

CNOOC LTD  
Form 20-F  
April 24, 2013

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, 2012

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  
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Hong Kong

(Address of principal executive offices)

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Tel +852 2213 2500  
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(Name, telephone, e-mail and/or facsimile number and address of company contact person)

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

Title of each class

Name of each exchange on which registered

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American depositary shares, each representing 100 shares of par value HK\$0.02 per share New York Stock Exchange, Inc.

Shares of par value HK\$0.02 per share 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 44,646,305,984

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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:

- “CNOOC” are to our controlling shareholder, China National Offshore Oil Corporation, a PRC state-owned enterprise, and its affiliates, excluding us and our subsidiaries;
- “CNOOC Limited” are to CNOOC Limited, a Hong Kong limited liability company and the registrant of this annual report;
  - “Our company”, “Company”, “we”, “our” or “us” are to CNOOC Limited and its subsidiaries;
  - “ADRs” are to the American depositary receipts that evidence our ADSs;
- “ADSs” are to our American depositary shares, each of which represents 100 shares of par value HK\$0.02 per share;
- “China” or “PRC” are to the People’s Republic of China, excluding for purposes of geographical reference in this annual report, the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan;
  - “Hong Kong” are to the Hong Kong Special Administrative Region of the People’s Republic of China;
  - “Hong Kong Stock Exchange” or “HKSE” are to The Stock Exchange of Hong Kong Limited;
  - “HK\$” are to Hong Kong dollar, the legal currency of the Hong Kong Special Administrative Region;
    - “HKICPA” are to the Hong Kong Institute of Certified Public Accountants;
- “HKFRS” are to all Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards and Interpretations approved by the Council of the HKICPA;
  - “IASB” are to the International Accounting Standards Board;
- “IFRS” are to all International Financial Reporting Standards, including International Accounting Standards and Interpretations, as issued by the International Accounting Standards Board;
  - “NYSE” are to the New York Stock Exchange;
  - “Rmb” are to Renminbi, the legal currency of the PRC; and
  - “US\$” are to U.S. dollar, the legal currency of the United States of America.

Conventions

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

H.10 weekly statistical release of the Federal Reserve Board on December 31, 2012 of US\$1.00=Rmb 6.2301. We have also translated amounts in Hong Kong dollars



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solely for the convenience of the reader at the noon buying rate for cable transfers of Hong Kong dollars per U.S. dollar certified for customs purposes by the Federal Reserve Bank of New York, as set forth in the H.10 weekly statistical release of the Federal Reserve Board on December 31, 2012 of US\$1.00=HK\$7.7507. 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 31, 2012, or at all. For further information on exchange rates, see “Item 3—Key Information—Selected Financial Data.”

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

For the years 2010, 2011 and 2012, approximately 11%, 23% and 36%, respectively, of our reserves were evaluated by us independently, and the remaining were based upon estimates prepared by independent petroleum engineering consulting companies and reviewed by us. Our reserve data for 2010, 2011 and 2012 were prepared in accordance with the SEC’s final rules on “Modernization of Oil and Gas Reporting”, which became effective for accounting periods ended on or after December 31, 2009. Except as otherwise stated, all amounts of reserve and production in this report include our interests in equity method investees.

In calculating barrels-of-oil equivalent amounts, we have assumed that 6,000 cubic feet of natural gas equals one BOE, with the exception of natural gas from South America, Oceania and Indonesia in Asia, which we have used actual thermal unit for such conversion purpose.

## Glossary of Technical Terms

Unless otherwise indicated in the context, references to:

- “API gravity” means the American Petroleum Institute’s scale for specific gravity for liquid hydrocarbons, measured in degrees.
- “appraisal well” means an exploratory well drilled after a successful wildcat well to gain more information on a newly discovered oil or gas reserve.
- “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.
- “crude oil” means crude oil and liquids, including condensate, natural gas liquids and liquefied petroleum gas.

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

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

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

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

- “LNG” means liquefied natural gas.

- “natural gas liquids” means light hydrocarbons that can be extracted in liquid form from natural gas through special separation plants.

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



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reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.

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

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

For further definitions relating to reserves:

- “reserve replacement ratio” means, for a given year, total additions to proved reserves, which consist of additions from purchases, discoveries and extensions and revisions of prior reserve estimates, divided by production during the year. Reserve additions used in this calculation are proved developed and proved undeveloped reserves; unproved reserve additions are not used. Data used in the calculation of reserve replacement ratio is derived directly from the reserve quantity reconciliation prepared in accordance with U.S. Accounting Standards Codification 932-235-50, which reconciliation is included in “Supplementary Information on Oil and Gas Producing Activities” beginning on page F-77 of this annual report.

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

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

References to:

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



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

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FORWARD-LOOKING STATEMENTS

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

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

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

These statements are based on assumptions and analysis made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual results and developments will meet our expectations and predictions depend on a number of risks and uncertainties which could cause our actual results, performance and financial condition to differ materially from our expectations, including those associated with fluctuations in crude oil and natural gas prices, our exploration or development activities, our capital expenditure requirements, our business strategy, whether the transactions entered into by us can complete on schedule pursuant to the timetable or at all, the highly competitive nature of the oil and natural gas industry, our foreign operations, environmental liabilities and compliance requirements, and economic and political conditions in the PRC and overseas. For a description of these and other risks and uncertainties, see “Item 3—Key Information—Risk Factors.”



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

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

Our consolidated financial statements for the years ended December 31, 2010, 2011 and 2012 included in this annual report on Form 20-F have been prepared in accordance with International Financial Reporting Standards, or IFRSs, as issued by the International Accounting Standards Board.

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

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

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## PART I

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

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

## ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

## ITEM 3. KEY INFORMATION

## A. SELECTED FINANCIAL DATA

The following tables present selected historical financial data of our company as of and for the years ended December 31, 2008, 2009, 2010, 2011 and 2012. 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, 2008, 2009, 2010, 2011 and 2012 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, 2008, 2009, 2010, 2011 and 2012 have been prepared and presented in accordance with IFRS.

	Year ended December 31,					
	2008	2009	2010(1)	2011	2012	2012
	Rmb	Rmb	Rmb	Rmb	Rmb	US\$
Statement of Comprehensive Income	(in millions, except per share and per ADS data)					
Data:						
Operating revenues:						
Oil and gas sales	100,831	83,914	146,134	189,279	194,774	31,263
Marketing revenues	22,967	20,752	32,446	50,469	50,771	8,149
Other income	2,179	529	1,456	1,196	2,082	334
Total operating revenues	125,977	105,195	180,036	240,944	247,627	39,746
Expenses:						
Operating expenses	(9,990 )	(12,490 )	(15,647 )	(18,264 )	(21,445 )	(3,442 )
Taxes other than income tax	(5,150 )	(3,888 )	(7,109 )	(10,332 )	(15,632 )	(2,509 )
Exploration expenses	(3,410 )	(3,234 )	(5,483 )	(5,220 )	(9,043 )	(1,452 )
Depreciation, depletion and amortization	(10,058 )	(15,943 )	(26,756 )	(30,521 )	(32,903 )	(5,281 )
Special oil gain levy	(16,238 )	(6,357 )	(17,706 )	(31,982 )	(26,293 )	(4,220 )
Impairment and provision	(1,541 )	(7 )	(27 )	(22 )	(31 )	(5 )
Crude oil and product purchases	(22,675 )	(20,455 )	(32,236 )	(50,307 )	(50,532 )	(8,111 )
Selling and administrative expenses	(1,743 )	(2,264 )	(3,039 )	(2,854 )	(3,377 )	(542 )
Others	(1,307 )	(232 )	(888 )	(835 )	(1,230 )	(197 )
Total expenses	(72,112 )	(64,870 )	(108,891 )	(150,337 )	(160,486 )	(25,759 )
Profit from operating activities	53,865	40,325	71,145	90,607	87,141	13,987

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Interest income	1,091	638	618	1,196	1,002	161
Finance costs	(415 )	(535 )	(1,122 )	(1,707 )	(1,603 )	(257 )
Exchange gains, net	2,551	54	995	637	359	58
Investment income	476	200	427	1,828	2,392	384
Share of profits of associates	374	173	199	320	284	46
Share of profits/(losses) of a joint venture	-	-	199	247	(311 )	(50 )
Non-operating income/(expenses), net	(62 )	(34 )	142	(563 )	908	146
Profit before tax	57,880	40,821	72,603	92,565	90,172	14,475

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	Year ended December 31,					
	2008	2009	2010(1)	2011	2012	2012
	Rmb	Rmb	Rmb	Rmb	Rmb	US\$
	(in millions, except per share and per ADS data)					
Income tax expense	(13,505 )	(11,335 )	(18,193 )	(22,310 )	(26,481 )	(4,250 )
Profit for the year	44,375	29,486	54,410	70,255	63,691	10,225
Earnings per share (basic) (2)	0.99	0.66	1.22	1.57	1.43	0.23
Earnings per share (diluted) (3)	0.99	0.66	1.21	1.57	1.42	0.23
Earnings per ADS (basic) (2)	99.44	66.01	121.81	157.28	142.66	22.90
Earnings per ADS (diluted) (3)	99.08	65.86	121.39	156.63	142.14	22.82
Dividend per share						
Interim	0.175	0.176	0.181	0.204	0.122	0.02
Proposed final	0.176	0.176	0.211	0.227	0.259	0.04
	As of December 31,					
	2008	2009	2010(1)	2011	2012	2012
	Rmb	Rmb	Rmb	Rmb	Rmb	US\$
	(in millions)					
Statement of Financial Position Data:						
Cash and cash equivalents	19,762	22,615	27,287	23,678	55,024	8,832
Available-for sale financial assets	11,661	8,582	18,940	27,576	61,795	9,919
Held-to-maturity financial assets	-	-	3,040	23,467	-	-
Current assets	63,770	70,871	99,384	131,923	170,894	27,430
Property, plant and equipment, net	138,358	165,320	186,678	220,567	252,132	40,470
Investments in associates	1,785	1,727	1,781	2,822	3,857	619
Investments in a joint venture	-	-	20,823	20,175	20,160	3,236
Intangible assets	1,206	1,230	1,148	1,033	973	156
Long term available-for-sale financial assets	1,550	3,120	8,616	7,365	7,051	1,132
Total assets	206,669	242,268	318,430	384,264	456,070	73,204
Current loans and borrowings	17	122	21,194	19,919	28,830	4,628
Current liabilities	18,799	31,042	68,423	70,216	82,437	13,232
Long term loans and borrowings, net of current portion	13,864	18,570	9,859	18,076	29,056	4,664
Total non-current liabilities	27,632	37,291	34,241	51,192	63,853	10,249
Total liabilities	46,431	68,333	102,664	121,408	146,290	23,481
Capital stock	43,078	43,078	43,078	43,078	43,078	6,914
Shareholders' equity	160,238	173,936	215,766	262,856	309,780	49,723

- (1) From January 1, 2011, the Company adopted IFRS 10-Consolidated Financial Statements, IFRS 11-Joint Arrangements, IFRS 12-Disclosure of Interest in Other Entities, IAS 27 (Revised)-Separated Financial Statements and IAS 28 (Revised)-Investments in Associates and Joint Ventures before their mandatory effective date on January 1, 2013. Certain comparative figures have been adjusted.
- (2) Earnings per share (basic) and earnings per ADS (basic) for each year from 2008 to 2012 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 44,623,856,311 and 446,238,563, respectively, for 2008, 44,669,199,984 and 446,692,000, respectively, for 2009, 44,669,199,984 and 446,692,000, respectively, for 2010, 44,668,570,359 and 446,685,704, respectively, for 2011 and 44,646,305,984 and 446,463,060, respectively, for 2012, in each case based on a ratio of 100 shares to one ADS.
- (3) Earnings per share (diluted) and earnings per ADS (diluted) for each year from 2008 to 2012 have been computed, after considering the dilutive effect of the shares underlying our share option schemes and, as applicable, convertible bonds, by using 44,786,097,516 shares and 447,860,975 ADSs for 2008, 44,771,714,329 shares and 447,717,143 ADSs for 2009, 44,821,187,466 shares and 448,211,875 ADSs for 2010, 44,853,615,010 shares and 448,536,150 ADSs for 2011 and 44,808,042,330 shares and 448,080,423 ADSs for 2012.

	Year ended December 31,					
	2008 Rmb	2009 Rmb	2010(1) Rmb	2011 Rmb	2012 Rmb	2012 US\$
	(in millions, except percentages and ratios)					
Other Financial Data:						
Capital expenditures paid(2)	33,161	39,376	28,332	36,823	54,331	8,721
Cash provided by/(used for):						
Operating activities	52,489	49,624	70,883	116,171	92,574	14,858
Investing activities	(45,735 )	(37,307 )	(64,203 )	(99,036 )	(63,797 )	(10,240 )
Financing activities	(10,129 )	(9,403 )	(1,610 )	(20,246 )	2,584	413
Gearing ratio(3)	8.0%	9.7%	12.6%	12.6%	15.7%	15.7%

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

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

Period	End	Noon Buying Rate		
		Average(1)	High	Low
		(Rmb per US\$1.00)		
2008	6.8225	6.9193	7.2946	6.7800
2009	6.8259	6.8295	6.8470	6.8176
2010	6.6000	6.7603	6.8330	6.6000
2011	6.2939	6.4475	6.6364	6.2939
2012	6.2301	6.2990	6.3879	6.2221
October 2012	6.2372	—	6.2877	6.2372
November 2012	6.2265	—	6.2454	6.2221
December 2012	6.2301	—	6.2502	6.2251
January 2013	6.2186	—	6.2303	6.2134
February 2013	6.2213	—	6.2438	6.2213
March 2013	6.2108	—	6.2246	6.2105

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

On March 29, 2013, the noon buying rate between U.S. dollars and Renminbi as set forth in the H.10 weekly statistical release of the Federal Reserve Board was Rmb 6.2108 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)		
2008	7.7499	7.7814	7.8159	7.7497
2009	7.7536	7.7513	7.7618	7.7495
2010	7.7810	7.7692	7.8040	7.7501
2011	7.7663	7.7793	7.8087	7.7634
2012	7.7507	7.7556	7.7699	7.7493
October 2012	7.7494	—	7.7549	7.7494
November 2012	7.7501	—	7.7518	7.7493
December 2012	7.7507	—	7.7518	7.7493
January 2013	7.7560	—	7.7585	7.7503
February 2013	7.7546	—	7.7580	7.7531
March 2013	7.7629	—	7.7640	7.7551

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

On March 29, 2013, 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\$7.7629 to US\$1.00.

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.



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D. RISK FACTORS

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

Risks Relating to Our Operations

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

Prices for crude oil may fluctuate widely in response to relatively minor changes in the supply and demand for oil, market uncertainty and various other factors that are beyond our control, including, but not limited to overall economic conditions, consumer demand for oil, political developments, 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 58.5% of our proved reserves were undeveloped as of December 31, 2012. 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

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ability to execute our project plans and commence production on time, weather conditions, the availability of services and facilities, approvals required from the PRC and foreign governments for certain capital expenditures and investments, and economic, political and other conditions in the PRC and overseas where we have operations or assets.

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

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

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

Mergers and acquisitions may expose us to additional risks and uncertainties

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

In light of political instability, unexpected changes to fiscal regime and various other factors, there may be uncertainties with respect to the operations of those merged and acquired overseas assets. In particular, we may face increasing exploration and environmental risks arising from Nexen's unconventional resources development, including oil sands operations. The relatively high production cost of Nexen's oil sands and deep water operations may negatively affect our overall profitability. Further, we may face other risks and uncertainties as we become subject to additional regulatory requirements as a result of the acquisition of Nexen. Therefore, we may not be able to achieve the anticipated economic return. Also, the increase in the scale of our operations may increase our operational risks.

We may not be able to realize the anticipated benefits from the Nexen acquisition

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

The integration process involves inherent costs and uncertainties. Our purchase price paid for the Nexen acquisition represents a premium of 61% to the closing price of Nexen's common shares on the NYSE on July 20, 2012, and a premium of 66% to Nexen's 20 trading-day volume-weighted average share price. We expect the acquisition of Nexen will expand our existing business and assets and create sustainable growth opportunities, synergies and other benefits. However, our anticipated benefits may not develop. In addition, implementation of the acquisition and the successful integration of Nexen will also require management time and attention, as well as those employees with the appropriate skill sets for the tasks associated with such integration. Any failures, material delays or unexpected costs of the

integration process could therefore have a material adverse effect on our business, results of operations and financial condition.

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

CNOOC indirectly owned or controlled 64.45% of our shares as of March 28, 2013. 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, or the Hong Kong Stock Exchange Listing Rules. Furthermore, these connected transactions are subject to 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

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

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

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

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

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

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

We conduct exploration and development in deepwater areas in both offshore China and overseas by cooperating with our partners and by ourselves. Operations in deepwater are more difficult, risky and costly than those in shallower water. Operations in deepwater may require a significant amount of time between the discovery and the initial production, thus increasing the risks involved in these operations.

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

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

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

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

We cannot predict the interpretation or implementation of government policy at the U.S. federal, state or local levels with respect to any current or future activities by CNOOC or its affiliates in countries or with individuals or entities that are the subject of U.S. sanctions. Similarly, we cannot predict whether U.S. sanctions will be further tightened, or the impact that such actions may have on CNOOC. It is possible that the 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 and Sudan. It is possible that the activities of CNOOC or its affiliates may affect the investment in our shares by such U.S. state and local governments and colleges.

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

The Iran Sanctions Act, as amended, or ISA, the Comprehensive Iran Sanctions, Accountability and Divestment Act of 2010, or CISADA, the National Defense Authorization Act for Fiscal Year 2012, or NDAA, the Iran Threat Reduction and Syria Human Rights Act of 2012, or TRA, and the Iran Freedom and Counter-Proliferation Act of 2012, or IFCA, authorize the imposition of sanctions on companies that engage in, among other things, certain activities related to Iran's energy, petrochemical, shipping or shipbuilding sectors, and in certain instances, on their parent companies. It is possible that the U.S. Government could determine that CNOOC or its affiliates engage in activities targeted by U.S. sanctions. If the U.S. President determined that CNOOC or one of its affiliates engaged in targeted activities, CNOOC and/or its affiliate could be subject to U.S. sanctions, which range from restrictions on U.S. exports or bank financing to outright blocking of CNOOC or its affiliate's property within U.S. jurisdiction. If the most extreme sanction, blocking, were applied to CNOOC's property, including controlled subsidiaries, 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.

As required by the Iran Threat Reduction and Syria Human Rights Act of 2012, which added a disclosure requirement to the Securities Exchange Act of 1934, we are providing certain information regarding our non-controlled affiliates' activities. In 2012, to our knowledge, one of our non-controlled affiliates, COSL, was engaged in certain drilling and other related services in Iran in relation to subcontracting agreements entered into in 2009 and another non-controlled affiliate of ours was engaged in installation services in Iran. We cannot predict at this time whether U.S. sanctions will be imposed on any of our affiliates.

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

Recent global market and economic conditions have been unprecedented with recession in most major economies. Continued concerns about the systemic impact of a potentially long-term and



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widespread recession and the sovereign debt crisis in Europe, energy costs, geopolitical issues and the availability and cost of credit have contributed to increased market volatility and diminished expectations for economic growth around the world. The difficult economic outlook has negatively affected business and consumer confidence and contributed to unprecedented volatility levels. We cannot predict the short- and long-term impacts of these events on our business and financial condition, which could be materially and adversely affected.

### Risks Relating to the Petroleum Industry

The oil and natural gas industries are very competitive

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

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

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

Our business is subject to environmental protection laws and regulations in the PRC, as well as other jurisdictions where we operate. The environmental laws and regulations to which we are subject may become increasingly strict

and have an increasing impact on our operations. Our compliance with such laws or regulations may require us to incur significant capital expenditures or other obligations or liabilities, which could create a substantial financial burden on us. Furthermore, these jurisdictions may impose fees and fines for the discharge of waste substances or serious environmental pollution, and

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authorize a government, at its discretion, to close or suspend any facility which fails to comply with orders requiring it to cease or cure operations causing environmental damage.

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

### Risks Relating to the PRC

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

Our operations 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 2011, the State Council of the PRC amended the Provisional Regulation of PRC Resource Tax and as a result, since November 1, 2011, the royalties payable to the PRC government have been replaced by resource tax, currently at 5% of the sales revenues from crude oil and natural gas. For detailed information on the resource tax, see "Item 4—Information on the Company—Business Overview—Regulatory Framework in the PRC."

In 2011 and 2012, the Ministry of Finance and the State Administration of Taxation of the PRC promulgated the Circular on Printing and Issuing the Pilot Proposals for the Conversion from Business Tax to Value-Added Tax (Cai Shui [2011] No.110) and various supporting Circulars (including Cai Shui [2011] No.111, Cai Shui [2012] No.71). As a result, since January 1, 2012, the business tax in certain industries and regions have been replaced by value-added tax. This tax reform is very complex and may have some financial impact on the Company.

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.

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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.

Our auditor, like other independent registered public accounting firms operating in China, is not permitted to be subject to inspection by Public Company Accounting Oversight Board, and as such, investors may be deprived of the benefits of such inspection

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC, as an auditor of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board, or PCAOB, is required by the laws of the United States to undergo regular inspections by PCAOB to assess its compliance with the laws of the United States and professional standards. Because our auditor is located in China, a jurisdiction where PCAOB is currently unable to conduct inspections without the approval of the PRC authorities, our auditor, like other independent registered public accounting firms operating in China, is currently not inspected by PCAOB.

Inspections of other firms that PCAOB has conducted outside of China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The lack of PCAOB inspections in China may prevent PCAOB from regularly evaluating our auditor's audits and quality control procedures. The inability of PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

Recent action being taken by the SEC against the PRC affiliates of the Big Four accounting firms, including our auditor, could create additional uncertainty about the status of audits of U.S.-listed PRC-based companies and may materially and adversely affect the liquidity and value of our ADSs.

On December 3, 2012, the SEC announced that it had begun administrative proceedings against the PRC affiliates of each of the Big Four accounting firms (namely Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers), including our auditor, and another large U.S. accounting firm for refusing to produce audit work papers and other documents related to China-based companies under investigation by the SEC for potential accounting fraud against U.S. investors. The SEC charged the firms with violating the Securities Exchange Act and the Sarbanes-Oxley Act, which requires foreign public accounting firms to provide the SEC upon request with audit work papers involving any company trading on the U.S. markets. If this proceeding by the SEC ultimately results in actions or sanctions that

affect the ability or right of these accounting firms, including the PRC affiliate of our auditor, to engage in audits of U.S.-listed PRC-based companies, it may make it difficult or

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impossible for us to engage an auditor qualified to audit accounts for U.S.-listed PRC-based companies and make us unable to comply with SEC rules and regulations and the listing standards of securities exchanges in the United States, which would materially and adversely affect the liquidity and value of our ADSs and force us to de-list our ADSs from the NYSE. As the administrative proceedings being taken against these accounting firms is in a preliminary stage, we cannot predict the eventual possible impact on our company.

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.

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:

- we will enjoy the exclusive right to exercise all of CNOOC's commercial and operational rights under PRC laws and regulations relating to the exploration, development, production and sales of oil and natural gas in offshore China;
- it will transfer to us all of its rights and obligations under any new PSCs and geophysical exploration operations, except those relating to its administrative functions;
- it will not engage or be interested, directly or indirectly, in oil and natural gas exploration, development, production and sales in or outside the PRC;
- we will be able to participate jointly with CNOOC in negotiating new PSCs and to set out our views to CNOOC on the proposed terms of new PSCs;
- we will have unlimited and unrestricted access to all data, records, samples and other original data owned by CNOOC relating to oil and natural gas resources;





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- we will have an option to invest in LNG projects in which CNOOC invested or proposed to invest, and CNOOC will at its own expense help us to procure all necessary government approvals needed for our participation in these projects; and
- we will have an option to participate in other businesses related to natural gas in which CNOOC invested or proposed to invest, and CNOOC will procure all necessary government approvals needed for our participation in such business.

The undertakings from CNOOC will cease to have any effect:

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

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

## B. BUSINESS OVERVIEW

### Overview

We are an upstream company specializing in the exploration, development and production of oil and natural gas. We are the dominant oil and natural gas producer in offshore China and, in terms of reserves and production, we are also one of the largest independent oil and natural gas exploration and production companies in the world. As of the end of 2012, we had net proved reserves of approximately 3.49 billion BOE (including approximately 0.29 billion BOE under our equity method investees). In 2012, we had a total net oil and gas production of 935,615 BOE per day (including 46,767 BOE per day under our equity method investees).

### Competitive Strengths

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

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

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

We have a large net proved reserve base spread across offshore China and globally. As of December 31, 2012, we had approximately 3.49 billion BOE of net proved reserves. Our core operating area, offshore China, contributed to

approximately 69.0% of our net proved reserves, while overseas contributed to the balance of 31.0%.

In addition to offshore China, we have a diversified global portfolio which provides us with further exploration and exploitation potential. We have a strong track record of successfully acquiring and

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operating many quality overseas upstream assets worldwide. Currently, we have assets in resource rich countries such as Indonesia, Australia, Nigeria, Uganda, the United States, Canada, and United Kingdom.

As of December 31, 2012, approximately 58.5% 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, 2012, our total major exploration areas acreage in offshore China was approximately 257 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 2012, we and our foreign partners have together drilled a total of 99 exploratory wells in offshore China, of which 41 were wildcat wells. During the same year, we and our foreign partners made 12 new discoveries in offshore China.

### Successful independent exploration and development track record

We have a strong record of growing our reserves base for oil and natural gas, both independently and with our foreign partners through PSCs. In recent years, we have been adding reserves and production mainly through independent exploration and development. As of the end of 2012, in offshore China, approximately 79.6% of our net proved reserves were independent and approximately 75.3% of our production came from independent projects.

In 2012, in offshore China, our independent exploration resulted in 11 new discoveries. We also successfully appraised 14 oil and gas structures. On the development front, in 2012, our major new development projects progressed smoothly with 5 new projects on stream.

### Access to capital and technology and reduced risks 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—Regulatory Framework in the PRC.”

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

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

We have a proven track record of complying with a high level of corporate governance standard, which was recognized by the industry. For example, we were awarded the “Best Managed Asian Company in the Oil/Gas Sector” for the third year in a row by Euromoney and the “Corporate Governance Asia Recognition Awards 2012” by Corporate Governance Asia in 2012.

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### Business Strategy

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

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

#### Focus on reserve and production growth

As an upstream company specializing in the exploration, development, production and sales of oil and natural gas, we consider reserve and production growth as top priority. We plan to increase our reserves and production through drill bits and value-driven acquisitions. We will continue to concentrate independent exploration efforts on major operating areas, especially in offshore China. In the meantime, we will continue to enter into PSCs with foreign partners to lower capital requirements and exploration risks. In 2012, we achieved a reserve replacement ratio of 188%. After acquisition of Nexen, Nexen will add approximately 20% net production and 24% proved reserves to the Company based on reserves and production as at the end of 2012.

We increase production primarily through the development of proved undeveloped reserves. As of December 31, 2012, approximately 58.5% of our proved reserves were classified as proved undeveloped, which gives us the opportunity to achieve future production growth, as long as these proved undeveloped reserves are developed faster than the depletion rate of our currently producing reserves.

#### Develop natural gas business

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

In 2013, the large-size gas field Liwan 3-1 in deepwater South China Sea will commence production. We expect that our natural gas production would continue to increase accordingly.

#### Maintain prudent financial policy

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

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

Currently, we have a strong financial profile with a low gearing ratio. We intend to maintain our financial strength by managing key measures such as capital expenditures, cash flows and costs per BOE. We also intend to actively manage our account receivables and inventories to enhance liquidity and improve profitability. We will continue to

monitor our foreign currency denominated assets and debts and to manage exposure to foreign exchange rate fluctuations.

#### Nexen Acquisition

On February 25, 2013, Canada local time, we completed the acquisition of Nexen. Incorporated in Canada in 1971, Nexen is an independent global energy company, whose securities were previously listed on the Toronto Stock Exchange (the “TSX”) and the NYSE under the symbol “NXY”. Upon completion of the acquisition, Nexen’s securities were delisted from the TSX and the NYSE, and were deregistered with the SEC. Nexen focuses on three core businesses: conventional oil and gas, oil sands and shale gas, and has operations in the U.K. North Sea, Canada, U.S. Gulf of Mexico, Nigeria, Yemen and Colombia. Based on information included in Nexen’s Form 40-F filed with the SEC on February 25, 2013, Nexen’s total revenue and other income, cash flow from operations and net income for the fiscal year ended December 31, 2012 were Cnd\$6,711 million, Cnd\$2,651 million and Cnd\$333 million, respectively, and Nexen had 3,228 employees as of December 31, 2012.

As disclosed in the Circular included in the Company’s Form 6-K furnished to the SEC on December 21, 2012, an arrangement agreement was entered into on July 23, 2012 among the Company, CNOOC Canada Holding Ltd., our wholly owned subsidiary, and Nexen (the “Arrangement Agreement”) for acquisition of all outstanding common shares and preferred shares of Nexen pursuant to a Plan of Arrangement under the Canada Business Corporations Act for an aggregate consideration of approximately US\$15.1 billion in cash (the “Nexen Acquisition”). The indebtedness of Nexen of approximately US\$4.3 billion would remain outstanding following the acquisition. Based on information included in Nexen’s Form 6-K furnished to the SEC on March 28, 2013, Nexen completed the redemption of its 7.35% subordinated debentures due 2043 for a total outstanding principal amount of US\$460 million on March 28, 2013, which have been cancelled and delisted from the TSX and the NYSE.

Based on information included in Nexen’s Form 40-F filed with the SEC on February 25, 2013, as of December 31, 2012, Nexen’s proved plus probable reserves estimates were approximately 2.2 billion BOE, of which 0.9 billion BOE are proved and 1.3 billion BOE are probable. About 70% of Nexen’s proved plus probable reserves relate to its Canadian oil sands properties. The remainder of reserves are widely distributed throughout its oil and gas properties around the world. Nexen’s production before royalties averaged 197,900 BOE/day in 2012.

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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 2010, 2011 and 2012 were prepared in accordance with the SEC's final rules on "Modernization of Oil and Gas Reporting", which became effective for accounting periods ended on or after December 31, 2009.

	Year ended December 31,		
	2010(1)	2011	2012
Net Production(3):			
Oil (daily average bbls/day)	722,086	708,286	742,765
Gas (daily average mmcf/day)	1,050.1	1,171.7	1,109.7
Oil equivalent (BOE/day)	902,932	909,000	935,615
Net Proved Reserves (end of period):			
Oil (mmbbls)	1,719.1	1,873.3	2,031.1
Gas (bcf)	5,944.9	5,627.4	6,005.3
Synthetic Oil (mmbbls)	—	87.4	137.0
Bitumen (mmbbls)	—	8.6	12.6
Total (million BOE)	2,710.0	2,921.1	3,202.6
Total with equity method investees (million BOE) (3)	2,998.3	3,190.1	3,491.9
Annual reserve replacement ratio(2)	116%	167%	187%
Annual reserve replacement ratio(3)	202%	158%	188%
Estimated reserve life (years)	8.5	9.3	9.8
Estimated reserve life (years) (3)	9.1	9.6	10.2
Standardized measure of discounted future net cash flow (million Rmb)	293,768	339,234	356,998

- (1) From January 1, 2011, the Company adopted IFRS 10-Consolidated Financial Statements, IFRS 11-Joint Arrangements, IFRS 12-Disclosure of Interest in Other Entities, IAS 27 (Revised)-Separated Financial Statements and IAS 28 (Revised)-Investments in Associates and Joint Ventures before their mandatory effective date on January 1, 2013. Certain comparative figures have been adjusted.
- (2) For information on the calculation of this ratio, see "Terms and Conventions—Glossary of Technical Terms—reserve replacement ratio."
- (3) Including our interest in equity method investees.

For the years 2010, 2011 and 2012, approximately 11%, 23% and 36%, respectively, of our reserves were evaluated by us independently and the remaining were based upon estimates prepared by independent petroleum engineering consulting companies and reviewed by us. 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, 2012			Total (mmboe) (2)
	2010(1)	2011	Oil	Natural Gas	Synthetic Oil	Bitumen	
	(mmboe)	(mmboe)	(mmbbls)	(bcf)	(mmbbls)	(mmbbls)	
<b>Developed</b>							
<b>Offshore China</b>							
Bohai	650.9	632.9	523.2	338.3	—	—	579.6
Western South China Sea	289.0	230.4	87.9	719.7	—	—	207.8
Eastern South China Sea	215.0	213.4	142.6	401.4	—	—	209.5
East China Sea	1.5	8.4	0.4	40.2	—	—	7.1
Subtotal	1,156.4	1,085.1	754.1	1,499.6	—	—	1,004.0
<b>Overseas</b>							
Asia	110.6	68.0	22.3	460.4	—	—	105.3
Oceania	37.4	34.9	5.9	124.0	—	—	30.2
Africa	57.1	46.4	44.2	—	—	—	44.2
North America	8.3	47.0	51.0	129.1	32.1	0.8	105.4
Subtotal	213.4	196.3	123.4	713.5	32.1	0.8	285.1
Total Developed	1,369.8	1,281.4	877.5	2,213.1	32.1	0.8	1,289.1
<b>Undeveloped</b>							
<b>Offshore China</b>							
Bohai	468.2	466.9	544.0	254.2	—	—	586.3
Western South China Sea	310.0	356.3	136.9	1,665.2	—	—	414.4
Eastern South China Sea	219.1	306.5	211.5	774.3	—	—	340.5
East China Sea	79.2	60.0	19.3	265.7	—	—	63.6
Subtotal	1,076.5	1,189.7	911.7	2,959.4	—	—	1,404.9
<b>Overseas</b>							
Asia	108.8	155.3	42.8	340.0	—	—	102.2
Oceania	66.3	75.8	10.7	285.5	—	—	66.6
Africa	88.6	87.3	91.5	—	—	—	91.5
North America	—	131.7	96.9	207.3	104.9	11.9	248.3
Subtotal	263.7	450.1	241.9	832.8	104.9	11.9	508.6
Total Undeveloped	1,340.2	1,639.8	1,153.6	3,792.2	104.9	11.9	1,913.5
<b>TOTAL PROVED</b>	<b>2,710.0</b>	<b>2,921.1</b>	<b>2,031.1</b>	<b>6,005.3</b>	<b>137.0</b>	<b>12.6</b>	<b>3,202.6</b>
Equity method investees	288.3	269.0	200.7	513.7	—	—	289.3
Total with equity method investees	2,998.3	3,190.1	2,231.8	6,519.0	137.0	12.6	3,491.9

(1) From January 1, 2011, the Company adopted IFRS 10-Consolidated Financial Statements, IFRS 11-Joint Arrangements, IFRS 12-Disclosure of Interest in Other Entities, IAS 27 (Revised)-Separated Financial Statements and IAS 28 (Revised)-Investments in Associates and Joint Ventures before their mandatory effective date on



January 1, 2013. Certain comparative figures have been adjusted.

(2) In calculating barrels-of-oil equivalent amounts, we have assumed that 6,000 cubic feet of natural gas equals one BOE, with the exception of natural gas from South America, Oceania and Indonesia in Asia, which we have used actual thermal unit for such conversion purpose.

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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, 2012		
	2010(1)	2011	Developed	Undeveloped	Total
Offshore China					
Bohai	997.7	1,000.4	523.2	544.0	1,067.2
Western South China Sea	260.0	250.5	87.9	136.9	224.8
Eastern South China Sea	225.0	316.1	142.6	211.5	354.0
East China Sea	18.9	17.7	0.4	19.3	19.8
Subtotal	1,501.6	1,584.7	754.1	911.7	1,665.7
Overseas					
Asia	49.9	81.8	22.3	42.8	65.0
Oceania	20.7	19.0	5.9	10.7	16.7
Africa	145.7	133.7	44.2	91.5	135.7
North America	1.2	54.1	83.9	213.7	297.6
Subtotal	217.5	288.6	156.3	358.7	515.0
Total	1,719.1	1,873.3	910.4	1,270.4	2,180.7
Equity method entities	197.4	196.3	104.5	96.2	200.7
Total with equity method investees	1,916.5	2,069.6	1,014.9	1,366.6	2,381.5

(1) From January 1, 2011, the Company adopted IFRS 10-Consolidated Financial Statements, IFRS 11-Joint Arrangements, IFRS 12-Disclosure of Interest in Other Entities, IAS 27 (Revised)-Separated Financial Statements and IAS 28 (Revised)-Investments in Associates and Joint Ventures before their mandatory effective date on January 1, 2013. Certain comparative figures have been adjusted.

Total Net Proved Natural Gas Reserves  
(bcf)

	As of December 31,		As of December 31, 2012		
	2010(1)	2011	Developed	Undeveloped	Total
Offshore China					
Bohai	728.3	596.2	338.3	254.2	592.5
Western South China Sea	2,034.1	2,017.2	719.7	1,665.2	2,384.9
Eastern South China Sea	1,254.3	1,222.4	401.4	774.3	1,175.7
East China Sea	370.6	303.7	40.2	265.7	305.9
Subtotal	4,387.3	4,139.5	1,499.6	2,959.4	4,459.0
Overseas					
Asia	1,016.7	848.7	460.4	340.0	800.4
Oceania	498.0	467.8	124.0	285.5	409.5
North America	42.9	171.4	129.1	207.3	336.4
Subtotal	1,557.6	1,487.9	713.5	832.8	1,546.3
Total	5,944.9	5,627.4	2,213.1	3,792.2	6,005.3
Equity method investees	527.8	422.0	329.5	184.2	513.7
Total with equity method investees	6,472.7	6,049.4	2,542.6	3,976.4	6,519.0

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(1) From January 1, 2011, the Company adopted IFRS 10-Consolidated Financial Statements, IFRS 11-Joint Arrangements, IFRS 12-Disclosure of Interest in Other Entities, IAS 27 (Revised)-Separated Financial Statements and IAS 28 (Revised)-Investments in Associates and Joint Ventures before their mandatory effective date on January 1, 2013. Certain comparative figures have been adjusted.

Table of ContentsTotal Net Proved Reserves  
(million BOE)

	As of December 31,		As of December 31, 2012		
	2010(1)	2011	Developed	Undeveloped	Total
Offshore China					
Bohai	1,119.1	1,099.8	579.6	586.3	1,165.9
Western South China Sea	599.0	586.7	207.8	414.5	622.3
Eastern South China Sea	434.1	519.9	209.5	340.5	550.0
East China Sea	80.7	68.4	7.1	63.6	70.7
Subtotal	2,232.9	2,274.8	1,004.0	1,404.9	2,408.9
Overseas					
Asia	219.4	223.2	105.3	102.2	207.5
Oceania	103.7	110.7	30.2	66.6	96.8
Africa	145.7	133.7	44.2	91.5	135.7
North America	8.3	178.7	105.4	248.3	353.7
Subtotal	477.1	646.3	285.1	508.6	793.7
Total	2,710.0	2,921.1	1,289.1	1,913.5	3,202.6
Equity method investees	288.3	269.0	161.3	128.0	289.3
Total with equity method investees	2,998.3	3,190.1	1,450.4	2,041.5	3,491.9

(1) From January 1, 2011, the Company adopted IFRS 10-Consolidated Financial Statements, IFRS 11-Joint Arrangements, IFRS 12-Disclosure of Interest in Other Entities, IAS 27 (Revised)-Separated Financial Statements and IAS 28 (Revised)-Investments in Associates and Joint Ventures before their mandatory effective date on January 1, 2013. Certain comparative figures have been adjusted.

## Proved Undeveloped Reserves

As of December 31, 2012, we had proved undeveloped reserves of 2,041.5 million BOE, including 1,249.8 million barrels of crude oil, 104.9 million barrels of synthetic oil, 11.9 million barrels of bitumen and 3,976.4 bcf of natural gas, representing an increase of 285.7 million BOE as compared to proved undeveloped reserves of 1,755.8 million BOE as of December 31, 2011.

The changes in our proved undeveloped reserves mainly include:

- An increase of 488.9 million BOE due to new discoveries and expansions;
- A decrease of 36.4 million BOE due to revision of previous estimates; and
- A decrease of 166.9 million BOE due to proved undeveloped reserves being developed into proved developed reserves.

In 2012, we spent approximately US\$3.3 billion on developing proved undeveloped reserves into proved developed reserves. US\$2.8 billion, or 84.2%, were spent on 19 major development projects in Bohai, Western South China Sea and Eastern South China Sea in offshore China, the Akpo oilfield in Nigeria, Missan oilfields in Iraq, Long Lake project in Canada and Eagle Ford project in the U.S. The remaining 15.8% was spent on the infill drilling programs in offshore China, Indonesia, Nigeria and Canada.

As of December 31, 2012, 142.7 million BOE of our proved undeveloped reserves were first booked before 2008. These proved undeveloped reserves were mainly located in East China Sea, Eastern South China Sea and Western South China Sea, including (i) 29.1 million BOE in East China Sea, approximately 84% of which is planned to be developed together with certain new discoveries; (ii) 39.0 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) 74.6 million BOE in Western South China Sea, including Weizhou 12-8 oil field associated with Weizhou 6-12 oil field located in the same area that is currently under construction.

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### 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, L.P., Gaffney, Cline & Associates (Consultants) Pte Ltd., Lee Keeling and Associates, Inc., and McDaniel & Associates Consultants Ltd. to perform annual estimates for our proved oil and gas reserves under our consolidated subsidiaries. In 2012, the reserves of certain fields in offshore China and overseas were evaluated by us independently, which accounted for approximately 36% 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. For the year ended December 31, 2012, we implemented rigorous in-house technical scrutiny and compliance audit for the reserves evaluated independently by us, while third party consulting firms, such as Ryder Scott Company, were also engaged to perform annual procedural audit for all the reserves independently evaluated by us to monitor the entire reserves estimation procedure and certain key metrics in order to ensure market transparency and compliance.

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:

- review our reserve policies;
- review our proved reserves and other categories of reserves; and
- 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 over 30 years’ experience in oil and gas industry.

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 in Bohai, Western South China Sea, Eastern South China Sea and East China Sea, either

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independently or through cooperation with foreign partners by production sharing contracts (“PSCs”). As of the end of 2012, approximately 69.0% of the Company’s net proved reserves and approximately 78.0% of its net production were located in offshore China.

For independent operations, the Company has been adding more reserves and production mainly through independent exploration and development in offshore China. As of the end of 2012, approximately 79.6% of the Company’s net proved reserves and approximately 75.3% of its production in offshore China were derived from independent projects.

For PSC operations, China National Offshore Oil Corporation (“CNOOC”), the Company’s controlling shareholder, has the exclusive right to explore and develop oil and natural gas in offshore China with foreign partners through PSCs. CNOOC has transferred to the Company all of its rights and obligations under all the PSCs (except those relating to its administrative functions), including new PSCs that will be signed in the future. As of the end of 2012, the Company had 27 PSCs with 22 partners in force.

Overseas, the Company holds interests in oil and natural gas blocks in Indonesia, Australia, Nigeria, Uganda, Argentina, the U.S., Canada, the United Kingdom and various other countries. As of December 31, 2012, the Company’s overseas net proved reserves and net production accounted for approximately 31.0% and 22.0%, respectively, of the Company’s total net proved reserves and total net production.

## Exploration

Exploration is a top priority for the Company. In 2012, the Company increased its investment in and refreshed its strategic thinking about exploration, and achieved remarkable results in both shallow water and deepwater areas offshore China as well as overseas. The Company’s reserve replacement ratio amounted to 188% in 2012.

The Company’s exploration investment and activities reached a record high in offshore China in 2012, approximately 16,100 km<sup>2</sup> 2D seismic data and 26,700 km<sup>2</sup> 3D seismic data were acquired and 99 exploration wells were drilled. An aggregate of 12 new discoveries were made and 14 oil and gas structures were successfully appraised in offshore China, resulting in a success rate of 53%-68%.

In 2012, our achievements in exploration in offshore China mainly included:

First, the successful appraisal of the large-scale oil and gas structure Penglai 9-1 due to our concentrated research and technological advancement Penglai 9-1, which has the potential to be developed into a large oilfield.

Second, the successful appraisal of the Qinhuangdao 29-2/29-2 East structure, which is expected to be built into another large-scale light oil field in Bohai.

Third, the discovery of the large-scale natural gas structure, Dongfang 13-2, marking another breakthrough in high-temperature and high-pressure natural gas exploration.

Fourth, the discovery of the medium scale oil and gas structure Luda 6-2.

In 2012, the Company made its first important move in independent exploration in deepwater areas. Three independent deepwater exploration wells were drilled and the natural gas discovery of Liuhua 29-2 was made in the deepwater areas of South China Sea.

Furthermore, the Company achieved record breakthroughs in overseas exploration with nine new discoveries and five successful appraisals of oil and gas structures. Among these achievements, important discoveries were made in HBR



permit in Algeria, where the Company holds 24.5% interests. Four new discoveries were made in Indonesia.

These achievements indicated great potential and our unique advantages for exploration, in offshore China, as well as good prospects for the Company's deepwater and overseas exploration.

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The Company's major exploratory activities in 2012 are shown in the table below:

	Exploration Wells				New Discoveries		Successful Appraisal Wells		Seismic Data			
	Independent		PSC		Independent	PSC	Independent	PSC	2D		3D	
	Wildcat	Appraisal	Wildcat	Appraisal					Independent	PSC	Independent	PSC
Offshore												
China												
Bohai	13	37	—	—	7	—	28	—	—	—	7,215	—
Eastern South												
China Sea	12	3	—	—	3	—	1	—	4,413	—	5,743	3,375
Western South												
China Sea	10	14	3	—	1	1	8	—	5,269	—	6,182	—
East China Sea	3	4	—	—	—	—	3	—	6,461	—	4,218	—
Subtotal	38	58	3	—	11	1	40	—	16,143	—	23,358	3,375
Overseas	—	—	22	18	—	9	—	11	—	1,791	—	1,538
Total	38	58	25	18	11	10	40	11	16,143	1,791	23,358	4,913

## Engineering Construction, Development and Production

In 2012, more than 10 new projects were under construction. The Company carefully allocated operational resources and made good progress in engineering construction.

Four new projects, namely, Yacheng 13-4 gas field, Panyu 4-2/5-1 adjustment, Liuhua 4-1 oilfield and Weizhou 6-9/6-10 oilfield, commenced production in 2012 as scheduled. In 2013, the Company is going to see a new peak for construction work with its full capacity to be utilized for on land construction and offshore installation. A total of 24 new projects will be constructed, among which 10 new oil and gas fields are expected to commence production in 2013, including Liwan 3-1, the first large-scale deepwater gas field in China, as well as Suizhong 36-1 Phase II adjustment project. Other projects are expected to commence production in the coming years and will provide additional momentum for the Company's growth in mid-to-long term and its production growth target for 2011-2015.

The Company overcame a lot of challenges in oil and gas development and production in 2012. Adverse factors included the decrease in the number of new projects, the shutdown of production of Penglai 19-3 oilfield, frequent typhoons that affected production operation, as well as delays of some overseas projects, all of which created significant pressure for the Company's production. Despite this grim situation, the Company still managed to accomplish its annual production target mainly through focusing on the following areas:

First, maintaining productivity of existing oilfields. This mainly includes: strengthening the dynamic management of water injection, maintaining reasonable reservoir pressure and low decline rate in mature oilfields; refining daily operation especially oil well management to enhance production efficiency as well as optimising water production scheme in order to achieve stable oil production.

Second, bringing on stream new oil and gas fields for production contribution. With careful arrangements, new oilfields including Panyu 4-2/5-1 adjustment projects, Liuhua 4-1 oilfield and Yacheng 13-4 gas field came on stream during the year, making a significant contribution to production for the year.

Third, through optimising construction process and procedures and the selection of favourable time windows, suspension time for maintenance of significant projects due to maintenance was shortened and loss in production was

reduced accordingly.

Fourth, the Company proactively communicated and cooperated with operators, to facilitate the production performance of overseas project including the U.S. Eagle Ford project.

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Through efforts of all staff of the Company, its net production for oil and gas in 2012 reached 342.4 million BOE, representing an increase of 3.2% year over year and achieving a stable production growth.

In 2012, the Company also adhered to its strategies on comprehensive adjustments and regional development to accelerate the development of oil and gas fields. Panyu4-2/5-1 adjustment projects were brought on stream as scheduled. The construction of Suizhong 36-1 Phase II adjustment and Qikou 18-1 adjustment projects were proceeding smoothly, both of which are expected to commence production in 2013. For regional development, the Company conducted research on a few oil and gas fields in East China Sea, and organised the regional development for the gas fields near Dongfang 13-2 and Bozhong 28/34 oilfields. These initiatives enhanced the economic return and reduced development barriers for oil and gas fields.

In addition, following a series of rectification measures, Penglai19-3 oilfield has recovered to normal state, with operating conditions. The revised Overall Development Plan as well as the recomposed Environmental Impact Assessment prepared by Conocophillips China Inc. ("COPC"), the operator of Penglai 19-3 oilfield have been approved, and COPC is permitted to gradually resume the production of Penglai 19-3 oilfield.

Our task in 2013 would be to focus on accomplishing our annual production target with emphasis on the following areas:

First, to carefully allocate and coordinate resources for operation with a view to maintain and enhance production of existing oilfields, providing a solid base for accomplishment of the annual production target. The Company will also strengthen daily operation management and innovate technology in order to achieve this target.

Second, to facilitate timely commencement of production of new oil and gas fields. 10 new projects will come on stream in 2013, including the large-scale deepwater gas field Liwan 3-1, Weizhou 6-12, Suizhong 36-1 Phase II adjustment project and Qikou18-1 adjustment project. The commencement of these projects will provide significant support for our production growth in the coming years.

Third, to focus on technology research and development to improve recovery factor of producing oilfields through the application of heavy oil thermal production technology and particular development technology on oilfields with low permeability.

Fourth, to strengthen the management of overseas projects and actively coordinate with local partners to ensure the safe and stable production of each project.

Through the above mentioned measures, the Company will strive to achieve its production growth target for 2011-2015 and lay a solid foundation for long-term growth.

## Overseas Development

In recent years, the Company has greatly extended its global presence and raised its international profile to a new level. From a geographic perspective, the Company's operations are located in Asia, Africa, Oceania, North America, South America and Europe. For resource types, it has expanded from conventional oil and gas resources to unconventional resources such as shale oil and gas, and oil sands. Overseas reserves, production and oil and gas sales revenue accounted for 31.0%, 22.0% and 14.7%, respectively, of the Company's total reserves, production and oil and gas revenue in 2012, thereby becoming an integral part of the Company's assets. With the combination of conventional and unconventional resources, as well as exploration and production assets, our global operational capability has been significantly enhanced.

In 2012, the overseas development of the Company made significant progress. In July 2012, the Company entered into a definitive agreement with Nexen. Total consideration for the acquisition of Nexen's common and preferred shares was approximately US\$15.1 billion, and Nexen's debt of approximately US\$4.3 billion would remain outstanding following the acquisition. The acquisition of Nexen was completed in February 2013. For more information about the acquisition and the related agreement, see "Item 4—Information on the Company—Business Overview—Nexen Acquisition."

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The acquisition of Nexen is important to both near-term and mid-to-long term growth of the Company:

First, reserve and production growth. Based on the reserve and production as at the end of 2012, Nexen will add approximately 20% net production and 24% proved reserves to the Company.

Second, diversified portfolio. We strategically entered into North Sea and Horn River Basin, and strengthened our existing position in Canadian oil sands, Gulf of Mexico and offshore Nigeria. Furthermore, more than 90% of Nexen's reserves are located in OECD countries.

Third, new overseas platform. We will establish Calgary as the head office of North and Central American operations. Also, we plan to retain Nexen's current management and employees, which will enhance the development of our overseas business.

In the future, the Company will focus on the integration of corporate culture, management system and technologies, etc, and strive to create a win-win situation.

At the beginning of 2012, the Company completed the acquisition of the partial working interests in each of Exploration Areas of 1, 2 and 3A in Uganda. Since the Lake Albert Basin is the key basin yet to be developed in East Africa, the project is expected to become one of Africa's largest onshore oil and gas development projects in coming years.

Other overseas projects progressed in sound track. The production volume of Eagle Ford shale oil and gas project in the U.S. maintained steady growth; the Missan oilfields in Iraq officially entered its recovery period; and the development of the Egina oilfield in Nigeria was also in smooth progress.

Along with the growth of our overseas business, we will further study the trend and dynamics of the international energy sector and enhance our global vision. Meanwhile, we will strive to strengthen our overseas operational capability, including management, resource integration and risk control, in order to further raise the degree of internationalization of the Company. We will continue to optimize our overseas assets according to three major factors as potential including resources, return and risk profile.

## Regional Overview

### Offshore China

#### Bohai

Bohai is the most important crude oil producing area for the Company. The crude oil produced in this region is mainly heavy oil. As of the end of 2012, the reserve and daily production volume in Bohai were 1,165.9 million BOE and 432,285 BOE/day, respectively, representing approximately 33.4% and 46.2%, of the Company's total reserves and daily production, respectively. The operation area in Bohai is mainly shallow water with a depth of 10 to 30 meters.

Bohai has rich oil and gas resources and has been one of the Company's primary areas for exploration and development. In recent years, the Company has made several commercial discoveries in this region each year. In 2012, the Company made seven successful discoveries in Bohai, namely Penglai 15-2, Qinhuangdao 27-3, Luda21-2, Kenli 2-1, Luda 6-2, Bozhong 34-1 North and Caoheidian 21-3. In addition, the Company also successfully appraised seven oil and gas structures, namely Penglai9-1, Qinhuangdao 29-2 East, Luda 6-2, Qinhuangdao33-3, Penglai 15-2, Bozhong 34-1 North and Kenli 9-1. The Company's major accomplishments in Bohai included:

First, the successful appraisal of Penglai 9-1 large oil and gas structure as a result of our concentrated research and technological advancement. Since its discovery in 2009, the Company intensified the geological research programs and combined a number of innovative testing techniques.

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Penglai 9-1 has the potential to be developed into a large oilfield.

Second, the Company successfully appraised another large-scale light oil field in Bohai, i.e. Qinhuangdao 29-2/29-2 East, through new researches and better understanding of reservoirs.

Third, the Company discovered Luda 6-2 mid-scale oil and gas structure through retuning its understanding of the underground reservoir and implementing advanced technology.

Benefiting from the new discoveries and successful appraisals, crude oil reserve replacement ratio reached 144% in Bohai, reflecting Bohai's potential as the core production region for the Company.

For development and production, the Bohai region faced a number of challenges in 2012. There was no new start-up oilfield in Bohai and Penglai 19-3 oilfield did not resume full production for the whole year. To address these challenges, the Company strengthened its management of producing oil and gas fields, and actively implemented measures such as infill drilling and water injection. As a result, production in Caofeidian 11-6, Bozhong 34-1 and Suizhong 36-1 outperformed our expectation.

With regard to oilfields with high decline rate of post-commencement production, such as Qikou 18-2, we seek to understand the underground fractures through careful study of the 3D seismic data to locate our infill drilling wells. The production of those oilfields increased and maintained at a high level after new wells were put into production. The drilling technology and reservoirs studies had been applied to other adjustment programs in oilfields with medium-to-deep formation as well as with medium to low permeability, which contributed to the steady performance of mature oilfields in Bohai.

The Company, through its efforts, overcame various adverse factors and achieved a slight increase in net production in Bohai.

### Western South China Sea

Western South China Sea is one of the most important natural gas production areas for the Company. Currently, the typical water depth of the Company's operation area in this region ranges from 40 to 120 meters. As of the end of 2012, the reserves and daily production volume in Western South China Sea reached 622.2 million BOE and 135,007 BOE/day, respectively, representing approximately 17.8% and 14.4%, respectively, of the Company's total reserves and daily production.

In 2012, the Company had one independent new discovery, Dongfang 13-2, and one PSC new discovery, Weizhou 6-12 North, in Western South China Sea, and successfully appraised three oil and gas structures, including Dongfang 13-2, Weizhou 11-7 North and Weizhou 11-4 North.

For the Yinggehai Basin, the Company continued to achieve exploration results of natural gas under the high temperature and high pressure environment. In addition to the successful appraisal of Dongfang 13-1 medium formation, which was discovered in 2011, the Company again discovered Dongfang 13-2 large-scale gas field, further enhancing the exploration performance in this field.

As for development and production, the Company continued to implement streamlined management, and optimize the production process for all oil and gas fields. Meanwhile, the Company minimized the impact of typhoons and maintenance downtime on its production activities through thorough planning.

### Eastern South China Sea



Eastern South China Sea is one of the Company's most important crude oil producing areas. Currently, the typical water depth of the Company's operating 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 2012, the reserves and daily production volume in Eastern South China Sea reached 550.0 million BOE and 155,070 BOE/day, respectively, representing approximately 15.8% and 16.6%, respectively, of the Company's total reserves and daily production.

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The Company made breakthroughs in deepwater exploration and continued to achieve new discoveries from rolling exploratory activities in Eastern South China Sea in 2012. The Company achieved three independent discoveries, namely Liuhua 29-2, Enping 18-1 and Lufeng 15-1, in 2012. In addition, the Company successfully appraised one oil and gas structure, Panyu 35-1. The discovery of Liuhua 29-2 deepwater gas field marked an important milestone for the Company's independent deepwater exploration endeavours.

In 2012, the Company overcame unfavorable factors such as typhoons and equipment modification for oil and gas fields. Net oil and gas production derived from Eastern South China Sea rose steadily, mainly attributable to the active implementation of infill drilling in mature oilfields. The full deployment of enhanced recovery measures also helped to increase production. For example, the infill drilling has significantly increased the production of Xijiang 24-3 oilfield. Also, the increased infill drilling activities of Xijiang 30-2 oilfield and Lufeng 13-1 oilfield contributed to production growth.

The Company actively coordinated with its partner to promote the development and construction of the first large-scale deepwater natural gas project Liwan 3-1 in offshore China. Currently, the project has been making steady progress and is expected to commence production at the end of 2013.

### 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 2012, approximately 2.1% of the Company's reserves and 0.8% of the Company's production were derived from East China Sea.

In 2012, the Company continued to focus on exploration surrounding the existing production facilities and oil and gas fields and strengthen the exploration and development of oil and gas reservoirs with low permeability, which achieved positive results and laid a strong foundation for future growth in production.

In addition, the Company has actively promoted regional development of gas fields in East China Sea, consolidated design work, reviewed and negotiated gas prices with downstream users, and ensured the progress of projects as scheduled.

In 2012, as a result of increased gas delivery volume to downstream users, the Company's production volume in East China Sea increased significantly.

### Overseas

#### Asia

Asia was the first overseas region that the Company entered into and has become one of its major overseas oil and gas producing areas. Currently, the Company holds oil and gas assets in Asia mainly in Indonesia and Iraq. As of the end of 2012, the reserves and daily production volume derived from Asia (excluding China) reached 207.5 million BOE and 43,752 BOE/day, respectively, representing approximately 5.9% and 4.7%, respectively, of the Company's total reserves and daily production.

#### Indonesia

In Indonesia, the Company maintains ownership interests in primarily the following contracts: the SES PSC, the Malacca Strait PSC and the Poleng Technical Assistance Contract. Among these, the Company is the operator of the

SES block and owns approximately 65.54% of its interests. All these contracts are currently at the production stage.

The Company also owns approximately 13.90% interests in the Tangguh LNG Project in Indonesia. Located in West Papua and comprised three blocks, namely Berau, Muturi and Wiriagar, this

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project commenced production in 2009.

In addition, the Company owns interests in the following PSCs: the South East Palung Aru PSC, the Batanghari PSC and the Madura Strait PSC.

In Indonesia, the Company made four new discoveries in 2012, all located in established regions. The production facilities of our existing oil and gas fields could be leveraged for economic development of these new discoveries.

In 2012, given that the oil and gas fields in the SES areas are matured fields with high water concentration and decline rate, the Company adopted measures to stabilize and increase production and to control decline rate.

### Iraq

In 2010, the Company entered into a technical service contract for the development and production of the Missan oilfields in Iraq, pursuant to which the Company acts as the lead contractor and holds 63.75% participating interest.

Through the Company's efforts, the project reached its required production level in 2012, and entered the cost recovery period, starting to make contribution to the Company's production growth.

As the Missan Project is a technical service contract, its cost of operation is relatively high and consequently raised the cost for the Company. Nevertheless, major oil and gas companies in the world have all entered into the exploration and development industry in the Middle East through technical service contracts, demonstrating an industry consensus on the future growth of the area.

### Other Regions in Asia

The Company owns interests in several blocks in Myanmar, Papua New Guinea 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 2012, the reserves and daily production volume derived from Oceania reached 96.8 million BOE and 24,628 BOE/day, respectively, representing approximately 2.8% and 2.6%, respectively, of the Company's total reserves and daily 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 end-users including the Dapeng LNG Terminal in Guangdong, China.

In 2012, the North West Shelf Project generated stable production and healthy returns.

### Africa

The Company has a relatively large reserve base in Africa. The Company's assets in Africa are primarily located in Nigeria and Uganda. As of the end of 2012, the reserves and daily production volume derived from Africa reached 135.7 million BOE and 56,998 BOE/day, respectively, representing approximately 3.9% and 6.1%, respectively, of the Company's total reserves and daily production.



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### Nigeria

The Company owns a 45% interest in the OML 130 block in Nigeria, which is a deepwater project and comprises four oilfields, namely, Akpo, Egina, Egina South and Preowei. The Akpo oilfield commenced production in March 2009. In 2012, the Akpo oilfield generated stable production.

In 2012, the Company continued to carry out preliminary development work with the operator of the other three oilfields, including the Egina oilfield. The Egina oilfield is expected to commence comprehensive construction in 2013.

### Uganda

In 2011, the Company entered into a sales and purchase agreement with Tullow and TOTAL S.A. to acquire one-third of the interest in each of Exploration Areas (“EA”) 1, 2 and 3A in Uganda from Tullow. EA 1, 2 and 3A are located at the Lake Albert Basin in Uganda, which is one of the most promising basins with oil and gas resources in Africa.

In February 2012, the Company and Tullow completed the acquisition. The Company will operate the new Kanywataba exploration license in the former EA 3A, and the Kingfisher production license which was converted due to the discovery in the former EA 3A. Tullow and TOTAL S.A. will operate EA 2 and EA 1, respectively.

In 2013, the Company will actively facilitate the development of the Kingfisher oilfield.

### Other Regions in Africa

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

### North America

The Company holds interests in the oil and gas exploration areas in the U.S., Canada and Trinidad and Tobago in North America, as well as part of the shares of MEG Energy Corporation (“MEG”) in Canada. As of the end of 2012, the Company’s reserve and daily production volume derived from North America reached 353.7 million BOE and 36,183 BOE/day, respectively, representing approximately 10.1% and 3.9%, respectively, of the Company’s total reserves and daily production.

### The U.S.

The Company has acquired a 33.3% interest in each of two shale projects in the U.S., namely the Eagle Ford project, which is located in South Texas with 600,000 net acres, and the Niobrara project, which is located in northeast Colorado and southeast Wyoming with 800,000 net acres. Chesapeake is the operator of these projects.

The Eagle Ford project commenced production in 2012 and achieved a considerable increase in production volume. In addition, the Niobrara project has accelerated its contribution to the production of the Company.

The shale oil and gas resources have become one of the growth areas for the world’s oil and gas exploration and development. The Company expects that participation in this field could support its sustainable growth in the future.

In addition, the Company owns several exploration blocks in Alaska.



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### Canada

Canada is one of the countries with rich oil sands resources. As oil sands are expected to become one of the new growth areas of oil and gas exploration and development in the future, the Company believes that participation in oil sands development would enable us to achieve sustainable growth.

In 2005, the Company acquired part of shares of MEG in Canada. In August 2010, MEG's shares started trading on the Toronto Stock Exchange in Canada, resulting in considerable appreciation of the value of the Company's shares in MEG. As of the end of 2012, the Company owns 12.39% of the shares of MEG.

In 2011, the Company completed the acquisition of OPTI Canada Inc. ("OPTI"), an oil sands producer in Canada. The major assets of OPTI includes a 35% working interest in Long Lake and interests in three other oil sands projects located in the Athabasca region of northeastern Alberta.

In addition, the Company owns a 60% interest in Northern Cross (Yukon) Limited, which owns oil and gas exploration blocks in the Yukon area in Canada.

### Trinidad and Tobago

In 2009, the 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 commenced production of crude oil in 2005. With natural gas field start up in 2011, the production volume in this region increased significantly.

### South America

The Company mainly holds a 50% interest in Bidas Corporation ("Bidas"). The Company's interest in this project is accounted by the equity method. As of the end of 2012, the Company's reserves and daily production volume derived from South America reached 287.6 million BOE and 44,634 BOE/day, respectively, representing approximately 8.2% and 4.8%, respectively, of the Company's total reserves and production.

### Argentina

In March 2010, the Company announced to form a 50%-50% joint venture with Bidas Energy Holding Ltd. ("BEH") in Bidas Corporation for a consideration of approximately US\$3.1 billion in cash. The transaction was already completed. Each of the Company and BEH holds a 50% interest in Bidas and makes management decisions jointly. Bidas holds a 40% interest in Pan American Energy in Argentina ("PAE").

Through its affiliates (including the interest in PAE), Bidas has oil and gas exploration and production activities in Argentina. Following the acquisition, the Company designated senior management staff to participate in the daily management of Bidas. In 2012, the production enhancement measures in Bidas' major producing blocks worked well to maintain stable production.

### Newly added assets after the Nexen deal

The Company completed the acquisition of Nexen Inc. in Canada in February 2013 and further diversified its overseas portfolio. The Company will establish its North and Central America headquarters in Calgary of Canada to manage Nexen's global operations and the Company's existing assets in North and Central America.



In Canada, through this acquisition, we hold 100% of the interests in the Long Lake project and partial interests in several other projects. The Long Lake project is in the production stage. We also hold interests in Syncrude oil sands project, which has been producing for over 34 years. We have also entered into the Horn River and Liard Basins through this acquisition. Horn River Basin, with a total of 300,000 acres, is one of the regions in North America with the high quality shale gas, and with great potential for development.

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In the Gulf of Mexico in the U.S., we own more than 200 exploration blocks with more than 100 exploration targets, containing considerable exploration potential.

In the United Kingdom, we entered into the North Sea for the first time and acquired a portfolio consisting of producing, development and exploration assets, mainly including: 43.2% interest in Buzzard oilfield, which enables us to become the second largest producer in the North Sea, and 36.5% interests in Golden Eagle block.

In Nigeria, we own 20% interests in each of Usan and Usan West offshore oilfields as well as several other discoveries and exploration targets.

## 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 2010, 2011 and 2012.

	Net Production			Average Sales Price		Average Production Cost
	Total	Oil	Gas	Oil	Gas	(US\$/BOE)
	(BOE/day)	(Bbls/day)	(Mmcf/day)	(US\$/bbl)	(US\$/Mmcf)	
2012						
Offshore China						
Bohai	432,285	411,642	123.9	—	—	—
Western South China Sea	135,007	72,672	364.1	—	—	—
Eastern South China Sea	155,070	130,266	148.8	—	—	—
East China Sea	4,925	542	26.3	—	—	—
Subtotal	727,287	615,122	663.1	111.71	6,019	9.28
Overseas						
Asia	43,752	14,883	157.8	112.38	7,752	23.58
Oceania	24,628	4,846	101.1	99.73	3,171	9.26
Africa	56,998	56,998	—	111.39	—	9.41
North America	36,183	27,896	49.7	82.83	1,426	23.80
Subtotal	161,561	104,623	308.6	103.38	5,232	16.45
Total	888,848	719,745	971.7	110.48	5,769	10.58
Equity method investees	46,767	23,020	138.0	—	—	—
2011						
Offshore China						
Bohai	426,190	405,682	123.0	—	—	—
Western South China Sea	138,712	72,006	390.4	—	—	—
Eastern South China Sea	146,864	120,563	157.8	—	—	—
East China Sea	3,453	339	18.7	—	—	—
Subtotal	715,219	598,590	689.9	109.59	5,305	8.50
Overseas						
Asia	53,872	17,427	218.7	115.09	5,647	19.91
Oceania	25,195	5,382	101.1	104.58	3,230	8.48

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Africa	56,348	56,348	—	111.74	—	8.03
North America	9,096	4,836	25.6	93.46	4,481	15.78
Subtotal	144,511	83,993	345.3	110.86	4,850	12.98
Total	859,730	682,582	1,035.2	109.75	5,153	9.25
Equity method investees	49,270	25,704	136.5	—	—	—

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2010(1)

## Offshore China

Bohai	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
Subtotal	148,956	90,419	332.2	79.06	3,614	10.91
Total	868,922	704,988	951.6	77.93	4,494	7.47
Equity method investees	34,010	17,097	98.4	—	—	—

(1) From January 1, 2011, the Company adopted IFRS 10-Consolidated Financial Statements, IFRS 11-Joint Arrangements, IFRS 12-Disclosure of Interest in Other Entities, IAS 27 (Revised)-Separated Financial Statements and IAS 28 (Revised)-Investments in Associates and Joint Ventures before their mandatory effective date on January 1, 2013. Certain comparative figures have been adjusted.

## Drilling and Other Exploratory and Development Activities

The following table sets forth our net exploratory wells and development wells drilled in the years of 2010, 2011 and 2012.

	Net Exploratory Wells Drilled			Net Development Wells Drilled		
	Total	Productive	Dry	Total	Productive	Dry
2012						
Offshore China						
Independent						
Bohai	50	35	15	101	101	—
Western South China Sea	24	9	15	29	29	—
Eastern South China Sea	15	4	11	20	19	1
East China Sea	7	5	2	—	—	—
Subtotal	96	53	43	150	149	1
PSCs						
Bohai	—	—	—	25	25	—
Western South China Sea	3	1	2	—	—	—
Eastern South China Sea	—	—	—	11	11.3	—
East China Sea	—	—	—	2	2	—
Subtotal	3	1	2	38	38	—
Overseas						
Asia	8.2	3.4	4.8	14.5	14.5	—
Oceania	—	—	—	—	—	—
Africa	7.4	5.8	1.6	0.9	0.9	—
North America	60.9	60.7	0.2	127.3	127.3	—
Subtotal	76.5	69.6	6.6	142.7	142.7	—



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2011						
Offshore China						
Independent						
Bohai	39	21	18	106	106	—
Western South China Sea	24	13	11	8	8	—
Eastern South China Sea	14	4	10	19	19	—
East China Sea	5	5	—	—	—	—
Subtotal	82	43	39	133	133	—
PSCs						
Bohai	3	3	—	72	72	—
Western South China Sea	0.5	0.5	—	1.0	1.0	—
Eastern South China Sea	2	2	—	4.5	4.5	—
East China Sea	2.5	2.5	—	2.5	2.5	—
Subtotal	8.0	8.0	—	79.5	79.5	—
Overseas						
Asia	5.0	3.7	1.3	10.0	10.0	—
Oceania	—	—	—	—	—	—
Africa	—	—	—	1.8	1.8	—
North America	0.3	0.2	0.1	145.0	145.0	—
Subtotal	5.3	3.9	1.4	156.8	156.8	—
2010						
Offshore China						
Independent						
Bohai	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	—	—	—	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	—

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## Present Activities

The following tables set forth our present activities as of December 31, 2012.

	Wells Being Drilled		Waterfloods Being Installed	
	Gross	Net	Gross	Net
Offshore China				
Bohai	13	13	392	349
Western South China Sea	8	8	23	23
Eastern South China Sea	6	5	—	—
East China Sea	7	3	—	—
Subtotal	34	29	415	372
Overseas				
Asia	5	3.2	41	26.9
Oceania	—	—	—	—
Africa	2	0.7	1	0.5
North America	137	42.9	—	—
Subtotal	144	46.8	42	27.4

## 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, 2012.

	Productive Wells				Developed Acreage (km <sup>2</sup> )		Undeveloped Acreage (km <sup>2</sup> )	
	Oil		Natural Gas		Gross	Net	Gross	Net
	Gross	Net	Gross	Net				
Offshore China								
Bohai	1,611	1,377.4	29	29	2,296	2,296	43,068	43,068
Western South China Sea	197	184.2	72	61.7	1,705	1,705	73,388	73,388
Eastern South China Sea	286	232.3	16	12.6	1,686	1,686	55,424	55,424
East China Sea	13	3.9	30	12.4	—	—	85,413	85,413
Subtotal	2,107	1,797.9	147	115.6	5,687	5,687	257,292	257,292
Overseas								
Asia	599	351.3	23	7.8	18,596	7,429	61,986	52,843
Oceania	—	—	48	2.5	3,950	209	28,111	19,678
Africa	20	9	—	—	1,295	583	40,908	12,434
North America	845	250.1	4	0.5	335	76	13,593	5,073
Subtotal	1,464	610.4	75	10.8	24,176	8,297	144,598	90,028
Total	3,571	2,408	222	126	29,863	13,984	401,890	347,320

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.





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## Delivery Commitment

We have certain delivery commitments under the take-or-pay contracts for sales of natural gas. In 2012, the annual sales from our largest gas contract contributed to only approximately 0.4% of our total oil and gas sales. Moreover, total revenues from gas sales account for approximately 5.2% of our total revenues in 2012. Therefore, we believe that we did not have any material delivery commitment as of the end of 2012.

## Sales and Marketing

## Sales of Crude Oil

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

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

In 2012, the sluggish growth in the global economy, in particular the economic downturn in developed countries, put a halt to the growth of demand for energy. On the other hand, the U.S. Cushing crude oil inventory has continued to increase due to the increases in net proved reserves and production in the U.S. together with the glitches on transportation pipelines network, thus putting pressure on WTI oil price. Since Asia maintained a strong demand for crude oil, product oil and fuel oil, the realized price for mid to heavy benchmark crude oil in the Far East was rather high, approaching the price level of Brent crude oil.

Capturing the opportunities of strong demand for crude oil in China and the higher benchmark oil prices in the Far East, the Company has been closely monitoring market movements and striving to meet customer demand and realized relatively high oil price.

In 2012, the Company's average realized oil price was US\$110.48/barrel, representing an increase of 0.7% year over year.

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

Sales and Marketing Volumes (mmbbls)(1)	Benchmark Prices	Year ended December 31,		
		2010	2011	2012
Light Crude	APPI(2)			
	Tapis(3)	11.3	12.4	14.1
	Daqing			
Medium Crude	OSP(4)	121.8	114.4	120.2
Heavy Crude	ICP Duri(5)	148.6	136.6	123.5

(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.

#### Sales of Natural Gas

The Company's natural gas sale prices are determined by the Company's negotiations with its customers. The Company's natural gas sales agreements are generally long-term contracts, which normally provide a periodic price adjustment mechanism. The Company's natural gas customers are

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primarily located on the south-eastern coast of China, including Hong Kong Castle Peak Power Company Limited, CNOOC Gas and Power Group, and China BlueChemical Ltd.

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

In 2012, the Company's average realized gas price was US\$5.77/mcf, representing a 12.0% increase over the previous year, primarily due to: (i) the Company negotiated with major customers and increased the sales price after the Chinese government raised the onshore natural gas prices; (ii) higher price for natural gas from oil and gas fields that have commenced production recently; and (iii) higher sales price for certain production of Tangguh LNG in Indonesia in the spot market.

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

Average Realized Prices	Year ended December 31,		
	2010	2011	2012
Crude Oil (US\$/bbl)	77.93	109.75	110.48
Natural Gas (US\$/mcf)	4.49	5.15	5.77
West Texas Intermediate (US\$/bbl)	79.49	95.08	94.10

The international benchmark crude oil price, West Texas Intermediate, was US\$91.82 per barrel as of December 31, 2012 and US\$97.23 per barrel as of March 28, 2013.

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

Revenues sourced in the PRC	Year ended December 31,		
	2010(1)	2011	2012
Revenues sourced outside the PRC	46,405	55,273	63,008
Total revenues	180,036	240,944	247,627
% of revenues sourced outside the PRC	25.8%	22.9%	25.4%

(1) From January 1, 2011, the Company adopted IFRS 10-Consolidated Financial Statements, IFRS 11-Joint Arrangements, IFRS 12-Disclosure of Interest in Other Entities, IAS 27 (Revised)-Separated Financial Statements and IAS 28 (Revised)-Investments in Associates and Joint Ventures before their mandatory effective date on January 1, 2013. Certain comparative figures have been adjusted.

#### 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 2012, the Company continued to focus on the R&D of offshore oil and gas exploration, development and engineering construction to secure stable growth in reserves and production. Certain research findings have applied to operations and have generated positive results. One of the exploration research findings was honored with the Second-Class National Technological Progress Award of China in 2012.

### Major Scientific Project Development

With a view to strengthen key technologies and to proactively develop technologies for the Company's sustainable development in the mid to long term, the Company has established a number of major projects in 2012, primarily including new areas and technologies for offshore oil exploration, efficient development and enhanced oil recovery of offshore oilfield, deepwater oilfield development projects, and exploration technology for oil and gas fields with low porosity and low permeability.

In addition, the Company has completed its research for all of the six major research projects, including the "deepwater high-precision seismic exploration technology", which have obtained the approval and acceptance from China's expert team.

### Innovative Development of Key Technologies

To provide strong technical support for new discoveries of oil and gas reserves and to maintain oil and gas production, the Company has enhanced its efforts in the research and application of exploration development technology in 2012. Our research breakthroughs, including technologies involving the exploration of oil and gas fields with low porosity and low permeability and the recovery of heavy oil in complex thermal fluid, have been utilized in the exploration and development of oil and gas fields, and generated satisfactory results.

In the meantime, the research findings of the "deepwater high-precision seismic exploration technology" have been applied in the exploration and development activities in South China Sea. This marks our success in research in relation to offshore high-precision seismic data acquisition and processing technologies.

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

As an offshore exploration and production company, we face significant operational risks and always emphasize on HSE. The Company promotes the philosophy and culture of HSE among its employees. The Company strives to establish a comprehensive management system to improve employees' awareness of HSE during operations and to strengthen their risk identification and risk management skills.

In 2012, as the Company was rapidly developing its deepwater and overseas businesses, the scope of management in health, safety and environmental protection also expanded accordingly, and the Company faced greater challenges. For this reason, the Company continued to improve the environmental protection management system, promote intrinsic safety management and strengthen inspection and training, ensuring overall stability in health, safety and environmental protection performance. In 2012, the Company met its objectives related to annual health, safety and environmental protection. In production activities, the health, safety and environmental protection system was effectively implemented. There was no accident causing critical casualties throughout the year, and neither was there any liability claims for losses of over RMB1 million.

At the same time, we strictly comply with the regulatory requirements imposed by the governmental authorities, and carry out risk identification and targeted prevention works. Our efforts have been recognized by the governmental

authorities.

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For health, safety and environmental protection information system protection, the Company utilized the environmental management information system to successfully track pollutants in 2012, and adopted categorized management in the risk identification system.

In 2012, the Company's headquarters started to develop an emergency management system to track typhoons, and proactively gave warnings of 14 typhoons, which helped to respond to 12 typhoons that affected our operations. Such well-planned preparation contributed to eventual zero casualties.

In 2012, there was no accident causing critical casualties. The Company's Occupational Safety and Health Administration ("OSHA") statistics were maintained at a good level, and the Company's performance continued to improve.

### Operating Hazards and Uninsured Risks

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

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

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

As of December 31, 2012, we paid an annual insurance premium of approximately US\$93 million and US\$70 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. The coverage under operational insurance policies and construction insurance policies are subject to policy limits of US\$18.9 billion in aggregate and US\$3.2 billion in aggregate, respectively. The coverage under operator's extra-expense and third-party

liabilities insurance policies are mainly subject to policy limits of US\$20 million to US\$200 million for each and every occurrence. The deductible for each insurance policy mainly 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 response 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 response bases are close to our workplaces of operations, and in the event of any oil spill, explosion or other similar events, they would react promptly and assist us in coping with such accidents effectively. We have developed and established a “four-in-one” emergency management system to support our worldwide business, which includes a crisis management plan, an emergency commanding system, an emergency information system and an emergency rescue team. Through constant trainings and exercises, we have comprehensively enhanced our ability to defend risks, minimize the impact of emergency events and maintain our sustainable development.

## Competition

### Domestic Competition

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

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

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

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

### Foreign Competition

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

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



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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,					
	2010(1)		2011		2012	
	Rmb in millions	%	Rmb in millions	%	Rmb in millions	%
Exploration and production	165,166	91.7	211,082	87.6	210,706	85.1
Trading businesses	32,446	18.0	50,469	20.9	50,771	20.5
Unallocated and elimination	(17,576 )	(9.7 )	(20,607 )	(8.6 )	(13,850 )	(5.6 )
Total operating revenues	180,036	100.0	240,944	100.0	247,627	100.0

(1) From January 1, 2011, the Company adopted IFRS 10-Consolidated Financial Statements, IFRS 11-Joint Arrangements, IFRS 12-Disclosure of Interest in Other Entities, IAS 27 (Revised)-Separated Financial Statements and IAS 28 (Revised)-Investments in Associates and Joint Ventures before their mandatory effective date on January 1, 2013. Certain comparative figures have been adjusted.

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, 2012, approximately 74.6% of our total revenue was sourced in the PRC. Our overseas activities are mainly conducted in Indonesia, Myanmar, Iraq, Australia, Nigeria, Uganda, Argentina, the United States, Canada, United Kingdom and other countries.

## Regulatory Framework in the PRC

## Government Control

All of China's petroleum resources are owned by the PRC state. The PRC government exercises regulatory control over oil exploration and production activities in China. We are required to obtain various governmental approvals, including those from the Ministry of Land and Resources, the State Oceanic Administration, the National Development and Reform Commission and the 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.

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.

### Fiscal Regimes for Independent Operations

#### Taxation

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

- production taxes at the rate of 5% on independent production and production under PSCs;
- Resource taxes at the rate of 5% (reduced tax rates may apply to specific products and fields) on the oil and gas sales revenue (excluding production taxes) derived from oil and gas fields under production sharing contracts signed after November 1, 2011 and independent offshore oil and gas fields starting from November 1, 2011, which replaced the royalties for oil and gas fields except for those under production sharing contracts signed before November 1, 2011;
- Mineral resource compensation at the temporary rate of 1% (reduced tax rates may apply) on the oil and gas sales revenue derived by oil and gas fields under production sharing contracts signed after November 1, 2011 and independent offshore oil and gas fields starting from November 1, 2011;
  - export tariffs at the rate of 5% on the export value of petroleum oil;
- business tax at the rates of 3% to 5% or value-added tax at the rate of 6% on other income;
-

city construction tax at the rates of 1% or 7% on the actual paid production taxes, business tax and value-added tax;

- educational surcharge at the rate of 3% on the actual paid production taxes, business tax and value-added tax; and
- local educational surcharge at the rate of 2% on the actual paid production taxes, business tax and value-added tax.

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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, 2010, 2011 and 2012, we had Rmb 6,841 million, Rmb 5,488 million and Rmb 3,363 million (US\$539 million) respectively, in net deferred tax liabilities. See note 12 to our consolidated financial statements included elsewhere in this annual report.

## Royalty

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

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

## Special Oil Gain Levy

In March 2006, the PRC government imposed a special oil gain levy at progressive rates from 20% to 40% on any income derived from sales of locally produced crude oil by an oil exploration and production company at a price which exceeds US\$40 per barrel. In December 2011, the PRC government increased the threshold of the special oil gain levy from US\$40 per barrel to US\$55 per barrel, with effect from November 1, 2011. The special oil gain levy is collected on a quarterly basis. For the years ended December 31, 2010, 2011 and 2012 we incurred approximately Rmb 17.7 billion, Rmb 32.0 billion and Rmb 26.3 billion (US\$4.22 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 current rates of the special oil gain levy are shown in the table below:

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

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

## Fiscal Regimes for PSC Operations

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

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



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When exploitation 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 program to a joint management committee established under the PSC upon the discovery of commercially viable oil and gas reserves. The program 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

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 program and ends when the design, construction, installation, drilling and related research work for the realization of petroleum production as planned have been completed; and (3) the production period begins when commercial production commences and usually lasts for 15 years.

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(3)

5.0% Resource tax payable to the PRC government(3)

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

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	<ol style="list-style-type: none"> <li>1. recovery of current year operating costs by us and foreign partner(s);</li> <li>2. recovery of earlier exploration costs by foreign partner(s);</li> <li>3. recovery of development costs and deemed interest by us and foreign partner(s) based on participating interests; and</li> <li>4. any excess, allocated to the remainder oil.</li> </ol>
32.5%(4)	<p>Remainder oil allocated according to the following formula:</p> <ol style="list-style-type: none"> <li>1. (1-X) multiplied by 32.5% represents share oil payable to the PRC government; and</li> <li>2. X multiplied by 32.5% represents remainder oil distributed according to each partner's participating interest.</li> </ol>

- 
- (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) As a result of the amendment to the Provisional Regulation of PRC Resource Tax by the State Council of the PRC, effective November 1, 2011, the royalties payable to the PRC government have been replaced by resource tax for new PSCs. Pre-existing PSCs are not affected.
- (4) The ratio "X" is agreed in each PSC based on commercial considerations and ranges from 8% to 100%.

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

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

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

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

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

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

Abandonment Costs. Any party to our PSCs shall 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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### Regulatory Framework in Overseas

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

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

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

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

### Taxation

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

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

### 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.



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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, 2010, 2011 and 2012 of approximately Rmb15,825.3 million, Rmb24,964.3 million and Rmb29,406.0 million (US\$ 4,720.0 million), respectively.

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:

- 51% interest in land, various buildings and structures at Yacheng 13-1 Processing Plants, Hainan Province and Hong Kong;
- land, various buildings and structures at Xingcheng JZ 20-2 Natural Gas Separating Plant, Liaoning Province;
  - land, various buildings and structures located at Boxi Processing Plant, Tianjin;
- land, various buildings and structures at Weizhou Terminal Processing Plant, Guangxi Zhuang Autonomous Region;

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- land, various buildings and structures at Suizhong 36-1 Base, Liaoning Province;
- land, various buildings and structures located at Bonan Processing Plant, Shandong Province;



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- land, various buildings and structures located at Dongfang 1-1 Processing Plant, Hainan Province;
- land, various buildings and structures located at Panyu Huizhou Gas Processing Plant, Guangdong Province; and
- land, various buildings and structures located at a Gas Processing Plant, Ningbo, Zhejiang Province.

## Employees and Employee Benefits

During the years ended December 31, 2010, 2011 and 2012, we employed 4,650 persons, 5,377 persons and 10,063 persons, respectively. Of the 10,063 employees we employed as of December 31, 2012, approximately 74.9% were involved in oil exploration, development and production activities, approximately 5.5% 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, 2012, our Indonesian subsidiaries employed 799 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 31 to our consolidated financial statements included elsewhere in this annual report.

As an oil and gas exploration and production company operating in highly competitive markets, we depend in large part on our employees for effective and efficient operations. We devote significant resources to train our employees. During 2012, we held approximately 6,000 training workshops, which

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were attended by approximately over 75,000 person-times of participants. To ensure smooth implementation of our overseas strategy, we have established an international human resources system to attract and retain talent in the international market. In order to enhance the planning and budget control of our labor costs, we have installed target benchmarks in performance appraisals to guide various business units to cut their labor costs and to increase the accuracy of their budgets.

C. ORGANIZATIONAL STRUCTURE

CNOOC indirectly owned or controlled an aggregate of approximately 64.45% of our shares as of March 28, 2013. Accordingly, CNOOC continues to be able to exercise all the rights of a controlling shareholder, including electing our directors and voting to amend our articles of association. Although CNOOC has retained a controlling interest in us, the management of our business will be our directors' responsibility.

The following chart sets forth our controlling entities and our directly-held subsidiaries as of March 28, 2013 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 joint venture, Brijdas 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 (2003) Limited, CNOOC Finance (2011) Limited and CNOOC Finance (2012) 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,	
	2010(1)	2011	2012
Average net realized prices:			
Crude oil (US\$ per bbl)	77.93	109.75	110.48
Natural gas (US\$ per mcf)	4.49	5.15	5.77

(1)

From January 1, 2011, the Company adopted IFRS 10-Consolidated Financial Statements, IFRS 11-Joint Arrangements, IFRS 12-Disclosure of Interest in Other Entities, IAS 27 (Revised)-Separated Financial Statements and IAS 28 (Revised)-Investments in Associates and Joint Ventures before their mandatory effective date on January 1, 2013. Certain comparative figures have been adjusted.

#### 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,		
	2010	2011	2012
Net production of crude oil (bbl/day) (1)	722,086	708,286	742,765
Net production of natural gas (mmcf/day) (1)	1,050.1	1,171.7	1,109.7

(1) Including our interest in equity method investees.

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

### Critical Accounting Policies

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

### Oil and Gas Properties

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

The costs incurred in installing enhanced recovery facilities are capitalized together with the development costs of the relevant oil and gas properties. We treat the costs of unsuccessful exploratory wells and all other exploration costs as expenses when incurred. Productive oil and gas properties and other tangible and intangible costs of producing properties are depreciated using the unit-of-production method on a property-by-property basis under which the ratio of produced oil and gas to the estimated remaining proved developed reserves is used to determine the provision of depreciation, depletion and amortization. Common facilities that are built specifically to service production directly attributed to designated oil and gas properties are amortized based on the proved developed reserves of the respective

oil and gas properties on a pro-rata basis. Common facilities that are not built specifically to service identified oil and gas properties are depreciated using the straight-line method over their estimated

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useful lives. Costs associated with significant development projects are not depreciated until commercial production commences and the reserves related to those costs are excluded from the calculation of depreciation. We amortize capitalized acquisition costs of proved properties by the unit-of-production method on a property-by-property basis based on the total estimated proved reserves.

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

### Reserves Estimation

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

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

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

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

The calculations of recoverable amount of assets require the use of estimates and assumptions. It is reasonably possible that the oil price assumption may change, which may then impact the estimated life of the field and may then require a material adjustment to the carrying value of tangible assets. The Company monitors internal and external indicators of impairment relating to its tangible and intangible assets.

### Business Combinations and Goodwill

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



Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Company's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of

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the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

The acquisition of Nexen was completed in February 2013. Due to the timing of the transaction, the Company is still assessing the allocation of fair values of the assets acquired and liabilities assumed. The Company has not yet been able to analyse all books and records of Nexen, and therefore the initial accounting for the business combination is still incomplete. Accordingly, certain disclosures in relation to the business combination as at the date of the acquisition, such as fair values of assets acquired and liabilities assumed, goodwill recognised (if any) and acquisition-related costs, have not been presented in the consolidated financial statements included elsewhere in this annual report.

### Joint Arrangements

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

### Joint Operations

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

### Joint Venture

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

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

### Fair Value

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

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

### Provisions

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

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

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

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### Deferred Tax

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

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

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit or loss nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in a joint venture, 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.

### 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.

### 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:

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	Year ended December 31,								
	2010(1)			2011			2012		
	(Rmb in millions, except percentages, production data and prices)								
Revenues:									
Oil and gas sales:									
Crude oil	135,558	75.3	%	176,703	73.3	%	181,825	73.4	%
Natural gas	10,576	5.9	%	12,576	5.2	%	12,949	5.2	%
Total oil and gas sales	146,134	81.2	%	189,279	78.6	%	194,774	78.7	%
Marketing revenues	32,446	18.0	%	50,469	20.9	%	50,771	20.5	%
Other income	1,456	0.8	%	1,196	0.5	%	2,082	0.8	%
Total revenues	180,036	100.0	%	240,944	100.0	%	247,627	100.0	%
Net production (million BOE) (2):									
Crude oil	263.6	80.0	%	258.5	77.9	%	271.9	79.4	%
Natural gas	66.0	20.0	%	73.3	22.1	%	70.6	20.6	%
Total net production	329.6	100.0	%	331.8	100.0	%	342.4	100.0	%
Average net realized prices:									
Crude oil (US\$ per bbl)	77.93			109.75			110.48		
Natural Gas (US\$ per mcf)	4.49			5.15			5.77		

(1) From January 1, 2011, the Company adopted IFRS 10-Consolidated Financial Statements, IFRS 11-Joint Arrangements, IFRS 12-Disclosure of Interest in Other Entities, IAS 27 (Revised)-Separated Financial Statements and IAS 28 (Revised)-Investments in Associates and Joint Ventures before their mandatory effective date on January 1, 2013. Certain comparative figures have been adjusted.

(2) Including our interest in equity method investees.

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

	Year ended December 31,					
	2010(1)		2011		2012	
Operating Revenues:						
Oil and gas sales	81.2	%	78.6	%	78.7	%
Marketing revenues	18.0	%	20.9	%	20.5	%
Other income	0.8	%	0.5	%	0.8	%
Total revenues	100.0	%	100.0	%	100.0	%
Expenses:						
Operating expenses	(8.7	)%	(7.6	)%	(8.7	)%
Taxes other than income tax	(3.9	)%	(4.3	)%	(6.3	)%
Exploration expenses	(3.0	)%	(2.2	)%	(3.7	)%
Depreciation, depletion and amortization	(14.9	)%	(12.7	)%	(13.3	)%
Special oil gain levy	(9.8	)%	(13.3	)%	(10.6	)%
Impairment and provision	0.0	%	0.0	%	0.0	%
Crude oil and product purchases	(17.9	)%	(20.9	)%	(20.4	)%
Selling and administrative expenses	(1.7	)%	(1.2	)%	(1.4	)%
Others	(0.5	)%	(0.3	)%	(0.5	)%
	(60.5	)%	(62.4	)%	(64.8	)%

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Interest income	0.3	%	0.5	%	0.4	%
Finance costs	(0.6)	)%	(0.7)	)%	(0.6)	)%
Exchange gain, net	0.6	%	0.3	%	0.1	%
Investment income	0.2	%	0.8	%	1.0	%
Share of profits of associates	0.1	%	0.1	%	0.1	%
Share of profits/(losses) of a joint venture	0.1	%	0.1	%	(0.1)	)%
Non-operating income/(expenses), net	0.1	%	(0.2)	)%	0.4	%
Profit before tax	40.3	%	38.4	%	36.4	%
Income tax expense	(10.1)	)%	(9.3)	)%	(10.7)	)%
Profit for the year	30.2	%	29.2	%	25.7	%

(1) From January 1, 2011, the Company adopted IFRS 10-Consolidated Financial Statements, IFRS 11-Joint Arrangements, IFRS 12-Disclosure of Interest in Other Entities, IAS 27 (Revised)-Separated Financial Statements and IAS 28 (Revised)-Investments in Associates and Joint Ventures before their mandatory effective date on January 1, 2013. Certain comparative figures have been adjusted.

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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.

#### 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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## The U.S. and Canada

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

In respect of oil and gas products derived from Canada, our share of sales is recognized when the ownership of products is transferred at the plant gate. The revenue is calculated net of royalties. In respect of power generated, our share of sales is recognized when the excess power starts to leave the plant gate.

## Unconsolidated Investees

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

## 2012 versus 2011

## Consolidated net profit

Our consolidated net profit decreased 9.3% to Rmb 63,691 million (US\$10,223.1 million) in 2012 from Rmb 70,255 million in 2011. Benefitting from the stable growth in production, oil and gas sales increased continuously in 2012. However, due to the increased investments in exploration and the increased workload on maintenance, workover and well stimulation, the increased proportion of shale oil and gas and oil sands projects with relatively higher costs, as well as the full utilisation of investment tax credits applicable to Nigeria OML130 project in 2011, our net profit decreased compared with last year.

## Revenues

Our oil and gas sales, realized prices and sales volume in 2012 are as follows:

	2012	2011	Change	Change (%)	
Oil and gas sales (Rmb million)	194,774	189,279	5,495	2.9	%
Crude oil	181,825	176,703	5,122	2.9	%
Natural gas	12,949	12,576	373	3.0	%
Sales volume (million BOE)	322.6	314.0	8.6	2.7	%
Crude oil (million barrels)	260.8	249.3	11.5	4.6	%
Natural gas (bcf)	356	378	(22)	(5.8)	%
Realized prices					
Crude oil (US\$/barrel)	110.48	109.75	0.73	0.7	%
Natural gas (US\$/mcf)	5.77	5.15	0.62	12.0	%
Net production (million BOE)	342.4	331.8	10.6	3.2	%
China	267.0	261.9	5.1	1.9	%
Overseas	75.4	69.9	5.5	7.9	%

The increase of our oil sales was primarily due to the significant increase of production in North American shale oil and gas projects and the production from the acquired oil sands project in Canada at the end of 2011.

The increase of our gas sales was primarily due to the commencement of production of Yacheng 13-4 in offshore China and the increase in realized overseas gas prices as a result of our increased gas sales in the spot market by capturing the opportunities from the increase of spot market gas prices in Southeast Asia.

In 2012, our oil and gas net production was 342.4 million BOE (including our interest in equity-accounted investees), of which offshore China and overseas operations contributed 267.0 million BOE and 75.4 million BOE, respectively. The overseas production accounted for 22.0% of our total net production in 2012, compared with 21.1% in 2011.

#### Operating expenses

Our operating expenses increased 17.4% to Rmb 21,445 million (US\$3,442.2 million) in 2012 from Rmb 18,264 million in 2011. Operating expenses per BOE increased 13.3% to Rmb 65.9 (US\$10.58)

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per BOE in 2012 from Rmb 58.2 per BOE in 2011. Operating expenses per BOE offshore China increased 8.1% to Rmb 57.8 (US\$9.28) per BOE in 2012 from Rmb 53.5 per BOE in 2011, mainly attributable to the increased workload on maintenance, workover and well stimulation. Overseas operating expenses per BOE increased 25.4% to Rmb 102.5 (US\$16.45) per BOE in 2012 from Rmb 81.7 per BOE in 2011. These increases were primarily contributed by the increased production proportion from oil sands in Canada, which has higher operating cost than conventional projects, and the commencement of production of Iraq technical service contract.

## Taxes other than income tax

Our taxes other than income tax increased 51.3% to Rmb 15,632 million (US\$2,509.1 million) in 2012 from Rmb 10,332 million in 2011, primarily as a result of payment of resource tax for operations in offshore China since November 2011.

## Exploration expenses

Our exploration expenses increased 73.3% to Rmb 9,043 million (US\$1,451.5 million) in 2012 from Rmb 5,220 million in 2011, primarily as a result of our continuously enhancing exploratory activities in offshore China. In 2012, we acquired 16,100 km<sup>2</sup> 2D seismic data and 26,700 km<sup>2</sup> 3D seismic data offshore China, among which the collection of 3D seismic data represented an increase of 3,300 km<sup>2</sup> from 2011. Our continuing efforts in exploration has led to a series of important reserves discoveries and upgrade. In addition, our investment in drilling also increased continuously. Our independent exploration activities consisted of 96 exploration wells, increased by 17.1% from 82 exploration wells. Dry hole expenses increased 101.4% to Rmb 3,999 million (US\$ 641.9 million) in 2012 from Rmb 1,986 million in 2011, including costs of some uncertain wells those were capitalized previously and written off according to appraisal result this year. In addition, due to the unfavorable exploration drilling results, some of the unproved properties of shale oil and gas project located in North America were written off in 2012, which also contributed to the increase of exploration expenses.

## Depreciation, depletion and amortization

Our depreciation, depletion and amortization increased 7.8% to Rmb 32,903 million (US\$5,281.3 million) in 2012 from Rmb 30,521 million in 2011. Our average depreciation, depletion and amortization per BOE, excluding the dismantlement-related depreciation, depletion and amortization, increased 5.9% to Rmb 92.1 (US\$14.78) per BOE in 2012 from Rmb 86.9 per BOE in 2011. These increases were mainly attributable to the increased production proportion from shale oil and gas and oil sands projects overseas, which have higher depreciation per BOE.

The dismantlement-related depreciation, depletion and amortization costs decreased 9.6% to Rmb 2,946 million (US\$ 472.9 million) in 2012 from Rmb 3,258 million in 2011. Our average dismantling costs per BOE decreased 12.8% to Rmb 9.06 (US\$1.45) per BOE in 2012 from Rmb 10.38 per BOE in 2011. The main reason for these decreases was because, according to the latest estimated dismantlement scheme in 2012, the Company adjusted the dismantlement obligations of some oil and gas fields in offshore China.

## Special Oil Gain Levy

Our Special Oil Gain Levy decreased 17.8% to Rmb 26,293million (US\$4,220.3 million) in 2012 from Rmb 31,982 million in 2011, primarily benefiting from the PRC government's increase in the levy threshold from US\$40 to US\$55 (effective from November 2011).

## Selling and administrative expenses

Our selling and administrative expenses increased 18.3% to Rmb 3,377 million (US\$542.0 million) in 2012 from Rmb 2,854 million in 2011. Our selling and administrative expenses per BOE increased 14.1% to Rmb 10.38 (US\$1.67) per BOE in 2012 from Rmb 9.10 per BOE in 2011. These increases were primarily due to the continuous increase in technical research expenses, which was in

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accordance with the Company's strategy of leading future development through technology innovation in the Company's blueprint of "A New Leap Forward".

### Finance costs/Interest income

Our finance costs decreased 6.1% to Rmb 1,603 million (US\$257.3 million) in 2012 from Rmb 1,707 million in 2011, primarily due to the interest and fees paid by the Company upon the early redemption of the first lien notes of Canada oil sand project in 2011. Our interest income decreased 16.2% to Rmb 1,002 million (US\$160.8 million) in 2012 from Rmb 1,196 million in 2011, mainly as a result of less interest earned from the narrowed scale of banking deposits in 2012 and the decreased effective interest rates to increase liquidity for preparation of the closing of the acquisition project of Nexen.

### Exchange gains, net

Our net exchange gains decreased 43.6% to Rmb 359 million (US\$57.6 million) in 2012 from Rmb 637 million in 2011, primarily as a result of the reduced exchange gain of Renminbi/US dollars and Renminbi/HK dollars, partially offset by the exchange gain of Canadian/US dollars during 2012.

### Investment income

Our investment income increased 30.9% to Rmb 2,392 million (US\$383.9 million) in 2012 from Rmb 1,828 million in 2011, primarily attributable to the increase in investments on corporate wealth management products and the optimization of investment portfolios under the condition that the products and portfolios are of good liquidity and low risk.

### Share of profits/(losses) of associates/a joint venture

Due to changes in local preferential tax policy applicable to our joint venture, our share of losses of associates/a joint venture was Rmb 27 million (US\$4.3 million) in 2012, while in 2011, we shared a profit of Rmb 567 million.

### Income tax expense

Our income tax expense increased 18.7% to Rmb 26,481 million (US\$4,250.5 million) in 2012 from Rmb 22,310 million in 2011, and the effective tax rate increased to 29.4% in 2012 from 24.1% in 2011. The increase in effective tax rate was mainly attributable to the full utilisation of investment tax credits applicable to Nigeria OML130 project in 2011.

### 2011 versus 2010

#### Consolidated net profit

Our consolidated net profit increased 29.1% to Rmb 70,255 million in 2011 from Rmb 54,410 million in 2010. The primary driving factor for the profit increase was higher realized prices. However, this positive factor was partially offset by higher special oil gain levy, higher income tax payments due to higher realized prices, and higher operating expenses and depreciation.

#### Revenues

The increase of our oil sales was primarily due to higher oil prices achieved by adopting adaptive marketing policies in the circumstance of higher benchmark oil prices affected by worldwide political conditions and strong domestic demand for crude oil in China. Although our production and sales of crude oil were affected by the Penglai 19-3 oil spill accidents and suspension of production of the OML130 project, we still achieved our production and sales goals set at the beginning of 2011 by expanding capacity of other oilfields and managing the production of new projects.

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The increase of our gas sales was primarily due to increase of gas prices. Having seized the opportunities from the increase of spot market prices for gas in Southeast Asia due to the earthquake in Japan, we increased our gas sales in the spot market in 2011. In addition, in consideration of the development of domestic natural gas market, we have been adjusting our natural gas prices for customers through negotiations since the second half of 2010.

In 2011, our oil and gas production was 331.8 million BOE (including our interest in equity-accounted investees), of which offshore China and overseas operations contributed 261.9 million BOE and 69.9 million BOE, respectively. The overseas production accounted for 21.1% of our total net production in 2011, compared with 20.0% in 2010.

In 2011, our net marketing profit, which is marketing revenues less costs of purchases, decreased 22.9% to Rmb 162 million from Rmb 210 million in 2010, mainly because we had no trading activities in Indonesia in 2011 as the gas production in Indonesia already met the need for the year. Our realized marketing profit margin, which is our marketing profit calculated as a percentage of marketing revenues, decreased from 0.7% in 2010 to 0.3% in 2011, primarily due to a lower profit margin of fixed premium trading, which was caused by the increase in sales volume when oil price was higher in 2011.

### Operating expenses

Our operating expenses increased 16.7% to Rmb 18,264 million in 2011 from Rmb 15,647 million in 2010. Operating expenses per BOE increased 18.0% to Rmb 58.2 per BOE in 2011 from Rmb 49.3 per BOE in 2010. Operating expenses per BOE offshore China increased 19.7% to Rmb 53.5 per BOE in 2011 from Rmb 44.7 per BOE in 2010. These increases were mainly attributable to the increase in raw material prices and supplier service fees as well as the increased operation workload on workover. In addition, due to the extreme weather and other exceptional events, our HSE and maintenance costs also increased accordingly. Overseas operating expenses per BOE increased 13.6% to Rmb 81.7 per BOE in 2011 from Rmb 72.0 per BOE in 2010, primarily contributed by higher operating cost of newly acquired oil sands projects, increased prices of fuel and other resources in Southeast Asia, as well as increased repair cost and reduced production as a result of the equipment failure of OML130 AKPO oilfield.

### Taxes other than income tax

Our taxes other than income tax increased 45.3% to Rmb 10,332 million in 2011 from Rmb 7,109 million in 2010, primarily as a result of increased tax payments due to the increase in higher realized oil and gas prices, as well as payment of resource tax for operations in offshore China since November 2011.

### Exploration expenses

Our exploration expenses decreased 4.8% to Rmb 5,220 million in 2011 from Rmb 5,483 million in 2010, primarily as a result of our continuously enhancing exploratory activities including more wells being drilled and more seismic data being acquired. In 2011, we acquired 18,914 km<sup>2</sup> 2D seismic data, as well as 15,822 km<sup>2</sup> 3D seismic data, representing an increase of 4,935 km<sup>2</sup> from 2010. Our continuing efforts in exploration have led to a series of important discoveries on reserves. In addition, the discovery rate maintained at a high level. Our independent exploration activities consisted of 82 exploration wells, relatively the same as in 2010. Dry hole expenses decreased 33.5% to Rmb 1,986 million in 2011 from Rmb 2,985 million in 2010.

### Depreciation, depletion and amortization

Our depreciation, depletion and amortization increased 14.1% to Rmb 30,521 million in 2011 from Rmb 26,756 million in 2010. Our average depreciation, depletion and amortization per barrel, excluding the dismantlement-related depreciation, depletion and amortization, increased 9.8% to Rmb 86.9 per BOE in 2011 from Rmb 79.1 per BOE in



2010, mainly attributable to the commencement of production on new oil and gas fields as well as comprehensive adjustment projects in recent years, which were developed under the environment of increasing prices of raw materials and services over the past few years. Meanwhile, we conducted comprehensive inspections on production safety conditions of the oil and gas fields offshore China, increased preventive maintenance, and put off some workload on

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stabilization and improvement of production performance, which led to dynamic variations of the production of some oil and gas fields in offshore China and the resulting downward adjustment of related proved reserve estimates.

The dismantlement-related depreciation, depletion and amortization costs increased 96.0% to Rmb 3,258 million in 2011 from Rmb 1,662 million in 2010. Our average dismantling costs per barrel increased 98.1% to Rmb 10.38 per BOE in 2011 from Rmb 5.24 per BOE in 2010. The main reason for these increases was because, according to the PRC government's filing requirement for domestic oil and gas fields abandonment schemes, the estimation methods for the abandonment of oil and gas fields were comprehensively adjusted in 2011, and projected service fees and raw material prices were raised further.

### Special Oil Gain Levy

Our Special Oil Gain Levy increased 80.6% to Rmb 31,982 million in 2011 from Rmb 17,706 million in 2010, primarily as a result of our increased sales volume and higher realized oil prices in offshore China. Benefiting from the PRC government's increase in the levy threshold from US\$40 to US\$55 (effective November 2011), our Special Oil Gain Levy is expected to decrease in the future.

### Selling and administrative expenses

Our selling and administrative expenses decreased 6.1% to Rmb 2,854 million in 2011 from Rmb 3,039 million in 2010 mainly due to the decrease of commission expenses for acquisition projects. Our selling and administrative expenses per barrel decreased 5.1% to Rmb 9.10 per BOE in 2011 from Rmb 9.58 per BOE in 2010.

### Finance costs/Interest income

Our finance costs increased 52.1% to Rmb 1,707 million in 2011 from Rmb 1,122 million in 2010, primarily due to the increase in unwinding of discount on provision for dismantlement in 2011. Our interest income increased 93.5% to Rmb 1,196 million in 2011 from Rmb 618 million in 2010, mainly as a result of more interest earned from the enlarged scale of banking deposits and the increased effective interest rates.

### Exchange gains, net

Our net exchange gains decreased 35.9% to Rmb 637 million in 2011 from Rmb 995 million in 2010, primarily as a result of the decrease in the size of dividends receivable from a subsidiary.

### Investment income

Our investment income increased 328.2% to Rmb 1,828 million in 2011 from Rmb 427 million in 2010, primarily attributable to the increase in investments on corporate wealth management products and the optimization of investment portfolios under the condition that the products and portfolios are of good liquidity and low risk.

### Share of profits of associates/a joint venture

Contributed by good performance of our associated companies/joint venture, our share of profits of associates/a joint venture increased 42.4% to Rmb 567 million in 2011 from Rmb 398 million in 2010.

### Income tax expense

Our income tax expense increased 22.6% to Rmb 22,310 million in 2011 from Rmb 18,193 million in 2010, primarily as a result of the increase in revenues and profit due to the increase of average

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realized oil and gas prices. Our effective tax rate decreased to 24.1% in 2011 from 25.1% in 2010, mainly attributable to the tax benefit obtained in the mechanism of investment tax credit applied to OML130 project in Nigeria, which had better profitability this year.

## B. LIQUIDITY AND CAPITAL RESOURCES

Our primary source of cash during 2012 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,		
	2010(1)	2011	2012
			(Rmb in millions)
Cash generated from (used for):			
Operating activities	70,883	116,171	92,574
Investing activities	(64,203 )	(99,036 )	(63,797 )
Financing activities	(1,610 )	(20,246 )	2,584
Net increase/(decrease) in cash and cash equivalents	5,070	(3,111 )	31,361

(1) From January 1, 2011, the Company adopted IFRS 10-Consolidated Financial Statements, IFRS 11-Joint Arrangements, IFRS 12-Disclosure of Interest in Other Entities, IAS 27 (Revised)-Separated Financial Statements and IAS 28 (Revised)-Investments in Associates and Joint Ventures before their mandatory effective date on January 1, 2013. Certain comparative figures have been adjusted.

### Cash Generated from Operating Activities

In 2012, the decrease in cash inflow from operating activities was mainly attributable to the increase of tax payment and operating expense.

### Cash Used in Investing Activities

In 2012, the cash outflow from investing activities mainly included the payments of (1) Rmb 7,863 million for the acquisition of Uganda assets; (2) Rmb 1,610 million for the acquisition by Bidas of downstream refinery; (3) Rmb 822 million for the increased investment in Finance; and (4) Rmb 708 million to fund Chesapeake's share of drilling and completion costs pursuant to a commitment made at the acquisition of the Niobrara project.

In 2012, our capital expenditures (other than for the acquisitions mentioned above) increased 47.5% to Rmb 54,331 million (US\$8,720.7 million), primarily as a result of the increase in exploration activities and the development of projects under construction. Our development expenditures in 2012 primarily related to the development of the Eagle Ford Shale project, Liwan3-1 and Suizhong36-1 Phase , as well as the expenses incurred for improving recovery factors of the oilfields in production.

In addition, our cash used in investing activities was also attributable to purchase of available-for-sale and held-to-maturity financial assets of Rmb 151,292 million (US\$24,284.0 million). Our cash generated from investing activities was mainly from the proceeds from the sales of available-for-sale and held-to-maturity financial assets in the amount of Rmb 140,359 million (US\$22,529.2 million). Our time deposits with maturity of more than three months decreased by Rmb 7,586 million (US\$1,217.6 million) in 2012.

For 2013, we have budgeted approximately US\$14.3 billion for capital expenditures for exploration and development (excluding those for Nexen). The following table sets forth actual or budgeted capital expenditures on an accrual basis for our key operating areas for the periods indicated.

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	Year ended December 31,				
	2010(1)	2011(1)	2012(1)	2012(1)	2013(2)
	(3)				
	(Rmb million)			(US\$ million)	
Offshore China					
Bohai					
Development	14,802.1	8,400.9	10,954.5	1,758.3	3,183.0
Exploration	2,480.1	3,120.7	4,117.4	660.9	531.8
Western South China Sea					
Development	2,337.6	2,847.5	4,559.0	731.8	718.1
Exploration	1,774.2	2,060.4	2,531.4	406.3	486.9
Eastern South China Sea					
Development	4,484.5	11,474.7	14,755.9	2,368.5	2,391.3
Exploration	1,634.1	1,934.0	2,415.4	387.7	499.3
East China Sea					
Development	137.0	362.9	1,090.4	175.0	396.2
Exploration	512.8	716.1	1,111.5	178.4	107.8
Others					
Development	—	-	—	—	826.1
Exploration	137.8	180.1	395.8	63.5	223.5
Subtotal	28,300.2	31,097.2	41,931.4	6,730.5	9,364.0
Overseas					
Development	3,620.6	8,061.9	15,458.8	2,481.3	4035.1
Exploration	865.4	1,351.4	2,614.5	419.7	853.2
Subtotal	4,486.0	9,413.3	18,073.4	2,901.0	4,888.3
Total	32,786.2	40,510.5	60,004.8	9,631.4	14,252.3

(1) Figures for 2010, 2011, and 2012 represent our actual spending for capital expenditure purposes, including expensed exploration costs.

(2) Figures for 2013 represent our budgeted capital expenditures.

(3) From January 1, 2011, the Company adopted IFRS 10-Consolidated Financial Statements, IFRS 11-Joint Arrangements, IFRS 12-Disclosure of Interest in Other Entities, IAS 27 (Revised)-Separated Financial Statements and IAS 28 (Revised)-Investments in Associates and Joint Ventures before their mandatory effective date on January 1, 2013. Certain comparative figures have been adjusted.

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.”

## Cash Generated from Financing Activities

In 2012, the increase in net cash inflow from financing activities was mainly due to the proceeds of bank borrowings of Rmb 21,459 million (US\$3,444.4 million) and Rmb 12,571 million (US\$2,017.8 million) from the issuance of guaranteed notes, partially offset by the cash outflow of the distribution of dividends of Rmb 15,635 million (US\$2,509.6 million), the repayment of bank loans of Rmb 10,825 million (US\$1,737.5 million) and guaranteed notes of Rmb 3,150 million (US\$505.6 million).

At the end of 2012, our total outstanding debt was Rmb 57,886 million (US\$9,291.3 million), compared to Rmb 37,995 million at the end of 2011. The increase in debt in 2012 was primarily attributable to the issuance of guaranteed notes of US\$2 billion and the increase of short-term bank loans. Our gearing ratio, which is defined as interest-bearing debt dividend by the sum of interest-bearing debt plus equity, was 15.7%, higher than that of 12.6% in 2011.

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We have debt service obligations consisting of principal and interest payments on our outstanding indebtedness. The following table summarizes the maturities of our long-term debt (including the current portion) outstanding as of December 31, 2012.

Due by December 31,	Debt maturities (principal only)		
	Original currency US\$	Total Rmb equivalents	Total US\$ equivalents
	(in millions, except percentages)		
2013	238.8	1,487.6	238.8
2014-2015	84.7	527.8	84.7
2016-2017	102.9	640.9	102.9
2018 and beyond	4,523.9	28,184.5	4,523.9
Total	4,950.3	30,840.7	4,950.3
Percentage of total debt	53.3%	53.3%	53.3%

In May 2012, we, through CNOOC Finance (2012) Limited, our wholly owned subsidiary, issued US\$1,500 million 3.875% guaranteed notes due 2022 and US\$500 million 5.000% guaranteed notes due 2042. The obligations of CNOOC Finance (2012) Limited in respect of the notes are unconditionally and irrevocably guaranteed by us.

On March 22, 2013, the Company unconditionally and irrevocably guaranteed various series of senior unsecured notes for a total outstanding principal amount of approximately US\$3.9 billion following the successful consent solicitation process commenced by Nexen on March 7, 2013.

As of December 31, 2012, we had total foreign currency debt of US\$9,209.40 million, all of which is in U.S. dollars. As of March 28, 2013, we had total foreign currency debt of US\$19,635 million (including, among others, approximately US\$6 billion short-term debt with the maturity of one year for payment of the consideration related to the acquisition of Nexen and approximately US\$3.9 billion indebtedness of Nexen), all of which is in U.S. dollars.

As of December 31, 2012, we had unutilized banking facilities amounting to approximately Rmb 57,662.3 million (US\$9,255.4 million) as compared to Rmb 160,579.8 million as of December 31, 2011. As of March 28, 2013, we had unutilized banking facilities amounting to approximately Rmb 36,944 million (US\$5,930 million).

In 2010, 2011 and 2012, we paid dividends totaling Rmb 15,893.8 million, Rmb 18,392.4 million and Rmb 15,635.1 million (US\$2,509.6 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 2013. 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 and gas exploration, development, production and sales business in the PRC is owned and conducted by CNOOC China Limited, our wholly owned subsidiary in the PRC. Our entire oil and gas exploration, development and production business outside the PRC is owned and conducted by CNOOC International Limited, our wholly owned subsidiary incorporated in the British Virgin Islands, or directly owned by our company itself. International sales of crude oil and natural gas are conducted by China Offshore Oil (Singapore) International Pte Ltd, our wholly owned subsidiary incorporated in Singapore. 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.

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### Inflation/Deflation

According to the China Statistical Bureau, as represented by the general consumer price index, China experienced an overall inflation rate of 3.3%, 5.4% and 2.6% in 2010, 2011 and 2012, respectively. Neither deflation nor inflation has had a significant impact on our results of operations in the respective years.

### Impact of Recently Issued Accounting Standards

#### IFRS and HKFRS

We have adopted the IFRS as issued by the IASB since January 1, 2008. Therefore, our consolidated financial statements for 2012 have been prepared in due compliance with both IFRS and HKFRS (including the early adoption of the following accounting standards before their mandatory effective date of January 1, 2013: IFRS 10/HKFRS 10-Consolidated Financial Statements, IFRS 11/HKFRS 11-Joint Arrangements, IFRS 12/HKFRS 12-Disclosures of Interests in Other Entities, IAS 27 (Revised)/HKAS 27 (Revised)-Separate Financial Statements, and IAS 28 (Revised)/HKAS 28 (Revised)- Investments in Associates and Joint Ventures).

There have been no material changes to IFRSs and HKFRSs during 2012 that would have any material impact on our accounting policies, financial position or results of operations. A number of amendments to IFRSs/HKFRSs become effective beginning on January 1, 2012, which are primarily with a view to remove inconsistencies and clarify wording. The adoption of those amendments upon their effective dates did not have any material impact on our accounting policies, financial position or performance.

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

The 2013 outlook of the global political and economic situation remains complex and tough. The global economic recovery continued to be largely uncertain. On the other hand, China will continue to implement a proactive fiscal policy and prudent monetary policy, and by adhering to the overall goal of “pursuing growth cautiously” for economic and social development, China’s economy is expected to maintain steady growth.

Facing complex and tough external conditions in 2013, the Company is committed to solidifying its foundation for development and carrying out various works in accordance with the Company’s blueprint of “A New Leap Forward”. The Company’s key tasks include:

First, to strive to achieve the annual production target.

Second, to continue to enhance exploration and development efforts.

Third, to strengthen overseas operations.

Fourth, to tighten cost control and further improve efficiency.

Other trend information disclosed elsewhere in this annual report include:

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.

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

We plan to capitalize on the growth potential of the PRC natural gas market, and continue to explore and develop natural gas fields. To the extent we invest in businesses and geographic areas where we have limited experience and expertise, we plan to structure our investments as alliances or partnerships with partners possessing the relevant experience and expertise. In 2013, the large-size gas field Liwan 3-1 in deepwater South China Sea will commence production. We expect that our natural gas production would continue to increase accordingly.

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

For 2013, we have budgeted approximately US\$14.3 billion for capital expenditures for exploration and development (excluding those for Nexen). However, our capital expenditure plans are subject to a number of risks, contingencies and other factors, some of which are beyond our control. 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 2013. 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.

We expect Nexen's oil sands operations will have relatively high production cost.

Other than as disclosed in the paragraphs above under Item 5.D, we are not aware of any trends that are reasonably likely to have a material effect on our net sales or revenues, income from continuing operations, profitability, liquidity or capital resources, or that would cause reported financial information not necessarily to be indicative of future operating results or financial conditions. You are urged to read the forward-looking statements contained elsewhere in this annual report, the cautionary statement on page 9 and the Risk factors on pages 14-21, which describe the risks and uncertainties that may cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. The Company provides no commitment to update the forward-looking statements or to publish financial projections for forward-looking statements in the future.

E. OFF-BALANCE SHEET ARRANGEMENTS

None.

F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table sets forth information regarding our contractual obligations as of December 31, 2012.

Contractual Obligations	Total	Payments due by period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years

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	Rmb million	Rmb million	Rmb million	Rmb million	Rmb million
Long-term debt obligations	30,841	1,488	528	641	28,184
Operating lease obligations	3,137	920	594	450	1,173
Provision for dismantlement(1)	29,406	-	-	-	29,406
Total	63,384	2,408	1,122	1,091	58,763

(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.

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As of December 31, 2010, 2011 and 2012, we had the following capital commitments, principally for the construction and purchase of property, plant and equipment:

Capital Commitments	2010(1) Rmb million	2011 Rmb million	2012 Rmb million
Contracted, but not provided for	9,030	15,219	27,502
Authorized, but not contracted for	45,973	59,584	80,682

(1) From January 1, 2011, the Company adopted IFRS 10-Consolidated Financial Statements, IFRS 11-Joint Arrangements, IFRS 12-Disclosure of Interest in Other Entities, IAS 27 (Revised)-Separated Financial Statements and IAS 28 (Revised)-Investments in Associates and Joint Ventures before their mandatory effective date on January 1, 2013. Certain comparative figures have been adjusted.

The capital commitments do not include investment commitments for acquisitions of equity interest or working interest, which have been disclosed in note 4 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 9 of this annual report.

### ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

#### A. DIRECTORS AND SENIOR MANAGEMENT

In accordance with Hong Kong law and our articles of association, our affairs are managed by our Board, which has 10 members, including two executive directors, four non-executive directors and four independent non-executive directors as of December 31, 2012.

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
Hua Yang	1961	Vice Chairman of our Board and Non-executive Director
Fanrong Li	1963	Executive Director, Chief Executive Officer and President
Guangqi Wu	1957	Executive Director and Compliance Officer
Shouwei Zhou	1950	Non-executive Director
Zhenfang Wu	1952	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

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Guangyu Yuan	1959	Executive Vice President
Weilin Zhu	1956	Executive Vice President
Liguo Zhao	1953	General Counsel
Bi Chen	1961	Executive Vice President
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
Hua Zhong	1960	Chief Financial Officer and Joint Company Secretary (since March 22, 2012)
Zhi Fang	1962	Vice President and General Manager of CNOOC International Limited
Yongzhi Jiang	1973	Former Joint Company Secretary (resigned on March 22, 2012)
May Sik Yu Tsue	1973	Joint Company Secretary

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

## Executive Directors

Fanrong Li Born in 1963, Mr. Li is a professor-level senior engineer. He obtained a B.S. degree majoring in oil production from Jiang Han Petroleum Institute (now Yangtze University) in China 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 nearly 30 years. He joined China National Offshore Oil Corporation (the "CNOOC") in 1984, and worked as Petroleum Engineer, later as Offshore Platform Supervisor, Managing Director of Joint Operating Group, Chief Representative of Joint Management Committee in Operators Group, General Manager of Development and Production Department of the Company and President of CNOOC China Limited Shenzhen Branch. From January 2009 to April 2010, he served as an Assistant President of CNOOC. Mr. Li has worked as President of CNOOC Energy Technology & Services Limited since February 2009, and has served as Vice President of CNOOC since May 2010. Mr. Li was appointed as President of the Company with effect from September 16, 2010, and was appointed as Chief Executive Officer of the Company with effect from November 23, 2011. He also serves as a Director of CNOOC China Limited and CNOOC International Limited, and Chairman and Director of CNOOC Southeast Asia Limited 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. Following the completion of



the acquisition of Nexen Inc., Mr. Li was appointed as its chairman of the board with effect from February 26, 2013.

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Guangqi Wu Born in 1957, Mr. Wu is a geologist, professor-level 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 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 Compliance Officer of the Company since June 1, 2005. He also served as a Director of CNOOC Deepwater Development Limited, a subsidiary of the Company. Mr. Wu also serves as a Director of CNOOC China Limited and CNOOC International Limited, all being the subsidiaries of the Company. Mr. Wu was appointed as an Executive Director of the Company with effect from June 1, 2005.

## Non-executive Directors

Yilin Wang Born in 1956, Mr. Wang is a professor-level senior engineer. He graduated from China University of Petroleum majoring in petroleum geology and exploration and received a doctorate degree. He has over 30 years of working experience in China's oil and gas industry. From June 1996 to September 1999, Mr. Wang served as the deputy director and chief exploration geologist of Xinjiang Petroleum Administration Bureau. From September 1999 to May 2004, he served as the general manager of PetroChina Xinjiang Oilfield Company. From June 2001 to May 2004, he served as the senior executive of Xinjiang Petroleum Administration Bureau. 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.

Hua Yang Born in 1961, Mr. Yang is a professor-level senior engineer and graduated from China University of Petroleum with a B.S. degree in petroleum engineering. He also received an MBA degree from the Sloan School of Management at MIT as a Sloan Fellow. Mr. Yang joined CNOOC in 1982 and has over 30 years of experience in petroleum exploration and production. From 1982 to 1992, Mr. Yang served in a number of positions in CNOOC Research Center including the Director of Field Development Department, the Manager of Reservoir Engineering Department and the Project Manager. Thereafter, Mr. Yang was mainly involved in international business, M&A, corporate finance and capital market operations in the Company and its subsidiaries. From 1993 to 1999, he served as the Deputy Chief Geologist, the Deputy Director and the Acting Director for Overseas Development Department of the Company and the Vice President of CNOOC International Limited, a subsidiary of the Company. 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, President of the Company from March 2009 to September 2010, and was appointed as Vice Chairman of the Board and Chief Executive Officer of the Company with effect from September 16, 2010. Mr. Yang also served as an Assistant President of CNOOC from November 2006 to April 2010 and as Vice President of CNOOC from April 2010 to August 2011. Mr. Yang was appointed as Director and President of CNOOC in August 2011. In addition, he serves as Chairman and Director of CNOOC China Limited and CNOOC International Limited, both being subsidiaries of the Company. He 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 July 2011, Chairman and Director of CNOOC Southeast Asia Limited, a subsidiary of the Company,

from July 2009 to September 2010, Chairman and Director of CNOOC Deepwater Development Limited from January 2010 to September 2010 and a Director of CNOOC Finance Corporation Limited, a subsidiary of CNOOC, from May 2005 to December 2010. Mr. Yang was appointed as an Executive Director of the Company with effect from August 31, 2005. He resigned as Chief Executive Officer of the Company and was re-designated from an Executive Director to a Non-Executive Director of the Company with effect from November 23, 2011.

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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. He also served as Vice President of CNOOC from October 2000 to August 2011. 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.

Zhenfang Wu Born in 1952, Mr. Wu is a professor-level senior engineer and graduated with a bachelor degree from Dalian University of Technology, majoring in Offshore Petroleum Engineering and Construction. He later received an EMBA degree from 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 served as Vice President of CNOOC from August 2004 to February 2013. Mr. Wu also served as the Chairman and President of CNOOC Gas and Power Group, the General Manager of CNOOC Oil & Petrochemicals Co., Ltd., Chairman of CNOOC and Shell Petrochemical Co. Ltd, all being subsidiaries of CNOOC, as well as the Chairman of a number of subsidiaries of CNOOC. Mr. Wu also serves as Chairman of CNOOC Oil & Petrochemicals 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.

## Independent Non-executive Directors

Sung Hong Chiu Born in 1947, Mr. Chiu received an LL.B. degree from the University of Sydney. He was admitted as a solicitor of the Supreme Court of New South Wales and the High Court of Australia. He has over 30 years' experience in legal practice and had been a director of a listed company in Australia. Mr. Chiu was the founding member of the Board of Trustees of the Australian Nursing Home Foundation and served as the General Secretary of the Australian Chinese Community Association of New South Wales. Mr. Chiu is also an Independent Non-executive Director of Tianda Pharmaceuticals Limited (formerly Yunnan Enterprises Holdings Limited, Tianda Holdings Limited) since April 2008, a company listed on The Stock Exchange of Hong Kong Limited. Mr. Chiu is also an Independent Non-executive Director of Bank of China (Australia) Limited (a wholly subsidiary of Bank of China Limited). Mr. Chiu was appointed as an Independent Non-executive Director of the Company with effect from September 7, 1999.

Lawrence J. Lau Born in 1944, Professor Lau graduated with a B.S. (with Great Distinction) in Physics from Stanford University in 1964, and received his M.A. and Ph.D. degrees in Economics from the University of California at Berkeley in 1966 and 1969 respectively. He joined the faculty of the Department of Economics at Stanford University in 1966, becoming Professor of Economics in 1976, the first Kwoh-Ting Li Professor in Economic Development in 1992, and Kwoh-Ting Li Professor in Economic Development, Emeritus in 2006. From 2004 to 2010, Professor Lau served as Vice-chancellor (President) of The Chinese University of Hong Kong. Professor Lau specializes in economic development, economic growth, and the economies of East Asia, including that of China. He has authored,

co-authored, or edited six books and published more than 170 articles and notes in professional journals. 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 Member of the Hong Kong Special Administrative Region Exchange Fund Advisory Committee and its Currency Board and Governance Sub-Committees 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, Non-executive Vice-Chairman of CITIC Capital Holdings Limited, Hong Kong, Non-executive Director of Semiconductor Manufacturing International Corporation, Shanghai, which is listed on the Hong Kong Stock Exchange and the New York Stock Exchange and a Non-executive Independent Director of Far EasTone Telecommunications Company Limited, Taipei, which is listed on the Taiwan Stock Exchange. Professor Lau was appointed as an Independent Non-executive Director of the Company with effect from August 31, 2005.

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Aloysius Hau Yin Tse Born in 1948, Mr. Tse is a fellow of The Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountants (“HKICPA”). Mr. Tse is a past president and a former member of the Audit Committee of the HKICPA. He joined KPMG in 1976, became a partner in 1984 and retired in March 2003. Mr. Tse was a non-executive Chairman of KPMG’s operations in the PRC and a member of the KPMG China advisory board from 1997 to 2000. Mr. Tse is currently an independent non-executive director of China Telecom Corporation Limited, Wing Hang Bank Limited, 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 was appointed as an independent non-executive director of CCB International (Holdings) Limited, a wholly owned subsidiary of China Construction Bank Corporation in March 2013. Mr. Tse is also a member of the International Advisory Council of the People’s Municipal Government of Wuhan. Mr. Tse was appointed as an Independent Non-executive Director of the Company with effect from June 8, 2005.

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

#### Other Members of Senior Management

Guangyu Yuan Born in 1959, Mr. Yuan is an Executive Vice President of the Company, responsible for the operation safety, engineering and construction, and drilling and completion. Mr. Yuan is a professor-level senior engineer. He graduated from 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 31 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



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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 is a professor-level senior engineer. He graduated from Shanghai Tongji University with a Ph.D. degree. Mr. Zhu joined CNOOC in 1982. Prior to 1999, he conducted researches in CNOOC Research Center and served as the Deputy Director and Director of the Research Department and Deputy Chief Geologist and Chief Geologist of the Research Center. From 1999 to 2007, Mr. Zhu served as the Deputy Manager of Exploration Department of CNOOC, Deputy General Manager and General Manager of Exploration Department of the Company, General Manager of CNOOC China Limited Zhanjiang Branch and Vice President of the Company. Mr. Zhu also serves as the Director of CNOOC China Limited 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.

Liguo Zhao Born in 1953, Mr. Zhao is the General Counsel of the Company. He is a professor-level senior economist. He graduated from the Faculty of Law, Peking University in 1983 with a bachelor of laws’ degree. In 1988, he studied at the Law School of Niigata University in Japan for a year. Mr. Zhao joined CNOOC in 1983. He served as Head of Contract 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. Zhao also serves as the Director of CNOOC China Limited and CNOOC International Limited, both being the subsidiaries of the Company. Mr. Zhao was appointed as the General Counsel of the Company effective June 2008.

Bi Chen Born in 1961, Mr. Chen is an Executive Vice President of the Company and is responsible for development, production and sales of the Company. Mr. Chen is a professor-level senior engineer. He graduated from the Southwest Petroleum 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 31 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 the Worker’s Director of CNOOC, a Senior Vice President of the Company and the General Director of CNOOC Research Institute (formerly CNOOC Research Center). He is a professor-level senior engineer. He received his B.S. degree from China University of Petroleum and MBA from Tsinghua University. He has around 30 years of experience in the oil and gas industry. Mr. Chen joined CNOOC in 1984 and



previously served as the Deputy Manager for the Development Department, the Deputy Manager of the Overseas Research Department, the Manager of the Information Department, and the Deputy Director of CNOOC Research Center. He has also served as General Manager of Human Resources Department and Science and Technology Development of CNOOC, and the Senior Vice President of the Company and General Manager of Administration Department of the Company. In July 2003, Mr. Chen was appointed as the Director of CNOOC Research Center (later became President of CNOOC Research Institute). In February 2012, Mr. Chen was appointed as the Worker's Director of CNOOC.

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Guohua Zhang Born in 1960, Mr. Zhang is a Senior Vice President of the Company and the General Manager of CNOOC China Limited Shanghai Branch. He is a professor-level senior engineer. He graduated from Shandong Oceanographic Institute (now Ocean University of China) with a bachelor degree. He studied in the Business Institute of University of Alberta in Canada in 2001. He joined CNOOC in 1982 and served as Deputy Chief Geologist and Manager of Exploration Department of CNOOC Nanghai 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.

Hua Zhong Born in 1960, Mr. Zhong is Chief Financial Officer, Joint Company Secretary and General Manager (Director) of Investor Relations Department (Office for the Board of Directors) of the Company. Mr. Zhong is a professor-level senior economist and senior engineer and graduated from Southwest Petroleum Institute with a bachelor's degree in Oil Exploitation. He received a master's degree in Petroleum Engineering from Heriot-Watt University in the United Kingdom in 1988. He joined CNOOC in 1982, and has been working in the oil and gas industry for over 30 years. From 1982 to 1999, Mr. Zhong served as Petroleum Engineer of China Offshore Oil Nanghai West Corporation ("COONWC"), Expro Northsea Staff in UK, Deputy Manager of Downhole Services Company, Manager of Wei 10-3 Oilfield, Oilfield Superintendent of CNOOC Indonesia Project, Supervisor of Ya 21-1-3 HTHP Well Testing Project, Deputy Manager of Drilling and Exploitation Institute, Manager of Science and Technology Department and Manager of Administration Department of COONWC. From September 1999 to August 2005, Mr. Zhong was General Manager of Administration Department and General Manager of Development and Planning Department of the Company. From August 2005 to September 2010, Mr. Zhong served as Vice President, Executive Vice President, Executive Vice President and Chief Financial Officer of China Oilfield Services Limited, a company listed on The Stock Exchange of Hong Kong Limited and Shanghai Stock Exchange, a subsidiary of CNOOC. On September 16, 2010, Mr. Zhong was appointed as Chief Financial Officer of the Company. On March 22, 2012, Mr. Zhong was appointed as Joint Company Secretary of the Company.

Zhi Fang Born in 1962, Mr. Fang is a Vice President of the Company and the General Manager of CNOOC International Limited and is responsible for the Company's International affairs. He is a professor-level senior engineer. 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 Nanghai East Corporation, Deputy General Manager of CNOOC-AMOCO Liuhua Joint Operating Group, Manager and Deputy General Manager of Exploration and Development Department of CNOOC Nanghai East Corporation, the Depute 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 General Manager of CNOOC International Limited. In December 2011, Mr. Fang was appointed as Vice President and General Manager of International Cooperation Department of the Company and the head of the Foreign Affairs Bureau of CNOOC. In February 2013, Mr. Fang was appointed as Vice Chairman of Nexen Inc.

#### Joint Company Secretaries

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

Yongzhi Jiang Born in 1973, Mr. Jiang was 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 served 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. Mr. Jiang resigned as a Joint Company Secretary of the Company on March 22, 2012.

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May Sik Yu Tsue Born in 1973, Ms. Tsue Sik Yu, May is the Joint Company Secretary of the Company. She graduated from Curtin University of Technology in Australia with a bachelor of commerce in accounting. Ms. Tsue furthered her education at The Hong Kong Polytechnic University in Master of Corporate Governance from 2004 to 2006. She is a fellow member of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries since 2012 and became a member of Company Secretaries Panel and Advisor for Academy of Professional Certification in the same year. Furthermore, she is also a fellow member and certified risk trainer of the Institute of Crisis and Risk Management and an associate member of CPA Australia. From August 1998 to March 1999, Ms. Tsue worked in LG International (HK) Ltd. as a senior accounts clerk. Ms. Tsue joined China Ocean Oilfield Services (HK) Limited in 1999 as an accountant. She helped to manage the finance of CNOOC Insurance Limited since 2000 and became its employee in 2004 as a manager of finance department. She serves as company secretary of CNOOC Insurance Limited since March 2007. Ms. Tsue was appointed as Joint Company Secretary of the Company with effect from November 25, 2008.

## B. COMPENSATION

The aggregate amount of fees, salaries, bonus, housing allowances, other allowances and benefits in kind paid to our directors for the year ended December 31, 2012 was approximately Rmb 8.0 million (US\$1.3 million), while the amount paid to our other senior management for the same period was approximately Rmb 6.2 million (US\$1.0 million). In addition, under our pension plan for 2012, we set aside an aggregate amount of Rmb 801,923 (US\$128,720) 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 492,524 (US\$79,057) to the pension plan for 2012. Each director's annual compensation, including fees, salaries, allowances, benefits in kind, pension benefits and share option benefits, is disclosed in note 10 to our consolidated financial statements included elsewhere in this annual report. Note 11 to our consolidated financial statements included elsewhere in this annual report discloses our five highest paid employees during 2012. For further details regarding share options granted to our directors, officers and employees, see "Item 6—Directors, Senior Management and Employees—Share Ownership." For further details regarding our employee compensation, see "Item 4—Information on the Company—Business Overview—Employees and Employee Benefits."

## C. BOARD PRACTICE

### Committees

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



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The main responsibilities and authorities of our remuneration committee include making recommendations to our Board on our policy and structure of the remuneration of our directors and senior management, determining the service contracts and specific remuneration packages for all executive directors and senior management, such as benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and making recommendations to our Board on the remuneration of non-executive directors and independent non-executive directors. In 2012, 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). Our remuneration committee charter is available on our website, [www.cnoocld.com](http://www.cnoocld.com).

The main authorities and responsibilities of our nomination committee include nominating candidates to serve as our directors and senior management for approval by our Board, reviewing the structure and composition of our Board, and evaluating the leadership abilities of our executive directors so as to ensure our competitive position. Our nomination committee is also responsible for reviewing and monitoring the training and continuous professional development of directors and senior management and make recommendations to our Board in this regard. As of December 31, 2012, our nomination committee consists of Mr. Wang Yilin as chairman, Professor Lawrence J. Lau and Mr. Tao Wang. Mr. Yilin Wang, the Chairman of our Board, was appointed as the Chairman of our nomination committee with effect from March 28, 2012. Mr. Shouwei Zhou ceased acting as the Chairman and a member of our nomination committee with effect from the same day. Our nomination committee charter is available on our website, [www.cnoocld.com](http://www.cnoocld.com).

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

### Directors Service Contracts

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

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

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

#### 1. Board and Committee Independence

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

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

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

### 2. Audit Committee

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

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

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

### 3. Remuneration Committee

NYSE Standards require U.S. domestic issuers to have a compensation committee composed entirely of independent directors. We are not subject to such requirement and have a remuneration committee that consists of two independent non-executive directors and one non-executive director.

NYSE Standards 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, senior management by band and the five highest paid employees in our annual reports according to the requirements of the Hong Kong Stock Exchange Listing Rules.

### 4. Nomination Committee

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





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

## 5. Corporate Governance Guidelines

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

## D. EMPLOYEES

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

## E. SHARE OWNERSHIP

As of March 28, 2013, our directors and employees had the following personal interests in options to subscribe for shares granted under our share option schemes:

Name of Grantee	Number of shares involved in the options outstanding as of January 1, 2012	Number of shares involved in the options outstanding as of March 28, 2013	Date of Grant	Date of Expiration(1)	Closing price per share immediately before the date of grant (HK\$)	Exercise Price (HK\$)
Executive Directors:						
Guangqi Wu	1,610,000	1,610,000	August 31, 2005	August 31, 2015	5.75	5.62
	1,770,000	1,770,000	June 14, 2006	June 14, 2016	5.30	5.56
	1,857,000	1,857,000	May 25, 2007	May 25, 2017	7.43	7.29
	1,857,000	1,857,000	May 29, 2008	May 29, 2018	14.20	14.828
	1,857,000	1,857,000	May 27, 2009	May 27, 2019	9.33	9.93
	1,857,000	1,857,000	May 20, 2010	May 20, 2020	12.22	12.696
Non-executive Directors:						
Hua Yang	1,150,000	—	February 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

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	1,770,000	1,770,000	June 14, 2006	June 14, 2016	5.30	5.56
	1,857,000	1,857,000	May 25, 2007	May 25, 2017	7.43	7.29
	1,857,000	1,857,000	May 29, 2008	May 29, 2018	14.20	14.828
	2,835,000	2,835,000	May 27, 2009	May 27, 2019	9.33	9.93
	2,000,000	2,000,000	May 20, 2010	May 20, 2020	12.22	12.696
			February 24,			
Shouwei Zhou	1,750,000	—	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	1,800,000	May 20, 2010	May 20, 2020	12.22	12.696

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Name of Grantee	Number of shares involved in the options outstanding as of January 1, 2012	Number of shares involved in the options outstanding as of March 28, 2013	Date of Grant	Date of Expiration(1)	Closing price per share immediately before the date of grant (HK\$)	Exercise Price (HK\$)
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	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
Other Employees In Aggregate:						
	10,649,966	—	February 24, 2003	February 24, 2013	2.09	2.108
	17,649,934	17,649,934	February 5, 2004	February 5, 2014	3.13	3.152
	27,230,000	27,230,000	August 31, 2005	August 31, 2015	5.75	5.62
	40,370,000	39,870,000	June 14, 2006	June 14, 2016	5.30	5.56
	47,848,000	46,798,000	May 25, 2007	May 25, 2017	7.43	7.29
	59,283,000	57,795,000	May 29, 2008	May 29, 2018	14.20	14.828
	73,776,000	71,676,000	May 27, 2009	May 27, 2019	9.33	9.93
	90,163,000	85,495,000	May 20, 2010	May 20, 2020	12.22	12.696
<b>Total</b>	<b>420,960,900</b>	<b>397,604,934</b>				

(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.

For the year ended December 31, 2012, no share options granted under our share option schemes were exercised. For the period from January 1, 2013 to March 28, 2013, no share options were exercised.

As of December 31, 2012, we had 411,154,900 share options outstanding under our share option schemes, which represented approximately 0.92% of our shares in issue as of that date.

For further details about our share option schemes, see notes 10 and 28 to our consolidated financial statements included elsewhere in this annual report.

As of March 28, 2013, 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 28, 2013.

Shareholder	Number of Shares Owned	Percentage
CNOOC(1)	28,772,727,273	64.45%

(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

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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 28, 2013, 10,327,400 ADSs were outstanding in the United States, representing approximately 2.3% of our then outstanding shares. At such date, the number of registered ADS holders in the United States was 48.

**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 64.45% 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.

Categories of Continuing Connected Transactions

As we are controlled by CNOOC, transactions with CNOOC, its subsidiaries and associates are disclosed as related party transactions. We entered into a comprehensive framework agreement with CNOOC on November 1, 2010 for the provision (1) by us 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 continuing connected transactions and relevant annual caps were approved by our independent shareholders on November 24, 2010. The annual caps of the “sales of petroleum and natural gas products (other than long term sales of natural gas and liquefied natural gas)” and “provision of exploration and support services” categories for the years 2012 and 2013 were revised in 2012. 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 us
  - (a) Provision of exploration and support services
  - (b) Provision of oil and gas development and support services
  - (c) Provision of oil and gas production and support services
  - (d) Provision of marketing, management and ancillary services
  - (e) FPSO vessel leases
2. Provision of management, technical, facilities and ancillary services, including the supply of materials by us to CNOOC and/or its associates

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

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

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### Pricing principles

The related party/continuing connected transactions referred to in paragraphs 1(a) to 1(d) above provided by CNOOC and/or its associates to us and paragraph 2 above provided by us to CNOOC and/or its associates are based on negotiations with CNOOC and/or its associates on normal commercial terms, or on terms no less favorable than those available to us from independent third parties, under prevailing local market conditions, including considerations such as volume of sales, length of contracts, package of services, overall customer relationship and other market factors.

For services provided by CNOOC and/or its associates to us as described above, on the basis of the above pricing principle, such services must be charged in accordance with the following pricing mechanism and in the following sequential order:

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

The continuing connected transactions referred to in paragraphs 3(a) above provided by us to CNOOC and/or its associates 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 are subject to adjustment in accordance with movements in international oil prices as well as other factors such as the term of the sales agreement and the length of the relevant pipeline.

A detailed discussion of significant connected transactions entered into in the ordinary course of business between us and our related parties during 2012 and the balances arising from connected transactions at the end of 2012 is included in note 30 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 each of the percentage ratios for these categories under the Hong Kong Stock Exchange Listing Rules (other than the profits ratio), where applicable, is expected to be less than 5% on an annual basis:

- 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:

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

We obtained independent shareholders' approval at the extraordinary general meetings held on November 24, 2010 for our continuing connected transactions and the annual caps with CNOOC and/or its associates for the period from January 1, 2011 to December 31, 2013, respectively. The annual caps of the "sales of petroleum and natural gas products (other than long term sales of natural gas and liquefied natural gas)" and "provision of exploration and support services" categories for the years 2012 and 2013 were revised in 2012. The existing 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 10,450 million and Rmb 11,950 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 For the three years ending December 31, and ancillary services, including the supply of 2013, materials to CNOOC and/or its associates 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 195,469 million and  
Rmb 296,722 million, respectively

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(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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The non-exempt continuing connected transactions for the year ended December 31, 2012 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, 2012 did not exceed the applicable annual caps; and we have complied with other relevant provisions of the Hong Kong Stock Exchange Listing Rules in relation to each category of the non-exempt continuing connected transactions.

Transactions with CNOOC Finance Corporation Limited

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

As the financial services framework agreement entered into by us and CNOOC Finance Corporation Limited dated October 14, 2008 expired on December 31, 2010, we entered into a renewal agreement with CNOOC Finance Corporation Limited on August 20, 2010 to renew the financial services framework agreement. 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 9.8 billion for the period from January 1, 2011 (being the effective date of the renewal agreement) to May 30, 2012, and Rmb 18.5 billion (as revised) for the period from May 31, 2012 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.

We confirmed that 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 9.8 billion and Rmb 18.5 billion for the periods from January 1, 2012 to May 30, 2012 and from May 31, 2012 to December 31, 2012, respectively.

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

On August 3, 2012, CNOOC China Limited, our wholly-owned subsidiary, entered into the Coalbed Methane Resources Exploration and Development Cooperation Agreement ("Cooperation Agreement") with China United Coalbed Methane Corporation Limited ("CUCBM") in connection with the exploration, development, production and sale of Coalbed Methane ("CBM") and CBM products within the contract areas (as defined in the Cooperation

Agreement). The term of the Cooperation Agreement commences on the effective date and expires on the later of (i) 30 years from the effective date of the Cooperation Agreement, and (ii) the end of the production period of the last CBM field (as

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defined in the Cooperation Agreement) in the contract areas, unless otherwise agreed by CNOOC China Limited and CUCBM. The Cooperation Agreement and the transactions contemplated thereunder were approved by our independent shareholders on August 21, 2012. As at the date of the Cooperation Agreement, CNOOC China Limited expected to incur total expenses of Rmb 9,933.3 million (being (1) Rmb 9,713.3 million for the initial three years of the five years exploration period, plus (2) the minimum exploration costs of Rmb 220 million as required under the applicable PRC laws and regulations for the remaining two years of the exploration period). CUCBM is connected person of us, hence the Cooperation Agreement constitutes a connected transaction of us under the Hong Kong Stock Exchange Listing Rules.

Capital Injection into CNOOC Finance Corporation Limited

For the purpose of meeting external regulatory requirements as well as enhancing risk resilience and developmental strength, CNOOC China Limited, China Offshore Oil & Gas Development & Utilization Company (“CNOOC Oil & Gas”), an enterprise incorporated in the PRC and a wholly-owned subsidiary of CNOOC, CNOOC, our controlling shareholder, and COOEC, a company limited by shares incorporated in PRC with its shares listed on the Shanghai Stock Exchange and CNOOC as its controlling shareholder, entered into a Capital Injection Agreement (the “Capital Injection Agreement”) with CNOOC Finance Corporation Limited, which is a subsidiary of CNOOC and therefore a connected person of us by virtue of being an associate of CNOOC, on August 27, 2012. Pursuant to the Capital Injection Agreement, CNOOC China Limited, CNOOC, CNOOC Oil & Gas and COOEC agreed to inject further capital into CNOOC Finance Corporation Limited according to their respective holding of equity interests in CNOOC Finance Corporation Limited as at the date of the Capital Injection Agreement (the “Capital Injection”). Under the Capital Injection Agreement, CNOOC China Limited subscribed for CNOOC Finance Corporation Limited’s increased registered capital according to its holding of equity interests therein, which was Rmb 822,084,806 at the date of the Capital Injection Agreement. Upon completion of the Capital Injection, the respective holding of equity interests of CNOOC China Limited, CNOOC, CNOOC Oil & Gas and COOEC in CNOOC Finance Corporation Limited will remain unchanged, being approximately 31.80%, 62.90%, 3.53% and 1.77%, respectively.

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

Save for the Complaint disclosed below and in note 33 (iii) on page F-70 to our consolidated financial statement entitled “Commitments and Contingencies” included elsewhere in this annual report, as at December 31, 2012, the Company was not involved in any material litigation or arbitration and no material litigation or arbitration were pending or threatened or made against the Company so far as the Company is aware.

Dividend Distribution Policy

The payment of any future dividends will be determined by our Board, subject to shareholders’ approval for all dividends other than interim dividends, based upon, among other things, our future earnings, capital requirements, financial conditions, future prospects and other factors which our Board may consider relevant. Our ability to pay

dividends will also depend on the cash flows determined by the dividends, if any, received by us from our subsidiaries and associates. Holders of our shares will be entitled to receive such dividends declared by our Board pro rata according to the amounts paid up or credited as paid up on the shares. Subject to the factors described above, we currently intend to pursue a dividend policy consistent with other international oil and gas exploration and production companies.

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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 2010, we declared and paid dividends totaling Rmb 15,893.8 million. In 2011, we declared and paid dividends totaling Rmb 18,392.4 million. In 2012, we declared and paid dividends totaling Rmb 15,635.1 million (US\$2,509.6 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 605.8 million (US\$97.2 million) in 2012, which was nil in 2011. None of the contributions of CNOOC China Limited to these statutory funds may be used for dividend purposes.

For the years ended December 31, 2010, 2011 and 2012, CNOOC China Limited made the following appropriations to the statutory reserves:

	For the year ended December 31, 2010		For the year ended December 31, 2011		For the year ended December 31, 2012	
	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	0.3	% 154.3	0.2	% 121.8	0.0	% —
Safety fund	1.2	% 628.6	0.8	% 595.1	1.0	% 605.8

## Contingencies

(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") in Nigeria (the "OML130 Transaction") and the OML130 Transaction was completed on 20 April 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 with 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. The Company then filed a suit in the Nigerian Federal High

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Court (“FHC”). In March 2011, the FHC delivered a binding judgment in favour of the Company, agreeing that the Company is not subject to Value Added Tax for the OML130 Transaction. The judgment was appealed by counterparties to the High Court. After seeking legal advice, the Company’s management believes that the Company has reasonable grounds in defending for such appeal. Consequently, no provision has been made for any expenses which might arise as a result of the dispute.

(b) On October 26, 2011, the Company received a notice of assessment from Federal Inland Revenue Service of Nigeria (“FIRS”), confirming that the effective Petroleum Profit Tax (“PPT”) and related tax in the year of 2010 for the Company’s investment in OML130 project, shall be calculated and payable on the basis of the PPT Tax Return prepared by Nigerian National Petroleum Corporation. The Company contested the notice of assessment. On January 13, 2012, the Company, together with SAPETRO (collectively referred to as the “PSC Partners”), has filed an appeal in relation thereto to the local Tax Appeal Tribunal (“TAT”).

The Company received a notice of assessment issued by FIRS on June 13, 2012, stating that the investment tax allowance (“ITA”), instead of investment tax credit (“ITC”), should be applied for the PPT calculation of the Company’s investment in OML130 project. In July 2012, the PSC Partners filed an appeal in relation thereto to the TAT. However, whether TAT has jurisdiction over this dispute is uncertain under the Nigerian Law. In order to protect the right of action, the PSC Partners filed an application to the FHC on September 13, 2012, seeking the permission to file a lawsuit over the application of ITA/ITC dispute at the FHC. The appeal over ITA/ITC dispute at TAT was withdrawn on November 9, 2012.

No verdict has been issued to date, and the result of the appeal is still uncertain.

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

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

On June 21, 2012, the State Oceanic Administration of the PRC (the “SOA”) announced the Accident Investigation and Settlement Report by a Joint Investigation Team on the Penglai 19-3 Oilfield Oil Spill Accidents, pointing out that “the Joint Investigation Team has concluded that COPC violated the oilfield Overall Development Program, had defects in its operation procedures and management, and failed to take necessary precautionary measures against foreseen risks, all of which eventually resulted in the oil spills. The Penglai 19-3 Oilfield Oil Spill Accidents were accidents involving liabilities, causing significant marine pollution by oil spill. Pursuant to the PSC, COPC (the operator of the oilfield) shall bear full responsibility for the oil spill accidents.” On February 16, 2013, the SOA announced, through its official website, that following a series of rectification measures, COPC was permitted to gradually resume the production of the Penglai 19-3 oilfield.

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

(e) On October 11, 2012, the Company was served with process for a purported class action complaint filed by Sam Sinay, individually and on behalf of all others similarly situated, in the United States District Court for the Southern District of New York (the "Complaint"). The Complaint is lodged

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against the Company and certain of its officers, which alleged that during the period between January 27, 2011 and September 16, 2011, the Company made materially false and misleading statements regarding its business and financial results and the oil spill accidents occurred at the Penglai 19-3 oilfield.

The Company believes that the allegations and the claims in the Complaint are without merit and intends to defend itself vigorously against such claims, and no provision has been made in the Company's financial statements. On December 21, 2012, the Company filed a motion to dismiss the Complaint in the same court.

## B. SIGNIFICANT CHANGES

The Company has no other subsequent events needed to be disclosed except those disclosed in note 4-2012(ii) and note 33(iii) (d) to our consolidated financial statements included elsewhere in this annual report.

## ITEM 9. THE OFFER AND LISTING

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

We listed our shares on the Hong Kong Stock Exchange and our ADSs on the New York Stock Exchange in February 2001. Our shares are listed on the Hong Kong Stock Exchange under the stock code "00883" and our ADSs are listed on the New York Stock Exchange under the symbol "CEO." Pursuant to certain undertakings in connection with our acquisition of Nexen, we plan to make an application to list our ADSs for trading on the Toronto Stock Exchange. The proposed listing of our ADSs on the Toronto Stock Exchange is not a new issuance of equity securities and will not generate additional funds for us. We have limited control over whether our application for listing will be approved or when our ADSs will be listed if our application is approved. 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 (HK\$ per share)	Low	High (US\$ per ADS)	Low
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
2011	20.85	11.34	270.64	145.32
2012	18.10	13.28	232.84	173.82
2011 Financial Quarter				
1st Quarter	19.60	16.12	253.04	210.64
2nd Quarter	20.85	17.54	270.64	226.45
3rd Quarter	18.50	11.84	238.01	145.32
4th Quarter	15.76	11.34	210.47	150.35
2012 Financial Quarter				
1st Quarter	18.10	13.58	232.84	174.68
2nd Quarter	16.78	13.28	216.96	173.82
3rd Quarter	16.24	14.16	207.36	180.93
4th Quarter	16.88	15.36	220.00	198.50
2013 Financial Quarter				
1st Quarter	17.34	14.28	226.60	182.62

## Last Six Months

October 2012	16.32	15.36	209.23	198.50
November 2012	16.58	15.74	214.00	202.06
December 2012	16.88	16.38	220.00	210.11
January 2013	17.34	15.76	226.60	203.76
February 2013	16.02	14.98	207.79	194.74
March 2013	15.10	14.28	194.64	182.62

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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 was filed as an exhibit to our annual report on Form 20-F for the fiscal year of 2010. Due to the recent changes in the Hong Kong Stock Exchange Listing Rules, we are required to upload, among other things, our memorandum and articles of association on our website and on the website of the Hong Kong Stock Exchange. We have complied with such requirement and as such, our memorandum and articles of association were further filed as an exhibit to the Form 6-K filed with the SEC on March 30, 2012 (File Number: 1-14966).

Issue of Shares

Under the Hong Kong Companies Ordinance our directors may, without obtaining the prior approval of our shareholders, offer to allot new shares in our company to existing shareholders on a pro rata basis. Our directors may not allot new shares of our company 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 earlier of:

- the conclusion of the next annual general meeting following the passing of the resolution; and
- the date on which the authority given under the resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in a general meeting.

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.

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### 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.

- 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.

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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.

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;

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- 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.

### C. MATERIAL CONTRACTS

We have not entered into any material contracts in the last two years other than in the ordinary course of business, those described in “Item 7 Major Shareholders and Related Party Transactions Related Party Transactions” and the Arrangement Agreement dated July 23, 2012 entered into by us, CNOOC Canada Holding Ltd. and Nexen Inc., which is filed as Exhibit 4.44 to this annual report. For more information about the Arrangement Agreement, see “Item 4—Information on the Company—Business Overview—Overseas—Nexen Acquisition.”

### D. EXCHANGE CONTROLS

For information on foreign exchange controls in the PRC, foreign exchange rates, hedging activities and related foreign exchange risks, see “Item 3—Key Information—Selected Financial Data,” “Item 3—Key Information—Risk Factors—Relating to the PRC—Government control of currency conversion and future movements in exchange rates may adversely affect our operations and financial condition” and “Item 11—Qualitative and Quantitative Disclosure about Market Risk.”

### E. TAXATION

The taxation of income and capital gains of holders of our shares or ADSs is subject to the laws and practices of the PRC, Hong Kong and the jurisdictions in which holders of our shares or ADSs are resident or otherwise subject to tax. The following is a summary of taxation provisions that are anticipated to be material based on current law and practice. This summary is subject to change and does not constitute legal or tax advice. The discussion does not deal with all possible tax consequences relating to an investment in our shares or ADSs. In particular, the discussion does not address the tax consequences under state, local or other laws, such as non-PRC, non-Hong Kong or non-U.S. federal laws. Accordingly, we urge you to consult your tax adviser regarding the tax consequences of owning our

shares and ADSs. The discussion is based upon laws and relevant interpretations in effect as of the date of this annual report, all of which are subject to change. There is no reciprocal tax treaty in effect between Hong Kong and the United States.

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### 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 are required to withhold 10% corporate income tax when we make dividend distributions to our non-Chinese resident enterprise shareholders or ADS holders. The 10% dividend withholding tax rate will not be reduced under the 1984 Agreement between the United States and the People's Republic of China for the Avoidance of Double Taxation, or the PRC Treaty. We distributed the final dividend for the years ended December 31, 2008, 2009 and 2010 and the interim dividend for the periods ended June 30, 2009 and 2010, or the Dividends, after withholding a 10% enterprise income tax in respect of all shareholders whose names appeared on our register of members on the relevant record dates who are not individual natural persons. We did not withhold any tax in respect of Dividends payable to any natural person shareholders whose names appeared on our register of members on the relevant record dates.

Currently, gains realized by foreign individual investors upon the sale of overseas-listed shares or American depositary shares are not subject to tax on capital gains. In accordance with the New EIT Law, capital gains realized by foreign enterprises which are non-resident enterprises in China upon the sale of overseas-listed shares or American depositary shares are generally subject to a PRC enterprise income tax levied at a rate of 10%, unless exempted or reduced pursuant to an applicable double-taxation treaty or other exemption.

### Hong Kong

#### Tax on Dividends

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

#### Profits Tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of property, such as the shares and ADSs. Trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be subject to Hong Kong profits tax which is currently imposed at a rate of 16.5% on corporations and at a 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.

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## U.S. Federal Income Tax Considerations

The following is a discussion of material U.S. federal income tax consequences of owning and disposing of ADSs or shares by the U.S. Holders described below, but it does not purport to be a comprehensive description of all the tax considerations that may be relevant to a particular person's decision to own such ADSs or shares. This discussion does not address the potential application of the "Medicare contribution tax" to "net investment income" of non-corporate U.S. Holders. In addition, this discussion does not address U.S. state, local and non-U.S. tax consequences. The discussion applies only to U.S. Holders who hold ADSs or shares as capital assets for U.S. federal income tax purposes and does not address special classes of U.S. 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;
  - persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
  - partnerships or other entities classified as partnerships for U.S. federal income tax purposes;
    - persons liable for the alternative minimum tax;
    - tax-exempt entities, including "individual retirement accounts" or "Roth IRAs";
    - persons that own or are deemed to own 10% or more of our voting stock;
- persons who acquired our ADSs or shares pursuant to the exercise of an employee stock option or otherwise as compensation; or
  - persons holding shares in connection with a trade or business conducted outside of the United States.

If an entity that is classified as a partnership for U.S. federal income tax purposes owns ADSs or shares, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships owning ADSs or shares and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of owning and disposing of the ADSs or shares.

This discussion is based on the Internal Revenue Code of 1986, as amended, administrative pronouncements, judicial decisions, final, temporary and proposed U.S. Treasury regulations and the PRC Treaty, all as of the date hereof. These laws are subject to change, possibly on a retroactive basis. It is also based, in part, on representations by the Depositary and assumes that each obligation under the Deposit Agreement and any related agreement will be performed in accordance with its terms. U.S. Holders should consult their tax advisers concerning the U.S. federal, state, local and non-U.S. tax consequences of owning and disposing of ADSs or shares in their particular circumstances.

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

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

The U.S. Treasury has expressed concerns that parties to whom American 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 favorable tax rates, described below, applicable to dividends received by certain non-corporate holders. Accordingly, the creditability of foreign taxes and the availability of the favorable tax rates for dividends

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received by certain non-corporate holders, described below, could be affected by actions taken by such parties or intermediaries.

This discussion assumes that we were not a passive foreign investment company, or PFIC, for the taxable year ended December 31, 2012, as described below, and that we will not become a PFIC.

### Taxation of Distributions

Distributions received by a U.S. Holder on ADSs or shares, other than certain pro rata distributions of common shares to all shareholders, will constitute foreign-source dividend income to the extent paid out of our current or accumulated earnings and profits (as determined for U.S. federal income tax purposes). Because we do not maintain calculations of our earnings and profits under U.S. federal income tax principles, it is expected that distributions generally will be reported to U.S. Holders as dividends. Dividends will be included in a U.S. Holder's income on the date of the U.S. Holder's or, in the case of ADSs, the Depositary's receipt of the dividend. The amount of the dividend will equal the U.S. dollar value of the Hong Kong dollar distribution, calculated by reference to the exchange rate in effect on the date of receipt, regardless of whether the payment is converted into U.S. dollars on the date of receipt. If the dividend is converted into U.S. dollars on the date of receipt, a U.S. Holder should not be required to recognize foreign currency gain or loss in respect of the dividend income. A U.S. Holder may have foreign currency gain or loss if the dividend is converted into U.S. dollars after the date of receipt. Corporate U.S. Holders will not be entitled to claim the dividends-received deduction with respect to dividends paid by us.

Subject to applicable limitations and the discussion above regarding concerns expressed by the U.S. Treasury, dividends paid by "qualified foreign corporations" to certain non-corporate U.S. Holders are taxable at rates applicable to long-term capital gains. A foreign corporation is treated as a qualified foreign corporation with respect to dividends paid on stock that is readily tradable on an established securities market in the United States, such as the New York Stock Exchange where our ADSs are traded. A foreign corporation may also be treated as a qualified foreign corporation if it is eligible for benefits of a comprehensive income tax treaty with the United States determined by the U.S. Treasury to be satisfactory for these purposes and that includes an exchange of information program. Non-corporate U.S. Holders should consult their tax advisers to determine whether these favorable rates may apply to dividends they receive from us and whether they are subject to any special rules that limit their ability to be taxed at these favorable rates.

As described in "—Taxation—The PRC," we are regarded as a CRE pursuant to the provisions of the New EIT Law and the Notice. Accordingly, dividends paid with respect to our ordinary shares or ADSs may be subject to PRC withholding taxes. For U.S. federal income tax purposes, the amount of a dividend would include any amounts withheld by us in respect of PRC taxes. Subject to applicable limitations, any PRC income taxes withheld from dividends on ADSs or shares 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, subject to applicable limitations. 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 and such holder's tax basis in the ADSs or shares (each determined in U.S. dollars). Any gain or loss will generally be U.S.-source gain or loss for foreign tax credit purposes.

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

### Passive Foreign Investment Company Considerations

We believe that we were not a PFIC for U.S. federal income tax purposes for our taxable year ended December 31, 2012. In general, a non-U.S. company will be considered a PFIC for U.S. federal income tax purposes for any taxable year in which (i) 75% or more of its gross income consists of passive income or (ii) 50% or more of the average quarterly value of its assets consists of assets that produce, or are held for the production of, passive income. As PFIC status depends upon the composition of our income and assets and the market value of our assets from time to time, and since there are uncertainties in the manner of application of the PFIC rules, there can be no assurance that we will not be considered a PFIC for any taxable year.

If we were to be treated as a PFIC for any taxable year during which a U.S. Holder held ADSs or shares, certain adverse U.S. federal income tax rules would apply on a disposition (including certain pledges) of ADSs or shares by the U.S. Holder. In general, under those rules, gain recognized by the U.S. Holder on a sale or other disposition of ADSs or shares would be allocated ratably over the U.S. Holder’s holding period for the ADSs or shares. The amounts allocated to the taxable year of the sale or other disposition and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for such taxable year, and an interest charge would be imposed on the resulting tax liability for each such taxable year. 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. Certain elections (such as a mark-to-market election) may be available to U.S. Holders and may result in alternative tax treatment.

In addition, if we were to be treated as a PFIC in a taxable year in which we pay a dividend or the prior taxable year, the favorable rates discussed above with respect to dividends received by certain non-corporate U.S. Holders would not apply.

If we are a PFIC for any taxable year, a U.S. Holder may be required to file a 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 may be subject to information reporting and backup withholding, unless the U.S. Holder is an exempt recipient or, in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the 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.

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G.

STATEMENT BY EXPERTS

Not applicable.