

CNOOC LTD  
Form 20-F  
April 29, 2011

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, 2010

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)

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

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

Title of each class

Name of each exchange on which

American depositary shares, each representing 100 shares of  
par value HK\$0.02 per share  
Shares of par value HK\$0.02 per share

registered  
New York Stock Exchange, Inc.  
New York Stock Exchange, Inc.(1)

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

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

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

Shares, par value HK\$0.02 per share	44,669,199,984
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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

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

Yes  No

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

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

Yes  No

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

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

U.S. GAAP

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

Other

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

Item 17  Item 18

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

Yes  No

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



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TERMS AND CONVENTIONS

Definitions

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

- 1 “CNOOC” are to our controlling shareholder, China National Offshore Oil Corporation, a PRC state-owned enterprise, and its affiliates, excluding us and our subsidiaries;
- 1 “CNOOC Limited” are to CNOOC Limited, a Hong Kong limited liability company and the registrant of this annual report;
  - 1 “Our company”, “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 of par value HK\$0.02 per share;
- 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 the 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;
    - 1 “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 “NYSE” are to the New York Stock Exchange;
    - 1 “Rmb” are to Renminbi, the legal currency of the PRC; and
    - 1 “US\$” are to U.S. dollar, the legal currency of the United States of America.

Conventions

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



H.10 weekly statistical release of the Federal Reserve Board on December 30, 2010 of US\$1.00=Rmb 6.6000. We have also 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 30, 2010 of US\$1.00=HK\$7.7810. We make no representation that the Renminbi amounts or Hong Kong dollar amounts could have been, or could be, converted into U.S. dollars at those rates on December 30, 2010, or at all. For further information on exchange rates, see “Item 3—Key Information—Selected Financial Data.”

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

Except as otherwise noted, all information in this annual report relating to our oil and natural gas reserves is based upon estimates prepared by independent petroleum engineering consulting companies and reviewed by us, except for the information relating to certain of our oil and natural gas reserves for the year 2010, which was evaluated by us independently, such as Wenchang 13-1, Wenchang 13-2 and Dongfang 1-1 oil and gas fields offshore China, and Akpo and Egina oil fields in Nigeria. Our reserve data for 2009 and 2010 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.

In calculating barrels-of-oil equivalent amounts, for reserves, we have assumed that 6,000 cubic feet of natural gas equals one BOE, with the exception of natural gas from South America which we have assumed that 5,800 cubic feet of natural gas equals one BOE. For production, we have used actual thermal unit of each oil and gas field for such conversion purpose.

### Glossary of Technical Terms

Unless otherwise indicated in the context, references to:

- 1 "API gravity" means the American Petroleum Institute's scale for specific gravity for liquid hydrocarbons, measured in degrees.
- 1 "appraisal well" means an exploratory well drilled after a successful wildcat well to gain more information on a newly discovered oil or gas reserve.
- 1 "condensate" means a mixture of hydrocarbons that exists in the gaseous phase at original reservoir temperature and pressure and exists in the liquid phase at surface pressure and temperature when produced.
  - 1 "crude oil" means crude oil and liquids, including condensate, natural gas liquids and liquefied petroleum gas.
    - 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.
  - 1 "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.
    - 1 "LNG" means liquefied natural gas.
  - 1 "natural gas liquids" means light hydrocarbons that can be extracted in liquid form from natural gas through special separation plants.



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

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

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

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

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

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

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

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

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

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

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



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

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

For further definitions relating to reserves:

1 “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 S-1 of this annual report.

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

1 “reserve life” means the ratio of proved reserves to annual production of crude oil or, with respect to natural gas, to wellhead production excluding flared gas, also known as reserve-to-production ratio.

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

1 “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.

1 “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;

1 BOE means barrels-of-oil equivalent;

1 mcf means thousand cubic feet;

1 mmcf means million cubic feet;

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

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

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FORWARD-LOOKING STATEMENTS

This annual report includes “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995. The words “believe”, “intend”, “expect”, “anticipate”, “project”, “estimate”, “plan”, “predict” and similar expressions are also 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,
  - potential 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 analyses 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 those associated with fluctuations in crude oil and natural gas prices, our exploration or development activities, our capital expenditure requirements, our business strategy, the highly competitive nature of the oil and natural gas industry, our foreign operations, environmental liabilities and compliance requirements, and economic and political conditions in the PRC and overseas. For a description of these and other risks and uncertainties, see “Item 3—Key Information—Risk Factors.”



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

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

Our consolidated financial statements for the years ended December 31, 2008, 2009 and 2010 included in this annual report on Form 20-F have been prepared in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board.

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

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

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## PART I

## ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

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

## ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

## ITEM 3. KEY INFORMATION

## A. SELECTED FINANCIAL DATA

The following tables present selected historical financial data of our company as of and for the years ended December 31, 2007, 2008, 2009 and 2010. Except for amounts presented in U.S. dollars, the selected historical consolidated statement of financial position data and consolidated statement of comprehensive income data as of and for the years ended December 31, 2007, 2008, 2009 and 2010 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, 2007, 2008, 2009 and 2010 have been prepared and presented in accordance with IFRS.

	Year ended December 31,				
	2007 Rmb	2008 Rmb	2009 Rmb	2010 Rmb	2010 US\$
	(in millions, except per share and per ADS data)				
Statement of Comprehensive Income Data:					
Operating revenues:					
Oil and gas sales	73,037	100,831	83,914	149,119	22,594
Marketing revenues	17,397	22,967	20,752	32,446	4,916
Other income	290	2,179	529	1,488	225
Total operating revenues	90,724	125,977	105,195	183,053	27,735
Expenses:					
Operating expenses	(8,040 )	(9,990 )	(12,490 )	(16,204 )	(2,455 )
Taxes other than income tax	(3,657 )	(5,150 )	(3,889 )	(8,204 )	(1,243 )
Exploration expenses	(3,432 )	(3,410 )	(3,234 )	(5,580 )	(845 )
Depreciation, depletion and amortization	(7,936 )	(10,058 )	(15,943 )	(27,687 )	(4,195 )
Special oil gain levy	(6,837 )	(16,238 )	(6,357 )	(17,706 )	(2,683 )
Impairment and provision	(614 )	(1,541 )	(7 )	(27 )	(4 )
Crude oil and product purchases	(17,083 )	(22,675 )	(20,455 )	(32,236 )	(4,884 )
Selling and administrative expenses	(1,741 )	(1,743 )	(2,264 )	(3,063 )	(464 )
Others	(185 )	(1,307 )	(231 )	(941 )	(143 )
	(49,525 )	(72,112 )	(64,870 )	(111,648 )	(16,916 )
Interest income	673	1,091	638	704	107
Finance costs	(2,032 )	(415 )	(535 )	(1,222 )	(185 )
Exchange gains, net	1,856	2,551	54	995	151
Investment income	902	476	200	427	65

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Share of profits of associates	719	374	173	199	30
Non-operating income/ (expenses), net	(7 )	(62 )	(34 )	142	21
Profit before tax	43,310	57,880	40,821	72,650	11,008
Income tax expense	(12,052 )	(13,505 )	(11,335 )	(18,240 )	(2,764 )
Profit for the year	31,258	44,375	29,486	54,410	8,244

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	Year ended December 31,									
	2007		2008		2009		2010		2010	
	Rmb		Rmb		Rmb		Rmb		US\$	
	(in millions, except per share and per ADS data)									
Earnings per share (basic)(1)	0.72		0.99		0.66		1.22		0.18	
Earnings per share (diluted) (2)	0.72		0.99		0.66		1.21		0.18	
Earnings per ADS (basic) (1)	71.68		99.44		66.01		121.81		18.46	
Earnings per ADS (diluted) (2)	71.48		99.08		65.86		121.39		18.39	
Dividend per share										
Interim	0.12	2	0.17	5	0.17	6	0.18	1	0.03	
Proposed final	0.15	9	0.17	6	0.17	6	0.21	1	0.03	

	As of December 31,				
	2007	2008	2009	2010	2010
	Rmb		Rmb	Rmb	US\$
	(in millions)				
Statement of Financial Position Data:					
Cash and cash equivalents	23,357	19,762	22,615	39,571	5,996
Available-for sale financial assets	6,688	11,661	8,582	18,940	2,870
Current assets	55,732	63,770	70,871	100,653	15,250
Property, plant and equipment, net	118,880	138,358	165,320	212,330	32,171
Investments in associates	2,031	1,785	1,727	1,781	270
Intangible assets and goodwill	1,331	1,206	1,230	3,022	458
Long term available-for-sale financial assets	1,819	1,550	3,120	8,704	1,319
Total assets	179,793	206,669	242,268	327,926	49,686
Current liabilities	21,402	18,799	31,042	69,410	10,517
Long term loans and borrowings, net of current portion	11,046	13,864	18,570	11,716	1,775
Total long term liabilities	24,077	27,632	37,291	42,750	6,477
Total liabilities	45,479	46,431	68,333	112,160	16,994
Capital stock	41,986	43,078	43,078	43,078	6,527
Shareholders' equity	134,315	160,238	173,936	215,766	32,692

(1) Earnings per share (basic) and earnings per ADS (basic) for each year from 2007 to 2010 have been computed, without considering the dilutive effect of the shares underlying our share option schemes and, as applicable, convertible bonds, by dividing profit by the weighted average number of shares and the weighted average number of ADSs of 43,605,437,212 and 436,054,372, respectively, for 2007, 44,623,856,311 and 446,238,563, respectively, for 2008, 44,669,199,984 and 446,692,000, respectively, for 2009 and 44,669,199,984 and 446,692,000, respectively, for 2010, in each case based on a ratio of 100 shares to one ADS.

(2) Earnings per share (diluted) and earnings per ADS (diluted) for each year from 2007 to 2010 have been computed, after considering the dilutive effect of the shares underlying our share option schemes and, as applicable, convertible bonds, by using 43,731,936,869 shares and 437,319,369 ADSs for 2007, 44,786,097,516 shares and 447,860,975 ADSs for 2008, 44,771,714,329 shares and 447,717,143 ADSs for 2009 and 44,821,187,466 shares and 448,211,875 ADSs for 2010.

	Year ended December 31,				
	2007 Rmb	2008 Rmb	2009 Rmb	2010 Rmb	2010 US\$
	(in millions, except percentages and ratios)				
Other Financial Data:					
Capital expenditures paid(1)	23,895	33,161	39,376	29,512	4,472
Cash provided by (used for):					
Operating activities	38,254	52,489	49,624	83,498	12,651
Investing activities	(18,327 )	(45,735 )	(37,307 )	(64,800 )	(9,818 )
Financing activities	(10,799 )	(10,129 )	(9,403 )	(1,284 )	(195 )
Gearing ratio(2)	7.9%	8.0%	9.7%	13.4%	13.4%

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- (1) Capital expenditures paid exclude acquisition capital expenditures.  
(2) Interest bearing debt divided by the sum of interest bearing debt and equity.

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

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Period	End	Noon Buying Rate		
		Average(1)	High	Low
		(Rmb per US\$1.00)		
2006	7.8041	7.9723	8.0702	7.8041
2007	7.2946	7.5806	7.8127	7.2946
2008	6.8225	6.9477	7.2946	6.7800
2009	6.8259	6.8307	6.8470	6.8176
2010	6.6000	6.7696	6.8330	6.6000
October 2010	6.6707	—	6.6912	6.6397
November 2010	6.6670	—	6.6892	6.6330
December 2010	6.6000	—	6.6745	6.6000
January 2011	6.6017	—	6.6364	6.5809
February 2011	6.5713	—	6.5965	6.5520
March 2011	6.5483	—	6.5743	6.5483

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

As of March 31, 2011, 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 Rmb6.5483 to US\$1.00.

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

Period	End	Noon Buying Rate		
		Average(1)	High	Low
		(HK\$ per US\$1.00)		
2006	7.7771	7.7681	7.7928	7.7506
2007	7.7984	7.8008	7.8289	7.7497
2008	7.7499	7.7862	7.8159	7.7497
2009	7.7536	7.7514	7.7618	7.7495
2010	7.7810	7.7687	7.8040	7.7506
October 2010	7.7515	—	7.7642	7.7515
November 2010	7.7649	—	7.7656	7.7501
December 2010	7.7810	—	7.7833	7.7612
January 2011	7.7926	—	7.7978	7.7683
February 2011	7.7883	—	7.7957	7.7823
March 2011	7.7750	—	7.8012	7.7750

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

As of March 31, 2011, 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\$7.7750 to US\$1.00.

## B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

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

Risks Relating to Our Operations

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

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

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

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

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

The reliability of reserve estimates depends on a number of factors, including the quality and quantity of technical and economic data, the prevailing oil and gas prices for our production, the production performance of reservoirs, extensive engineering judgments, and the fiscal regime in the PRC and overseas where we have operations or assets.

Many of the factors, assumptions and variables involved in estimating reserves are beyond our control and may prove to be incorrect over time. In addition, many of the factors involved in estimating reserves over which we do have control, such as the recovery factor estimates and the projected production decline rates, may also prove to be incorrect over time. Consequently, the results of drilling, testing and production and oil and gas price changes may require substantial upward or downward revisions in our initial reserve data.

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

Exploring for, developing and acquiring reserves is highly risky and capital intensive. Our exploration and development activities involve inherent risks, including the risk that we will not encounter commercially productive oil or gas reservoirs. In addition, approximately 49.1% of our proved reserves were undeveloped as of December 31, 2010. Our future success will depend on our ability to develop these reserves in a timely and cost-effective manner. There are various risks in developing reserves, including construction, operational, geophysical, geological and regulatory risks.

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

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

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

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

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

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

CNOOC indirectly owned 64.41% of our shares as of March 31, 2011. As a result, CNOOC is able to control the composition of the board of directors of our company, or our Board, determine the timing and amount of our dividend payments and otherwise control us. If CNOOC takes actions that favor its interests over ours, our results of operations and financial position may be adversely affected.

In addition, we regularly enter into transactions with CNOOC and its affiliates, such as China Oilfield Services Limited, or COSL, Offshore Oil Engineering Co., Ltd, or COOEC, and China BlueChemical Ltd. Some of our transactions with CNOOC and its affiliates constitute connected transactions under the Hong Kong Stock Exchange Listing Rules. Furthermore, these connected transactions are subject to review by the Hong Kong Stock Exchange and may also be subject to the prior approval of our independent shareholders. For example, we have obtained the independent shareholders' approval in respect of certain continuing connected transactions under a comprehensive framework agreement with the CNOOC on November 24, 2010. If we do not obtain these approvals, we will not be allowed to effect these transactions and our business operations and financial condition could be adversely affected.

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

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

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

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

Many of our operations are conducted with partners or in joint ventures in which we have limited ability to influence or control their operation or future development. For instance, in 2010, we, through our wholly-owned subsidiary, CNOOC International Limited, acquired a 33.33% interest in Chesapeake Energy Corporation's 600,000 net oil and natural gas leasehold acres in the Eagle Ford Shale project in South Texas. Our limited ability to influence or control the operation or future development of such joint venture could materially and adversely affect the realization of our

target returns on capital and lead to unexpected future costs.

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

Our operations are mainly conducted offshore. Although we have adopted standard workflow procedures and various measures to control the risks of blowouts, we cannot assure you that we could avoid the potential losses caused by blowouts. If one or more blowout incidents occur, platform explosions and fire accidents caused by blowouts may result in casualties, property losses and environmental damages, which may have a material adverse effect on our business, financial condition and results of operation.

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

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

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

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

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

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

Further, the Iran Sanctions Act, as amended in July 2010, or ISA, authorizes the imposition of sanctions on companies that export certain levels of refined petroleum products to Iran, or provide certain levels of assistance to Iran in developing petroleum resources or in importing or producing refined petroleum products. It is possible that CNOOC could engage in activities targeted by ISA. If the U.S. President determined that CNOOC in fact engaged in the prohibited activities, he could select from among nine sanctions options available under ISA, which range from restrictions on U.S. exports or bank financing to outright blocking of CNOOC's property within U.S. jurisdiction. If the most extreme sanction, blocking, were applied to CNOOC's property, including controlled subsidiaries, CNOOC Limited could be prohibited from engaging in business activities in the United States 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.

Risks Relating to the Petroleum Industry

The oil and natural gas industries are very competitive

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We compete in the PRC and international markets with integrated and independent oil and gas companies for oil and gas properties or leases, customers, capital financing and business opportunities, including desirable oil and gas prospects. We also compete for the equipment and personnel required to explore, develop and operate oil and gas properties.

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

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

Our interests may be adversely affected by changes in governmental policies or social instability or other political, economic or diplomatic developments in or affecting these foreign nations which are not within our control, including, among other things, a change in crude oil or natural gas pricing policy, expropriation, nationalization, renegotiation or nullification of existing concessions and contracts, taxation policies, foreign exchange and repatriation restrictions, changing political conditions and currency controls.

Our operations are subject to laws and regulations in countries in which we operate. Changes in such laws and regulations could change environmental protection requirements and increase taxes, royalties and other amounts payable to governments or governmental agencies. Such changes may increase our cost of compliance or tax burden, which could materially and adversely affect our net income and result of operations.

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

War and acts of terrorism could materially and adversely affect us

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

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

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

## Risks Relating to the PRC

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

Our operations and assets are mainly in the People's Republic of China. The PRC government exercises control over the PRC petroleum industry, including licensing, exploring, producing, distributing, pricing, taxing, importing, exporting and allocating of various resources. We have benefited from various favorable PRC government policies, laws and regulations that have been enacted to encourage the development of the offshore petroleum industry. We cannot guarantee that the legal and fiscal regimes affecting our businesses will remain substantially unchanged or that we will continue to benefit from favorable PRC government policies. For instance, in 2006, the State Council of the PRC issued the Decision to Impose a Special Oil Gain Levy and the Ministry of Finance promulgated the Management Rules on the Administration of Special Oil Gain Levy, effective March 26, 2006. For detailed information on the Special Oil Gain Levy, see “Item 4. Information on the Company—B. Business Overview—Regulatory Framework—Special Policies Applicable to the Offshore Petroleum Industry in China.” In addition, see “—Government control of currency conversion and future movements in exchange rates may adversely affect our operations and financial condition” and “—Certain legal restrictions on dividend distribution may have a material adverse effect on our cash flows” for detailed information on the risks related to government control of currency conversion and the risks related to certain legal restrictions on dividend distribution, respectively.



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

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

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

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

The value of Renminbi against U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. The appreciation of Renminbi against U.S. dollar may cause a decrease in our oil sales, since the benchmark oil prices are usually in U.S. dollars.

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

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

## ITEM 4. INFORMATION ON THE COMPANY

### A. HISTORY AND DEVELOPMENT

Our legal and commercial name is CNOOC Limited. We were incorporated with limited liability on August 20, 1999 in Hong Kong under the Hong Kong Companies Ordinance. Our business registration number in Hong Kong is 685974. Under our memorandum of association, we may do anything which we are permitted to do by any enactment or rule of law. Our registered office is located at 65th Floor, Bank of China Tower, One Garden Road, Central, Hong Kong, and our telephone number is 852-2213-2500.

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

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

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

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

CNOOC has undertaken to us that:

- 1 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;
- 1 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;
- 1 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;
- 1 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;
- 1 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;
- 1 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
- 1 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:

- 1 if we become a wholly owned subsidiary of CNOOC;
- 1 if our securities cease to be listed on any stock exchange or automated trading system; or
- 1 12 months after CNOOC or any other PRC government-controlled entity ceases to be our controlling shareholder.



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For information on our capital expenditures, see “Item 5—Operating and Financial Review and Prospects—Liquidity and Capital Resources—Capital Expenditures and Investments.

### 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 2010, we had net proved reserves of 2.99 billion BOE, including approximately 1.92 billion barrels of crude oil and 6,458.3 bcf of natural gas. In 2010, we had an average daily production of approximately 721,534 barrels of crude oil and approximately 1,040.0 mmcf of natural gas, representing a total net oil and gas production of 900,702 BOE per day.

#### Competitive Strengths

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

- 1 large and diversified asset base with significant exploitation opportunities;
- 1 sizable operating areas in offshore China with demonstrated exploration potential;
- 1 successful independent exploration and development track record;
- 1 reduced risks and access to capital and technology through PSCs in offshore China;
- 1 competitive cost structure with strong margins; and
- 1 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, 2010, we had approximately 2.99 billion BOE of net proved reserves. Our core operating area, offshore China, contributed to 2.23 billion BOE, or 74.6%, of our net proved reserves, while overseas contributed to the balance of 25.4%.

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

As of December 31, 2010, approximately 49.1% 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, 2010, our total major exploration areas acreage in offshore China was 256.4 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 2010, we and our foreign partners have together drilled a total of 97 exploratory wells in offshore China, of which 59 were wildcat wells. During the same year, we and our foreign partners made 13 new discoveries in offshore China.

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### Successful independent exploration and development track record

We have a strong record of growing our reserves base for oil and natural gas, both independently and with our foreign partners through PSCs. In recent years, we have been adding reserves and production mainly through independent exploration and development. As of the end of 2010, in offshore China, approximately 77.1% of our net proved reserves were independent and approximately 68.6% of our production came from independent projects.

In 2010, in offshore China, our independent exploration resulted in 12 new discoveries. We also successfully appraised 12 oil and gas structures by 18 appraisal wells. On the development front, in 2010, our major new development projects progressed smoothly with 9 new projects on stream.

### Reduced risks and access to capital and technology through PSCs in offshore China

Our parent, CNOOC, holds exclusive right from the PRC government to enter into PSCs with foreign partners 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—Fiscal Regimes.”

### Competitive cost structure with strong margins

Despite cost escalation in global oil field services and raw materials, we have managed to maintain a competitive cost structure. During 2010, our production cost, not including ad valorem and severance taxes, decreased to US\$7.47 per BOE from US\$8.04 per BOE in 2009. Through enhanced operating efficiencies, our selling and administrative expenses also decreased to US\$1.41 per BOE in 2010 from US\$1.46 per BOE in 2009.

### 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 won “Energy Company of the Year”, the highest award of Platts Global Energy Awards in 2010. In addition, we were awarded the “Corporate Governance Asia Recognition Awards 2010 – One of the Best Companies in China” by Corporate Governance Asia in 2010.

### Business Strategy

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

- 1 focus on reserve and production growth;

1 develop natural gas business; and

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1 maintain prudent financial policy.

Focus on reserve and production growth

As an upstream company specializing in the exploration, development, production and sales of oil and natural gas, we consider reserve and production growth as top priority. We plan to increase our reserves through drill bits and value-driven acquisitions. We plan to concentrate independent exploration efforts on major existing operating areas, especially in major areas of offshore China. In the meantime, we plan to continue to enter into PSCs with foreign partners to lower capital requirements and exploration risks. In 2010, we achieved a reserve replacement ratio of 202%.

We plan to increase production primarily through the development of net proved undeveloped reserves. As of December 31, 2010, approximately 49.1% of our proved reserves were classified as net proved undeveloped, which gives us the opportunity to achieve future production growth, as long as these reserves are developed faster than the depletion rate of our currently producing reserves.

Develop natural gas business

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

From 2006 to 2010, our partners made several gas discoveries in deepwater South China Sea, including Liwan 3-1, Liuhua 34-2 and Liuhua 29-1. We expect that our natural gas production would increase with these gas fields on stream.

Maintain prudent financial policy

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

Aiming to keep our competitive cost structure, we plan to actively promote the regional planning and development of oil and gas field groups to share the production facilities and reduce production cost. In addition, we plan to apply up-to-date drilling, production and offshore engineering technology to our operations.

Currently, we have a strong financial profile with a low gearing ratio. We intend to maintain our financial strength by managing key measures such as capital expenditures, cash flows and fixed charge coverage. We also intend to actively manage our trade receivable and inventory positions to enhance liquidity and improve profitability. We will continue to monitor our foreign currency denominated debt and to minimize exposure to foreign exchange rate fluctuations.



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## 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 2009 and 2010 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. The comparative information for 2008 is not restated.

	Year ended December 31,		
	2008	2009	2010
<b>Net Production:</b>			
Oil (daily average bbls/day)	422,068	509,696	721,534
Gas (daily average mmcf/day)	621.1	653.5	1,040.0
Oil equivalent (BOE/day)	530,728	623,896	900,702
<b>Net Proved Reserves (end of period):</b>			
Oil (mmbbls)	1,578.2	1,667.8	1,915.1
Gas (bcf)	5,623.3	5,944.0	6,458.3
Total (million BOE)	2,515.4	2,658.4	2,994.5
Proved developed reserves (million BOE)	1,009.1	1,283.6	1,524.6
Proved undeveloped reserves (million BOE)	1,506.3	1,374.8	1,469.8
Annual reserve replacement ratio(1)	60%	163	202%
Estimated reserve life (years)	13.0	11.7	9.1
Standardized measure of discounted future net cash flow (million Rmb)	111,277	226,663	293,768

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

Except as otherwise noted, all information in this annual report relating to our oil and natural gas reserves is based upon estimates prepared by independent petroleum engineering consulting companies and reviewed by us, except for the information relating to certain of our oil and natural gas reserves for the year 2010, which was evaluated by us independently, such as Wenchang 13-1, Wenchang 13-2 and Dongfang 1-1 oil and gas fields offshore China, and Akpo and Egina oil fields in Nigeria. For further information regarding our reserves, see "Item 3—Key Information—Risk Factors—Risks Relating to Our Operations—The oil and gas reserve estimates in this annual report may require substantial revision as a result of future drilling, testing, production and oil and gas price changes" and "Item 4—Information on the Company—Business Overview—Exploration, Development and Production."

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## Summary of Oil and Gas Reserves

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

	Net proved reserves at December 31,		Net proved reserves at December 31, 2010		
	2008 (mmboe)	2009 (mmboe)	Oil (mmbbls)	Natural Gas (bcf)	Total (mmboe) (1)
<b>Developed</b>					
<b>Offshore China</b>					
Bohai Bay	452.8	560.2	585.8	390.5	650.9
Western South China Sea	258.6	307.9	127.2	970.7	289.0
Eastern South China Sea	137.8	143.9	135.3	478.5	215.0
East China Sea	1.7	2.0	0.1	8.6	1.5
Subtotal	850.9	1,013.9	848.4	1,848.3	1,156.4
<b>Overseas</b>					
Asia	97.2	131.8	44.5	396.9	110.6
Oceania	60.9	52.6	8.5	173.0	37.4
Africa	—	75.7	57.1	—	57.1
North America	—	9.7	1.2	42.9	8.3
South America	—	—	108.5	268.5	154.8
Subtotal	158.1	269.8	219.8	881.3	368.2
<b>Total Developed</b>	<b>1,009.1</b>	<b>1,283.6</b>	<b>1,068.2</b>	<b>2,729.7</b>	<b>1,524.6</b>
<b>Undeveloped</b>					
<b>Offshore China</b>					
Bohai Bay	612.3	598.9	411.9	337.7	468.2
Western South China Sea	355.8	317.4	132.8	1,063.3	310.0
Eastern South China Sea	210.1	187.7	89.8	775.9	219.1
East China Sea	73.1	72.0	18.8	362.0	79.2
Subtotal	1,251.3	1,176.1	653.3	2,539.0	1,076.5
<b>Overseas</b>					
Asia	100.9	102.4	5.5	619.8	108.8
Oceania	65.0	82.0	12.1	324.9	66.3
Africa	89.1	14.3	88.6	—	88.6
North America	—	—	—	—	—
South America	—	—	87.5	245.0	129.7
Subtotal	255.0	198.7	193.7	1,189.7	393.4
<b>Total Undeveloped</b>	<b>1,506.3</b>	<b>1,374.8</b>	<b>847.0</b>	<b>3,728.7</b>	<b>1,469.8</b>
<b>TOTAL PROVED</b>	<b>2,515.4</b>	<b>2,658.4</b>	<b>1,915.1</b>	<b>6,458.3</b>	<b>2,994.5</b>

(1) In calculating barrels-of-oil equivalent amounts, we have assumed that 6,000 cubic feet of natural gas equals one BOE, with the exception of natural gas from South America for which we have assumed that 5,800 cubic feet of natural gas equals one BOE.



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

Total Net Proved Crude Oil Reserves  
(mmbbls)

	As of December 31,		As of December 31, 2010		Total
	2008	2009	Developed	Undeveloped	
Offshore China					
Independent					
Bohai Bay	603.6	675.1	379.7	324.6	704.3
Western South China Sea	227.9	235.3	110.7	127.9	238.6
Eastern South China Sea	104.6	100.8	84.9	45.1	130.0
East China Sea	17.8	17.5	0.1	18.8	18.9
Subtotal	953.9	1,028.7	575.4	516.4	1,091.8
PSCs					
Bohai Bay	330.0	353.0	206.1	87.3	293.4
Western South China Sea	17.8	23.6	16.5	4.8	21.4
Eastern South China Sea	97.8	90.1	50.4	44.7	95.1
East China Sea	—	—	—	—	—
Subtotal	445.6	466.7	273.0	136.9	409.9
Combined					
Bohai Bay	933.6	1,028.2	585.8	411.9	997.7
Western South China Sea	245.8	258.9	127.2	132.8	260.0
Eastern South China Sea	202.4	190.9	135.3	89.8	225.1
East China Sea	17.8	17.5	0.1	18.8	18.9
Subtotal	1,399.5	1,495.5	848.4	653.3	1,501.7
Overseas					
Asia	64.8	53.8	44.5	5.5	49.9
Oceania	24.8	26.4	8.5	12.1	20.7
Africa	89.1	90.0	57.1	88.6	145.7
North America	—	2.0	1.2	—	1.2
South America	—	—	108.5	87.5	196.0
Subtotal	178.7	172.2	219.8	193.7	413.5
Total	1,578.2	1,667.8	1,068.2	847.0	1,915.1

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(bcf)

	As of December 31,		As of December 31, 2010		Total
	2008	2009	Developed	Undeveloped	
Offshore China					
Independent					
Bohai Bay	789.2	785.4	390.5	337.7	728.3
Western South China Sea	1,957.4	1,953.4	743.1	1,063.3	1,806.5
Eastern South China Sea	848.8	838.6	470.2	405.4	875.6
East China Sea	342.2	339.0	8.6	362.0	370.6
Subtotal	3,937.6	3,916.4	1,612.4	2,168.5	3,780.9
PSCs					
Bohai Bay	—	—	—	—	—
Western South China Sea	254.3	245.2	227.6	—	227.6
Eastern South China Sea	24.5	5.0	8.3	370.5	378.8
East China Sea	—	—	—	—	—
Subtotal	278.8	250.2	235.9	370.5	606.4
Combined					
Bohai Bay	789.2	785.4	390.5	337.7	728.3
Western South China Sea	2,211.6	2,198.6	970.7	1,063.3	2,034.1
Eastern South China Sea	873.3	843.6	478.5	775.9	1,254.4
East China Sea	342.2	338.9	8.6	362.0	370.6
Subtotal	4,216.4	4,166.5	1,848.3	2,539.0	4,387.3
Overseas					
Asia	799.8	1,082.5	396.9	619.8	1,016.7
Oceania	607.1	648.9	173.0	324.9	498.0
North America	—	46.0	42.9	—	42.9
South America	—	—	268.5	245.0	513.4
Subtotal	1,406.9	1,777.4	881.3	1,189.7	2,071.0
Total	5,623.3	5,944.0	2,729.7	3,278.7	6,458.3

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(million BOE)

	As of December 31,		As of December 31, 2010		
	2008	2009	Developed	Undeveloped	Total
Offshore China					
Independent					
Bohai Bay	735.1	806.0	444.8	380.9	825.7
Western South China Sea	554.2	560.8	234.5	305.1	539.6
Eastern South China Sea	246.1	240.6	163.3	112.6	275.9
East China Sea	74.8	74.0	1.5	79.2	80.7
Subtotal	1,610.2	1,681.4	844.1	877.8	1,721.9
PSCs					
Bohai Bay	330.0	353.0	206.1	87.3	293.4
Western South China Sea	60.2	64.5	54.5	4.8	59.3
Eastern South China Sea	101.8	91.0	51.7	106.5	158.2
East China Sea	—	—	—	—	—
Subtotal	492.0	508.5	312.3	198.6	511.0
Combined					
Bohai Bay	1,065.1	1,159.1	650.9	468.2	1,119.1
Western South China Sea	614.4	625.3	289.0	310.0	599.0
Eastern South China Sea	347.9	331.5	215.0	219.1	434.1
East China Sea	74.8	74.0	1.5	79.2	80.7
Subtotal	2,102.2	2,190.0	1,156.4	1,076.5	2,232.9
Overseas					
Asia	198.1	234.2	110.6	108.8	219.4
Oceania	125.9	134.6	37.4	66.3	103.7
Africa	89.1	90.0	57.1	88.6	145.7
North America	—	9.7	8.3	—	8.3
South America	—	—	154.8	129.8	284.5
Subtotal	413.2	468.5	368.2	393.4	761.6
Total	2,515.4	2,658.4	1,524.6	1,469.8	2,994.5

## Proved Undeveloped Reserves

As of December 31, 2010, we had proved undeveloped reserves of 1,470 million BOE, including 847.0 million barrels of crude oil and 3,728.7 bcf of natural gas, representing an increase of 95 million BOE as compared to proved undeveloped reserves of 1,375 million BOE as of December 31, 2009.

The changes in our proved undeveloped reserves mainly include:

1 increase of 361 million BOE due to new discoveries and extensions;

1 increase of 141 million BOE due to acquisitions;

1 decrease of 259 million BOE due to proved undeveloped reserves converted into proved developed reserves;

1 decrease of 104 million BOE due to revisions; and

↓ decrease of 44 million BOE due to output.

In 2010, we spent US\$1.77 billion on developing proved undeveloped reserves into proved developed reserves. US\$1.44 billion, or 81.7%, were spent on 25 major development projects in Bohai Bay, Western South China Sea and Eastern South China Sea in offshore China and the Akpo oilfield in Nigeria. The remaining 18.3% was spent on our domestic infill drilling programs in Bohai Bay and Eastern South China Sea.

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As of December 31, 2010, 208 million BOE of our proved undeveloped reserves were first booked before 2006. These proved undeveloped reserves were mainly located in East China Sea, Eastern South China Sea and Western South China Sea, including (i) 73 million BOE in East China Sea, more than half of which is planned to be developed together with certain new discoveries; (ii) 46 million BOE in Eastern South China Sea, including Panyu 34-1 gas field associated with Liwan 3-1 gas field located in the same area that is currently under construction; and (iii) 89 million BOE in Western South China Sea, including Yacheng 13-4 gas field associated with Yacheng 13-1 gas field located in the same area that has been supplying gas to Hong Kong for several years. Yacheng 13-4 gas field is expected to commence production in 2013.

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

Since 2001, we have engaged independent third party consulting firms, including Ryder Scott Company, Gaffney, Cline & Associates and RPS, to perform annual estimates for our proved oil and gas reserves. In 2010, the reserves of certain fields were evaluated by us independently, which accounted for approximately 11% of our total net proved reserves.

The reserve data that we disclosed were all 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) that was released on January 14, 2009 and related accounting standards.

While we engage third parties to conduct our annual estimates for most of our reserves, we continue to enhance the supervision over our procedures to ensure the quality control of our reserve evaluation process.

As part of our efforts to improve the evaluation and oversight of our reserves, we established the Reserve Management Group, or RMG, which is led by one of our Executive Vice Presidents and comprises the general managers of the relevant departments.

The RMG’s main responsibilities are to:

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

The RMG 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 China Petroleum Society, or CPS, and are required to take the professional trainings and examinations provided by CPS and us.

The RMG 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 RMG periodically and is independent from operating divisions such as the exploration, development and production departments. Our Chief Reserve Supervisor has 28 years’ experience in oil and gas industry.





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Besides engaging third parties to perform annual estimates for most of our reserves, we also implement rigorous internal control system that monitors the entire reserves estimation procedure and certain key metrics in order to ensure that the process and results of reserves estimates fully comply with the relevant SEC rules.

### Exploration, Development and Production

#### Summary

In offshore China, the Company engages in oil and natural gas exploration, development and production activities in Bohai Bay, Western South China Sea, Eastern South China Sea and East China Sea either independently or through cooperation with foreign partners by PSCs. As of the end of 2010, approximately 74.6% of the Company's net proved reserves and approximately 79.9% of its production were from offshore China.

In respect of independent operations: in recent years, the Company has been adding reserves and production mainly through independent exploration and development in offshore China. Approximately 77.1% of its net proved reserves and approximately 68.6% of its production offshore China came from the independent projects as of the end of 2010.

In respect of PSC operations: the controlling shareholder of the Company, CNOOC, has the exclusive right to explore and develop oil and natural gas in offshore China with foreign partners through PSCs. CNOOC has transferred all its rights and obligations of all the PSCs except those relating to its administrative functions to the Company, including new PSCs that will be signed in the future. As of the end of 2010, 30 PSCs with 22 partners were in force.

In overseas, the Company holds interests in oil and natural gas blocks in Indonesia, Australia, Nigeria, Argentina, the U.S. and various other countries. As of 31 December 2010, the Company's overseas net proved reserves and net production accounted for approximately 25.4% and 20.1% of its total net proved reserves and total net production, respectively.

#### Exploration

In 2010, the Company continued to carry out oil exploratory activities around sags with rich resources in Bohai Bay and Eastern South China Sea, and actively explored new scope of areas in mature regions. In addition, the Company enhanced its natural gas exploratory activities in Eastern South China Sea and Western South China Sea, especially in deepwater exploration. The Company achieved highly effective results from its exploratory activities, making great progress and breakthroughs in the areas of Bohai Bay and South China Sea.

In 2010, the Company's independent exploration resulted in 12 new discoveries offshore China. We also successfully appraised 12 oil and gas structures by 18 appraisal wells. Our PSC partners' exploration efforts resulted in 1 new discovery and 3 oil and gas structures successfully appraised by 5 appraisal wells.

The Company's major achievements from its exploratory activities in 2010 included:

First, in respect of crude oil exploration, we made significant progress in both new areas and mature areas.

We made breakthroughs of oil exploration in four new areas: In Bohai Bay, a significant discovery of Penglai 9-1 in the Miaoxi uplift area, with potential to be developed into a large sized oilfield; a breakthrough in Laidong-Miaonan structure with the discovery of Kenli 6-4 and Kenli 6-5. In Eastern South China Sea, we made the discovery of Enping 24-2, representing the first commercial discovery in the Enping sag. We also made the new discovery of Lihua 16-2 in Northeast wing of the Baiyun sag in Eastern South China Sea. These new discoveries opened up the new field for our oil exploratory activities in the related areas and set a clear direction for our future activities in such areas.



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Outstanding outcome from rolling exploratory activities in mature areas was achieved. Rolling exploration is one of the main contributors of the additional reserve growth with relatively low risk and high success rate. Major achievements in 2010 were as follows: the successful expansion of Qinnan sag with the discovery of Qinhuangdao 29-2 East; another new discovery, Qinhuangdao 33-1 South, in the Shijiutuo uplift area; the successful expansion of the mature area around Yellow River Mouth with the discovery of Bozhong 34-1 West; and the enlarging reserve size by rolling exploration in Weixinan in Western South China Sea.

Second, in respect of natural gas exploration, we made important discoveries in Yinggehai Basin and deepwater areas in South China Sea.

Remarkable progress has been made in natural gas exploration in Yinggehai. The deep middle formation of Yinggehai basin in Western South China Sea has huge exploration potential, although its high temperature and high pressure environment has made the exploration rather difficult. In 2010, a new discovery of Dongfang 13-1 was made in this area, opening up a new area for natural gas exploration in the middle formation. The Company has possessed enough knowledge on many similar structures in the area, which will become important targets for the exploration of natural gas in the next step.

Furthermore, we made another deepwater exploration breakthrough in South China Sea. Following the discoveries of Liwan 3-1 and Liuhua 34-2, our partner, Husky, has made another important discovery of Liuhua 29-1 in the deepwater area of Baiyun sag. The successful discovery and appraisal of Liuhua 29-1 not only inspired our deepwater exploratory activities in South China Sea, but also deepened our understanding of the geologic structure in the area. In addition, our other partner, BG, drilled an exploratory well of Lingshui 22-1-1 on Block 64/11 in Qiongdongnan basin and encountered the gas-bearing sands, which unveiled the resource potential in this region.

These outstanding results demonstrated the Company's unique advantage of being the exploration expertise on the continental shelf of offshore China. Our in-depth knowledge of the geology of offshore China and continuous efforts in deepwater exploration are important to assure the Company's future growth.

In 2010, the Company's major exploratory activities are shown in the table below:

	Exploration Wells				New Discoveries		Successful Appraisal Wells			Seismic Data		
	Independent	PSC	Wildcat	Appraisal	Independent	PSC	Independent	PSC	2D	3D		
	Wildcat	Appraisal	Wildcat	Appraisal	Independent	PSC	Independent	PSC	Independent	PSC	Independent	PSC
Offshore China												
Bohai Bay	17	13	1	—	7	—	9	—	—	—	6,185	—
Western South China Sea	17	14	2	—	2	—	6	—	8,227	—	2,135	837
Eastern South China Sea	9	4	6	5	2	1	3	5	11,793	—	2,567	1,371
East China Sea	5	2	2	—	1	—	—	—	2,578	—	—	554
Offshore China Subtotal	48	33	11	5	12	1	18	5	22,598	—	10,887	2,762

Overseas	–	–	4	–	–	–	–	–	–	960	–	477
Total	48	33	15	5	12	1	18	5	22,598	960	10,887	3,240

#### Development and Production

In 2010, our development and production made impressive results including:

Firstly, new oilfields commenced production one after another, bolstering the Company's production growth. The project development schedule was quite tight during the year, and the sea ice in Bohai Bay area at the beginning of the year seriously affected the operation of the Company. However, with careful planning, we have been able to put the new oilfields into production as scheduled, and the production of each oilfield has either met or exceeded the expected target output, becoming a new driving force for the production growth of the Company. During the year, a total of 9 projects came on-stream one after another including Bozhong 3-2, Bozhong 29-4, Bozhong 19-4, Caofeidian 18-1, Bozhong 26-3 and Luda 32-2 in Bohai Bay, Weizhou 11-1 East and Weizhou 6-8 in Western South China Sea as well as Huizhou 25-3 in Eastern South China Sea.

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Secondly, the composite decline rate of producing oil and gas fields was under effective control, enabling us to maintain robust production activities. Through in-depth geology and reservoir research for oil reserves conducted in producing oilfields, a strategy to lay out the infill drilling was deployed according to the underground reservoir conditions. During the year, the production of newly commenced infill drilling wells, roughly 170, a record high, was far higher than expected, making a significant contribution to the Company's production growth. The production time efficiency of the producing oil and gas fields offshore China reached 95% and was better than expected. Furthermore, the composite decline rate of each producing oil and gas field has been kept at a low level through enhancing water flooding efficiency which achieved great results. Some oilfields such as Suizhong 36-1 and ChengBei have recorded zero decline rates.

In addition, although the oil and gas fields of the Company repeatedly suffered from typhoons, it did not result in significant impact due to our proactive warning systems and proper deployment of resources. The safety of oilfields was secured, and there were no major accidents relating to health, safety and environment.

In overseas, the production from Akpo oilfield of OML 130 block in Nigeria enjoyed the steady growth and has achieved the designed peak production. The decline rate of mature oilfields in Indonesia remained at low level through infill drilling, water flooding and other measures.

In 2010, the Company's net oil and gas production amounted to 328.8 million BOE, representing a growth of 44.4% over the previous year, which brought our production base to a new height and further strengthened our leading position as a global independent oil and gas exploration and production company.

### New Overseas Projects

The Company's acquisition activities are "value-driven". When selecting and evaluating a potential project, we follow three criteria. First, whether the project will provide rich resources. Second, whether the project will provide attractive returns. Third, whether the risks are controllable.

In 2010, the Company has completed a number of successful acquisitions, mainly including:

First, the Company has successfully entered into the resource rich South America and the Middle East. In March 2010, the Company announced to reorganize Bridas Corporation, or Bridas, to a 50%/50% joint venture with Bridas Energy Holding Ltd., or BEH, building up a solid platform in South America for further development. In November 2010, Bridas signed an agreement to purchase 60% interest in Pan American Energy LLC, or PAE, from BP for a consideration of US\$7.06 billion. This deal is expected to be closed in the first half of 2011. Upon completion of these two transactions, the Company will indirectly own 50% interest in PAE.

In addition, the Company has entered into the Middle East through a Technical Service Contract for Missan oilfields in Iraq.

Second, the Company was for the first time involved in the shale oil and gas projects. The development on shale oil and gas has become one of the hotspot areas in the global oil and gas exploration and development, especially in North America where the shale gas has been discovered and explored in large scale and accounted for important share in the natural gas supply in the U.S. In November 2010 and early 2011, the Company has completed the acquisition of 33.3% interest of Eagle Ford shale oil and gas project and 33.3% interest of Niobrara project from Chesapeake respectively. The Company believes that entering into the shale oil and gas business will derive new technologies for the sustainable growth and open up new room for development.



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Through several acquisitions mentioned above, the Company's overseas reserves and production were increased and its portfolio became more balanced therefore allowing the Company to capture the growth opportunities within the industry in the future and broaden the Company's development potential.

### Principal Oil and Gas Regions

#### Offshore China

##### Bohai Bay

Bohai Bay is the most important crude oil producing area for the Company. The crude oil produced in this region is mainly heavy oil, but a few light oil discoveries have been gradually made in the recent years such as Jinzhou 25-1. As of the end of 2010, the reserve and production volume in Bohai Bay are 1,119.1 million BOE and 429,008 BOE/day respectively, representing approximately 37.4% and 47.6% of the Company's total reserves and production. The operation area in Bohai Bay is mainly shallow waters with a depth of 10 to 30 meters.

Rich in oil and gas resources, Bohai Bay has been one of the Company's core areas for exploration and development. In recent years, the Company has made a number of commercial discoveries there every year. In 2010, the Company made seven successful discoveries in Bohai Bay, namely Qinhuangdao 29-2 East, Qinhuangdao33-1 South, Jinzhou 20-5, Penglai 9-1, Kenli 6-4, Kenli 6-5 and Bozhong 34-1 West. Apart from that, four oil and gas structures were successfully appraised, including Kenli 10-1, Qikou 18-1, Bozhong 34-1 West and Qinhuangdao33-1 South. A few important accomplishments are stated as follows:

First, an important discovery was made in the Miaoxi uplift area, namely Penglai 9-1. In light of the high viscosity and high density of the heavy oil of the structure, thermal oil extraction was conducted and satisfactory results were achieved. Breakthroughs made in such structures not only increased our crude oil reserves but the methodology applied during the test also provided us with experiences for the future exploration and development of heavy oil.

Second, breakthroughs were achieved in the Laidong-Miaonan structure with new discoveries of Kenli 6-4 and Kenli 6-5. Of these discoveries, the successful drilling in Kenli 6-4 structure opened up a new area for oil and gas exploration. This was followed by another successful drilling in Kenli 6-5, located at southeast of Kenli 6-4. The exploration breakthrough achieved in Laidong-Miaonan structure increased the chance of discovering a large scale oil and gas fields in this new area.

Third, several exploration achievements made in mature areas. Following the discovery of Qinhuangdao 29-2 oil and gas field in Qinnan trough in 2009, Qinhuangdao 29-2 East structure was successfully drilled. The discovery of Qinhuangdao 29-2 East further increased our reserves in such area. In addition, the Company discovered Qinhuangdao 33-1 South in Shijituo uplift area and Bozhong 34-1 West in the mature area around Yellow River Mouth.

The development and production in Bohai Bay, which represented a major source for the Company's production growth, achieved outstanding performance in 2010.

First of all, the projects in Bohai Bay including Bozhong 3-2, Bozhong 29-4, Bozhong 19-4, Caofeidian 18-1, Bozhong 26-3 and Luda 32-2 commenced production on schedule, boosting the Company's rapid production growth.

Besides, the production from the producing oilfields performed better than expected. In view of the relatively large number of producing oil and gas fields in Bohai Bay, the Company continued to lay out extensive infill drilling programs, achieving the production additions better than expected. In addition, while maintaining high production time efficiency as well as low composite decline rate, some oilfields even reached zero decline rates through better



management. For example, being the largest independent oilfield in Offshore China and in production for roughly 20 years, Suizhong 36-1 was able to maintain a stable production through comprehensive adjustment measures, such as construction of new platforms and infill drilling.

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### Western South China Sea

Western South China Sea is one of the most important natural gas producing areas for the Company. As of the end of 2010, the typical water depth of the major operation area in this region ranges from 40 to 120 meters. As of the end of 2010, the reserve and production volume in Western South China Sea reached 599.0 million BOE and 145,274 BOE/day respectively, representing approximately 20.0% and 16.1% of the Company's total reserves and production.

In 2010, the Company made a new discovery of Dongfang 13-1 in Yinggehai basin in Western South China Sea, opening up a new area of natural gas exploration in the middle formation. Furthermore, the Company's rolling exploration in Weixinan resulted in another new discovery of Wushi 1-5, expanding the scale of reserves in this area. In addition, the Company also successfully appraised the structures of Weizhou 11-1, Weizhou 11-2, Weizhou 10-3 West and Weizhou 12-2 in Western South China Sea and achieved satisfactory outcome.

From the deepwater perspective, our partner BG drilled an exploratory well Lingshui 22-1-1 on Block 64/11 in Qiongdongnan basin and encountered the gas-bearing sands. This is the first deepwater well in Qiongdongnan basin, and the Company was encouraged by such drilling result.

As for development and production, Weizhou 11-1 East and Weizhou 6-8 commenced production one after another, boosting the Company's production in the area. Furthermore, the Company is actively preparing the regional development on the small to medium sized oilfields in this area that are currently under appraisal.

### Eastern South China Sea

Eastern South China Sea is one of the Company's most important crude oil producing areas. As of today, 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 2010, the reserve and production volume in Eastern South China Sea reached 434.1 million BOE and 144,712 BOE/day respectively, representing approximately 14.5% and 16.1% of the Company's total reserves and production.

In 2010, major breakthroughs were made in the exploration of Eastern South China Sea.

First, following Liwan 3-1 and Liuhua 34-2, another significant discovery in deepwater exploration, was made, namely Liuhua 29-1. The Liuhua 29-1 structure is located in the deepwater area of Baiyun sag. The discovery and appraisal of Liuhua 29-1 not only brought the additions to our reserves but also deepened our understanding of the geologic conditions in the area, facilitating explorations in the deepwater area of South China Sea.

Second, the first commercial discovery was made in Enping sag. Exploration in the Enping area has been on going for many years. While the Enping sag was proven to have resource potential, no commercial discovery had ever been made. In 2010, the first commercial discovery of Enping 24-2 opened up a new exploration area in the Enping sag.

Third, opening up new area for oil exploration with a new discovery of Liuhua 16-2 in the Northeastern wing of Baiyun sag. Liuhua 16-2 represented the first oil discovery in Baiyun sag, bringing a new age of exploration for the area.

Besides the new discoveries mentioned above, the Company has successfully appraised the oil and gas structures of Huizhou 25-8 and Enping 24-2. Our partner has successfully appraised Liwan 3-1, Liwan 34-2, and Liuhua 29-1.



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In 2010, the Company actively carried out the preparation work regarding the development of deepwater natural gas project Liwan 3-1. In addition, the successful commencement of production of Huizhou 25-3 oilfield in Eastern South China Sea has injected new energy to the production growth in this area. To effectively reduce production costs and increase efficiency, the Company has also achieved the regional development and operation of oilfield groups in Eastern South China Sea. According to the actual conditions of Xijiang 24-3, Xijiang 30-2, and Xijiang 23-1 oilfields, and in order to optimize the resources in those areas, the Company combined those oilfields.

In 2010, the Company completed the acquisition of 24.5% interest in block 15/34 from Devon Energy Corporation. CNOOC Limited acted as the operator of such block. Following the completion of the transaction, the Company's interest in block 15/34 increased to 75.5%.

### East China Sea

East China Sea is the least explored area among the Company's four principal producing regions in offshore China. The typical water depth of the Company's operation area in this region is approximately 90 meters. As of the end of 2010, approximately 2.7% of the reserves and 0.1% of the production of the Company were from East China.

### Overseas

#### Asia

Asia is the first overseas region that the Company has entered into and has become one of the Company's major overseas oil and gas producing areas. As of today, the Company holds oil and gas assets mainly in Indonesia and Iraq. As of the end of 2010, the reserves and production volume from the Asia region excluding China reached 219.4 million BOE and 58,421 BOE/day respectively, representing approximately 7.3% and 6.5% of the Company's total reserves and production.

#### Indonesia

In Indonesia, the Company mainly owns interests in the following PSCs: the Malacca Strait, the SES, the ONWJ, the West Madura and Poleng Technical Assistance Contract, among which, the Company is the operator of the SES block and owns approximately 65.54% of its interests. All the PSCs mentioned above are currently at the production stage.

In addition, the Company owns partial interests in South East Palung Aru, Batanghari and HOML PSCs.

The Company also owns approximately 13.90% of the interests in the Tangguh LNG Project in Indonesia. Located in West Papua and comprising three blocks of Berau, Muturi and Wiriagar, this project commenced production in 2009.

In 2010, in view of the fact that most producing oil and gas fields in Indonesia are mature, the Company adopted various measures to maintain and increase production such as water flooding and infill drilling, so as to keep the decline rate of these mature oilfields at a low level.

#### Iraq

In 2010, the Company entered into a Technical Service Contract for the development and production of Missan oilfields in Iraq. According to the contract, the Company will act as the operator and hold 63.75% participating interest.

#### Other Regions in Asia



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The Company owns interests in several blocks in Myanmar, Cambodia and Qatar. These blocks are still under exploration.

### Oceania

Currently, the Company's oil and gas resources in Oceania are all located in Australia. As of the end of 2010, the reserves and production volume from Oceania reached 103.7 million BOE and 27,217 BOE/day respectively, representing approximately 3.5% and 3.0% of the Company's total reserves and production.

### Australia

The Company owns 5.3% of the interests in Australia's North West Shelf Project. The project has commenced production and is currently supplying gas to customers such as the Dapeng LNG Terminal in Guangdong, China.

In addition, the Company owns interests in one exploration block in Australia.

### Africa

Africa is one of the overseas areas with a large reserve base. The Company's assets in Africa are primarily located in Nigeria. As of the end of 2010, the reserves and production volume from Africa reached 145.7 million BOE and 62,609 BOE/day respectively, representing approximately 4.9% and 7.0% of the Company's total reserves and production.

### Nigeria

The Company owns 45% interest in the OML 130 block in Nigeria. The OML 130 Project is a deepwater project and made up of four oilfields, namely Akpo, Egina, South Egina and Preowei among which Akpo commenced production in March 2009. Since its commencement of production, this oilfield has been steadily increasing its production and its current output has reached its designed peak production.

### Other Regions in Africa

Besides Nigeria, the Company also owns interests in several blocks in Kenya, Equatorial Guinea, the Republic of Congo and Algeria. In 2010, the first phase of exploration of blocks in Kenya has been completed and the Company gradually faded out its presence in Kenya. Other blocks are currently under exploration.

### North America

The Company holds interests in oil and gas blocks in the U.S. and Trinidad and Tobago in North America. In addition, the Company holds interests in MEG Energy Corporation, or MEG, in Canada.

### U.S.

In 2010, the Company completed the acquisition of 33.3% undivided interest in Eagle Ford Shale project from Chesapeake. The project is located in South Texas with 600,000 net leasehold acres.

In early 2011, the Company completed another acquisition of 33.3% undivided interest in Chesapeake's Niobrara oil and gas project, which is located in northeast Colorado and southeast Wyoming with 800,000 net leasehold acres.

The exploration on shale oil and gas has become one of the hotspots for the world's oil and gas exploration and development. The Company believes that entering into such business will bring new energy to its sustainable growth and create value for its shareholders.

In addition, the Company also holds interests in several oil and gas blocks at Gulf of Mexico.

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Trinidad and Tobago

In 2009, the Company, through a joint-venture company, acquired a 12.5% interest in the 2C block and a 12.75% interest in the 3A block in Trinidad and Tobago. The 2C block has commenced producing crude oil since 2005 and is expected to begin producing natural gas in 2011.

Canada

In 2005, the Company acquired partial shares of MEG in Canada. In August 2010, MEG was listed on the Toronto Stock Exchange in Canada, resulting in the large appreciation of the value of the Company's holdings in MEG. At present, the Company's ownership of MEG is 14.2%.

South America

As for South America, the Company mainly holds 50% interest in Bidas in Argentina. As of the end of 2010, the reserves and production volume from South America reached 284.5 million BOE and 31,780 BOE/day respectively, representing approximately 9.5% of the reserves and 3.5% of the production of the Company.

Argentina

In March 2010, the Company announced to reorganize Bidas to a 50%/50% joint venture with BEH for a consideration of approximately US\$3.1 billion in cash. The transaction has been completed. CNOOC Limited and BEH each holds a 50% interest in Bidas, and jointly make management decisions. At that time, Bidas held 40% interest in PAE.

In November 2010, Bidas and BP entered into a share purchase agreement in which Bidas proposed to acquire 60% interests in PAE held by BP for a consideration of approximately US\$7.06 billion. CNOOC Limited and BEH each agreed to contribute approximately US\$2.47 billion to Bidas to finance this transaction. Upon the completion of the transaction, Bidas will hold 100% interests in PAE.

Bidas engages in oil and gas exploration and production activities in Argentina and other countries through its affiliates (including its interest in PAE). The above mentioned two transactions not only benefited our overseas production and reserves growth but also expanded our business into the resource rich South America for the first time.

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 2008, 2009 and 2010.



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	Net Production			Average Sales Price		Average
	Total (BOE/day)	Oil (Bbls/day)	Gas (Mmcf/day)	Oil (US\$/bbl)	Gas (US\$/Mmcf)	Production Cost (US\$/boe)
2010						
Offshore China						
Bohai Bay	429,008	408,946	120.4	—	—	—
Western South China Sea	145,274	84,116	354.0	—	—	—
Eastern South China Sea	144,712	121,454	139.5	—	—	—
East China Sea	972	53	5.5	—	—	—
Subtotal	719,966	614,569	619.4	77.74	4,963	6.77
Overseas						
Asia	58,421	20,892	225.2	79.53	3,790	17.17
Oceania	27,217	6,210	107.0	77.65	3,252	7.17
Africa	62,609	62,609	—	79.05	—	6.51
North America	709	709	—	85.32	—	20.23
South America	31,780	16,545	88.4	64.24	1,824	7.38
Subtotal	180,736	106,965	420.6	76.77	3,238	10.26
Total	900,702	721,534	1,040.0	77.59	4,265	7.47
2009						
Offshore China						
Bohai Bay	267,079	253,884	79.2	—	—	—
Western South China Sea	120,745	72,605	275.4	—	—	—
Eastern South China Sea	126,765	118,395	50.2	—	—	—
East China Sea	1,057	63	6.0	—	—	—
Subtotal	515,646	444,947	410.8	59.88	4,440	7.23
Overseas						
Asia	45,555	22,163	140.3	55.57	3,350	17.10
Oceania	26,337	6,228	102.4	59.69	3,184	6.94
Africa	35,591	35,591	—	69.77	—	8.72
North America	767	767	—	69.45	—	13.66
Subtotal	108,250	64,749	242.7	65.60	3,280	11.85
Total	623,896	509,696	653.5	60.61	4,009	8.04
2008						
Offshore China						
Bohai Bay	230,896	218,478	74.5	—	—	—
Western South China Sea	106,764	56,761	284.7	—	—	—
Eastern South China Sea	127,490	122,813	28.1	—	—	—
East China Sea	1,225	85	6.8	—	—	—
Subtotal	466,375	398,137	394.1	89.16	4,206	6.32
Overseas						
Asia	42,632	19,262	140.2	93.74	3,199	17.81
Oceania	21,721	4,669	86.8	90.64	3,168	7.86
Subtotal	64,353	23,931	227.0	93.13	3,187	14.71
Total	530,728	422,068	621.1	89.39	3,833	7.54



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## Drilling and Other Exploratory and Development Activities

The following table sets forth our net exploratory wells and development wells drilled in the years of 2008, 2009 and 2010.

	Net Exploratory Wells Drilled			Net Development Wells Drilled		
	Total	Productive	Dry	Total	Productive	Dry
2010						
Offshore China						
Independent						
Bohai Bay	30	24	6	177	177	—
Western South China Sea	31	14	17	18	18	—
Eastern South China Sea	13	10	3	15	15	—
East China Sea	7	4	3	—	—	—
Subtotal	81	52	29	210	210	—
PSCs						
Bohai Bay	—	—	—	93	93	—
Western South China Sea	—	—	—	3	3	—
Eastern South China Sea	—	—	—	12	12	—
East China Sea	—	—	—	3	3	—
Subtotal	—	—	—	110	110	—
Overseas						
Asia	0.9	—	0.9	12	12	—
Oceania	—	—	—	—	—	—
Africa	1.4	—	1.4	2	2	—
North America	—	—	—	—	—	—
South America	—	—	—	—	—	—
Subtotal	2.3	—	2.3	14	14	—
2009						
Independent						
Offshore China						
Bohai Bay	39	25	14	162	162	—
Western South China Sea	27	8	19	17	17	—
Eastern South China Sea	10	4	6	11	11	—
East China Sea	1	1	—	—	—	—
Subtotal	77	38	39	190	190	—
PSCs						
Bohai Bay	—	—	—	67.9	67.9	—
Western South China Sea	—	—	—	1.2	1.2	—
Eastern South China Sea	—	—	—	6.7	6.7	—
East China Sea	—	—	—	0.3	0.3	—
Subtotal	—	—	—	76.1	76.1	—
Overseas						
Asia	8.5	1.3	7.2	11.9	11.9	—
Oceania	3.0	—	3.0	—	—	—
Africa	—	—	—	6.3	6.3	—
North America	—	—	—	—	—	—
Subtotal	11.5	1.3	10.2	18.2	18.2	—
2008						

Independent						
Offshore China						
Bohai Bay	37	22	15	49	49	—
Western South China Sea	27	14	3	13	13	—
Eastern South China Sea	10	3	7	15	15	—
East China Sea	—	—	—	—	—	—
Subtotal	74	39	25	77	77	—
PSCs						
Bohai Bay	—	—	—	27.2	27.2	—
Western South China Sea	—	—	—	—	—	—
Eastern South China Sea	—	—	—	1.5	1.5	—
East China Sea	—	—	—	—	—	—
Subtotal	—	—	—	28.7	28.7	—
Overseas						
Asia	6.0	1.1	4.9	4.9	4.9	—
Oceania	—	—	—	—	—	—
Africa	—	—	—	4.0	4.0	—
North America	—	—	—	—	—	—
Subtotal	6.0	1.1	4.9	8.9	8.9	—

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## Present Activities

The following tables set forth our present activities as of December 31, 2010.

	Wells Being Drilled		Waterfloods Being Installed	
	Gross	Net	Gross	Net
Offshore China				
Bohai Bay	27	27.0	301	266.1
Western South China Sea	5	3.5	24	24.0
Eastern South China Sea	4	3.5	—	—
East China Sea	1	1.0	—	—
Subtotal	37	35.0	325	290.1
Overseas				
Asia	—	—	—	—
Oceania	—	—	—	—
Africa	30	12.9	10	0.5
North America	15	4.6	—	—
South America	1	0.2	631	126.2
Subtotal	46	17.7	641	126.7

## 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, 2010.

	Productive Wells				Developed Acreage (km <sup>2</sup> )		Undeveloped Acreage (km <sup>2</sup> )	
	Crude Oil		Natural Gas		Gross	Net	Gross	Net
	Gross	Net	Gross	Net				
Offshore China								
Bohai Bay	1,368	1,152.9	28	28.0	2,071	2,071	42,194	42,194
Western South China Sea	172	159.2	69	62.1	1,663	1,663	73,388	73,388
Eastern South China Sea	252	202.5	16	12.6	1,710	1,710	55,424	55,424
East China Sea	12	3.6	20	7.6	—	—	85,413	85,413
Subtotal	1,804	1,518.2	133	110.3	5,444	5,444	256,419	256,419
Overseas								
Asia	739	383.3	101	36.1	28,896	10,948	96,402	78,698
Oceania	—	—	57	3.0	3,950	209	4,200	4,200
Africa	16	7.2	—	—	1,295	583	8,153	3,448
North America	77	20.7	6	2.0	135	17	3,438	938
South America	3,299	659.8	180	36.0	12,890	1,273	27,892	4,688
Subtotal	4,131	1,071.0	344	77.1	47,166	13,030	140,085	91,972
Total	5,935	2,589.2	477	187.4	53,253	18,474	396,504	348,391



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

## Delivery Commitment

We have certain delivery commitments under the take-or-pay contracts for sales of natural gas. In 2010, the annual sales from our largest gas contract contributed to only approximately 1.1% of our total oil and gas sales. Moreover, total revenues from gas sales account for less than 7.4% of our total oil and gas sales in 2010. Therefore, we believe that we did not have any material delivery commitment as of the end of 2010.

## Sales and Marketing

## Sales of Crude Oil

The Company sells its crude oil produced offshore China to the PRC market through CNOOC China Limited, its wholly owned subsidiary. For the overseas production, the Company sells such crude oil to the international and the domestic markets through China Offshore Oil (Singapore) International Pte Ltd, also its wholly owned subsidiary.

The Company's sale prices are primarily determined by the prices of international benchmark crude oil of similar quality, with certain premium or discount subject to change in market conditions. Although the prices are quoted in U.S. dollars, customers in China usually pay Renminbi. The Company currently sells three types of crude oil in China, namely light crude, medium crude and heavy crude which are benchmarked by Tapis, Daqing, and Duri respectively. The Company's major customers in China are CNOOC, Sinopec and PetroChina.

In 2010, with the strong signal of global economic recovery and the depreciation of the US dollar, international oil prices continued to rise steadily. The average price of West Texas Intermediate, or WTI, was US\$79.49/barrel, representing an increase of 22.4% over the previous year. With the rapid growth of emerging markets including China and India, the demand for crude oil, product oil and fuel oil remained strong, putting upward pressure on benchmark prices of medium and heavy oil in the Far East. The spread between Duri, the reference price of the Company's heavy oil and WTI tightened further.

Having captured the opportunities arising from strong domestic demand for crude oil in China and the higher benchmark oil price in the Far East, the Company has been closely monitoring the market movements and understanding the customers' demand to keep the Company's average realized oil price at a higher level. In 2010, the Company's average realized oil price was US\$77.59/barrel, 28.0% higher than that of previous year.

Sales and Marketing Volumes (mmbbls)(1)	Benchmark Prices	Year ended December 31,		
		2008	2009	2010
Light Crude	APPI(2) Tapis(3)	19.4	12.6	11.3
Medium Crude	Daqing OSP(4)	81.1	94.9	121.8
Heavy Crude	ICP Duri(5)	94.3	109.3	148.6

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

(2) Asia Petroleum Price Index.

(3) Tapis is a light crude oil produced in Malaysia.

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

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





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## Sales of Natural Gas

The Company's natural gas sales prices are determined by negotiations between the Company and its customers. The natural gas sales agreements are generally long-term contracts, and their provisions normally contain the periodic price adjustment mechanism. The Company's natural gas customers are primarily located in the southeast coast of China, including Hong Kong Castle Peak Power Company Limited, CNOOC Gas and Power Group, and China BlueChemical Ltd.

In 2010, in considering the development of the domestic natural gas market, the Company raised its natural gas sales prices for certain customers through negotiations, which resulted in the overall improvement of the natural gas prices. Our average realized gas price was US\$4.27/mcf, representing a 6.5% increase over the previous year.

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

	Year ended December 31,		
	2008	2009	2010
Average Realized Prices			
Crude Oil (US\$/bbl)	89.39	60.61	77.59
Natural Gas (US\$/mcf)	3.83	4.01	4.27
West Texas Intermediate (US\$/bbl)	100.10	61.99	79.49

The international benchmark crude oil price, West Texas Intermediate, was US\$91.38 per barrel as of December 31, 2010 and US\$106.72 per barrel as of March 31, 2011.

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

	Year ended December 31,		
	2008	2009	2010
	(Rmb in millions, except percentages)		
Revenues sourced in the PRC	91,040	80,198	133,631
Revenues sourced outside the PRC	34,937	24,997	49,422
Total revenues	125,977	105,195	183,053
% of revenues sourced outside the PRC	27.7 %	23.8 %	27.0 %

## Procurement of Services

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

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

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



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### Research and Development

In 2010, the Company's R & D focused on meeting the demand of exploration and production. Certain research findings have been applied to the daily operations and generated positive results.

In 2010, the Company continued to enhance its research efforts on important technical fields such as offshore frontier exploration and technologies, enhancement of offshore oil recovery factor, offshore marginal oilfield development and heavy oil development. Some key researches made noticeable progress. A number of key research findings have been applied to the daily operation and encouraging outcome was achieved. Guided by the new theories and technologies from the exploration research, new discoveries were obtained in some new exploration areas. By promoting the application of large-scale offshore infill drilling in Suizhong 36-1 and other oilfields, the recovery rate has been improved. At Weizhou 6-1 oilfield, the Company successfully transported the compressed natural gas from a long distance via soft pipelines made in China, which was the first approach ever and effectively reduced the construction cost. At Nanbao 35-2 oilfield, the Company has successfully tested on new technology of oil extraction in offshore heavy oilfield and discovered a new path for the effective development of offshore heavy oilfields.

In addition, we have intensified the research on deepwater exploration such as the project "Key Technologies and Facilities for Deepwater Exploration and Development in South China Sea". These research projects progressed smoothly in 2010.

### Health, Safety and Environmental Policy, or HSE

As an offshore E&P company, we face huge operational risk and therefore always emphasize on HSE. The Company promotes the philosophy and culture of HSE among its employees. Until now, the Company has established a comprehensive management system to improve the employee's awareness of HSE during operations, and strengthen their ability of risk identification and risk management skills.

In 2010, the HSE in oil industry faced critical challenges. The oil spill incidents at Gulf of Mexico and other regions have caused serious environmental pollution and thus caught high public attention. On the other hand, the pressure on production safety, environmental protection and occupational health conditions has been intensified due to the Company's intensive workloads on development. As a result, the Company continues to enhance the risk identification and control on HSE and try to identify and prevent the key potential risks in advance.

In 2010, the Company conducted inspections on trial production and safety appraisals for various oil and gas fields and production facilities, and completed the evaluation on the HSE system for branches such as Shenzhen to further improve the Company's operational system and management effectiveness.

After the oil spill incident at Gulf of Mexico, the Company organized safety inspections on all oil and gas fields as well as the production facilities to prevent the risks embedded in the operation of drilling, development and production. The proper measures have been performed to cope with the potential risks identified. In addition, the Company has further improved the stipulations on the operational safety and environmental protection on well drilling and completion.

The Company was also well prepared for typhoon attacks and procedures for evacuation. In 2010, more than 10 typhoons passed the Company's production and operation areas. As such, the Company has dispatched more than 400 helicopters and 40 ships to evacuate the workers, during which there were no casualties or losses on properties. Those typhoons had made no significant impact to our operation.

The Company has also imposed HSE standards to our service contractors. To further regulate the safety management of helicopters, the Company renewed the engagement of professional assessment companies to conduct safety checks on helicopter contractors. The contractors were required to rectify all problems identified. Likewise, the Company also enhanced the management of diving safety and carried out annual safety checks on 18 diving service contractors.

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In order to improve the emergency response capability, the headquarters organized numerous professional trainings in areas such as safety certificates and safety supervision in 2010. More than 400 employees participated in those trainings. Further, over 30,000 staff members and contractors in various branches attended the professional trainings organized by the Company.

In 2010, there was no accident causing critical casualties, and neither was there any liability claims for losses of over Rmb 1 million. The Company's Occupational Safety and Health Administration, or OSHA, statistics remained at a good level, and our performance continued to improve.

### Operating Hazards and Uninsured Risks

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

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

We 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, 2010, we paid an annual insurance premium of approximately US\$79.62 million and US\$18.71 million for operational insurance and all risk construction insurance, respectively, to maintain our insurance coverage. We believe that our level of insurance is adequate and customary for the PRC petroleum industry and international practices. 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 purchased a number of insurance policies with varying policy limits to meet our risk management requirements and cover our potential liabilities in the event that any of our rigs is involved in an explosion or similar event at any of our offshore locations. 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. We currently have 52 insurance policies in effect in 2010, including 37 for operational insurance and 15 for construction insurance. The coverage under operational insurance policies and construction insurance policies are subject to policy limits of US\$14.9 billion in aggregate and US\$2.5 billion in aggregate, respectively. The coverage under operator's extra-expense and third-party liabilities insurance policies are subject to policy limits of US\$20 million to US\$40 million for each and every occurrence. The deductible for each insurance policy ranges from US\$2 million to US\$5

million for different types of insurance policies.

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For all of our offshore operations, we have conducted comprehensive environmental impact evaluations and adopted emergency plans to deal with potential oil spills. Pursuant to the requirements of the PRC government, the evaluations and plans for our offshore operations in the PRC have been reviewed and approved by the industry experts and have been filed with the PRC government. The evaluations and plans for our offshore operations overseas have complied with the legal and regulatory requirements of the relevant local jurisdictions.

In addition, we currently have seven oil spill emergency handling bases, to which we have contributed land and funds for construction, separately located in seven cities in the PRC, namely Suizhong, Tanggu, Longkou, Huizhou, Shenzhen, Zhuhai and Weizhou. All the oil spill emergency handling 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 also cooperate with Oil Spill Response Limited, an industry-funded company specializing in oil spill response with operating bases in the United Kingdom, Singapore and Bahrain, to deal with the environmental impact that would occur in the event of oil spills or leakage resulting from our offshore operations. We have entered into contracts with Oil Spill Response Limited for certain of our exploration projects, including our project in Equatorial Guinea.

## 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 competitors in the PRC natural gas market are PetroChina and Sinopec.

### Foreign Competition

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

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





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## Segment Information

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

	Year ended December 31,					
	2008		2009		2010	
	Rmb in thousands	%	Rmb in thousands	%	Rmb in thousands	%
Independent operations	54,682,326	43.4	44,656,654	42.5	85,916,019	46.9
PSC/Joint-arrangements	56,019,745	44.5	48,598,484	46.2	82,200,173	44.9
Trading businesses	22,966,752	18.2	20,751,961	19.7	32,445,867	17.7
Unallocated and elimination	(7,691,441 )	(6.1 )	(8,812,022 )	(8.4 )	(17,508,974 )	(9.5 )
Total operating revenues	125,977,382	100.0	105,195,077	100.0	183,053,085	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, 2010, approximately 73% of our total revenue was sourced in the PRC. Our overseas activities are mainly conducted in Indonesia, Australia, Nigeria, Argentina, the U.S. and other countries.

## Fiscal Regimes

## Offshore China

We conduct exploration and production operations either independently or jointly with foreign partners under our PSCs. The PRC government has established different fiscal regimes for crude oil and natural gas production from our independent operations and from the operations under our PSCs.

## Fiscal regimes for independent operations

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 companies such as us with a royalty exemption for up to one million tons, or approximately seven million BOE, per year for our crude oil production and for up to 70.6 billion cubic feet, or approximately 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 addition, we pay production taxes to the PRC government equal to 5% of our crude oil and gas produced independently and under PSCs.

## Fiscal regimes for PSC operations

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

commercial development of the oil and gas field.

Under PRC law, only a state-owned company, such as CNOOC, may negotiate a PSC with foreign partners. 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.

#### Bidding Process

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CNOOC and foreign partners enter into new PSCs primarily through bidding 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 plan 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.

**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 are required to pay all exploration costs, which can be recovered according to the production sharing formula after commercial discoveries are made and production begins. Foreign partners are required to relinquish 25% of the contract area, excluding the development and production areas, to CNOOC at the end of each phase of the exploration period and to relinquish all areas, excluding the development areas, production areas and areas under evaluation, to CNOOC at the end of the exploration period.

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

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

Percentage of  
annual gross  
production

Allocation

5.0% Production tax payable to the PRC government(1)

0.0% — 12.5%(2) Royalty oil payable to the PRC government

50.0% — 62.5%(2) Cost recovery oil allocated according to the following priority:

1. recovery of current year operating costs by us and foreign partner(s);
2. recovery of earlier exploration costs by foreign partner(s);
3. recovery of development costs and deemed interest by us and foreign partner(s) based on participating interests; and
4. any excess, allocated to the remainder oil.

32.5%(3)

Remainder oil allocated according to the following formula:

1. (1-X) multiplied by 32.5% represents share oil payable to the PRC government; and

2. X multiplied by 32.5% represents remainder oil distributed according to each partner's participating interest.

- 
- (1) In this annual report and in our consolidated financial statements included elsewhere in this annual report, references to production tax on oil and gas produced offshore China are the value-added tax set out in our PSCs offshore China.
  - (2) Assumes annual gross production of more than four million metric tons, approximately 30 million BOE. For lower amounts of production, the royalty rate will be lower and the cost recovery will be greater than 50.0% by the amount that the royalty rate is less than 12.5%.
  - (3) The ratio "X" is agreed in each PSC based on commercial considerations and ranges from 8% to 100%.

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The first 5.0% of the annual gross production is paid to the PRC government as production tax. The PRC government is also entitled to a royalty payment equal to the next 0% to 12.5% of the annual gross production as follows:

Annual gross production of oil(1)	Royalty rate
Less than 1 million tons	0.0%
1–1.5 million tons	4.0%
1.5–2.0 million tons	6.0%
2.0–3.0 million tons	8.0%
3.0–4.0 million tons	10.0%
Above 4 million tons	12.5%

(1) The royalties for natural gas reach a maximum at 3.0%.

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

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

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

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

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

We and our foreign partners have joint ownership in all of the assets purchased, installed or constructed under the PSCs until either the foreign partners have fully recovered their development costs, or upon the expiration of the 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 pay its share of the abandonment cost when such party either abandons the production of an oil field or gas field during a production period or when the production period of the oil field or gas field expires.



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### Overseas

In addition to our PSCs in the PRC, we are subject to other fiscal regimes in the foreign countries and regions where we conduct operations, including Indonesia, Australia, Nigeria, Argentina, the U.S. and certain other countries. See “Item 4—Information on the Company—Business Overview—Overseas.”

In countries including Indonesia, Nigeria and Trinidad and Tobago, 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. and Argentina, 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.

### Regulatory Framework in the PRC

#### Government Control

The PRC government owns all of China’s petroleum resources and 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 Ministry of Commerce 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 permit for exploration blocks, approval of a reserve report, the PSCs between CNOOC and the foreign enterprises, environmental impact report submitted through CNOOC, overall development plan, and extraction permit.

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.

#### Special Policies Applicable to the Offshore Petroleum Industry in China

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 international oil and gas companies 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, with only minimal supervision from the PRC government.



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

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 which exceeds US\$40 per barrel. The special oil gain levy is collected on a quarterly basis. For the years ended December 31, 2008, 2009 and 2010 we paid approximately Rmb 16.2 billion, Rmb 6.4 billion and Rmb 17.7 billion (US\$2.68 billion) 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 rates of the special oil gain levy are shown in the table below:

Realized Oil Price (US\$/bbl)	Rate of the Levy
40-45 (Include 45)	20%
45-50 (Include 50)	25%
50-55 (Include 55)	30%
55-60 (Include 60)	35%
Above 60	40%

In addition, the PRC government imposed an export tariff of 5% on crude oil in November 2006.

#### Policies Applicable to International Oil and Gas Companies Operating Offshore China

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

#### Environmental Regulation

Our operations are required to comply with various applicable environmental laws and regulations, including PRC laws and regulations administered by the national and local government environmental protection bureaus for our operations in China. We are also subject to the environmental rules introduced by governments in whose jurisdictions our logistical support facilities are located.

Government agencies set national or local environmental protection standards. The relevant environment 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 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 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 environmental laws require offshore petroleum developers to pay abandonment costs. Our financial statements include provisions for costs associated with the dismantlement of oil and gas fields as of December 31, 2008, 2009 and 2010 of approximately Rmb 8,340.0 million, Rmb 11,281.1 million and Rmb 16,026.8 million (US\$ 2,428.3 million), respectively.

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According to the interpretation made by the Legal Affairs Office of the State Council, investors of the offshore oil and gas fields shall take responsibility for abandonment of the offshore oil and gas production facilities and perform the obligation in relation to environmental protection and ecological restoration, and shall provide and allocate special fund for the aforesaid purpose in accordance with the relevant laws and regulations. The investors include us and the foreign parties to our PSCs.

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

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

### Patents and Trademarks

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

### Real Properties

Our corporate headquarters is located in Hong Kong. We lease several other properties from CNOOC in China and Singapore. The rental payments under these lease agreements are determined with reference to market rates. See “Item 7—Major Shareholders and Related Party Transactions—Related Party Transactions.”

We own the following main property interests in the PRC:

- 1 51% interest in land, various buildings and structures at Yacheng 13-1 Processing Plants, Hainan Province and Hong Kong;
- 1 land, various buildings and structures at Xingcheng JZ 20-2 Natural Gas Separating Plant, Liaoning Province;
  - 1 land, various buildings and structures located at Boxi Processing Plant, Tianjin;
- 1 land, various buildings and structures at Weizhou Terminal Processing Plant, Guangxi Zhuang Autonomous Region;
  - 1 land, various buildings and structures at Suizhong 36-1 Base, Liaoning Province;
  - 1 land, various buildings and structures located at Bonan Processing Plant, Shandong Province;
  - 1 land, various buildings and structures located at Dongfang 1-1 Processing Plant, Hainan Province;
- 1 land, various buildings and structures located at Panyu Huizhou Gas Processing Plant, Guangdong Province; and
  - 1 land, various buildings and structures located at a Gas Processing Plant, Ningbo, Zhejiang Province.



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### Employees and Employee Benefits

During the years ended December 31, 2008, 2009 and 2010, we employed 3,584 persons, 4,019 persons and 4,650 persons, respectively. Of the 4,650 employees we employed as of December 31, 2010, approximately 76.6% were involved in oil exploration, development and production activities, approximately 5.1% were involved in accounts and finance work and the remainder were senior management, coordinators of PSCs, safety and environmental supervisors and others. Workers for the operation of the oil and gas fields, maintenance personnel and ancillary service workers 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.

As of December 31, 2010, our Indonesian subsidiaries employed 773 employees, including 36 expatriates. We provide benefits to expatriates that we believe to be in line with customary international practices. Our local staffs in Indonesia enjoy welfare benefits mandated by Indonesian labor laws.

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 2010, we held approximately 6,300 training workshops, which were attended by approximately 75,000 participants. To ensure smooth implementation of our overseas strategy, we have established an international human resources system to attract and retain talent in the international market. In order to enhance the planning and budget control of our labor costs, we have installed target benchmarks in performance appraisals to guide various

business units to cut their labor costs and to increase the accuracy of their budgets.

C. ORGANIZATIONAL STRUCTURE

CNOOC indirectly owned or controlled an aggregate of approximately 64.41% of our shares as of March 31, 2011. 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.

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The following chart sets forth our controlling entities and our directly-held subsidiaries as of March 31, 2011 and notes our significant indirectly-held subsidiaries.

- 
- (1) Overseas Oil & Gas Corporation, Ltd. also directly owns five shares of our company.
  - (2) Owner of our overseas interests in oil exploration and production businesses and operations, including our indirect wholly-owned subsidiaries CNOOC Southeast Asia Limited (Bermuda), CNOOC Exploration & Production Nigeria Limited (Nigeria) and CNOOC NWS Private Limited, and our jointly-controlled entity, Bidas Corporation.
  - (3) Owner of substantially all of our PRC oil exploration and production businesses, operations and properties.
  - (4) Business vehicle through which we engage in sales and marketing activities in the international markets.
  - (5) Includes CNOOC Finance (2002) Limited, CNOOC Finance (2003) Limited and CNOOC Finance (2011) Limited, all of which are our financing vehicles. These finance companies are our wholly owned subsidiaries with our company as their sole corporate director.

D. PROPERTY, PLANTS AND EQUIPMENT

See “Item 4—Information on the Company—Business Overview.”

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

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## ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

## A. OPERATING RESULTS

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

## Overview

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

## Factors Affecting Our Results of Operations

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

## Oil and Gas Prices

Substantially all of our revenues are from the sales of oil and natural gas. Therefore, one of the primary factors affecting our revenues is the prices for crude oil and natural gas. Crude oil prices are subject to fluctuations due to market uncertainty and various other factors that are beyond our control, including, but not limited to overall economic conditions, supply and demand dynamics for crude oil and natural gas, political developments, the ability of petroleum producing nations to set and maintain production levels and prices, the price and availability of other energy sources and weather conditions.

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

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

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

	Year ended December 31,		
	2008	2009	2010
Average net realized prices:			
Crude oil (US\$ per bbl)	89.39	60.61	77.59
Natural gas (US\$ per mcf)	3.83	4.01	4.27

## 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.

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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,		
	2008	2009	2010
Net production of crude oil (bbl/day)	422,068	509,696	721,534
Net production of natural gas (mmcf/day)	621.1	653.5	1,040.0

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, HKFRS issued by the HKICPA, accounting principles generally accepted in Hong Kong, and the Hong Kong Companies Ordinance. 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 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 any drilling activity has commenced on the property or on other properties nearby and is still under way or has been firmly planned or determined; that the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale; and that the period during which we have the right to explore in the specific area has expired or will expire in the near future and is not expected to be renewed. Upon discovery of commercial reserves, we transfer acquisition costs to proved properties and capitalize the costs of drilling and equipping successful exploratory wells, all development expenditure on construction, installation or completion of infrastructure facilities such as platforms, pipelines, processing plants and the drilling of development wells, and the building of enhanced recovery facilities, including those renewals and betterments that extend the economic lives of the assets, and the related borrowing costs.

The costs incurred in installing enhanced recovery facilities are capitalized together with the development costs of the relevant oil and gas properties. We treat the costs of unsuccessful exploratory wells and all other related exploration costs as expenses when incurred. Productive oil and gas properties and other tangible and intangible costs of producing properties are amortized 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. Generally, 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 units of proved reserves.

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We recognized the amount of the estimated cost of dismantlement and discounted the amount 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 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

Pursuant to the amendments to the oil and gas reserve estimation requirements under 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, we use the unweighted average, first-day-of-the-month oil prices during the 12-month period before the ending date of the period covered by the consolidated financial statements to estimate our proved oil and gas reserves. Year-end prices were used for the estimation in the accounting periods ended before December 31, 2009. However, it is neither practical nor cost-effective for our management to estimate the effect of such change in accounting precisely.

### Impairment of Assets

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 net selling price. 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 comprehensive income in the period in which it arises. A reversal of an impairment loss is credited to the consolidated statement of comprehensive income in the period in which it arises.

### Business acquisition

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. 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 and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference, after measurement, is recognized in profit or loss.

### 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 comprehensive income.



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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.

### 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:

- where 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, where 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. The facts and circumstances of each transaction need to be considered in order to determine whether the definition of “business” under the relevant accounting standard has been met.

### 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 any government share oil that is lifted and sold on behalf of the government. 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 purchased from the foreign partners under our PSCs and revenues from the trading of oil through our subsidiaries. The title, together with the risks and rewards of the ownership of such oil purchased from the foreign partners, are transferred to us from the foreign partners and other unrelated oil and gas companies before we sell such oil to our customers. The cost of the oil sold is included in crude oil and product purchases.



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## Results of Operations

## Overview

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

	Year ended December 31,								
	2008			2009			2010		
(Rmb in millions, except percentages, production data and prices)									
Revenues:									
Oil and gas sales:									
Crude oil	94,779	75.2	%	77,383	73.6	%	138,149	75.5	%
Natural gas	6,052	4.8	%	6,531	6.2	%	10,970	6.0	%
Total oil and gas sales	100,831	80.0	%	83,914	79.8	%	149,119	81.5	%
Marketing revenues	22,967	18.2	%	20,752	19.7	%	32,446	17.7	%
Other income	2,179	1.7	%	529	0.5	%	1,488	0.8	%
Total revenues	125,977	100.0	%	105,195	100.0	%	183,053	100.0	%
Net production (million BOE):									
Crude oil	154.4	79.5	%	186.0	81.7	%	263.4	80.1	%
Natural gas	39.8	20.5	%	41.7	18.3	%	65.4	19.9	%
Total net production	194.2	100.0	%	227.7	100.0	%	328.8	100.0	%
Average net realized prices:									
Crude oil (US\$ per bbl)	89.39			60.61			77.59		
Natural Gas (US\$ per mcf)	3.83			4.01			4.27		

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

	Year ended December 31,					
	2008		2009		2010	
Operating Revenues:						
Oil and gas sales	80.0	%	79.8	%	81.5	%
Marketing revenues	18.2	%	19.7	%	17.7	%
Other income	1.7	%	0.5	%	0.8	%
Total revenues	100.0	%	100.0	%	100.0	%
Expenses:						
Operating expenses	(7.9	)%	(11.9	)%	(8.9	)%
Taxes other than income tax	(4.1	)%	(3.7	)%	(4.5	)%
Exploration expenses	(2.7	)%	(3.1	)%	(3.0	)%
Depreciation, depletion and amortization	(7.9	)%	(15.2	)%	(15.1	)%
Special oil gain levy	(12.9	)%	(6.0	)%	(9.7	)%
Impairment and provision	(1.2	)%	(0.0	)%	(0.0	)%
Crude oil and product purchases	(18.0	)%	(19.4	)%	(17.6	)%
Selling and administrative expenses	(1.4	)%	(2.2	)%	(1.7	)%
Others	(1.0	)%	(0.2	)%	(0.5	)%
	(57.2	)%	(61.7	)%	(61.0	)%



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Interest income	0.9	%	0.6	%	0.5	%
Finance costs	(0.3)	)%	(0.5)	)%	(0.7)	)%
Exchange gain, net	2.0	%	0.1	%	0.5	%
Investment income	0.4	%	0.2	%	0.2	%
Share of profits of associates	0.3	%	0.2	%	0.1	%
Non-operating income (expenses), net	0.0	%	0.0	%	0.1	%
Profit before tax	45.9	%	38.8	%	39.7	%
Income tax expense	(10.7)	)%	(10.8)	)%	(10.0)	)%
Profit for the year	35.2	%	28.0	%	29.7	%

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### Calculation of Revenues

#### China

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

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

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

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

Our share of the oil and gas sales of unconsolidated investees is not included in our revenues, but our share of the profit or loss of this investee is included as part of our share of profits of associates as shown in our consolidated statements of comprehensive income.

#### 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.

#### Australia

The oil and gas sales from our subsidiaries in Australia consist of our participating interest in the properties of 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.

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### Argentina

Our oil and gas sales from South America are derived from Bidas Corporation, a 50%/50% joint venture we reorganized with BEH in May 2010. Bidas Corporation formerly was a wholly-owned subsidiary of BEH and owns a 40% equity interest in PAE.

### 2010 versus 2009

#### Consolidated net profit

Our consolidated net profit increased 84.5% to Rmb 54,409.5 million (US\$8,243.9 million) in 2010 from Rmb 29,485.6 million in 2009. The primary driving factors for the profit increase were higher production and sales volume, higher realized prices, and effective operating cost control. However, these positive factors were partially offset by higher special oil gain levy, higher income tax payments due to production volume and higher realized prices, and higher depreciation.

#### Revenues

Our oil and gas sales increased 77.7% to Rmb 149,118.7 million (US\$22,593.7 million) in 2010 from Rmb 83,914.4 million in 2009, mainly due to the substantial increase in oil and gas production and higher realized oil prices. We sold 262.8 million barrels of crude oil in 2010, representing an increase of 40.6% from 186.9 million barrels in 2009. Sales volume of our natural gas increased 56.8% to 65.4 million BOE (379,595 mmcf) in 2010 from 41.7 million BOE (238,480 mmcf) in 2009. In 2010, our oil and gas production was 328.8 million BOE, of which offshore China and overseas operations contributed 262.8 million BOE and 66.0 million BOE, respectively. The overseas production accounted for 20.1% of our total net production in 2010, compared with 17.4% in 2009.

The average realized crude oil price increased by US\$16.98 per barrel, or 28.0%, to US\$77.59 per barrel in 2010 from US\$60.61 per barrel in 2009. The average realized natural gas price increased by US\$0.26/mcf, or 6.5%, to US\$4.27/mcf, in 2010 from US\$4.01/mcf, in 2009. In 2010, having taken the opportunities arising from strong domestic demand for crude oil in China and the higher benchmark oil price in the Far East, we have achieved higher realized oil prices by closely monitoring the market movements and understanding the customers' needs. On the other hand, based on the development of the domestic natural gas market, we raised the natural gas sales prices for certain customers through negotiations, which improved the overall natural gas prices.

In 2010, our net marketing profit, which is marketing revenues less costs of purchases, decreased 29.4% to Rmb 209.4 million (US\$31.7 million) from Rmb 296.7 million in 2009. Our realized marketing profit margin, which is our net marketing profit calculated as a percentage of marketing revenues, decreased from 1.4% in 2009 to 0.7% in 2010, primarily due to less willingness to purchase oil at increasing prices by our major customers.

#### Operating expenses

Our operating expenses increased 29.7% to Rmb 16,204.1 million (US\$2,455.2 million) in 2010 from Rmb 12,490.4 million in 2009. Apart from the commencement of production of new oil and gas fields, the increase of operating expenses is also mainly attributable to the intensive operation workload of the existing producing fields. Operating expenses per BOE decreased 10.0% to Rmb 49.3 (US\$7.47) per BOE in 2010 from Rmb 54.8 per BOE in 2009. Operating expenses per BOE offshore China decreased 9.5% to Rmb 44.7 (US\$6.77) per BOE in 2010 from Rmb 49.4 per BOE in 2009. The decrease is attributable to the economies of scale resulted from the increase in oil and gas production. Overseas operating expenses per BOE decreased 16.3% to Rmb 67.7 (US\$10.26) per BOE in 2010 from Rmb 80.9 per BOE in 2009, primarily contributed by increased production percentage from low-cost oil and gas

fields, such as Akpo oilfield in OML130, as well as the lower operating costs of newly-acquired oil and gas fields.

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### Taxes other than income tax

Our taxes other than income tax increased 111.0% to Rmb 8,204.0 million (US\$1,243.0 million) in 2010 from Rmb 3,888.6 million in 2009, primarily as a result of increased tax payments due to the increase in oil and gas production and higher realized oil and gas prices, as well as including the local tax payments on our recently acquired overseas projects, such as Bidas.

### Exploration expenses

Our exploration expenses increased 72.6% to Rmb 5,579.9 million (US\$845.4 million) in 2010 from Rmb 3,233.7 million in 2009, primarily as a result of our continuously enhancing exploratory activities including more wells being drilled and more seismic data being acquired. In 2010, our independent exploration activities consisted of 48 wildcat wells and 33 appraisal wells. Meanwhile, we acquired 22,598 km<sup>2</sup> 2D and 10,887 km<sup>2</sup> 3D seismic data in 2010. The continuing efforts made on the above mentioned items brought up a series of important discoveries on reserves.

### Depreciation, depletion and amortization

Our depreciation, depletion and amortization increased 73.7% to Rmb 27,687.1 million (US\$4,195.0 million) in 2010 from Rmb 15,942.9 million in 2009. Our average depreciation, depletion and amortization per barrel increased by 20.3% to Rmb 84.2 (US\$12.76) per BOE in 2010 from Rmb 70.0 per BOE in 2009, mainly attributable to the commencement of production on new oil and gas fields in 2009 and 2010, which were developed under the environment of increasing prices of raw materials and services over the past few years.

The dismantlement provisions related depreciation, depletion and amortization costs increased 78.9% to Rmb 1,662.0 million (US\$251.8 million) in 2010 from Rmb 929.1 million in 2009. Our average dismantling costs per barrel increased 24.0% to Rmb 5.06 (US\$0.77) per BOE in 2010 from Rmb 4.08 per BOE in 2009. In addition to the new oil and gas fields and higher projected service fees and raw material prices, the increase in dismantlement cost is also attributable to the increased dismantlement obligations as a result of re-evaluation of expected work commitments.

### Special Oil Gain Levy

Our Special Oil Gain Levy increased 178.5% to Rmb 17,705.6 million (US\$2,682.7 million) in 2010 from Rmb 6,357.3 million in 2009, primarily as a result of our increased sales volume and higher realized oil prices offshore China.

### Impairment and provision

Our impairment and provision increased 284.1% to Rmb 26.5 million (US\$4.0 million) in 2010 from Rmb 6.9 million in 2009, primarily due to the inventory provision during the year.

### Selling and administrative expenses

Our selling and administrative expenses increased 35.3% to Rmb 3,062.6 million (US\$464.0 million) in 2010 from Rmb 2,264.0 million in 2009, mainly due to the increased selling expenses resulting from the higher sales volume, and the commission expenses incurred in 2010 for the acquisitions of new projects. Our selling and administrative expenses per barrel decreased 6.2% to Rmb 9.32 (US\$1.41) per BOE in 2010 from Rmb 9.94 per BOE in 2009, primarily as a result of the economies of scale from increased production.

### Finance costs/Interest income

Our finance costs increased 128.6% to Rmb 1,222.0 million (US\$185.2 million) in 2010 from Rmb 534.5 million in 2009, primarily due to the interest payment from additional debt obligations as well as the increase in unwinding of discount on provision for dismantlement in 2010. Our interest income increased 10.3% to Rmb 703.8 million (US\$106.6 million) in 2010 from Rmb 638.3 million in 2009 as a result of more interest earned from the enlarged scale of banking deposits.

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### Exchange gains, net

Our net exchange gains increased 1,749.1% to Rmb 994.8 million (US\$150.7 million) in 2010 from Rmb 53.8 million in 2009, primarily as a result of the exchange rate fluctuation in Renminbi during the year. In 2010, the exchange rates of Renminbi against U.S. dollar and Hong Kong dollar increased 3.1% and 3.5%, respectively.

### Investment income

Our investment income increased 113.9% to Rmb 427.5 million (US\$64.8 million) in 2010 from Rmb 199.9 million in 2009, primarily attributable to the increased investments on corporate wealth management products under the condition that the products are of good liquidity and low risk.

### Share of profits of associates

Contributed by good performance of our associated companies, our share of profits of associates increased 14.6% to Rmb 198.9 million (US\$30.1 million) in 2010 from Rmb 173.5 million in 2009.

### Income tax expense

Our income tax expense increased 60.9% to Rmb 18,240.4 million (US\$2,763.7 million) in 2010 from Rmb 11,335.5 million in 2009, primarily as a result of the increase in revenues and profit due to the increase of sales volume and average realized oil and gas prices. Our effective tax rate decreased to 25.1% in 2010 from 27.7% in 2009, primarily as a result of the tax benefit obtained in 2010 of OML130 project in Nigeria.

### 2009 versus 2008

#### Consolidated net profit

Our consolidated net profit decreased 33.6% to Rmb 29,485.6 million in 2009 from Rmb 44,375.3 million in 2008.

#### Revenue

Our oil and gas sales decreased 16.8% to Rmb 83,914.4 million in 2009 from Rmb 100,831.3 million in 2008, primarily as a result of significantly lower average realized oil prices in 2009. The average realized price for our crude oil decreased by US\$28.78 per barrel, or 32.2%, to US\$60.61 per barrel in 2009 from US\$89.39 per barrel in 2008. We sold 186.9 million barrels of crude oil in 2009, representing a 22.4% increase from 152.7 million barrels in 2008. The average realized price for our natural gas increased US\$0.18 per thousand cubic feet, or 4.7%, to US\$4.01 per thousand cubic feet in 2009 from US\$3.83 per thousand cubic feet in 2008. Sales volume of our natural gas increased 4.8% to 41.7 million BOE in 2009 from 39.8 million BOE in 2008.

Our net marketing profit, which is marketing revenue less purchase costs, increased 1.7% to Rmb 296.7 million in 2009 from Rmb 291.7 million in 2008. Our realized marketing profit margin, which is our net marketing profit as a percentage of marketing revenues, was 1.4% in 2009, generally the same as that of 1.3% in 2008.

#### Operating expenses

Our operating expenses increased 25.0% to Rmb 12,490.4 million in 2009 from Rmb 9,990.4 million in 2008. Operating expenses per BOE increased 6.6% to Rmb 54.8 per BOE in 2009 from Rmb 51.4 per BOE in 2008. Such increase is attributable to the commencement of production of oil and gas fields in 2009, the upgrade of operational



equipment to improve the safety and reliability of production facilities, and the heavier operation workload at producing oil and gas fields.

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Operating expenses per BOE offshore China increased 10.5% to Rmb 49.4 per BOE in 2009 from Rmb 44.7 per BOE in 2008, the increase is attributable to the upgrade of operational equipment to improve the safety and reliability of production facilities and the heavier operation workload. Operating expenses per BOE overseas decreased 19.4% to Rmb 80.9 per BOE in 2009 from Rmb 100.3 per BOE in 2008, primarily as a result of the lower average operating costs of overseas oil and gas fields commencing production in 2009.

### Taxes other than income tax

Our production taxes decreased 24.5% to Rmb 3,888.6 million in 2009 from Rmb 5,149.7 million in 2008, primarily as a result of lower crude oil sales due to significantly lower average realized oil prices in 2009.

### Exploration expenses

Our exploration expenses decreased 5.2% to Rmb 3,233.7 million in 2009 from Rmb 3,409.5 million in 2008. In 2009, we continued to enhance our exploration activities and due to higher drilling success rate, our exploration expenses in 2009 decreased slightly from that in 2008.

### Depreciation, depletion and amortization

Our depreciation, depletion and amortization other than dismantlement expenditures increased 60.1% to Rmb 15,013.8 million in 2009 from Rmb 9,380.5 million in 2008. Our average depreciation, depletion and amortization per barrel increased 36.5% to Rmb 65.9 per BOE in 2009 from Rmb 48.3 per BOE in 2008, primarily as a result of the commencement of production in 2008 and 2009 of such oil and gas fields which were successively developed in recent years under an environment of the rising costs in both service fees and raw materials.

The depreciation, depletion and amortization related to our dismantlement provisions increased 37.2% to Rmb 929.1 million in 2009 from Rmb 677.2 million in 2008. Our average dismantling costs increased 16.9% to Rmb 4.08 per BOE in 2009 from Rmb 3.49 per BOE in 2008. Apart from the commencement of production of oil and gas fields, the increase is also attributable to higher estimated future dismantlement obligations arising from upward reevaluation of expected work commitments and higher projected service fees and raw material prices.

### Special Oil Gain Levy

Our Special Oil Gain Levy decreased 60.8% to Rmb 6,357.3 million in 2009 from Rmb 16,238.2 million in 2008, primarily as a result of our lower realized oil price, and correspondingly, the lower applicable progressive rates imposed by the levy.

### Impairment and provision

Our impairment and provision decreased 99.6% to Rmb 6.9 million in 2009 from Rmb 1,541.5 million in 2008. The current year expense primarily included the provisions for inventory obsolescence in 2009.

### Selling and administrative expenses

As compared to 2008, there was higher marketing costs in line with rising sales volume; higher wages and social security costs due to increasing staff headcounts; and higher leasing and outsourcing fees corresponding to market condition. In 2009, in light of these factors, our selling and administrative expenses increased 29.9% to Rmb 2,264.0 million in 2009 from Rmb 1,742.6 million in 2008. Our selling and administrative expenses increased 10.8% to Rmb 9.94 per BOE in 2009 from Rmb 8.97 per BOE in 2008.



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## Finance costs / interest income

Our finance costs increased 28.7% to Rmb 534.5 million in 2009 from Rmb 415.3 million in 2008, primarily as a result of the increase in unwinding the discount on the provisions for dismantlement in 2009. Our interest income decreased 41.5% to Rmb 638.3 million in 2009 from Rmb 1,091.0 million in 2008, primarily as a result of the lower banking deposit interest rates due to the liquidity excesses in both the domestic and overseas financial markets.

## Exchange gains, net

Our net exchange gains decreased 97.9% to Rmb 53.8 million in 2009 from Rmb 2,551.3 million in 2008 primarily as a result of the relatively stable exchange rate between Renminbi and U.S. dollars in 2009 compared to 2008.

## Investment income

Our investment income decreased 58.0% to Rmb 199.9 million in 2009 from Rmb 475.9 million in 2008, primarily as a result of lower realized gains due to market conditions and redemptions to avoid the potential losses due to the volatile financial markets.

## Share of profits of associates

Our share of profits of associates decreased 53.6% to Rmb 173.5 million in 2009 from Rmb 374.1 million in 2008, primarily as a result of significantly lower average realized oil price in an associated company in 2009.

## Income tax expense

Our income tax expense decreased 16.1% to Rmb 11,335.5 million in 2009 from Rmb 13,505.0 million in 2008, primarily as a result of lower revenue and profit due to lower average realized oil price. Our effective tax rate increased to 27.7% in 2009 from 23.3% in 2008. In 2008, the Company had a lower effective tax rate primarily because of the tax exemption on the income from the sale of working interests in certain assets. In addition, the larger profit contribution from our overseas business units and the increased tax rate in Indonesia have attributed to the higher effective tax rate in 2009.

## B. LIQUIDITY AND CAPITAL RESOURCES

Our primary source of cash during 2010 was cash flow from operating activities. We used cash primarily to fund capital spending program and dividends. The following table summarizes our cash flows for the periods presented:

	Year ended December 31,		
	2008	2009	2010
	(Rmb in millions)		
Cash generated from (used for):			
Operating activities	52,489	49,624	83,498
Investing activities	(45,735 )	(37,307 )	(64,800 )
Financing activities	(10,129 )	(9,403 )	(1,284 )
Net increase/(decrease) in cash and cash equivalents	(3,375 )	2,914	17,414

## Cash Generated from Operating Activities

In 2010, our cash inflow from operating activities was Rmb 83,498.2 million (US\$12,651.2 million) as compared to Rmb 49,624.2 million in 2009, representing an increase of 68.3% from 2009. The increase in cash inflow from operating activities was mainly due to the increase of sales volume and higher realized oil and gas prices. The increase was also partially offset by corresponding costs, expenditures and other working capital occupied.

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## Capital Expenditures and Investments

Net cash outflow from investing activities in 2010 was Rmb 64,800.0 million (US\$9,818.2 million), representing an increase of Rmb 27,493.0 million, or 73.7% from Rmb 37,307.0 million in 2009. The increase in cash outflow from investing activities was mainly due to the Rmb 20,760.6 million used for reorganizing Bridas Corporation to a 50%/50% joint venture with Bridas Energy Holding Ltd., and Rmb 3,546.3 million used for acquisition of 24.5% interest in Block 15/34 located in the Pearl River Basin, South China Sea from Devon Energy Corporation; and Rmb 7,762.4 million used for acquisition of 33.3% undivided interest of Eagle Ford Shale project in Texas from Chesapeake Energy Corporation.

In 2010, our capital expenditures, other than the acquisitions mentioned above, decreased 25.1% to Rmb 29,512.1 million (US\$4,471.5 million) from Rmb 39,376.3 million in 2009, primarily as a result of the decrease in the number of on-going projects, the improvement of operational efficiency, and the adverse impact on operations due to adverse weather conditions. Our development expenditures in 2010 are primarily related to the development of OML130, Bozhong26-3, Jinzhou25-1, Jinzhou25-1S, Penglai19-3, Jinxian1-1, Lufeng13-2 and the expenses incurred for improving the recovery factor of the producing fields.

In addition, our cash used in investing activities was also attributable to purchase of available-for-sale financial assets of Rmb 32,129.0 million (US\$4,868.0 million) and held-to-maturity financial assets of Rmb 6,351.1 million (US\$962.3 million). Our cash generated from investing activities was mainly from the proceeds from the sales of Rmb 21,881.8 million (US\$3,315.4 million) of available-for-sale financial assets and Rmb 3,310.9 million (US\$501.7 million) of held-to-maturity financial assets respectively, and from reducing Rmb 8,894.4 million (US\$1,347.6 million) in time deposits with maturity of more than three months.

For 2011, we have budgeted approximately US\$8.6 billion for capital expenditures for exploration and development. The following table sets forth actual or budgeted capital expenditures on an accrual basis for our key operating areas for the periods indicated.

	Year ended December 31,				
	2008(1) (Rmb million)	2009(1) (Rmb million)	2010(1) (Rmb million)	2010(1) (US\$ million)	2011(2) (US\$ million)
Offshore China					
Bohai Bay					
Development	13,701.1	23,425.2	14,802.1	2,242.7	1,871.2
Exploration	2,049.1	2,919.7	2,480.1	375.8	514.2
Western South China Sea					
Development	3,570.8	4,675.4	2,337.6	354.2	516.8
Exploration	2,063.3	1,388.1	1,774.2	268.8	249.5
Eastern South China Sea					
Development	3,476.3	2,874.6	4,484.5	679.5	2,399.7
Exploration	1,064.3	1,146.1	1,634.1	247.6	294.1
East China Sea					
Development	117.2	81.5	137.0	20.8	61.6
Exploration	102.7	264.0	512.8	77.7	79.4
Others					
Development	—	—	—	—	452.0
Exploration	179.7	130.4	137.8	20.8	34.5
Subtotal	26,324.5	36,905.0	28,300.2	4,287.9	6,473.1

Overseas					
Development	8,616.6	4,373.5	4,470.2	677.3	1,762.6
Exploration	917.3	1,435.8	1,268.3	192.2	391.2
Subtotal	9,533.9	5,809.3	5,738.5	869.5	2,153.8
Total	35,858.4	42,714.3	34,038.7	5,157.4	8,626.9

(1) Figures for 2008, 2009, and 2010 represent our actual spending for capital expenditure purposes, including expensed exploration costs.

(2) Figures for 2011 represent our budgeted capital expenditures.

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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.”

## Financing Activities

Net cash outflow from financing activities in 2010 was Rmb 1,284.2 million (US\$194.6 million), representing a decrease of Rmb 8,119.1 million, or 86.3% from Rmb 9,403.3 million in 2009. In 2010, the net cash outflow was mainly due to the distribution of dividends of Rmb 14,389.8 million (US\$2,180.3 million) and the repayment of bank loans of Rmb 4,303.8 million (US\$652.1 million). It was partially offset by cash inflow which was mainly due to bank borrowings of Rmb 17,245.6 million (US\$2,613.0 million).

At the end of 2010, our total debt outstanding was Rmb 33,346.7 million (US\$5,052.5 million), compared to Rmb 18,692.2 million at the end of 2009. The increase in debt in 2010 was primarily attributed to the acquisition activities and increase in general borrowings. Our gearing ratio, which is defined as interest bearing debt divided by the sum of interest bearing debt plus equity, was 13.4%.

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 outstanding as of December 31, 2010.

Due by December 31,	Debt maturities (principal only)		
	Original currency US\$	Total Rmb equivalents	Total US\$ equivalents
	(in millions, except percentages)		
2011	783.1	5,186.0	783.1
2012-2014	1,015.0	6,722.0	1,015.0
2015-2016	111.9	740.8	111.9
2017 and beyond	651.6	4,315.5	651.6
Total	2,561.5	16,964.3	2,561.5
Percentage of total debt	50.9%	50.9%	50.9%

In January 2011, we, through CNOOC Finance (2011) Limited, our wholly owned subsidiary, issued US\$1,500 million 4.25% guaranteed notes due 2021 and US\$500 million 5.75% guaranteed notes due 2041. The obligations of CNOOC Finance (2011) Limited in respect of the notes are unconditionally and irrevocably guaranteed by us.

As of March 31, 2011, we had total foreign currency debt of US\$6,843.0 million, all of which is in U.S. dollars.

As of December 31, 2010, we had unutilized banking facilities amounting to approximately Rmb 179,029.5 million (US\$27,125.7 million) as compared to Rmb 174,843.1 million as of December 31, 2009.





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In 2008, 2009 and 2010, we paid dividends totaling Rmb 14,651.8 million, Rmb 15,747.1 million and Rmb 15,893.8 million (US\$2,408.2 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 2011. 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.”

## Holding Company Structure

We are a holding company. Our entire oil 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 entire oil 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. International sales of crude oil are conducted by China Offshore Oil (Singapore) International Pte Ltd, our wholly owned subsidiary incorporated in Singapore. 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 is required to set aside a portion of its profit each year to fund certain reserve funds. These reserves are not distributable as cash dividends.

## Inflation/Deflation

According to the China Statistical Bureau, as represented by the general consumer price index, China experienced an overall inflation rate of 5.9% in 2008, an overall inflation rate of -0.7% in 2009 and an overall inflation rate of 3.3% in 2010. Neither deflation nor inflation has had a significant impact on our results of operations in the respective years.

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### 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%, which is qualified as a foreign tax credit to offset the PRC corporate income tax starting from January 1, 2008.

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, pursuant to the provisions of the “Notice regarding Matters on Determination of Tax Residence Status of Chinese-controlled Offshore Incorporated Enterprises under Rules of Effective Management”, the “Enterprise Income Tax Law of the People’s Republic of China” and the “Detailed Rules for the Implementation of the Enterprise Income Tax Law of the People’s Republic of China”. According to the formal approval, we are subject to the PRC enterprise income tax at a rate of 25% starting from January 1, 2008.

Pursuant to the above laws and regulations, we are required to withhold 10% corporate income tax when we make dividend distributions to our non-Chinese resident enterprise shareholders.

Our PRC subsidiary, CNOOC China Limited, as a wholly foreign-owned enterprise, is subject to an enterprise income tax rate of 25% under the prevailing tax rules and regulations.

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

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

1 production taxes of 5% on independent production and production under PSCs;

1 export tariffs of 5% on the export value of petroleum oil;

1 business tax at rates of 3% to 5% on other income;

1 city construction tax at rate of 1% or 7% on the actual paid business tax and production taxes (effective as of December 1, 2010); and

1 educational surcharge at rate of 3% on the actual paid business tax and production taxes (effective as of December 1, 2010).

In addition, other taxes paid and payable by our non-PRC subsidiaries and jointly controlled entities include gross production assessments, 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 56%.

Some of our oil and gas interests in Indonesia are held through Labuan-incorporated companies. According to an amendment to the tax rules enacted by the Indonesian government in December 2009, Labuan-incorporated companies no longer enjoy the tax rates under the previous tax treaty between Indonesia and Malaysia. Therefore, the applicable tax rates would increase from the range between 43.125% and 51.875% to the range between 44% and

56%. The amendment became effective on January 1, 2010.

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, 2008, 2009 and 2010, we had Rmb 5,428.3 million, Rmb 7,439.6 million and Rmb 13,122.1 million (US\$1,988.2 million), respectively, in net deferred tax liabilities. See note 12 to our consolidated financial statements included elsewhere in this annual report.

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### Impact of Recently Issued Accounting Standards

#### IFRS and HKFRS

We have adopted the IFRS as issued by the IASB since January 1, 2008. Therefore, our consolidated financial statements for 2010 have been prepared in due compliance with both IFRS and HKFRS.

The IASB has issued a number of new and revised IFRSs and IFRIC Interpretations, which are first effective for the current accounting year commencing January 1, 2010 or later, but available for early adoption. The equivalent new and revised HKFRSs and HKFRS Interpretations consequently issued by the HKICPA have the same effective dates as those issued by the IASB and are in all material aspects identical to the pronouncements issued by the IASB. There have been no other material changes to HKFRSs. Except for IFRS 3/HKFRS 3 (Revised) – Business Combinations, which introduces significant changes in the accounting for business combinations, and IAS 27/HKAS 27 (Amended) – Consolidated and Separate Financial Statements, which requires that a change in the ownership interest of a subsidiary (without loss of control) be accounted for as a transaction of the owners in their capacity as owners of the interest in such subsidiary, the adoption of the other new and revised IFRS, and HKFRS, rules and the amendments have no impact on our results of operations or financial position for the year ended December 31, 2010.

A number of new and revised IFRSs and HKFRSs become effective for fiscal years beginning on or after January 1, 2011. We have not early applied these IFRSs and HKFRSs to our consolidated financial statements included elsewhere in this annual report. We are in the process of making an assessment of the impact of these new and revised IFRSs and HKFRSs upon application. We conclude that, while certain new or revised IFRSs and HKFRSs, such as IFRS 9/HKFRS 9 - Financial Instruments: Classification and Measurement and IAS 24/HKAS 24 (Revised) - Related Party Disclosures, may result in future changes of our financial results or disclosures, other new and revised IFRSs and HKFRSs are unlikely to have a significant impact on our results of operations and financial position.

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

Crude oil prices are a major driver of our results of operations. We price our crude oil with reference to the international crude oil prices, which have fluctuated considerably over the years. For more information about crude oil prices, see “Item 3—Key Information—Risk Factors—Risks Relating to Our Operations—Our business, revenues and profits fluctuate with changes in oil and gas prices,” “Item 4—Information on the Company—Business Overview—Sales and Marketing—Sales of Crude Oil,” and “Item 5—Operating and Financial Review and Prospects—Operating Results—Results of Operations—2010 versus 2009.”

In addition to crude oil, natural gas is becoming an increasingly important part of our business. The Chinese government promotes the use of natural gas as a clean and efficient fuel. Demand for natural gas in the PRC is likely to increase significantly. We have expanded and will continue to expand our natural gas business and intend to exploit our natural gas reserves to meet growing demand for natural gas. For more information about our natural gas business, see “Item 3—Key Information—Risk Factors—Risks Relating to Our Operations—Any failure to implement our natural gas business strategy may adversely affect our business and financial position.”



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Other than as disclosed above and elsewhere in this annual report, we are not aware of any trends that are 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.

## E. OFF-BALANCE SHEET ARRANGEMENTS

None.

## F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table sets forth information regarding our contractual obligations for the periods indicated.

Contractual Obligations	Total Rmb'000	Payments due by period			
		Less than 1 year Rmb'000	1-3 years Rmb'000	3-5 years Rmb'000	More than 5 years Rmb'000
Long-term debt obligations	16,964,278	5,185,989	6,340,610	751,212	4,686,467
Operating lease obligations	2,676,968	824,338	1,037,148	330,397	485,085
Provision for dismantlement(1)	16,213,797	186,992	—	—	16,026,805
Total	35,855,043	6,197,319	7,377,758	1,081,609	21,198,357

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

As of December 31, 2008, 2009 and 2010 we had the following capital commitments, principally for the construction and purchase of property, plant and equipment:

Capital Commitments	2008 Rmb'000	2009 Rmb'000	2010 Rmb'000
Contracted, but not provided for	12,293,984	5,650,199	9,620,691
Authorized, but not contracted for	30,093,605	48,907,804	46,125,374

The capital commitments disclosed above do not include investment commitments for acquisitions of equity interest or working interest, which have been disclosed in note 4 and note 37 respectively to our consolidated financial statements included elsewhere in this annual report.

## 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 8 of this annual report.





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## 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 11 members, including three executive directors, three non-executive directors and five independent non-executive directors.

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

Name	Year of Birth	Position
Yilin Wang	1956	Chairman of our Board and Non-executive Director (effective April 15, 2011)
Chengyu Fu	1951	Chairman of our Board and Non-executive Director (re-designated from Executive Director to Non-executive Director, effective September 16, 2010; resigned as Chairman of the Board and Non-executive Director, effective April 15, 2011)
Hua Yang	1961	Vice Chairman of our Board (since September 16, 2010), Executive Director and Chief Executive Officer (since September 16, 2010)
Fanrong Li	1963	Executive Director (appointed as Non-executive Director, effective May 24, 2010, and re-designated from Non-executive Director to Executive Director, effective September 16, 2010) and President (since September 16, 2010)
Guangqi Wu	1957	Executive Director and Compliance Officer
Shouwei Zhou	1950	Non-executive Director
Xinghe Cao	1949	Non-executive Director (retired, effective May 24, 2010)
Zhenfang Wu	1952	Non-executive Director
Edgar W. K. Cheng	1943	Independent Non-executive Director
Sung Hong Chiu	1947	Independent Non-executive Director
Lawrence J. Lau	1944	Independent Non-executive Director
Aloysius Hau Yin Tse	1948	Independent Non-executive Director
Tao Wang	1931	Independent Non-executive Director
Guangyu Yuan	1959	Executive Vice President
Weilin Zhu	1956	Executive Vice President

Liguo Zhao	1953	General Counsel
Bi Chen	1961	Executive Vice President and General Manager of CNOOC China Limited Tianjin Branch
Wei Chen	1958	Senior Vice President and General Director of CNOOC Research Institute
Guohua Zhang	1960	Senior Vice President and General Manager of CNOOC China Limited Shanghai Branch
Zhi Fang	1962	Vice President and President of CNOOC International Limited
Hua Zhong	1960	Chief Financial Officer (since September 16, 2010)
Yongzhi Jiang	1973	Joint Company Secretary
May Sik Yu Tsue	1973	Joint Company Secretary

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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 opportunity to work closely with foreign partners both within and outside China. Such opportunities, in conjunction with management exchange programs with foreign partners, have provided valuable training to our personnel in international management practices. A description of the business experience and present position of each director and senior officer is provided below. Our registered office is located at 65th Floor, Bank of China Tower, One Garden Road, Central, Hong Kong.

## Executive Directors

Hua Yang Born in 1961, Mr. Yang is a senior engineer and graduated from China University of Petroleum with a B.S. degree in petroleum engineering. He also received an MBA degree from the Sloan School of Management at MIT as a Sloan Fellow. Mr. Yang joined CNOOC in 1982 and has over 29 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, corporate finance and capital market operations in the Company and its subsidiaries. From 1993 to 1999, he served as the Deputy Chief Geologist, the Deputy Director and the Acting Director for Overseas Development Department of the Company and the Vice President of CNOOC International Limited, a subsidiary of the Company. In 1999, Mr. Yang became a Senior Vice President of the Company and served as Chief Financial Officer of the Company from January 2005 to September 2010, Executive Vice President of the Company from October 2005 to March 2009, and President of the Company from March 2009 to September 2010. He was Director and President of CNOOC Southeast Asia Limited, a subsidiary of the Company, from 2002 to 2003, General Manager of CNOOC China Limited, a subsidiary of the Company, from February 2009 to September 2010, Chairman and Director of CNOOC Southeast Asia Limited, a subsidiary of the Company, from July 2009 to September 2010, and Chairman and Director of CNOOC Deepwater Development Limited from January 2010 to September 2010. He also served as an Assistant President of CNOOC from January 2009 to April 2010 and a Director of CNOOC Finance Corporation Limited, a subsidiary of CNOOC, from May 2005 to December 2010. Mr. Yang was appointed as Vice Chairman of the Board and Chief Executive Officer of the Company, with effect from September 16, 2010. He serves as Chairman and Director of CNOOC China Limited and CNOOC International Limited, both being subsidiaries of the Company. He also serves as Vice President of CNOOC. Mr. Yang was appointed as an Executive Director of the Company, with effect from August 31, 2005.

Fanrong Li Born in 1963, Mr. Li is a senior engineer. He obtained a B.S. degree majoring in oil production from Jiang Han Petroleum Institute in China in 1984, and received an MBA degree from the Business School of Cardiff University in United Kingdom in July 2003. Mr. Li has been working in the oil and gas industry in China for more than 27 years. He joined CNOOC in 1984. From 1984 to 1989, he was a Petroleum Engineer in Nanhai East Oil Corporation of CNOOC. From 1989 to 2001, he worked as Offshore Platform Supervisor in Huizhou Oil Field for ACT (AGIP-Chevron-Texaco) Operators Group, later as Production Manager in Liuhua Oil Field Joint Operating Group with Amoco Orient Company, and Assistant to President of CNOOC China Limited Shenzhen Branch and Managing Director of Lufeng 22-1 Oil Field Joint Operating Group with Statoil (Orient) Inc. From January 2002 to November 2005, Mr. Li worked as Vice President of CNOOC China Limited Shenzhen Branch and Chief Representative of Joint Management Committee in CACT (CNOOC-AGIP-Chevron-Texaco) Operators Group. From November 2005 to February 2007, he worked as General Manager of Development and Production Department of the Company. From February 2007 to January 2009, he worked as President of CNOOC China Limited Shenzhen Branch. From January 2009 to April 2010, he was appointed as an Assistant President of CNOOC. Mr. Li serves as President of CNOOC Energy Technology & Services Limited since February 2009, and serves as Vice President of CNOOC since May 2010. Mr. Li was appointed as President of the Company, with effect from September 16, 2010. He also serves as a Director of CNOOC China Limited and CNOOC International Limited and Chairman and Director of CNOOC Southeast Asia Limited and CNOOC Deepwater Development Limited, all being subsidiaries of the Company. Mr. Li was appointed as a Non-executive Director of the Company, with effect from May 24, 2010 and was

re-designated from Non-executive Director to Executive Director, with effect from September 16, 2010.

Guangqi Wu Born in 1957, Mr. Wu is a geologist, senior economist and Certified Senior Enterprise Risk Manager 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 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, and the Chief Compliance Officer of the Company since June 1, 2005. Mr. Wu also serves as a Director of CNOOC China Limited, CNOOC International Limited and CNOOC Deepwater Development 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.

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## Non-executive Directors

Yilin Wang Born in 1956, Mr. Wang is a professor-level senior engineer. He graduated from China University of Petroleum majoring in petroleum geology and exploration and received a doctorate degree. He has nearly 30 years of working experience in China's oil and gas industry. From June 1996 to September 1999, Mr. Wang served as the deputy director and chief exploration geologist of Xinjiang Petroleum Administration Bureau. From September 1999 to May 2004, he served as the general manager of Xinjiang Oilfield Company. From June 2001 to May 2004, he served as the senior executive of Xinjiang Petroleum Administration Bureau. From July to December 2003, he served as the Assistant to General Manager of China National Petroleum Corporation ("CNPC"). From December 2003 to April 2011, he served as the Deputy General Manager of CNPC. From July 2004 to July 2007, he also served as the safety director of CNPC. From November 2005 to April 14, 2011, he served as a Director of PetroChina Company Limited, a company listed on the New York Stock Exchange, The Stock Exchange of Hong Kong Limited and Shanghai Stock Exchange respectively. Since April 8, 2011, Mr. Wang serves as Chairman of China National Offshore Oil Corporation. Mr. Wang was appointed as Chairman and Non-executive Director of the Company, with effect from April 15, 2011.

Chengyu Fu Born in 1951, Mr. Fu received a B.S. degree in geology from the Northeast Petroleum Institute in China and a master degree in petroleum engineering from the University of Southern California in the United States. He has over 31 years of experience in the oil industry in China. He previously worked in China's Daqing, Liaohe and Huabei oil fields. He joined CNOOC in 1982 and served as the Chinese Deputy Chief Representative, Chief Representative, Secretary to the Management Committees and Chairman of the Management Committees formed through joint ventures between CNOOC and Amoco, Chevron, Texaco, Phillips Petroleum, Shell and Agip, and later as the Deputy General Manager of CNOOC Nanhai East Corporation, a subsidiary of CNOOC, Vice President of Phillips Asia Inc., General Manager of the Xijiang Development Project, General Manager of CNOOC Nanhai East Corporation and Vice President of CNOOC. Subsequently, he became Executive Vice President, President and Chief Operating Officer of the Company in 2001. From September 2002 to August 2010, he served as Chairman of China Oilfield Services Limited, or COSL, a company listed on The Stock Exchange of Hong Kong Limited and Shanghai Stock Exchange, a subsidiary of CNOOC. Mr. Fu served as Chief Executive Officer of the Company from October 2003 to September 2010, Chairman of the Board of Directors of CNOOC China Limited from October 2003 to September 2010 and Chairman of the Board of Directors of CNOOC International Limited from August 1999 to September 2010, both being subsidiaries of the Company. Mr. Fu was appointed as Chairman of the Board of the Company on October 2003. He served as the President of CNOOC from October 2003 to April 8, 2011. He serves as Chairman of China Petrochemical Corporation since April 8, 2011. He also serves as Chairman of CNOOC Finance Corporation Limited and Zhonghai Trust Co. Ltd. Mr. Fu is also a Chairman of the Presidium of China Federation of Industrial Economics and the Vice-chairman of China Chamber of International Commerce. Mr. Fu was appointed as an Executive Director of the Company, with effect from August 23, 1999 and was re-designated from Executive Director to Non-executive Director, with effect from September 16, 2010. He resigned as Chairman of the Board and Non-executive Director of the Company, with effect from April 15, 2011.

Shouwei Zhou Born in 1950, Mr. Zhou, a member of Chinese Academy of Engineering, received a doctorate degree from the Southwest Petroleum Institute in China majoring in petroleum and natural gas engineering. He joined CNOOC in 1982. Mr. Zhou served as the Deputy General Manager of CNOOC Bohai Corporation, a subsidiary of CNOOC and the General Manager of CNOOC China Limited Tianjin Branch. He was appointed as an Executive Vice President of the Company in September 1999 and served as the President of the Company from July 2002 to March 2009. Since 2000, Mr. Zhou has been a Vice President of CNOOC. He also served as a Director and the General Manager of CNOOC China Limited, a subsidiary of the Company. From October 2004 to July 2009, Mr. Zhou served as a Director of CNOOC International Limited, a subsidiary of the Company. From April 2003 to July 2009, Mr. Zhou also served as the Chairman of CNOOC Southeast Asia Limited, a subsidiary of the Company. From December 2003

to December 2010, Mr. Zhou served as the Chairman of Offshore Oil Engineering Co., Ltd., a listed company on the Shanghai Stock Exchange and a subsidiary of CNOOC. Mr. Zhou was appointed as an Executive Director of the Company, with effect from August 23, 1999 and was re-designated from Executive Director to Non-executive Director, with effect from March 31, 2009.

Xinghe Cao Born in 1949, Mr. Cao graduated from Tianjin Politics and Law Management College majoring in Economic Laws and later studied MBA in Capital University of Economics and Business. Mr. Cao has over 40 years of experience in the petroleum industry since he started work in 1965. He worked for Shengli oilfield and Dagang oilfield before he joined CNOOC in 1982. From 1985 to 2003, Mr. Cao worked as the Manager of Bohai Oil Commercial Company, later as the Manager of Bohai Oil Transportation Company, both being subsidiaries of CNOOC, and Deputy General Manager and General Manager of CNOOC Bohai Corporation, a subsidiary of CNOOC, successively. From April 2003 to July 2004, Mr. Cao worked as Assistant President of CNOOC and became Vice President of CNOOC in August 2004. Mr. Cao also serves as Chairman of the Board of Directors of CNOOC Energy Technology & Services Limited and Chairman of the Board of Directors of China Ocean Oilfields Services (Hong Kong) Limited, both being subsidiaries of CNOOC. Mr. Cao was appointed as an Executive Director of the Company, with effect from August 31, 2005 and was re-designated from Executive Director to Non-executive Director, with effect from September 1, 2006. Mr. Cao retired as a Non-executive Director of the Company on May 24, 2010.

Zhenfang Wu Born in 1952, Mr. Wu is a senior engineer and graduated with a bachelor degree from Dalian University of Technology, majoring in Offshore Petroleum Engineering and Construction. He later studied EMBA in Shanghai Jiao Tong University. Mr. Wu joined the petroleum industry in 1971. He joined CNOOC in 1980 when it was still in the pre-establishment stage. From 1993 to 2000, he was Deputy General Manager of CNOOC Nanhai West Corporation, a subsidiary of CNOOC and the President of CNOOC Chemical Limited, a subsidiary of CNOOC. He was also the Chairman of the Board of Directors of Fudao Fertilizer Limited and CNOOC Chemical Limited, both being subsidiaries of CNOOC, from 2001 to 2003 and from 2003 to 2005 respectively. From 2003 to 2004, Mr. Wu was an Assistant President of CNOOC and then appointed Vice President of CNOOC in August 2004. Mr. Wu also served as the Chairman and President of CNOOC Gas and Power Group (formerly known as CNOOC Gas and Power Limited), as the Chairman and General Manager of CNOOC Oil & Petrochemicals Co., Ltd., both being subsidiaries of CNOOC, as well as the Chairman of a number of subsidiaries of CNOOC. Mr. Wu also serves as Chairman of CNOOC and Shell Petrochemical Co. Ltd and a number of subsidiaries of CNOOC. Mr. Wu was appointed as an Executive Director of the Company, with effect from August 31, 2005 and was re-designated from Executive Director to Non-executive Director, with effect from September 1, 2006.

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## Independent Non-executive Directors

Edgar W. K. Cheng Born in 1943, Dr. Cheng was a graduate from the University of Notre Dame and the Medical College of Wisconsin, USA. He was Clinical Associate Professor of Medicine at Cornell University Medical College and practiced medicine and conducted clinical research at the Memorial Sloan-Kettering Cancer Centre in New York. Dr. Cheng was a former Chairman of the University Grants Commission in Hong Kong, a former member of the Education Commission and former Chairman of the Council of The Chinese University of Hong Kong. In addition to his academic experience, Dr. Cheng is currently the Chairman of the World-Wide Investment Co. Ltd. and had been in many other financial market positions such as Chairman of the Stock Exchange of Hong Kong, Vice-Chairman and non-executive director of the Hang Seng Bank Ltd., Vice President of the International Federation of Stock Exchange, Founding Chairman of the Hong Kong Securities Institute, Chairman of the Steering Committee on the Feasibility Study on the Financial Services Institute, Member of the Board of Directors of the Hong Kong Futures Exchange Ltd., Member of the Conference Board's Global Advisory Council, an independent non-executive director of the Standard Chartered Bank (Hong Kong) Ltd., a member of the Board of Directors of the Hong Kong Institute for Monetary Research and an independent non-executive director of American International Assurance Co. Ltd. He is currently an independent non-executive director of Shui On Land Limited. In his other public service capacity, Dr. Cheng served as the Head of the Central Policy Unit of the Government of Hong Kong Special Administrative Region from 1999 to 2001. He was a member of the Greater Pearl River Delta Business Council, a member of the Commission on Strategic Development and Chairman of the Council for Sustainable Development. He is currently a member of the Judicial Officers Recommendation Commission. Dr. Cheng also plays an active role in Hong Kong-China affairs. He was appointed by the Chinese Government as a Hong Kong Affairs Advisor (1991-1997). He became a Member of the Preparatory Committee and also the Selection Committee for the Hong Kong Special Administrative Region of the National People's Congress (1996-1997). At present, he is a member of the 11th Chinese People's Political Consultative Conference National Committee. Dr. Cheng was appointed as an Independent Non-executive Director of the Company, with effect from May 24, 2006.

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 Yunnan Enterprises Holdings Limited since April 2008, a company listed on The Stock Exchange of Hong Kong 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 and Economics 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. He is also concurrently Ralph and Claire Landau Professor of Economics at The Chinese University of Hong Kong. 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 five books and published more than 160 articles and notes in professional journals. A member of the 11th National Committee of the Chinese People's Political Consultative Conference and a Vice-Chairman of its Subcommittee of Population, Resources and Environment. Professor Lau also serves as a non-official member of the HKSAR Government's Executive Council, as a member of the Commission on Strategic Development, the Exchange Fund Advisory Committee and its Currency Board and Governance Sub-Committees, the Greater Pearl River Delta Business Council and the Honours Committee, 2011

Non-Official Justices of the Peace (JP) Selection Committee and as an adviser to the Hong Kong-Taiwan Economic and Cultural Cooperation and Promotion Council. He was appointed a Justice of the Peace in Hong Kong in July 2007. He currently serves as Chairman of CIC International (Hong Kong) Co., Limited, Vice-Chairman of the Board of Directors of CITIC Capital Holdings Limited in Hong Kong, as an Independent Non-executive Director of Far EasTone Telecommunications Company Limited and Shin Kong Life Insurance Company Limited in Taiwan, and as a member of the Board of Directors of Precoad, Inc. in the United States of America. 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 the current Chairman of the Audit Committee of the HKICPA. He joined KPMG in 1976, became a partner in 1984 and retired in March 2003. Mr. Tse was a non-executive Chairman of KPMG’s operations in the PRC and a member of the KPMG China advisory board from 1997 to 2000. Mr. Tse is currently an independent non-executive director of China Telecom Corporation Limited, Wing Hang Bank Limited, Linmark Group Limited, SJM Holdings Limited and Sinofert Holdings Limited, companies listed on The Stock Exchange of Hong Kong Limited. He was an independent non-executive director of China Construction Bank Corporation, which is listed on the HKSE Main Board from 2004 to 2010. Mr. Tse is also a member of the International Advisory Council of the People’s Municipal Government of Wuhan. Mr. Tse was appointed as an Independent Non-executive Director of the Company, with effect from June 8, 2005.

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



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## Other Members of Senior Management

Guangyu Yuan Born in 1959, Mr. Yuan is an Executive Vice President of the Company, responsible for the operation safety, engineering and construction, and drilling and completion. Mr. Yuan is a senior engineer. He graduated from China University of Petroleum with a bachelor's degree in drilling engineering. He obtained a master degree from the Capital University of Economics and Business in 2001. He graduated from the CEO Class and the EMBA program of China Europe International Business School in 2004 and 2007 respectively with an MBA degree. With over 29 years of experience in the oil and gas industry, Mr. Yuan joined CNOOC in 1982, having served as Deputy Manager of CNOOC Bohai Drilling Company, Deputy General Manager of CNOOC China Offshore Oil Northern Drilling Company, Deputy General Manager of Operational Department of CNOOC, General Manager of CNOOC China Offshore Oil Northern Drilling Company, Chairman of the Board of Directors and General Manager of CNOOC Services, and Vice Chairman of the Board of Directors, Executive Director, Chief Executive Officer and President of COSL. Mr. Yuan also serves as the Director of CNOOC China Limited, CNOOC International Limited, CNOOC Southeast Asia Ltd. and CNOOC Deepwater Development Limited, all being the subsidiaries of the Company. In November 2006, Mr. Yuan was appointed as the Assistant President of CNOOC. In March 2009, Mr. Yuan was appointed as the Executive Vice President of the Company.

Weilin Zhu Born in 1956, Mr. Zhu is the Chief Geologist of CNOOC, Executive Vice President of the Company and General Manager of Exploration Department of the Company. Mr. Zhu graduated from Shanghai Tongji University with a Ph.D. degree. Mr. Zhu joined CNOOC in 1982. Prior to 1999, he conducted researches in CNOOC Research Center and served as the Deputy Director and Director of the Research Department and Deputy Chief Geologist and Chief Geologist of the Research Center. From 1999 to 2007, Mr. Zhu served as the Deputy Manager of Exploration Department of CNOOC, Deputy General Manager and General Manager of Exploration Department of the Company, General Manager of CNOOC China Limited Zhanjiang Branch and Vice President of the Company. Mr. Zhu also serves as the Director of CNOOC China Limited and CNOOC Deepwater Development Limited, both being 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 and Executive Vice President of the Company, responsible for the Company's oil and gas exploration operations.

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Liguo Zhao Born in 1953, Mr. Zhao is the General Counsel of the Company. He graduated from the Faculty of Law, Peking University in 1983 with a bachelor of laws' degree. In 1988, he studied at the Law School of Niigata University in Japan for a year. Mr. Zhao joined CNOOC in 1983. He served as Head of Contract Negotiation Division, Deputy General Manager and General Manager of Legal Department of CNOOC. At present, he serves as the General Counsel of CNOOC and the Company. Mr. Zhao was granted PRC lawyer qualification in 1985 and corporate counsel qualification in 1998. He is an arbitrator of China International Economic and Trade Arbitration Commission and a member of the China Maritime Arbitration Commission. Mr. Zhu also serves as the Director of CNOOC China Limited and CNOOC International Limited, both being the subsidiaries of the Company. Mr. Zhao was appointed as the General Counsel of the Company, with effect from November 2, 2009.

Bi Chen Born in 1961, Mr. Chen is an Executive Vice President of the Company and is responsible for development, production and sales of the Company. Mr. Chen graduated from the Southwest Petroleum University and received a bachelor degree in oil production. He received a master degree of petroleum engineering from Edinburgh Heriot-Watt University in 1988, an MBA degree from Tsinghua University in 2000 and an honorary doctoral degree in petroleum engineering from Edinburgh Heriot-Watt University in 2010. Mr. Chen joined CNOOC in 1982 and has over 29 years of experience in the oil and natural gas industry. He served as the Deputy Manager of CNOOC Nanhai West Corporation Oil Production Company, Director of Production Section, Deputy Manager and General Manager of Development and Production Department of the Company, and General Manager of CNOOC China Limited Tianjin Branch. Mr. Chen also serves as the Director of CNOOC China Limited, CNOOC International Limited and CNOOC Deepwater Development Limited, all being the subsidiaries of the Company. In December 2005, Mr. Chen was appointed as Vice President of the Company and General Manager of CNOOC China Limited Tianjin Branch. In March 2009, Mr. Chen was appointed as the Executive Vice President of the Company.

Wei Chen Born in 1958, Mr. Chen is a Senior Vice President of the Company and the General Director of CNOOC Research Institute (formerly CNOOC Research Center). He received his B.S. degree from China University of Petroleum and MBA from Tsinghua University. He has over 29 years of experience in the oil and gas industry. Mr. Chen joined CNOOC in 1984 and previously served as the Deputy Manager for the Development Department, the Deputy Manager of the Overseas Research Department, the Manager of the Information Department, and the Deputy Director of CNOOC Research Center. He has also served as General Manager of Human Resources Department of CNOOC, and the Senior Vice President of the Company and General Manager of Administration Department of the Company. In July 2003, Mr. Chen was appointed as the Director of CNOOC Research Center (later became President of CNOOC Research Institute).

Guohua Zhang Born in 1960, Mr. Zhang is a Senior Vice President of the Company and the General Manager of CNOOC China Limited Shanghai Branch. He 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 General Manager of Exploration Department of CNOOC Nanhai West Corporation, a subsidiary of CNOOC, Chief Geologist of CNOOC Research Center, Assistant to General Manager of CNOOC China Limited and the General Manager of Exploration Department of the Company. In October 2005, Mr. Zhang was appointed as General Manager of CNOOC China Limited Shanghai Branch.

Zhi Fang Born in 1962, Mr. Fang is a Vice President of the Company and the President of CNOOC International Limited and is responsible for the Company's International affairs. He graduated from Zhejiang University with a bachelor degree in science and received a MBA degree from University of Birmingham in 1995. Mr. Fang joined CNOOC in 1982. He served as Deputy Director of the Research Center of CNOOC Nanhai East Corporation, Deputy General Manager of CNOOC-AMOCO Lihua Joint Operating Group, Deputy General Manager of Exploration and Development Department of CNOOC Nanhai East Corporation, the Deputy General Manager and General Manager of CNOOC China Limited Shenzhen Branch, and the President of CNOOC Southeast Asia Ltd. Mr. Fang also serves as

the Director of CNOOC International Limited and CNOOC Southeast Asia Ltd., both being the subsidiaries of the Company. In October 2005, Mr. Fang was appointed as the Vice President of the Company. In April 2009, Mr. Fang was appointed as President of CNOOC International Limited.

Hua Zhong Born in 1960, Mr. Zhong is Chief Financial Officer of the Company. Mr. Zhong is a senior engineer and graduated from Southwest Petroleum Institute with a bachelor's degree in Oil Exploitation. He received a master's degree in Petroleum Engineering from Heriot - Watt University in the United Kingdom in 1988. He joined CNOOC in 1982, and has been working in the oil and gas industry for over 29 years. From 1982 to 1999, Mr. Zhong served as Petroleum Engineer, Expro Northsea Staff in UK, Deputy Manager of Downhole Services Company, Manager of Wei 10-3 Oilfield, Oilfield Superintendent of CNOOC Indonesia Project, Supervisor of Ya 21-1-3 HTHP Well Testing Project, Deputy Manager of Drilling and Exploitation Institute, Manager of Science and Technology Department and Manager of Administration Department of China Offshore Oil Nanhai West Corporation. From September 1999 to August 2005, Mr. Zhong was General Manager of Administration Department and General Manager of Development and Planning Department of CNOOC Ltd. From August 2005 to September 2010, Mr. Zhong served as Vice President, Executive Vice President, Executive Vice President and Chief Financial Officer of COSL. On September 16, 2010, Mr. Zhong was appointed as Chief Financial Officer of the Company.

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## Joint Company Secretaries

Yongzhi Jiang Born in 1973, Mr. Jiang is the Joint Company Secretary of the Company. He is a CFA Charterholder and qualified PRC lawyer. In 1995, Mr. Jiang graduated from China University of Political Science and Law with a bachelor of laws degree majoring in International Economic Law. In 1997, he completed his study in Mattei School (“La Scuola Superiore della’ Mattei”) in Milan, Italy with a Master degree in Energy and Environmental Management and Economics, majoring in Management of Energy Company. In 2003, he obtained his MBA degree from Kelley School of Business, Indiana University in United States of America, majoring in Finance and Accounting. From 1995 to 2001, Mr. Jiang worked in China National Petroleum Corporation and then in Petrochina Company Limited as a legal counsel for the international business. Mr. Jiang joined the Company in 2003. He firstly served as the Senior Supervisor of Mergers & Acquisitions in the Controllers Department, then as the Commercial Manager in CNOOC International Limited, a subsidiary of the Company, and as the Assistant Chief Financial Officer of the Company from 2007 to 2009. Mr. Jiang serves as the General Manager of the Investor Relations Department and Director of the Office for the Board of Directors of the Company since December 14, 2009. Mr. Jiang was appointed as the Joint Company Secretary of the Company, with effect from January 29, 2010.

May Sik Yu Tsue Born in 1973, Ms. Tsue is the Joint Company Secretary of the Company. She graduated from Curtin University of Technology in Australia with a bachelor of commerce in accounting. Ms. Tsue furthered her education at The Hong Kong Polytechnic University in Master of Corporate Governance from 2004 to 2006. She is an associate member of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries since 2007. 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 November 25, 2008.

B. COMPENSATION

The aggregate amount of fees, salaries, bonus, housing allowances, other allowances and benefits in kind paid to our directors for the year ended December 31, 2010 was approximately Rmb 19.3 million (US\$2.9 million), while the amount paid to our other senior management for the same period was approximately Rmb 6.6 million (US\$1.0 million). In addition, under our pension plan for 2010, we set aside an aggregate amount of Rmb 746,983 (US\$112,791) 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 496,653 (US\$74,993) to the pension plan for 2010. Each director’s annual compensation, including fees, salaries, allowances, benefits in kind, pension benefits and share option benefits, is disclosed in note 10 to our consolidated financial statements included elsewhere in this annual report. Note 11 to our consolidated financial statements included elsewhere in this annual report discloses our five highest paid employees or directors during 2010. 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.”

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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 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 losses resulting from financial reporting. 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 Mr. Aloysius Hau Yin Tse as the audit committee financial expert for the purposes of U.S. securities laws and chairman of the audit committee, Mr. Sung Hong Chiu and Professor Lawrence J. Lau.

The primary responsibilities of our remuneration committee are to review and approve all our executive directors' salaries, bonuses, share option packages, performance appraisal systems and retirement plans. In 2010, our remuneration committee consisted of two independent non-executive directors (Mr. Sung Hong Chiu as chairman and Mr. Aloysius Hau Yin Tse) and one non-executive director (Mr. Zhenfang Wu). Mr. Cao retired from our Board on May 24, 2010 and is no longer a member of our remuneration committee. Mr. Fanrong Li served as remuneration committee member from May 24, 2010 to September 16, 2010 when he was a non-executive director of the Company. Mr. Zhenfang Wu was appointed as remuneration committee member on September 16, 2010.

The primary responsibilities of our nomination committee include nominating candidates for directors subject to our Board's approval, conducting routine examination of the structure, scale and composition of our Board, and review the leadership capabilities of our directors in order to ensure that we remain competitive. In 2010, our nomination committee consisted of Mr. Shouwei Zhou as chairman, Dr. Edgar W. K. Cheng, Professor Lawrence J. Lau and Mr. Tao Wang.

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 directors service contracts with us and under such contracts, there is no severance pay arrangements 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.



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### 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. Five of our eleven directors are independent non-executive directors.

NYSE Standards require U.S. domestic issuers to schedule an executive session at least once a year to be attended by only independent directors. We are not subject to such requirement 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 or with non-management directors as a group. We are not subject to such requirement and we have not adopted such a method yet.

### 2. Audit Committee

If an audit committee member simultaneously serves on the audit committees of more than three public companies, and the listed company does not limit the number of audit committees on which its audit committee members serve to three or less, then in each case, the boards of directors of U.S. domestic issuers are 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 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 auditors and the Director of Internal Audit 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 according to the Hong Kong Stock Exchange Listing Rules.

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 require U.S. domestic issuers to address in their remuneration 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 remuneration committees of U.S. domestic issuers to produce a remuneration 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 and the five highest paid employees in our annual reports according to the requirements of Hong Kong Stock Exchange Listing Rules.

#### 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 three 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.

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 website and in print form to any shareholder who requests it. 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. See “Item 16B—Code of Ethics.”



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D. EMPLOYEES

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

E. SHARE OWNERSHIP

As of March 31, 2011, our directors and employees had the following personal interests in options to subscribe for shares granted under our share option schemes:

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Name of Grantee	Number of shares involved in the options outstanding as of January 1, 2010	Number of shares involved in the options outstanding as of March 31, 2011	Date of Grant	Date of Expiration(1)	Closing price per share immediately before the date of grant (HK\$)	Exercise Price (HK\$)
<b>Executive Directors:</b>						
Hua Yang	1,150,000	—	March 12, 2001	March 12, 2011(2)	1.23	1.19
	1,150,000	1,150,000	August 27, 2001	August 27, 2011	1.46	1.232
	1,150,000	1,150,000	February 24, 2003	February 24, 2013	2.09	2.108
	1,150,000	1,150,000	February 5, 2004	February 5, 2014	3.13	3.152
	1,610,000	1,610,000	August 31, 2005	August 31, 2015	5.75	5.62
	1,770,000	1,770,000	June 14, 2006	June 14, 2016	5.30	5.56
	1,857,000	1,857,000	May 25, 2007	May 25, 2017	7.43	7.29
	1,857,000	1,857,000	May 29, 2008	May 29, 2018	14.20	14.828
	2,835,000	2,835,000	May 27, 2009	May 27, 2019	9.33	9.93
	—	2,000,000	May 20, 2010	May 20, 2020	12.22	12.696
Guangqi Wu	1,610,000	1,610,000	August 31, 2005	August 31, 2015	5.75	5.62
	1,770,000	1,770,000	June 14, 2006	June 14, 2016	5.30	5.56
	1,857,000	1,857,000	May 25, 2007	May 25, 2017	7.43	7.29
	1,857,000	1,857,000	May 29, 2008	May 29, 2018	14.20	14.828
	1,857,000	1,857,000	May 27, 2009	May 27, 2019	9.33	9.93
	—	1,857,000	May 20, 2010	May 20, 2020	12.22	12.696
<b>Non-executive Directors:</b>						
Chengyu Fu(3)	1,750,000	—	March 12, 2001	March 12, 2011(2)	1.23	1.19
	1,750,000	1,750,000	August 27, 2001	August 27, 2011	1.46	1.232
	1,150,000	1,150,000	February 24, 2003	February 24, 2013	2.09	2.108

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	2,500,000	2,500,000	February 5, 2004	February 5, 2014	3.13	3.152
	3,500,000	3,500,000	August 31, 2005	August 31, 2015	5.75	5.62
	3,850,000	3,850,000	June 14, 2006	June 14, 2016	5.30	5.56
	4,041,000	4,041,000	May 25, 2007	May 25, 2017	7.43	7.29
	4,041,000	4,041,000	May 29, 2008	May 29, 2018	14.20	14.828
	4,041,000	4,041,000	May 27, 2009	May 27, 2019	9.33	9.93
	—	2,100,000	May 20, 2010	May 20, 2020	12.22	12.696
Shouwei Zhou	1,400,000	—	March 12, 2001	March 12, 2011(2)	1.23	1.19
	1,750,000	1,750,000	August 27, 2001	August 27, 2011	1.46	1.232
	1,750,000	1,750,000	February 24, 2003	February 24, 2013	2.09	2.108
	1,750,000	1,750,000	February 5, 2004	February 5, 2014	3.13	3.152
	2,450,000	2,450,000	August 31, 2005	August 31, 2015	5.75	5.62
	2,700,000	2,700,000	June 14, 2006	June 14, 2016	5.30	5.56
	2,835,000	2,835,000	May 25, 2007	May 25, 2017	7.43	7.29
	2,835,000	2,835,000	May 29, 2008	May 29, 2018	14.20	14.828
	1,800,000	1,800,000	May 27, 2009	May 27, 2019	9.33	9.93
	—	1,800,000	May 20, 2010	May 20, 2020	12.22	12.696
Xinghe Cao(4)	800,000	—	August 31, 2005	August 31, 2015	5.75	5.62
	1,770,000	—	June 14, 2006	June 14, 2016	5.30	5.56
	1,857,000	—	May 25, 2007	May 25, 2017	7.43	7.29
	1,857,000	—	May 29, 2008	May 29, 2018	14.20	14.828
	1,800,000	—	May 27, 2009	May 27, 2019	9.33	9.93
	—	—	May 20, 2010	May 20, 2020	12.22	12.696
Zhenfang Wu	800,000	800,000	August 31, 2005	August 31, 2015	5.75	5.62
	1,770,000	1,770,000	June 14, 2006	June 14, 2016	5.30	5.56
	1,857,000	1,857,000	May 25, 2007	May 25, 2017	7.43	7.29
	1,857,000	1,857,000	May 29, 2008	May 29, 2018	14.20	14.828
	1,800,000	1,800,000	May 27, 2009	May 27, 2019	9.33	9.93
	—	1,800,000	May 20, 2010	May 20, 2020	12.22	12.696

Independent  
Non-executive

## Directors:

Sung Hong Chiu	1,150,000	1,150,000	February 5, 2004	February 5, 2014	3.13	3.152
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## Other Employees In Aggregate:

	3,250,000	—	March 12, 2001	March 12, 2011(2)	1.23	1.19
	9,950,000	9,300,000	August 27, 2001	August 27, 2011	1.46	1.232
	12,449,966	10,649,966	February 24, 2003	February 24, 2013	2.09	2.108
	20,749,935	17,649,934	February 5, 2004	February 5, 2014	3.13	3.152
	35,756,667	27,230,000	August 31, 2005	August 31, 2015	5.75	5.62
	48,583,333	40,370,000	June 14, 2006	June 14, 2016	5.30	5.56
	58,919,000	47,848,000	May 25, 2007	May 25, 2017	7.43	7.29
	63,514,000	61,032,000	May 29, 2008	May 29, 2018	14.20	14.828
	80,400,000	75,876,000	May 27, 2009	May 27, 2019	9.33	9.93
	—	92,335,000	May 20, 2010	May 20, 2020	12.22	12.696
Total	420,263,901	466,154,900				

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

(2) 50% of the share options granted are vested 18 months after the date of grant, the remaining 50% are vested 30 months after the date of grant.

(3) Mr. Chengyu Fu was re-designated to Non-executive Director of the Company, with effect from September 16, 2010, and resigned as Chairman of the Board and Non-executive Director of the Company, with effect from April 15, 2011.

(4) Mr. Xinghe Cao retired as a Non-executive Director of the Company, with effect from May 24, 2010.

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For the year ended December 31, 2010, no share options granted under our share option schemes were exercised. For the period from January 1, 2011 to March 31, 2011, no share options were exercised.

As of December 31, 2010, we had 474,054,900 share options outstanding under our share option schemes, which represented approximately 1.06% of our shares in issue as of that date.

For further details about our share option schemes, see notes 10 and 27 to our consolidated financial statements included elsewhere in this annual report.

As of March 31, 2011, 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, 2011.

Shareholder	Number of Shares Owned	Percentage
CNOOC(1)	28,772,727,273	64.41%

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

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

As of March 31, 2011, 12,945,022 ADSs were outstanding in the United States, representing approximately 2.9% of our then outstanding shares. At such date, the number of registered ADS holders in the United States was 42.

## 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 64.41% of our issued share capital, some of these transactions constitute connected transactions under the Hong Kong Stock Exchange Listing Rules, and are regulated by the Hong Kong Stock Exchange.

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

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

- Bank deposits and borrowings.

These transactions are conducted in the ordinary course of business.

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Categories of Continuing Connected Transactions

We entered into four comprehensive framework agreements with each of CNOOC, COSL, COOEC and China BlueChemical Ltd., on November 8, 2007, for the provision 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 each of the comprehensive framework agreements is for a period of three years from January 1, 2008. The continuing connected transactions and relevant annual caps were approved by our independent shareholders on December 6, 2007. The approved continuing connected transactions are set out below:

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 LNG)
  - b) Long term sales of natural gas and LNG

Pricing principles

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

If, for any reason, the above pricing principle for a particular service ceases to be applicable or there is no open market for services, whether due to a change in circumstances or otherwise, such services must then be provided in accordance with the following general pricing principles:

- (i) state-prescribed prices; or
- (ii) where there is no state-prescribed price, market prices, including the local, national or international market prices; or
- (iii) when neither (i) nor (ii) is applicable, the cost for providing the relevant services (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 are at market prices on normal commercial terms which are calculated on a daily basis.





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

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

A detailed discussion of significant connected transactions entered into in the ordinary course of business between us and our related parties during 2010 and the balances arising from connected transactions at the end of 2010 is included in note 29 to our consolidated financial statements included elsewhere in this annual report.

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 reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Hong Kong Stock Exchange Listing Rules, because the percentage ratios for these categories under the Hong Kong Stock Exchange Listing Rules (other than the profits ratio) are expected to be less than 2.5% on an annual basis:

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

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 reporting, announcement and independent shareholders' approval requirements:

- 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; and
  - (d) FPSO vessel leases.
- 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 LNG); and
  - (b)Long term sales of natural gas and LNG.

We obtained independent shareholders' approval at the extraordinary general meetings held on December 6, 2007 for our continuing connected transactions and the annual caps with CNOOC and/or its associates for the period from January 1, 2008 to December 31, 2010, respectively. The annual caps and the conditions are specified as follows:

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Category of continuing connected transactions	Relevant Annual Caps
Provision of exploration, oil and gas development, oil and gas production as well as marketing, management and ancillary services by CNOOC and/or its associates to us	
(a) Provision of exploration and support services	For the three years ending December 31, 2010, Rmb 6,296 million, Rmb 7,555 million and Rmb 9,066 million, respectively
(b) Provision of oil and gas development and support services	For the three years ending December 31, 2010, Rmb 18,608 million, Rmb 22,879 million and Rmb 26,759 million, respectively
(c) Provision of oil and gas production and support services	For the three years ending December 31, 2010, Rmb 5,124 million, Rmb 6,147 million and Rmb 7,253 million, respectively
(d) Provision of marketing, management and ancillary services	For the three years ending December 31, 2010, Rmb 789 million, Rmb 854 million and Rmb 967 million, respectively
(e) FPSO vessel leases	For the three years ending December 31, 2010, Rmb 1,908 million, Rmb 3,182 million and Rmb 3,250 million, respectively
Provision of management, technical, facilities and ancillary services, including the supply of materials from us to CNOOC and/or its associates	
Provision of management, technical, facilities and ancillary services, including the supply of materials to CNOOC and/or its associates	For the three years ending December 31, 2010, Rmb 100 million, Rmb 100 million and Rmb 100 million, respectively
Sales of petroleum and natural gas products by us to CNOOC and/or its associates	
(a) Sales of petroleum and natural gas products (other than long-term sales of natural gas and liquefied natural gas)	For the three years ending December 31, 2010, Rmb 94,440 million,

Rmb 156,692 million and  
Rmb 181,782 million, respectively

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

For the three years ending December  
31, 2010,  
Rmb 4,844 million,  
Rmb 7,118 million and  
Rmb 8,763 million, respectively

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The non-exempt continuing connected transactions for the year ended December 31, 2010 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) either (a) on normal commercial terms, or (b) if there is no available comparison, on terms no less favorable to us than terms available from independent third parties; and
- (iii) in accordance with the relevant agreements governing them on terms that were fair and reasonable so far as our shareholders were concerned and in the interests of our company and shareholders as a whole.

We confirmed that the annual amount of each category of the non-exempt continuing connected transactions for the year ended December 31, 2010 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.

#### Renewal of Continuing Connected Transactions

In anticipation of the expiration of the comprehensive framework agreements dated November 8, 2007 and our intention to continue the continuing connected transactions after December 31, 2010, we entered into a new comprehensive framework agreement on November 1, 2010 with CNOOC 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, 2011. The comprehensive framework agreement is substantially on the same terms as those contained in the four comprehensive framework agreements we entered into on November 8, 2007. The continuing connected transactions and the relevant annual caps for the three years from January 1, 2011 were approved by our independent shareholders on November 24, 2010. The annual caps and the conditions are specified as follows:

#### Category of continuing connected transactions

#### Relevant Annual Caps

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

(a) Provision of exploration and support services	For the three years ending December 31, 2013, Rmb 6,676 million, Rmb 7,431 million and Rmb 7,737 million, respectively
(b) Provision of oil and gas development and support services	For the three years ending December 31, 2013, Rmb 24,067 million, Rmb 37,906 million and Rmb 38,822 million, respectively
(c) Provision of oil and gas production and support services	For the three years ending December 31, 2013, Rmb 8,228 million, Rmb 9,051 million and

	Rmb 9,956 million, respectively
(d) Provision of marketing, management and ancillary services	For the three years ending December 31, 2013, Rmb 820.98 million, Rmb 856.52 million and Rmb 905.09 million, respectively
(e) FPSO vessel leases	For the three years ending December 31, 2013, Rmb 1,401 million, Rmb 1,390 million and Rmb 1,546 million, respectively
Provision of management, technical, facilities and ancillary services, including the supply of materials from us to CNOOC and/or its associates	
Provision of management, technical, facilities and ancillary services, including the supply of materials to CNOOC and/or its associates	For the three years ending December 31, 2013, Rmb 100 million, Rmb 100 million and Rmb 100 million, respectively
Sales of petroleum and natural gas products by us to CNOOC and/or its associates	
(a) Sales of petroleum and natural gas products (other than long-term sales of natural gas and liquefied natural gas)	For the three years ending December 31, 2013, Rmb 152,315 million, Rmb 158,163 million and Rmb 165,561 million, respectively
(b) Long-term sales of natural gas and liquefied natural gas	For the three years ending December 31, 2013, Rmb 8,034 million, Rmb 9,146 million and Rmb 21,155 million, respectively

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Transactions with CNOOC Finance Corporation Limited

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

For the period from October 14, 2008 to August 19, 2010, the maximum daily outstanding balance of deposits (including accrued interest) we placed with CNOOC Finance Corporation Limited (excluding funds placed for the purpose of extending entrustment loans pursuant to the entrustment loan services), did not exceed Rmb 4,480 million. During such period, the maximum daily outstanding balance of deposits did not exceed 2.5% of the relevant percentage ratios under the Hong Kong Stock Exchange Listing Rules. Pursuant to the amendment to the Listing Rules in June 2010, we announced on August 20, 2010 to revise the maximum daily outstanding balance (including accrued interest) placed by us with CNOOC Finance Corporation Limited (excluding funds placed for the purpose of extending entrustment loans pursuant to the entrustment loan services) not to exceed Rmb 9,800 million. For the period from August 20, 2010 to December 31, 2010, the maximum daily outstanding balance did not exceed Rmb 9,800 million. During such period, the maximum daily outstanding balance of deposits did not exceed 5% of the relevant percentage ratios under the Hong Kong Stock Exchange Listing Rules.

On August 20, 2010, we also entered into a renewal agreement with CNOOC Finance Corporation Limited to renew the financial services framework agreement entered into by us and CNOOC Finance Corporation Limited dated October 14, 2008. The renewal agreement is effective from January 1, 2011 to December 31, 2013. According to the renewal agreement, the maximum daily outstanding balance should not exceed Rmb 9,800 million for the period from January 1, 2011 (being the effective date of the renewal agreement) to December 31, 2013. The depository services were exempted from independent shareholders' approval requirements and the settlement, discounting, loans and entrustment loans services were exempted from the reporting, announcement, annual review and independent shareholders' approval requirements under the Hong Kong Stock Exchange Listing Rules.

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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

We are not a defendant in any material litigation or arbitration, and we know of no pending or threatened proceeding which would have a material adverse effect on our financial condition.

Dividend Distribution Policy

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

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

Holders of our ADSs will be entitled to receive dividends, subject to the terms of the deposit agreement, to the same extent as holders of our shares, less the fees and expenses payable under the deposit agreement and withholding taxes of 10%. Cash dividends will be paid to the 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 2008, we declared and paid dividends totaling Rmb 14,651.8 million. In 2009, we declared and paid dividends totaling Rmb 15,747.1 million. In 2010, we declared and paid dividends totaling Rmb 15,893.8 million (US\$2,408.2 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 13.5 million (US\$2.0 million), which was Rmb 25.1 million in 2009. None of the contributions of CNOOC China Limited to these statutory funds may be used for dividend purposes.



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For the years ended December 31, 2008, 2009 and 2010, CNOOC China Limited made the following appropriations to the statutory reserves:

	For the year ended December 31, 2008		For the year ended December 31, 2009		For the year ended December 31, 2010	
	Percentage of Net Profits	Rmb (in millions)	Percentage of Net Profits	Rmb (in millions)	Percentage of Net Profits	Rmb (in millions)
Reserve fund	0.0%	—	0.0%	—	0.0%	—
Staff and workers' bonus and welfare fund	0.0%	—	0.0%	—	0.3%	154.3
Safety fund	0.8%	372.7	1.4%	407.3	1.2%	628.6

## Contingent Liabilities

On January 8, 2006, the Company signed a definitive agreement with South Atlantic Petroleum Limited, or SAPETRO, to acquire a 45% working interest in the Offshore Oil Mining Lease 130, or OML130, in Nigeria, or the OML130 Transaction. The OML130 Transaction was completed on April 20, 2006.

In 2007, a local tax office in Nigeria conducted a tax audit on SAPETRO. According to the preliminary tax audit results, the Nigeria local tax office has raised a disagreement with the tax filings made for the OML130 Transaction.

The tax audit assessment made by the Nigeria local tax office has been contested by the Company in accordance with Nigerian laws. After seeking legal and tax advice, the Company's management believes that the Company has reasonable grounds in making the contest. Consequently, no provision has been made for any expenses which might arise as a result of the dispute.

The Company has extended interest-free intercompany loans to CNOOC International Limited, a wholly-owned subsidiary, to provide onward funding to its subsidiaries domiciled outside the PRC. Upon receipt of a formal approval from the State Administration of Taxation of the PRC on October 19, 2010, which confirmed that the Company should be treated as a Chinese Resident Enterprise, the Company may be liable to pay taxes on the deemed interest income for the intercompany loans to CNOOC International Limited starting from January 1, 2008. The Company is currently applying to, and awaiting confirmation from its in-charge tax authority for an exemption on this possible deemed interest income.

## B. SIGNIFICANT CHANGES

## Notes issuance

In January 2011, we, through CNOOC Finance (2011) Limited, our wholly owned subsidiary, issued US\$1,500 million 4.25% guaranteed notes due 2021 and US\$500 million 5.75% guaranteed notes due 2041. The obligations of CNOOC Finance (2011) Limited in respect of these notes are unconditionally and irrevocably guaranteed by us.

## Acquisition

In February 2011, we completed the acquisition of 33.3% interest of undivided interest in Chesapeake's 800,000 net oil and natural gas leasehold acres in the Niobrara project. The consideration for the transaction was US\$570 million in

cash. In addition, we agreed to fund 66.7% of Chesapeake's share of drilling and completion costs up to US\$697 million, which Chesapeake expects to occur by year-end 2014.

On March 29, 2011, we entered into sale and purchase agreements with Tullow Oil plc for the acquisition of its one third interests in exploration areas 1, 2 and 3A in Uganda. Total consideration of the transaction is approximately US\$1.467 billion in cash, subject to closing adjustments. Completion of the transaction is subject to certain terms and conditions, including, among other things, all necessary government and regulatory approvals by the relevant authorities in the Republic of Uganda and the PRC.

#### Changes of Directors

On April 15, 2011, Mr. Chengyu Fu resigned as Chairman of the Board and Non-executive Director of the Company, with effect on the same day; Mr. Yilin Wang was appointed as Chairman of the Board and Non-executive Director of the Company, with effect on the same day.

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## 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.” 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.

Period	Hong Kong Stock Exchange		New York Stock Exchange	
	High	Low	High	Low
	(HK\$ per share)		(US\$ per ADS)	
2006	7.39	5.25	94.63	67.19
2007	16.92	6.16	216.49	78.18
2008	15.90	4.24	203.00	56.04
2009	12.90	6.08	166.63	76.63
2010	18.48	11.02	238.80	139.83
2009 Financial Quarter				
1st Quarter	8.39	6.08	108.50	76.63
2nd Quarter	11.14	7.85	143.93	103.19
3rd Quarter	11.02	8.82	142.30	113.27
4th Quarter	12.90	10.24	166.63	131.15
2010 Financial Quarter				
1st Quarter	13.24	11.02	169.73	139.83
2nd Quarter	14.06	11.58	180.95	150.65
3rd Quarter	15.08	12.26	194.30	155.81
4th Quarter	18.48	15.76	238.80	196.39
2011 Financial Quarter				
1st Quarter	19.60	16.12	253.04	210.64
Last Six Months				
October 2010	16.80	15.76	213.34	196.39
November 2010	18.02	16.48	233.67	214.20
December 2010	18.48	17.00	238.80	224.05
January 2011	19.40	17.20	249.73	220.49
February 2011	17.80	16.12	229.00	210.64
March 2011	19.60	17.24	253.04	217.94

## 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), or the Hong Kong Companies Ordinance. Our company registration number in Hong Kong is 685974. Under section three of our memorandum of association, we have the capacity and the rights, powers and privileges of a natural person and we may also do anything which we are permitted or required to do by any enactment or rule of law. The following are summaries of provisions of our memorandum and articles of association and 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 is filed as Exhibit 1.1 to this annual report.

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### 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 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 generally shall continue in force from the date of the passing of the resolution until the earliest of:

- the conclusion of the next annual general meeting;
- the expiration of the period within which the next annual general meeting is required by any applicable laws or our articles of association to be held; or
- the revocation or variation of the authority given under an ordinary resolution of the shareholders, in a general meeting of our company.

If such an approval for a general mandate to issue shares is given, the unissued shares of our company shall be at the disposal of our Board. Our directors may offer, allot, grant options over or otherwise dispose of the unissued 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 share capital in issue as of the date of granting such approval plus the share capital repurchased by us since the granting of such approval.

### Dividends

Subject to the Hong Kong Companies Ordinance, the shareholders at a general meeting may declare dividends to be paid to shareholders. However, under our articles of association, dividends cannot be declared in excess of the amount recommended by our Board.

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 capital paid up on the shares held by them respectively, and if such surplus assets are insufficient to repay the whole of the paid-up capital, they are to be distributed so that the losses are borne by our shareholders in proportion to the capital 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.

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- An ordinary resolution is a resolution passed by the majority of shareholders that are entitled to, and do, vote in person or by proxy at a general meeting;
- A special resolution is a resolution passed by not less than 75% of shareholders that are entitled to, and do, vote in person or by proxy at a general meeting.

Generally, resolutions of shareholders are passed by ordinary resolution. However, the Hong Kong Companies Ordinance provides that certain specified matters may only be approved by shareholders by way of special resolutions. These matters include, for example:

- alteration of the object clause;
- alteration of the articles;
- change of a company's name;
- reduction of share capital; and
- voluntary winding up.

Subject to the requirement of the Hong Kong Stock Exchange Listing Rules, voting at any general meeting is by a show of hands unless a poll is demanded. If voting is by a show of hands, every shareholder who is present at the meeting in person or by proxy has one vote. On a poll, every shareholder who is present in person or by proxy has one vote for every share held or represented by him. A poll may be demanded by:

- the chairman of the meeting;
- at least three members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote at the meeting;
- any member or members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and representing in the aggregate not less than 10% of the total voting rights of all members having the right to attend and vote at the meeting; or
- any member or members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than 10% of the total sum paid up on all shares conferring that right.

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 memorandum and articles of association, shareholders who are not residents of Hong Kong may hold, vote and transfer their shares in our company in the same manner as our shareholders who are Hong Kong residents.

## General Meetings

We are required to hold an annual general meeting each year within fifteen months from the date of our last annual general meeting. 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, must be dissolved; but in any other case it must 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.



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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. For this purpose, existence of material interest is presumed if a company, in which the director and/or his or her associates beneficially own 5% or more of any class of its shares or voting rights, is materially interested in the transaction. Our directors may, however, vote 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 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 to give security or indemnity to a third party for our debts or debts of our subsidiaries for which such director or his or her associates assumed responsibility by giving guarantee or security;
- 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 participate in the underwriting or sub-underwriting;
- any contract or arrangement in which the director or his or her associates are interested only by virtue of their interest in our securities;
- any contract or arrangement concerning any other company in which the director or his or her associates are interested as an officer or executive or a shareholder in which the director or his or her associates are beneficially interested in shares of that company other than a company in which they in aggregate beneficially own more than 5% of the issued shares of any class or voting rights;
- 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.

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C. MATERIAL CONTRACTS

We have not entered into any material contracts in the last two years other than in the ordinary course of business and other than 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 of 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. federal laws. Accordingly, we urge you to consult your tax adviser regarding the tax consequences of an investment in 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 changes. There is no reciprocal tax treaty in effect between Hong Kong and the United States.

The PRC

In 2007, the PRC National People’s Congress passed the Enterprise Income Tax Law, and the PRC State Council subsequently issued the Implementation Regulations of the Enterprise Income Tax Law (together, the “New EIT Law”). 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 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. According to the formal approval from the SAT in October 2010, we are regarded as a CRE pursuant to the provisions of the New EIT Law and the Notice. Accordingly, we will withhold PRC income tax of up to 10%, or a lower rate if tax treaty benefits are available, on dividends we pay to non-resident enterprise holders of our ADSs or ordinary shares. Dividends we pay to non-resident non-enterprise holders, including individuals, of our ADSs or ordinary shares who hold our ADSs or ordinary shares in the names of non-resident enterprises in the registers of members of our Depositary or share registrar may also be subject to a 10% PRC withholding tax. 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 (the “PRC Treaty”).

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Currently, gains realized by foreign individual investors upon the sale of overseas-listed shares issued by PRC companies 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 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 exemptions.

### Hong Kong

#### Tax on Dividends

Under the current practices of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in connection with 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 chargeable to Hong Kong profits tax which is currently imposed at a rate of 16.5% on corporations and at a maximum 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.

### United States

#### U.S. Federal Income Tax Considerations

The following is a discussion of the material U.S. federal income tax consequences of owning and disposing of ADSs or shares by U.S. Holders (as defined 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 hold such ADSs or shares. This discussion does not address U.S. state, local and non-U.S. tax consequences. The discussion applies only to U.S. Holders who hold ADSs or shares as capital assets for U.S. federal income tax purposes and does not address special classes of holders, 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 hedge, straddle, conversion, integrated transaction or similar transaction;

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- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes;
  - persons liable for the alternative minimum tax;
  - tax-exempt entities, including “individual retirement accounts” or “Roth IRAs”;
  - persons that own or are deemed to own 10% or more of our voting stock;
- persons who acquired our ADSs or shares pursuant to the exercise of an employee stock option or otherwise as compensation; or
  - persons holding shares in connection with a trade or business conducted outside of the United States.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds 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 holding ADSs or shares and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of holding and disposing of the ADSs or shares.

This discussion is based on the Internal Revenue Code of 1986, as amended, 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 holding and disposing of ADSs or shares in their particular circumstances.

As used herein, a “U.S. Holder” is a beneficial owner of ADSs or shares that is, for U.S. federal income tax purposes: (i) an individual citizen or resident of the United States; (ii) a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States or any political subdivision thereof; or (iii) an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

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

The U.S. Treasury has expressed concerns that parties to whom American depositary shares are released before delivery of shares to the depositary, or 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 reduced rate of tax, described below, applicable to dividends received by certain non-corporate holders. Accordingly, the availability of the reduced tax rate 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, and will not become, a passive foreign investment company, or PFIC, as described below.

## 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. The amount of the dividend a U.S. Holder will be required to include in

income 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 the payment is received by the depositary (or, in the case of shares, received by the holder), 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 the dividends-received deduction with respect to dividends paid by us.

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Subject to applicable limitations, dividends paid by “qualified foreign corporations” to certain non-corporate U.S. Holders in taxable years beginning before January 1, 2013, are taxable at a maximum rate of 15%. 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. Non-corporate U.S. Holders should consult their own 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 this favorable rate.

As described in “—Taxation—The PRC,” according to a formal reply from the SAT in October 2010, we are regarded as a CRE pursuant to the provisions of the New EIT Law and the Notice. Accordingly, dividends paid with respect to our ordinary shares or ADSs may be subject to PRC withholding taxes. For U.S. federal income tax purposes, the amount of a dividend would include any amounts withheld by us in respect of PRC taxes. Subject to applicable limitations, any PRC income taxes withheld from dividends on ADSs or shares 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. PRC taxes withheld in excess of the rate applicable under the PRC Treaty will not be eligible for credit against a U.S. Holder’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, if any, in computing taxable income. An election to deduct foreign taxes instead of claiming foreign tax credits must apply to all taxes paid or accrued in the taxable year to foreign countries and possessions of the United States.

### 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 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 (as determined in U.S. dollars) and such holder’s tax basis in the ADSs or shares (as determined in U.S. dollars). Any gain or loss will generally be U.S.-source gain or loss for foreign tax credit purposes.

### 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, 2010. In general, a non-U.S. company will be considered a PFIC for U.S. federal income tax purposes for any taxable year in which (i) 75% or more of its gross income consists of passive income (such as dividends, interest, rents and royalties) 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 (including, among other things, any equity investments in less than 25%-owned entities) from time to time, and since there are uncertainties in the manner of application of the PFIC rules, there can be no assurance that we will not be considered a PFIC for any taxable year.

If we were to be treated as a PFIC for any taxable year during which a U.S. Holder held ADSs or shares, certain adverse U.S. federal income tax rules would apply on a disposition (including a pledge) 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 amount allocated to each such taxable year. Further, 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 as gain, described immediately above. Certain elections may be available (including a mark-to-market election) to U.S. Holders that may mitigate the adverse tax consequences resulting from PFIC status.

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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 15% dividend rate discussed above with respect to dividends received by certain non-corporate U.S. Holders would not apply.

Pursuant to legislation enacted in 2010, if we are a PFIC in any taxable year, a U.S. Holder may be required to file an annual report with the Internal Revenue Service containing such information as the Treasury Department may require.

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 generally are subject to information reporting, and may be subject to 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 holder's U.S. federal income tax liability and may entitle such holder to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

F. DIVIDENDS AND PAYING AGENTS

Not applicable.

G. STATEMENT BY EXPERTS

Not applicable.

H. DOCUMENTS ON DISPLAY

We are subject to the informational requirements of the Exchange Act and accordingly file reports and other information with the Securities and Exchange Commission. You may inspect and copy our reports and other information we file with the Securities and Exchange Commission at the public reference facilities maintained by the Securities and Exchange Commission. Copies of such material may also be obtained at prescribed rates by writing to the Public Reference Section of the Securities and Exchange Commission at 100 F Street, NE, Washington, D.C. 20549. Please call 1-800-SEC-0330 for information on the location and operation of the Securities and Exchange Commission's public reference facilities. Our filings with the Securities and Exchange Commission are also available to the public over the internet at its website at <http://www.sec.gov>.

I. SUBSIDIARY INFORMATION

Not applicable.

ITEM 11. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Our market risk exposures primarily consist of fluctuations in oil and gas prices, exchange rates and interest rates.

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### 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. During the ten years prior to 2005, the PRC government’s policy of maintaining a stable exchange rate and China’s ample foreign reserves had contributed to the stability of Renminbi. On July 21, 2005, China reformed its exchange rate regime by adopting a managed floating exchange rate approach that is based on market supply and demand and with reference to a basket of currencies. Renminbi is no longer pegged to U.S. dollars. From January 1, 2010 to March 31, 2011, Renminbi appreciated approximately 4.1% against U.S. dollar. However, the Chinese government has not yet determined if or when the exchange rate will be deregulated.

Our management has assessed our exposure to foreign currency risk using a sensitivity analysis. Based on a five percent change in the value of the U.S. dollar occurring on December 31, 2010, the exposure of our results of operations, monetary assets and liabilities and investments in foreign subsidiaries would each be less than 0.8% of our profit for the year.

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

- Our oil and gas sales may decrease, because the benchmark oil and gas prices are usually in U.S. dollars;
- Our cost for imported equipment and materials will decrease, because most of these costs are denominated in U.S. dollars; and
  - Our debt repayment burden will decrease, 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, 2010, the interest rates for 25% of our outstanding debts were fixed. The term of the weighted average balance was approximately 2.7 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.



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As of December 31, 2010, the interest rates for 49.4% 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 as of December 31, 2010.

	2011	2012	2013	2014	2015	2016 and after
	(Rmb in millions, except percentages)					
Long-term loans, including current portion						
Fixed rate	152.9	185.2	136.3	103.9	60.2	124.9
Average interest rate	5.84%	5.97%	6.21%	6.77%	7.67%	8.25%
Floating rate	4,869.7	787.5	432.3	277.5	309.7	1,912.4
Interest rate	Libor + 0.23%~5.5%	Libor + 0.23%~5.5%	Libor + 0.23%~5.5%	Libor + 0.23%~5.5%	Libor + 0.23%~5.5%	Libor + 0.23%~5.5%
Long-term guaranteed notes, including current portion						
Fixed rate	163.4	3,474.8	1,324.5	-	-	2,649.1
Average interest rate	5.93%	5.74%	5.70%	6.09%	6.09%	6.09%

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

## ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

## A. DEBT SECURITIES

Not applicable.

## B. WARRANTS AND RIGHTS

Not applicable.

## C. OTHER SECURITIES

Not applicable.

## D. AMERICAN DEPOSITARY SHARES

JPMorgan Chase Bank, N.A. is our Depositary. The depositary's office is located at 4 New York Plaza, New York, NY 10004. Each of our ADSs represents 100 shares of par value HK\$0.02 per share.

#### ADR Fees Payable by Investors

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

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

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

#### Payments Received by Foreign Private Issuer

The Depositary has agreed to reimburse certain company expenses related to our ADS program and incurred by us in connection with the program. The Depositary reimbursed us, or paid amounts on our behalf to third parties, or waived its fees and expenses, of US\$487,846.51 for the year ended December 31, 2010.

#### Direct Payments

The table below sets forth the types of expenses that the Depositary has agreed to reimburse, and the invoices relating to the year ended December 31, 2010 that were reimbursed:

Category of Expenses	Amount Reimbursed for Fiscal Year Ended December 31, 2010 (US\$)
NYSE Listing fees	38,000
Investor relations(1)	118,190
Legal expenses	79,091
Broker reimbursements(2)	102,564
<b>Total</b>	<b>337,846</b>

(1) Includes United States depositary receipt training and investor relations expenses for road show in 2009.

(2) Broker reimbursements are fees payable to Broadridge and other service providers for the distribution of hard copy material to beneficial ADR holders in the Depositary Trust Company. Corporate material includes information related to shareholders' meetings and related voting instruction cards. These fees are SEC approved.

#### Indirect Payments

The Depositary has also agreed to waive fees for standard costs associated with the administration of the ADS program and has paid certain expenses directly to third parties on our behalf. The table below sets forth those expenses that the Depositary waived or paid directly to third parties relating to the year ended December 31, 2010:

Category of Expenses	Amount Reimbursed for Fiscal Year Ended December 31, 2010 (US\$)
Fees waived	150,000





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PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

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

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

None.

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

None.

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

Not applicable.

D. CHANGE OF TRUSTEES OR PAYING AGENTS FOR ANY REGISTERED SECURITIES

Not applicable.

E. USE OF PROCEEDS

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

An evaluation was carried out under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness, as of December 31, 2010, of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act).

Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2010, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported as and when required by the SEC's rules and forms and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Management's annual report on internal control over financial reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2010 using the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, our management has concluded that our internal control over financial reporting as of December 31, 2010 was effective.

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(c) Attestation Report of the Registered Public Accounting Firm

Our independent auditors have issued an audit report on the effectiveness of our internal control over financial reporting. This report appears on page F-4.

(d) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2010 that have materially affected, or that were reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Mr. Aloysius Hau Yin Tse has been designated by our Board as an audit committee financial expert. Mr. Tse is independent as defined in the listing standards of the New York Stock Exchange.

ITEM 16B. CODE OF ETHICS

Our Board adopted a code of ethics to provide guidelines to our senior management and directors in legal and ethical matters as well as the sensitivities involved in reporting illegal and unethical matters. Such code of ethics covers such areas as supervisory rules, insider dealing, market malpractices, conflict of interests, company opportunities, protection and proper use of our assets as well as reporting requirements. Pursuant to new provisions of the Hong Kong Stock Exchange Listing Rules effective January 1, 2010, we reviewed our code of ethics and adopted the revised code of ethics, or the New Code of Ethics, in August 2010, as part of our continuing efforts to improve our corporate governance standard.

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

We have posted our code of ethics on our website. To request a copy of our code of ethics free of charge, please contact Mr. Cao Yan, our investor relations manager, by email to [caoyan@cnooc.com.cn](mailto:caoyan@cnooc.com.cn).

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees

The aggregate fees billed for professional services rendered by our principal accountants for the audit of our annual financial statements or services that are normally provided by the accountants in connection with statutory and regulatory filings or engagements were Rmb 15.4 million for 2009 and Rmb 17.7 million (US\$2.7 million) for 2010.

Audit-Related Fees

The aggregate fees billed for assurance and related services by our principal accountants that are reasonably related to the performance of the audit or review of financial statements and are not reported under "Audit Fees" were Rmb 1.1 million for 2009 and Rmb 1.6 million (US\$0.2 million) for 2010.

Tax Fees

The aggregate fees billed for professional service rendered by the principal accountant for tax compliance, tax advice and tax planning were approximately Rmb 0.05 million for 2009 and Rmb 0.41 million (US\$0.06 million) for 2010.

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All Other Fees

The aggregate fees billed for professional services rendered by our principle accountant for risk management advisory services and information systems reviews were Rmb 1.5 million for 2009 and Rmb 0.42 million (US\$0.06 million) for 2010.

The aggregate fees billed for products and services provided by our principal accountant, other than the services reported above, were nil for fiscal years 2009 and 2010.

Audit Committee's pre-approval policies and procedures

Our audit committee under our Board is responsible for the appointment, compensation and oversight of the work of our principal accountant. Our audit committee adopted a policy calling for the audit committee's pre-approval for the engagement of our principal accountant for audit and permitted non-audit services. Our Board has also ratified the policy and procedures. Under this audit committee policy, proposed services may be pre-approved by our audit committee either on an annual basis or on a case-by-case basis. Appendices to the audit committee policy set forth (1) the audit, audit-related, tax and other services that may be subject to the general annual pre-approval of the audit committee; and (2) a list of prohibited non-audit services. Our audit committee will periodically review and revise these appendices based on its subsequent determinations. The audit committee policy also provides for procedures to establish annual fee levels or budgets for pre-approved services and ratios between different categories of pre-approved services. In addition, the audit committee policy contains provisions that deal with compliance, monitoring, reporting and other related matters.

During 2010, all fees for audit-related services, tax services and all other services paid to our principal accountant were approved by our audit committee.

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

Not applicable.

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

None.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

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

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PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

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

ITEM 19. EXHIBITS

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

Exhibit

Number Document

- 1.1 Articles of Association of the Registrant, as amended in 2009.
- 1.2 Memorandum of Association of the Registrant, incorporated by reference to Exhibit 3.2 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 2.1 Form of Indenture, incorporated by reference to Exhibit 2.1 to our annual report on Form 20-F for fiscal year 2002 filed with the Securities and Exchange Commission (File Number: 1-14966).
- 2.2 Trust Deed dated December 15, 2004 among CNOOC Limited, CNOOC Finance (2004) Limited and J.P. Morgan Corporate Trustee Services Limited, incorporated by reference to Exhibit 2.2 to our annual report on Form 20-F for fiscal year 2004 filed with the Securities and Exchange Commission (File Number: 1-14966).
- 2.3 Indentures dated January 26, 2011 among CNOOC Finance (2011) Limited, as Issuer, CNOOC Limited, as Guarantor, and The Bank of New York Mellon, as Trustee\*.
- 4.1 The Asset Swap Agreement dated July 20, 1999 between CNOOC and Offshore Oil Company Limited, incorporated by reference to Exhibit 10.1 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.2 The Asset Allocation Agreement dated July 20, 1999 between CNOOC and Offshore Oil Company Limited, incorporated by reference to Exhibit 10.2 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.3 The Reorganization Agreement dated September 13, 1999 between CNOOC, Offshore Oil Company Limited and CNOOC Limited, incorporated by reference to Exhibit 10.3 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.4 Form of the Equity Transfer Agreement between CNOOC and CNOOC Limited, incorporated by reference to Exhibit 10.4 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).

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

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- 4.5 Form of the Transfer Agreement dated October 1, 1999 between CNOOC and Offshore Oil Company Limited regarding the transfer of the rights and obligations of CNOOC under the 37 PSCs and one geophysical exploration agreement, incorporated by reference to Exhibit 10.5 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.6 Form of Equity Transfer Agreement between China Offshore Oil East China Sea Corporation and Offshore Oil Company Limited regarding the transfer of the rights and obligations under Joint Venture Contract of Shanghai Petroleum and Natural Gas Company Limited dated July 28, 1992 to Offshore Oil Company Limited, incorporated by reference to Exhibit 10.6 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.7 Transfer Agreement dated September 9, 1999 between CNOOC and Offshore Oil Company Limited regarding the transfer of the rights and obligations of CNOOC under the Natural Gas Sale and Purchase Contract dated December 22, 1992 to Offshore Oil Company Limited, incorporated by reference to Exhibit 10.7 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.8 Transfer Agreement dated September 9, 1999 between CNOOC and Offshore Oil Company Limited regarding the transfer of the rights and obligations of CNOOC under the Natural Gas Sale and Purchase Contract dated November 7, 1992 to Offshore Oil Company Limited, incorporated by reference to Exhibit 10.8 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.9 Transfer Agreement dated September 9, 1999 among CNOOC, Offshore Oil Company Limited, the four PRC subsidiaries and CNOOC's affiliates regarding the transfer of the rights and obligations of the technical services agreements to Offshore Oil Company Limited, incorporated by reference to Exhibit 10.9 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.10 Nanshan Terminal Leasing Agreement dated September 9, 1999 between CNOOC, Hainan China Oil and Offshore Natural Gas Company and Offshore Oil Company Limited, incorporated by reference to Exhibit 10.10 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.11 Trademark License Agreement dated September 9, 1999 between CNOOC, Offshore Oil Company Limited and CNOOC Limited, incorporated by reference to Exhibit 10.11 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.12 Trademark License Agreement dated September 9, 1999 between China Offshore Oil Marketing Company, CNOOC Limited and Offshore Oil Company Limited, incorporated by reference to Exhibit 10.12 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.13 Trademark License Agreement between CNOOC, CNOOC Limited and CNOOC China Limited, incorporated by reference to Exhibit 4.13 to our Annual Report on Form 20-F for fiscal year 2008 filed with the Securities and Exchange Commission (File Number: 1-14966).
- 4.14 Trademark License Agreement between CNOOC, CNOOC Limited and CNOOC China Limited, incorporated by reference to Exhibit 4.14 to our Annual Report on Form 20-F for fiscal year 2008 filed



with the Securities and Exchange Commission (File Number: 1-14966).

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

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

Securities and Exchange Commission (File Number: 333-10862).

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

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- 4.27 CNOOC Limited Share Option Scheme adopted on December 31, 2005, incorporated by reference to Exhibit 4.37 to our Annual Report on Form 20-F for fiscal year 2005 filed with the Securities and Exchange Commission (File Number: 1-14966).
- 4.28 Subscription Agreement dated March 17, 2000 among CNOOC Limited, CNOOC (BVI) Limited, Overseas Oil & Gas Corporation, Ltd., et al., incorporated by reference to Exhibit 10.33 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.29 Subscription Agreement dated May 31, 2000 among CNOOC Limited, CNOOC (BVI) Limited, Overseas Oil & Gas Corporation, Ltd. and Hutchison International Limited, incorporated by reference to Exhibit 10.34 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.30 Subscription Agreement dated May 31, 2000 among CNOOC Limited, CNOOC (BVI) Limited, Overseas Oil & Gas Corporation, Ltd. and Hong Kong Electric Holdings Limited, incorporated by reference to Exhibit 10.35 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.31 Subscription Agreement dated June 28, 2000 among CNOOC Limited, CNOOC (BVI) Limited, Overseas Oil & Gas Corporation, Ltd., et al., incorporated by reference to Exhibit 10.36 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.32 Corporation Placing Agreement dated February 6, 2001 among CNOOC Limited, China National Offshore Oil Corporation, Shell Eastern Petroleum (Pte) Limited and Merrill Lynch Far East Limited, incorporated by reference to Exhibit 10.37 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.33 Equity Transfer Agreement dated September 5, 2003 between CNOOC China Limited and CNOOC (Summary Translation), incorporated by reference to Exhibit 4.38 to our annual report on Form 20-F for fiscal year 2003 filed with the Securities and Exchange Commission (File Number: 1-14966).
- 4.34 Framework Agreement dated April 8, 2004 with CNOOC Finance Corporation Limited (Summary Translation), incorporated by reference to Exhibit 4.39 to our annual report on Form 20-F for fiscal year 2003 filed with the Securities and Exchange Commission (File Number: 1-14966).
- 4.35 Framework Agreement dated December 8, 2005 with CNOOC (Summary Translation), incorporated by reference to Exhibit 4.45 to our Annual Report on Form 20-F for fiscal year 2005 filed with the Securities and Exchange Commission (File number: 1-14966).
- 4.36 Framework Agreement dated December 8, 2005 with China Oilfield Services Limited (Summary Translation), incorporated by reference to Exhibit 4.46 to our Annual Report on Form 20-F for fiscal year 2005 filed with the Securities and Exchange Commission (File number: 1-14966).
- 4.37 Framework Agreement dated December 8, 2005 with Offshore Oil Engineering Co., Ltd. (Summary Translation), incorporated by reference to Exhibit 4.47 to our Annual Report on Form 20-F for fiscal year 2005 filed with the Securities and Exchange Commission (File number: 1-14966).
- 4.38

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Sale and Purchase Agreement, dated January 8, 2006 between CNOOC Exploration & Production Limited and South Atlantic Petroleum Limited (certain statements, marked with an asterisk in brackets [\*], have been omitted from this agreement pursuant to a request for confidential treatment pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended, and the omitted materials have been filed separately in paper form with the Securities and Exchange Commission), incorporated by reference to Exhibit 4.49 to our Annual Report on Form 20-F for fiscal year 2005 filed with the Securities and Exchange Commission (File number: 1-14966).

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- 4.39 Framework Agreement dated November 8, 2007 with China BlueChemical Ltd. (Summary Translation), incorporated by reference to Exhibit 4.37 to our Annual Report on Form 20-F for fiscal year 2007 filed with the Securities and Exchange Commission (File number: 1-14966).
- 4.40 Framework Agreement dated November 8, 2007 with CNOOC (Summary Translation), incorporated by reference to Exhibit 4.38 to our Annual Report on Form 20-F for fiscal year 2007 filed with the Securities and Exchange Commission (File number: 1-14966).
- 4.41 Framework Agreement dated November 8, 2007 with China Oilfield Services Limited (Summary Translation), incorporated by reference to Exhibit 4.39 to our Annual Report on Form 20-F for fiscal year 2007 filed with the Securities and Exchange Commission (File number: 1-14966).
- 4.42 Framework Agreement dated November 8, 2007 with Offshore Oil Engineering Co., Ltd. (Summary Translation), incorporated by reference to Exhibit 4.40 to our Annual Report on Form 20-F for fiscal year 2007 filed with the Securities and Exchange Commission (File number: 1-14966).
- 4.43 Framework Agreement dated November 1, 2010 with CNOOC (Summary Translation).
- 8.1 List of Subsidiaries.
- 10.1 Letter from CNOOC Limited dated May 23, 2002 regarding receipt of certain representations from Arthur Andersen & Co pursuant to the requirements of the Securities and Exchange Commission, incorporated by reference to Exhibit 10 to our annual report on Form 20-F for fiscal year 2001 filed with the Securities and Exchange Commission (File Number: 1-14966).
- 11.1 Code of Ethics for Directors and Senior Officers, as amended in 2010.
- 12.1 Certification by the Chief Executive Officer in accordance with Section 302 of the Sarbanes-Oxley Act of 2002.
- 12.2 Certification by the Chief Financial Officer in accordance with Section 302 of the Sarbanes-Oxley Act of 2002.
- 13.1 Sarbanes-Oxley Act of 2002 Section 906 Certification furnished to (not filed with) the Securities and Exchange Commission.
- 15.1 2010 Reserves Reports of Ryder Scott Company, L.P.
- 15.2 2010 Reserves Report of Gaffney, Cline & Associates (Consultants) Pte Ltd.
- 15.3 2010 Reserves Report of RPS.

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SIGNATURE

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

CNOOC Limited

By: /s/ Yongzhi Jiang  
Name: Yongzhi Jiang  
Title: Joint Company Secretary

Date: April 29, 2011

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CNOOC LIMITED

CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2008, 2009 AND 2010  
TOGETHER WITH REPORT OF INDEPENDENT PUBLIC ACCOUNTING FIRM

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENTS

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

We have audited the accompanying consolidated statements of financial position of CNOOC Limited (the “Company”) and its subsidiaries (the “Group”) as of December 31, 2010 and 2009, and the related consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group at December 31, 2010 and 2009 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board and Hong Kong Financial Reporting Standards as issued by the Hong Kong Institute of Certified Public Accountants.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group’s internal control over financial reporting as of December 31, 2010, based on criteria established on Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 23, 2011 expressed an unqualified opinion thereon.

/S/ Ernst & Young  
Certified Public Accountants

Hong Kong  
March 23, 2011

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

We have audited CNOOC Limited's internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). CNOOC Limited's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying "Management's annual report on internal control over financial reporting". Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, CNOOC Limited maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of CNOOC Limited as of December 31, 2010 and 2009, and the related consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2010 of CNOOC Limited and our report dated March 23, 2011 expressed an unqualified opinion thereon.

/S/ Ernst & Young  
Certified Public Accountants

Hong Kong  
March 23, 2011

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CNOOC LIMITED  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2008, 2009 AND 2010

	Notes	2008 RMB'000	2009 RMB'000	2010 RMB'000	2010 US\$'000
<b>REVENUE</b>					
Oil and gas sales	6	100,831,333	83,914,379	149,118,670	22,593,738
Marketing revenues		22,966,752	20,751,961	32,445,867	4,916,040
Other income		2,179,297	528,737	1,488,548	225,538
		125,977,382	105,195,077	183,053,085	27,735,316
<b>EXPENSES</b>					
Operating expenses		( 9,990,368 )	( 12,490,363 )	( 16,204,099 )	( 2,455,167 )
Taxes other than income tax	12 (ii)	( 5,149,698 )	( 3,888,641 )	( 8,204,043 )	( 1,243,037 )
Exploration expenses		( 3,409,546 )	( 3,233,683 )	( 5,579,864 )	( 845,434 )
Depreciation, depletion and amortization	8	( 10,057,665 )	( 15,942,902 )	( 27,687,095 )	( 4,195,014 )
Special oil gain levy	7	( 16,238,234 )	( 6,357,304 )	( 17,705,577 )	( 2,682,663 )
Impairment and provision	20, 21	( 1,541,458 )	( 6,903 )	( 26,536 )	( 4,021 )
Crude oil and product purchases		( 22,675,049 )	( 20,455,217 )	( 32,236,448 )	( 4,884,310 )
Selling and administrative expenses		( 1,742,597 )	( 2,263,957 )	( 3,062,608 )	( 464,031 )
Others		( 1,307,613 )	( 231,527 )	( 941,467 )	( 142,647 )
		( 72,112,228 )	( 64,870,497 )	( 111,647,737 )	( 16,916,324 )
<b>PROFIT FROM OPERATING ACTIVITIES</b>					
		53,865,154	40,324,580	71,405,348	10,818,992
Interest income	8	1,091,024	638,252	703,849	106,644
Finance costs	9	( 415,271 )	( 534,539 )	( 1,222,023 )	( 185,155 )
Exchange gains, net	8	2,551,260	53,799	994,795	150,727
Investment income	8	475,925	199,925	427,491	64,771
Share of profits of associates		374,111	173,459	198,854	30,129
Non-operating income/(expenses), net		( 61,917 )	( 34,385 )	141,677	21,466
<b>PROFIT BEFORE TAX</b>					
	8	57,880,286	40,821,091	72,649,991	11,007,574
Income tax expense	12(i)	( 13,505,032 )	( 11,335,516 )	( 18,240,443 )	( 2,763,703 )
<b>PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT</b>					
		44,375,254	29,485,575	54,409,548	8,243,871
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>					
Exchange differences on translation of foreign operations		( 5,074,423 )	( 158,312 )	( 2,496,081 )	( 378,194 )

Net gain/(loss) on available-for-sale financial assets, net of tax	19	10,310	( 73,736 )	5,590,380	847,027
Share of other comprehensive income of associates		4,316	6,979	2,752	417
<b>OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX</b>		( 5,059,797 )	( 225,069 )	3,097,051	469,250
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS</b>		39,315,457	29,260,506	57,506,599	8,713,121
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>					
Basic	14	RMB0.99	RMB0.66	RMB1.22	US\$0.18
Diluted	14	RMB0.99	RMB0.66	RMB1.21	US\$0.18

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

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CNOOC LIMITED  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
AS OF DECEMBER 31, 2009 AND 2010

	Notes	2009 RMB'000	2010 RMB'000	2010 US\$'000
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	15	165,319,871	212,330,626	32,171,307
Intangible assets and goodwill	16	1,230,127	3,022,201	457,909
Investments in associates	17	1,726,806	1,781,090	269,862
Available-for-sale financial assets	19, 33	3,119,955	8,703,726	1,318,746
Other non-current assets		-	1,435,781	217,543
<b>Total non-current assets</b>		<b>171,396,759</b>	<b>227,273,424</b>	<b>34,435,367</b>
<b>CURRENT ASSETS</b>				
Inventories and supplies	20	3,145,855	4,076,296	617,621
Trade receivables	21	6,397,601	10,865,442	1,646,279
Due from related companies		6,952,572	9,548,246	1,446,704
Held-to-maturity financial assets		-	3,040,200	460,636
Available-for-sale financial assets	19, 33	8,582,364	18,939,974	2,869,693
Other current assets		2,308,035	2,636,015	399,396
Time deposits with maturity over three months	22	20,870,000	11,975,623	1,814,488
Cash and cash equivalents	22	22,615,037	39,571,023	5,995,610
<b>Total current assets</b>		<b>70,871,464</b>	<b>100,652,819</b>	<b>15,250,427</b>
<b>CURRENT LIABILITIES</b>				
Loans and borrowings	25	122,092	21,630,674	3,277,375
Trade and accrued payables	23	7,544,830	10,222,389	1,548,847
Due to the parent company		368,464	306,637	46,460
Due to related companies		8,062,810	8,328,088	1,261,832
Other payables and accrued liabilities	24	9,405,093	17,853,579	2,705,087
Taxes payable		5,538,661	11,068,719	1,677,079
<b>Total current liabilities</b>		<b>31,041,950</b>	<b>69,410,086</b>	<b>10,516,680</b>
<b>NET CURRENT ASSETS</b>		<b>39,829,514</b>	<b>31,242,733</b>	<b>4,733,747</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>211,226,273</b>	<b>258,516,157</b>	<b>39,169,114</b>
<b>NON-CURRENT LIABILITIES</b>				
Loans and borrowings	25	18,570,061	11,716,049	1,775,159
Provision for dismantlement	26	11,281,089	16,026,805	2,428,304
Deferred tax liabilities	12(i)	7,439,620	13,122,064	1,988,191
Other non-current liabilities		-	1,885,292	285,650
<b>Total non-current liabilities</b>		<b>37,290,770</b>	<b>42,750,210</b>	<b>6,477,304</b>

Net assets		173,935,503	215,765,947	32,691,810
<b>EQUITY</b>				
Equity attributable to owners of the parent				
Issued capital	27	949,299	949,299	143,833
Reserves	28	172,986,204	214,816,648	32,547,977
Total equity		173,935,503	215,765,947	32,691,810

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

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CNOOC LIMITED  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2008, 2009 AND 2010

	Issued capital RMB'000	Share premium and capital redemption reserve RMB'000	Attributable to owners of the parent				Proposed final dividend RMB'000	Total RMB
			Cumulative translation reserve RMB'000	Statutory and non- distributable reserves RMB'000	Other reserves RMB'000	Retained earnings RMB'000		
At January 1, 2008	942,541	41,043,786	(5,632,454 )	20,000,000	4,848,022	66,060,398	7,052,445	134,314,7
T o t a l comprehensive income for the year	-	-	(5,074,423 )	-	14,626	44,375,254	-	39,315,4
2007 final dividend	-	-	-	-	-	230,915	(7,052,445)	(6,821,53
2008 interim dividend	-	-	-	-	-	(7,830,243 )	-	(7,830,24
Proposed 2008 final dividend	-	-	-	-	-	(7,878,753 )	7,878,753	-
Conversion from bonds**	6,732	1,080,461	-	-	-	-	-	1,087,19
Excercise of share options	26	4,848	-	-	-	-	-	4,874
Equity-settled share option expense	-	-	-	-	167,219	-	-	167,219
Appropriation and utilization of safety fund, net	-	-	-	-	33,831	(33,831 )	-	-
At December 31, 2008	949,299	42,129,095 *	(10,706,877)*	20,000,000*	5,063,698*	94,923,740 *	7,878,753 *	160,237,7
At January 1, 2009	949,299	42,129,095	(10,706,877)	20,000,000	5,063,698	94,923,740	7,878,753	160,237,7
T o t a l comprehensive income for the year	-	-	(158,312 )	-	( 66,757 )	29,485,575	-	29,260,50



2008 final dividend	-	-	-	-	-	5,360	(7,878,753)	(7,873,39)
2009 interim dividend	-	-	-	-	-	(7,873,661 )	-	(7,873,66)
Proposed 2009 final dividend	-	-	-	-	-	(7,855,526 )	7,855,526	-
Equity-settled share option expense	-	-	-	-	184,343	-	-	184,343
Appropriation and utilization of safety fund, net	-	-	-	-	( 8,679 )	8,679	-	-
At December 31, 2009	949,299	42,129,095*	(10,865,189)*	20,000,000*	5,172,605*	108,694,167*	7,855,526 *	173,935,5

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CNOOC LIMITED  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2008, 2009 AND 2010

	Issued capital RMB'000	Share premium and capital redemption reserve RMB'000	Cumulative translation reserve RMB'000	Attributable to owners of the parent Statutory and non- distributable reserves RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Proposed final dividend RMB'000	T RMB
At January 1, 2010	949,299	42,129,095	( 10,865,189 )	20,000,000	5,172,605	108,694,167	7,855,526	173,935
T o t a l comprehensive income for the year	-	-	( 2,496,081 )	-	5,593,132	54,409,548	-	57,506,5
2009 final dividend	-	-	-	-	-	61,733	(7,855,526)	(7,793,7
2010 interim dividend	-	-	-	-	-	(8,099,995 )	-	(8,099,9
Proposed 2010 final dividend	-	-	-	-	-	(9,421,069 )	9,421,069	-
Equity-settled share option expense	-	-	-	-	217,633	-	-	217,633
Appropriation and utilization of safety fund, net	-	-	-	-	(11,659 )	11,659	-	-
At December 31, 2010	949,299	42,129,095*	( 13,361,270 )*	20,000,000*	10,971,711*	145,656,043*	9,421,069 *	215,765

\*These reserve accounts comprise the consolidated reserves of approximately RMB214,816,648,000 (2009: RMB172,986,204,000, 2008: RMB159,288,409,000) in the consolidated statements of financial position.

\*\*On February 21, 2008, the Group extinguished the outstanding convertible bonds by exercising an early redemption option. The withdrawal of listing of the convertible bonds on the Stock Exchange of Hong Kong Limited ("HKSE") was effective at the close of business on March 6, 2008. The Group currently has no outstanding convertible bonds.

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



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CNOOC LIMITED  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2008, 2009 AND 2010

	Notes	2008 RMB'000	2009 RMB'000	2010 RMB'000	2010 US\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash generated from operations	31	67,932,458	58,384,839	98,745,419	14,961,427
Income taxes paid		(15,442,948)	(8,760,638 )	(15,247,173)	( 2,310,178)
Net cash generated from operating activities		52,489,510	49,624,201	83,498,246	12,651,249
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Acquisition of oil and gas properties		(1,003,702 )	(1,016,821 )	(11,308,667)	( 1,713,434)
Additions of property, plant and equipment		(33,068,113)	(39,183,023)	(29,427,169)	( 4,458,662)
Additions of intangible assets		(93,317 )	(193,258 )	(84,892 )	(12,862 )
Acquisition of interest in a jointly-controlled entity	4(i)	-	-	(20,760,607)	( 3,145,547)
Decrease/(increase) in time deposits with maturity over three months		(14,100,000)	430,000	8,894,377	1,347,633
Proceeds from disposal of non-current assets held for sale		1,552,228	-	-	-
Dividends received from associates		624,271	238,787	147,322	22,322
Interest received		1,091,024	764,804	598,392	90,665
Investment income received		75,881	22,382	309,864	46,949
Purchases of long term available-for-sale financial assets		-	(1,572,415 )	-	-
Purchases of current available-for-sale financial assets		(6,490,784 )	(6,080,000 )	(32,129,000)	( 4,868,030)
Proceeds from sale of current available-for-sale financial assets		1,920,283	9,257,081	21,881,807	3,315,425
Purchase of held-to-maturity financial assets		-	(3,000,000 )	(6,351,100 )	(962,288 )
Proceeds from disposal of held-to-maturity financial assets		3,000,000	3,000,000	3,310,900	501,652
Proceeds from disposal of property, plant and equipment		756,846	25,439	118,760	17,994
Net cash flows used in investing activities		(45,735,383)	(37,307,024)	(64,800,013)	( 9,818,183)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from financial notes		-	-	677,540	102,658
Proceeds from bank loans		4,803,807	5,306,969	17,245,649	2,612,977
Repayment of bank loans		(249,903 )	(500,000 )	(4,303,789 )	(652,089 )
Dividends paid		(14,651,773)	(14,175,349)	(14,389,805)	( 2,180,273)

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Interest paid	(36,044 )	(34,907 )	(513,785 )	(77,846 )
Proceeds from exercise of share options	4,874	-	-	-
Net cash flows used in financing activities	(10,129,039)	(9,403,287 )	(1,284,190 )	(194,573 )
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(3,374,912 )</b>	<b>2,913,890</b>	<b>17,414,043</b>	<b>2,638,493</b>
Cash and cash equivalents at beginning of year	23,356,569	19,761,618	22,615,037	3,426,521
Effect of foreign exchange rate changes, net	(220,039 )	(60,471 )	(458,057 )	(69,404 )
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>22</b>	<b>19,761,618</b>	<b>22,615,037</b>	<b>39,571,023</b>
			<b>5,995,610</b>	

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

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

1. CORPORATE INFORMATION

CNOOC Limited (the “Company”) was incorporated in the Hong Kong Special Administrative Region (“Hong Kong”) of the People’s Republic of China (the “PRC”) on August 20, 1999 to hold the interests in certain entities thereby creating a group comprising the Company and its subsidiaries (hereinafter collectively referred to as the “Group”). During the year, the Group was principally engaged in the exploration, development, production and sales of crude oil, natural gas and other petroleum products.

The registered office address of the Company is 65/F, Bank of China Tower, 1 Garden Road, Hong Kong.

In the opinion of the directors of the Company (the “Directors”), the parent and the ultimate holding company of the Company is China National Offshore Oil Corporation (“CNOOC”), a company established in the PRC.

Particulars of the principal subsidiaries are as follows:

Name of entity	Place and date of establishment	Nominal value of issued and paid-up/ registered ordinary share capital	Percentage of equity attributable to the Group	Principal activities
Directly held subsidiaries: CNOOC China Limited	Tianjin, PRC September 15, 1999	RMB20 billion	100%	Offshore petroleum exploration, development, production and sales in the PRC
CNOOC International Limited	British Virgin Islands August 23, 1999	US\$2	100%	Investment holding
China Offshore Oil (Singapore) International Pte Ltd	Singapore May 14, 1993	SG\$3 million	100%	Sale and marketing of petroleum products outside the PRC
CNOOC Finance (2002) Limited	British Virgin Islands	US\$1,000	100%	Bond issuance

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CNOOC Finance (2003) Limited	January 24, 2002 British Virgin Islands	US\$1,000	100%	Bond issuance
CNOOC Finance (2011) Limited	April 2, 2003 British Virgin Islands December 31, 2010	US\$1,000	100%	Bond issuance
Indirectly held subsidiaries*: Malacca Petroleum Limited	Bermuda November 2, 1995	US\$12,000	100%	Petroleum exploration, development and production in Indonesia
OOGC America, Inc.	State of Delaware, United States of America August 28, 1997	US\$1,000	100%	Investment holding
OOGC Malacca Limited	Bermuda November 23, 1995	US\$12,000	100%	Petroleum exploration, development and production in Indonesia
CNOOC Southeast Asia Limited	Bermuda May 16, 1997	US\$12,000	100%	Investment holding
CNOOC ONWJ Ltd.	Labuan, F.T., Malaysia March 27, 2002	US\$1	100%	Petroleum exploration, development and production in Indonesia
CNOOC SES Ltd.	Labuan, F.T., Malaysia March 27, 2002	US\$1	100%	Petroleum exploration, development and production in Indonesia
CNOOC Poleng Ltd.	Labuan, F.T., Malaysia March 27, 2002	US\$1	100%	Petroleum exploration, development and production in Indonesia

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CNOOC LIMITED  
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Name of entity	Place and date of establishment	Nominal value of issued and paid-up/ registered ordinary share capital	Percentage of equity attributable to the Group	Principal activities
Indirectly held subsidiaries* (continued):				
CNOOC Madura Ltd.	Labuan, F.T., Malaysia March 27, 2002	US\$1	100%	Petroleum exploration, development and production in Indonesia
CNOOC NWS Private Limited	Singapore October 8, 2002	SG\$2	100%	Offshore petroleum exploration, development and production in Australia
CNOOC Muturi Limited	Isle of Man February 8, 1996	US\$7,780,770	100%	Petroleum exploration, development and production in Indonesia
CNOOC Exploration & Production Nigeria Limited	Nigeria January 6, 2006	Naira10 million	100%	Petroleum exploration, development and production in Africa

\*Indirectly held through CNOOC International Limited.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.





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

2.1 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards “IFRSs” (which also include International Accounting Standards (“IASs”) and Interpretations) issued by the International Accounting Standards Board (the “IASB”), Hong Kong Financial Reporting Standards “HKFRSs” (which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Group is set out below.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The IASB has issued a number of new and revised IFRSs and IFRIC Interpretations that are first effective for the current accounting year commencing January 1, 2010 or later but available for early adoption. The equivalent new and revised HKFRSs and HKFRS Interpretations consequently issued by the HKICPA have the same effective dates as those issued by the IASB and are in all material aspects identical to the pronouncements issued by the IASB. There have been no other material changes to HKFRSs.

(a) Standards, revisions and amendments to IFRSs and HKFRSs which are applicable to the Group, and have been adopted for the first time for the current year’s financial statements:

IFRS 3/HKFRS 3 (Revised) – Business Combinations

IFRS 3/HKFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring on or after January 1, 2010. Changes affect the valuation of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. The adoption of the revised standard has no significant impact on the Group.

IAS 27/HKAS 27 (Amended) – Consolidated and Separate Financial Statements

IAS 27/HKAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. The Group has not entered into a transaction that involved a change in the ownership interest of a subsidiary (without loss of control) and, therefore, the adoption of the Amendments did not have any impact on its consolidated and separate financial statement.

The changes introduced by the above revised standards have been applied prospectively.

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

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(b)Standards, amendments and revisions which are applicable to the Group, and that are effective for accounting periods beginning on or after January 1, 2011, and will only be adopted by the Group upon or after their respective effective dates:

IFRS 9/HKFRS 9 - Financial Instruments: Classification and Measurement

IFRS 9/HKFRS 9 issued in November 2009 is the first part of Phase I of a comprehensive project to entirely replace IAS 39/HKAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9/HKFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in IAS 39/HKAS 39. The approach in IFRS 9/HKFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. This new standard will become effective on January 1, 2013. The adoption of the first phase of IFRS 9/HKFRS 9 will have an effect on the classification and measurement of the Group’s financial assets. The Group has not yet determined the extent of the impact of IFRS 9/HKFRS 9.

IAS 24/HKAS 24 (Revised) - Related Party Disclosures

IAS 24/HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt IAS 24/HKAS 24 (Revised) from January 1, 2011 and the comparative related party disclosures will be amended accordingly.

Improvements to IFRSs/HKFRSs

Apart from the above, the IASB/HKICPA has also issued Improvements to IFRSs/HKFRSs which set out amendments to a number of IFRSs/HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The adoption of those amendments upon their effective dates in 2010 did not have any impact on the accounting policies, financial position or performance of the Group. While the adoption of some of the amendments when they will become effective after January 1, 2011 may result in changes in accounting policy, none of them are expected to have a material financial impact on the Group. Besides, the Group has also considered all other IFRICs/HKFRICs issued and they are unlikely to have any financial impact on the Group.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets and derivative financial instruments, which have been measured at fair value. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended December 31, 2010.

The results of subsidiaries are consolidated from the date of acquisition being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

The results of subsidiaries are included in the Company’s statement of comprehensive income to the extent of dividends received and receivable. The Company’s interests in subsidiaries are stated at cost less any impairment losses.

All intra-group balances, income and expenses and unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

In a business combination achieved in stages, the Group shall remeasure its previously held equity interest in the acquiree at its acquisition date fair value and recognize the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is classified as an asset or liability, will be recognized in accordance with IAS 39/HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured and its subsequent settlement shall

be accounted for within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference, after measurement, is recognized in profit or loss.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill continued

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

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations prior to January 1, 2010 but after January 1, 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following difference applied to business combinations prior to January 1, 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Contingent consideration was recognized if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognized as part of goodwill.

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies. The results of subsidiaries are included in the Company's statement of comprehensive income to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is an entity in which the Group has significant influence. The Group's investments in its associates are accounted for using the equity method of accounting. The investments in the associates are carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate.

The Group's share of the post-acquisition results and reserves of the associates are included in the consolidated statement of comprehensive income and consolidated reserves, respectively.

Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates (continued)

The results of associates are included in the Company's statement of comprehensive income to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses. Adjustments are made where necessary to bring the accounting policies in line with those of the Group.

Joint ventures

Certain of the Group's activities are conducted through joint arrangements, including the production sharing arrangements. These arrangements are a form of joint venture whereby a contractual arrangement exists between two or more parties to undertake an economic activity that is subject to joint control. These joint arrangements are included in the consolidated financial statements in proportion to the Group's interests in the income, expenses, assets and liabilities of these arrangements. The financial statements of the joint ventures are prepared for the same reporting period as the parent company. Adjustments are made where necessary to bring the accounting policies in line with those of the Group.

Reimbursement of the joint venture operator's costs

When the Group acting as an operator receives reimbursement of direct costs recharged to a joint venture, such recharges represent reimbursements of costs that the operator incurred as an agent for the joint venture and therefore have no effect on the consolidated statement of comprehensive income.

In many cases, the Group also incurs certain general overhead expenses in carrying out activities on behalf of the joint venture. As these costs cannot often be specifically identified, joint venture agreements allow the operator to recover the general overhead expenses incurred by charging an overhead fee that is based on a fixed percentage of the total costs incurred for the year. Although the purpose of this recharge is very similar to the reimbursement of direct costs, the Group is not acting as an agent in this case. Therefore, the general overhead expenses and the overhead fee are recognized in the consolidated statement of comprehensive income as an expense and income, respectively.

Jointly-controlled assets

A jointly controlled asset involves joint control and offers joint ownership by the Group and other venturers of assets contributed to or acquired for the purpose of the joint venture, without the formation of a corporation, partnership or other entity.

The Group accounts for its share of the jointly-controlled assets, any liabilities it has incurred, its share of any liabilities jointly incurred with other ventures, income from the sale or use of its share of the joint venture's output, together with its share of the expenses incurred by the joint venture, and any expenses it incurs in relation to its interest in the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a corporation, partnership or any other entity in which each participant holds an interest. A jointly-controlled entity operates in the same way as other entities, controlling the assets of the joint venture, earning its own income and incurring its own liabilities and expenses. Interests in jointly-controlled entities are



accounted for using the proportionate consolidation method. Adjustments are made where necessary to bring the accounting policies in line with those of the Group.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d); or
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated statement of comprehensive income in the period in which it arises.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated statement of comprehensive income in the period in which it arises.

Property, plant and equipment

Property, plant and equipment comprise oil and gas properties, and vehicles and office equipment.

(a) Oil and gas properties

For oil and gas properties, the successful efforts method of accounting is adopted. The Group capitalizes the initial acquisition costs of oil and gas properties. Impairment of initial acquisition costs is recognized based on exploratory experience and management judgement. Upon discovery of commercial reserves, acquisition costs are transferred to proved properties. The costs of drilling and equipping successful exploratory wells, all development expenditures on construction, installation or completion of infrastructure facilities such as platforms, pipelines, processing plants and the drilling of development wells and the building of enhanced recovery facilities, including those renewals and betterments that extend the economic lives of the assets, and the related borrowing costs are capitalized. The costs of

unsuccessful exploratory wells and all other exploration costs are expensed as incurred.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

(a) Oil and gas properties (continued)

The Group carries exploratory well costs as an asset when the well has found a sufficient quantity of reserves to justify its completion as a producing well and where the Group is making sufficient progress assessing the reserves and the economic and operating viability of the project. Exploratory well costs not meeting these criteria are charged to expenses. Exploratory wells that discover potentially economic reserves in areas where major capital expenditure will be required before production would begin and when the major capital expenditure depends upon the successful completion of further exploratory work remain capitalized and are reviewed periodically for impairment.

Productive oil and gas properties are depreciated on a unit-of-production basis over the proved developed reserves. Common facilities that are built specifically to service production directly attributed to designated oil and gas properties are depreciated based on the proved developed reserves of the respective oil and gas properties on a pro-rata basis. Common facilities that are not built specifically to service identified oil and gas properties are depreciated using the straight-line method over their estimated useful lives. Costs associated with significant development projects are not depreciated until commercial production commences and the reserves related to those costs are excluded from the calculation of depreciation.

Capitalized acquisition costs of proved properties are depreciated on a unit-of-production method over the total proved reserves of the relevant oil and gas properties.

(b) Vehicles and office equipment

Vehicles and office equipment are stated at cost less accumulated depreciation and impairment losses. The straight-line method is adopted to depreciate the cost less any estimated residual value of these assets over their expected useful lives. The Group estimates the useful lives of vehicles and office equipment to be five years.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a recoverable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed and, adjusted if appropriate, at each reporting date.

Any gains and losses on disposals of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) are included in the consolidated statement of comprehensive income.

Intangible assets (other than goodwill)

Intangible assets with finite lives are carried at cost, less accumulated amortization and accumulated impairment losses. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Such intangible assets except for gas processing rights, are amortized on a straight-line basis over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

The intangible asset regarding the gas processing rights has been amortized upon the commercial production of the liquefied natural gas on a unit-of-production basis over the total proved reserves of the relevant asset. The intangible assets regarding software have been amortized on a straight-line basis over three to five years.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Major maintenance and repairs

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the Group, the replacement expenditure is capitalized. Where part of the asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced assets which is immediately written off. All other maintenance costs are expensed as incurred.

Research and development costs

All research costs are expensed as incurred.

Expenditure (other than that relating to oil and gas properties discussed above) incurred on projects to develop new products is capitalized and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred. No development costs were capitalized during the year.

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39/HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

Subsequent measurement

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

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

Financial assets at fair value through profit or loss are financial assets designated upon initial recognition at fair value through profit or loss. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationship as defined by IAS 39/HKAS 39. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognized in "Finance income" or "Finance costs" in the statement of comprehensive income.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Gains and losses are recognized in the consolidated statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent measurement (continued)

(c) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortized cost less any allowance for impairment. Amortized cost is computed to the amount initially recognized minus principle repayment, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. Gains and losses are recognized in the consolidated statement of comprehensive income when the investments are derecognized or impaired, as well as through the amortization process.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value, with unrealized gains or losses recognized directly in equity until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of comprehensive income. When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

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

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 33.

Impairment of financial assets

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

(a) Assets carried at amortized cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account.



The amount of the impairment loss is recognized in the consolidated statement of comprehensive income.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of comprehensive income, to the extent that the carrying value of the asset does not exceed amortized cost at the reversal date.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

(a) Assets carried at amortized cost (continued)

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice.

(b) Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

(c) Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated statement of comprehensive income, is transferred from equity to the consolidated statement of comprehensive income.

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

Derecognition of financial assets

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

- i) the rights to receive cash flows from the asset have expired;
- ii) the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; or
- iii) the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the

extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities at amortized cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortized cost, using the effective interest method. The related interest expense is recognized within “Finance costs” in the consolidated statement of comprehensive income.

Gains and losses are recognized in the consolidated statement of comprehensive income when the liabilities are derecognized as well as through the amortization process.

Financial guarantee contracts

A financial guarantee contract is recognized initially at its fair value including transaction costs that are directly attributable to the issue of the guarantee. Subsequent to initial recognition, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognized less cumulative amortization.

Derecognition of financial liabilities

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position, if and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Inventories and supplies

Inventories primarily consist of oil and supplies, including items for repairs and maintenance of oil and gas properties. Inventories are stated at the lower of cost and net realizable value. Costs of inventories and supplies represent purchase or production cost of goods and are determined on a weighted average basis.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand and short term deposits with an original maturity of three months or less.

Provisions

(a)

General

A general provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. When the effect of discounting is material, the amount

recognized for a provision is the present value at the reporting date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in "Finance costs" in the consolidated statement of comprehensive income.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

(b) Dismantlement liability

Dismantlement liability is recognized when the Group has a present legal or constructive obligation as a result of the past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. A corresponding amount equivalent to the provision is also recognized as part of the cost of the related property, plant and equipment. The amount recognized is the estimated cost of dismantlement, discounted to its present value using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Changes in the estimated timing of dismantlement or dismantlement cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. The unwinding of the discount on the dismantlement provision is included as a finance cost.

The Group recognizes a deferred tax asset and deferred tax liability regarding the temporary difference on the dismantlement liability and the dismantlement asset respectively.

Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated statement of comprehensive income, either as an expense as it relates to operating activities or as a component of the applicable categories of other comprehensive income or loss.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted, by the reporting date, in the countries where the Group operates and generates taxable income.

Deferred tax is provided, using the 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:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

As at December 31, 2010, deferred tax liabilities related to undistributed earnings of certain of the Company's subsidiaries have not been recognized, since the timing of the reversal of the taxable temporary difference can be controlled by the Company and it is probable that the temporary difference would not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- where the deferred tax assets relating to the deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) Oil and gas sales

Oil and gas sales represent the invoiced value of sales of oil and gas attributable to the interests of the Group, net of royalties and the government share oil that is lifted and sold on behalf of the government. Revenue from the sale of oil is recognized when the significant risks and rewards of ownership have been transferred, which is when title passes to the customer. This generally occurs when product is physically transferred into a vessel, pipe or other delivery mechanism. Revenue from the production of oil in which the Group has an interest with other producers is recognized based on the Group's working interest and the terms of the relevant production sharing contracts. Differences between production sold and the Group's share of production are not significant.

Oil and gas lifted and sold by the Group above or below the Group's participating interests in the production sharing contracts results in overlifts and underlifts. The Group records these transactions in accordance with the entitlement method under which overlifts are recorded as liabilities and underlifts are recorded as assets at year-end oil prices. Settlement will be in kind when the liftings are equalized or in cash when production ceases.

The Group has entered into gas sale contracts with customers, which contain take-or-pay clauses. Under these contracts, the Group makes a long term supply commitment in return for a commitment from the buyer to pay for minimum quantities, whether or not it takes delivery. These commitments contain protective (force majeure) and adjustment provisions. If a buyer has a right to get a 'make up' delivery at a later date, revenue recognition is deferred. If no such option exists according to the contract terms, revenue is recognized when the take-or-pay penalty is



triggered.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(b) Marketing revenues

Marketing revenues principally represent the sale of oil and gas purchased from the foreign partners under the production sharing contracts and revenues from the trading of oil and gas through the Company's subsidiaries. The title, together with the risks and rewards of the ownership of such oil purchased from the foreign partners, is transferred to the Group from the foreign partners and other unrelated oil and gas companies before the Group sells such oil to its customers. The cost of the oil and gas sold is included in "Crude oil and product purchases".

(c) Other income

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

(d) Dividend income

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

(e) Interest income

Interest income is recognized as it accrues using the effective interest method.

The Group presents taxes collected from customers in the consolidated statement of comprehensive income on a net basis.

Share-based payment transactions

Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using the Black-Scholes option pricing model, further details of which are given in note 27.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at the end of the each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of comprehensive income for a period represents the movement in the cumulative expense recognized as at the beginning and end of that period.

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

No equity-settled award was modified or cancelled during the years ended December 31, 2010 and 2009.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Retirement and termination benefits

The Group participates in defined contribution plans in accordance with local laws and regulations for full-time employees in the PRC and other countries in which it operates. The plans provide for contributions ranging from 11% to 22% of the employees' basic salaries. The Group's contributions to these defined contribution plans are charged to the consolidated statement of comprehensive income in the year to which they relate.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs directly relating to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they are incurred.

Foreign currencies

These financial statements are presented in RMB. Each entity in the Group maintains its books and records in its own functional currency. Foreign currency transactions recorded by the entities of the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the consolidated statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain entities within the Group are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Group at the exchange rates ruling at the reporting date, and their statement of comprehensive income are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are included in the cumulative translation reserve. On disposal of a foreign operation, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in profit or loss.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases are charged to the consolidated statement of comprehensive income on a straight-line basis over the lease terms.

Contingencies

A contingent liability is disclosed when the existence of an obligation will only be confirmed by future events or when the amount of the obligation cannot be measured reliably.

A contingent asset is not recognized in the financial statements, but is disclosed when an inflow of economic benefits is probable.

Significant accounting judgements, estimates and assumptions

The preparation of the consolidated financial statements in conformity with IFRSs and HKFRSs requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and judgements are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgements, estimates and assumptions (continued)

In the process of applying the Group's accounting policies, the directors have made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognized in the consolidated financial statements.

(a) Reserve base

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

Pursuant to the amendments to oil and gas reserve estimation requirements under US Securities and Exchange Commission's final rules on "Modernization of Oil and Gas Reporting", which became effective for accounting periods ended on or after December 31, 2009, the Group uses the average, first-day-of-the-month oil price during the 12-month period before the ending date of the period covered by the consolidated financial statements to estimate its proved oil and gas reserves. Year-end prices were used for the estimation in the accounting periods ended before December 31, 2009. However, it is not operational and cost-practical for management to estimate the effect of such change in accounting estimate precisely.

(b) Carrying value of oil and gas assets

The calculation of the unit-of-production rate for oil and gas properties amortization could be impacted to the extent that actual production in the future is different from current forecast production based on proved reserves. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves. These factors could include changes in proved reserves, the effect on proved reserves of differences between actual commodity prices and commodity price assumptions and unforeseen operational issues.

(c) Impairment indicators

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

(d) Dismantlement costs

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



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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgements, estimates and assumptions (continued)

## (e) Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations (including those applicable to tax credits) and the amount and timing of future taxable income. Given the wide range of international business relationships and the long term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on best estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as the Group's experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.

## 4. ACQUISITIONS AND OTHER VENTURES

(i) On March 13, 2010, CNOOC International Limited ("CNOOC International"), a wholly-owned subsidiary of the Company, entered into agreements with Bridas Energy Holdings Ltd. ("BEH") to form a 50:50 joint venture in Bridas Corporation, formerly a wholly-owned subsidiary of BEH, for cash consideration of approximately US\$3.1 billion. This transaction is aligned with the Company's growth strategy by expanding its reach into Latin America and establishes a foundation for future growth in the region and other countries. Bridas Corporation, through its affiliates (including a 40% interest in Pan American Energy LLC, "PAE") has oil and gas exploration and production activities in Argentina, Bolivia and Chile. On May 4, 2010, the Company completed its acquisition at a total consideration of US\$3.1 billion.

The Group accounts for its investment in Bridas Corporation using the proportionate consolidation method.

The fair values of the identifiable assets and liabilities of Bridas Corporation attributable to the Group's 50% interest as at the date of acquisition are as follows:

	Fair value recognized on acquisition RMB'000
Property, plant and equipment	26,596,053
Other non-current assets	1,514,508
Trade receivables	472,653
Other current assets	141,713
Cash and bank balances	497,228
Trade payables	(430,057 )
Taxes payable	(479,752 )



Other current liabilities	(19,387 )
Loans and borrowings	(1,954,916 )
Deferred tax liabilities	(6,640,853 )
Other non-current liabilities	(371,078 )
	19,326,112
Goodwill on acquisition	1,931,723
Satisfied by cash	21,257,835

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## 4. ACQUISITIONS AND OTHER VENTURES (continued)

(i) (continued)

The fair values disclosed above are provisional subject to finalisation of valuation for the identifiable assets and liabilities. The review of the fair value of the assets and liabilities acquired will be completed within 12 months after the acquisition date.

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

	RMB'000
Cash consideration	21,257,835
Cash and bank balances acquired	(497,228 )
Net outflow of cash and cash equivalents in respect of the acquisition	20,760,607

Since its acquisition, Bidas Corporation contributed RMB3,060,317,000 to the Group's turnover and RMB202,832,000 to the consolidated profit for the year.

If the acquisition had taken place at the beginning of the year, the contribution of Bidas Corporation to the revenue from continuing operations of the Group and the profit of the Group for the year would have been RMB4,511,896,000 and RMB383,170,000, respectively.

(ii) The Company and BEH, through Bidas Corporation, entered into a share purchase agreement with BP PLC ("BP") on November 28, 2010, pursuant to which Bidas Corporation will acquire a 60% equity interest in PAE from BP for a consideration of approximately US\$7.06 billion. The acquisition excludes PAE's assets in Bolivia.

CNOOC International and BEH have agreed to contribute an aggregate amount of approximately US\$4.94 billion to Bidas Corporation, to finance 70% of the consideration of the acquisition. The contribution will be made in equal amounts, i.e. approximately US\$2.47 billion, by each of CNOOC International and BEH. The remaining 30% of the consideration, or approximately US\$2.12 billion, will be satisfied by third party loans to be arranged by Bidas Corporation and/or additional contributions from CNOOC International and BEH.

Completion of the acquisition is conditional on, amongst others, all necessary government and regulatory approvals, and is expected to take place in the first half of 2011.

(iii) On April 30, 2010, CNOOC China Limited, a wholly-owned subsidiary of the Company, signed a sales and purchase agreement to acquire an additional 24.5% participating interest in Block 15/34 from Devon Energy Corporation ("Devon") for a cash consideration of US\$515 million. On June 18, 2010, the Company completed its acquisition. Block 15/34 is located in the Pearl River Mouth Basin of South China Sea.

The Company is the operator of the block. Upon completion, the Company increased its participating interest to 75.5%.

(iv)

On May 17, 2010, CNOOC International, Türkiye Petrolleri A.O. (“TPAO”) and Iraqi Drilling Company (“IDC”) (collectively, the “Contractors”) entered into a Technical Service Contract (“TSC”) for the Missan oil fields in Iraq. The Contractors are engaged to achieve stipulated production targets through improved and enhanced recovery measures. The TSC provides for a cost recovery mechanism and remuneration fee on incremental production. The TSC has a contract term of 20 years, with an option to extend for additional five years with relevant approval.

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4. ACQUISITIONS AND OTHER VENTURES (continued)

(iv)

(continued)

CNOOC International will act as the lead contractor and hold a 63.75% participating interest while TPAO will hold 11.25%. IDC will hold the remaining 25% participating interest. As a state partner, IDC will be entitled to receive a 25% participating interest of remuneration fee without paying any expenditure.

(v) On October 10, 2010, CNOOC International through its wholly-owned subsidiary, OOGC America, Inc., signed a purchase agreement with Chesapeake Exploration, LLC, a subsidiary of Chesapeake Energy Corporation (“Chesapeake”), to purchase a 33.3% undivided interest in Chesapeake’s Eagle Ford Shale project in Texas with a cash consideration of approximately US\$1.08 billion plus an upward adjustment of US\$40 million plaid on closing. In addition, CNOOC International has agreed to fund 75% of Chesapeake’s share of development costs in the project until an additional US\$1.08 billion has been paid. The deal was closed on November 15, 2010.

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5.SEGMENT INFORMATION

(a) Operating segments

The Group is organized on a worldwide basis into three major operating segments. The Group is involved in the upstream operating activities of the petroleum industry that comprise independent operations (in which the Group owns 100% participating interest), operations under production sharing contracts or other joint arrangements and trading business. These segments are determined primarily because the Group's chief operating decision maker makes key operating decisions and assesses performance of the segments separately. The Group evaluates the performance of each segment based on profit or loss from operations before income tax.

The following table presents the segment financial information for the Group's operating segments for the years ended December 31, 2008, 2009 and 2010.

	Independent operations			Production sharing contracts / Other joint arrangements			RM
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000	
Sales to external customers:							
Oil and gas sales	53,058,086	44,314,655	85,425,181	47,773,247	39,599,724	63,693,489	-
Marketing revenues	-	-	-	-	-	-	22,966
Intersegment revenues	1,035,292	102,278	-	6,787,259	8,828,793	17,638,325	-
Other income	588,948	239,721	490,838	1,459,239	169,967	868,359	-
<b>Total</b>	<b>54,682,326</b>	<b>44,656,654</b>	<b>85,916,019</b>	<b>56,019,745</b>	<b>48,598,484</b>	<b>82,200,173</b>	<b>22,966</b>
Segment results							
Operating expenses	( 4,543,039 )	( 6,184,270 )	( 7,775,179 )	( 5,447,329 )	( 6,306,093 )	( 8,428,920 )	-
Taxes other than income tax	( 2,769,550 )	( 2,245,181 )	( 4,434,340 )	( 2,380,148 )	( 1,643,460 )	( 3,769,703 )	-
Exploration expense	( 2,534,409 )	( 2,400,933 )	( 4,120,482 )	( 875,137 )	( 832,750 )	( 1,459,382 )	-
Depreciation, depletion and amortization	( 5,223,311 )	( 6,845,081 )	12,833,219 )	( 4,834,354 )	( 9,097,821 )	( 14,853,876 )	-
Special oil gain levy	( 9,135,879 )	( 4,039,689 )	12,047,825 )	( 7,102,355 )	( 2,317,615 )	( 5,657,752 )	-
Impairment and provision	( 5,425 )	( 7,265 )	( 26,941 )	( 1,536,033 )	362	405	-
Crude oil and product purchases	-	-	-	-	-	-	(22,675)
Selling and administrative expenses	( 67,069 )	( 32,858 )	( 122,101 )	( 404,058 )	( 989,237 )	( 1,290,249 )	-
Others	( 1,136,879 )	-	( 533,432 )	( 119,309 )	( 206,896 )	( 280,199 )	-
Interest income	-	-	-	948	4,689	113,471	-

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Finance costs	( 225,337 )	( 295,777 )	( 502,041 )	( 181,001 )	( 211,432 )	( 518,374 )	-
Exchange gains/(losses), net	360	-	-	( 46,062 )	25,434	34,189	-
Investment income	-	-	-	-	-	-	-
Share of profits of associates	-	-	-	-	-	-	-
Non-operating income/(expenses), net	-	-	-	-	-	-	-
Income tax expense	-	-	-	-	-	-	-
Segment profit for the year	29,041,788	22,605,600	43,520,459	33,094,907	27,023,665	46,089,783	291,700
Other segment information							
Segment assets	59,570,546	83,722,039	93,405,225	98,263,175	112,632,892	171,417,568	671,300
Investments in associates	-	-	-	-	-	-	-
Total assets	59,570,546	83,722,039	93,405,225	98,263,175	112,632,892	171,417,568	671,300
Segment liabilities	(11,897,451)	(16,557,308)	(20,740,249)	(19,979,928)	(31,698,358)	(65,916,382)	(284,600)
Total liabilities	(11,897,451)	(16,557,308)	(20,740,249)	(19,979,928)	(31,698,358)	(65,916,382)	(284,600)
Capital expenditures	19,444,927	30,415,023	24,707,475	17,808,777	13,251,396	54,392,838	-

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## 5. SEGMENT INFORMATION (continued)

## (b) Geographical information

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

In presenting the Group's geographical information, revenues from external customers are based on the location of the Group's customers, and non-current assets are attributed to the segments based on the location of the Group's assets. No further analysis of geographical information is presented for revenues from external customers as over 73% of the Group's revenues are generated from PRC customers, and revenues generated from customers in other locations are individually less than 10%.

The following table presents certain non-current assets and capital expenditure information for the Group's geographical information for the years ended December 31, 2008, 2009 and 2010.

	PRC			Asia excluding PRC			Oceania			Afr
	2008	2009	2010	2008	2009	2010	2008	2009	2010	R
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	R
Non-current assets	91,074,990	115,498,324	126,562,393	13,889,189	14,471,808	13,008,029	3,388,331	3,117,455	2,782,040	33,000,000
Capital expenditures	26,671,778	36,881,164	31,938,380	4,314,306	1,891,349	1,788,516	252,003	444,104	-	6,100,000

The information on non-current assets above is based on the location of assets and excludes financial instruments.

## (c) Information about a major customer

The current year revenue of approximately RMB34,383,928,000 (2009: RMB24,332,653,000, 2008: RMB46,482,906,000) was derived from sales by the independent operations and production sharing contracts segments to a single customer, including sales to a group of entities which are known to be under common control with that customer.

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## 6. OIL AND GAS SALES

	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Gross sales	105,643,389	87,762,658	155,872,376
Less: Royalties	( 845,543 )	( 1,463,385 )	( 3,523,914 )
PRC government's share of oil	( 3,966,513 )	( 2,384,894 )	( 3,229,792 )
Oil and gas sales	100,831,333	83,914,379	149,118,670

## 7. SPECIAL OIL GAIN LEVY

In 2006, a Special Oil Gain Levy ("SOG Levy") was imposed by the Ministry of Finance of the PRC at the progressive rates from 20% to 40% on the portion of the monthly weighted average sales price of the crude oil lifted in the PRC exceeding US\$40 per barrel. The SOG Levy paid can be claimed as a deductible expense for corporate income tax purposes and is calculated based on the actual volume of the crude oil entitled.



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## 8. PROFIT BEFORE TAX

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

	2008 RMB'000	2009 RMB'000	2010 RMB'000
<b>Crediting:</b>			
Interest income on bank deposits	(1,091,024 )	(638,252 )	(703,849 )
Exchange gains, net	(2,551,260 )	(53,799 )	(994,795 )
<b>Investment income:</b>			
– Net gain from available-for-sale financial assets	(475,925 )	(199,925 )	(425,037 )
– Net gain from held-to-maturity financial assets	-	-	(2,454 )
	(475,925 )	(199,925 )	(427,491 )
<b>Charging:</b>			
<b>Auditors' remuneration:</b>			
– Audit fee	23,424	15,447	17,674
– Other fees	1,707	2,619	2,468
	25,131	18,066	20,142
<b>Employee benefit expense (including directors' remuneration (note 10)):</b>			
– Wages, salaries and allowances	837,817	952,319	1,580,704
– Labour costs paid to contractors	1,521,710	1,696,767	2,190,133
– Equity-settled share option expenses	167,219	184,343	217,633
	2,526,746	2,833,429	3,988,470
<b>Depreciation, depletion and amortization:</b>			
– Property, plant and equipment	10,238,038	15,819,121	27,886,422
– Intangible assets	139,017	167,776	195,203
Less: net amount capitalized	(319,390 )	(43,995 )	(394,530 )
	10,057,665	15,942,902	27,687,095
<b>Operating lease rentals:</b>			
– Office properties	111,508	127,008	128,111
– Equipment	1,237,954	1,653,464	1,819,079
	1,349,462	1,780,472	1,947,190
	274,537	(1,564 )	65,192

Loss/(gain) on disposal of property, plant and equipment			
Repairs and maintenance	1,822,773	1,846,688	2,985,135
Research and development costs	507,078	539,233	823,448
Provision for inventory obsolescence	5,374	6,955	26,381

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9.	FINANCE COSTS		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Interest on bank loans			
which are repayable within five years	107,853	87,394	356,529
Interest on other loans (including convertible bonds)	416,265	386,838	383,604
Other borrowing costs	35,932	33,593	34,059
Total borrowing costs	560,050	507,825	774,192
Less: Amount capitalized in property, plant and equipment (note 15)	(524,006)	(439,850)	( 394,492 )
	36,044	67,975	379,700
Other finance costs:			
Unwinding of discount on provision for dismantlement (note 26)	379,227	466,439	762,394
Other	–	125	79,929
	415,271	534,539	1,222,023

The interest rates used to determine the amount of related borrowing costs for capitalization varied from 4.1% to 6.375% (2009: from 4.1% to 6.375%, 2008: from 4.1% to 6.375%) per annum during the year.

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## 10. DIRECTORS' REMUNERATION

	Fees (1) RMB'000	Salaries allowances and benefits in kind (1) RMB'000	Performance related bonuses (1) RMB'000	Pension paid/ scheme contributions RMB'000	Total during the year RMB'000	Share option benefits (13) RMB'000
2010						
Executive directors:						
Yang Hua (5)	828	2,607	2,004	81	5,520	4,732
Li Fanrong (3)	483	807	576	26	1,892	-
Wu Guangqi	828	1,298	663	77	2,866	4,011
<b>Subtotal</b>	<b>2,139</b>	<b>4,712</b>	<b>3,243</b>	<b>184</b>	<b>10,278</b>	<b>8,743</b>
Non-executive directors:						
Fu Chengyu (4)	828	1,988	1,704	58	4,578	8,728
Zhou Shouwei (9)	924	-	-	-	924	5,360
Cao Xinghe (2)	345	-	-	-	345	-
Wu Zhenfang	828	-	-	-	828	3,969
<b>Subtotal</b>	<b>2,925</b>	<b>1,988</b>	<b>1,704</b>	<b>58</b>	<b>6,675</b>	<b>18,057</b>
Independent non-executive directors:						
Edgar W. K. Cheng (6)	-	-	-	-	-	-
Chiu Sung Hong	924	-	-	-	924	-
Lawrence J. Lau (7)	414	-	-	-	414	-
Tse Hau Yin, Aloysius	959	-	-	-	959	-
Wang Tao (8)	-	-	-	-	-	-
<b>Subtotal</b>	<b>2,297</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,297</b>	<b>-</b>
<b>Total</b>	<b>7,361</b>	<b>6,700</b>	<b>4,947</b>	<b>242</b>	<b>19,250</b>	<b>26,800</b>
2009						
Executive directors:						
Fu Chengyu	837	3,014	-	87	3,938	6,489
Yang Hua	837	2,415	-	79	3,331	2,982
Wu Guangqi	837	1,311	-	78	2,226	2,982
<b>Subtotal</b>	<b>2,511</b>	<b>6,740</b>	<b>-</b>	<b>244</b>	<b>9,495</b>	<b>12,453</b>

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Non-executive directors:						
Luo Han (10)	233	-	-	-	233	-
Cao Xinghe	837	-	-	-	837	2,982
Wu Zhenfang	837	-	-	-	837	2,982
Zhou Shouwei (9)	910	611	-	20	1,541	4,553
Subtotal	2,817	611	-	20	3,448	10,517
Independent non-executive directors:						
Edgar W. K. Cheng (6)	-	-	-	-	-	-
Chiu Sung Hong	934	-	-	-	934	-
Lawrence J. Lau (7)	-	-	-	-	-	-
Tse Hau Yin, Aloysius	969	-	-	-	969	-
Wang Tao	419	-	-	-	419	-
Subtotal	2,322	-	-	-	2,322	-
Total	7,650	7,351	-	264	15,265	22,970

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## 10. DIRECTORS' REMUNERATION (continued)

	Fees (1) RMB'000	Salaries allowances and benefits in kind (1) RMB'000	Performance related bonuses (1) RMB'000	Pension paid/ scheme contributions RMB'000	Total during the year RMB'000	Share option benefits RMB'000
2008						
Executive directors:						
Fu Chengyu	847	3,051	2,616	88	6,602	5,445
Zhou Shouwei	847	2,475	1,766	79	5,167	3,817
Yang Hua	847	2,349	1,665	77	4,938	2,503
Wu Guangqi	847	1,327	678	78	2,930	2,503
Subtotal	3,388	9,202	6,725	322	19,637	14,268
Non-executive directors						
Luo Han	945	-	-	-	945	2,503
Cao Xinghe	847	-	-	-	847	2,124
Wu Zhenfang	847	-	-	-	847	2,124
Subtotal	2,639	-	-	-	2,639	6,751
Independent non-executive directors:						
Edgar W. K. Cheng (6)	-	-	-	-	-	-
Chiu Sung Hong	945	-	-	-	945	-
Evert Henkes (11)	424	-	-	-	424	-
Lawrence J. Lau (7)	-	-	-	-	-	-
Tse Hau Yin, Aloysius	981	-	-	-	981	-
Wang Tao (12)	502	-	-	-	502	-
Subtotal	2,852	-	-	-	2,852	-
Total	8,879	9,202	6,725	322	25,128	21,019

## Notes:

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

(2) Mr. Cao Xinghe retired as a non-executive director of the Company with effect from May 24, 2010.

- (3) Mr. Li Fanrong was appointed as a non-executive director with effect from May 24, 2010 and was re-designated to executive director with effect from September 16, 2010.
- (4) Mr. Fu Chengyu was re-designated from executive director to non-executive director with effect from September 16, 2010.
- (5) Mr. Yang Hua was appointed as the Vice Chairman of the Board of Directors of the Company with effect from September 16, 2010.
- (6) Dr. Edgar W. K. Cheng has voluntarily waived his remuneration as director in 2008, 2009 and 2010.
- (7) Professor Lawrence J. Lau has voluntarily waived his remuneration as director from January to June in 2010 and has voluntarily waived his remuneration as director in 2008 and 2009.
  - (8) Mr. Wang Tao has voluntarily waived his remuneration as director in 2010.
- (9) Mr. Zhou Shouwei was re-designated from executive director to non-executive director with effect from March 31, 2009.
- (10) Mr. Luo Han retired as a non-executive director of the Company with effect from March 31, 2009.
- (11) Mr. Evert Henkes retired as an independent non-executive director with effect from May 29, 2008.

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10. DIRECTORS' REMUNERATION (continued)

(12) Mr. Wang Tao was elected as an independent non-executive director with effect from May 29, 2008.

(13) During the year, certain directors were granted share options in respect of their services to the Group under the applicable share option schemes of the Company, further details of which are set out in note 27.

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

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## 11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2009: four, 2008: four) directors and two (2009: one, 2008: one) non-director employee. Their remuneration and share option benefits are as follows:

	2008 RMB'000	2009 RMB'000	2010 RMB'000
Fees*	3,388	4,309	2,484
Basic salaries, allowances and benefits in kind*	11,548	8,845	8,533
Performance related bonuses	7,569	703	5,528
Pension scheme contributions	426	356	383
Amount paid/payable during the year	22,931	14,213	16,928
Share option benefits**	16,661	18,438	23,931
	39,592	32,651	40,859
Number of directors	4	4	3
Number of non-director employee	1	1	2

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

\*\*During the year, share options were granted to certain of the five highest paid employees in respect of their services to the Group. Further details are included in note 27.

The five highest paid individuals in the Group for each of the three years ended December 31, 2008, 2009 and 2010 were also the five highest paid directors or senior management and their emoluments are reflected in the analysis shown above.

The number of the five highest paid directors and senior management whose remuneration and share option benefits fell within the following bands is as follows:

	2008	2009	2010
Nil to RMB5,000,000	-	1	-
RMB5,000,001 to RMB5,500,000	1	1	2
RMB5,500,001 to RMB6,000,000	1	-	-
RMB6,000,001 to RMB6,500,000	-	2	-
RMB6,500,001 to RMB8,000,000	1	-	1
RMB8,000,001 to RMB10,000,000	1	-	-
RMB10,000,001 to RMB12,000,000	-	1	1

RMB12,000,001 to RMB14,000,000	1	-	1
	5	5	5

## 12. TAX

## (i) Income tax

The Company and its subsidiaries are subject, on an entity basis, to income taxes on profits arising in or derived from the tax jurisdictions in which the entities of the Group are domiciled and operate. The Company is subject to profits tax at a rate of 16.5% (2009:16.5%) on profits arising in or derived from Hong Kong, which is qualified as a foreign tax credit to offset the PRC corporate income tax starting from January 1, 2008.

The Company received a formal approval (the "Chinese Resident Enterprise Approval") from the State Administration of Taxation of the PRC on October 19, 2010 confirming that the Company is regarded as a Chinese Resident Enterprise (the "CRE") pursuant to the provisions of the "Notice regarding Matters on Determination of Tax Residence Status of Chinese-controlled Offshore Incorporated Enterprises under Rules of Effective Management", the "Enterprise Income Tax Law of the People's Republic of China" and the "Detailed Rules for the Implementation of the Enterprise Income Tax Law of the People's Republic of China". According to the Chinese Resident Enterprise Approval, the Company is subject to the PRC corporate income tax at the rate of 25% starting from January 1, 2008.

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## 12. TAX (continued)

## (i) Income tax (continued)

Pursuant to the above laws and regulations, the Company is required to withhold 10% corporate income tax when it makes dividend distributions to its non-Chinese resident enterprise shareholders.

The Company's subsidiary in Mainland China, CNOOC China Limited, is a wholly-owned foreign enterprise. It is subject to corporate income tax at the rate of 25% under the prevailing tax rules and regulations.

Subsidiaries of the Group domiciled outside the PRC are subject to income tax at rates ranging from 10% to 56%.

Some of the Group's oil and gas interests in Indonesia are held through Labuan incorporated companies. According to an amendment to the tax rules enacted by the Indonesian government in December 2009, Labuan incorporated companies will no longer enjoy the tax rates under the old tax treaty between Indonesia and Malaysia and the tax rates will increase from the existing range of 43.125% to 51.875% to the range of 44% to 56%. The amendment took effect from January 1, 2010.

As of December 31, 2010, management of the Company has not provided any deferred tax liabilities related to earnings derived by the Company from its overseas subsidiaries since the timing of the reversal of the taxable temporary differences can be controlled by the Company and it is probable that the temporary differences would not reverse in the foreseeable future.

An analysis of the tax expense in the Group's consolidated statement of comprehensive income is as follows:

	2008 RMB'000	2009 RMB'000	2010 RMB'000
<b>Overseas</b>			
Current income tax	934,420	657,614	1,430,030
Deferred tax	(631,329 )	1,362,833	796,294
<b>PRC</b>			
Current income tax	13,203,815	8,663,709	17,433,444
Deferred tax	(1,874 )	651,360	(1,419,325 )
<b>Total tax charge for the year</b>	<b>13,505,032</b>	<b>11,335,516</b>	<b>18,240,443</b>

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

	2008 %	2009 %	2010 %
Statutory PRC enterprise income tax rate	25.0	25.0	25.0
	(1.1 )	3.0	0.3

## Effect of different tax rates for the Company and overseas subsidiaries

Tax credit from the government	(0.2 )	(0.3 )	(0.1 )
Profit attributable to associates	(0.2 )	(0.1 )	(0.1 )
Other permanent differences	(0.2 )	0.1	-
Group's effective income tax rate	23.3	27.7	25.1

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## 12. TAX (continued)

## (i) Income tax (continued)

The movements of deferred tax liabilities are as follows:

	2008 RMB'000	2009 RMB'000	2010 RMB'000
At January 1	6,293,559	5,428,323	7,439,620
Credited to the consolidated statements of comprehensive income	(633,203 )	2,014,193	(623,031 )
Acquisition (note 4 (i))	-	-	6,640,853
Exchange differences	(232,033 )	(2,896 )	(335,378 )
At December 31	5,428,323	7,439,620	13,122,064

Principal components of deferred tax balances are as follows:

	2009 RMB'000	2010 RMB'000
<b>Deferred tax assets</b>		
Provision for retirement and termination benefits	69,893	95,542
Provision for dismantlement	1,719,078	2,187,530
Impairment of property, plant and equipment	1,046,875	1,046,875
Overseas tax losses	193,660	-
Others	145,948	222,758
	3,175,454	3,552,705
<b>Deferred tax liabilities</b>		
	(	(
Accelerated tax depreciation of oil and gas properties	10,462,348 )	16,310,541 )
Others	(152,726 )	(364,228 )
	(	(
	10,615,074 )	16,674,769 )
Net deferred tax liabilities	(7,439,620 )	13,122,064 )

## (ii) Other taxes

The Company's PRC subsidiary pays the following other taxes:

- Production taxes of 5% on independent production and production under production sharing contracts;
  - Export tariffs of 5% on the export value of petroleum oil;
  - Business tax at rates of 3% to 5% on other income;

City construction tax at the rate of 1% or 7% on the actual paid production taxes and business tax (first effective from December 1, 2010); and

Educational surcharge at the rate of 3% on the actual paid production taxes and business tax (first effective from December 1, 2010).

In addition, other taxes paid and payable by the Company's non-PRC subsidiaries and jointly controlled entities include gross production assessments, duties and export tariffs as well as taxes levied on petroleum related income, profit, budgeted operating and capital expenditures.

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13.	DIVIDENDS		
	2008 RMB'000	2009 RMB'000	2010 RMB'000
Declared and paid during the year:			
Interim dividend	7,830,243	7,873,661	8,099,995
Final dividend	6,821,530	7,873,393	7,793,793
<b>Total dividends paid in the year</b>	<b>14,651,773</b>	<b>15,747,054</b>	<b>15,893,788</b>
Weighted average number of ordinary shares	44,623,856,311	44,669,199,984	44,669,199,984
Dividend per ordinary share	RMB0.33	RMB0.35	RMB0.36
Final dividend proposed for approval at annual general meeting at HK\$0.25 per ordinary share (2009: HK\$0.20 per ordinary share, 2008: HK\$0.20 per ordinary share) - not recognized as liability as at the end of the reporting period	7,878,753	7,855,526	9,421,069

Pursuant to the Chinese Tax Resident Approval (details included in note 12 (i)), the Company is regarded as a CRE. The Company is required to withhold corporate income tax at the rate of 10% when it distributes dividends to its non-Chinese resident enterprise shareholders, with effect from the distribution of the 2008 final dividend. In respect of all shareholders whose names appear on the Company's register of members and who are not individuals (including HKSCC Nominees Limited, corporate nominees or trustees such as securities companies and banks, and other entities or organizations, which are all considered as non-Chinese resident enterprise shareholders), the Company will distribute the dividend after deducting corporate income tax of 10%.

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14.	EARNINGS PER SHARE		
	2008	2009	2010
Earnings			
Profit for the year attributable to ordinary equity holders for the basic and diluted earnings per share calculations	RMB44,375,254,000	RMB29,485,575,000	RMB54,409,548,000
Number of shares			
Number of ordinary shares issued at the beginning of the year	44,302,616,976	44,669,199,984	44,669,199,984
Weighted average effect of:			
New shares issued during the year	320,534,053	-	-
Share options exercised during the year	705,282	-	-
Weighted average number of ordinary shares for the basic earnings per share calculation			
	44,623,856,311	44,669,199,984	44,669,199,984
Effect of dilutive potential ordinary shares under the share option schemes			
	138,262,808	102,514,345	151,987,482
Effect of dilutive potential ordinary shares for convertible bonds			
	23,978,397	-	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share			
	44,786,097,516	44,771,714,329	44,821,187,466
Earnings per share:			
Basic	RMB0.99	RMB0.66	RMB1.22
Diluted	RMB0.99	RMB0.66	RMB1.21



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## 15. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties RMB'000	Vehicles and office equipment RMB'000	Total RMB'000
Cost:			
At January 1, 2009	203,455,633	609,333	204,064,966
Additions	42,054,570	41,794	42,096,364
Acquisitions of assets	1,016,821	–	1,016,821
Disposals and write-offs	(910,881 )	(4,694 )	(915,575 )
Exchange differences	(57,185 )	(14 )	(57,199 )
At December 31, 2009	245,558,958	646,419	246,205,377
At January 1, 2010	245,558,958	646,419	246,205,377
Additions	33,577,662	93,917	33,671,579
Acquisitions of assets	45,425,795	–	45,425,795
Disposals and write-offs	( 1,770,663 )	(66,704 )	(1,837,367 )
Exchange differences	( 2,959,380 )	(418 )	(2,959,798 )
At December 31, 2010	319,832,372	673,214	320,505,586
Accumulated depreciation, depletion and amortization:			
At January 1, 2009	(65,445,135 )	( 261,695 )	(65,706,830 )
Depreciation charge for the year	(15,774,141 )	(44,980 )	(15,819,121 )
Disposals and write-offs	626,203	4,132	630,335
Exchange differences	10,109	1	10,110
At December 31, 2009	(80,582,964 )	( 302,542 )	(80,885,506 )
At January 1, 2010	(80,582,964 )	( 302,542 )	(80,885,506 )
Depreciation charge for the year	( 27,829,069 )	(57,353 )	(27,886,422 )
Disposals and write-offs	34,497	8,120	42,617
Exchange differences	553,993	358	554,351
At December 31, 2010	(107,823,543)	( 351,417 )	(108,174,960 )

## Net book value:

At January 1, 2010	164,975,994	343,877	165,319,871
At December 31, 2010	212,008,829	321,797	212,330,626

Included in the current year's additions was an amount of approximately RMB394,492,000 (2009: approximately RMB439,850,000) in respect of interest capitalized in property, plant and equipment (note 9). Included also in the depreciation charge for the year was an amount of approximately RMB1,702,988,000 (2009: approximately RMB929,088,000) in respect of a depreciation charge on dismantlement cost capitalized in oil and gas properties.

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## 16. INTANGIBLE ASSETS AND GOODWILL

	Gas processing right under NWS Project RMB'000	Software RMB'000	Goodwill RMB'000	Total RMB'000
Cost:				
At January 1, 2009	1,254,167	165,510	-	1,419,677
Additions	-	193,258	-	193,258
Exchange differences	(1,174 )	-	-	(1,174 )
At December 31, 2009	1,252,993	358,768	-	1,611,761
At January 1, 2010	1,252,993	358,768	-	1,611,761
Additions	-	142,307	1,931,723	2,074,030
Disposal	-	(9,861 )	-	( 9,861 )
Exchange differences	(37,710 )	-	(57,615 )	(95,325 )
At December 31, 2010	1,215,283	491,214	1,874,108	3,580,605
Accumulated amortization:				
At January 1, 2009	(138,837 )	(75,195 )	-	(214,032 )
Amortization charge for the year	(85,061 )	(82,715 )	-	(167,776 )
Exchange differences	174	-	-	174
At December 31, 2009	(223,724 )	(157,910)	-	(381,634 )
At January 1, 2010	(223,724 )	(157,910)	-	(381,634 )
Amortization charge for the year	(81,604 )	(113,599)	-	(195,203 )
Disposal	-	9,861	-	9,861
Exchange differences	8,572	-	-	8,572
At December 31, 2010	(296,756 )	(261,648)	-	(558,404 )
Net book value:				
At January 1, 2010	1,029,269	200,858	-	1,230,127
At December 31, 2010	918,527	229,566	1,874,108	3,022,201

Goodwill is acquired through the acquisition of equity interest of Bidas Corporation (note 4 (i)) and has been allocated to "Production sharing contracts or other joint arrangements" segment. The balance of goodwill represents provisional value acquired through acquisition of equity interest in a jointly-controlled entity, Bidas Corporation, and therefore as at December 31, 2010 is not subject to impairment testing.

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## 17. INVESTMENTS IN ASSOCIATES

Name of associates	Place and date of establishment	Registered capital	Percentage of equity attributable to the Group	Principal activities
Shanghai Petroleum Corporation Limited	Shanghai, PRC September 7, 1992	RMB900 million	30 %	Offshore petroleum exploration, development and production and sales in the PRC
CNOOC Finance Corporation Limited	Beijing, PRC June 14, 2002	RMB1,415 million	31.8 %	Provision of deposit, transfer, settlement, loan, discounting and other financing services to CNOOC and its member entities

CNOOC Finance Corporation Limited is not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

The Group's investments in associates represent:

	2009 RMB'000	2010 RMB'000
Share of net assets	1,726,806	1,781,090

The following table illustrates the summarized financial information of the Group's associates extracted from their management accounts:

	2009 RMB'000	2010 RMB'000
Assets	52,365,599	70,027,322
Liabilities	47,267,962	64,722,340
Revenue	1,934,398	2,211,344
Profit	542,045	676,119

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## 18. INVESTMENT IN JOINTLY-CONTROLLED ENTITIES

Particulars of the principal jointly-controlled entities are as follows:

Name of entity	Place and date of establishment	Nominal value of issued and paid-up/ registered ordinary share capital	Percentage of equity attributable to the Group	Principal activities
Jointly-controlled entities:				
Husky Oil (Madura) Ltd.	British Virgin Islands December 28, 2005	No par value	50%	Petroleum exploration, development, production and sales in Indonesia
Chaoyang Petroleum (BVI) Limited	British Virgin Islands February 4, 2009	US\$10	50%	Investment holding
Bridas Corporation (note 4 (i))	British Virgin Islands September 15, 1993	US\$102,325,582	50%	Investment holding

The interest in the jointly-controlled entities is accounted for using the proportionate consolidation method in the consolidated financial statements.

Summarized financial information of the Group's jointly-controlled entities is disclosed below:

	2009 RMB'000	2010 RMB'000
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	83,623	13,080,827
Non-current assets	1,781,115	30,835,706
Current liabilities	(1,792,408)	(35,070,715)
Non-current liabilities	-	( 8,509,500 )
Net assets	72,330	336,318
Share of the jointly-controlled entities' results:		
Revenue	132,895	3,209,883

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Total expense	( 58,608 )	( 2,889,021 )
Profit before tax	74,287	320,862
Income tax	-	( 48,560 )
Profit for the year	74,287	272,302

The Group's share of the post-acquisition results of Bidas Corporation is included in the consolidated statement of comprehensive income for the period from May 4, 2010 to December 31, 2010.

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19.	AVAILABLE-FOR-SALE FINANCIAL ASSETS		
		2009	2010
		RMB'000	RMB'000
Current:			
Non-listed investments, at fair value:			
	Private equity funds	19,227	15,841
	Corporate wealth management products (1)	-	13,000,000
	Liquidity funds (2)	8,563,137	5,924,133
		8,582,364	18,939,974
Non-current:			
Non-listed investments, at cost:			
	Equity investments held by Brijdas Corporation	-	87,289
Listed investments, at fair value:			
	Equity investment in MEG (3)	3,119,995	8,616,437
		3,119,995	8,703,726

The fair values of listed investments are based on quoted market prices. The fair values of non-listed investments are based on fund managers' quotations or quoted market prices. The directors believe that the estimated fair values quoted by fund managers are reasonable, and that they are the most appropriate values at the reporting date.

(1) The corporate wealth management products will mature from January 7, 2011 to December 15, 2011.

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

(3) The equity investment represents investment in the equity securities of MEG Energy Corporation ("MEG"). As of December 31, 2009, the investment was measured at cost. In August 2010, MEG listed its shares on the Toronto Stock Exchange. Therefore, fair value of the investment to MEG can be reliably measured. As at December 31, 2010, the investment in MEG was stated at quoted market price. MEG is principally engaged in the exploitation and production of oil sands.

During the year, the gross income of the Group's available-for-sale investments recognized directly in other comprehensive income amounted to RMB5,590,380,000 (2009 loss: RMB22,053,000, and 2008 gain: RMB41,457,000).

In addition, there are no realized gains of the Group transferred from other comprehensive income to the profit and loss for the year (2009: RMB51,683,000, and 2008: RMB31,147,000) upon the disposal of the related available-for-sale financial assets due to no debt security was held in 2010.

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



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## 20. INVENTORIES AND SUPPLIES

	2009 RMB'000	2010 RMB'000
Materials and supplies	2,882,523	3,315,923
Oil in tanks	331,958	854,691
Less: Provision for inventory obsolescence	( 68,626 )	( 94,318 )
	3,145,855	4,076,296

The provision for inventory obsolescence during the year was approximately RMB26,381,000 (2009: approximately RMB6,955,000).

## 21. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit terms of the Group are generally within 30 days after the delivery of oil and gas. Trade receivables are non-interest-bearing.

As at December 31, 2010 and 2009, substantially all the trade receivable were aged within 30 days. All customers have a good repayment history and all receivables are not past due. A provision for doubtful debt of RMB155,000 has been made as at December 31, 2010 according to the Group's accounting policy (December 31, 2009: Nil).

## 22. CASH AND CASH EQUIVALENTS AND TIME DEPOSITS WITH MATURITY OVER THREE MONTHS

The Group's cash and cash equivalents mainly consist of current deposits and time deposits with maturity within seven days. The bank balances are deposited with creditworthy banks with no recent history of default.

The weighted average effective interest rates of the Group's bank deposits were 2.3% (2009: 2.4% per annum), for the year ended December 31, 2010.

CNOOC China Limited, a wholly-owned subsidiary of the Company, deposited RMB12.0 billion with Bank of China to secure loans of US\$1.77 billion (note 25) granted by Bank of China. The amount was recorded as time deposits with maturity over three months.

## 23. TRADE AND ACCRUED PAYABLES

As at December 31, 2010 and 2009, substantially all the trade and accrued payables were aged within six months. The trade and accrued payables are non-interest-bearing and are normally settled within six months.

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24. OTHER PAYABLES AND ACCRUED LIABILITIES	2009 RMB'000	2010 RMB'000
Accrued payroll and welfare payable	507,904	822,269
Provision for retirement and termination benefits	338,488	373,174
Accrued expenses	138,073	76,188
Advances from customers	1,361,265	2,016,858
Royalties payable	682,577	881,532
Special oil gain levy payable	3,039,437	5,694,806
Provision for dismantlement (note 26)	477,891	186,992
Other payables*	2,859,458	7,801,760
	9,405,093	17,853,579

\*As disclosed in note 4 (v), the current portion and the non-current portion of the unpaid funding of 75% of Chesapeake's share of development costs in the Eagle Ford Shale project have been recognized in "Other payables and accrued liabilities" and "Other non-current liabilities" respectively, totaling up to US\$1.02 billion as at December 31, 2010.

Other payables are non-interest-bearing and have an average term of less than one year.

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		Current					
		2009			2010		
		RMB'000					
	Effective interest rate and final maturity	Bank loan	Notes/Bonds	Total	Bank loan	Notes/Bonds	Total
<b>Short-term loans and borrowings</b>							
General loans	LIBOR+0.7% to 1.3% per annum within one year	-	-	-	16,358,069	-	16,358,069
Loans proportionate consolidated from Bidas Corporation	1.38% per annum with maturity within one year	-	-	-	86,616	-	86,616
		-	-	-	16,444,685	-	16,444,685
<b>Loans and borrowings due within one year</b>							
For Tangguh LNG Project****	LIBOR+0.23% to 0.38% per annum with maturity within one year	122,092	-	122,092	184,398	-	184,398
For Nigeria OML130 Project	LIBOR+4% per annum with maturity within one year	-	-	-	4,652,116	-	4,652,116
Loans and notes proportionate consolidated from Bidas Corporation	4.14%-12.25% and LIBOR+5% to 5.5% per annum with maturity within one year	-	-	-	186,035	163,440*	349,475
		122,092	-	122,092	5,022,549	163,440	5,185,989
		122,092	-	122,092	21,467,234	163,440	21,630,674



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## 25. LOANS AND BORROWINGS (continued)

## Non-Current

	E f f e c t i v e interest rate and final maturity	2009 RMB'000			2010 RMB'000		
		Bank loan	Notes /Bonds	Total	Bank loan	Notes /Bonds	Total
For Tangguh LNG Project****	LIBOR+0.23% to 0.38% per annum with maturity through 2021	3,025,942	-	3,025,942	2,910,795	-	2,910,795
For Nigeria OML130 Project	LIBOR+4% per annum with maturity through 2015	8,790,966	-	8,790,966	387,428	-	387,428
Loans and notes proportionate from consolidated from Bridas Corporation Finance (2002)**	4.14%-12.25% and LIBOR+3.75% to 5.5% per annum with maturity through 2012-2018	-	-	-	1,031,658	825,709*	1,857,367
Finance (2003)***		-	3,401,014	3,401,014	-	3,304,516	3,304,516
		-	3,352,139	3,352,139	-	3,255,943	3,255,943
		11,816,908	6,753,153	18,570,061	4,329,881	7,386,168	11,716,049

\*These represent long-term bonds issued by Pan American Energy LLC, a jointly-controlled entity of the Company. One of the bonds will mature in 2012 with total principal amount of US\$50 million, bearing effective interest rate of 7.75%, another one will mature in 2021 with total principal amount of US\$100 million, bearing effective interest rate of 7.875%.

\*\*The principal amount of US\$500 million of 6.375% guaranteed notes due in 2012 issued by CNOOC Finance (2002) Limited, a wholly-owned subsidiary of the Company. The obligations of CNOOC Finance (2002) Limited in respect of the notes are unconditionally and irrevocably guaranteed by the Company.

\*\*\* The principal amount of US\$200 million of 4.125% guaranteed notes due in 2013 and the principal amount of US\$300 million of 5.500% guaranteed notes due in 2033 issued by CNOOC Finance (2003) Limited, a wholly-owned subsidiary of the Company. The obligations of CNOOC Finance (2003) Limited in respect of the

notes are unconditionally and irrevocably guaranteed by the Company.

\*\*\*The amount represented the Group's share of utilized bank loans in Tangguh Liquefied Natural Gas Project (the "Tangguh LNG Project").

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25. LOANS AND BORROWINGS (continued)

The Company delivered a guarantee dated October 29, 2007 in favour of Mizuho Corporate Bank, Ltd., which acts as the facility agent for and on behalf of various international commercial banks under a US\$884 million commercial loan agreement dated October 29, 2007 in connection with the Tangguh LNG Project in Indonesia. The Company guarantees the payment obligations of the trustee borrower under the subject loan agreement and is subject to a maximum cap of approximately US\$164,888,000. Together with the loan agreement dated July 31, 2006 with a maximum cap of approximately US\$487,862,000, the total maximum guarantee cap is US\$652,750,000.

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

In addition, a letter of credit agreement was signed between the Company and Talisman with the execution of the aforesaid agreement. Accordingly, Talisman has delivered valid and unexpired standby letters of credit with the amount of US\$120 million to the Company (as the beneficiary) as a counter-guarantee to offset the exposure of the Company’s guarantee for the aforesaid interest of 3.05691% in respect of the Tangguh LNG Project financing.

As at December 31, 2010, except for the general loans of US\$1.77 billion secured by time deposits (see note 22), all the bank loans of the Group were unsecured, and none of the outstanding borrowings were guaranteed by CNOOC.



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## 25. LOANS AND BORROWINGS (continued)

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

	2009 RMB'000	2010 RMB'000
Repayable:		
Within one year	122,092	5,022,549
After one year but within two years	165,272	972,670
After two years but within three years	196,752	568,610
After three years but within four years	228,232	381,342
After four years but within five years	259,713	369,870
After five years	10,966,939	2,037,389
	11,939,000	9,352,430
Amount due within one year shown under current liabilities	( 122,092 )	(5,022,549)
	11,816,908	4,329,881

Supplemental information with respect to the long term bank loans:

	Balance at year end RMB'000	Weighted average interest rate at year end	Maximum amount outstanding during the year RMB'000	Average amount outstanding during the year* RMB'000	Weighted average interest rate during the year**
For the year ended December 31 2010	9,352,430	3.33 %	13,267,282	10,645,715	3.40 %
2009	11,939,000	3.47 %	11,939,000	9,535,515	3.96 %

\*The average amount outstanding is computed by averaging the outstanding principal balances as at January 1 and December 31 of each year.

\*\*The weighted average interest rate is computed by averaging the interest rates as at January 1 and December 31 of each year.

There was no default of principal, interest or redemption terms of the long term bank loans during the year.

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## 26. PROVISION FOR DISMANTLEMENT

	2009 RMB'000	2010 RMB'000
At January 1	8,339,734	11,758,980
Capitalized in oil and gas properties	3,052,095	4,009,613
Utilized	(98,932 )	(290,899 )
Unwinding of discount* (note 9)	466,439	762,394
Exchange differences	(356 )	(26,291 )
	11,758,980	16,213,797
Current portion of dismantlement included in other payables and accrued liabilities (note 24)	(477,891 )	(186,992 )
At December 31	11,281,089	16,026,805

\* The discount rate used for calculating the amount of unwinding of the discount is 5% (2009: 5%).

## 27. SHARE CAPITAL

Shares	Number of shares	Share capital HK\$'000	Issued share capital equivalent of RMB'000
Authorized:			
Ordinary shares of HK\$0.02 each			
as at December 31, 2010 and December 31, 2009	75,000,000,000	1,500,000	
Issued and fully paid:			
Ordinary shares of HK\$0.02 each as at January 1, 2009	44,669,199,984	893,384	949,299
As at December 31, 2009	44,669,199,984	893,384	949,299
As at December 31, 2010	44,669,199,984	893,384	949,299

## Share option schemes

The Company has adopted the following share option schemes for the grant of options to the Company's directors, senior management and other eligible grantees:

1. Pre-Global Offering Share Option Scheme (as defined below);
2. 2001 Share Option Scheme (as defined below);
3. 2002 Share Option Scheme (as defined below); and
4. 2005 Share Option Scheme (as defined below).

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27. SHARE CAPITAL (continued)

Share option schemes (continued)

Under these share option schemes, the Remuneration Committee of the Board will from time to time propose for the Board's approval the grant of share options and the number of share options to be granted to the relevant grantees. The maximum aggregate number of shares (including those that could be subscribed for under the Pre-Global Offering Share Option Scheme, the 2001 Share Option Scheme, the 2002 Share Option Scheme and the 2005 Share Option Scheme) which may be issued upon exercise of all options granted shall not exceed 10% of the total issued share capital of the Company as at December 31, 2005, being the date on which the shareholders of the Company approved the 2005 Share Option Scheme, excluding shares under options which have lapsed.

Pre-Global Offering Share Option Scheme

On February 4, 2001, the Company adopted a pre-global offering share option scheme (the "Pre-Global Offering Share Option Scheme"). Pursuant to the Pre-Global Offering Share Option Scheme:

1. options to subscribe for an aggregate of 23,100,000 shares have been granted; and
2. the exercise price for such options is HK\$1.19 per share.

The exercise periods for the options granted under the Pre-Global Offering Share Option Scheme shall end not later than 10 years from March 12, 2001. No further options may be granted under the Pre-Global Offering Share Option Scheme.

2001 Share Option Scheme

On February 4, 2001, the Company adopted a share option scheme (the "2001 Share Option Scheme") for the purposes of recognising the contribution that certain individuals had made to the Company and for attracting and retaining the best available personnel to the Company. Pursuant to the 2001 Share Option Scheme:

1. options to subscribe for an aggregate of 44,100,000 shares have been granted; and
2. the exercise price for such options price is HK\$1.232 per share.

The exercise periods for the options granted under the 2001 Share Option Scheme shall end not later than 10 years from August 27, 2001. No further options may be granted under the 2001 Share Option Scheme.

2002 Share Option Scheme

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

Under the 2002 Share Option Scheme, the Board may, at its discretion, offer to grant to the directors and employees of the Company or any of its subsidiaries options to subscribe for shares of the Company. The maximum number of

shares in respect of which options may be granted under the 2002 Share Option Scheme to any individual in any 12-month period up to the date of the latest grant shall not exceed 1% of the total issued share capital of the Company from time to time.

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27. SHARE CAPITAL (continued)

Share option schemes (continued)

2002 Share Option Scheme (continued)

According to the 2002 Share Option Scheme, the consideration payable by a grantee for the grant of options will be HK\$1.00. The exercise price for such options will be determined by the Board at its discretion at the date of grant, except that such price shall be not less than the higher of:

1. the nominal value of a share of the Company on the date of grant;
2. the average closing price of the shares on the Stock Exchange of Hong Kong Limited (“HKSE”) as stated in the HKSE’s quotation sheets for the five trading days immediately preceding the date of grant; and
3. the closing price of the shares on the HKSE as stated in the HKSE’s quotation sheet on the date of grant.

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

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

2005 Share Option Scheme

On December 31, 2005, the Company adopted a new share option scheme (the “2005 Share Option Scheme”). Under the 2005 Share Option Scheme, the Board has the authority to grant options to subscribe for shares to the directors, officers and employees of the Company and its subsidiaries, and any other persons who in the sole discretion of the Board, have contributed or will contribute to the Group. Unless approved by the shareholders, the total number of shares issued and to be issued upon exercise of the options granted to each individual (including exercised and unexercised options) under the 2005 Share Option Scheme or any other share option scheme adopted by the Company, in any 12-month period, must not exceed 1% of the shares in issue of the Company.

According to the 2005 Share Option Scheme, the consideration payable by a grantee for the grant of options will be HK\$1.00. The exercise price for such options will be determined by the Board at its discretion at the date of grant, except that such price shall be at least the higher of:

1. the nominal value of a share of the Company on the date of grant;
2. the average closing price of the shares as stated in the HKSE’s daily quotation sheets for the five trading days immediately preceding the date of grant; and
3. the closing price of the shares as stated in the HKSE’s daily quotation sheet on the date of grant.

The period within which the options must be exercised, as well as any minimum holding period or performance targets which apply to the options, will be specified by the Board of the Company at the time of grant. The exercise periods for options granted under the 2005 Share Option Scheme shall end not later than 10 years from the date of grant. No options may be granted under the 2005 Share Option Scheme after the date of the 10th anniversary of the adoption of the 2005 Share Option Scheme.

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27. SHARE CAPITAL (continued)

## Share option schemes (continued)

The fair value of the share options granted during the year was approximately RMB364,350,000 (2009: RMB254,389,000, 2008: RMB312,758,000) and the Group recognized an equity-settled share option expense of approximately RMB217,633,000 (2009: RMB184,343,000, 2008: RMB167,219,000) during the year.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The expected volatility was based on the historical volatility of the Company's stock prices over a period that is commensurate with the expected life of the options.

The following table lists the inputs to the model used:

	2008	2009	2010
Dividend yield	2.18%	4.09%	3.27%
Expected volatility	39.07%	47.55%	48.58%
Risk-free interest rate	2.89%	1.96%	1.63%
Expected life of options	5 years	5 years	5 years
Weighted average share price per share	HK\$13.74	HK\$9.79	HK\$12.22



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## 27. SHARE CAPITAL (continued)

Share option schemes (continued)

Details of the share options outstanding are as follows:

	2009	Weighted average exercise price HK\$	2010	Weighted average exercise price HK\$
	Number of share options		Number of share options	
Outstanding at the beginning of the year	376,084,233	7.34	420,263,901	8.05
Granted during the year	97,848,000	9.93	106,188,000	12.70
Forfeited during the year	( 53,668,332)	6.56	(52,397,001 )	7.53
Exercised during the year	-	-	-	-
Outstanding at end of year	420,263,901	8.05	474,054,900	9.14
Exercisable at the end of the year	249,689,668	6.00	288,864,001	7.25

No share options had been cancelled or modified during the years ended December 31, 2010 and 2009.

At the date of approval of these financial statements, the share options outstanding under these share option schemes represented approximately 1.06% of the Company's shares in issue as at that date. The weighted average remaining contractual life of share options outstanding at the end of the year was 6.76 years (2009: 7.03 years, 2008: 7.22 years). The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 474,054,900 additional ordinary shares of the Company and additional share capital of RMB8,067,751 and share premium of RMB3,680,720,850.

## 28. RESERVES

According to the laws and regulations of the PRC and the articles of association of CNOOC China Limited, CNOOC China Limited is required to provide for certain statutory funds, namely, the general reserve fund and staff and workers' bonus and welfare fund, which are appropriated from net profit (after making good losses from previous years), but before dividend distribution.

CNOOC China Limited is required to allocate at least 10% of its net profit as reported in accordance with the generally accepted accounting principles in the PRC ("PRC GAAP") to the general reserve fund until the balance of such fund reaches 50% of its registered capital. The general reserve fund can only be used, upon approval by the relevant authority, to offset against accumulated losses or to increase capital.

Appropriation to the staff and workers' bonus and welfare fund, which is determined at the discretion of the board of directors of CNOOC China Limited, is expensed as incurred under IFRSs/HKFRSs. The staff and workers' bonus and welfare fund can only be used for special bonuses or collective welfare of employees.

As at December 31, 2010, the general reserve fund amounted to RMB10,000,000,000 (2009: RMB10,000,000,000), representing 50% (2009: 50%) of the total registered capital of CNOOC China Limited.

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 the Group’s oil and gas exploration and production activities within the PRC. The accrued safety fund will be utilized for improving the safety conditions of production. Included in other reserves as at December 31, 2010 was a provision for the safety fund under PRC regulations amounting to RMB13,493,000 (2009:RMB 25,152,000).

In accordance with the relevant accounting principles required by the local authorities, as at December 31, 2010, the aggregate amount of the Group’s retained earnings available for distribution to the Company’s shareholders amounted to approximately RMB154,030,069,000 (2009: RMB115,554,182,000).

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29. RELATED PARTY TRANSACTIONS

The majority of the Group's business activities are conducted with state-owned enterprises (including CNOOC and its associates). As the Group is controlled by CNOOC, transactions with CNOOC and its associates are disclosed as related party transactions. The Group considers that transactions with other state-owned enterprises (other than CNOOC and its associates) are in the ordinary course of business and there are no indicators that the Group influenced, or was influenced by, those state-owned enterprises. Accordingly, the Group has not disclosed such transactions with other state-owned enterprises (other than CNOOC and its associates) as related party transactions.

The Company entered into four comprehensive framework agreements with each of CNOOC, China Oilfield Services Limited ("COSL"), Offshore Oil Engineering Co., Ltd. ("CNOOC Engineering") and China BlueChemical Ltd. ("China BlueChem") on November 8, 2007 respectively (Collectively referred as "2007 Framework Agreements") for the provision 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 related party/continuing connected transactions. The term of each of the comprehensive framework agreements is for a period of three years from January 1, 2008. The related party/continuing connected transactions and relevant annual caps were approved by the independent shareholders of the Company on December 6, 2007. The approved related party/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 the Group:

- |    |                                                           |
|----|-----------------------------------------------------------|
| a) | Provision of exploration and support services             |
| b) | Provision of oil and gas development and support services |
| c) | Provision of oil and gas production and support services  |
| d) | Provision of marketing, management and ancillary services |
| e) | FPSO vessel leases                                        |

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

3. Sales of petroleum and natural gas products by the Group 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                                                          |

On November 1, 2010, the Company entered into a comprehensive framework agreement ("Comprehensive Framework Agreement") with CNOOC for the provision (1) by the Group to CNOOC and/or its associates and (2) by CNOOC and/or its associates to the Group, of a range of products and services which may be required and requested from time to time by either party and/or its associates in respect of the continuing connected transactions. The term of the Comprehensive Framework Agreement is for a period of three years from January 1, 2011. The Comprehensive Framework Agreement is substantially on the same terms as the terms contained in the 2007 Framework Agreements entered into by the Company on November 8, 2007. The renewal of the continuing connected transactions and the relevant annual caps for the three years from January 1, 2011 were approved by the independent shareholders of the Company on November 24, 2010.

Pricing principles

The continuing connected transactions referred to in paragraphs 1(a) to 1(d) above provided by CNOOC and/or its associates to the Group and in paragraph 2 above provided by the Group to CNOOC and/or its associates are based on negotiations with CNOOC and/or its associates on normal commercial terms, or on terms no less favourable than those available to the Group from independent third parties, under prevailing local market conditions, including considerations such as volume of sales, length of contracts, package of services, overall customer relationship and other market factors.

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## 29. RELATED PARTY TRANSACTIONS (continued)

## Pricing principles (continued)

If, for any reason, the above pricing principle for a particular service ceases to be applicable or there is no open market for the service, whether due to a change in circumstances or otherwise, such service must then be provided in accordance with the following general pricing principles:

- (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 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 the Group are conducted at market prices on normal commercial terms which are calculated on a daily basis.

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

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

The following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties during the year and the balances arising from related party transactions at the end of the year.

- (i) Provision of exploration, oil and gas development, oil and gas production as well as marketing, management and ancillary services by CNOOC and/or its associates to the Group

	2008 RMB'000	2009 RMB'000	2010 RMB'000
Provision of exploration and support services	4,445,370	4,421,900	5,461,687
– Inclusive of amounts capitalized under property, plant and equipment	2,210,128	2,487,698	2,358,849
Provision of oil and gas development and support services	9,984,609	21,974,786	14,190,008
	3,656,027	4,115,604	5,229,151

Provision of oil and gas production and support services

(Note a)

Provision of marketing, management and ancillary services (Note b)	542,703	702,113	759,305
FPSO vessel leases (Note c)	1,037,255	1,631,799	1,451,935
	19,665,964	32,846,202	27,092,086

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## 29. RELATED PARTY TRANSACTIONS (continued)

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

The Group did not enter into any transactions in this category for the years ended December 31, 2008, 2009 and 2010.

(iii) Sales of petroleum and natural gas products by the Group to CNOOC and/or its associates

	2008 RMB'000	2009 RMB'000	2010 RMB'000
Sales of petroleum and natural gas products (other than long term sales of natural gas and liquefied natural gas) (Note d)	39,543,073	54,606,257	90,868,876
Long term sales of natural gas and liquefied natural gas (Note e)	2,636,674	2,909,648	4,434,094
	42,179,747	57,515,905	95,302,970

(iv) Transactions with CNOOC Finance Corporation Limited ("CNOOC Finance")

(a) Interest income received by the Group

	2008 RMB'000	2009 RMB'000	2010 RMB'000
Interest income from deposits in CNOOC Finance (Note f)	3,423	86,493	72,410

(b) Deposits made by the Group

	2008 RMB'000	2009 RMB'000	2010 RMB'000
Deposits in CNOOC Finance (Note f)	4,412,014	4,480,000	7,871,581

Notes:

a) These represent the services for production operations, the provision of various facilities and ancillary services, such as the provision of different types of materials, medical and employee welfare services, maintenance and repair of major equipment and supply of water, electricity and heat to the Group, some of which may not be available from independent third parties or available on comparable terms.

b) These include the marketing, administration and management, management of oil and gas operations and the provision of integrated research services as well as other ancillary services relating to exploration, development,

production and research activities of the Group. In addition, CNOOC and/or its associates leased certain premises to the Group for use as office premises and staff quarters out of which they provided management services to certain properties.

c)CNOOC Energy Technology & Services Limited (formerly known as “CNOOC Oil Base Group Limited”) leased floating production, storage and offloading (FPSO) vessels to the Group for use in oil production operations.

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29. RELATED PARTY TRANSACTIONS (continued)

Notes (continued):

- d)The sales include crude oil, condensate oil, liquefied petroleum gas, natural gas and liquefied natural gas to CNOOC and/or its associates. Individual sales contracts were entered into from time to time between the Group and CNOOC and/or its associates.
- e)It is market practice for sales terms to be determined based on the estimated reserves and production profile of the relevant gas fields. The long term sales contracts usually last for 15 to 20 years.
- f)CNOOC Finance is a 31.8% owned associate of the Company and also a subsidiary of CNOOC. Under the financial services framework agreement with CNOOC Finance dated October 14, 2008, CNOOC Finance provided to the Group settlement, depository, discounting, loans and entrustment loans services. The depository services were exempted from independent shareholders' approval requirements under the Rules Governing the Listing of Securities on the HKSE (the "Listing Rules") as the applicable percentage ratios in respect of the depository services under the agreement is less than 5%. The stated deposits in (iv) (b) above represent the maximum daily outstanding balance for deposits (including accrued interest) during the year.

The related party transactions in respect of items listed above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

Details of the compensation of the key management personnel of the Group are disclosed in note 10 to the consolidated financial statements.

The amount due to the parent company and amounts due from/to related parties are unsecured, interest-free and are repayable on demand.

30. RETIREMENT AND TERMINATION BENEFITS

All the Group's full-time employees in the PRC are covered by a state-managed retirement benefit plan operated by the government of the PRC, and are entitled to an annual pension. The PRC government is responsible for the pension liabilities to these retired employees. The Group is required to make annual contributions to the state-managed retirement benefit plan at rates ranging from 11% to 22% of the employees' basic salaries.

The Company is required to make contributions to a defined contribution mandatory provident fund at a rate of 5% of the basic salaries of all full-time employees in Hong Kong. The related pension costs are expensed as incurred.

The Group provides retirement and termination benefits for all local employees in Indonesia in accordance with Indonesian labour law, and provides employee benefits to expatriate staff in accordance with the relevant employment contracts.

During the year, the Group's pension costs charged to the consolidated financial statement of comprehensive income amounted to RMB117,831,000 (2009: RMB96,336,000, and 2008: RMB67,374,000).

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## 31. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

## Reconciliation of profit before tax to cash generated from operations

	2008 RMB'000	2009 RMB'000	2010 RMB'000
Profit before tax	57,880,286	40,821,091	72,649,991
Adjustments for:			
Interest income on bank deposits	(1,091,024 )	(638,252 )	(703,849 )
Finance costs	404,210	523,664	1,213,571
Exchange gains, net	(2,551,260 )	(53,799 )	(994,795 )
Share of profits of associates	(374,111 )	(173,459 )	(198,854 )
Gain on disposal of non-current asset held for sale	(992,136 )	-	-
Investment income	(475,925 )	(199,925 )	(427,491 )
Provision for inventory obsolescence	5,374	6,955	26,381
Depreciation, depletion and amortization	10,057,665	15,942,902	27,687,095
Loss/(gain) on disposal and write-off of property, plant and equipment	435,158	(1,564 )	1,618,575
Unwinding of discount of long term guaranteed notes	11,061	10,875	8,452
Impairment losses	1,536,032	-	-
Equity-settled share option expense	167,219	184,343	217,633
Others	161,291	255,620	155
	65,173,840	56,678,451	101,096,864
(Increase) /decrease in trade receivables	4,421,122	(7,482,513 )	(6,771,263 )
Increase in inventories and supplies	(204,452 )	(678,572 )	(440,041 )
(Increase)/decrease in other current assets	(834,420 )	327,804	(190,259 )
Increase/(decrease) in trade and accrued payables, other payables and accrued liabilities	(94,246 )	6,484,381	2,258,240
Increase/(decrease) in other taxes payable	(529,386 )	3,055,288	2,791,878
Net cash flows from operations	67,932,458	58,384,839	98,745,419

## 32. COMMITMENTS

## (i) Capital commitments

As at December 31, 2010, the Group had the following capital commitments, principally for the construction and purchase of property, plant and equipment:

2009 RMB'000	2010 RMB'000
-----------------	-----------------

Contracted, but not provided for	5,650,199	9,620,691
Authorized, but not contracted for	48,907,804	46,125,374

The capital commitments do not include investment commitments for acquisitions of equity interest or working interest, which have been disclosed in note 4 and note 37.

The capital commitments contracted, but not provided for, include the estimated payments to the Ministry of Land and Resources of the PRC for the next five years with respect to the Group's exploration and production licenses.

As at December 31, 2010, the Group had unutilized banking facilities amounting to approximately RMB179,029,474,000 (2009: RMB174,843,128,000).

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32. COMMITMENTS (continued)(ii) Operating lease commitments(a) Office properties

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 month to 9 years.

As at December 31, 2010, the Group had total minimum lease payments under non-cancellable operating leases falling due as follows:

	2009 RMB'000	2010 RMB'000
Commitments due:		
Within one year	61,792	121,052
In the first to second years, inclusive	35,319	51,642
After the second but before the fifth years, inclusive	52,494	23,250
	149,605	195,944

(b) Plant and equipment

The Group leases certain of its plant and equipment under operating lease arrangements for a term from 7 months to 10 years.

As at December 31, 2010, the Group had total minimum lease payments under non-cancellable operating leases falling due as follows:

	2009 RMB'000	2010 RMB'000
Commitments due:		
Within one year	600,892	703,286
In the first to second years, inclusive	598,867	546,798
After the second but before the fifth years, inclusive	1,182,880	745,877
After five years	443,562	485,063
	2,826,201	2,481,024

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32. COMMITMENTS (continued)

(iii) Contingent liabilities

(a) On January 8, 2006, the Company signed a definitive agreement with South Atlantic Petroleum Limited (“SAPETRO”) to acquire a 45% working interest in the Offshore Oil Mining Lease 130 (“OML130”) with Nigeria (the “OML130 Transaction”) and the OML130 Transaction was completed on April 20, 2006.

In 2007, a local tax office in Nigeria (the “Nigerian Local Tax Office”) conducted a tax audit on SAPETRO. According to the preliminary tax audit results, the Nigerian Local Tax Office has raised a disagreement in the tax filings made for the OML130 Transaction.

The tax audit assessment made by the Nigerian Local Tax Office has been contested by the Company in accordance with Nigerian laws. After seeking legal and tax advice, the Company’s management believes that the Company has reasonable grounds in making the contest. Consequently, no provision has been made for any expenses which might arise as a result of the dispute.

(b) The Company has extended interest-free intercompany loan to CNOOC International, a wholly-owned subsidiary, to provide onward funding to its subsidiaries domiciled outside the PRC. Upon receipt of the Chinese Resident Enterprise Approval, the Company may be liable to pay taxes on the deemed interest income for the intercompany loan to CNOOC International starting from January 1, 2008. The Company is currently applying to, and awaiting confirmation from its in-charge tax authority for an exemption on this possible deemed interest income.

33. FINANCIAL INSTRUMENTS

Fair value of financial instruments

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

The estimated fair value of the Group’s long term bank loans with fixed interest rates was the present value of the loans’ future cash flows discounted by the interest rates as at the reporting date. The estimated fair value of the Group’s long term bank loans with fixed interest rates was approximately RMB776,684,000 as at December 31, 2010 (2009: Nil). The fair value of the Group’s long term bank loans with floating interest rates approximated to the carrying amount of RMB9,410,268,000 as at December 31, 2010 (2009: RMB12,491,754,000).

The estimated fair value of the Group’s long term guaranteed notes based on current market interest rates was approximately RMB8,038,656,000 as at December 31, 2010 (2009: RMB7,113,542,000), which was determined by reference to the market price as at December 31, 2010.

Fair value hierarchy

The Group uses the following hierarchy that reflects the significance of the inputs used in making the measurement:

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Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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## 33. FINANCIAL INSTRUMENTS (continued)

## Fair value hierarchy (continued)

As at December 31, 2010 and 2009, the Group held the following financial instruments measured at fair value for each hierarchy respectively:

	December 31, 2010 RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Assets measured at fair value				
Available-for-sale financial assets-current				
Private equity funds*	15,841	-	15,841	-
Corporate wealth management products*	13,000,000	-	13,000,000	-
Liquidity funds**	5,924,133	5,924,133	-	-
	18,939,974	5,924,133	13,015,841	-
Available-for-sale financial assets-non current				
Equity investment in MEG**	8,616,437	8,616,437	-	-
	8,616,437	8,616,437	-	-
Liabilities measured at fair value				
Foreign exchange forward contracts***	80,054	-	80,054	-

	December 31, 2009 RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Assets measured at fair value				
Available-for-sale financial assets				
Private equity funds*	19,227	-	19,227	-
Liquidity funds**	8,563,137	8,563,137	-	-
	8,582,364	8,563,137	19,227	-
Liabilities measured at fair value				
Foreign exchange forward contracts***	125	-	125	-

\*The fair values of private equity funds and corporate wealth management products are based on the fund managers' quotations.

\*\* The fair values of liquidity funds and equity investment in MEG are based on quoted market prices.

\*\*\*The fair value of foreign currency forward contracts was determined using forward exchange rates as at December 31, 2010 and 2009 respectively.

These contracts are entered into for a 12-month period consistent with the US dollars payment exposures, which are not designated as cash flows, fair value or net investment hedge. These foreign currency forward contracts are



categorised as financial liabilities at fair value through profit or loss. Changes in fair value of these contracts were recognised in the statement of comprehensive income in other finance costs (note 9).

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## 34. CONCENTRATION OF CUSTOMERS

A substantial portion of the oil and gas sales of the Group is made to a small number of third parties on credit. Details of the gross sales to these top five customers are as follows:

	2008 RMB'000	2009 RMB'000	2010 RMB'000
China Petroleum & Chemical Corporation	46,482,906	24,332,653	34,383,928
PetroChina Company Limited	17,704,346	7,721,285	13,217,599
Unipecc Asia Company	190,837	175,836	6,811,123
Dong Ying Hua Lian	-	1,093,440	2,830,082
Gunvor Singapore Pte Ltd.	-	-	2,404,267

## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, long term guaranteed notes, available-for-sale financial assets, cash and short term deposits. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group is exposed to credit risk, oil price risk, currency risk, interest rate risk, business risk and liquidity risk.

The Group's senior management oversees the management of these risks. The Group's senior management is supported by various departments that advise on financial risks and the appropriate financial risks governance framework for the Group. Those departments provide assurance to the Group's senior management that the Group's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with group policies and group risk appetite.

## (i) Credit risk

The carrying amounts of the Group's cash and cash equivalents, time deposits and liquidity funds investments, trade receivables and other receivables, and other current assets except for prepayments represent the Group's maximum exposure to credit risk in relation to its financial assets.

The significant portion of the Group's trade receivables is related to the sale of oil and natural gas to third party customers. The Group performs ongoing credit evaluations of the customers' financial condition and generally does not require collateral on trade receivables. The Group made an impairment allowance on doubtful receivables and actual losses have been within management's expectation.

Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. At the reporting date, the Group has certain concentrations of credit risk as 16% (2009: 17%) and 31% (2009: 32%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively.

No other financial assets carry a significant exposure to credit risk.

## (ii) Oil price risk

As our realized oil prices are mainly determined by reference to oil prices in international market, international oil prices are highly volatile and could have a significant impact on our revenue and profit.

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35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(iii) Currency risk

Substantially all of the Group's oil and gas sales are denominated in Renminbi and United States dollars ("US dollars"). In the past decade, the PRC government's policies of maintaining a stable exchange rate and China's ample foreign reserves have contributed to the stability of the Renminbi. Starting from July 21, 2005, China reformed the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. Renminbi would no longer be pegged to the US dollars. From January 1, 2010 to December 31, 2010 (the last working day in 2010), Renminbi has appreciated by approximately 3.1% against the US dollars. At the reporting date, approximately 62.1% (2009: 69.1%) of the Group's cash and cash equivalents and time deposits with maturity over three months were Renminbi, and remaining amounts are US dollars and Hong Kong dollars.

Management has assessed the Group's exposure to foreign currency risk by using a sensitivity analysis on the change in foreign exchange rate of US dollars, to which the Group is mainly exposed to as at December 31, 2009 and 2010. Based on management's assessment, a reasonably possible change in foreign exchange rate of the US dollars of 5% is used, and the exposures of the Group's results of operations, monetary assets and liabilities and investments in its foreign subsidiaries were assumed to be less than 0.77% of the profit of the year and 0.83% of the equity, had the change in the US dollars currency rate occurred at December 31, 2010.

Senior management are closely monitoring the Group's net exposure to foreign currency risk. The appreciation of Renminbi against the US dollars may have the following impact on the Group. On one hand, since the benchmark oil and gas prices are usually in US dollars against Renminbi, the Group's oil and gas sales may decrease due to the depreciation of US dollars against Renminbi. On the other hand, the depreciation of US dollars against Renminbi will also decrease the Group's costs for imported equipment and materials, most of which are denominated in the US dollars. In addition, the debt repayment by the Group will decrease since all of the Group's debts are also denominated in the US dollars.

(iv) Interest rate risk

The interest rate risk is closely monitored by the Group's senior management. As at the end of 2010, the interest rates for 25% of the Group's debts were fixed. The term of the weighted average balance was approximately 2.7 years. The fixed interest rates can reduce the volatility of finance costs under uncertain environments and the Group's exposure to changes in interest rates is not expected to be material.

(v) Business risk

The major operations of the Group are conducted in the PRC and many countries and accordingly are subject to special considerations and significant risks not typically associated with investments in equity securities of the United States of America and Western European companies. These include risks associated with, among others, the oil and gas industry, the political, economic and legal environments, influence of the national authorities over price setting and competition in the industry.

(vi) Liquidity risk

The Group manages its liquidity risk by regularly monitoring its liquidity requirements and its compliance with debt covenants to ensure that it maintains sufficient cash and cash equivalents, and readily realizable available-for-sale financial assets, and adequate time deposits to meet its liquidity requirements in the short and long term. In addition,

bank facilities have been put in place for contingency purposes.

The Group's trade and accrued payables, other payables and accrued liabilities are all due for settlement within one year after the reporting date.

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## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

## (vii) Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may return capital to shareholders, raise new debt or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years end December 31, 2010 and December 31, 2009.

The Group monitors capital on the basis of the debt to capital ratio (Gearing ratio), which is calculated as interest-bearing debts divided by total capital (equity attributable to owners of the parent plus interest-bearing debts).

	2008 RMB'000	2009 RMB'000	2010 RMB'000
Interest-bearing debts	13,880,629	18,692,153	33,346,723
Equity attributable to owners of the parent	160,237,708	173,935,503	215,765,947
Total capital	174,118,337	192,627,656	249,112,670
Gearing ratio	8.0	% 9.7	% 13.4

## 36. CHARGE OF ASSETS

CNOOC NWS Private Limited, a wholly-owned subsidiary of the Group, together with the other joint venture partners and the operator of the NWS Project, signed a Deed of Cross Charge and an Extended Deed of Cross Charge whereby certain liabilities incurred or to be incurred, if any, by the Company in respect of the NWS Project are secured by its interest in the NWS Project.

## 37. SUBSEQUENT EVENTS

- (i) On January 26, 2011, CNOOC Finance (2011) Limited, a wholly owned subsidiary of the Company, issued US\$1,500 million 4.25% guaranteed notes due 2021 and US\$500 million 5.75% guaranteed notes due 2041 (collectively referred as the "Notes"). The obligations of CNOOC Finance (2011) Limited in respect of the Notes are unconditionally and irrevocably guaranteed by the Company.
- (ii) On January 29, 2011, CNOOC International through its wholly-owned subsidiary OOGC America, Inc. signed a purchase agreement with Chesapeake Exploration, LLC, a subsidiary of Chesapeake to purchase a 33.3% undivided interest in the Denver-Julesburg (DJ) and Powder River Basins in northeast Colorado and southeast Wyoming with a cash consideration of US\$570 million. In addition, CNOOC International has agreed to fund 66.7% of Chesapeake's share of drilling and completion costs in the project until an additional US\$697 million

has been paid, which Chesapeake expects to occur by year end of 2014. The deal was closed on February 11, 2011.

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37. SUBSEQUENT EVENTS (continued)

- (iii) On February 28, 2011, Bridas Corporation acquired 100% interests of Exxon Mobile's refining and fuels marketing business in Argentina, Uruguay and Paraguay. The consideration is US\$520 million. The sale and purchase agreement was signed by the parties on February 28, 2011 in London. The closing of the transaction is expected to occur in the third quarter of 2011 after the required antitrust approval is obtained from Argentina and Uruguay government.

38.COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform to the current year's presentation, and those reclassifications are not significant.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the Board of Directors on March 23, 2011.

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CNOOC LIMITED  
SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES  
(UNAUDITED)

(All amounts expressed in Renminbi unless otherwise stated)

The following disclosures are included in accordance with the FASB Accounting Standard Codification 932 “Extractive Activities-Oil and Gas (the “ASC 932”), To align with the amendments to oil and gas reserve estimation requirements under US Securities and Exchange Commission's final rules on "Modernization of Oil and Gas Reporting" (the “SEC Final Rule”), which became effective for accounting periods ended on or after 31 December 2009, FASB issued Accounting Standards Update No. 2010-03 to amend Topic 932 (“ASC 932 Update”) in January 2010. It’s not operational and cost-practical for the management to present the comparative information in accordance with these amendments. Therefore, the comparative information for 2008 has not been restated.

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

(a) Reserve quantity information

Crude oil and natural gas reserve estimates are determined through analysis of geological and engineering data which appear, with reasonable certainty, to be economically producible in the future from known oil and natural gas reservoirs under existing economic and operating conditions. The reserve data that we disclosed were all based on the definitions and disclosure guidelines contained in the SEC Final Rule.

For the years ended or before 31 December 2009, we engaged independent third party consulting firms to perform annual estimates for our proved oil and gas reserves except for reserves of investee accounted for by the equity method. In 2010, approximately 11% of our total proved reserves were evaluated by us, and the remaining were evaluated by independent third party.

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

We established the Reserve Management Group, or RMG, which is led by one of our Executive Vice Presidents and comprises the general managers of the relevant departments.

The RMG’s main responsibilities are to:

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

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

The reserves estimators and auditors are required to be members of China Petroleum Society, or CPS, and are required to take the professional trainings and examinations provided by CPS and the Company.



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CNOOC LIMITED  
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(a) Reserve quantity information (continued)

The RMG delegates its daily operation to our Reserves Office, which is led by our Chief Reserve Supervisor. The Reserves Office is mainly responsible for supervising reserves estimates and auditing. It reports to the RMG periodically and is independent from operating divisions such as the exploration, development and production departments. Our Chief Reserve Supervisor has 28 years' experience in oil and gas industry.

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

Pursuant to SEC Final Rule, the Group uses the average, first-day-of-the-month oil price during the 12-month period before the ending date of the period covered by the consolidated financial statements to estimate its proved oil and gas reserves in 2009 and 2010. Year-end prices were used for the estimation in 2008.

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

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CNOOC LIMITED  
 SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES  
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(All amounts expressed in Renminbi unless otherwise stated)

## (a) Reserve quantity information (continued)

Proved developed and undeveloped reserves:

	PRC		Asia(excluding PRC)		Oceania		Africa		North America		South America		Total	
	Natural Oil (mmbbls)	gas (bcf)	Natural Oil (mmbbls)	gas (bcf)	Natural Oil (mmbbls)	gas (bcf)	Natural Oil (mmbbls)	gas (bcf)	Natural Oil (mmbbls)	gas (bcf)	Natural Oil (mmbbls)	gas (bcf)	Natural Oil (mmbbls)	gas (bcf)
Consolidated entities														
31 December 2007	1,405	4,427	55	1,009	29	760	72	-	-	-	-	-	1,561	6,196
Purchase/(Disposal) of reserves	-	-	-	(134)	-	-	-	-	-	-	-	-	-	(134)
Discoveries and extensions	150	162	-	8	-	-	17	-	-	-	-	-	167	170
Production	(146)	(150)	(7)	(51)	(2)	(38)	-	-	-	-	-	-	(155)	(239)
Revisions of prior estimates	(9)	(223)	17	(32)	(3)	(115)	-	-	-	-	-	-	5	(370)
31 December 2008	1,400	4,216	65	800	24	607	89	-	-	-	-	-	1,578	5,623
Purchase/(Disposal) of reserves	(3)	-	-	-	-	-	-	-	2	46	-	-	(1)	46
Discoveries and extensions	139	319	1	1	-	8	-	-	-	-	-	-	140	328
Production	(162)	(155)	(8)	(51)	(3)	(44)	(13)	-	-	-	-	-	(186)	(250)
Revisions of prior estimates	121	(214)	(4)	333	5	78	15	-	-	-	-	-	137	197
31 December 2009	1,495	4,166	54	1,083	26	649	91	-	2	46	-	-	1,668	5,944
Purchase of reserves	22	-	-	-	-	-	-	-	-	-	202	546	224	546
Discoveries and extensions	178	828	3	120	-	-	75	-	-	-	-	-	256	948
Production	(224)	(226)	(8)	(82)	(2)	(46)	(23)	-	-	-	(6)	(33)	(263)	(387)
Revisions of prior estimates	30	(381)	1	(104)	(3)	(105)	3	-	1	(3)	-	-	30	(593)
31 December 2010	1,501	4,387	50	1,017	21	498	146	-	1	43	196	513	1,915	6,458
Enterprise's share of equity method investees:														
31 December 2008	2	23	-	-	-	-	-	-	-	-	-	-	2	23
Purchase/(Disposal) of reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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Discoveries and extensions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Production	-	(4 )	-	-	-	-	-	-	-	-	-	-	-	(4 )
Revisions of prior estimates	-	(2 )	-	-	-	-	-	-	-	-	-	-	-	(2 )
31 December 2009	2	17	-	-	-	-	-	-	-	-	-	-	2	17
Purchase/(Disposal) of reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Discoveries and extensions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Production	(1 )	(4 )	-	-	-	-	-	-	-	-	-	-	(1 )	(4 )
Revisions of prior estimates	-	1	-	-	-	-	-	-	-	-	-	-	-	1
31 December 2010	1	14	-	-	-	-	-	-	-	-	-	-	1	14
Total consolidated and equity interests in reserves														
31 December 2008	1,402	4,239	65	800	24	607	89	-	-	-	-	-	1,580	5,646
31 December 2009	1,497	4,183	54	1,083	26	649	91	-	2	46	-	-	1,670	5,961
31 December 2010	1,502	4,401	50	1,017	21	498	146	-	1	43	196	513	1,916	6,472

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CNOOC LIMITED  
 SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES  
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(All amounts expressed in Renminbi unless otherwise stated)

## (a) Reserve quantity information (continued)

Proved developed reserves:

	PRC		Asia(excluding PRC)		Oceania		Africa		North America		South America		Total	
	Natural Oil	Natural gas	Natural Oil	Natural gas	Natural Oil	Natural gas	Natural Oil	Natural gas	Natural Oil	Natural gas	Natural Oil	Natural gas	Natural Oil	Natural gas
	(mmbbls)	(bcf)	(mmbbls)	(bcf)	(mmbbls)	(bcf)	(mmbbls)	(bcf)	(mmbbls)	(bcf)	(mmbbls)	(bcf)	(mmbbls)	(bcf)
Consolidated entities														
31 December 2008	661	1,140	60	220	14	283	-	-	-	-	-	-	735	1,643
31 December 2009	761	1,516	51	487	11	243	77	-	2	46	-	-	902	2,292
31 December 2010	848	1,848	45	397	9	173	57	-	1	43	108	268	1,068	2,729
Enterprise's share of equity method investee:														
31 December 2008	2	23	-	-	-	-	-	-	-	-	-	-	2	23
31 December 2009	2	17	-	-	-	-	-	-	-	-	-	-	2	17
31 December 2010	1	14	-	-	-	-	-	-	-	-	-	-	1	14

Proved undeveloped reserves:

	PRC		Asia(excluding PRC)		Oceania		Africa		North America		South America		Total	
	Natural Oil	Natural gas	Natural Oil	Natural gas	Natural Oil	Natural gas	Natural Oil	Natural gas	Natural Oil	Natural gas	Natural Oil	Natural gas	Natural Oil	Natural gas
	(mmbbls)	(bcf)	(mmbbls)	(bcf)	(mmbbls)	(bcf)	(mmbbls)	(bcf)	(mmbbls)	(bcf)	(mmbbls)	(bcf)	(mmbbls)	(bcf)
Consolidated entities														
31 December 2008	739	3,076	5	580	10	325	89	-	-	-	-	-	843	3,980
31 December 2009	734	2,650	3	596	15	406	14	-	-	-	-	-	766	3,652

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31 December 2010	653	2,539	5	620	12	325	89	-	-	-	88	245	847	3,729
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Enterprise's  
share of equity  
method

investee:

31 December 2008	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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31 December 2009	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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31 December 2010	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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CNOOC LIMITED  
 SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES  
 (UNAUDITED)

(All amounts expressed in Renminbi unless otherwise stated)

	Results of operations						Total RMB'000
	2008 Consolidated entities						
Consolidated entities	PRC RMB'000	Asia(excluding PRC) RMB'000	Oceania RMB'000	Africa RMB'000	North America RMB'000	South America RMB'000	
Net sales to customers	93,327,439	5,722,549	1,781,345	–	–	–	100,831,333
Operating expenses	(7,628,224 )	(1,930,307 )	(431,837 )	–	–	–	(9,990,368 )
Taxes other than income tax	(4,889,272 )	–	(260,426 )	–	–	–	(5,149,698 )
Exploration	(2,600,862 )	(473,821 )	(211,514 )	(123,349)	–	–	(3,409,546 )
Accretion expense	(379,227 )	–	–	–	–	–	(379,227 )
Depreciation, depletion and amortization (including dismantlement)	(8,792,636 )	(1,079,985 )	(184,574 )	(470 )	–	–	( 10,057,665)
Special oil gain levy	(16,238,234)	–	–	–	–	–	( 16,238,234)
	52,798,984	2,238,436	692,994	(123,819)	–	–	55,606,595
Income tax expenses	(13,199,746)	(1,101,586 )	(346,984 )	–	–	–	( 14,648,316)
Result of operations	39,599,238	1,136,850	346,010	(123,819)	–	–	40,958,279
Enterprise's share of equity method investee							
Result of operations	250,388	–	–	–	–	–	250,388
Total result of operations for producing activities	39,849,626	1,136,850	346,010	(123,819)	–	–	41,208,667



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(All amounts expressed in Renminbi unless otherwise stated)

	2009						Total RMB'000
	Consolidated entities						
	Asia(excluding PRC RMB'000	PRC) RMB'000	Oceania RMB'000	Africa RMB'000	North America RMB'000	South America RMB'000	
Net sales to customers	71,337,711	4,513,280	1,736,572	6,193,921	132,895	–	83,914,379
Operating expenses	(9,294,653 )	(1,941,572 )	(454,734 )	(773,293 )	(26,111 )	–	(12,490,363 )
Taxes other than income tax	(3,647,153 )	–	(241,488 )	–	–	–	(3,888,641 )
Exploration	(2,503,688 )	(219,130 )	(443,985 )	(66,880 )	–	–	(3,233,683 )
Accretion expense	(442,944 )	–	–	(23,495 )	–	–	(466,439 )
Depreciation, depletion and amortization (including dismantlement)	(11,502,378 )	(1,122,729 )	(257,021 )	(3,034,381 )	(26,393 )	–	(15,942,902 )
Special oil gain levy	(6,357,304 )	–	–	–	–	–	(6,357,304 )
	37,589,591	1,229,849	339,344	2,295,872	80,391	–	41,535,047
Income tax expenses	(9,397,398 )	(576,096 )	(117,459 )	(1,280,016 )	(40,196 )	–	(11,411,165 )
Result of operations	28,192,193	653,753	221,885	1,015,856	40,195	–	30,123,882

  

	2009						Total RMB'000
	Enterprise's share of equity method investee						
	Asia(excluding PRC RMB'000	PRC) RMB'000	Oceania RMB'000	Africa RMB'000	North America RMB'000	South America RMB'000	
Net sales to customers	347,277	–	–	–	–	–	347,277
Operating expenses	(117,802 )	–	–	–	–	–	(117,802 )
Taxes other than income tax	(12,441 )	–	–	–	–	–	(12,441 )
Exploration	(24,969 )	–	–	–	–	–	(24,969 )
Accretion expense	(3,103 )	–	–	–	–	–	(3,103 )
Depreciation, depletion and amortization (including dismantlement)	(64,680 )	–	–	–	–	–	(64,680 )
Special oil gain levy	–	–	–	–	–	–	–
	124,282	–	–	–	–	–	124,282
Income tax expenses	(31,070 )	–	–	–	–	–	(31,070 )

Result of operations	93,212	–	–	–	–	–	93,212
Total result of operations for producing activities	28,285,405	653,753	221,885	1,015,856	40,195	–	30,217,094

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	2010						
	Consolidated entities						
	Asia(excluding PRC RMB'000	PRC) RMB'000	Oceania RMB'000	Africa RMB'000	North America RMB'000	South America RMB'000	Total RMB'000
Net sales to customers	125,444,633	6,190,996	2,054,459	12,251,825	149,566	3,027,191	149,118,670
Operating expenses	(11,735,204 )	(2,415,410 )	(470,273 )	(983,355 )	(34,537 )	(565,320 )	(16,204,099 )
Taxes other than income tax	(6,512,697 )	–	(332,220 )	(256,879 )	–	(1,102,247 )	(8,204,043 )
Exploration	(4,449,641 )	(563,901 )	–	(468,055 )	(13 )	(98,254 )	(5,579,864 )
Accretion expense	(719,314 )	(1,980 )	–	(32,426 )	–	(8,674 )	(762,394 )
Depreciation, depletion and amortization (including dismantlement)	(19,920,183 )	(1,634,834 )	(247,164 )	(4,918,904 )	(22,303 )	(943,707 )	(27,687,095 )
Special oil gain levy	(17,705,577 )	–	–	–	–	–	(17,705,577 )
	64,402,017	1,574,871	1,004,802	5,592,206	92,713	308,989	72,975,598
Income tax expenses	(16,100,504 )	(959,007 )	(301,440 )	(1,384,391 )	(46,357 )	(108,145 )	(18,899,844 )
Result of operations	48,301,513	615,864	703,362	4,207,815	46,356	200,844	54,075,754

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CNOOC LIMITED  
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(All amounts expressed in Renminbi unless otherwise stated)

	2010							Total RMB'000
	Enterprise's share of equity method investee							
	PRC RMB'000	Asia(excluding PRC) RMB'000	Oceania RMB'000	Africa RMB'000	North America RMB'000	South America RMB'000		
Net sales to customers	353,991	–	–	–	–	–	353,991	
Operating expenses	(106,664 )	–	–	–	–	–	(106,664 )	
Taxes other than income tax	(20,841 )	–	–	–	–	–	(20,841 )	
Exploration	(83,089 )	–	–	–	–	–	(83,089 )	
Accretion expense	(3,231 )	–	–	–	–	–	(3,231 )	
Depreciation, depletion and amortization (including dismantlement)	(54,098 )	–	–	–	–	–	(54,098 )	
Special oil gain levy	86,068	–	–	–	–	–	86,068	
Income tax expenses	(12,910 )	–	–	–	–	–	(12,910 )	
Result of operations	73,158	–	–	–	–	–	73,158	
Total result of operations for producing activities	48,374,671	615,864	703,362	4,207,815	46,356	200,844	54,148,912	

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	2008						Total RMB'000
	PRC RMB'000	Asia(excluding PRC) RMB'000	Oceania RMB'000	Africa RMB'000	North America RMB'000	South America RMB'000	
<b>(c) Capitalized costs</b>							
<b>Consolidated entities:</b>							
Proved oil and gas properties	143,571,499	20,940,087	2,553,937	24,731,295	-	-	191,796,818
Unproved oil and gas properties	1,982,529	1,071,983	-	8,604,303	-	-	11,658,815
Accumulated depreciation, depletion and amortization	(56,902,775 )	( 8,261,424 )	( 280,936 )	-	-	-	(65,445,135 )
Net capitalized costs	88,651,253	13,750,646	2,273,001	33,335,598	-	-	138,010,498
<b>Enterprise's share of equity method investee</b>							
Net capitalized costs	539,669	-	-	-	-	-	539,669
	2009						
	Consolidated entities						
	PRC RMB'000	Asia(excluding PRC) RMB'000	Oceania RMB'000	Africa RMB'000	North America RMB'000	South America RMB'000	Total RMB'000
Proved oil and gas properties	177,356,742	23,642,729	2,541,343	34,673,635	940,621	-	239,155,070
Unproved oil and gas properties	3,204,267	1,272,808	-	1,540,966	385,847	-	6,403,888
Accumulated depreciation, depletion and amortization	(67,695,170 )	(9,613,728 )	(453,156 )	(2,794,531 )	(26,379 )	-	(80,582,964 )
Net capitalized costs	112,865,839	15,301,809	2,088,187	33,420,070	1,300,089	-	164,975,994

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	Capitalized costs (continued)						
	2009						
	Enterprise's share of equity method investee						
	PRC	Asia (excluding PRC)	Oceania	Africa	North America	South America	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Proved oil and gas properties	1,848,255	-	-	-	-	-	1,848,255
Unproved oil and gas properties	-	-	-	-	-	-	-
Accumulated depreciation, depletion and amortization	(1,364,872)	-	-	-	-	-	(1,364,872)
Net capitalized costs	483,383	-	-	-	-	-	483,383
	2010						
	Consolidated entities						
	PRC	Asia (excluding PRC)	Oceania	Africa	North America	South America	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Proved oil and gas properties	209,914,973	22,735,504	2,464,860	34,672,175	1,314,766	20,220,558	291,322,836
Unproved oil and gas properties	2,961,178	1,456,766	-	2,477,750	15,259,183	6,354,659	28,509,536
Accumulated depreciation, depletion and amortization	(88,038,779)	(10,695,261)	(601,349)	(7,518,329)	(47,386)	(922,439)	(107,823,543)
Net capitalized costs	124,837,372	13,497,009	1,863,511	29,631,596	16,526,563	25,652,778	212,008,829

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(a)	Capitalized costs (continued)							Total RMB'000
	2010							
	Enterprise's share of equity method investees							
	Asia (excluding PRC)		Oceania	Africa	North America	South America		
	PRC RMB'000	PRC) RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
Proved oil and gas properties	1,848,255	–	–	–	–	–	1,848,255	
Unproved oil and gas properties	–	–	–	–	–	–	–	
Accumulated depreciation, depletion and amortization	(1,418,970)	–	–	–	–	–	(1,418,970)	
Net capitalized costs	429,285	–	–	–	–	–	429,285	
(d)	Costs incurred in oil and gas property acquisition, exploration and development							
	2008							
	Asia (excluding PRC)		Oceania	Africa	North America	South America	Total	
	PRC RMB'000	PRC) RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Consolidated entities								
Acquisition costs:								
–Proved	–	–	–	–	–	–	–	
–Unproved	–	1,003,702	–	–	–	–	1,003,702	
Exploration costs	5,459,087	522,532	250,624	144,187	–	–	6,376,430	
Development costs*	22,296,503	2,789,063	–	6,017,465	–	–	31,103,031	
Total costs incurred	27,755,590	4,315,297	250,624	6,161,652	–	–	38,483,163	
Investees' cost of property acquisition, exploration, and development	116,677	–	–	–	–	–	116,677	

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(d) Costs incurred in oil and gas property acquisition, exploration and development (continued)

2009

Consolidated entities

	PRC RMB'000	Asia (excluding PRC) RMB'000	Oceania RMB'000	Africa RMB'000	North America RMB'000	South America RMB'000	Total RMB'000
Acquisition costs:							
–Proved	–	–	–	–	866,158	–	866,158
–Unproved	–	40,990	–	–	109,673	–	150,663
Exploration costs	5,848,339	520,919	444,268	192,299	278,307	–	7,284,132
Development costs*	32,960,214	1,369,501	–	3,601,335	73,008	–	38,004,058
Total costs incurred	38,808,553	1,931,410	444,268	3,793,634	1,327,146	–	46,305,011

2009

Enterprise's share of equity method investee

	PRC RMB'000	Asia (excluding PRC) RMB'000	Oceania RMB'000	Africa RMB'000	North America RMB'000	South America RMB'000	Total RMB'000
Acquisition costs:							
–Proved	–	–	–	–	–	–	–
–Unproved	–	–	–	–	–	–	–
Exploration costs	24,969	–	–	–	–	–	24,969
Development costs*	8,394	–	–	–	–	–	8,394
Total costs incurred	33,363	–	–	–	–	–	33,363





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(d) Costs incurred in oil and gas property acquisition, exploration and development (continued)

2010							
Consolidated entities							
	PRC	Asia (excluding PRC)	Oceania	Africa	North America	South America	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Acquisition costs:							
-Proved	3,546,266	-	-	-	-	20,062,282	23,608,548
-Unproved	-	575,909	-	-	14,905,880	6,335,458	21,817,247
Exploration costs	6,538,986	217,058	-	327,226	320,365	117,457	7,521,092
Development costs*	25,573,348	994,215	-	2,212,753	413,653	849,562	30,043,531
Total costs incurred	35,658,600	1,787,182	-	2,539,979	15,639,898	27,364,759	82,990,418

2010							
Enterprise's share of equity method investee							
	PRC	Asia (excluding PRC)	Oceania	Africa	North America	South America	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Acquisition costs:							
-Proved	-	-	-	-	-	-	-
-Unproved	-	-	-	-	-	-	-
Exploration costs	83,089	-	-	-	-	-	83,089
Development costs*	-	-	-	-	-	-	-
Total costs incurred	83,089	-	-	-	-	-	83,089

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

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SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES  
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(e) Standardized measure of discounted future net cash flows and changes therein

In calculating the standardized measure of discounted future net cash flows, year-end constant price and cost assumptions were applied to the Group's estimated annual future production from proved reserves to determine future cash inflows in 2008.

In 2009 and 2010, pursuant to ASC 932, the average of first-day-of-the-month oil price during the 12-month period before the yearend, were used to estimate annual future production from proved reserves to determine future cash inflows.

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

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

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 (UNAUDITED)

(All amounts expressed in Renminbi unless otherwise stated)

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

Present value of estimated future net cash flows:

	Note	2008						Total RMB'000
		PRC RMB'000	Asia(excluding PRC) RMB'000	Oceania RMB'000	Africa RMB'000	North America RMB'000	South America RMB'000	
Consolidated entities								
Future cash inflows	(1)	428,460,753	39,055,645	18,412,221	23,122,996	–	–	509,051,615
Future production costs		(135,861,828)	(20,139,037)	(5,192,471)	(8,478,984)	–	–	(169,672,320)
Future development costs	(2)	(96,122,573)	(6,926,997)	(3,993,942)	(4,790,993)	–	–	(111,834,505)
Future income taxes		(31,741,475)	(2,521,318)	(1,852,744)	–	–	–	(36,115,537)
Future net cash flows	(3)	164,734,877	9,468,293	7,373,064	9,853,019	–	–	191,429,253
10% discount factor		(68,489,102)	(4,474,890)	(3,537,828)	(3,650,923)	–	–	(80,152,743)
Standardized measure of discounted future net cash flows		96,245,775	4,993,403	3,835,236	6,202,096	–	–	111,276,510
Enterprise's share of equity method investees:								
Standardized measure of discounted future net cash flows		696,618	–	–	–	–	–	696,618
Total standardized measure of discounted future net cash flows		96,942,393	4,993,403	3,835,236	6,202,096	–	–	111,973,128

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(All amounts expressed in Renminbi unless otherwise stated)

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

Present value of estimated future net cash flows:

	Note	2009						Total RMB'000
		Consolidated entities						
		Asia(excluding PRC RMB'000	Asia(excluding PRC) RMB'000	Oceania RMB'000	Africa RMB'000	North America RMB'000	South America RMB'000	
Future cash inflows	(1)	701,601,954	45,538,229	24,518,701	36,435,678	1,166,311	-	809,260,873
Future production costs		(207,539,062)	(18,634,540)	(9,621,104)	(6,341,506)	(348,197)	-	(242,484,409)
Future development costs	(2)	(107,067,740)	(20,036,178)	(4,268,397)	(5,420,061)	(213,368)	-	(137,005,744)
Future income taxes		(74,085,808)	(1,479,611)	(2,350,493)	(4,339,219)	-	-	(82,255,131)
Future net cash flows	(3)	312,909,344	5,387,900	8,278,707	20,334,892	604,746	-	347,515,589
10% discount factor		(112,142,779)	(1,853,805)	(3,826,089)	(3,250,273)	(192,658)	-	(121,265,604)
Standardized measure of discounted future net cash flows		200,766,565	3,534,095	4,452,618	17,084,619	412,088	-	226,249,985

	Note	2009						Total RMB'000
		Enterprise's share of equity method investee						
		Asia(excluding PRC RMB'000	Asia(excluding PRC) RMB'000	Oceania RMB'000	Africa RMB'000	North America RMB'000	South America RMB'000	
Future cash inflows	(1)	1,292,021	-	-	-	-	-	1,292,021
Future production costs		(656,468)	-	-	-	-	-	(656,468)
Future development	(2)	(156,203)	-	-	-	-	-	(156,203)

costs							
Future income taxes	(42,572 )	-	-	-	-	-	(42,572 )
Future net cash flows	(3) 436,778	-	-	-	-	-	436,778
10% discount factor	(23,447 )	-	-	-	-	-	(23,447 )
Standardized measure of discounted future net cash flows							
	413,331	-	-	-	-	-	413,331
Total standardized measure of discounted future net cash flow							
	201,179,896	3,534,095	4,452,618	17,084,619	412,088	-	226,663,316

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(All amounts expressed in Renminbi unless otherwise stated)

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

		2010						
		Consolidated entities						
		Asia(excluding PRC)	Oceania	Africa	North America	South America	Total	
Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Future cash inflows	(1)	934,723,665	51,454,657	21,427,150	75,599,083	1,074,498	54,033,567	1,138,312,620
Future production costs		(315,974,670)	(19,398,498)	(6,900,390)	(25,576,882)	(368,290)	(24,223,935)	(392,442,665)
Future development costs	(2)	(146,786,460)	(14,608,643)	(3,184,115)	(14,084,300)	(82,188)	(671,095)	(179,416,801)
Future income taxes		(91,552,559)	(4,880,212)	(2,498,716)	(3,167,837)	-	(7,229,061)	(109,328,385)
Future net cash flows	(3)	380,409,976	12,567,304	8,843,929	32,770,064	624,020	21,909,476	457,124,769
10% discount factor		(131,875,517)	(4,818,631)	(3,437,611)	(11,786,980)	(149,350)	(11,795,411)	(163,863,500)
Standardized measure of discounted future net cash flows		248,534,459	7,748,673	5,406,318	20,983,084	474,670	10,114,065	293,261,269

		2010						
		Enterprise's share of equity method investee						
		Asia(excluding PRC)	Oceania	Africa	North America	South America	Total	
Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Future cash inflows	(1)	1,339,079	-	-	-	-	1,339,079	
Future production costs		(544,979)	-	-	-	-	(544,979)	
Future development costs	(2)	(167,487)	-	-	-	-	(167,487)	



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Future income taxes	(82,277 )	-	-	-	-	-	(82,277 )
Future net cash flows	(3) 544,336	-	-	-	-	-	544,336
10% discount factor	(38,077 )	-	-	-	-	-	(38,077 )
Standardized measure of discounted future net cash flows	506,259	-	-	-	-	-	506,259
Total standardized measure of discounted future net cash flow	249,040,718	7,748,673	5,406,318	20,983,084	474,670	10,114,065	293,767,528

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(All amounts expressed in Renminbi unless otherwise stated)

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

- (1)Future cash flows consist of the Group's 100% interest in the independent oil and gas properties and the Group's participating interest in the properties under production sharing contracts in the PRC less (i) an adjustment for the royalties payable to the PRC government and share oil payable to the PRC government under production sharing contracts and (ii) an adjustment for production allocable to foreign partners under the PRC production sharing contracts for exploration costs attributable to the Group's participating interest, plus the participating interest in the properties covered under the production sharing contracts in oversea countries, less adjustments, if any, of share oil attributable to the host government and the domestic market obligation.
- (2)Future development costs include the estimated costs of drilling future development wells and building the production platforms.
- (3)Future net cash flows have been prepared taking into consideration estimated future dismantlement costs of dismantling offshore oil platforms and gas properties.

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(All amounts expressed in Renminbi unless otherwise stated)

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

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

	2008 Consolidated RMB'000
Standardized measure, beginning of year	313,926,334
Sales of production, net of royalties and production costs	(85,926,542 )
Net change in prices, net of royalties and production costs	(180,109,420)
Extensions discoveries and improved recovery, net of related future costs	16,211,871
Change in estimated future development costs	(20,618,379 )
Development costs incurred during the year	28,181,961
Revisions in quantity estimates	(4,466,372 )
Accretion of discount	38,268,027
Net change in income taxes	68,114,626
Purchase/(Disposal) of properties	(1,142,744 )
Changes in timing and other	(61,162,852 )
Standardized measure, end of year	111,276,510

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(All amounts expressed in Renminbi unless otherwise stated)

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

	Consolidated entities RMB'000	Equity share of equity method investee RMB'000	2009 Consolidated Entities and equity share of equity method investee RMB'000
Standardized measure, beginning of year	111,276,510	696,618	111,973,128
Sales of production, net of royalties and production costs	(67,776,863 )	(214,637 )	(67,991,500 )
Net change in prices, net of royalties and production costs	142,949,041	(130,989 )	142,818,052
Extensions discoveries and improved recovery, net of related future costs	28,003,616	-	28,003,616
Change in estimated future development costs	(39,191,345 )	(58,962 )	(39,250,307 )
Development costs incurred during the year	34,950,769	54,113	35,004,882
Revisions in quantity estimates	20,810,699	(67,297 )	20,743,402
Accretion of discount	13,199,108	81,539	13,280,647
Net change in income taxes	(32,595,979 )	79,138	(32,516,841 )
Purchase of properties	267,801	-	267,801
Changes in timing and other	14,356,628	(26,192 )	14,330,436
Standardized measure, end of year	226,249,985	413,331	226,663,316

	Consolidate entities RMB'000	Equity share of equity method investee RMB'000	2010 Consolidated Entities and equity share of equity method investee RMB'000
Standardized measure, beginning of year	226,249,985	413,331	226,663,316
Sales of production, net of royalties and production costs	(124,710,528)	(234,053 )	(124,944,581 )
Net change in prices, net of royalties and production costs	115,643,704	317,208	115,960,912
Extensions discoveries and improved recovery, net of related future costs	75,809,374	-	75,809,374
Change in estimated future development costs	(46,375,694 )	(14,866 )	(46,390,560 )
Development costs incurred during the year	25,836,856	-	25,836,856
Revisions in quantity estimates	(8,599,175 )	65,718	(8,533,457 )
Accretion of discount	27,124,800	43,997	27,168,797

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Net change in income taxes	(17,909,175 )	(37,448 )	(17,946,623 )
Purchase of properties	18,281,756	-	18,281,756
Changes in timing and other	1,909,366	(47,628 )	1,861,738
Standardized measure, end of year	293,261,269	506,259	293,767,528

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