

CNOOC LTD
Form 20-F/A
April 19, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F/A

(Amendment No. 1)

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2017

OR

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

OR

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

Date of event requiring this shell company report _____

Commission File Number 1-14966

CNOOC LIMITED

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Hong Kong

(Jurisdiction of incorporation or organization)

65th Floor, Bank of China Tower

One Garden Road, Central

Hong Kong

(Address of principal executive offices)

Jiewen Li

65th Floor, Bank of China Tower

One Garden Road, Central

Hong Kong

Tel +852 2213 2500

Fax +852 2525 9322

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

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

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

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

(Title of Class)

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

(Title of Class)

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

Shares 44,647,455,984

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

Yes No

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

Yes No

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

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

Yes No

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

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer
Emerging growth company

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

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

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

U.S. GAAP

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

Other

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

Item 17 " Item 18 "

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

Yes " No ý

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

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Explanatory Note

This Amendment No.1 to our annual report on Form 20-F for the fiscal year ended December 31, 2017, previously filed on April 19, 2018, is being filed solely for the purpose of (i) adding the section of Supplementary Information on Oil and Gas Producing Activities in the Report of Independent Registered Public Accounting Firm in the 2017 Form 20-F; and (ii) making the following corrections to certain typographical errors in the Report of Independent Registered Public Accounting Firm in the 2017 Form 20-F: adding the total amount on “Impairment” of “(10,768)” and the total amount on “Depreciation charge for the year” of “(60,802)” with respect to Item 13 (Property, Plant and Equipment) on page F-46. As required by Rule 12b-15 of the Securities and Exchange Act of 1934, as amended, the Company is also filing and furnishing as exhibits to this Amendment No.1 the certifications required under Section 302 and Section 906 of the Sarbanes-Oxley Act of 2002, respectively.

This Amendment No.1 speaks as of the filing date of the 2017 Form 20-F on April 19, 2018. Other than as set forth above, this Amendment No.1 does not, and does not purport to, amend, update or restate any other information or disclosure included in the 2017 Form 20-F.

ITEM 18. FINANCIAL STATEMENTS

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

ITEM 19. EXHIBITS

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

Exhibit Number	Document
1.1	<u>Articles of Association of the Registrant, as amended in 2009, incorporated by reference to Exhibit 1.1 to our Annual Report on Form 20-F for fiscal year 2010 filed with the Securities and Exchange Commission (File number: 1-14966) and Exhibit 99.1 to Form 6-K furnished with the Securities and Exchange Commission on March 30, 2012 (File number: 1-14966).</u>
1.2	<u>Memorandum of Association of the Registrant, incorporated by reference to Exhibit 3.2 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862) and Exhibit 99.1 to Form 6-K furnished with the Securities and Exchange Commission on March 30, 2012 (File number: 1-14966).</u>
2.1	<u>Form of Indenture, incorporated by reference to Exhibit 2.1 to our annual report on Form 20-F for fiscal year 2002 filed with the Securities and Exchange Commission (File Number: 1-14966).</u>
2.2	<u>Trust Deed dated December 15, 2004 among CNOOC Limited, CNOOC Finance (2004) Limited and J.P. Morgan Corporate Trustee Services Limited, incorporated by reference to Exhibit 2.2 to our annual report on Form 20-F for fiscal year 2004 filed with the Securities and Exchange Commission (File Number: 1-14966).</u>
2.3	Indentures dated January 26, 2011 among CNOOC Finance (2011) Limited, as Issuer, CNOOC Limited, as Guarantor, and The Bank of New York Mellon, as Trustee*.
2.4	Indentures dated May 2, 2012 among CNOOC Finance (2012) Limited, as Issuer, CNOOC Limited, as Guarantor, Citicorp International Limited, as Trustee, Citibank, N.A., London Branch, as Paying Agent, and Citigroup Global Markets Deutschland AG, as Registrar*.
2.5	<u>Fourth Supplemental Indenture dated March 22, 2013 to the Senior Debt Indenture dated May 4, 2007 among CNOOC Limited, Deutsche Bank Trust Company Americas and Nexen Inc., incorporated by reference to Exhibit 4.1 to Form 6-K furnished with the Securities and Exchange Commission on March 22, 2013 (File number: 1-14966).</u>
2.6	<u>Seventh Supplemental Indenture dated March 22, 2013 to the Trust Indenture dated April 28, 1998 among CNOOC Limited, CIBC Mellon Trust Company, The Bank of New York Mellon and Nexen Inc.,</u>

incorporated by reference to Exhibit 4.2 to Form 6-K furnished with the Securities and Exchange Commission on March 22, 2013 (File number: 1-14966).

2.7 Form of Indenture among CNOOC Finance (2013) Limited, CNOOC Limited and The Bank of New York Mellon, incorporated by reference to Exhibit 4.1 to Form F-3 filed with the Securities and Exchange Commission on May 1, 2013 (File number: 333-188261)

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

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

- 2.8 Form of 1.125% Guaranteed Note due 2016, incorporated by reference to Exhibit 4.2 to Form 6-K furnished with the Securities and Exchange Commission on May 9, 2013 (File number: 1-14966)
- 2.9 Form of 1.750% Guaranteed Note due 2018, incorporated by reference to Exhibit 4.3 to Form 6-K furnished with the Securities and Exchange Commission on May 9, 2013 (File number: 1-14966)
- 2.10 Form of 3.000% Guaranteed Note due 2023, incorporated by reference to Exhibit 4.4 to Form 6-K furnished with the Securities and Exchange Commission on May 9, 2013 (File number: 1-14966)
- 2.11 Form of 4.250% Guaranteed Note due 2043, incorporated by reference to Exhibit 4.5 to Form 6-K furnished with the Securities and Exchange Commission on May 9, 2013 (File number: 1-14966)
- 2.12 Form of Indenture among CNOOC Nexen Finance (2014) ULC, CNOOC Limited and The Bank of New York Mellon, incorporated by reference to Exhibit 4.3 to Post-Effective Amendment No. 1 to Form F-3 filed with the Securities and Exchange Commission on April 22, 2014 (File number: 333-188261)
- 2.13 Form of 1.625% Guaranteed Note due 2017, incorporated by reference to Exhibit 4.2 to Form 6-K furnished with the Securities and Exchange Commission on May 1, 2014 (File number: 1-14966)
- 2.14 Form of 4.250% Guaranteed Note due 2024, incorporated by reference to Exhibit 4.3 to Form 6-K furnished with the Securities and Exchange Commission on May 1, 2014 (File number: 1-14966)
- 2.15 Form of 4.875% Guaranteed Note due 2044, incorporated by reference to Exhibit 4.4 to Form 6-K furnished with the Securities and Exchange Commission on May 1, 2014 (File number: 1-14966)
- 2.16 Form of Indenture among CNOOC Finance (2015) Australia Pty Ltd, CNOOC Limited and The Bank of New York Mellon, incorporated by reference to Exhibit 4.5 to Post-Effective Amendment No.2 to Form F-3 filed with the Securities and Exchange Commission on April 27, 2015 (File number: 333-188261)
- 2.17 Form of Indenture among CNOOC Finance (2015) U.S.A. LLC, CNOOC Limited and The Bank of New York Mellon, incorporated by reference to Exhibit 4.7 to Post-Effective Amendment No. 2 to Form F-3 filed with the Securities and Exchange Commission on April 27, 2015 (File number: 333-188261)
- 2.18 Form of 2.625% Guaranteed Note due 2020, incorporated by reference to Exhibit 4.1 to Form 6-K furnished with the Securities and Exchange Commission on May 5, 2015 (File number: 1-14966)
- 2.19 Form of 3.500% Guaranteed Note due 2025, incorporated by reference to Exhibit 4.2 to Form 6-K furnished with the Securities and Exchange Commission on May 5, 2015 (File number: 1-14966)
- 2.20 Form of 4.200% Guaranteed Note due 2045, incorporated by reference to Exhibit 4.3 to Form 6-K furnished with the Securities and Exchange Commission on May 5, 2015 (File number: 1-14966)
- 4.1 The Asset Swap Agreement dated July 20, 1999 between CNOOC and Offshore Oil Company Limited, incorporated by reference to Exhibit 10.1 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.2 The Asset Allocation Agreement dated July 20, 1999 between CNOOC and Offshore Oil Company Limited, incorporated by reference to Exhibit 10.2 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.3 The Reorganization Agreement dated September 13, 1999 between CNOOC, Offshore Oil Company Limited and CNOOC Limited, incorporated by reference to Exhibit 10.3 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.4 Form of the Equity Transfer Agreement between CNOOC and CNOOC Limited, incorporated by reference to Exhibit 10.4 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).

- 4.5 Form of the Transfer Agreement dated October 1, 1999 between CNOOC and Offshore Oil Company Limited regarding the transfer of the rights and obligations of CNOOC under the 37 PSCs and one geophysical exploration agreement, incorporated by reference to Exhibit 10.5 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.6 Form of Equity Transfer Agreement between China Offshore Oil East China Sea Corporation and Offshore Oil Company Limited regarding the transfer of the rights and obligations under Joint Venture Contract of Shanghai Petroleum and Natural Gas Company Limited dated July 28, 1992 to Offshore Oil Company Limited, incorporated by reference to Exhibit 10.6 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.7 Transfer Agreement dated September 9, 1999 between CNOOC and Offshore Oil Company Limited regarding the transfer of the rights and obligations of CNOOC under the Natural Gas Sale and Purchase Contract dated December 22, 1992 to Offshore Oil Company Limited, incorporated by reference to Exhibit 10.7 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.8 Transfer Agreement dated September 9, 1999 between CNOOC and Offshore Oil Company Limited regarding the transfer of the rights and obligations of CNOOC under the Natural Gas Sale and Purchase Contract dated November 7, 1992 to Offshore Oil Company Limited, incorporated by reference to Exhibit 10.8 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.9 Transfer Agreement dated September 9, 1999 among CNOOC, Offshore Oil Company Limited, the four PRC subsidiaries and CNOOC's affiliates regarding the transfer of the rights and obligations of the technical services agreements to Offshore Oil Company Limited, incorporated by reference to Exhibit 10.9 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.10 Nanshan Terminal Leasing Agreement dated September 9, 1999 between CNOOC, Hainan China Oil and Offshore Natural Gas Company and Offshore Oil Company Limited, incorporated by reference to Exhibit 10.10 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.11 Trademark License Agreement dated September 9, 1999 between CNOOC, Offshore Oil Company Limited and CNOOC Limited, incorporated by reference to Exhibit 10.11 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.12 Trademark License Agreement dated September 9, 1999 between China Offshore Oil Marketing Company, CNOOC Limited and Offshore Oil Company Limited, incorporated by reference to Exhibit 10.12 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.13 Trademark License Agreement between CNOOC, CNOOC Limited and CNOOC China Limited, incorporated by reference to Exhibit 4.13 to our Annual Report on Form 20-F for fiscal year 2008 filed with the Securities and Exchange Commission (File Number: 1-14966).
- 4.14 Trademark License Agreement between CNOOC, CNOOC Limited and CNOOC China Limited, incorporated by reference to Exhibit 4.14 to our Annual Report on Form 20-F for fiscal year 2008 filed with the Securities and Exchange Commission (File Number: 1-14966).
- 4.15 Property Leasing Agreement dated September 9, 1999 between Wui Hai Enterprise Company Limited and Offshore Oil Company Limited in respect of the office premises at 6th, 7th and 8th Floors, CNOOC Plaza, No. 6 Dong Zhi Men Wai Xiao Jie, Beijing, incorporated by reference to Exhibit 10.18 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).

- 4.16 Property Leasing Agreement dated September 9, 1999 between China Offshore Oil Western South China Sea Corporation and Offshore Oil Company Limited in respect of the office premises at 1st to 9th Floors, Nantiao Road, Potou District Zhangjiang, Guangdong, incorporated by reference to Exhibit 10.19 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.17 Property Leasing Agreement dated September 9, 1999 between China Offshore Oil Bohai Corporation and Offshore Oil Company Limited in respect of the office premises at 1st to 7th Floors and 9th Floor, 2-37 He Kou Jie, Tanggu District, Tianjin, incorporated by reference to Exhibit 10.20 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.18 Property Leasing Agreement dated September 9, 1999 between China Offshore Oil East China Sea Corporation and Offshore Oil Company Limited in respect of the office premises at 20th, 22nd and 23rd Floors, 583 Ling Ling Road, Shanghai, the PRC, incorporated by reference to Exhibit 10.21 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.19 Property Leasing Agreement dated September 9, 1999 between China Offshore Oil Eastern South China Sea Corporation and Offshore Oil Company Limited in respect of the office premises at 3rd Floor and 6th to 11th Floors, 1 Second Industrial Road, Shekou, Shenzhen, the PRC, incorporated by reference to Exhibit 10.22 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.20 Property Leasing Agreement dated September 9, 1999 between China Offshore Oil Bohai Corporation and Offshore Oil Company Limited in respect of the Chengbei Warehouse, Chengbei Road, Tanggu District, Tianjin City, the PRC, incorporated by reference to Exhibit 10.23 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.21 Property Leasing Agreement dated September 9, 1999 between Overseas Oil & Gas Corporation, Ltd. and China Offshore Oil (Singapore) International Pte Ltd in respect of the residential premises at 10-01 and 17-002 Aquamarine Tower, 50 Bayshore Road, 13-05 Jade Tower, 60 Bayshore Road, Singapore, incorporated by reference to Exhibit 10.24 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.22 Suizhong Pier Agreement dated September 9, 1999 between Offshore Oil Company Limited and China Offshore Bohai Corporation, incorporated by reference to Exhibit 10.25 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.23 Form of Novation Agreement among CNOOC, CNOOC China Limited, the Banks and other financial institution and the Fuji Bank Limited Hong Kong Branch, as agent, in respect of the transfer of the US\$110 million syndicated loan, incorporated by reference to Exhibit 10.26 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.24 Form of the Undertaking Agreement between CNOOC and CNOOC Limited, incorporated by reference to Exhibit 10.27 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.25 Form of Pre-Global Offering Share Option Scheme for the Senior Management of CNOOC Limited, incorporated by reference to Exhibit 10.31 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.26 Form of Share Option Scheme for the Senior Management of CNOOC Limited, incorporated by reference to Exhibit 10.32 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).

- 4.27 CNOOC Limited Share Option Scheme adopted on December 31, 2005, incorporated by reference to Exhibit 4.37 to our Annual Report on Form 20-F for fiscal year 2005 filed with the Securities and Exchange Commission (File Number: 1-14966).
- 4.28 Subscription Agreement dated March 17, 2000 among CNOOC Limited, CNOOC (BVI) Limited, Overseas Oil & Gas Corporation, Ltd., et al., incorporated by reference to Exhibit 10.33 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.29 Subscription Agreement dated May 31, 2000 among CNOOC Limited, CNOOC (BVI) Limited, Overseas Oil & Gas Corporation, Ltd. and Hutchison International Limited, incorporated by reference to Exhibit 10.34 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.30 Subscription Agreement dated May 31, 2000 among CNOOC Limited, CNOOC (BVI) Limited, Overseas Oil & Gas Corporation, Ltd. and Hong Kong Electric Holdings Limited, incorporated by reference to Exhibit 10.35 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.31 Subscription Agreement dated June 28, 2000 among CNOOC Limited, CNOOC (BVI) Limited, Overseas Oil & Gas Corporation, Ltd., et al., incorporated by reference to Exhibit 10.36 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.32 Corporation Placing Agreement dated February 6, 2001 among CNOOC Limited, China National Offshore Oil Corporation, Shell Eastern Petroleum (Pte) Limited and Merrill Lynch Far East Limited, incorporated by reference to Exhibit 10.37 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
- 4.33 Equity Transfer Agreement dated September 5, 2003 between CNOOC China Limited and CNOOC (Summary Translation), incorporated by reference to Exhibit 4.38 to our annual report on Form 20-F for fiscal year 2003 filed with the Securities and Exchange Commission (File Number: 1-14966).
- 4.34 Framework Agreement dated April 8, 2004 with CNOOC Finance Corporation Limited (Summary Translation), incorporated by reference to Exhibit 4.39 to our annual report on Form 20-F for fiscal year 2003 filed with the Securities and Exchange Commission (File Number: 1-14966).
- 4.35 Framework Agreement dated December 8, 2005 with CNOOC (Summary Translation), incorporated by reference to Exhibit 4.45 to our Annual Report on Form 20-F for fiscal year 2005 filed with the Securities and Exchange Commission (File number: 1-14966).
- 4.36 Framework Agreement dated December 8, 2005 with China Oilfield Services Limited (Summary Translation), incorporated by reference to Exhibit 4.46 to our Annual Report on Form 20-F for fiscal year 2005 filed with the Securities and Exchange Commission (File number: 1-14966).
- 4.37 Framework Agreement dated December 8, 2005 with Offshore Oil Engineering Co., Ltd. (Summary Translation), incorporated by reference to Exhibit 4.47 to our Annual Report on Form 20-F for fiscal year 2005 filed with the Securities and Exchange Commission (File number: 1-14966).
- 4.38 Sale and Purchase Agreement, dated January 8, 2006 between CNOOC Exploration & Production Limited and South Atlantic Petroleum Limited (certain statements, marked with an asterisk in brackets [*], have been omitted from this agreement pursuant to a request for confidential treatment pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended, and the omitted materials have been filed separately in paper form with the Securities and Exchange Commission), incorporated by reference to Exhibit 4.49 to our Annual Report on Form 20-F for fiscal year 2005 filed with the Securities and Exchange Commission (File number: 1-14966).

- 4.39 Framework Agreement dated November 8, 2007 with China BlueChemical Ltd. (Summary Translation), incorporated by reference to Exhibit 4.37 to our Annual Report on Form 20-F for fiscal year 2007 filed with the Securities and Exchange Commission (File number: 1-14966).
- 4.40 Framework Agreement dated November 8, 2007 with CNOOC (Summary Translation), incorporated by reference to Exhibit 4.38 to our Annual Report on Form 20-F for fiscal year 2007 filed with the Securities and Exchange Commission (File number: 1-14966).
- 4.41 Framework Agreement dated November 8, 2007 with China Oilfield Services Limited (Summary Translation), incorporated by reference to Exhibit 4.39 to our Annual Report on Form 20-F for fiscal year 2007 filed with the Securities and Exchange Commission (File number: 1-14966).
- 4.42 Framework Agreement dated November 8, 2007 with Offshore Oil Engineering Co., Ltd. (Summary Translation), incorporated by reference to Exhibit 4.40 to our Annual Report on Form 20-F for fiscal year 2007 filed with the Securities and Exchange Commission (File number: 1-14966).
- 4.43 Framework Agreement dated November 1, 2010 with CNOOC (Summary Translation), incorporated by reference to Exhibit 4.43 to our Annual Report on Form 20-F for fiscal year 2010 filed with the Securities and Exchange Commission (File number: 1-14966).
- 4.44 Arrangement Agreement dated July 23, 2012 among CNOOC Limited, CNOOC Canada Holding Ltd. and Nexen Inc., incorporated by reference to Exhibit 4.44 to our Annual Report on Form 20-F for fiscal year 2012 filed with the Securities and Exchange Commission (File number: 1-14966).
- 4.45 Framework Agreement dated November 6, 2013 with CNOOC (Summary Translation), incorporated by reference to Exhibit 4.45 to our Annual Report on Form 20-F for fiscal year 2014 filed with the Securities and Exchange Commission (File number: 1-14966).
- 4.46 Framework Agreement dated November 15, 2016 with CNOOC (Summary Translation), incorporated by reference to Exhibit 4.46 to our Annual Report on Form 20-F for fiscal year 2016 filed with the Securities and Exchange Commission (File number: 1-14966).
- 4.47 Framework Agreement dated December 1, 2016 with CNOOC Finance (Summary Translation), incorporated by reference to Exhibit 4.47 to our Annual Report on Form 20-F for fiscal year 2016 filed with the Securities and Exchange Commission (File number: 1-14966).
- 8.1 List of Subsidiaries.*
- 10.1 Letter from CNOOC Limited dated May 23, 2002 regarding receipt of certain representations from Arthur Andersen & Co pursuant to the requirements of the Securities and Exchange Commission, incorporated by reference to Exhibit 10 to our annual report on Form 20-F for fiscal year 2001 filed with the Securities and Exchange Commission (File Number: 1-14966).
- 11.1 Code of Ethics for Directors and Senior Officers, as amended in 2017.*
- 12.1 Certification by the Chief Executive Officer in accordance with Section 302 of the Sarbanes-Oxley Act of 2002.
- 12.2 Certification by the Chief Financial Officer in accordance with Section 302 of the Sarbanes-Oxley Act of 2002.
- 13.1 Sarbanes-Oxley Act of 2002 Section 906 Certification furnished to (not filed with) the Securities and Exchange Commission.
- 15.1 2017 Reserves Reports of Ryder Scott Company, L.P.*
- 15.2 2017 Reserves Reports of Gaffney, Cline & Associates (Consultants) Pte Ltd.*

15.3 2017 Reserves Report of RPS*

15.4 2017 Reserves Audit Report of Ryder Scott Company, L.P.*

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- 15.5 2017 Reserves Audit Report of McDaniel & Associates Consultants Ltd.*
- 15.6 2017 Reserves Audit Report of DeGolyer and MacNaughton*
- 15.7 Letter from Ernst & Young (incorporated by reference to Exhibit 15.7 of our Annual Report on Form 20-F (file No. 001-14966) filed with the Securities and Exchange Commission on April 17, 2014).
- 15.8 Consent from Ryder Scott Company, L.P.*
- 15.9 Consent from Gaffney, Cline & Associates (Consultants) Pte Ltd.*
- 15.10 Consent from RPS*
- 15.11 Consent from McDaniel & Associates Consultants Ltd.*
- 15.12 Consent from DeGolyer and MacNaughton*

*Previously filed.

Signature

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F/A and that it has duly caused and authorized the undersigned to sign this Amendment No.1 to this annual report on its behalf.

CNOOC Limited

By: /s/ Jiewen Li

Name: Jiewen Li

Title: Joint Company Secretary

Date: April 19, 2018

CNOOC LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017

TOGETHER WITH REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To Shareholders and the Board of Directors of CNOOC Limited

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of CNOOC Limited (the "Company") and subsidiaries (collectively referred to as "the Group") as of December 31, 2017 and 2016, the related consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity, and consolidated statements of cash flows, for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with International Financial Reporting Standards issued by the International Accounting Standards Board and Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Group's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 29, 2018 expressed an unqualified opinion on the Group's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates

made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

March 29, 2018

We have served as the Company's auditor since 2013.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To Shareholders and the Board of Directors of CNOOC Limited

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of CNOOC Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as of December 31, 2017, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control — Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2017 of the Group and our report dated March 29, 2018 expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's annual report on internal control over financial reporting". Our responsibility is to express an opinion on the Group's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

March 29, 2018

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CNOOC LIMITED**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME****FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017***(All amounts expressed in millions of Renminbi/US\$, except per share data)*

	Notes	2015 RMB million	2016 RMB	2017 RMB	2017 US\$
REVENUE					
Oil and gas sales	4	146,597	121,325	151,888	23,345
Marketing revenues		21,422	20,310	28,907	4,443
Other income		3,418	4,855	5,595	860
		171,437	146,490	186,390	28,648
EXPENSES					
Operating expenses		(28,372)	(23,211)	(24,282)	(3,732)
Taxes other than income tax	10(ii)	(10,770)	(6,941)	(7,210)	(1,108)
Exploration expenses		(9,900)	(7,359)	(6,881)	(1,058)
Depreciation, depletion and amortization	6	(73,439)	(68,907)	(61,257)	(9,415)
Special oil gain levy	10 (iii)	(59)	-	(55)	(8)
Impairment and provision	6, 13	(2,746)	(12,171)	(9,130)	(1,403)
Crude oil and product purchases		(19,840)	(19,018)	(27,643)	(4,249)
Selling and administrative expense		(5,705)	(6,493)	(6,861)	(1,055)
Others		(3,150)	(4,802)	(6,021)	(925)
		(153,981)	(148,902)	(149,340)	(22,953)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES		17,456	(2,412)	37,050	5,695
Interest income	6	873	901	653	100
Finance costs	7	(6,118)	(6,246)	(5,044)	(775)
Exchange (losses)/gains, net		(143)	(790)	356	55
Investment income	6	2,398	2,774	2,409	370
Share of profits/(losses) of associates	15	256	(609)	302	46
Share of profit of a joint venture		1,647	533	553	85
Non-operating income, net		761	574	78	12
PROFIT/(LOSS) BEFORE TAX	6	17,130	(5,275)	36,357	5,588
Income tax credit/(expense)	10(i)	3,116	5,912	(11,680)	(1,795)
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT		20,246	637	24,677	3,793
OTHER COMPREHENSIVE INCOME/(EXPENSE)					
Items that may be subsequently reclassified to profit or loss					
Exchange differences on translation of foreign operations		7,979	10,422	(10,121)	(1,556)

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Share of other comprehensive income/(expense) of associates		74	(127)	36	6
Other items that will not be reclassified to profit or loss					
Fair value change on equity investments designated as at fair value through other comprehensive income	17(ii)	(1,573)	(461)	(542)	(83)
Others		134	12	54	8
OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR, NET OF TAX		6,614	9,846	(10,573)	(1,625)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT		26,860	10,483	14,104	2,168
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT					
Basic (RMB Yuan)	11	0.45	0.01	0.55	US\$0.09
Diluted (RMB Yuan)	11	0.45	0.01	0.55	US\$0.09

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

CNOOC LIMITED**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION****AS OF DECEMBER 31, 2016 AND 2017***(All amounts expressed in millions of Renminbi/US\$)*

	Notes	2016 RMB million	2017 RMB	2017 US\$
NON-CURRENT ASSETS				
Property, plant and equipment	13	432,465	395,868	60,844
Intangible assets	14	16,644	15,070	2,316
Investments in associates	15	3,695	4,067	625
Investment in a joint venture	16	26,300	25,079	3,855
Equity investments	17, 32	4,266	3,540	544
Deferred tax assets	10(i)	24,844	25,509	3,921
Other non-current assets	18	7,422	9,248	1,421
Total non-current assets		515,636	478,381	73,526
CURRENT ASSETS				
Inventories and supplies	19	8,709	7,354	1,130
Trade receivables	20	10,199	8,386	1,289
Due from related companies		13,263	12,914	1,985
Derivative financial assets	32	428	-	-
Equity investments	17, 32	15	14	2
Other financial assets	17, 32	52,889	74,344	11,426
Other current asset		5,977	7,874	1,211
Time deposits with maturity over three month	21	16,830	15,380	2,364
Cash and cash equivalent	21	13,735	12,572	1,932
Total current assets		122,045	138,838	21,339
CURRENT LIABILITIES				
Loans and borrowings	24	14,867	9,360	1,439
Borrowings from the parent company	28	4,811	4,532	697
Trade and accrued payables	22	10,254	10,062	1,547
Due to the parent company	28	215	193	30
Due to related companies	28	15,091	16,651	2,559
Derivative financial liabilities	32	426	-	-
Other payables and accrued liabilities	23	14,651	13,913	2,137
Taxes payable		6,775	6,701	1,030
Total current liabilities		67,090	61,412	9,439
NET CURRENT ASSETS		54,955	77,426	11,900
TOTAL ASSETS LESS CURRENT LIABILITIES		570,591	555,807	85,426
NON-CURRENT LIABILITIES				
Loans and borrowings	24	130,798	118,358	18,191
Provision for dismantlement	25	50,426	52,893	8,130

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Deferred tax liabilities	10(i)	5,670	3,303	508
Other non-current liabilities		1,326	1,278	196
Total non-current liabilities		188,220	175,832	27,025
Net assets		382,371	379,975	58,401
EQUITY				
Equity attributable to owners of the parent				
Issued capital	26	43,081	43,081	6,621
Reserves	27	339,290	336,894	51,780
Total equity		382,371	379,975	58,401

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

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CNOOC LIMITED**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY****FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017***(All amounts expressed in millions of Renminbi)*

	Issued capital	Cumulative translation reserve	Statutory and non-distributable reserves	Other reserves	Retained earnings	Proposed final dividend	Total
Balance at January 1, 2015	43,081	(20,918)	20,000	6,497	319,625	11,325	379,610
Profit for the year	-	-	-	-	20,246	-	20,246
Other comprehensive income/(expense), net of income tax	-	7,979	-	(1,365)	-	-	6,614
Total comprehensive income/(expense)	-	7,979	-	(1,365)	20,246	-	26,860
2014 final dividend	-	-	-	-	58	(11,325)	(11,267)
2015 interim dividend	-	-	-	-	(9,162)	-	(9,162)
Proposed 2015 final dividend	-	-	-	-	(9,397)	9,397	-
Balance at December 31, 2015	43,081	(12,939)*	20,000 *	5,132 *	321,370*	9,397 *	386,041
Balance at January 1, 2016	43,081	(12,939)	20,000	5,132	321,370	9,397	386,041
Profit for the year	-	-	-	-	637	-	637
Other comprehensive income/(expense), net of income tax	-	10,422	-	(576)	-	-	9,846
Total comprehensive income/(expense)	-	10,422	-	(576)	637	-	10,483
2015 final dividend	-	-	-	-	(143)	(9,397)	(9,540)
2016 interim dividend	-	-	-	-	(4,613)	-	(4,613)
Proposed 2016 final dividend	-	-	-	-	(9,096)	9,096	-
Balance at December 31, 2016	43,081	(2,517)*	20,000 *	4,556 *	308,155*	9,096 *	382,371

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CNOOC LIMITED**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY****FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017 (continued)***(All amounts expressed in millions of Renminbi)*

	Issued capital	Cumulative translation reserve	Statutory and non-distributable reserves	Other reserves	Retained earnings	Proposed final dividend	Total
Balance at January 1, 2017	43,081	(2,517)	20,000	4,556	308,155	9,096	382,371
Profit for the year	-	-	-	-	24,677	-	24,677
Other comprehensive expense, net of income tax	-	(10,121)	-	(452)	-	-	(10,573)
Total comprehensive (expense)/income	-	(10,121)	-	(452)	24,677	-	14,104
2016 final dividend	-	-	-	-	183	(9,096)	(8,913)
2017 interim dividend	-	-	-	-	(7,587)	-	(7,587)
Proposed 2017 final dividend	-	-	-	-	(10,830)	10,830	-
Appropriation to reserve**	-	-	50,000	-	(50,000)	-	-
Balance at December 31, 2017	43,081	(12,638)*	70,000	* 4,104 *	264,598*	10,830 *	379,975

* These reserve accounts constitute the consolidated reserves of approximately RMB336,894 million (December 31, 2016: RMB339,290 million) in the consolidated statement of financial position.

** During the year ended December 31, 2017 , CNOOC China Limited (the "CNOOC China"), the Company's wholly-owned subsidiary, appropriated RMB50,000 million of the general reserve fund.

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

CNOOC LIMITED**CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017***(All amounts expressed in millions of Renminbi/US\$)*

	Notes	2015 RMB million	2016 RMB	2017 RMB	2017 US\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash generated from operations	30	96,095	82,137	110,625	17,003
Income taxes paid		(16,000)	(9,274)	(15,891)	(2,442)
Net cash flows from operating activities		80,095	72,863	94,734	14,561
CASH FLOWS FROM INVESTING ACTIVITIES					
Capital expenditure		(67,674)	(51,347)	(47,734)	(7,337)
Additions to investments in associates		(9)	(221)	(161)	(25)
Decrease in time deposits with maturity over three months		4,825	1,180	1,450	223
Dividends received from an associate		164	135	116	18
Dividends received from a joint venture		32	-	243	37
Interest received		812	1,010	666	102
Investment income received		2,177	2,013	1,821	280
Purchase of other financial assets		(122,030)	(62,900)	(122,267)	(18,792)
Purchase of equity investments		(236)	(63)	(51)	(8)
Proceeds from sale of other financial assets		104,900	81,675	101,396	15,584
Proceeds from disposal of property, plant and equipment		544	532	110	17
Proceeds from disposal of an associate		-	33	-	-
Net cash flows used in investing activities		(76,495)	(27,953)	(64,411)	(9,901)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issuance of guaranteed notes		23,184	-	-	-
Repayment of guaranteed notes		(789)	(4,866)	(8,869)	(1,363)
Proceeds from bank loans		20,541	4,293	12,252	1,883
Repayment of bank loans		(24,127)	(23,412)	(13,052)	(2,006)
Dividends paid		(20,419)	(14,153)	(16,448)	(2,528)
Interest paid		(5,283)	(5,102)	(5,154)	(792)
Net cash flows used in financing activities		(6,893)	(43,240)	(31,271)	(4,806)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS					
Cash and cash equivalents at beginning of year		14,918	11,867	13,735	2,111
Effect of foreign exchange rate changes, net		242	198	(215)	(33)

CASH AND CASH EQUIVALENTS AT END OF YEAR	21	11,867	13,735	12,572	1,932
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The accompanying notes are an integral part of these financial statements.

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CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts expressed in millions of Renminbi unless otherwise stated)

1.**CORPORATE INFORMATION**

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

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

In the opinion of the directors of the Company (the "Directors"), the parent and the ultimate holding company of the Company is China National Offshore Oil Corporation ("CNOOC"), a company established in the PRC. In November 2017, CNOOC changed its registered company name which is registered in Chinese pursuant to relevant laws and regulations of China to " ".

Particulars of the principal subsidiaries at the end of the reporting period are as follows:

Name of entity	Place of establishment	Nominal value of ordinary shares issued and paid-up/ registered capital	Percentage of equity attributable to the Group	Principal activities
Directly held subsidiaries:				
CNOOC China Limited	Tianjin, PRC	RMB20 billion	100%	Offshore petroleum exploration, development, production and sales, and shale gas exploration in the PRC
China Offshore Oil (Singapore) International Pte Ltd	Singapore	SG\$3 million	100%	Sales and marketing of petroleum products outside the PRC
		US\$20,000,000,002	100%	Investment holding

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CNOOC International Limited	British Virgin Islands			
CNOOC Finance (2003) Limited	British Virgin Islands	US\$1,000	100%	Bond issuance
CNOOC Finance (2011) Limited	British Virgin Islands	US\$1,000	100%	Bond issuance
CNOOC Finance (2012) Limited	British Virgin Islands	US\$1,000	100%	Bond issuance
CNOOC Finance (2013) Limited	British Virgin Islands	US\$1,000	100%	Bond issuance

Indirectly held subsidiaries(1):

CNOOC Deepwater Development Limited	Zhuhai, PRC	RMB20.3 billion	100%	Deepwater and low-grade oil and gas fields exploitation in the PRC and exploration, development, production and sales of oil and gas in the oil and gas fields of South China Sea
CNOOC Southeast Asia Limited	Bermuda	US\$12,000	100%	Investment holding
CNOOC SES Ltd.	Malaysia	US\$1	100%	Petroleum exploration, development and production in Indonesia
CNOOC Muturi Limited	Isle of Man	US\$7,780,770	100%	Petroleum exploration, development and production in Indonesia
CNOOC NWS Private Limited	Singapore	SG\$2	100%	Offshore petroleum exploration, development and production in Australia
CNOOC Exploration & Production Nigeria Limited	Nigeria	NGN10 million	100%	Petroleum exploration, development and production in Africa

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CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***1. CORPORATE INFORMATION (continued)**

Name of entity	Place of establishment	Nominal value of ordinary shares issued and paid-up/ registered capital	Percentage of equity attributable to the Group	Principal activities
Indirectly held subsidiaries (continued)(1):				
CNOOC Iraq Limited	British Virgin Islands	US\$1	100%	Providing services of petroleum exploration and development in the Republic of Iraq
CNOOC Canada Energy Ltd.	Canada	100 common shares without a par value 103,000 preferred shares without a par value	100%	Oil sands exploration, development and production in Canada
CNOOC Uganda Ltd	Uganda	1 million Uganda Shilling	100%	Petroleum exploration, development and production in Africa
Nexen Energy ULC	Canada	13,671,421,700 common shares without a par value	100%	Petroleum exploration, development and production in Canada
Nexen Petroleum U.K. Limited	England and Wales	GBP98,009,131	100%	Petroleum exploration, development and production in the UK
Nexen Petroleum Nigeria Limited	Nigeria	NGN30 million	100%	Petroleum exploration, development and production in Nigeria
OOGC America LLC	USA	N/A	100%	Petroleum exploration, development and production in the USA
Nexen Petroleum Offshore U.S.A. Inc.	USA	US\$15,830	100%	Petroleum exploration, development and production in the USA
Nexen Oil Sands Partnership	Canada	N/A	100%	Petroleum exploration, development and production in Canada
CNOOC PETROLEUM BRASIL LTDA(2)	Brazil	R\$2,965,600,000	100%	Petroleum exploration, development and production in Brazil
CNOOC Nexen Finance (2014) ULC	Canada	100 common shares without a par value	100%	Bond issuance
CNOOC Finance (2015) U.S.A. LLC	USA	N/A	100%	Bond Issuance
CNOOC Finance (2015) Australia Pty	Australia	US\$1	100%	Bond Issuance

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(1) All subsidiaries are indirectly held through CNOOC International Limited, except CNOOC Deepwater Development Limited which is indirectly held through CNOOC China Limited.

(2) The registered capital of CNOOC PETROLEUM BRASIL LTDA increased from R\$2,436,000,000 to R\$2,965,600,000 on 20 June 2017.

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

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CNOOC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

2.1 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"), Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Hong Kong Companies Ordinance (Cap. 622). A summary of the significant accounting policies adopted by the Group is set out below.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The IASB has issued a number of new and revised IFRSs that are first effective for the current accounting year commencing January 1, 2017 or later but available for early adoption. The equivalent new and revised HKFRSs consequently issued by the HKICPA have the same effective dates as those issued by the IASB and are in all material aspects identical to the pronouncements issued by the IASB.

The accounting policies adopted are consistent with those of the year ended December 31, 2016, except for the first time adoption of the amendments to IFRSs/HKFRSs effective for the Group's financial year beginning on January 1, 2017. The adoption of the amendments had no material impact on the accounting policies, the disclosures or the amounts recognized in the consolidated financial statements of the Group. IFRS 9/HKFRS 9 (2009) Financial Instruments has been early adopted by the Company from year 2015.

The Group has not applied the following new and revised IFRSs/HKFRSs, which may be relevant to the Group and have been issued but are not yet effective, in these consolidated financial statements:

IFRS 9/HKFRS 9	Financial Instruments ¹
IFRS 15/ HKFRS 15	Revenue from Contracts with Customers and the related Amendments ¹
IFRS 16/HKFRS 16	Leases ²
IFRS 17/HKFRS 17	Insurance Contracts ⁴
IFRIC 22/HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance

	Consideration ¹
IFRIC 23/HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ²
Amendments to IFRS 2/HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to IFRS 4/HKFRS 4	Applying IFRS 9/HKFRS 9 Financial Instruments with IFRS 4/HKFRS 4 Insurance Contracts ¹
Amendments to IFRS 9/HKFRS 9	Prepayment Features with Negative Compensation ²
Amendments to IFRS 10/HKFRS 10 and IAS 28/HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement ²
Amendments to IAS 28/HKAS 28	Long-term Interests in Associates and Joint Ventures ²
Amendments to IAS 28/HKAS 28	As part of the Annual Improvements to IFRS Standards/HKFRSs 2014-2016 Cycle ¹
Amendments to IAS 40/HKAS 40	Transfers of Investment Property ¹
Amendments to IFRSs/HKFRSs	Annual Improvements to IFRS Standards/ HKFRSs 2015-2017 Cycle ²

¹ Effective for annual periods beginning on or after 1 January 2018, except for the 2009 version of IFRS 9/HKFRS 9, which the Group adopted in advance

2. Effective for annual periods beginning on or after 1 January 2019
3. Effective for annual periods beginning on or after a date to be determined
4. Effective for annual periods beginning on or after 1 January 2021

CNOOC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

IFRS 15/HKFRS 15 Revenue from Contracts with Customers

IFRS 15/HKFRS 15 Revenue from Contracts with Customers provides a single model for accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligations, and is effective for annual periods beginning on or after 1 January 2018. IFRS 15/HKFRS 15 will supersede IAS 18/HKAS 18 Revenue.

The Company expects to adopt the new revenue standard as of 1 January 2018 using the modified retrospective transition method. Based on our assessment, the Company does not expect the implementation of the standard to have a material effect on its consolidated financial statements.

IFRS 16/HKFRS 16 Leases

IFRS 16/HKFRS 16, which upon the effective date will supersede IAS 17/HKAS 17 Leases, introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under IFRS 16/HKFRS 16, a lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognize depreciation of the right-of-use asset and interest on the lease liability, and also classify cash payments of the lease liability into a principal portion and an interest portion and present them in the consolidated statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under IAS 17/HKAS 17.

In respect of the lessor accounting, IFRS 16/HKFRS 16 substantially carries forward the lessor accounting requirements in IAS 17/HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for these two types of leases differently.

The Group is in the process of assessing the impact of application of IFRS 16/HKFRS 16. For the moment, it is not practicable to provide a reasonable estimate of the effect of the application of IFRS 16/HKFRS 16 until the Group completes a detail review.

The Group anticipates that the application of other new and revised IFRSs/HKFRSs that have been issued but are not yet effective will have no material effect on the Group's consolidated financial statements.

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CNOOC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These consolidated financial statements have been prepared under the historical cost convention, except for as detailed in the accounting policies notes hereafter. These consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest million except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended December 31, 2017.

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

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

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

CNOOC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group 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 related costs incurred are included in profit or loss.

When the Group acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at subsequent reporting dates in accordance with IFRS 9/HKFRS 9 (2009) or IAS 39/HKAS 39, with the corresponding gain or loss being recognized in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

loss as a gain on bargain purchase.

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(All amounts expressed in millions of Renminbi unless otherwise stated)

3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

Impairment is determined by assessing the recoverable amount of the exploration and production ("E&P") segment, using value in use, to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss on goodwill is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Subsidiaries

Subsidiaries are all those entities over which the Group has power over the investee such that the Group is able to direct the relevant activities, has exposure or rights to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect the amount of the investor's returns.

Associates

Based on the Group's ownership percentage (considering its direct ownership as well as potentially exercisable or convertible shares) and other contractual rights, the Group has significant influence over its associates, rather than the power to control.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. Unrealized gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealized losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment.

Joint arrangements

Certain of the Group'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 control

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

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3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint arrangements (continued)

Joint operations

Some arrangements have been assessed by the Group 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 Group's interests in production sharing arrangements and certain joint operation.

The Group entered into numerous production sharing arrangements or similar agreements in China and overseas countries. The Group's participating interest may vary in each arrangement. The Group, as one of the title owners under certain exploration and/or production licenses or permits, is required to bear exploration (with some exceptions in China), development and operating costs together with other co-owners based on each owner's participating interest. Once production occurs, a certain percentage of the annual production or revenue is first distributed to the local government, which, in most cases, with the nature of royalty and other taxes or expenses, and the rest of the annual production or revenue is allocated among the co-owners.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs/HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

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 Group's investments in joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. Under the equity method, an investment in a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the joint venture. Where the profit sharing ratios are different to the Group's equity interest, the share of post-acquisition results of the joint ventures is determined based on the agreed profit sharing ratio. Unrealized gains and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Group's investments in the joint ventures, except where unrealized losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of joint ventures is included as part of the Group's investments in joint ventures and is not individually tested for impairment.

Related parties

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

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control of the Group;
 - (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of

disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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

Property, plant and equipment

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

(a) Oil and gas properties

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

(a) Oil and gas properties (continued)

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

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

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

(b) Vehicles, office equipment and others

Vehicles, office equipment and others are stated at cost less accumulated depreciation and impairment losses. The straight-line method is adopted to depreciate the cost less any estimated residual value of these assets over their expected useful lives. The useful lives of vehicles, office equipment and other assets are in line with their beneficial periods.

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

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

Any gains and losses on disposals of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) are recognized in profit or loss.

Intangible assets (other than goodwill)

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

The intangible assets regarding software have been amortized on the straight-line basis over their respective useful lives. The intangible asset regarding the gas processing rights has been amortized upon the commercial production of the liquefied natural gas on a unit-of-production basis over the total proved reserves of the relevant asset. The intangible assets regarding the marketing transportation and storage contracts and drilling rig contracts are amortized over the life of the contracts on the straight-line basis. The intangible assets related to the seismic data usage rights are amortized over the estimated useful life of the seismic data.

Major maintenance and repairs

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

Research and development costs

All research costs are expensed as incurred.

Expenditure (other than that relating to oil and gas properties discussed above) incurred on projects to develop new products is capitalized and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and

the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Financial assets

All recognized financial assets are subsequently measured in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

(a) Financial assets at amortized cost

Debt instruments and hybrid contracts that meet the following conditions are subsequently measured at amortized cost less impairment loss:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

(a) Financial assets at amortized cost (continued)

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest income for debt instruments measured subsequently at amortized cost is recognized in profit or loss in accordance with the policies set out for "Revenue Recognition" below.

(b) Financial assets at fair value through profit or loss (FVTPL)

Investments in equity instruments are classified as at FVTPL, unless the Group designates such investment that is not held for trading as at FVTOCI on initial recognition.

A financial asset is held for trading if it has been acquired principally for the purpose of selling it in the near term or it is a derivative that is not designated and effective as a hedging instrument.

Debt instruments that do not meet the amortized cost criteria (see (a) above) are measured at FVTPL. In addition, debt instruments that meet the amortized cost criteria but are designated as at FVTPL are measured at FVTPL. A debt instrument may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognized in profit or loss.

(c) Financial assets at fair value through other comprehensive income (FVTOCI)

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. The Group has investments in certain equity instruments (publicly traded or non-publicly traded), the purpose of which are not held for trading, but held for medium or long-term strategic purpose. Therefore, those investments in equity securities are designated as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the other reserves. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the investments.

Dividends on these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established in accordance with IAS 18/HKAS 18 Revenue, unless the dividends clearly represent a recovery of part of the cost of the investment.

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3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value

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

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 32.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset, other than those at FVTPL and FVTOCI, or a group of financial assets may be impaired.

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

If there is objective evidence that an impairment loss on financial assets measured at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of

estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognized in profit or loss.

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

Derecognition of financial assets

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

- (i) The contractual rights to receive cash flows from the asset have expired; or

the Group has transferred its rights to receive cash flows from the asset, or the Group retains the contractual rights to receive the cash flows from the asset, but has assumed an obligation to pay the received cash flows in full (ii) without material delay to a third party under a "pass-through" arrangement; and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has no control of the asset.

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3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

Financial liabilities including trade and accrued payables, other payables and accrued liabilities, and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortized cost, using the effective interest method. The related interest expense is recognized in profit or loss.

Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

Financial guarantee contracts

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

Derecognition of financial liabilities

Financial liabilities are derecognized when the obligations under the liabilities are discharged, cancelled, or have expired.

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

Offsetting of financial instruments

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

Inventories and supplies

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

Cash and cash equivalents

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

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3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

(a)

General

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

(b)

Dismantlement liability

Dismantlement liability is recognized when the Group has a present legal or constructive obligation as a result of the past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. A corresponding amount equivalent to the provision is also recognized as part of the cost of the related property, plant and equipment. The amount recognized is the estimated cost of dismantlement, discounted to its present value using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Changes in the estimated timing of dismantlement or dismantlement cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. The unwinding of the discount on the dismantlement provision is included as a finance cost.

Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated statement of profit or loss and other comprehensive income, either as an expense as it relates to operating activities or as a component of the applicable categories of other comprehensive income or expense.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted, by the reporting date, in the countries where the Group operates and generates taxable income.

Deferred tax is provided, using the balance sheet 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 the accounting profit nor taxable profit or loss; and

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets are recognized for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses to the extent that it is probable that taxable profit and taxable temporary differences will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilized, except:

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

in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it is probable that sufficient taxable profit and taxable temporary differences will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) Oil and gas sales

Oil and gas sales represent the invoiced value of sales of oil and gas attributable to the interests of the Group, net of royalties, obligations to governments and other mineral interest owners. Revenue from the sale of oil and gas is recognized when the significant risks and rewards of ownership have been transferred, which is when title passes to the customer. Revenue from the production of oil and gas in which the Group has a joint interest with other producers is recognized based on the Group's working interest and the terms of the relevant production sharing contracts. Differences between production sold and the Group's share of production are not significant.

CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Revenue recognition (continued)

(a) Oil and gas sales (continued)

Oil and gas lifted and sold by the Group above or below the Group's participating interests in the production sharing contracts results in overlifts and underlifts. The Group records these transactions in accordance with the entitlement method under which overlifts are recorded as liabilities and underlifts are recorded as assets at year-end oil prices. Settlement will be in kind or in cash when the liftings are equalised or in cash when production ceases.

The Group has entered into gas sale contracts with customers, which contain take-or-pay clauses. Under these contracts, the Group makes a long term supply commitment in return for a commitment from the buyer to pay for minimum quantities, whether or not it takes delivery. These commitments contain protective (force majeure) and adjustment provisions. If a buyer has a right to get a "make up" delivery at a later date, revenue recognition is deferred. If no such option exists according to the contract terms, revenue is recognized when the take-or-pay penalty is triggered.

(b) Marketing revenues

Marketing revenues principally represent the sales of oil and gas from the foreign partners under the production sharing contracts and revenues from the trading of oil and gas through the Company's subsidiaries. The cost of the oil and gas sold is included in "Crude oil and product purchases" in the consolidated statement of profit or loss and other comprehensive income. In addition, the Group's marketing activities in North America involves entering into contracts to purchase and sell crude oil, natural gas and other energy commodities, and use derivative contracts, including futures, forwards, swaps and options for hedging and trading purposes (collectively derivative contracts). Any change in the fair value is also included in marketing revenue.

(c) Other income

Other income mainly represents project management fees charged to foreign partners, handling fees charged to customers, the sales of diluents to third parties and gains from disposal of oil and gas properties and is recognized when the services have been rendered or the properties have been disposed of. Reimbursement of insurance claims is recognized when the compensation becomes receivable.

(d) Dividend income

Dividend income is recognized when the Group's right to receive payment is established.

(e) Interest income

Interest income is recognized as it accrues using the effective interest method.

The Group presents taxes collected from customers in the consolidated statement of profit or loss and other comprehensive income on a net basis.

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3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions

Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using the Black-Scholes option pricing model, further details of which are given in note 26.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at the end of the each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest for the Group.

No equity-settled award was cancelled or modified during the years ended December 31, 2015, 2016 and 2017.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Retirement and termination benefits

The Group participates in defined contribution plans in accordance with local laws and regulations for full-time employees in the PRC and other countries in which it operates. The Group's contributions to these defined contribution plans are charged to profit or loss in the year to which they relate.

Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs directly relating to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they are incurred.

Foreign currencies

These consolidated financial statements are presented in RMB. Each entity in the Group maintains its books and records in its own functional currency. Foreign currency transactions recorded by the entities of the Group are initially recorded using their respective exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated consistently with the recognition of the gain or loss on change in fair value of the item.

CNOOC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The functional currencies of certain entities within the Group are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Group at the exchange rates ruling at the reporting date, and their statement of profit or loss and other comprehensive income are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are included in the cumulative translation reserve. On disposal of a foreign operation, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in profit or loss.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases in China are initially stated at cost and subsequently amortized on the straight-line basis over the lease terms.

Contingencies

A contingent liability is disclosed when the existence of an obligation will only be confirmed by future events or when the amount of the obligation cannot be measured reliably.

A contingent asset is not recognized in the financial statements, but is disclosed when an inflow of economic benefits is probable.

Significant accounting judgements, estimates and assumptions

The preparation of the consolidated financial statements in accordance with IFRSs and HKFRSs requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and judgements are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

In the process of applying the Group's accounting policies, the Directors have made the following judgements, estimates and assumptions, which have the most significant effect on the amounts recognized in the consolidated financial statements.

(a) Reserve base

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

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

CNOOC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgements, estimates and assumptions (continued)

(b) Carrying value of oil and gas properties

The calculation of the unit-of-production rate for oil and gas properties amortization could be impacted to the extent that actual production in the future is different from current forecast production based on proved reserves. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves. These factors could include changes in proved reserves, the effect on proved reserves of differences between actual oil and gas prices and oil and gas price assumptions and unforeseen operational issues.

(c) Recoverable amount of oil and gas properties

The Company makes 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, the Company would make an estimate of the asset's recoverable amount, which is calculated at the higher of the asset's value in use and its fair value less costs of disposal. The Company recognizes an impairment loss only if the carrying amount of an asset exceeds its recoverable amount. The Company charges an impairment loss to the profit or loss in the period in which it arises. A reversal of an impairment loss is credited to the profit or loss in the period in which it arises.

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

Changes in the key assumptions used, which could be significant, include updates to future pricing estimates, updates to future production estimates to align with the Company's anticipated drilling plan, changes in the Company's capital costs and operating expense assumptions, and discount rate. There is a significant degree of uncertainty with the assumptions used to estimate future cash flows due to various risk factors. The complex economic outlook may also

materially and adversely affect the Company's key assumptions. Changes in economic conditions can also affect the discount rates applied in assessments of impairment.

Actual cash flows are likely to be different from those estimated or forecast since anticipated events frequently do not occur as expected and unforeseen events may arise. The Company's results of operations could be materially and adversely affected for the period in which future impairment charges are incurred.

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

CNOOC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgements, estimates and assumptions (continued)

(d) Dismantlement costs

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

(e) Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations (including those applicable to tax credits) and the amount and timing of future taxable income. Given the wide range of international business relationships and the long term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on best estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as the Group's experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective group company's domicile.

CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts expressed in millions of Renminbi unless otherwise stated)

4. OIL AND GAS SALES

	2015	2016	2017
Gross sales	150,618	124,648	156,304
Less: Royalties	(2,646)	(2,398)	(3,226)
PRC government's share of oil	(1,375)	(925)	(1,190)
Oil and gas sales	146,597	121,325	151,888

5. SEGMENT INFORMATION

(a) Segment results

The Group is engaged worldwide in the upstream operating activities of the conventional oil and gas, shale oil and gas, oil sands and other unconventional oil and gas business. The Group reports the business through three operating and reporting segments: E&P, trading business and corporate. These segments are operating segments whose financial information are reviewed by the Group's chief operating decision maker when making decisions regarding allocating resources and assessing performance. The geographical information is separately disclosed in (b).

CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***5 SEGMENT INFORMATION (continued)**

(a) Segment results (continued)

The following table presents the segment financial information for the Group for the years ended December 31, 2015, 2016 and 2017.

	E&P			Trading business			Corporate			Elimination
	2015	2016	2017	2015	2016	2017	2015	2016	2017	
External revenue	137,243	114,935	142,429	33,777	30,986	43,618	417	569	343	-
Intersegment revenue*	12,339	10,676	14,737	(12,339)	(10,676)	(14,737)	85	113	84	(85)
Total revenue	149,582	125,611	157,166	21,438	20,310	28,881	502	682	427	(85)
Segment profit/(loss) for the year	15,695	(346)	23,863	879	656	808	6,048	30,701	6,391	(2,339)
Amounts included in the measure of segment profit or loss										
Operating expenses	(28,372)	(23,220)	(24,282)	-	-	-	-	-	-	-
Taxes other than income tax	(10,748)	(6,901)	(7,169)	7	-	-	(29)	(40)	(41)	-
Exploration expenses	(9,973)	(7,393)	(6,896)	-	-	-	-	-	-	73
Depreciation, depletion and amortization	(72,665)	(68,333)	(60,834)	(324)	(144)	(67)	(509)	(470)	(423)	59
Impairment and provision	(2,690)	(12,180)	(9,161)	(56)	9	-	-	-	31	-
Selling and administrative expenses	(3,644)	(4,920)	(4,966)	(340)	(296)	(269)	(1,733)	(1,307)	(1,654)	12
Interest income	147	217	315	-	1	-	1,028	1,805	1,571	(30)
Finance costs	(3,407)	(3,384)	(3,274)	(1)	(1)	(1)	(3,369)	(4,183)	(3,011)	65

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Share of profits/(losses) of associates and a joint venture	(117)	(63)	(88)	-	-	-	2,020	(13)	943	-
Income tax (expense)/credit	44	3,811	(11,236)	(8)	(24)	(3)	3,080	2,125	(441)	-
Other segment information										
Investments in associates and a joint venture	800	737	655	-	-	-	27,613	29,258	28,491	-
Others	532,765	497,413	457,780	3,336	1,898	3,588	344,037	342,810	340,329	(24
Segment assets	533,565	498,150	458,435	3,336	1,898	3,588	371,650	372,068	368,820	(24
Segment liabilities	(364,056)	(331,339)	(301,167)	(2,243)	(947)	(2,375)	(145,475)	(138,352)	(124,794)	233
Capital expenditure	66,122	49,122	52,790	11	-	-	386	395	421	-

* Certain oil and gas produced by the E&P segment are sold via the trading business segment. For the Group's chief operating decision maker's assessment of segment performance, these revenues are reclassified back to E&P segment.

CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts expressed in millions of Renminbi unless otherwise stated)

5. SEGMENT INFORMATION (continued)**(b) Geographical information**

The Group mainly engages in the exploration, development, production and sale of crude oil, natural gas and other petroleum products in offshore China. Activities outside the PRC are mainly conducted in Canada, the United States of America, the United Kingdom, Nigeria, Argentina, Indonesia, Uganda, Iraq, Brazil and Australia etc.

In presenting the Group's geographical information, revenues from external customers are based on the location of the Group's customers, and non-current assets are attributed to the segments based on the location of the Group's assets. 65% (2016: 70%, 2015: 73%) of the Group's revenues are generated from PRC customers, and revenues generated from customers in other locations are individually less than 10%.

The following table presents certain non-current assets information for the Group's geographical information for the years ended December 31, 2015, 2016 and 2017.

	PRC			Canada			Others			Consolidated	
	2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016
Property, plant and equipment	193,359	174,853	162,027	105,383	103,173	95,552	155,399	154,439	138,289	454,141	438,221
Investments in associates and a joint venture	3,499	3,451	3,680	816	-	-	24,098	26,544	25,466	28,413	29,523
Other non-current assets	7,087	6,593	8,502	694	731	605	47	98	141	7,828	7,828

(c) Information about major customers

The current year's revenue of approximately RMB15,488 million (2016: approximately RMB9,659 million, 2015: approximately RMB14,692 million) was derived from sales by the E&P segment and the trading business segment to China Petroleum & Chemical Corporation. Sales to CNOOC Group are included in Note 28 (iii).

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CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***6. PROFIT/(LOSS) BEFORE TAX**

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	2015	2016	2017
Crediting:			
Interest income from bank deposits	(873)	(901)	(653)
Investment income:			
– Fair value changes on other financial assets	(2,398)	(2,774)	(2,409)
Insurance compensation on disposal of property, plant and equipment	(560)	(520)	(110)
Charging:			
Auditors' remuneration:			
– Audit fee	45	47	51
– Other fees	12	6	5
	57	53	56
Employee wages, salaries, allowances and social security costs	6,924	6,403	6,517
Impairment and provision:			
- Property, plant and equipment	2,358	10,768	8,639
- Trade receivables	4	1,439	212
- Others	384	(36)	279
	2,746	12,171	9,130
Depreciation, depletion and amortization:			
– Property, plant and equipment	72,293	68,303	60,802
– Intangible assets	1,306	1,020	854
– Less: Net amount capitalized	(160)	(416)	(399)
	73,439	68,907	61,257
Operating lease rentals:			
– Office properties	438	485	639

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– Plant and equipment	2,448	1,747	1,560
	2,886	2,232	2,199
Repairs and maintenance	5,034	4,052	4,800
Research and development costs	1,629	1,424	1,739
Loss on disposal of property, plant and equipment	718	78	116

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CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***7. FINANCE COSTS**

	2015	2016	2017
Interest on bank loans	291	217	169
Interest on other loans	4,701	5,249	5,207
Other borrowing costs	76	25	18
Total borrowing costs	5,068	5,491	5,394
Less: Amount capitalized in property, plant and equipment (note 13)	(1,385)	(1,430)	(2,495)
	3,683	4,061	2,899
Other finance costs:			
Unwinding of discount on provision for dismantlement (note 25)	2,435	2,185	2,145
	6,118	6,246	5,044

The effective interest rates used to determine the amount of related borrowing costs for capitalization varied from 0.95% to 7.875% (2016: from 0.7566% to 7.875% , 2015: from 0.735% to 7.875%) per annum during the year ended at December 31, 2017.

8. KEY MANAGEMENT PERSONNEL'S REMUNERATION

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of the Company.

(i) Directors' remuneration

Fees (1) RMB'000	Salaries allowances and	Performance related bonuses (1)	Pension scheme contributions	Total paid/payable during
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		benefits in kind (1) RMB'000	RMB'000	RMB'000	the year RMB'000
2015					
Executive directors:					
Li Fanrong(4)	-	170	470	117	757
Wu Guangqi(5)(7)	-	170	470	117	757
Subtotal	-	340	940	234	1,514
Non-executive directors:					
Wang Yilin(2)	-	-	-	-	-
Yang Hua(2)(4)(10)	-	-	-	-	-
Lv Bo(7)	-	-	-	-	-
Wang Jiaxiang(3)	-	-	-	-	-
Subtotal	-	-	-	-	-
Independent non-executive directors:					
Chiu Sung Hong	899	-	-	-	899
Lawrence J. Lau	763	-	-	-	763
Tse Hau Yin, Aloysius	899	-	-	-	899
Kevin G. Lynch	763	-	-	-	763
Subtotal	3,324	-	-	-	3,324
Total	3,324	340	940	234	4,838

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CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***8. KEY MANAGEMENT PERSONNEL'S REMUNERATION (continued)****(i) Directors' remuneration (continued)**

	Fees (1) RMB'000	Salaries allowances and benefits in kind (1) RMB'000	Performance related bonuses (1) RMB'000	Pension scheme contributions RMB'000	Total paid/payable during the year RMB'000
2016					
Executive directors:					
Yang Hua(2)(4)(10)	-	-	-	-	-
Yuan Guagnyu(4)(8)	-	94	78	70	242
Li Fanrong(4)	-	92	454	59	605
Subtotal	-	186	532	129	847
Non-executive directors:					
Liu Jian(6)	-	-	-	-	-
Wu Guangqi(5)(7)	-	92	454	59	605
Lv Bo(7)	-	-	-	-	-
Subtotal	-	92	454	59	605
Independent non-executive directors:					
Chiu Sung Hong	957	-	-	-	957
Lawrence J. Lau	812	-	-	-	812
Tse Hau Yin, Aloysius	957	-	-	-	957
Kevin G. Lynch	812	-	-	-	812
Subtotal	3,538	-	-	-	3,538
Total	3,538	278	986	188	4,990

2017

Executive directors:

Yuan Guangyu(4)(8)	-	197	455	134	786
Xu Keqiang(9)	-	146	162	94	402
Subtotal	-	343	617	228	1,188

Non-executive directors:

Yang Hua(2)(4)(10)	-	-	-	-	-
Liu Jian(6)	-	-	-	-	-
Wu Guangqi(5)(7)	-	-	-	-	-
Subtotal	-	-	-	-	-

Independent non-executive directors:

Chiu Sung Hong	972	-	-	-	972
Lawrence J. Lau	824	-	-	-	824
Tse Hau Yin, Aloysius	972	-	-	-	972
Kevin G. Lynch	824	-	-	-	824
Subtotal	3,592	-	-	-	3,592
Total	3,592	343	617	228	4,780

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CNOOC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

8. KEY MANAGEMENT PERSONNEL'S REMUNERATION (continued)

(i) Directors' remuneration (continued)

Notes:

(1) Fees, salaries, allowances, benefits in kind and performance related bonuses represent the gross amount (before applicable individual salary tax) paid/payable to individual directors.

On May 19, 2015, Mr. Yang Hua was appointed as Chairman of the Board and Chairman of the Nomination Committee of the Company and has no longer served as Vice-chairman of the Board. Mr. Wang Yilin resigned as Chairman of the Board, Chairman of the Nomination Committee and non-executive director of the Company.

(3) On September 23, 2015, Mr. Wang Jiayang retired as a non-executive director of the Company.

On 15 June 2016, Mr. Yang Hua was re-designated as an Executive Director and appointed as the Chief Executive Officer of the Company. Mr. Yuan Guangyu was appointed as an Executive Director and the President of the Company. Mr. Li Fanrong resigned as an Executive Director, the Chief Executive Officer and the President of the Company.

(5) On 15 June 2016, Mr. Wu Guangqi was re-designated as a Non-executive Director of the Company and resigned as the Compliance Officer of the Company.

(6) On 20 December 2016, Mr. Liu Jian was appointed as the Vice Chairman and a Non-executive Director of the Company.

On 20 December 2016, Mr. Wu Guangqi was appointed as a member of the Remuneration Committee of the Company. Mr. Lv Bo resigned as a Non-executive Director and a member of the Remuneration Committee of the Company.

(8)

On 18 April 2017, Mr. Yuan Guangyu was appointed as the Chief Executive Officer of the Company. Mr. Yuan Guangyu resigned as the President of the Company.

(9) On 18 April 2017, Mr. Xu Keqiang was appointed as an Executive Director and the President of the Company.

(10) On 18 April 2017, Mr. Yang Hua was re-designated as a Non-executive Director of the Company. Mr. Yang Hua resigned as the Chief Executive Officer of the Company and he remains as the Chairman of the Board.

The Company has adopted the share option schemes for the grant of options to the Company's directors. The fair value of share options for the directors measured according to the Group's accounting policy as set out in note 3. No Directors exercised any share option in 2015, 2016 or 2017. No new share option was granted to Directors in respect of their services to the Group under the applicable share option schemes of the Company in 2015, 2016 or 2017. Further details of share option scheme and valuation techniques are set out in note 26.

Save as disclosed above, there was no arrangement under which a director waived or agreed to waive any remuneration during the year. In 2017, the executive directors' remuneration shown above were for their services in connection with the management of the affairs of the Company. The other directors' remuneration shown above were for their services as directors of the Company.

CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***8. KEY MANAGEMENT PERSONNEL'S REMUNERATION (continued)****(ii) Other key management personnel's (excluding Directors') remuneration**

	2015	2016	2017
Short term employee benefits	8	7	9
Pension scheme contributions	1	1	1
Amount paid/payable during the year	9	8	10
Share options*	-	-	-
	9	8	10

The bands of the remuneration of other key management personnel (excluding Directors) and the related number of members of other key management personnel (excluding Directors) are as follows:

	Number of employees		
	2015	2016	2017
Nil to RMB 2,000,000	10	10	12
	10	10	12

* This item represents the fair value of share options measured according to the Group's accounting policy as set out in note 3. No other key management personnel exercised any share option in 2015, 2016 or 2017.

CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts expressed in millions of Renminbi unless otherwise stated)

9. FIVE HIGHEST PAID EMPLOYEES

During the year, none (2016: none; 2015: none) of the Directors, details of whose remuneration are disclosed in note 8 (i) above, received an amount which falls within the category of the five highest paid employees. Details of the remuneration of the five (2016: five; 2015: five) highest paid employees, for the year are as follows:

	2015	2016	2017
Basic salaries, allowances and benefits in kind ⁽¹⁾	22	23	21
Performance-related bonuses	17	14	19
Pension scheme contributions	1	1	1
Amount paid/payable during the year	40	38	41

⁽¹⁾ Salaries, allowances, and benefits in kind represent the gross amount (before applicable individual salary tax) paid/payable to individual employees.

The remuneration of the five (2016: five, 2015: five) highest paid employees, falls within the following bands:

	2015	2016	2017
RMB5,500,001 to RMB6,000,000	-	1	-
RMB6,000,001 to RMB6,500,000	-	-	1
RMB7,000,001 to RMB7,500,000	3	-	1
RMB7,500,001 to RMB8,000,000	-	3	-
RMB8,000,001 to RMB8,500,000	-	-	1
RMB9,000,001 to RMB9,500,000	2	1	1
RMB10,000,001 to RMB10,500,000	-	-	1
	5	5	5

CNOOC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

10.

TAX

(i)

Income tax

The Company and its subsidiaries are subject, on an entity basis, to income taxes on profits arising in or derived from the tax jurisdictions in which the entities of the Group are domiciled and operate. The Company is subject to profits tax at a rate of 16.5 % (2016: 16.5%, 2015: 16.5%) on profits arising in or derived from Hong Kong.

The Company is regarded as a Chinese Resident Enterprise (as defined in the "Enterprise Income Tax Law of the People's Republic of China") by the State Administration of Taxation of the PRC. As a result, the Company is subject to the PRC corporate income tax at the rate of 25% starting from January 1, 2008. The corporate income tax which is subjected in Hong Kong is qualified as a foreign tax credit to offset the PRC corporate income tax starting from January 1, 2008.

The Company's subsidiary in Mainland China, CNOOC China Limited, is a wholly-owned foreign enterprise. It is subject to corporate income tax at the rate of 25% under the prevailing tax rules and regulations. CNOOC Deepwater Development Limited, a wholly-owned subsidiary of CNOOC China Limited, is subject to corporate income tax at the rate of 15% for the three years ended December 31, 2017, after being assessed as a high and new technology enterprise. The company is in the process of re-applying to be assessed as a high and new technology enterprise from 2018 to 2020.

Subsidiaries of the Group domiciled outside the PRC are subject to income tax at rates ranging from 10% to 50% (2016: 10% to 50%, 2015: 10% to 56%). The U.S. government enacted comprehensive tax legislation in December 2017 that took effect as of January 1, 2018. A one-time non-cash deferred tax charge was recorded due to the impact of the reduction of U.S. federal corporate income tax rate from 35% to 21%. The U.K. government decreased the combined income tax rate on North Sea oil and gas activities from 50% to 40% with effect from January 1, 2016.

As of December 31, 2017, deferred tax liabilities related to undistributed earnings of the Company's overseas subsidiaries have not been provided since the timing of the reversal of the taxable temporary differences can be controlled by the Company and it is probable that the temporary differences would not reverse in the foreseeable future.

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CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts expressed in millions of Renminbi unless otherwise stated)

10. TAX (continued)**(i) Income tax (continued)**

An analysis of the tax (credit)/expense in the Group's consolidated statement of profit or loss and other comprehensive income is as follows:

	2015	2016	2017
Current tax			
Provision for PRC enterprise income tax on the estimated taxable profits for the year	9,990	7,547	11,472
Provision for overseas enterprise income tax on the estimated taxable profits for the year	3,501	2,983	4,390
Deferred tax			
Temporary differences in the current year	(12,585)	(14,595)	(7,558)
Effect of changes in tax rates	(4,022)	(1,847)	3,376
Income tax (credit)/expense for the year	(3,116)	(5,912)	11,680

A reconciliation of the PRC statutory corporate income tax rate to the effective income tax rate of the Group is as follows:

	2015	2016	2017
	%	%	%
PRC statutory enterprise income tax rate	25.0	25.0	25.0
Effect of different tax rates for overseas subsidiaries	(5.8)	34.8	(1.6)
Effect of changes in tax rates	(23.5)	35.0	9.4
Tax credit from the government	(11.5)	8.3	(2.7)
Tax reported in equity-accounted entities	(0.4)	1.0	(0.2)
Tax losses previously not recognized	(1.9)	5.3	-
Others	(0.1)	2.7	2.2
Group's effective income tax rate	(18.2)	112.1	32.1

The movements of deferred tax liabilities net of deferred tax assets are as follows:

	2015	2016	2017
At January 1	14,312	(1,948)	(19,174)
Credit to the profit or loss	(12,585)	(14,595)	(7,558)
Changes in tax rates	(4,022)	(1,847)	3,376
Charge to equity	141	(226)	7
Exchange differences	206	(558)	1,143
At December 31	(1,948)	(19,174)	(22,206)

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CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***10.****TAX (continued)****(i)****Income tax (continued)**

Principal components of deferred tax balances are as follows:

	2016	2017
Deferred tax assets		
Property, plant and equipment	1,681	7,312
Provision for dismantlement	9,325	9,669
Losses available for offsetting against future taxable profit	21,163	16,529
Fair value of long term borrowings	1,969	1,771
Others	1,389	1,178
	35,527	36,459
Deferred tax liabilities		
Property, plant and equipment	(16,208)	(13,670)
Fair value changes on other financial assets	(139)	(232)
Others	(6)	(351)
	(16,353)	(14,253)
Net deferred tax assets	19,174	22,206
Of which – deferred tax assets	24,844	25,509
deferred tax liabilities	(5,670)	(3,303)

As at December 31, 2017, the Group had approximately RMB87,623 million (December 31, 2016: RMB82,288 million) of carry-forward tax losses, predominantly in North America, that would be available to offset against future taxable profits of the subsidiaries in which the tax losses arose. Most of the US and Canadian tax losses will expire in 8 to 20 years.

Deferred tax assets in respect of tax losses are recognized only to the extent of the anticipated future taxable profits or reversal of existing taxable temporary differences.

As at December 31, 2017, the Group's recognized deferred tax assets on tax losses amounted to RMB75,018 million (December 31, 2016: RMB68,061 million). Unrecognized tax losses, where recovery is not currently expected, amounted to RMB12,605 million (December 31, 2016: RMB14,227 million). This includes RMB3,181 million (2016: RMB3,207 million) of unrecognized tax loss arising from Uganda which has no fixed expiry date. The remainder expires between 5 to 20 years.

As at December 31, 2017, the Group's unrecognized deferred tax assets related to unused tax credits amounted to RMB4,990 million (2016: RMB5,761 million). This includes RMB4,587 million (2016: RMB4,807 million) of unrecognized deferred tax assets related to unused tax credits from Nigeria which has no fixed expiry date. The remainder expires between 2026 and 2036.

The realisability of the deferred tax assets recognized mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In case where the actual future taxable profits generated are less than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, the balance of deferred tax assets may be significantly revised.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

10.

TAX (continued)

(ii) Other taxes

The Company's PRC subsidiaries pay the following other taxes and dues:

- i. Production tax at the rate of 5% on production under production sharing contracts;

VAT at the rates from 13% to 17% on taxable sales under independent oil and gas fields since May 1 2016 according to "Provisional Regulations on VAT of the PRC" and relevant detailed rules according to the "Circular on Certain Policies on the Pilot Program of the Collection of VAT in Lieu of Business Tax" (Cai Shui [2016] No.39), ii. which replaced the production tax at the rate of 5% on production under independent oil and gas fields before May 1 2016. According to "Notice on Simplifying the Relevant Policies on Value-added Tax Rates" (Cai Shui [2017] No.37), with effect from 1 July 2017, the 13% VAT rate shall be removed and gas sales shall be subject to the 11% tax rate.

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

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

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

- iv. Export tariff at the rate of 5% on the export value of petroleum oil;
- v. City construction tax at the rates of 1% or 7% on the production tax, business tax and VAT paid;
- vi. Educational surcharge at the rate of 3% on the production tax, business tax and VAT paid; and
- vii. Local educational surcharge at the rate of 2% on the production tax, business tax and VAT paid.

In addition, other taxes paid and payable by the Company's non-PRC subsidiaries include royalty as well as taxes levied on petroleum-related income, budgeted operating and capital expenditure.

CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***10. TAX (continued)****(iii) Special Oil Gain Levy**

In 2006, a Special Oil Gain Levy ("SOG Levy") was imposed by the Ministry of Finance of the PRC ("MOF") at the progressive rates from 20% to 40% on the portion of the monthly weighted average sales price of the crude oil lifted in the PRC exceeding US\$40 per barrel. The MOF has decided to increase the threshold of the SOG Levy to US\$65 with effect from January 1, 2015. Notwithstanding this adjustment, the SOG Levy continues to have five levels and is calculated and charged according to the progressive and valorem rates on the excess amounts. The SOG Levy paid can be claimed as a deductible expense for corporate income tax purposes and is calculated based on the actual volume of the crude oil entitled.

11. EARNINGS PER SHARE

	2015	2016	2017
Earnings			
Profit for the purpose of basic and diluted earnings per share calculation	20,246	637	24,677
Number of shares			
Number of ordinary shares for the purpose of basic earnings per share calculation	44,647,455,984	44,647,455,984	44,647,455,984
Effect of dilutive potential ordinary shares under the share option schemes	37,363,069	11,684,504	4,101,969
Weighted average number of ordinary shares for the purpose of diluted earnings per share	44,684,819,053	44,659,140,488	44,651,557,953
Earnings per share:			
Basic (RMB Yuan)	0.45	0.01	0.55
Diluted (RMB Yuan)	0.45	0.01	0.55

CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***12. DIVIDENDS**

	2015	2016	2017
Dividend per ordinary share:			
2017 interim dividend - HK\$0.20 (2016: interim dividend HK\$0.12, 2015: interim dividend HK\$0.25) per ordinary share	9,145	4,673	7,601
2016 final dividend - HK\$0.23 (2015: final dividend HK\$0.25, 2014: final dividend HK\$0.32) per ordinary share	11,274	9,571	8,847
2017 final dividend proposed at HK\$0.3 (2016: final dividend proposed at HK\$0.23, 2015: final dividend proposed at HK\$0.25) per ordinary share by the Board of Directors - not recognized as a liability as at the end of the year	9,397	9,096	10,830

Pursuant to the Enterprise Income Tax Law of the People's Republic of China and related laws and regulations, the Company is regarded as a Chinese Resident Enterprise, and thus is required to withhold corporate income tax at the rate of 10% when it distributes dividends to its non-resident enterprise (as defined in the "Enterprise Income Tax Law of the People's Republic of China") shareholders, with effect from the distribution of the 2008 final dividend. In respect of all shareholders whose names appear on the Company's register of members and who are not individuals (including HKSCC Nominees Limited, corporate nominees or trustees such as securities companies and banks, and other entities or organizations, which are all considered as non-resident enterprise shareholders), the Company will distribute the dividend after deducting corporate income tax of 10%.

CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***13. PROPERTY, PLANT AND EQUIPMENT**

	Oil and gas properties	Vehicles and office equipment and others	Total
Cost:			
At January 1, 2016	803,986	5,296	809,282
Additions	44,302	236	44,538
Disposals and write-offs	(6,365)	(37)	(6,402)
Exchange differences	25,703	205	25,908
At December 31, 2016	867,626	5,700	873,326
At January 1, 2017	867,626	5,700	873,326
Additions	48,937	99	49,036
Disposals and write-offs	(2,577)	(914)	(3,491)
Exchange differences	(24,985)	(148)	(25,133)
At December 31, 2017	889,001	4,737	893,738
Accumulated depreciation, depletion and amortization and impairment:			
At January 1, 2016	(353,824)	(1,317)	(355,141)
Depreciation charge for the year	(67,906)	(397)	(68,303)
Impairment	(10,768)	-	(10,768)
Disposals and write-offs	3,532	34	3,566
Exchange differences	(10,157)	(58)	(10,215)
At December 31, 2016	(439,123)	(1,738)	(440,861)
At January 1, 2017	(439,123)	(1,738)	(440,861)
Depreciation charge for the year	(60,442)	(360)	(60,802)
Impairment	(8,639)	-	(8,639)
Disposals and write-offs	1,185	258	1,443
Exchange differences	10,932	57	10,989
At December 31, 2017	(496,087)	(1,783)	(497,870)

Net book value:			
At December 31, 2016	428,503	3,962	432,465
At December 31, 2017	392,914	2,954	395,868

Included in the current year's additions was an amount of approximately RMB2,495 million (2016: approximately RMB1,430 million, 2015: approximately RMB1,385 million) in respect of interest capitalized in property, plant and equipment (note 7). Included also in the depreciation charge for the year was an amount of approximately RMB636 million (2016: approximately RMB1,609 million, 2015: approximately RMB3,465 million) in respect of a depreciation charge on dismantlement cost capitalized in oil and gas properties.

CNOOC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Impairment and provision recognized during the year included the impairment loss to reduce the carrying amount of certain oil and gas properties to the recoverable amount. In 2017, the impairment loss was mainly related to fields in China, Africa and North America which was primarily due to the revision of the oil and gas price forecast and revision of reserves. In 2016, the impairment loss was mainly related to fields in North America, Europe and Africa primarily due to the revision of the oil price forecast and an adjustment in operating plan for oil sand assets in Canada.

For both years, the recoverable amount was calculated based on the assets' value in use and was determined at the cash-generating unit level. The Company identifies a field or the group of fields that could generate cash inflows independently as a cash-generating unit. The principal parameters used in determining the recoverable amount of the Group's assets include estimates of proved and unproved reserves, future commodity prices that come from the price forecast of respected and independent institutions, combined with internal analysis and judgment of the international market environment, as well as best estimates of drilling and development costs.

The discount rate is derived from the Company's weighted average cost of capital ("WACC") and is adjusted, where applicable, to take into account any specific risks relating to the country where the asset is located as well as the asset specific characteristics, such as specific tax treatments, cash flow profiles and economic life. The discount rate used for value in use calculations is 8%-12% in 2017 after tax (2016: 8%-11% after tax). A derived pre-tax discount rate would be in the range of 8%-15% (2016: 9%-11% pre-tax).

For 2016, included in impairment was RMB7,358 million recognized on the Long Lake project, due to the revision of the oil price forecast and adjustments to operating plans caused by the pipeline rupture and the explosion accident. Specifically, the operating plan was changed to defer the timing of when to bring the Long Lake upgrader back online, to make the timing concurrent with the most recent expectation of when sufficient feedstock will be produced from Long Lake assets to maximize the utilization and cash generating potential of the upgrader. The Company also updated the yield assumptions based on the most recent operating performance of the upgrader. The asset was written down to an estimated recoverable amount of RMB33,902 million in June 2016. As at 31 December 2017, the future operating plan of Long Lake assets is still under assessment by management, which may significantly impact the recoverable amount of the oil sands properties of Long Lake assets in the future.

During 2017, the Group wrote off certain oil and gas assets in the North America mainly due to the expiration of lease contracts. Approximately RMB71 million was included in the exploration expenses, and approximately RMB1,588 million was included in the depreciation, depletion and amortisation charge, respectively.

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CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***14. INTANGIBLE ASSETS**

	Gas processing rights under NWS Project	Drilling rig contracts and seismic data usage rights	Marketing transportation and storage contracts	Software and others	Goodwill	Total
Cost:						
At January 1, 2016	1,191	1,596	1,527	2,861	13,805	20,980
Additions	-	-	-	197	-	197
Disposal	-	-	-	(387)	-	(387)
Exchange differences	82	109	104	67	943	1,305
At December 31, 2016	1,273	1,705	1,631	2,738	14,748	22,095
At January 1, 2017	1,273	1,705	1,631	2,738	14,748	22,095
Additions	-	-	-	206	-	206
Disposal	-	(1,662)	(54)	(199)	-	(1,915)
Exchange differences	(74)	(43)	(93)	(57)	(856)	(1,123)
At December 31, 2017	1,199	-	1,484	2,688	13,892	19,263
Accumulated amortization:						
At January 1, 2016	(621)	(958)	(1,096)	(1,882)	-	(4,557)
Amortization charge for the year	(51)	(326)	(135)	(508)	-	(1,020)
Disposal	-	-	-	386	-	386
Exchange differences	(57)	(80)	(81)	(42)	-	(260)
At December 31, 2016	(729)	(1,364)	(1,312)	(2,046)	-	(5,451)
At January 1, 2017	(729)	(1,364)	(1,312)	(2,046)	-	(5,451)
Amortization charge for the year	(46)	(332)	(57)	(419)	-	(854)
Disposal	-	1,662	54	199	-	1,915
Exchange differences	43	34	76	44	-	197
At December 31, 2017	(732)	-	(1,239)	(2,222)	-	(4,193)

Net book value:						
At December 31, 2016	544	341	319	692	14,748	16,644
At December 31, 2017	467	-	245	466	13,892	15,070

Goodwill represents the excess of the purchase price over the estimated fair value of the assets acquired and liabilities assumed in a business combination.

According to the accounting policies as set out in note 3, goodwill is acquired in the acquisition of Nexen Inc., and from the acquisition date, allocated to the entire E&P assets, which are the groups of cash-generating units that are expected to benefit from the synergies of the acquisition.

Impairment is determined by assessing the recoverable amount of the entire E&P assets to which the goodwill relates. Where the recoverable amount of the entire E&P assets is less than the carrying amount of the assets and the goodwill together, an impairment loss on goodwill is recognized.

In assessing value in use of E&P segment, the key assumptions include, but are not limited to, future commodity prices, future production estimates, estimated future capital expenditures, estimated future operating expenses and the discount rate. The discount rate used for value in use is derived from the Company's WACC and is adjusted, where applicable, to take into account any specific risks relating to the country where the asset is located as well as the asset specific characteristics, such as specific tax treatments, cash flow profiles and economic life. However, actual results could differ from those estimates.

The intangible asset regarding the gas processing rights has been amortized upon the commercial production of the liquefied natural gas on a unit-of-production basis over the total proved reserves of the relevant asset. The intangible assets regarding the marketing transportation and storage contracts are amortized on a straight-line basis over the life of the contracts which is less than 20 years. Other identifiable intangible assets are amortized on a straight-line basis over a period ranging from 3 to 5 years.

CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts expressed in millions of Renminbi unless otherwise stated)

15. INVESTMENTS IN ASSOCIATES

Particulars of the principal associates at the end of the reporting period are as follows:

Name of associates	Place of establishment	Nominal value of ordinary shares issued and paid-up/registered capital	Percentage of equity attributable to the Group	Principal activities
Shanghai Petroleum Corporation Limited	Shanghai, PRC	RMB900 million	30 %	Production, processing and technology consultation of oil, gas and relevant products in the PRC
CNOOC Finance Corporation Limited	Beijing, PRC	RMB4 billion	31.8 %	Provision of deposit, transfer, settlement, loan, discounting and other financing services to CNOOC and its member entities

To give details of other associate would, in the opinion of the Directors, result in particulars of excessive length.

The Group's investments in associates represent:

	2016	2017
Share of net assets	3,695	4,067

None of the Group's associates are considered to be individually material. The following table illustrates the summarized financial information of the Group's associates in the consolidated financial statements:

2015 2016 2017

Profit/(loss) for the year	256	(609)	302
Other comprehensive income/(expense)	74	(127)	36
Total comprehensive income/(expense)	330	(736)	338

Dividend of RMB116 million was received from the associates in 2017 (2016: RMB135 million).

16. INVESTMENT IN A JOINT VENTURE

Particulars of the joint venture at the end of the reporting period are as follows:

Name of entity	Place of establishment	Nominal value of ordinary shares issued and paid-up/registered capital		Percentage of equity attributable to the Group	Principal activities
Bridas Corporation	British Virgin Islands	US\$	102,325,582	50 %	Investment holding

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CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts expressed in millions of Renminbi unless otherwise stated)

16. INVESTMENT IN A JOINT VENTURE (continued)

Summarized financial information of the joint venture is disclosed below:

	2016	2017
Current assets	9,201	11,614
Non-current assets	66,992	63,660
Current liabilities	(6,866)	(6,630)
Non-current liabilities	(16,727)	(18,486)

	2015	2016	2017
Revenue	31,231	28,371	29,879
Depreciation, depletion and amortization	(3,535)	(3,988)	(3,742)
Interest income	288	388	313
Finance costs	(799)	(704)	(550)
Profit before tax	4,194	1,226	2,215
Income tax expense	(900)	(160)	(1,109)
Profit after tax	3,294	1,066	1,106
Total comprehensive income	3,294	1,066	1,106

Dividend of US\$36 million (equivalent to RMB243 million) was received from the joint venture in 2017, no dividend was received from the joint venture in 2016 and dividend of US\$5 million (equivalent to RMB32 million) was received from the joint venture in 2015.

CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***17. EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS****(i) Equity investments**

	2016	2017
Current:		
Non-publicly traded investments		
Private equity funds classified at FVTOCI	15	14
	15	14
Non-current:		
Publicly traded investments		
Equity investment in MEG Energy Corporation (“MEG”) classified at FVTOCI(1)	1,356	766
Other equity investment classified at FVTPL	35	15
	1,391	781
Non-publicly traded investments		
Private equity fund in Kerogen Energy Fund classified at FVTOCI (2)	2,875	2,759
	4,266	3,540

MEG is principally engaged in the exploitation and production of oil sands. The investment in MEG is designated (1) by the Group as at FVTOCI. As at December 31, 2017, the investment in MEG was stated at the quoted market price.

Kerogen Energy Fund is principally engaged in the investment in the oil and gas industry. The equity investment in (2) Kerogen Energy Fund is designated by the Group as at FVTOCI. The cost of this non-publicly traded equity investment represents an appropriate estimate of its fair value as at January 1, 2017 and December 31, 2017, as sufficient information is not available recently to measure its fair value.

CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts expressed in millions of Renminbi unless otherwise stated)

17. EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS (Continued)**(ii) Other financial assets**

	2016	2017
Current:		
Non-publicly traded investments classified at FVTPL:		
Corporate wealth management products (1)	46,958	66,229
Money market funds (2)	5,931	8,115
	52,889	74,344

(1) The corporate wealth management products will mature from January 8, 2018 to November 6, 2018 (2016: January 10, 2017 to December 5, 2017).

(2) The money market funds can be redeemed at any time.

The gains of the Group's other financial assets recognized in the profit or loss for the year was RMB2,409 million (2016: RMB2,774 million, 2015: RMB2,398 million).

During the year, the fair value changes on the Group's equity investments recognized directly in other comprehensive expense amounted to RMB542 million (2016: RMB461 million, 2015: RMB1,573 million).

None of the equity investments and other financial assets above is past due or impaired.

CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts expressed in millions of Renminbi unless otherwise stated)

18. OTHER NON-CURRENT ASSETS

Included in the other non-current assets were restricted deposits for future dismantlement. Pursuant to the Provisional Regulations on the Dismantlement of Offshore Oil and Gas Production Facilities of the People's Republic of China, the Group accrues dismantlement costs for all the oil and gas fields under production sharing contracts in the PRC, and makes monthly cash contributions to the specified dismantlement fund accounts supervised by the PRC government. The deposit cannot be withdrawn or utilized for any other purposes but the dismantlement of oil and gas production facilities in the future. As of December 31, 2017, the balance of the specified dismantlement fund accounts was RMB7,555 million (December 31, 2016: RMB6,088 million).

19. INVENTORIES AND SUPPLIES

	2016	2017
Materials and supplies	7,288	6,278
Oil in tanks	1,594	1,540
Less: Provision for inventory obsolescence	(173)	(464)
	8,709	7,354

20. TRADE RECEIVABLES

The credit terms of the Group are generally within 30 days after the delivery of oil and gas. Payment in advance or collateral may be required from customers, depending on credit rating. Trade receivables are non-interest-bearing.

All customers have good credit quality with good repayment history and no significant receivables are past due. As at December 31, 2017 and December 31, 2016, the age of substantially all the trade receivables was within one year.

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CASH AND CASH EQUIVALENTS AND TIME DEPOSITS WITH MATURITY OVER THREE MONTHS

The Group's cash and cash equivalents mainly consist of current deposits and time deposits with maturity within seven days. The bank balances are deposited with creditworthy banks with no recent history of default.

The weighted average effective interest rates of the Group's bank deposits were 2.23% per annum for the year ended December 31, 2017 (2016: 2.95% per annum, 2015: 2.61% per annum).

22. TRADE AND ACCRUED PAYABLES

As at December 31, 2017 and 2016, substantially all the trade and accrued payables were aged within six months. The trade and accrued payables are non-interest-bearing.

CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***23. OTHER PAYABLES AND ACCRUED LIABILITIES**

	2016	2017
Accrued payroll and welfare payable	1,509	1,490
Provision for retirement benefits	683	630
Accrued expenses	449	381
Advances from customers	3,272	3,096
Special oil gain levy payable	-	55
Royalties payable	240	75
Provision for dismantlement (note 25)	462	1,180
Other payables	8,251	7,199
	14,866	14,106

24. LOANS AND BORROWINGS**Current**

	Effective interest rate and final maturity	2016			2017		
		Loans	Notes	Total	Loans	Notes	Total
Short-term loans and borrowings							
General loans****	LIBOR+0.35% to 0.75% per annum with maturity within one year	10,361	-	10,361	8,779	-	8,779
		10,361	-	10,361	8,779	-	8,779
Loans and borrowings due within one year							
For Tangguh LNG Project**	LIBOR+0.19% to 0.335% per annum with maturity within one year	215	-	215	212	-	212
Notes*		-	9,102	9,102	-	4,901	4,901
		215	9,102	9,317	212	4,901	5,113
		10,576	9,102	19,678	8,991	4,901	13,892

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CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***24. LOANS AND BORROWINGS (continued)****Non-current**

	Effective interest rate and final maturity	2016			2017		
		Loans	Notes	Total	Loans	Notes	Total
For Tangguh LNG Project**	LIBOR+0.19% to 0.335% per annum with maturity through to 2021	758	-	758	502	-	502
For Tangguh LNG III Project ***	LIBOR+1.37% to 3.45% per annum with maturity through 2021 to 2029	327	-	327	777	-	777
Notes*		-	129,713	129,713	-	117,079	117,079
		1,085	129,713	130,798	1,279	117,079	118,358

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CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***24. LOANS AND BORROWINGS (continued)**

*

The details of notes are as follows:

Issued by	Maturity	Coupon Rate	Outstanding Principal Amount	
			December 31, 2017	December 31,2016
USD million				
CNOOC Finance (2003) Limited	Due in 2033	5.500%	300	300
CNOOC Finance (2011) Limited	Due in 2021	4.25 %	1,500	1,500
CNOOC Finance (2011) Limited	Due in 2041	5.75 %	500	500
CNOOC Finance (2012) Limited	Due in 2022	3.875%	1,500	1,500
CNOOC Finance (2012) Limited	Due in 2042	5.000%	500	500
CNOOC Finance (2013) Limited	Due in 2018	1.750%	750	750
CNOOC Finance (2013) Limited	Due in 2023	3.000%	2,000	2,000
CNOOC Finance (2013) Limited	Due in 2043	4.250%	500	500
CNOOC Nexen Finance (2014) ULC	Matured in 2017	1.625%	-	1,250
CNOOC Nexen Finance (2014) ULC	Due in 2024	4.25 %	2,250	2,250
CNOOC Nexen Finance (2014) ULC	Due in 2044	4.875%	500	500
Nexen	Matured in 2017	5.65 %	-	62
Nexen	Due in 2019	6.2 %	300	300
Nexen	Due in 2028	7.4 %	200	200
Nexen	Due in 2032	7.875%	500	500
Nexen	Due in 2035	5.875%	790	790
Nexen	Due in 2037	6.4 %	1,250	1,250
Nexen	Due in 2039	7.5 %	700	700
CNOOC Finance (2015) U.S.A. LLC	Due in 2025	3.500%	2,000	2,000
CNOOC Finance (2015) Australia Pty Ltd	Due in 2020	2.625%	1,500	1,500
CNOOC Finance (2015) Australia Pty Ltd	Due in 2045	4.200%	300	300

All the notes issued mentioned above were fully and unconditionally guaranteed by the Company.

CNOOC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

24. LOANS AND BORROWINGS (continued)

In connection with the Tangguh LNG Project in Indonesia, the Company delivered a guarantee dated October 29, 2007, in favor of Mizuho Corporate Bank, Ltd., which acts as the facility agent for and on behalf of various **international commercial banks under a US\$884 million commercial loan agreement. The Company guarantees the payment obligations of the trustee borrower under the subject loan agreement and is subject to a maximum cap of approximately US\$135,163,308.28.

A letter of credit agreement was signed between the Company and Talisman Energy Inc. (“Talisman”) with execution of the agreement in respect of the sale of a 3.05691% interest of the Company in the Tangguh LNG Project to Talisman. Accordingly, Talisman has delivered valid and unexpired standby letters of credit to the Company (as the beneficiary) as a counter-guarantee to offset the exposure of the Company’s guarantee for the aforesaid interest of 3.05691% in respect of the Tangguh LNG Project financing. The amount of the standby letters of credit was US\$30 million. In February 2017, the standby letters of credit were withdrawn as the Company transferred the 3.05691% guarantee obligations to BP Corporation North America Inc..

In connection with the financing for the third LNG process train of Tangguh LNG Project in Indonesia, the Company delivered two guarantees dated August 3, 2016, in favor of Mizuho Bank, Ltd., which acts as the facility agent for and on behalf of various international commercial banks and Indonesian local commercial banks under ***two commercial loan agreements with aggregate loan amount of US\$2,145 million. The Company guarantees the payment obligations of the trustee borrower under the subject loan agreements and is subject to an aggregate maximum cap of approximately US\$573 million.

****As at December 31, 2017, US\$650 million bank loans (2016: US\$800 million) were guaranteed by the Company.

As at December 31, 2017, US\$694 million shareholder loans (2016: US\$694 million) of the Group were included in general loans. For details please refer to Note 28(v).

CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***24. LOANS AND BORROWINGS (continued)**

The maturities of the long term bank loans are as follows:

	2016	2017
Repayable:		
Within one year	215	212
After one year but within two years	225	212
After two years but within three years	225	212
After three years but within four years	225	108
After four years but within five years	97	61
After five years	313	686
	1,300	1,491
Amount due within one year shown under current liabilities	(215)	(212)
	1,085	1,279

Supplemental information with respect to the long term bank loans:

For the year ended December 31	Balance at year end	Weighted average interest rate at year end	Maximum amount outstanding during the year	Average amount outstanding during the year (1)	Weighted average interest rate during the year (2)
2016	1,300	1.74 %	1,369	1,199	1.29 %
2017	1,491	2.52 %	1,491	1,396	2.13 %

(1) The average amount outstanding is computed by averaging the outstanding principal balances as at January 1, and December 31, of each year.

(2) The weighted average interest rate is computed by averaging the interest rates as at January 1, and December 31, of each year.

There was no default of principal, interest or redemption terms of the loans and borrowings during the year.

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CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***25. PROVISION FOR DISMANTLEMENT**

	2016	2017
At January 1	50,063	50,888
New projects(1)	1,395	1,244
Revision(1)	(2,072)	421
Utilization	(398)	(440)
Deletions	(33)	-
Unwinding of discount(2) (note 7)	2,185	2,145
Exchange differences	(252)	(185)
At December 31	50,888	54,073
Current portion of dismantlement included in other payables and accrued liabilities (note 23)	(462)	(1,180)
At December 31	50,426	52,893

(1) The amounts are included in the additions of oil and gas properties in note 13.

(2) The discount rates used for calculating the provision for dismantlement are within the range of 4% to 5% (2016: 4% to 5%, 2015: 4% to 5%).

26.**SHARE CAPITAL**

	Number of shares	Issued share capital equivalent of RMB million
Issued and fully paid:		
Ordinary shares with no par value as at January 1, 2016, as at December 31, 2016 and as at December 31, 2017	44,647,455,984	43,081

CNOOC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

26.SHARE CAPITAL (continued)

Share option schemes

The Company has adopted the share option schemes for the grant of options to the Company's directors, senior management and other eligible grantees.

- (1) Pre-Global Offering Share Option Scheme (expired in 2011);
- (2) 2001 Share Option Scheme (expired in 2011);
- (3) 2002 Share Option Scheme (expired in 2015); and
- (4) 2005 Share Option Scheme (as defined below).

Under these share option schemes, the Remuneration Committee of the Board will from time to time propose for the Board's approval the grant of share options and the number of share options to be granted to the relevant grantees. The maximum aggregate number of shares (including those that could be subscribed for under the Pre-Global Offering Share Option Scheme, the 2001 Share Option Scheme, the 2002 Share Option Scheme and the 2005 Share Option Scheme) which may be issued upon exercise of all options granted shall not exceed 10% of the total issued share capital of the Company as at December 31, 2005, being the date on which the shareholders of the Company approved the 2005 Share Option Scheme, excluding shares under options which have lapsed.

2005 Share Option Scheme

On December 31, 2005, the Company adopted a new share option scheme (the "2005 Share Option Scheme"). Under the 2005 Share Option Scheme, the Board has the authority to grant options to subscribe for shares to the directors, officers and employees of the Company and its subsidiaries, and any other persons who in the sole discretion of the

Board, have contributed or will contribute to the Group. Unless approved by the shareholders, the total number of shares issued and to be issued upon exercise of the options granted to each individual (including exercised and unexercised options) under the 2005 Share Option Scheme or any other share option scheme adopted by the Company, in any 12-month period, must not exceed 1% of the shares in issue of the Company.

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CNOOC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

26. SHARE CAPITAL (continued)

Share option schemes (continued)

2005 Share Option Scheme (continued)

According to the 2005 Share Option Scheme, the consideration payable by a grantee for the grant of options will be HK\$1.00. The exercise price for such options will be determined by the Board at its discretion at the date of grant, except that such price shall be at least the higher of:

- (1) the nominal value of a share of the Company on the date of grant;
- (2) the average closing price of the shares as stated in the HKSE's daily quotation sheets for the five trading days immediately preceding the date of grant; and
- (3) the closing price of the shares as stated in the HKSE's daily quotation sheet on the date of grant.

The period within which the options must be exercised, as well as any minimum holding period or performance targets which apply to the options, will be specified by the Board of the Company at the time of grant. The exercise periods for options granted under the 2005 Share Option Scheme shall end not later than 10 years from the date of grant. No options may be granted under the 2005 Share Option Scheme after the date of the 10th anniversary of the adoption of the 2005 Share Option Scheme.

No new share option was granted during the year (2016 and 2015: nil) and the Group recognized an equity-settled share option expense of nil (2016 and 2015: nil) during the year.

The fair value of equity-settled share options granted was estimated as at the date of grant if any, using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted.

Details of the share options outstanding are as follows:

	2016		2017	
	Number of share options	Weighted average exercise price HK\$	Number of share options	Weighted average exercise price HK\$
Outstanding at the beginning of the year	262,592,000	10.56	187,529,000	11.40
Granted during the year	-	-	-	-
Forfeited during the year	(37,893,000)	11.30	(22,506,000)	12.43
Expired during the year	(37,170,000)	5.56	(35,104,000)	7.29
Exercised during the year	-	-	-	-
Outstanding at the end of the year	187,529,000	11.40	129,919,000	12.34
Exercisable at the end of the year	187,529,000	11.40	129,919,000	12.34

No share options had been cancelled or modified during the years ended December 31, 2015, 2016 or 2017.

CNOOC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

26. SHARE CAPITAL (continued)

At the date of approval of these consolidated financial statements for issuance, the share options outstanding under these share option schemes represented approximately 0.29% of the Company's shares in issue as at that date (2016: 0.42%, 2015: 0.59%). The weighted average remaining contractual life of share options outstanding at the end of the year was 1.52 years (2016: 2.11 years, 2015: 2.74 years). The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 129,919,000 (2016: 187,529,000) additional ordinary shares of the Company and additional share capital of RMB1,339,702,913 (2016: RMB1,912,814,087).

27. RESERVES

According to the laws and regulations of the PRC and the articles of association of CNOOC China Limited, CNOOC China Limited is required to provide for certain statutory funds, namely, the general reserve fund and the staff and workers' bonus and welfare fund, which are appropriated from net profit (after making up for losses from previous years), but before dividend distribution.

The general reserve fund, which is determined at the discretion of the board of directors of CNOOC China Limited, can only be used, upon approval by the relevant authority, to offset against accumulated losses or to increase capital.

Appropriation to the staff and workers' bonus and welfare fund, which is determined at the discretion of the board of directors of CNOOC China Limited, is expensed as incurred under IFRSs/HKFRSs. The staff and workers' bonus and welfare fund can only be used for special bonuses or collective welfare of employees.

As at December 31, 2017, the general reserve fund amounted to RMB60,000 million (December 31, 2016: RMB10,000 million).

In accordance with the "Temporary Regulation for Safety Expense Financial Management of Higher Risk Industry" and the implementation guidance issued by the MOF of the PRC, the Group is required to accrue a safety fund for its oil and gas exploration and production activities within the PRC by appropriating a portion of its net profit to other

reserves based on its annual production from offshore China. Such reserve is reduced for expenses incurred to improve the safety conditions of oil and gas production. When the safety fund is fully utilized, additional expenses incurred for safety production purposes are charged directly to the profit or loss for the year. As of December 31, 2017, the Group's safety fund reserve under the PRC regulations amounted to nil (December 31, 2016: nil).

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CNOOC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

28. RELATED PARTY TRANSACTIONS

As disclosed in note 1, the Company is a subsidiary of CNOOC, which is a state-owned enterprise subject to the control of the State Council of the PRC. The State Council of the PRC directly and indirectly controls a significant number of state-owned entities and organizations.

Comprehensive framework agreement with CNOOC in respect of a range of products and services

As the Group is controlled by CNOOC, transactions with CNOOC, its subsidiaries and associates (the "CNOOC Group") are disclosed as related party transactions. The connected transactions or continuing connected transactions defined in Chapter 14A of the Listing Rules in respect of items listed below also constitute related party transactions. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules for continuing connected transactions listed below. The Company entered into a comprehensive framework agreement with CNOOC on November 15, 2016 for the provision (1) by the Group to the CNOOC Group and (2) by the CNOOC Group to the Group, of a range of products and services which may be required and requested from time to time by either party and/or its associates in respect of the continuing connected transactions. The term of the comprehensive framework agreement is for a period of three years from January 1, 2017. The continuing connected transactions under the comprehensive framework agreement and the relevant annual caps for the three years from January 1, 2017 were approved by the independent shareholders of the Company on December 1, 2016. The approved continuing connected transactions are as follows:

(1) Provision of exploration, oil and gas development, oil and gas production as well as marketing, management and ancillary services by the CNOOC Group to the Group:

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

(d) Provision of marketing, management and ancillary services

(e) Floating production, storage and offloading ("FPSO") vessel leases

(2) Provision of management, technical, facilities and ancillary services, including the supply of materials by the Group to the CNOOC Group; and

(3) Sales of petroleum and natural gas products by the Group to the CNOOC Group:

(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

CNOOC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

28. RELATED PARTY TRANSACTIONS (continued)

Pricing principles

The basic pricing principle for the continuing connected transactions between the Group and the CNOOC Group is based on arm's length negotiations, on normal commercial terms or better and with reference to the prevailing local market conditions (including the volume of sales, length of contracts, the volume of services, overall customer relationship and other market factors).

On the basis of the above basic pricing principle, each type of products or services must be charged in accordance with the following pricing mechanism and in the following sequential order:

- (a) government-prescribed prices; or
- (b) where there is no government-prescribed price, in accordance with market prices, including the local, national or international market prices.

The continuing connected transactions referred to in paragraph (1)(a)-(1)(b) above provided by the CNOOC Group to the Group and (3)(a)-(3)(b) above provided by the Group to the CNOOC Group, on the basis of the above pricing principle, are based on market prices (as defined in the comprehensive framework agreement).

The continuing connected transactions referred to in paragraph (1)(c)-(1)(d) above provided by the CNOOC Group to the Group, on the basis of the above pricing principle, are based on government-prescribed price or market prices.

The continuing connected transactions referred to in paragraph (1)(e), on the basis of the above pricing principle, are unanimously determined with the CNOOC Group which provides the FPSO vessel leases after arm's length negotiation in accordance with normal commercial terms.

The continuing connected transactions referred to in paragraph (2) above provided by the Group to the CNOOC Group, on the basis of the above pricing principle, are determined through arm's length negotiation between both parties with reference market price.

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CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***28. RELATED PARTY TRANSACTIONS (continued)**

The following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties during the year and the balances arising from related party transactions at the end of the year:

(i) Provision of exploration, oil and gas development, oil and gas production as well as marketing, management and ancillary services by the CNOOC Group to the Group

	2015	2016	2017
Provision of exploration and support services	7,457	4,357	5,912
- Inclusive of amounts capitalized under property, plant and equipment	4,158	2,364	3,392
Provision of oil and gas development and support services	22,733	14,214	16,317
Provision of oil and gas production and support services (note a)	8,384	7,250	8,894
Provision of marketing, management and ancillary services (note b)	954	994	1,450
FPSO vessel leases (note c)	1,770	1,551	1,383
	41,298	28,366	33,956

(ii) Provision of management, technical, facilities and ancillary services, including the supply of materials by the Group to the CNOOC Group

The Group did not enter into any transactions in the above category for the years ended December 31, 2015, 2016 or 2017.

(iii) Sales of petroleum and natural gas products by the Group to the CNOOC Group

	2015	2016	2017
Sales of petroleum and natural gas products (other than long-term sales of natural gas and liquefied natural gas) (note d)	105,401	88,682	109,518
Long term sales of natural gas and liquefied natural gas (note e)	10,557	8,663	9,837

115,958 97,345 119,355

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CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***28. RELATED PARTY TRANSACTIONS (continued)****(iv) Transactions and balances with CNOOC Finance Corporation Limited (“CNOOC Finance”) (note f)****(a) Interest income received by the Group**

	2015	2016	2017
Interest income from deposits in CNOOC Finance	629	564	360

(b) Deposits balances made by the Group

	2016	2017
Deposits in CNOOC Finance	19,437	19,465

(v) Balances with the CNOOC Group

	2016	2017
Amount due to CNOOC		
- included in other payables and accrued liabilities	215	193
Amount due to other related parties		
- included in trade and accrued payables	15,091	16,651
	15,306	16,844
Borrowings from CNOOC (note g)	4,811	4,532
Amounts due from other related parties		
- included in trade receivables	13,090	12,401
- included in other current assets	173	513

13,263 12,914

(vi) **Balance with a joint venture**

2016 2017

Amount due from a joint venture		
– included in other current assets	135	126

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CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***28. RELATED PARTY TRANSACTIONS (continued)****(vii) Transactions and balances with other state-owned enterprises**

The Group enters into extensive transactions covering sales of crude oil and natural gas, purchase of property, plant and equipment and other assets, receiving of services, and making deposits with state-owned enterprises, other than the CNOOC Group, in the normal course of business on terms comparable to those with other non-state-owned enterprises. The purchases of property, plant and equipment and other assets, and receipt of services from these state-owned enterprises are individually not significant. The individually significant sales transactions with these state-owned enterprises are disclosed in note 33. In addition, the Group had certain of its cash in bank and time deposits with certain state-owned banks in the PRC as at December 31, 2017, as summarized below:

	2016	2017
Cash and cash equivalents	6,612	3,824
Time deposits with maturity over three months	108	13
Specified dismantlement fund accounts (note 18)	6,088	7,555
	12,808	11,392

Interest rates for the above time deposits and specified dismantlement fund accounts are at prevailing market rates.

(viii) Key management personnel's remuneration

Key management personnel's remuneration is disclosed in note 8.

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

2016	2017
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Accumulated investment 1,647 1,940

The amount due to the parent company and amounts due from/to related parties are unsecured, interest-free and are repayable on demand, unless otherwise disclosed.

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CNOOC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

28. RELATED PARTY TRANSACTIONS (continued)

Notes:

a) These represent the services for production operations, the provision of various facilities and ancillary services, such as provision of different types of materials, medical and employee welfare services, maintenance and repair of major equipment and supply of water, electricity and heat to the Group, some of which may not be available from independent third parties or available on comparable terms.

b) These include marketing, administration and management, management of oil and gas operations and integrated research services as well as other ancillary services relating to exploration, development, production and research activities of the Group. In addition, the CNOOC Group leased certain premises to the Group for use as office premises and staff quarters out of which they provided management services to certain properties.

c) CNOOC Energy Technology & Services Limited leased FPSO vessels to the Group for use in oil production operations.

d) The sales include crude oil, condensate oil, liquefied petroleum gas, natural gas and liquefied natural gas to the CNOOC Group. Individual sales contracts were entered into from time to time between the Group and the CNOOC Group.

e) It is the market practice for sales terms to be determined based on the estimated reserves and production profile of the relevant gas fields. The long term sales contracts usually last for 5 to 20 years.

f) CNOOC Finance is a 31.8% owned associate of the Company and also a subsidiary of CNOOC. Under the financial services framework agreement with CNOOC Finance dated December 1, 2016, CNOOC Finance continues to provide to the Group settlement, depository, discounting, loans and entrustment loans services. The agreement is effective from January 1, 2017 to December 31, 2019. The depository services were exempted from independent shareholders' approval requirements under the Listing Rules. The Group's maximum daily outstanding balance for deposits stated in CNOOC Finance (including accrued interest but excluding funds placed for the purpose of extending entrustment loans pursuant to the entrustment loan services) in 2017 was RMB19,500 million (2016: RMB22,000 million).

In September 2014, CNOOC provided CNOOC International Limited, a wholly-owned subsidiary of the Company a five-year uncommitted revolving loan facility for general purposes, with the principal amount of US\$135 million of 0.95% per annum. As at December 31, 2017, the withdrawal amount of the loan was US\$130 million (December 31, 2016: US\$130 million); In December 2014, CNOOC provided the Company a five-year uncommitted revolving loan facility for general purposes, with the principal amount of US\$600 million of 0.95% per annum. As at December 31, 2017, the withdrawal amount of the loan was US\$564 million (December 31, 2016: US\$564 million).

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CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts expressed in millions of Renminbi unless otherwise stated)

29. RETIREMENT BENEFITS

All the Group's full-time employees in the PRC are covered by a state-managed retirement benefit plan operated by the government of the PRC, and are entitled to an annual pension. The PRC government is responsible for the pension liabilities to these retired employees. The Group is required to make annual contributions to the state-managed retirement benefit plan at rates ranging from 11% to 22% of the employees' base salaries.

The Company is required to make contributions to a defined contribution mandatory provident fund at a rate of 5% of the salaries of all full-time employees in Hong Kong. The related pension costs are expensed as incurred.

The Group provides retirement benefits for all local employees in overseas locations in accordance with relevant labor law, and provides employee benefits to expatriate staff in accordance with the relevant employment contracts.

During the year, the Group's pension costs charged to the consolidated statement of profit or loss and other comprehensive income amounted to RMB651 million (2016: RMB695 million, 2015: RMB613 million).

30. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS**Reconciliation of profit/(loss) before tax to cash generated from operations**

	2015	2016	2017
Profit/(loss) before tax	17,130	(5,275)	36,357
Adjustments for:			
Interest income	(873)	(901)	(653)
Finance costs	6,118	6,246	5,044
Exchange losses/(gains), net	143	790	(356)
Share of (profits)/losses of associates	(256)	609	(302)

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Share of profit of a joint venture	(1,647)	(533)	(553)
Investment income	(2,398)	(2,774)	(2,409)
Impairment and provision	2,746	12,171	9,130
Depreciation, depletion and amortization	73,439	68,907	61,257
Loss on disposal and write-off of property, plant and equipment	2,115	2,304	1,937
Others	70	-	-
Subtotal	96,587	81,544	109,452
Decrease/(increase) in trade receivables and other current assets	7,932	(2,820)	(1,073)
Decrease in inventories and supplies	1,427	922	1,464
(Decrease)/increase in trade and accrued payables and other payables	(9,851)	2,491	782
Cash generated from operations	96,095	82,137	110,625

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CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***30. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)****Reconciliation of liabilities arising from financing activities**

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Loans and borrowings (Note 24)	Interest payable (Note 23)	Dividend payable	Total
At January 1, 2017	150,476	1,244	-	151,720
Financing cash flows	(9,669)	(5,154)	(16,448)	(31,271)
Foreign exchange translation	(8,911)	51	(52)	(8,912)
Finance costs	354	5,040	-	5,394
Dividends declared	-	-	16,500	16,500
At December 31, 2017	132,250	1,181	-	133,431

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CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts expressed in millions of Renminbi unless otherwise stated)

31. COMMITMENTS AND CONTINGENCIES

(i) Capital commitments

As at December 31, 2017, the Group had the following capital commitments, principally for the construction of property, plant and equipment:

	2016	2017
Contracted, but not provided for (1)	46,515	46,704

(1) The capital commitments contracted, but not provided for, include the estimated payments to the Ministry of Land and Resources of the PRC for the next five years with respect to the Group's exploration and production licenses.

The above table includes a commitment of approximately RMB4,030 million (December 31, 2016: RMB2,482 million) contracted with the CNOOC Group.

Capital commitments of a joint venture:

	2016	2017
Contracted, but not provided for	360	691

As at December 31, 2017, the Group had unutilized banking facilities amounting to approximately RMB53,749 million (December 31, 2016: RMB60,697 million).

(ii) Operating lease commitments

a. Office properties

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 6 months to 20 years.

As at December 31, 2017, the Group had total minimum lease payments under non-cancellable operating leases falling due as follows:

	2016	2017
Commitments due:		
No later than one year	1,317	1,630
Later than one year and not later than two years	896	1,048
Later than two years and not later than five years	1,534	1,274
Later than five years	1,963	1,774
	5,710	5,726

The above table includes minimum lease payments of approximately RMB1,218 million (December 31, 2016: RMB639 million) to the CNOOC Group.

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CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***31. COMMITMENTS AND CONTINGENCIES (continued)****(ii) Operating lease commitments (continued)****a. Office properties (continued)**

Office properties commitments of a joint venture:

	2016	2017
Commitments due:		
No later than one year	25	18
Later than one year and not later than two years	17	12
Later than two years and not later than five years	26	16
Later than five years	51	23
	119	69

b. Plant and equipment

The Group leases certain of its plant and equipment under operating lease arrangements for a term from 1 year to 25 years.

As at December 31, 2017, the Group had total minimum lease payments under non-cancellable operating leases falling due as follows:

	2016	2017
Commitments due:		
No later than one year	1,378	1,272
Later than one year and not later than two years	734	875

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Later than two years and not later than five years	1,316	1,616
Later than five years	3,878	3,406
	7,306	7,169

The above table includes a commitment of approximately RMB3,366 million (December 31, 2016: RMB3,211 million) to the CNOOC Group.

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CNOOC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

31. COMMITMENTS AND CONTINGENCIES (continued)

(iii) Contingencies

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

On August 10, 2015, the Company received a Notice Calling for Responses from the Qingdao Maritime Court of the People’s Republic of China (the “Qingdao Maritime Court”) for a public interest action filed by China Biodiversity Conservation and Green Development Foundation (the “Plaintiff”) in relation to the Penglai 19-3 Oilfield Oil Spill Accidents (the “Lawsuit”). The Lawsuit is lodged against COPC and CNOOC China Limited. On February 2, 2018, CNOOC China Limited received a ruling dated December 28, 2017 issued by Qingdao Maritime Court (the "Ruling"). Pursuant to the Marine Environment Protection Law of the People’s Republic of China amended in 2016, Qingdao Maritime Court ruled that the Plaintiff was not an appropriate entity to file Lawsuit, and rejected it. As none of the parties to the Lawsuit appealed within the time limit, the Ruling came into effect. Therefore, CNOOC China Limited bears no liability for the Lawsuit.

The Company is of the view that there was no material financial impact of the Penglai 19-3 Oilfield Oil Spill Accidents on the Company.

(ii) 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.

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

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

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

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CNOOC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

32. FINANCIAL INSTRUMENTS

Fair value of financial instruments

The Group enters into contracts to purchase and sell crude oil, natural gas and other energy commodities, and use derivative contracts, including futures, forwards, swaps and options for hedging and trading purposes (collectively derivative contracts). The Group also uses derivatives to manage foreign currency risk for non-trading purposes.

For purposes of estimating the fair value of the derivative contracts, wherever possible, the Group utilizes quoted market price and, if not available, estimates from third-party brokers. These brokers' estimates are corroborated with multiple sources and/or other observable market data utilizing assumptions that market participants would use when pricing the assets or liabilities, including assumptions about risk and market liquidity.

The carrying values of the Group's cash and cash equivalents, time deposits, trade receivables, other current assets, short-term loans, trade and accrued payables, other payables and accrued liabilities approximated to their fair values at the reporting date due to the short maturity of these instruments.

The carrying amount of the Group's non-current non-publicly traded equity investments represents an appropriate estimate of their fair values, as sufficient information is not available recently to measure their fair values as at December 31, 2017 and 2016.

The fair value of the Group's long term bank loans with floating interest rates approximated to the carrying amount as at December 31, 2017 and 2016.

The estimated fair value of the Group's long term guaranteed notes was approximately RMB128,315 million as at December 31, 2017 (2016: RMB140,135 million), which was determined by reference to the market price as at December 31, 2017.

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CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts expressed in millions of Renminbi unless otherwise stated)

32. FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

The Group uses the following hierarchy that reflects the significance of the inputs used in making the fair value measurement:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities. Active markets are those in which transaction occur in sufficient frequency and volume to provide pricing information on an on-going basis.

Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Instruments in this category include non-exchange traded derivatives such as over-the-counter physical forwards and options, including those that have prices similar to quoted market prices, private equity funds and corporate wealth management products. The Group obtains information from sources of independent price publications, over-the-counter broker quotes and the fund management's quotations as at the reporting date.

Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs), or where the observable data does not support the majority of the instruments fair value.

As at December 31, 2017 and December 31, 2016, the Group held the following financial instruments measured at fair value for each hierarchy respectively:

	December			
Assets measured at fair value	31	Level	Level 2	Level
	2017	1		3
Other financial assets-current				

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Corporate wealth management products	66,229	-	66,229	-
Money market funds	8,115	8,115	-	-
Derivative financial assets – current	-	-	-	-
Equity investments				
Non-publicly traded investments- current	14	-	14	-
Publicly traded investments-non current	781	781	-	-
	75,139	8,896	66,243	-
Liabilities measured at fair value				
Derivative financial liabilities – current	-	-	-	-

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CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(All amounts expressed in millions of Renminbi unless otherwise stated)***32. FINANCIAL INSTRUMENTS (continued)****Fair value hierarchy (continued)**

Assets measured at fair value	December 31 2016	Level 1	Level 2	Level 3
Other financial assets-current				
Corporate wealth management products	46,958	-	46,958	-
Money market funds	5,931	5,931	-	-
Derivative financial assets – current	428	-	428	-
Equity investments				
Non-publicly traded investments- current	15	-	15	-
Publicly traded investments-non current	1,391	1,391	-	-
	54,723	7,322	47,401	-
Liabilities measured at fair value				
Derivative financial liabilities – current	(426)	-	(426)	-

For financial assets and liabilities arising from derivative contracts, inputs may be readily observable, market-corroborated or generally unobservable. The Group utilizes valuation techniques that seek to maximize the use of observable inputs and minimize the use of unobservable inputs. To value longer term transactions and transactions in less active markets for which pricing information is not generally available, unobservable inputs may be used.

No amounts have been transferred between the different levels of the fair value hierarchy for the year.

CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts expressed in millions of Renminbi unless otherwise stated)

33. CONCENTRATION OF CUSTOMERS

A substantial portion of the Group's oil and gas commodities sales to third-party customers is made to a small number of customers on credit. Details of the gross sales to these top five third party customers are as follows:

	2015	2016	2017
China Petroleum & Chemical Corporation*	14,692	9,659	15,488
PetroChina Company Limited*	5,502	6,923	11,957
BP p.l.c.	3,093	2,843	3,108
Phillips 66	N/A	N/A	2,631
Royal Dutch Shell PLC	6,917	3,661	2,627
EOG Resources, Inc.	3,746	2,660	N/A

* These transactions are with other state-owned enterprises.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, long term guaranteed notes, equity investment and other financial assets, cash and short term deposits. The Group has various other financial assets and liabilities such as trade receivables, trade and accrued payables, which arise directly from its operations.

The Group is exposed to credit risk, oil and gas price risk, currency risk, interest rate risk and liquidity risk.

The Group's senior management oversees the management of these risks. The Group's senior management is supported by various departments that advise on financial risks and the appropriate financial risks governance framework for the Group. Those departments provide assurance to the Group's senior management that the Group's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with group policies and group risk appetite.

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CNOOC LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in millions of Renminbi unless otherwise stated)

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk

The carrying amounts of the Group's cash and cash equivalents, time deposits, money market funds and corporate wealth management products, trade receivables and other receivables, and other current assets except for prepayments represent the Group's maximum exposure to credit risk in relation to its financial assets.

The significant portion of the Group's trade receivables is related to the sale of oil and natural gas to third party customers. The Group performs ongoing credit evaluations of the customers' financial condition and collateral may be required from customers. The Group made an impairment allowance on doubtful receivables and actual losses have been within management's expectation.

Concentrations of credit risk are managed by customer/counterparty and by geographical region. At December 31, 2017, the Group has certain concentrations of credit risk as 0.16% (2016: 1%) and 7.63% (2016: 5%) of the Group's trade receivables were due from the Group's largest third-party customer and the five largest third-party customers, respectively.

No other financial assets carry a significant exposure to credit risk.

(ii) Oil and gas price risk

Since the Group makes reference to international oil prices to determine its realized oil price, fluctuations in international oil price would have a significant impact on the Group's sales revenue, profit, assets value and cashflow. In addition, certain of the Group's natural gas sales contracts contain price adjustment provisions. Any changes in international oil prices, inflation rate and domestic natural gas price policies may result in changes in natural gas prices, which will affect the Group's profitability. In North America, the majority of the Group's oil and gas production is sold under short-term contracts, exposing the Group to the risk of price movements. Other energy contracts the Group enters into also expose the Group to oil and gas price risk between the time the Group purchases and sells contracted volumes.

(iii)

Currency risk

Substantially all of the Group's oil and gas sales are denominated in Renminbi and United States dollars ("US dollars"). Starting from July 21, 2005, China reformed the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. Renminbi would no longer be pegged to the US dollars. From January 1, 2017 to December 31, 2017 (the last working day in 2017), Renminbi has appreciated by approximately 6.16% (December 31, 2016: depreciated by approximately 6.39%) against the US dollars. At December 31, 2017, approximately 82% (December 31, 2016: 88%, December 31, 2015: 89%) of the Group's cash and cash equivalents and time deposits with maturity over three months were denominated in Renminbi, and the remaining amounts were substantially denominated in US dollars and Hong Kong dollars. The Group also has exposures to currencies other than the US dollars, such as Canadian dollar and British Pounds as such exposures are considered insignificant.

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CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts expressed in millions of Renminbi unless otherwise stated)

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)(iii) Currency risk (continued)

Management has assessed the Group's exposure to foreign currency risk by using a sensitivity analysis on the change in foreign exchange rate of the US dollars, to which the Group is mainly exposed to as at December 31, 2017 and 2016. Based on management's assessment at December 31, 2017, a 5% strengthening/weakening of RMB against US dollars would have increased/decreased the profit for the year of the Group by 0.06% (December 31, 2016: 6.63%) and the equity of the Group by 0.31% (December 31, 2016: 0.46%). This analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to the foreign currency balances to which the Group has significant exposure with all other variables held constant. The analysis is performed on the same basis for 2016.

Senior management is closely monitoring the Group's net exposure to foreign currency risk. The appreciation of Renminbi against the US dollars may have the following impact on the Group. On one hand, since the benchmark oil and gas prices are usually in US dollars against Renminbi, the Group's oil and gas sales may decrease due to the depreciation of the US dollars against Renminbi. On the other hand, the depreciation of the US dollars against Renminbi will also decrease the Group's costs for imported equipment and materials, most of which are denominated in the US dollars. In addition, the debt repayment by the Group will decrease since all of the Group's interest-bearing debts are also denominated in the US dollars.

(iv) Interest rate risk

The interest rate risk is closely monitored by the Group's senior management. As at the end of 2017, the interest rates for 95.5% of the Group's debts were fixed. Apart from borrowing for Tangguh LNG Project, all of the Group's long term debts are fixed rate. The weighted average term of the Group's debt balance outstanding was approximately 9.35 years. The fixed interest rates can reduce the volatility of finance costs under uncertain environments and the Group's exposure to changes in interest rates is not expected to be material.

(v) Liquidity risk

The Group manages its liquidity risk by regularly monitoring its liquidity requirements and its compliance with debt covenants to ensure that it maintains sufficient cash and cash equivalents, and readily realizable equity investments and other financial assets, and adequate time deposits to meet its liquidity requirements in the short and long term. In addition, bank facilities have been put in place for contingency purposes.

The Group's trade and accrued payables, other payables and accrued liabilities are all due for settlement within six months after the reporting date.

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CNOOC LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts expressed in millions of Renminbi unless otherwise stated)

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(vi)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may return capital to shareholders, raise new debt or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years end December 31, 2015, 2016 and 2017.

The Group monitors capital on the basis of the debt to capital ratio, which is calculated as interest-bearing debts divided by total capital (equity attributable to owners of the parent plus interest-bearing debts).

	2015	2016	2017
Interest-bearing debts	164,645	150,476	132,250
Equity attributable to owners of the parent	386,041	382,371	379,975
Total capital	550,686	532,847	512,225
Gearing ratio	29.9 %	28.2 %	25.8 %

35.**CHARGE OF ASSETS**

CNOOC NWS Private Limited, a wholly-owned subsidiary of the Group, together with the other joint venture partners and the operator of the NWS Project, signed a Deed of Cross Charge and an Extended Deed of Cross Charge whereby certain liabilities incurred or to be incurred, if any, by the Company in respect of the NWS Project are secured by its interest in the NWS Project.

36.

SUBSEQUENT EVENTS

The Group has no significant subsequent events needed to be disclosed in the consolidated financial statements.

37.

APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorized for issue by the Board of Directors on March 29, 2018.

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CNOOC LIMITED

SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES

(UNAUDITED)

(All amounts expressed in millions of Renminbi unless otherwise stated)

The following disclosures are included in accordance with the FASB Accounting Standard Codification 932 “Extractive Activities-Oil and Gas (the “ASC 932”).

The regional analysis presented below is on a continent basis, with separate disclosure for countries that contain 15% or more of the total proved reserve, in accordance with SEC and FASB requirements.

(a) Reserve quantity information

Crude oil and natural gas reserve estimates are determined through analysis of geological and engineering data which appear, with reasonable certainty, to be economically producible in the future from known oil and natural gas reservoirs under existing economic and operating conditions. The reserve data that we disclosed were all based on the definitions and disclosure guidelines contained in the US Securities and Exchange Commission’s final rules on “Modernization of oil and Gas Reporting” (the “SEC Final Rule”).

For the years 2017, 2016 and 2015, approximately 65%, 60% and 62%, respectively, of our total proved reserves were evaluated by us, and the remaining were evaluated by independent third parties.

We implemented rigorous internal control system that monitors the entire reserves estimation process and certain key metrics in order to ensure that the process and results of reserves estimates fully comply with the relevant SEC rules.

We established the Reserve Management Committee (the “RMC”), which is led by one of our Executive Vice Presidents and comprises the general managers of the relevant departments.

The RMC’s main responsibilities are to:

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

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

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

The RMC delegates its daily operation to our Reserves Office, which is led by our Chief Reserve Supervisor. The Reserves Office is mainly responsible for supervising reserves estimates and auditing. It reports to the RMC periodically and is independent from operating divisions such as the exploration, development and production departments. Our Chief Reserve Supervisor has more than 35 years' experience in oil and gas industry.

The Group's net proved reserves consist of its interest in reserves, comprised of a 100% interest in its independent oil and gas properties and its participating interest in the properties covered under the production sharing contracts in the PRC, less (i) an adjustment for the Group's share of royalties payable by the Group to the PRC government and the Group's participating interest in share oil payable to the PRC government under the production sharing contracts, and less (ii) an adjustment for production allocable to foreign partners under the PRC production sharing contracts as reimbursement for exploration expenses attributable to the Group's participating interest, and plus the participating interest in the properties covered under the production sharing contracts in oversea countries, less adjustments, if any, of share oil attributable to the host government and the domestic market obligation.

CNOOC LIMITED**SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)***(All amounts expressed in millions of Renminbi unless otherwise stated)*

Pursuant to SEC Final Rule, the Group uses the average, first-day-of-the-month oil price during the 12-month period before the ending date of the period covered by the consolidated financial statements to estimate its proved oil and gas reserves.

The Company determines its net entitlement oil and gas reserves under production sharing contracts using the economic interest method.

Proved developed and undeveloped reserves:

	PRC		Asia (excluding PRC)		Oceania	Africa		Canada			
	Oil (mmbbls)	Natural gas (bcf)	Oil (mmbbls)	Natural gas (bcf)	Oil (mmbbls)	Natural gas (bcf)	Oil (mmbbls)	Natural gas (bcf)	Oil (mmbbls)	Natural gas (bcf)	Synthetic oil (mmbbls)
Consolidated entities											
31 December 2014	1,692	4,757	47	861	17	456	143	–	–	233	750
Purchase/(Disposal) of reserves	–	–	–	–	–	–	–	–	–	–	–
Discoveries and extensions	267	1,491	–	10	–	–	3	–	–	–	8
Improved Recovery	–	–	–	–	–	–	–	–	–	–	–
Production	(278)	(267)	(17)	(51)	(1)	(34)	(31)	–	–	(25)	(15)
Revisions of prior estimates	(250)	(626)	29	26	(1)	(32)	52	–	–	(89)	73
31 December 2015	1,431	5,355	60	846	15	389	167	–	–	119	815

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Purchase/(Disposal) of reserves	—	—	—	—	—	—	—	—	—	—	—
Discoveries and extensions	167	897	—	—	—	—	1	—	—	—	7
Improved Recovery	—	—	—	—	—	—	—	—	—	—	—
Production	(271)	(237)	(18)	(55)	(2)	(41)	(29)	—	—	(18)	(8)
Revisions of prior estimates	119	(170)	35	162	(1)	(15)	—	—	—	(101)	(514)
31 December 2016	1,446	5,844	77	952	12	333	138	—	—	—	301
Purchase/(Disposal) of reserves	3	1	—	—	—	—	—	—	—	—	—
Discoveries and extensions	112	250	—	—	—	—	—	—	—	—	162
Improved Recovery	—	—	—	—	—	—	—	—	—	—	—
Production	(258)	(262)	(21)	(52)	(1)	(35)	(27)	—	—	(14)	(6)
Revisions of prior estimates	325	77	14	(16)	—	(1)	26	—	—	38	330
31 December 2017	1,627	5,911	70	885	11	297	137	—	—	24	786

For explanation of significant changes in proved reserve, please refer to section “Item 4.B. Business Overview” for more details.

Enterprise’s share of equity method investees:

31 December 2014	1 3	—	—	—	—	—	—	—	—	—	—
Purchase/(Disposal) of reserves	—	—	—	—	—	—	—	—	—	—	—
Discoveries and extensions	—	—	—	—	—	—	—	—	—	—	—
Improved Recovery	—	—	—	—	—	—	—	—	—	—	—
Production	—	—	—	—	—	—	—	—	—	—	—
Revisions of prior estimates	—	—	—	—	—	—	—	—	—	—	—
31 December 2015	1 6	—	—	—	—	—	—	—	—	—	—
Purchase/(Disposal) of reserves	—	—	—	—	—	—	—	—	—	—	—
Discoveries and extensions	—	—	—	—	—	—	—	—	—	—	—
Improved Recovery	—	—	—	—	—	—	—	—	—	—	—
Production	—	—	—	—	—	—	—	—	—	—	—
Revisions of prior estimates	—	—	—	—	—	—	—	—	—	—	—
31 December 2016	1 7	—	—	—	—	—	—	—	—	—	—

Purchase/(Disposal) of reserves	--	—————	49	140	—49	140	—
Discoveries and extensions	--	—————	8	34	—8	34	—
Improved Recovery	--	—————	1	23	—1	23	—
Production	—	(2) —————	(8)	(52)	—(8)	(53)	—
Revisions of prior estimates	—	1 —————	(1)	(11)	—	(11)	—
31 December 2017	1	6 —————	244	701	—245	707	—

Total consolidated and equity Interests in reserves

CNOOC LIMITED**SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)***(All amounts expressed in millions of Renminbi unless otherwise stated)*

31 December 2015	1,431	5,361	60	846	15	389	167	-119	815	-	239	275	-201	570	102	9	2,215	7,570	815	-
31 December 2016	1,446	5,850	77	952	12	333	138	—	301	-	260	350	-496	567	81	7	2,211	8,060	301	-
31 December 2017	1,628	5,916	70	885	11	297	137	-24	786	118	282	421	-324	701	88	5	2,540	8,250	786	118

Proved developed reserves:

	PRC		Asia(excluding PRC)		Oceania		Africa		Canada			Bitu
	Oil	Natural gas	Oil	Natural gas	Oil	Natural gas	Oil	Natural gas	Oil	Natural gas	Synthetic oil	Bitu
	(mmbbls)	(bcf)	(mmbbls)	(bcf)	(mmbbls)	(bcf)	(mmbbls)	(bcf)	(mmbbls)	(bcf)	(mmbbls)	(mmbbls)
Consolidated entities												
31 December 2015	809	1,757	40	439	10	273	53	-	-	119	197	-
31 December 2016	815	1,623	51	618	10	268	41	-	-	-	156	-
31 December 2017	893	1,574	35	558	8	230	37	-	-	24	142	46
Enterprise's share of equity												
method investees:												
31 December 2015	1	6	-	-	-	-	-	-	-	-	-	-
31 December 2016	1	7	-	-	-	-	-	-	-	-	-	-
	1	6	-	-	-	-	-	-	-	-	-	-

31 December
2017

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CNOOC LIMITED**SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)***(All amounts expressed in millions of Renminbi unless otherwise stated)*

Proved undeveloped reserves:

	PRC		Asia(excluding PRC)		Oceania	Africa		Canada			Bitu	
	Oil (mmbbls)	Natural gas (bcf)	Oil (mmbbls)	Natural gas (bcf)	Oil (mmbbls)	Natural gas (bcf)	Oil (mmbbls)	Natural gas (bcf)	Oil (mmbbls)	Natural gas (bcf)	Synthetic oil (mmbbls)	Bitu (mmbbls)
Consolidated entities												
31 December 2015	622	3,598	20	406	5	116	114	—	—	—	619	—
31 December 2016	631	4,221	26	334	2	66	97	—	—	—	145	—
31 December 2017	734	4,336	35	327	2	68	100	—	—	—	644	72
Enterprise's share of equity												
method investees:												
31 December 2015	—	—	—	—	—	—	—	—	—	—	—	—
31 December 2016	—	—	—	—	—	—	—	—	—	—	—	—
31 December 2017	—	—	—	—	—	—	—	—	—	—	—	—

(b)**Results of operations**

2015

Consolidated entities

	Asia		Africa		North America		South America	Europe	Total
	PRC	(excluding PRC)	Oceania	(excluding PRC)	Canada	(excluding Canada)	(excluding America)		
Net sales to customers	106,258	7,258	1,079	9,723	4,981	4,435	103	12,760	146,597
Operating expenses	(15,984)	(2,562)	(420)	(1,271)	(4,278)	(1,044)	(28)	(2,785)	(28,372)
Taxes other than income tax	(9,498)	—	(131)	(459)	(250)	(362)	—	(48)	(10,748)
Exploration expense	(4,415)	(937)	(50)	(885)	(712)	(1,271)	(260)	(1,443)	(9,973)
Accretion expense	(1,882)	—	—	(93)	(119)	(55)	(2)	(284)	(2,435)
Depreciation, depletion and amortisation, and impairment	(40,082)	(3,193)	(135)	(9,898)	(4,173)	(7,370)	(581)	(9,592)	(75,024)
Special oil gain levy	(59)	—	—	—	—	—	—	—	(59)
	34,338	566	343	(2,883)	(4,551)	(5,667)	(768)	(1,392)	19,986
Income tax expense	(8,584)	(764)	(103)	186	1,405	2,133	34	4,801	(892)
Result of operations	25,574	(198)	240	(2,697)	(3,146)	(3,534)	(734)	3,409	19,094

CNOOC LIMITED**SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)***(All amounts expressed in millions of Renminbi unless otherwise stated)***2015****Enterprise's share of equity method investees:**

		Asia					North			
	PRC	(excluding PRC)	Oceania	Africa	Canada	America	South	Europe	Total	
						(excluding America				
						Canada)				
Net sales to customers	200	—	—	—	—	—	3,244	—	3,444	
Operating expenses	(139)	—	—	—	—	—	(1,624)	—	(1,763)	
Taxes other than income tax	(11)	—	—	—	—	—	(1,288)	—	(1,299)	
Exploration expense	(59)	—	—	—	—	—	(6)	—	(65)	
Accretion expense	(6)	—	—	—	—	—	(34)	—	(40)	
Depreciation, depletion and amortisation, and impairment	(109)	—	—	—	—	—	(1,767)	—	(1,876)	
Special oil gain levy	—	—	—	—	—	—	—	—	—	
	(124)	—	—	—	—	—	(1,475)	—	(1,599)	
Income tax expense	19	—	—	—	—	—	—	—	19	
Result of operations	(105)	—	—	—	—	—	(1,475)	—	(1,580)	
Total result of operations for producing activities	25,649	(198)	240	(2,697)	(3,146)	(3,534)	(2,209)	3,409	17,514	

2016

Consolidated entities

	Asia				North America				Total
	PRC	(excluding Oceania Africa PRC)	Oceania	Africa	Canada	America (excluding America Canada)	South America	Europe	
Net sales to customers	87,276	6,186	1,285	8,358	2,935	4,792	73	10,419	121,324
Operating expenses	(13,704)	(2,214)	(503)	(1,168)	(2,974)	(815)	(19)	(1,814)	(23,211)
Taxes other than income tax	(5,885)	—	(139)	(384)	(239)	(234)	—	(18)	(6,899)
Exploration expense	(3,499)	(9)	(37)	(117)	(182)	(2,395)	(508)	(647)	(7,394)
Accretion expense	(1,535)	—	—	(114)	(134)	(71)	(3)	(329)	(2,186)
Depreciation, depletion and amortisation, and impairment	(35,327)	(4,020)	(190)	(11,651)	(11,006)	(6,097)	(27)	(10,783)	(79,101)
Special oil gain levy	—	—	—	—	—	—	—	—	—
	27,326	(57)	416	(5,076)	(11,600)	(4,820)	(484)	(3,172)	2,533
Income tax expense	(6,832)	18	(125)	1,345	3,380	2,268	(10)	3,237	3,281
Result of operations	20,494	(39)	291	(3,731)	(8,220)	(2,552)	(494)	65	5,814

CNOOC LIMITED**SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)***(All amounts expressed in millions of Renminbi unless otherwise stated)***2016****Enterprise's share of equity method investees:**

	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Net sales to customers	187	—	—	—	—	—	2,905	—	3,092
Operating expenses	(84)	—	—	—	—	—	(1,193)	—	(1,277)
Taxes other than income tax	(10)	—	—	—	—	—	(461)	—	(471)
Exploration expense	(10)	—	—	—	—	—	(196)	—	(206)
Accretion expense	(8)	—	—	—	—	—	(16)	—	(24)
Depreciation, depletion and amortisation, and impairment	(133)	—	—	—	—	—	(1,994)	—	(2,127)
Special oil gain levy	—	—	—	—	—	—	—	—	—
	(58)	—	—	—	—	—	(955)	—	(1,013)
Income tax expense	9	—	—	—	—	—	—	—	9
Result of operations	(49)	—	—	—	—	—	(955)	—	(1,004)
Total result of operations for producing activities	20,445	(39)	291	(3,731)	(8,220)	(2,552)	(1,449)	65	4,810

2017

Consolidated entities

	Asia				North				
	PRC	(excluding PRC)	Oceania	Africa	Canada	America	South	Europe	Total
						(excluding America)			
						Canada)			
Net sales to customers	107,887	9,085	1,283	9,722	4,750	6,277	100	12,784	151,888
Operating expenses	(14,882)	(2,401)	(462)	(1,033)	(3,057)	(1,021)	(23)	(1,402)	(24,281)
Taxes other than income tax	(6,297)	—	(159)	(406)	(13)	(282)	—	(12)	(7,169)
Exploration expense	(3,737)	(11)	(7)	(83)	(818)	(714)	(223)	(1,303)	(6,896)
Accretion expense	(1,525)	—	—	(164)	(124)	(82)	—	(249)	(2,144)
Depreciation, depletion and amortisation, and impairment	(33,737)	(1,363)	(142)	(17,863)	(3,851)	(5,889)	(23)	(6,605)	(69,473)
Special oil gain levy	(55)	—	—	—	—	—	—	—	(55)
	47,654	5,310	513	(9,827)	(3,113)	(1,711)	(169)	3,213	41,870
Income tax expense	(11,913)	(536)	(154)	341	1,070	(1,075)	4	(1,230)	(13,493)
Result of operations	35,741	4,774	359	(9,486)	(2,043)	(2,786)	(165)	1,983	28,377

CNOOC LIMITED**SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)***(All amounts expressed in millions of Renminbi unless otherwise stated)***2017****Enterprise's share of equity method investees:**

		Asia				North			
	PRC	(excluding PRC)	Oceania	Africa	Canada	America	South	Europe	Total
						(excluding America			
						Canada)			
Net sales to customers	193	—	—	—	—	—	2,840	—	3,033
Operating expenses	(113)	—	—	—	—	—	(1,281)	—	(1,394)
Taxes other than income tax	(11)	—	—	—	—	—	(448)	—	(459)
Exploration expense	—	—	—	—	—	—	(6)	—	(6)
Accretion expense	(8)	—	—	—	—	—	(53)	—	(61)
Depreciation, depletion and amortisation, and impairment	(132)	—	—	—	—	—	(1,330)	—	(1,462)
Special oil gain levy	—	—	—	—	—	—	—	—	—
	(71)	—	—	—	—	—	(278)	—	(349)
Income tax expense	11	—	—	—	—	—	—	—	11
Result of operations	(60)	—	—	—	—	—	(278)	—	(338)
Total result of operations for producing activities	35,681	4,774	359	(9,486)	(2,043)	(2,786)	(443)	1,983	28,039

(c)**Capitalised costs**

2015**Consolidated entities**

	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Proved oil and gas properties	409,295	30,736	2,420	65,593	29,160	39,805	97	11,217	588,323
Unproved oil and gas properties	13,006	1,616	2	27,644	90,802	36,523	6,263	42,387	218,243
Accumulated depreciation, depletion and amortisation	(230,943)	(17,768)	(1,253)	(43,408)	(14,774)	(20,247)	(831)	(26,034)	(355,258)
Net capitalised costs	191,358	14,584	1,169	49,829	105,188	56,081	5,529	27,570	451,308

CNOOC LIMITED**SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)***(All amounts expressed in millions of Renminbi unless otherwise stated)***2015****Enterprise's share of equity method investees**

	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Proved oil and gas properties	2,129	—	—	—	—	—	30,191	—	32,320
Unproved oil and gas properties	—	—	—	—	—	—	5,754	—	5,754
Accumulated depreciation, depletion and amortisation	(1,831)	—	—	—	—	—	(7,693)	—	(9,524)
Net capitalised costs	298	—	—	—	—	—	28,252	—	28,550

2016**Consolidated entities**

	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
	425,290	36,318	2,585	84,014	14,247	47,763	533	4,156	614,906

Proved oil and gas properties									
Unproved oil and gas properties	13,635	1,731	2	28,404	115,875	38,649	7,619	49,524	255,439
Accumulated depreciation, depletion and amortisation	(266,002)	(23,081)	(1,472)	(58,331)	(27,226)	(27,733)	(936)	(36,083)	(440,864)
Net capitalised costs	172,923	14,968	1,115	54,087	102,896	58,679	7,216	17,597	429,481

2016**Enterprise's share of equity method investees**

	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Proved oil and gas properties	2,129	—	—	—	—	—	34,667	—	36,796
Unproved oil and gas properties	—	—	—	—	—	—	5,645	—	5,645
Accumulated depreciation, depletion and amortisation	(1,971)	—	—	—	—	—	(10,310)	—	(12,281)
Net capitalised costs	158	—	—	—	—	—	30,002	—	30,160

CNOOC LIMITED**SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)***(All amounts expressed in millions of Renminbi unless otherwise stated)***2017****Consolidated entities**

	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Proved oil and gas properties	443,193	38,541	2,435	84,241	19,534	54,731	1,916	11,586	656,177
Unproved oil and gas properties	16,163	1,195	2	30,690	103,637	34,471	7,917	40,089	234,164
Accumulated depreciation, depletion and amortisation	(299,171)	(26,786)	(1,480)	(64,047)	(27,894)	(31,835)	(942)	(40,350)	(492,505)
Net capitalised costs	160,185	12,950	957	50,884	95,277	57,367	8,891	11,325	397,836

2017**Enterprise's share of equity method investees**

PRC	Asia (excluding	Oceania	Africa	Canada	North America	South America	Europe	Total
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	PRC)					(excluding Canada)			
Proved oil and gas properties	2,159	—	—	—	—	—	33,227	—	35,386
Unproved oil and gas properties	—	—	—	—	—	—	4,743	—	4,743
Accumulated depreciation, depletion and amortisation	(2,138)	—	—	—	—	—	(11,601)	—	(13,739)
Net capitalised costs	21	—	—	—	—	—	26,369	—	26,390

(d) Costs incurred in oil and gas property acquisition, exploration and development

2015

Consolidated entities

	Asia					North			
	PRC	(excluding PRC)	Oceania	Africa	Canada	America (excluding Canada)	South America	Europe	Total
Acquisition costs:									
– Proved	—	—	—	—	—	—	—	—	—
– Unproved	—	—	—	—	—	—	—	—	—
Exploration costs	9,516	908	54	1,169	461	1,236	1,123	714	15,181
Development costs*	22,726	4,582	—	9,469	2,465	7,216	60	72	46,590
Total costs incurred	32,242	5,490	54	10,638	2,926	8,452	1,183	786	61,771

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CNOOC LIMITED**SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)***(All amounts expressed in millions of Renminbi unless otherwise stated)***2015****Enterprise's share of equity method investees**

	Asia				North				
	PRC	(excluding PRC)	Oceania	Africa	Canada	America	South	Europe	Total
						(excluding America			
						Canada)			
Acquisition costs:									
– Proved	—	—	—	—	—	—	—	—	—
– Unproved	—	—	—	—	—	—	—	—	—
Exploration costs	59	—	—	—	—	—	33	—	92
Development costs*	241	—	—	—	—	—	2,811	—	3,052
Total costs incurred	300	—	—	—	—	—	2,844	—	3,144

2016**Consolidated entities**

	Asia				North				
	PRC	(excluding PRC)	Oceania	Africa	Canada	America	South	Europe	Total
						(excluding America			
						Canada)			

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Acquisition costs:									
– Proved	—	—	—	—	—	—	—	—	—
– Unproved	—	—	—	—	—	—	—	—	—
Exploration costs	6,243	8	37	225	303	642	1,588	305	9,351
Development costs*	14,420	3,549	—	12,701	1,610	6,476	219	538	39,513
Total costs incurred	20,663	3,557	37	12,926	1,913	7,118	1,807	843	48,864

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CNOOC LIMITED**SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)***(All amounts expressed in millions of Renminbi unless otherwise stated)***2016****Enterprise's share of equity method investees**

	Asia					North			
	PRC (excluding PRC)	Oceania	Africa	Canada	America (excluding America)	South America	Europe	Total	
Acquisition costs:									
– Proved	—	—	—	—	—	—	—	—	—
– Unproved	—	—	—	—	—	—	—	—	—
Exploration costs	10	—	—	—	—	222	—	232	
Development costs*	—	—	—	—	—	1,833	—	1,833	
Total costs incurred	10	—	—	—	—	2,055	—	2,065	

2017**Consolidated entities**

	Asia					North			
	PRC (excluding PRC)	Oceania	Africa	Canada	America (excluding America)	South America	Europe	Total	

Acquisition costs:									
– Proved	—	—	—	—	—	—	—	—	—
– Unproved	—	—	—	—	—	—	—	—	—
Exploration costs	7,933	46	7	329	64	275	1,143	767	10,564
Development costs*	16,360	4,001	—	9,180	2,353	8,310	1,052	913	42,169
Total costs incurred	24,293	4,047	7	9,509	2,417	8,585	2,195	1,680	52,733

2017**Enterprise's share of equity method investees**

	Asia				North				
					America	South			
	PRC (excluding	Oceania	Africa	Canada	(excluding	America	Europe	Total	
	PRC)				Canada)				
Acquisition costs:									
– Proved	—	—	—	—	—	—	—	—	—
– Unproved	—	—	—	—	—	—	—	—	—
Exploration costs	—	—	—	—	—	59	—	59	
Development costs*	2	—	—	—	—	2,822	—	2,824	
Total costs incurred	2	—	—	—	—	2,881	—	2,883	

*The development costs include estimated future dismantlement costs of dismantling offshore oil and gas properties.

(e) Standardised measure of discounted future net cash flows and changes therein

Pursuant to FASB Topic 932, the average of first-day-of-the-month oil price during the 12-month period before the year end, were used to estimate annual future production from proved reserves to determine future cash inflows.

CNOOC LIMITED**SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)***(All amounts expressed in millions of Renminbi unless otherwise stated)*

Future development costs are estimated based upon constant price assumptions and the assumption of the continuation of existing economic, operating and regulatory conditions. Future income taxes are calculated by applying the year-end statutory rate to estimate future pre-tax cash flows after provision for the tax cost of the oil and natural gas properties based upon existing laws and regulations. The discount was computed by the application of a 10% discount factor to the estimated future net cash flows.

Management believes that this information does not represent the fair market value of the oil and natural gas reserves or the present value of estimated cash flows since no economic value is attributed to potential reserves, the use of a 10% discount rate is arbitrary, and prices change constantly.

Present value of estimated future net cash flows:

2015**Consolidated entities**

	Notes	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Future cash inflows	(1)	791,748	59,432	12,649	49,238	254,224	64,372	442	36,157	1,268,262
Future production costs		(268,950)	(28,572)	(3,332)	(17,100)	(192,827)	(20,123)	(312)	(26,695)	(557,911)
Future development costs	(2)	(184,967)	(12,962)	(2,442)	(26,992)	(40,130)	(26,609)	—	(2,533)	(296,635)

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Future income taxes		(46,043)	(4,769)	(1,733)	—	(5,317)	—	(43)	(4,296)	(62,201)
Future net cash flows	(3)	291,788	13,129	5,142	5,146	15,950	17,640	87	2,633	351,515
10% discount factor		(127,971)	(5,392)	(1,664)	(5,868)	(20,616)	(13,726)	(22)	(252)	(175,511)
Standardised measure of discounted future net cash flows		163,817	7,737	3,478	(722)	(4,666)	3,914	65	2,381	176,004

2015

Enterprise's share of equity method investees

		Asia					North			
	Notes	PRC	(excluding PRC)	Oceania	Africa	Canada	America (excluding Canada)	South America	Europe	Total
Future cash inflows	(1)	579	—	—	—	—	—	74,356	—	74,935
Future production costs		(928)	—	—	—	—	—	(29,858)	—	(30,786)
Future development costs	(2)	(575)	—	—	—	—	—	(10,703)	—	(11,278)
Future income taxes		—	—	—	—	—	—	(11,823)	—	(11,823)
Future net cash flows	(3)	(924)	—	—	—	—	—	21,972	—	21,048
10% discount factor		213	—	—	—	—	—	(12,014)	—	(11,801)
Standardised measure of discounted future net cash flows		(711)	—	—	—	—	—	9,958	—	9,247
Total standardised measure of discounted future net cash flow		163,106	7,737	3,478	(722)	(4,666)	3,914	10,023	2,381	185,251

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CNOOC LIMITED**SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)***(All amounts expressed in millions of Renminbi unless otherwise stated)***2016****Consolidated entities**

			Asia			North				
	Notes	PRC	(excluding PRC)	Oceania	Africa	Canada	America	South	Europe	Total
							(excluding America			
							Canada)			
Future cash inflows	(1)	858,295	63,639	10,553	34,626	90,596	75,151	327	23,410	1,156,597
Future production costs		(315,248)	(35,825)	(2,757)	(9,273)	(69,337)	(18,499)	(220)	(7,606)	(458,765)
Future development costs	(2)	(160,725)	(8,222)	(2,175)	(17,687)	(7,202)	(21,364)	(43)	(8,267)	(225,685)
Future income taxes		(60,468)	(4,611)	(1,371)	—	—	—	(86)	(2,091)	(68,627)
Future net cash flows	(3)	321,854	14,981	4,250	7,666	14,057	35,288	(22)	5,446	403,520
10% discount factor		(139,345)	(5,753)	(1,165)	(3,718)	(9,727)	(20,380)	(3)	196	(179,895)
Standardised measure of discounted future net cash flows		182,509	9,228	3,085	3,948	4,330	14,908	(25)	5,642	223,625

2016

Enterprise's share of equity method investees

	Notes	PRC	Asia				North			Europe	Total
			(excluding PRC)	Oceania	Africa	Canada	America (excluding Canada)	South America			
Future cash inflows	(1)	1,801	—	—	—	—	—	68,573	—	70,374	
Future production costs		(1,074)	—	—	—	—	—	(27,179)	—	(28,253)	
Future development costs	(2)	(547)	—	—	—	—	—	(9,113)	—	(9,660)	
Future income taxes		—	—	—	—	—	—	(11,292)	—	(11,292)	
Future net cash flows	(3)	180	—	—	—	—	—	20,989	—	21,169	
10% discount factor		114	—	—	—	—	—	(11,412)	—	(11,298)	
Standardised measure of discounted future net cash flows		294	—	—	—	—	—	9,577	—	9,871	
Total standardised measure of discounted future net cash flow		182,803	9,228	3,085	3,948	4,330	14,908	9,552	5,642	233,496	

CNOOC LIMITED**SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)***(All amounts expressed in millions of Renminbi unless otherwise stated)***2017****Consolidated entities**

	Notes	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Future cash inflows	(1)	856,256	50,074	10,163	24,917	299,553	97,944	27,183	30,636	1,396,726
Future production costs		(316,050)	(22,714)	(2,589)	(1,394)	(222,849)	(42,432)	(12,435)	(11,422)	(631,885)
Future development costs	(2)	(157,966)	(4,134)	(1,825)	(1,593)	(42,844)	(18,495)	(5,938)	(7,685)	(240,480)
Future income taxes		(64,232)	(6,535)	(1,450)	—	—	—	(2,157)	(3,856)	(78,230)
Future net cash flows	(3)	318,008	16,691	4,299	21,930	33,860	37,017	6,653	7,673	446,131
10% discount factor		(142,001)	(6,014)	(1,090)	(4,860)	(28,254)	(18,369)	(3,290)	(349)	(204,227)
Standardised measure of discounted future net cash flows		176,007	10,677	3,209	17,070	5,606	18,648	3,363	7,324	241,904

2017

Enterprise's share of equity method investees

	Notes	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Future cash inflows	(1)	1,581	—	—	—	—	—	90,964	—	92,545
Future production costs		(985)) —	—	—	—	—	(35,472)	—	(36,457)
Future development costs	(2)	—	—	—	—	—	—	(11,342)	—	(11,342)
Future income taxes		—	—	—	—	—	—	(15,446)	—	(15,446)
Future net cash flows	(3)	596	—	—	—	—	—	28,704	—	29,300
10% discount factor		(364)) —	—	—	—	—	(15,594)	—	(15,958)
Standardised measure of discounted future net cash flows		232	—	—	—	—	—	13,110	—	13,342
Total standardised measure of discounted future net cash flow		176,239	10,677	3,209	17,070	5,606	18,648	16,473	7,324	255,246

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CNOOC LIMITED**SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)**

(All amounts expressed in millions of Renminbi unless otherwise stated)

Future cash flows consist of the Group's 100% interest in the independent oil and gas properties and the Group's participating interest in the properties under production sharing contracts in the PRC less (i) an adjustment for the royalties payable to the PRC government and share oil payable to the PRC government under production sharing (1) contracts and (ii) an adjustment for production allocable to foreign partners under the PRC production sharing contracts for exploration costs attributable to the Group's participating interest, and plus the participating interest in the properties covered under the production sharing contracts in oversea countries, less adjustments, if any, of share oil attributable to the host government and the domestic market obligation.

(2) Future development costs include the estimated costs of drilling future development wells and building the production platforms.

(3) Future net cash flows have been prepared taking into consideration estimated future dismantlement costs of dismantling offshore oil and gas properties.

Changes in the standardised measure of discounted future net cash flows:

	2015		
	Consolidated	Equity share of	Consolidated and equity
	Total	equity method	share of equity
		investee	method investee
Standardised measure, beginning of year	390,873	10,225	401,098
Sales of production, net of royalties and production costs	(107,455)	(288)	(107,743)
Net change in prices, net of royalties and production costs	(306,900)	(5,484)	(312,384)
Extensions discoveries and improved recovery, net of related future costs	68,657	904	69,561
Change in estimated future development costs	38,995	(247)	38,748
Development costs incurred during the year	65,680	2,904	68,584
Revisions in quantity estimates	(37,789)	545	(37,244)
Accretion of discount	50,466	1,720	52,186

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Net change in income taxes	64,907	1,040	65,947
Purchase/(disposal) of properties	—	(2)	(2)
Changes in timing and other	(51,430)	(2,070)	(53,500)
Standardised measure, end of year	176,004	9,247	185,251

	2016		
		Consolidated	
		Equity	
		share of and equity	
	Consolidated		
	equity	share of	
	Total	method	equity
		investee	method
		investee	investee
Standardised measure, beginning of year	176,004	9,247	185,251
Sales of production, net of royalties and production costs	(91,173)	(581)	(91,754)
Net change in prices, net of royalties and production costs	(25,703)	(2,029)	(27,732)
Extensions discoveries and improved recovery, net of related future costs	44,152	949	45,101
Change in estimated future development costs	28,951	451	29,402
Development costs incurred during the year	39,369	1,574	40,943
Revisions in quantity estimates	(2,363)	287	(2,076)
Accretion of discount	21,650	1,560	23,210
Net change in income taxes	(11,590)	571	(11,019)
Purchase/(disposal) of properties	15	—	15
Changes in timing and other	44,313	(2,157)	42,156
Standardised measure, end of year	223,625	9,872	233,497

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CNOOC LIMITED**SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES****(UNAUDITED)***(All amounts expressed in millions of Renminbi unless otherwise stated)*

	2017		
	Consolidated		
	Equity		
	share of and equity		
	Consolidated		
	Total	equity	share of
		method	equity
		investee	method
		investee	investee
Standardised measure, beginning of year	223,625	9,872	233,497
Sales of production, net of royalties and production costs	(120,396)	(458)	(120,854)
Net change in prices, net of royalties and production costs	18,779	1,458	20,237
Extensions discoveries and improved recovery, net of related future costs	31,649	1,322	32,971
Change in estimated future development costs	(37,582)	(1,783)	(39,365)
Development costs incurred during the year	40,766	1,584	42,350
Revisions in quantity estimates	67,569	(133)	67,436
Accretion of discount	24,838	1,415	26,253
Net change in income taxes	(7,348)	(2,201)	(9,549)
Purchase/(disposal) of properties	325	5,069	5,394
Changes in timing and other	(321)	(2,804)	(3,125)
Standardised measure, end of year	241,904	13,341	255,245