C.

We listed our shares on the Hong Kong Stock Exchange and our ADSs on the New York Stock Exchange in February 2001. Our shares are listed on the Hong Kong Stock Exchange under the stock code “00883” and our ADSs are listed on the New York Stock Exchange under the symbol “CEO.” Pursuant to certain undertakings in connection with our acquisition of Nexen, we listed our ADSs on the Toronto Stock Exchange in September 2013 under the symbol “CNU”. The listing of our ADSs on the Toronto Stock Exchange is not a new issuance of equity securities and does not generate additional funds for us. The following table sets forth, for the periods indicated, the high and low closing prices per share, as reported on the Hong Kong Stock Exchange and adjusted retroactively to reflect the stock split, and per ADS, as reported on the New York Stock Exchange and the Toronto Stock Exchange.

Period	Hong Kong Stock Exchange		New York Stock Exchange		Toronto Stock Exchange	
	High	Low	High	Low	High	Low
	(HK\$ per share)		(US\$ per ADS)		(Cdn\$ per ADS)	
2012	18.10	13.28	232.84	173.82	—	—
2013	17.34	11.54	226.60	159.19	217.78	196.50
2014	15.68	9.80	201.50	126.70	219.15	151.57
2015	13.42	7.44	174.88	98.91	210.01	135.00

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

Table of Contents

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

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

The following are summaries of provisions of our articles of association and the Hong Kong Companies Ordinance. By operation of this Ordinance, provisions that were previously contained in our memorandum of association are deemed to be incorporated into our articles of association except for those provisions which conflict with the Hong Kong Companies Ordinance. For further details, you should read our memorandum of association, which was filed as an exhibit to our registration statement on Form F-1 (Registration No.333-10862) and our articles of association, as amended, which was filed as an exhibit to our annual report on Form 20-F for the fiscal year of 2010. We are required by the Hong Kong Stock Exchange Listing Rules to upload, among other things, our memorandum and articles of association on our website and on the website of the Hong Kong Stock Exchange. We have complied with such requirement and as such, our memorandum and articles of association were further filed as an exhibit to the Form 6-K filed with the SEC on March 30, 2012 (File Number: 1-14966).

Issue of Shares

Under the Hong Kong Companies Ordinance, our directors may, without obtaining the prior approval of our shareholders, offer to allot new shares in our company to existing shareholders on a pro rata basis. Our directors may not allot new shares of our company or grant rights to subscribe for, or to convert any security into, shares of our company in any other manner without the prior approval of our shareholders at a general meeting. Any approval given at a general meeting granting our directors power to allot shares or securities convertible into shares or to grant rights to subscribe for shares generally shall continue in force from the date of the passing of the resolution until the earlier of:

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

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

If such an approval for a general mandate to issue shares is given, our Board shall have the discretion to issue such number of shares as are approved pursuant to such general mandate, and our directors may offer, allot, grant options or other rights of subscription or conversion over, or otherwise issue, such number of shares to persons at such times and for such consideration and upon such terms and conditions as our directors may determine, subject to the restrictions under the Hong Kong Stock Exchange Listing Rules.

In accordance with Hong Kong Stock Exchange Listing Rules, any such approval of the shareholders must be limited to shares not exceeding 20% of our total number of shares in issue as of the date of granting such approval plus the number of shares repurchased by us since the granting of such approval.

#### Dividends

Subject to the Hong Kong Companies Ordinance, the shareholders at a general meeting may declare dividends to be paid to shareholders. However, under our articles of association, dividends cannot

## Table of Contents

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

In addition to dividends declared at a general meeting, our Board may declare and pay to the shareholders interim dividends as our Board deems justified by our financial position. Our Board may also pay any fixed dividend on any shares of our company semi-annually or at other suitable intervals, whenever our financial position, in their opinion, justifies such payment.

## Winding Up

If we are wound up, the surplus assets remaining after payment to all creditors are to be divided among our shareholders in proportion to the amount paid on the shares held by them respectively, and if such surplus assets are insufficient to repay the whole of the paid-up share capital, they are to be distributed so that the losses are borne by our shareholders in proportion to the amount paid up on the shares held by them respectively. The liquidator may, with the sanction of a special resolution, divide among our shareholders in specie or in kind the whole or any part of our assets or vest any part of our assets in trustees upon such trusts for the benefit of our shareholders or any of them as the resolution shall provide.

## Voting Rights

Under the Hong Kong Companies Ordinance, any action to be taken by the shareholders at a general meeting requires the affirmative vote of either an ordinary or a special resolution passed at such meeting.

An ordinary resolution is a resolution passed by a majority of shareholders that are entitled to, and do, vote in person or by proxy at a general meeting;

A special resolution is a resolution passed by not less than 75% of shareholders that are entitled to, and do, vote in person or by proxy at a general meeting.

Generally, resolutions of shareholders are passed by ordinary resolution. However, the Hong Kong Companies Ordinance provides that certain specified matters may only approved by shareholders by way of special resolutions. These matters include, for example:

- alteration of the articles;
- change of a company's name;
- reduction of share capital; and
- voluntary winding up.

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

Any action to be taken by the shareholders requires the affirmative vote of the requisite majority of the shares at a general meeting. There are no cumulative voting rights. Accordingly, the holders of a majority of the shares voting for the election of directors can elect all the directors if they choose to do so.

Under Hong Kong law and our articles of association, shareholders who are not residents of Hong Kong may hold, vote and transfer their shares in our company in the same manner as our shareholders who are Hong Kong residents.



## Table of Contents

### General Meetings

We are required to hold an annual general meeting each year within six months from the end of our financial year. We may also hold extraordinary general meetings from time to time. Our Board may convene an extraordinary general meeting at will, and shall on requisition in accordance with the Hong Kong Companies Ordinance, proceed to convene an extraordinary general meeting. Our annual general meeting and a meeting called for the purpose of passing a special resolution require at least twenty-one days' prior notice, and any other general meeting requires at least fourteen days' prior notice. The notice must specify the place, day and time of the meeting and, in the case of special business, the general nature of that business. The quorum for a general meeting is two shareholders present in person or by proxy. If within thirty minutes from the time appointed for the meeting a quorum is not present, the meeting, if convened upon requisition in accordance with the Hong Kong Companies Ordinance, shall be dissolved; but in any other case it shall stand adjourned to the same day in the next week at the same time and place, or to such other day, time and place as the chairman of the meeting may determine. If at such adjourned meeting a quorum is not present within thirty minutes from the time appointed for the meeting, the member or members present in person or by proxy shall be a quorum and may transact the business for which the meeting is called.

At each annual general meeting one third of our directors are to retire from office by rotation, save any director holding office as chairman or chief executive officer. The directors to retire every year are to be those who have been longest in office since their last election and the retiring directors will be eligible for re-election.

### Modification of Rights

Subject to the Hong Kong Companies Ordinance, any of the rights attaching to any class of shares, unless otherwise provided for by the terms of issue of the shares of that class, may be varied or abrogated with the written consent of the holders of not less than 75% of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of shares of that class.

### Borrowing Powers

Our Board may exercise all the powers of our company to borrow money and to mortgage or charge all or any part of our undertaking, property and assets, whether present or future, and uncalled capital. Our Board may issue debentures, debenture stock, bonds or other securities of our company, whether outright or as collateral security for any debt, liability or obligation of our company or of any third party. These borrowing powers are subject to variation by a special resolution of our company.

Interested Transactions

Subject to the exceptions described below, none of our directors may vote on any contract, arrangement or proposal in which the director or any of his or her associates is materially interested. Subject to provision of the Hong Kong Companies Ordinance, our directors may vote at a board meeting or by way of written resolution of directors on the following matters:

any contract or arrangement to give security or indemnity to the director or his or her associates for money lent or obligations incurred or undertaken by such director or his or her associates at the request of or for the benefit of our company or subsidiaries;

any contract or arrangement for the giving by us of any security or indemnity to a third party for our debts or obligations or debts or obligations of our subsidiaries for which such director or his or her associates assumed responsibility , or guaranteed or secured in whole or in part whether alone or jointly;

Table of Contents

any contract or arrangement concerning offering of securities by us (or any company which we may promote or be interested in purchasing) for which the director or his or her associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting;

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

any proposal or arrangement concerning employee benefits that do not provide privileges to our directors or their associates not generally accorded to the class of persons to whom such scheme or fund relates, including pension fund or retirement, death or disability benefits schemes; and

any proposal or arrangement concerning the adoption, modification or operation of any employees' share scheme involving the issue or grant of options over shares or other securities by us to, or for the benefit of, our employees or employees of our subsidiaries under which the director or his or her associates may benefit.

C. Material Contracts

We have not entered into any material contracts in the last two years other than in the ordinary course of business, those described in "Item 7 Major Shareholders and Related Party Transactions Related Party Transactions".

D. Exchange Controls

For information on foreign exchange controls in the PRC, foreign exchange rates, hedging activities and related foreign exchange risks, see "Item 3—Key Information—Selected Financial Data," "Item 3—Key Information—Risk Factors—Relating to the PRC—Government control of currency conversion and future movements in exchange rates may adversely affect our operations and financial condition" and "Item 11—Qualitative and Quantitative Disclosure about Market Risk."

E. Taxation

The taxation of income and capital gains of holders of our shares or ADSs is subject to the laws and practices of the PRC, Hong Kong and the jurisdictions in which holders of our shares or ADSs are resident or otherwise subject to tax. The following is a summary of taxation provisions that are anticipated to be material based on current law and practice. This summary is subject to change and does not constitute legal or tax advice. The discussion does not deal with all possible tax consequences relating to an investment in our shares or ADSs. In particular, the discussion does not address the tax consequences under state, local or other laws, such as non-PRC, non-Hong Kong or non-U.S. laws. Accordingly, we urge you to consult your tax adviser regarding the tax consequences of owning our shares and ADSs. The discussion is based upon laws and relevant interpretations in effect as of the date of this annual report, all of

which are subject to change. There is no reciprocal tax treaty in effect between Hong Kong and the United States.

#### The PRC

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

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

We are considered a PRC resident enterprise for purposes of the Notice. In Accordance with the Notice and the PRC income tax law as well as the formal approval from the SAT in October 2010, we are

## Table of Contents

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

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

## Hong Kong

### Tax on Dividends

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

### Profits Tax

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

### Stamp Duty

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

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

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

Table of Contents

to U.S. Holders who hold ADSs or shares as capital assets for U.S. federal income tax purposes and does not address all of the U.S. federal income tax consequences that may be relevant to U.S. Holders that are subject to special rules, such as:

- certain financial institutions;
- dealers or traders in securities who use a mark-to-market method of tax accounting;
- persons holding ADSs or shares as part of a straddle, conversion transaction, integrated transaction or similar transaction;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes;
- persons liable for the alternative minimum tax;
- tax-exempt entities, “individual retirement accounts” or “Roth IRAs”;
- persons that own or are deemed to own 10% or more of our voting stock;
- persons who acquired our ADSs or shares pursuant to the exercise of an employee stock option or otherwise as compensation; or
- persons holding shares in connection with a trade or business conducted outside of the United States.

If an entity that is classified as a partnership for U.S. federal income tax purposes owns ADSs or shares, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships owning ADSs or shares and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of owning and disposing of the ADSs or shares.

This discussion is based on the Internal Revenue Code of 1986, as amended (the “Code”), administrative pronouncements, judicial decisions, final, temporary and proposed U.S. Treasury regulations and the PRC Treaty, all as of the date hereof. These laws are subject to change, possibly on a retroactive basis. It is also based, in part, on representations by the Depositary and assumes that each obligation under the Deposit Agreement and any related agreement will be performed in accordance with its terms. U.S. Holders should consult their tax advisers concerning the U.S. federal, state, local and non-U.S. tax consequences of owning and disposing of ADSs or shares in their particular circumstances.

As used herein, a “U.S. Holder” is a person that for U.S. federal income tax purposes is a beneficial owner of ADSs or shares and is: (i) a citizen or individual resident of the United States; (ii) a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state therein or the District of

Columbia; or (iii) an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

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

The U.S. Treasury has expressed concerns that parties to whom American depositary shares are released before delivery of shares to the depositary (a pre-release), or intermediaries in the chain of ownership between holders and the issuer of the securities underlying the American depositary shares, may be taking actions that are inconsistent with the claiming of foreign tax credits by holders of American depositary shares. Such actions would also be inconsistent with the claiming of the favorable tax rates, described below, applicable to dividends received by certain non-corporate holders. Accordingly, the creditability of foreign taxes and the availability of the favorable tax rates for dividends received by certain non-corporate holders, described below, could be affected by actions taken by such parties or intermediaries.

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



Table of Contents

## Taxation of Distributions

Distributions received by a U.S. Holder on ADSs or shares, other than certain *pro rata* distributions of common shares to all shareholders, will constitute foreign-source dividend income to the extent paid out of our current or accumulated earnings and profits (as determined for U.S. federal income tax purposes). Because we do not maintain calculations of our earnings and profits under U.S. federal income tax principles, it is expected that distributions generally will be reported to U.S. Holders as dividends. Dividends will be included in a U.S. Holder's income on the date of the U.S. Holder's or, in the case of ADSs, the Depositary's receipt of the dividend. The amount of the dividend will equal the U.S. dollar value of the Hong Kong dollar distribution, calculated by reference to the exchange rate in effect on the date of receipt, regardless of whether the payment is converted into U.S. dollars on the date of receipt. If the dividend is converted into U.S. dollars on the date of receipt, a U.S. Holder should not be required to recognize foreign currency gain or loss in respect of the dividend income. A U.S. Holder may have foreign currency gain or loss if the dividend is converted into U.S. dollars after the date of receipt. Corporate U.S. Holders will not be entitled to claim a dividends-received deduction with respect to dividends paid by us.

Subject to applicable limitations and the discussion above regarding concerns expressed by the U.S. Treasury, dividends paid by "qualified foreign corporations" to certain non-corporate U.S. shareholders are taxable at rates applicable to long-term capital gains. A foreign corporation is treated as a qualified foreign corporation with respect to dividends paid on stock that is readily tradable on an established securities market in the United States, such as the New York Stock Exchange where our ADSs are traded. A foreign corporation may also be treated as a qualified foreign corporation if it is eligible for benefits of a comprehensive income tax treaty with the United States determined by the U.S. Treasury to be satisfactory for these purposes and that includes an exchange of information program. Non-corporate U.S. Holders should consult their tax advisers to determine whether these favorable rates may apply to dividends they receive from us and whether they are subject to any special rules that limit their ability to be taxed at these favorable rates.

As described in "—Taxation—The PRC," we are regarded as a CRE pursuant to the provisions of the New EIT Law and the Notice. Accordingly, dividends paid with respect to our ordinary shares or ADSs generally will be subject to PRC withholding taxes. For U.S. federal income tax purposes, the amount of a dividend would include any amounts withheld by us in respect of PRC taxes. Subject to applicable limitations, any PRC income taxes withheld from dividends on ADSs or shares (in the case of a U.S. Holder that is eligible for the benefits of the PRC Treaty, at a rate not exceeding the rate provided by the PRC Treaty) may be creditable against the U.S. Holder's U.S. federal income tax liability. Where a U.S. Holder is eligible for the benefits of the PRC Treaty, PRC taxes withheld in excess of the rate applicable under the PRC Treaty will not be eligible for credit against the U.S. Holder's U.S. federal income tax liability. The rules governing foreign tax credits are complex, and U.S. Holders should consult their tax advisers regarding the creditability of foreign taxes in their particular circumstances. Instead of claiming a credit, a U.S. Holder may, at the U.S. Holder's election, deduct such PRC taxes in computing taxable income, subject to applicable limitations. An election to deduct foreign taxes instead of claiming foreign tax credits must apply to all foreign taxes paid or accrued in the taxable year.

## Sale or Other Disposition of ADSs or Shares

A U.S. Holder will generally recognize capital gain or loss on the sale or other disposition of ADSs or shares, which will be long-term capital gain or loss if the U.S. Holder has held such ADSs or shares for more than one year. The amount of the U.S. Holder's gain or loss will be equal to the difference between the amount realized on the sale or other disposition and the U.S. Holder's tax basis in the ADSs or shares (each determined in U.S. dollars).

As described in “—Taxation —The PRC,” gains from dispositions of our ADSs or shares may be subject to PRC tax. A U.S. Holder's amount realized would include the gross amount of the disposition proceeds before any withholding or deduction of PRC tax. Although under the Code any such gain of a U.S. Holder would generally be characterized as U.S.-source income, a U.S. Holder that is eligible for the

## Table of Contents

benefits of the PRC Treaty may be able to elect to treat the gain as foreign-source gain for foreign tax credit purposes. The rules governing foreign tax credits are complex and the creditability of foreign taxes is subject to limitations. U.S. Holders should consult their tax advisers regarding their eligibility for benefits under the PRC Treaty and the creditability of any PRC tax paid with respect to dispositions in their particular circumstances.

## Passive Foreign Investment Company Considerations

We believe that we were not a PFIC for U.S. federal income tax purposes for our taxable year ended December 31, 2016. In general, a non-U.S. company will be a PFIC for U.S. federal income tax purposes for any taxable year in which (i) 75% or more of its gross income consists of passive income or (ii) 50% or more of the average quarterly value of its assets consists of assets that produce, or are held for the production of, passive income. As PFIC status depends upon the composition of our income and assets and the market value of our assets from time to time, and since there are uncertainties in the manner of application of the PFIC rules, there can be no assurance that we will not be a PFIC for any taxable year.

If we were a PFIC for any taxable year during which a U.S. Holder held ADSs or shares, certain adverse U.S. federal income tax rules would apply on a disposition (including certain pledges) of ADSs or shares by the U.S. Holder. In general, under those rules, gain recognized by the U.S. Holder on a sale or other disposition of ADSs or shares would be allocated ratably over the U.S. Holder's holding period for the ADSs or shares. The amounts allocated to the taxable year of the sale or other disposition and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for such taxable year, and an interest charge would be imposed on the resulting tax liability for each such taxable year. Any distribution in respect of ADSs or shares in excess of 125% of the average of the annual distributions on ADSs or shares received by the U.S. Holder during the preceding three years or the U.S. Holder's holding period, whichever is shorter, would be subject to taxation in the same manner. Certain elections (such as a mark-to-market election) may be available to U.S. Holders and may result in alternative tax treatment.

In addition, if we were to be treated as a PFIC in a taxable year in which we pay a dividend or the prior taxable year, the favorable rates discussed above with respect to dividends received by certain non-corporate U.S. Holders would not apply.

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

## Information Reporting and Backup Withholding

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries may be subject to information reporting and backup withholding, unless the U.S. Holder is an exempt recipient or, in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle such U.S. Holder to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

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

Table of Contents

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We are subject to the informational requirements of the Exchange Act and accordingly file reports and other information with the Securities and Exchange Commission. You may inspect and copy our reports and other information we file with the Securities and Exchange Commission at the public reference facilities maintained by the Securities and Exchange Commission. Copies of such material may also be obtained at prescribed rates by writing to the Public Reference Section of the Securities and Exchange Commission at 100 F Street, NE, Washington, D.C. 20549. Please call 1-800-SEC-0330 for information on the location and operation of the Securities and Exchange Commission's public reference facilities. Our filings with the Securities and Exchange Commission are also available to the public over the internet at its website at <http://www.sec.gov>.

I. Subsidiary Information

Not applicable.

ITEM 11. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Our market risk exposures primarily consist of fluctuations in oil and gas prices, exchange rates and interest rates.

**Commodity Price Risks**

We are exposed to fluctuations in prices of crude oil. International oil prices are volatile and this volatility has a significant effect on our net sales and profit. We do not hedge market risk resulting from fluctuations in oil prices. See

“Item 4—Information on the Company—Business Overview—Overview” and “Item 3—Key Information—Risk Factors—Risks Relating to Our Operations—Our business, revenues and profits fluctuate with changes in oil and gas prices.”

## Currency Risk

Our foreign exchange exposure gives rise to market risk associated with exchange rate movements.

Substantially all of our oil and gas sales are denominated in Renminbi and U.S. dollars. China adopted a managed floating exchange rate approach based on market supply and demand and with reference to a basket of currencies. From January 1, 2016 to March 31, 2017, Renminbi depreciated approximately 5.88% against U.S. dollar.

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

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

Table of Contents

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

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

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

For further information on our currency risk, see “Item 3—Key Information—Risk Factors—Risks Relating to the PRC—Government control of currency conversion and future movements in exchange rates may adversely affect our operations and financial condition.”

**Interest Rate Risk**

We are exposed to interest rate risk arising from our debts. An upward fluctuation in interest rates increases the cost of new debt and the cost of servicing our floating rate debt. We may use interest rate swap transactions, from time to time, to hedge our interest rate exposure when considered appropriate, based on existing and anticipated market conditions.

As of December 31, 2016, the interest rates for 95.3% of our outstanding debts were fixed. The term of the weighted average balance was approximately 9.55 years. A fixed interest rate can reduce the volatility of finance costs in uncertain markets. We do not currently engage in any interest rate hedging activities.

As of December 31, 2016, the interest rates for 99.1% of our total outstanding long-term debts were fixed. The following table sets forth additional information about the expected maturity dates of our outstanding long-term debt (including the current portion) as of December 31, 2016.

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

(Rmb in millions, except percentages)

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

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

Item 12 Description of Securities other than equity securities

A.

Debt Securities

Not applicable.



Table of Contents

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary shares

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

**ADR Fees Payable by Investors**

The Depositary may charge each person to whom ADRs are issued, including, without limitation, issua