

Edgar Filing: Discover Financial Services - Form 11-K

Discover Financial Services  
Form 11-K  
June 24, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 11-K

(Mark One)

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

For the fiscal year ended December 31, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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

Commission file number 001-33378

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

DISCOVER FINANCIAL SERVICES 401(k) PLAN

B. Name of the issuer of the securities held pursuant to the plan and the address of its principal executive office:

DISCOVER FINANCIAL SERVICES

2500 Lake Cook Road

Riverwoods, Illinois 60015

---

DISCOVER FINANCIAL SERVICES 401(k) PLAN

December 31, 2014 and 2013

Table of Contents

	Page
Report of Independent Registered Public Accounting Firm	<u>3</u>
Financial Statements	
Statements of Net Assets Available For Benefits as of December 31, 2014 and 2013	<u>4</u>
Statement of Changes in Net Assets Available for Benefits for the Year Ended December 31, 2014	<u>5</u>
Notes to the Financial Statements	<u>6</u>
Supplemental Schedule	
Form 5500, Schedule H, Line 4i - Schedule of Assets (Held at End of Year) As of December 31, 2014	<u>17</u>
NOTE: All other schedules required by Section 2520.103-10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 have been omitted because they are not applicable.	
Signature	<u>21</u>
Exhibit Index	<u>22</u>

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Trustees and the Participants of  
Discover Financial Services 401(k) Plan  
Riverwoods, Illinois

We have audited the accompanying statements of net assets available for benefits of the Discover Financial Services 401(k) Plan as of December 31, 2014 and 2013, and the related statement of changes in net assets available for benefits for the year ended December 31, 2014. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2014 and 2013, and the changes in net assets available for benefits for the year ended December 31, 2014 in conformity with U.S. generally accepted accounting principles.

The supplemental Schedule H, Line 4i - Schedule of Assets (Held at End of Year) as of December 31, 2014 has been subjected to audit procedures performed in conjunction with the audit of Discover Financial Services 401(k) Plan's financial statements. The supplemental schedule is the responsibility of the Plan's management. Our audit procedures included determining whether the information presented in the supplemental schedule reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental schedule. In forming our opinion on the supplemental schedule, we evaluated whether the supplemental schedule, including its form and content, is presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. In our opinion, the supplemental schedule is fairly stated in all material respects in relation to the financial statements as a whole.

/s/ Crowe Horwath LLP  
Oak Brook, Illinois  
June 22, 2015

DISCOVER FINANCIAL SERVICES 401(k) PLAN  
 STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS  
 As of December 31, 2014 and 2013

	December 31, 2014	2013
<b>ASSETS</b>		
Participant-directed investments, at fair value	\$1,044,770,592	\$914,265,617
Receivables:		
Notes receivable from participants	26,115,904	24,611,601
Employer contributions	23,972,881	22,622,398
Participant contributions	—	613
Receivables for securities sold	227,871	206,464
Accrued investment income	178,951	81,079
Total receivables	50,495,607	47,522,155
Total assets	1,095,266,199	961,787,772
<b>LIABILITIES</b>		
Payables for securities purchased	217,187	114,173
Other accrued liabilities	286,987	118,188
Total liabilities	504,174	232,361
NET ASSETS REFLECTING ALL INVESTMENTS AT FAIR VALUE	1,094,762,025	961,555,411
Adjustment from fair value to contract value for fully benefit-responsive stable value fund	(970,145	) (542,468 )
NET ASSETS AVAILABLE FOR BENEFITS	\$1,093,791,880	\$961,012,943

See notes to financial statements

DISCOVER FINANCIAL SERVICES 401(k) PLAN  
 STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS  
 For the Year Ended December 31, 2014

	2014
ADDITIONS:	
Contributions:	
Participant contributions	\$55,697,325
Rollover contributions	4,133,298
Employer contributions	51,372,207
Total contributions	111,202,830
Investment income:	
Net appreciation in fair value of investments	79,774,042
Dividends and interest income	5,377,772
Net investment income	85,151,814
Total additions	196,354,644
DEDUCTIONS:	
Benefits paid to participants	63,087,203
Administrative expenses	488,504
Total deductions	63,575,707
INCREASE IN NET ASSETS	132,778,937
NET ASSETS AVAILABLE FOR BENEFITS:	
Beginning of year	961,012,943
End of year	\$1,093,791,880

See notes to financial statements

## DISCOVER FINANCIAL SERVICES 401(k) PLAN

### NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2014 and 2013 and for the year ended December 31, 2014

#### 1. DESCRIPTION OF THE PLAN

The following description of the Discover Financial Services 401(k) Plan (the "Plan") is provided for general information purposes only. Participants should refer to the Plan document for more complete information. Terms used in this description have the same meaning as in the Plan document.

##### General

The Plan was adopted by Discover Financial Services (the "Company") effective July 1, 2007 for its eligible employees and the eligible employees of its participating affiliated employers. The Plan is a profit-sharing plan for purposes of section 401(a)(27) of the Internal Revenue Code of 1986 (the "Code"). The Plan is also an eligible individual account plan within the meaning of Section 407(d)(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The Plan provides for the acquisition and holding of "qualifying employer securities" as defined in ERISA section 407(d)(5). Up to 100% of the Plan's assets may be invested in qualifying employer securities. The portion of the Plan's assets invested in qualifying employer securities is designated as an "employee stock ownership plan" ("ESOP") under Code section 4975(e)(7).

All of the Plan's investments are held in a trust account at The Bank of New York Mellon (the "Custodian"). The general administration of the Plan is placed in the "Plan Administrator" defined under the Plan as the Employee Benefits Committee.

##### Eligibility

Full-time and part-time (regularly scheduled to work 20 hours or more a week) employees of the Company, and of participating employers electing to participate in the Plan, are eligible to participate in the Plan upon hire. Other employees of the Company including those regularly scheduled to work less than 20 hours per week and temporary employees are eligible to participate after completing one year of service, as defined in the Plan, and attaining age 21. The Plan provides for automatic enrollment and automatic escalation of pre-tax contributions of participants who do not elect to opt out of participation.

##### Participant Contributions

Each year, participants may contribute up to 30% of pre-tax annual compensation, as defined in the Plan and subject to certain limitations. A Non-Highly Compensated Employee may make After-Tax Contributions to the Plan for any year equal to any whole percentage from 1% to 10% of the Participant's Earnings as defined in the Plan and subject to certain limitations. Participants may also contribute amounts representing pre-tax distributions from other qualified defined benefit or defined contribution plans. Participants age 50 and over can make catch-up contributions subject to limitations. Different limits apply in the case of Puerto Rico residents and participants returning from a qualified military service leave.

##### Employer Contributions

The Company contributes a fixed 3% of eligible pay and matches 100% on the first 2% of eligible pay (as defined in the Plan) employees contribute on a pre-tax basis, plus 50% on the next 4% of eligible pay employees contribute on a pre-tax basis, subject to certain limitations. All participating employees who have made pre-tax contributions of at least 6% of annual earnings are eligible for an adjustment match at year end. The adjustment match will be equal to the difference between the maximum company match the participant is eligible to receive and the matching contributions credited to the participant's account during the plan year, whether or not a plan limit was reached during the year.

The Company matching contributions are made as soon as is administratively practicable following the end of the payroll period, generally bi-weekly, based on employee pre-tax contributions. The Company fixed contributions are made annually based on eligible pay.

##### Participant Accounts

Individual accounts are maintained for each Plan participant. Each participant's account is credited with the participant's contributions, allocations of the Company's contribution and Plan earnings, and charged with the participant's withdrawals, an allocation of Plan losses and administrative expenses not otherwise paid by the

Company. Allocations are based on the participant's balance or earnings, other than participant-directed transactions that may have individual fees. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

#### Retirement, Death and Disability

A participant, or beneficiary, is entitled to 100% of his or her account balance upon retirement, death, disability or certain reductions in force as provided in the Plan.

#### Vesting

Participants are immediately vested in their contributions plus actual earnings thereon. Vesting in the remainder of their accounts, plus earnings thereon, is based on years of service. A participant is 100% vested after two years of service, as defined in the Plan.

#### Forfeitures

Any nonvested matching contributions or Company fixed contributions credited to a participant's account shall be forfeited as of the end of the month in which the participant terminates employment. These forfeitures are used to offset future employer contributions to the Plan or to pay Plan expenses. During the year ended December 31, 2014, employer contributions were reduced by \$2,200,000 from forfeited nonvested accounts.

#### Investments

The Retirement Plan Investment Committee of the Company is responsible for the selection and monitoring of the Plan's investment options, other than the Company Stock Fund, which is maintained pursuant to the terms of the Plan. In addition to the Company Stock Fund, the investment options of the Plan include Collective Trusts, Mutual Funds and the Separately Managed Fund. Plan participants direct the investment of their account balances into the various investment options offered by the Plan. Company matching contributions for the 2014 Plan year were made in cash and invested in accordance with the participant's investment direction on file, or if none, in the T. Rowe Price target year fund closest to the year in which the participant will reach age 65. Company contributions may be made in cash or in the common stock of the Company, at the Company's discretion.

#### Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants would become 100% vested in their employer contributions and earnings thereon.

#### Loans to Participants

Generally, participants may borrow from their Plan accounts up to the lesser of \$50,000 or 50% of their vested account balance. The loans are secured by the balance in the participant's account. Currently, loan interest rates are set at prime interest rate plus 1% under the Plan's loan guidelines. With the exception of certain transferred loans, a participant may only have one outstanding loan in his or her Plan account at any time. Interest income is recognized over the life of the loan.

#### Payment of Benefits

Participants may elect to receive all or a portion of their vested Plan account balance following termination of employment.

#### Non-hardship Withdrawals

While a participant is employed by the Company, they may withdraw any or all vested portions of their Plan account upon attaining age 59 1/2. Participants may also withdraw their after-tax contributions at any time. Withdrawals are limited to two per calendar year.

#### Hardship Withdrawals

Participants may withdraw any or all vested portions of their Plan account, other than any portions related to fixed Company contributions or qualified non-elective employer contributions, in the event of a hardship, as defined in the Plan.

Payments of benefits from the Plan are generally made in cash. A participant may elect to receive his or her interest in the Company Stock Fund in the form of stock certificates. A participant has the option to reinvest dividends from the Company Stock Fund in additional shares of Company stock or receive a cash payout.



Included in net assets available for benefits are amounts allocated to individuals who have elected to withdraw from the Plan, but who have not yet been paid. Plan assets allocated to these participants and elected to be withdrawn were \$623,571 and \$428,755 at December 31, 2014 and 2013, respectively.

#### Administrative Expenses

Administrative expenses of the Plan are paid by either the Plan or the Company as provided in the Plan document. In 2014, the majority of administrative expenses were paid directly by the Company.

#### Plan Amendments

The Plan was amended, effective January 1, 2013, to change the timing of matching and fixed contributions made by the Company. The Plan was amended, effective January 1, 2015, to clarify (1) the effective date of the definition of spouse and (2) that the Company Stock Fund shall be maintained for so long as investments in the Company Stock Fund are consistent with the provisions of ERISA Section 404(a)(1)(D).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Accounting

The financial statements of the Plan are prepared under the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires Plan management to make estimates and assumptions that affect the reported amounts of net assets available for benefits and changes therein and disclosure of contingent assets and liabilities. Actual results could differ from the estimates and assumptions used.

#### Risks and Uncertainties

The Plan utilizes various investment options. Investment securities, in general, are exposed to various risks, such as interest rate risk, credit risk and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the financial statements.

#### Investment Valuation

The Plan's investments are stated at fair value. Fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following provides a description of methodologies used in valuing the Plan's assets at fair value:

#### Company Common Stock

Company common stock is valued at the closing price reported on the stock exchange market on the last business day of the Plan year.

#### Mutual Funds

These investments are public investment vehicles valued using the Net Asset Value ("NAV") provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV is a quoted price in an active market.

#### Collective Trusts

These investments are not traded on an active market, but instead are valued using the NAV provided by the administrator of the fund. The unit price is based on underlying investments which are traded on an active market.

#### Separately Managed Account

The investments in this account are managed by an outside investment firm but are individually held by the Plan. The common stocks are valued at the closing price reported on the stock exchange markets on the last business day of the Plan year. Short term investments are valued at cost which approximates fair value.

#### Stable Value Fund

In accordance with Accounting Standard Codification (“ASC”) Topic 962 Plan Accounting - Defined Contribution Pension Plans, the statements of net assets available for benefits presents the fair value of the fully benefit-responsive stable value funds in the caption for participant-directed investments, at fair value, as well as an additional line item showing an adjustment to the fully benefit-responsive stable value fund from fair value to contract value.

The statement of changes in net assets available for benefit is presented on a contract value basis and is not affected by ASC Topic 946 Financial Services - Investment Companies. The fair values of the Plan's interest in stable value funds is based upon the net asset value of the funds, after adjustments to reflect all underlying investments of the funds at fair value.

#### Investment Income

Realized and unrealized appreciation (depreciation) in the fair value of investments is based on the difference between the average cost of the assets at the beginning of the year, or at time of purchase of assets purchased during the year, and the related average cost on the day investments are sold with respect to realized appreciation (depreciation), or on the last day of the year for unrealized appreciation (depreciation).

Purchases and sales of investments are recorded on a trade-date basis. The Plan records dividends on the ex-dividend date.

Management fees and operating expenses charged to the Plan for investments in the mutual funds and collective trusts are deducted from income earned on a daily basis and are not separately reflected. Consequently, management fees and operating expenses are reflected as a reduction of investment return for such investments.

#### Receivables

##### Contributions receivable

The carrying amount of the contributions receivable approximate fair value due to their short-term maturities.

##### Receivables for securities sold

Represent pending sales of investments that have not yet settled.

##### Accrued investment income

Represents dividend and interest income that have been earned but have not yet been received. Dividends are accrued on their ex-dividend dates, while interest income is recorded when earned.

##### Notes receivable from participants

Represent outstanding principal and interest balance on loans receivable from participants and are recorded when participants take out a loan.

##### Payables for securities purchased

Represent pending purchases of investments that have not yet settled.

##### Benefits paid to participants

Benefits are recorded upon distribution.

#### Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

## 3. INVESTMENTS

The Plan's investments that represented 5% or more of the Plan's net assets available for benefits are as follows:

	For the Year Ended	
	December 31,	
	2014	2013
Discover Financial Services common stock <sup>(1)</sup>	\$151,917,873	\$137,099,992
SSgA S&P 500 Index Fund	\$123,178,762	\$—
Dodge & Cox International Stock Fund	\$84,692,969	\$86,018,854
Wells Fargo Stable Return Fund C <sup>(2)</sup>	\$69,497,327	\$67,646,827
Loomis Small Mid Cap Core Trust	\$63,983,694	\$—
Loomis Core Plus Fixed Income Trust	\$55,796,677	\$—
T. Rowe Price Retirement Fund 2035	\$54,715,322	\$51,354,297
Mellon S&P 500 Index Fund <sup>(1) (3)</sup>	\$—	\$97,366,683
Dodge & Cox Stock Fund <sup>(4)</sup>	\$—	\$67,419,540
Pimco Total Return Fund <sup>(3)</sup>	\$—	\$62,382,165
MSIF Inc. U.S. Large Cap Growth Portfolio <sup>(3)</sup>	\$—	\$60,927,969

(1) Represents Party-in-interest.

(2) Amount in the table represents the fair value at December 31, 2014 and 2013. The contract value of the Wells Fargo Stable Return Fund C was \$68,527,181 and \$67,104,359 at December 31, 2014 and 2013.

(3) Investment is no longer held at December 31, 2014.

(4) Investment is less than 5% of the Plan's net assets available for benefits at December 31, 2014; included for comparative purposes only.

The Plan's investments (including gains and losses on investments bought and sold, as well as held during the period) appreciated in value as follows:

	For the Year Ended
	December 31, 2014
Common stock	\$41,406,384
Mutual funds	17,736,854
Collective Trusts	20,630,804
Net appreciation in fair value of investments	\$79,774,042

#### 4. STABLE VALUE FUND

The Wells Fargo Stable Return Fund C ("Fund C"), is a collective trust fund. Wells Fargo Bank, N.A. serves as the Fund manager and trustee. Fund C has invested all of its assets in Wells Stable Return Fund G ("Fund G"), which invests in investment contracts, including traditional guaranteed investment contracts and security-backed contracts issued by insurance companies and other financial institutions. The beneficial interest of each participant is represented by units. Units are issued by Fund C at a price determined by Wells Fargo at the close of each business day. The net asset value of Fund C is calculated daily. Net investment income and realized and unrealized gains on investments are not distributed by the fund. Rather they are reinvested and reflected in the net asset value of the fund. Units of Fund C are issued and redeemed at the current net asset value. The estimated fair value of Fund C is net asset value, exclusive of the adjustment to contract value, and is considered a Level 2 investment. Currently the Plan does not provide for any competing stable value funds or benefit-responsive investment contracts.

Fund G's principal objective is to protect principal while providing a higher rate of return than shorter maturity investments, such as money market funds or certificates of deposit. To achieve this, Fund G invests in instruments which are not expected to experience significant price fluctuation in most economic or interest rate environments. However, there is no assurance that this objective can be achieved.

##### Limitations on the Ability of Fund G to Transact at Contract Value

Guaranteed investment contracts and security-backed contracts generally provide for withdrawals associated with certain events which are not in the ordinary course of Fund G operations. These withdrawals are paid with a market value adjustment applied to the withdrawal as defined in the investment contract. Events which may trigger a market value adjustment include:

- material amendments to Fund G's structure or administration;
- changes to the participating plans' competing investment options including the elimination of equity wash provisions;
- complete or partial termination of Fund G, including a merger with another fund;
- the failure of Fund G to qualify for exemption from federal income taxes or any required prohibited transaction exemption under ERISA;
- the redemption of all or a portion of the interests in Fund G held by a participating plan at the direction of the participating plan sponsor, including withdrawals due to the removal of a specifically identifiable group of employees from coverage under the participating plan (such as group layoff or early retirement incentive program), the closing or sale of subsidiary, employing unit, or affiliate, the bankruptcy or insolvency of a plan sponsor, the merger of the plan with another plan, or the plan sponsor's establishment of another tax qualified defined contribution plan;
- any change in law, regulation, ruling, administrative or judicial position, or accounting requirement, applicable to Fund G or participating plans;
- the delivery of any communication to plan participants designed to influence a participant not to invest in Fund G.

## 5. NET ASSET VALUE (NAV) PER SHARE

The following table is a summary of the Plan's investments in collective trusts whose fair value is estimated using the NAV per share or its equivalent, as its fair value is not readily determinable:

Investment	Fair Value Estimated Using Net Asset Value per Share			
	Fair Value <sup>(1)</sup>	Unfunded Commitment	Redemption Frequency	Redemption Notice Period <sup>(2)</sup>
December 31, 2014				
Equity Funds - Domestic <sup>(3)</sup>	\$63,983,694	\$—	Immediate	None
Equity Index Funds <sup>(4)</sup>	170,361,700	—	Immediate	None
Fixed Income Funds <sup>(5)</sup>	85,940,932	—	Immediate	None
Target Date Fund Income Active <sup>(6)</sup>	12,561,321	—	Immediate	90 days
Target Date Funds 2010-2020 <sup>(6)</sup>	55,631,389	—	Immediate	90 days
Target Date Funds 2025-2035 <sup>(6)</sup>	110,281,185	—	Immediate	90 days
Target Date Funds 2040-2055 <sup>(6)</sup>	77,091,077	—	Immediate	90 days
Stable Value Fund <sup>(7)</sup>	69,497,327	—	Immediate	12 months
Short-Term Investment Fund <sup>(8)</sup>	3,507,925	—	Immediate	None
Total	\$648,856,550	\$—		
December 31, 2013				
Equity Funds - Domestic <sup>(3)</sup>	\$66,595,178	\$—	Immediate	None
Equity Funds - International <sup>(9)</sup>	6,105,762	—	Immediate	None
Equity Index Funds <sup>(4)</sup>	97,366,683	—	Immediate	None
Target Date Fund Income Active <sup>(6)</sup>	12,335,333	—	Immediate	90 days
Target Date Funds 2010-2020 <sup>(6)</sup>	55,827,457	—	Immediate	90 days
Target Date Funds 2025-2035 <sup>(6)</sup>	100,670,061	—	Immediate	90 days
Target Date Funds 2040-2055 <sup>(6)</sup>	61,562,248	—	Immediate	90 days
Stable Value Fund <sup>(7)</sup>	67,646,827	—	Immediate	None
Short-Term Investment Fund <sup>(8)</sup>	2,223,099	—	Immediate	None
Total	\$470,332,648	\$—		

(1) The fair values of the investments have been estimated using the net asset value of the investment.

(2) Represents redemption notice period for the Plan. There is no notice period required for participants.

(3) Equity funds - domestic strategies seek to invest in a diversified portfolio of common stocks.

(4) Equity index fund strategies seek to track the performance of various indexes such as the S&P 500 Index, the Russell Small Cap Completeness Index, and the MSCI ACWI ex USA Investable Market Index.

(5) Fixed income fund strategies seek to track or outperform the performance of Barclays U.S. Aggregate Bond Index.

(6) Target date fund strategies seek to invest in equity and fixed income trusts with an allocation strategy determined by a specific retirement date.

(7) Stable value fund strategies seek to primarily invest in investment contracts including guaranteed investment contracts (GICs) and security-backed contracts issued by insurance companies and other financial institutions, as well as other investment products with similar characteristics.

(8) Short-term investment fund strategies seek as high a level of current income as is consistent with the preservation of capital and the maintenance of liquidity.

(9) Equity funds - international strategies seek to invest in a diversified portfolio of international common stocks.



## 6. FAIR VALUE DISCLOSURES

The following provides a description of the three levels of inputs that may be used to measure fair value under ASC 820:

Level 1 - Inputs utilize quoted prices (unadjusted) available in active markets for identical assets or liabilities;

Level 2 - Inputs utilize other than quoted prices that are observable for the asset or liability, either directly or indirectly, and include quoted prices for similar assets and liabilities in an active or inactive market, quoted prices for the identical assets in an inactive market, and inputs other than quoted prices that are observable at commonly quoted intervals, such as interest rates;

Level 3 - Inputs utilize unobservable inputs, and include situations where there is little, if any, market activity for the asset or liability.

In instances in which the inputs used to measure fair value may fall into different levels of the fair value hierarchy, the level in the fair value hierarchy within which the fair value measurement in its entirety has been determined is based on the lowest level input that is significant to the fair value measurement in its entirety. The Plan's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Assets Measured at Fair Value on a Recurring Basis

There were no Level 3 assets or liabilities measured at fair value on a recurring basis at December 31, 2014 or 2013 or at any point during the year ended December 31, 2014.

Edgar Filing: Discover Financial Services - Form 11-K

There is no difference between the carrying value and the fair value of these funds, except for the stable value fund. The following table presents information about the Plan's assets measured at fair value on a recurring basis at December 31, 2014 and 2013 and indicates the level within the fair value hierarchy with which each of those items is associated:

	Quoted Prices In Active Markets for Identical Assets (Level 1) <sup>(1)</sup>	Significant Other Observable Inputs (Level 2) <sup>(1)</sup>	Total
Balance at December 31, 2014			
Investments			
Common stock:			
Company common stock	\$151,917,873	\$—	\$151,917,873
Other common stock:			
Healthcare	21,624,099	—	21,624,099
Consumer products and services	34,143,847	—	34,143,847
Information technology	22,205,081	—	22,205,081
Financial services	23,331,862	—	23,331,862
Industrial services and materials	28,911,001	—	28,911,001
Energy	16,892,775	—	16,892,775
Other	5,653,911	—	5,653,911
Total other common stock	152,762,576	—	152,762,576
Total common stock	304,680,449	—	304,680,449
Mutual Funds:			
Multi-asset Fund	1,316,379	—	1,316,379
Equity Funds-International	87,009,485	—	87,009,485
Fixed Income Funds	2,907,729	—	2,907,729
Total mutual funds	91,233,593	—	91,233,593
< arial">			
<b>CURRENT LIABILITIES</b>			
Loans and borrowings	15	21,991	21,194
Trade and accrued payables	14	17,418	18,056
Other payables and accrued liabilities		19,705	18,124
Taxes payable		12,020	11,049
Total current liabilities		71,134	68,423
<b>NET CURRENT ASSETS</b>			
		61,619	30,961
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		291,293	250,007
<b>NON-CURRENT LIABILITIES</b>			
Loans and borrowings	15	18,667	9,859
Provision for dismantlement		16,705	15,825
Deferred tax liabilities		7,159	6,841
Other non-current liabilities		3,368	1,716
Total non-current liabilities		45,899	34,241



NET ASSETS		245,394	215,766
EQUITY			
Equity attributable to owners of the parent			
Issued capital	16	949	949
Reserves		244,445	214,817
TOTAL EQUITY		245,394	215,766

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

(All amounts expressed in millions of Renminbi)

	Equity attributable to owners of the parent							Total
	Issued capital	Share premium and capital redemption reserve	Cumulative translation reserve	Statutory and non-distributive reserves	Other reserves	Retained earnings	Proposed final dividend	
Balances at 1 January 2010	949	42,129	(10,865)	20,000	5,173	108,694	7,856	173,936
Profit for the period	–	–	–	–	–	25,988	–	25,988
Other comprehensive loss, net of tax	–	–	(697 )	–	(17 )	–	–	(714 )
Total comprehensive income	–	–	(697 )	–	(17 )	25,988	–	25,274
2009 final dividend	–	–	–	–	–	62	(7,856)	(7,794 )
Equity-settled share option expenses	–	–	–	–	87	–	–	87
Appropriation and utilisation of safety fund, net	–	–	–	–	(12 )	12	–	–
Balances at 30 June 2010 (Unaudited)	949	42,129	(11,562)	20,000	5,231	134,756	–	191,503
Balances at 1 January 2011	949	42,129	(13,361)	20,000	10,972	145,656	9,421	215,766
Profit for the period	–	–	–	–	–	39,343	–	39,343
Other comprehensive loss, net of tax	–	–	(1,752 )	–	1,220	–	–	(532 )
Total comprehensive income	–	–	(1,752 )	–	1,220	39,343	–	38,811
2010 final dividend	–	–	–	–	–	134	(9,421)	(9,287 )
Equity-settled share option expenses	–	–	–	–	103	–	–	103
Appropriation and utilisation of safety fund, net	–	–	–	–	1	–	–	1
Balances at 30 June 2011								

Edgar Filing: Discover Financial Services - Form 11-K

(Unaudited)	949	42,129	(15,113)	20,000	12,296	185,133	–	245,394
-------------	-----	--------	----------	--------	--------	---------	---	---------

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2011

(All amounts expressed in millions of Renminbi)

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited and Restated)
Net cash generated from operating activities	50,534	37,932
Net cash used in investing activities	(56,360 )	(29,777 )
Net cash generated from financing activities	1,791	353
Net (decrease)/increase in cash and cash equivalents	(4,035 )	8,508
Cash and cash equivalents at beginning of period	27,287	22,615
Effect of foreign exchange rate changes, net	(230 )	206
Cash and cash equivalents at end of period	23,022	31,329

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2011

(All amounts expressed in millions of Renminbi, except number of shares and unless otherwise stated)

1. ORGANISATION AND PRINCIPAL ACTIVITIES

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 20 August 1999 to hold the interests in certain entities whereby creating a group comprising the Company and its subsidiaries (hereinafter collectively referred to as the “Group”). During the six months ended 30 June 2011, the Group was principally engaged in the exploration, development, production and sales of crude oil, natural gas and other petroleum products.

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

In the opinion of 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.

As at 30 June 2011, the Company had direct or indirect interests in the following principal subsidiaries, jointly-controlled entities and associates:

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

Edgar Filing: Discover Financial Services - Form 11-K

Name of entity	Place and date of establishment	Nominal value of issued and paid-up/ registered ordinary share capital	Percentage of equity attributable to the Group	Principal activities
CNOOC Finance (2002) Limited	British Virgin Islands 24 January 2002	US\$1,000	100%	Bond issuance
CNOOC Finance (2003) Limited	British Virgin Islands 2 April 2003	US\$1,000	100%	Bond issuance
CNOOC Finance (2011) Limited	British Virgin Islands 31 December 2010	US\$1,000	100%	Bond issuance
Indirectly held subsidiaries*:				
CNOOC Deepwater Development Limited	Zhuhai, PRC 1 March 2010	RMB1 billion	100%	Deepwater and low-grade oil and gas fields exploration, development, and oil and gas production, sales in the PRC
Malacca Petroleum Limited	Bermuda 2 November 1995	US\$12,000	100%	Petroleum exploration, development and production in Indonesia
OOGC America, Inc.	State of Delaware, United States of America 28 August 1997	US\$1,000	100%	Investment holding
OOGC Malacca Limited	Bermuda 23 November 1995	US\$12,000	100%	Petroleum exploration, development and production in Indonesia
CNOOC Southeast Asia Limited	Bermuda 16 May 1997	US\$12,000	100%	Investment holding
CNOOC ONWJ Ltd.	Labuan, F.T., Malaysia 27 March 2002	US\$1	100%	Petroleum exploration, development and production in Indonesia





Edgar Filing: Discover Financial Services - Form 11-K

Name of entity	Place and date of establishment	Nominal value of issued and paid-up/ registered ordinary share capital	Percentage of equity attributable to the Group	Principal activities
CNOOC SES Ltd.	Labuan, F.T., Malaysia 27 March 2002	US\$1	100%	Petroleum exploration, development and production in Indonesia
CNOOC Poleng Ltd.	Labuan, F.T., Malaysia 27 March 2002	US\$1	100%	Petroleum exploration, development and production in Indonesia
CNOOC Madura Ltd.	Labuan, F.T., Malaysia 27 March 2002	US\$1	100%	Petroleum exploration, development and production in Indonesia
CNOOC NWS Private Limited	Singapore 8 October 2002	SG\$2	100%	Offshore petroleum exploration, development and production in Australia
CNOOC Muturi Limited	Isle of Man 8 February 1996	US\$7,780,770	100%	Petroleum exploration, development and production in Indonesia
CNOOC Exploration & Production Nigeria Limited	Nigeria 6 January 2006	Naira 10 million	100%	Petroleum exploration, development and production in Africa
<b>Jointly-controlled entities:</b>				
Husky Oil (Madura) Ltd. ("HOML")**	British Virgin Islands 28 December 2005	No par value	40%	Petroleum exploration, development, production and sales in Indonesia
Chaoyang Petroleum (BVI) Limited	British Virgin Islands 4 February 2009	US\$10	50%	Investment holding
Bridas Corporation	British Virgin Islands	US\$102,325,582	50%	Investment holding



Name of entity	Place and date of establishment	Nominal value of issued and paid-up/ registered ordinary share capital	Percentage of equity attributable to the Group	Principal activities
Associates***:				
Shanghai Petroleum Corporation Limited	Shanghai, PRC 7 September 1992	RMB900 million	30%	Offshore petroleum exploration, development, production and sales in the PRC
CNOOC Finance Corporation Limited	Beijing, PRC 14 June 2002	RMB1,415 million	31.8%	Provision of deposit, transfer, settlement, loan, discounting and other financing services to CNOOC and its member entities

\* All subsidiaries are indirectly held through CNOOC International Limited, except CNOOC Deepwater Development Limited which is indirectly held through CNOOC China Limited.

\*\* According to Amended and Restated Shareholder Agreement dated 13 January 2011, CNOOC Southeast Asia Limited decreased its equity interest in HOML from 50% to 40%.

\*\*\* Indirectly held through CNOOC China Limited.

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

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

### Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2011 have been prepared in accordance with International Accounting Standards (“IAS”) 34 and Hong Kong Accounting Standards (“HKAS”) 34 Interim Financial Reporting.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at 31 December 2010.

### Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010, except for the adoption of the following new Standards effective on 1 January 2011:

Mandatorily adopted as of 1 January 2011:

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

IAS 24/HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. IAS 24/HKAS 24 (Revised) are effective for annual periods beginning on or after 1 January 2011. The adoption of IAS 24/HKAS 24 (Revised) does not have significant impact on the Group's interim condensed consolidated financial statements.

Early adopted before the mandatory effective dates:

IFRS 10/HKFRS 10 – Consolidated Financial Statements

IFRS 10/HKFRS 10 replaces the portion of IAS 27/HKAS 27 that addresses the accounting for consolidated financial statements. It establishes a single control model that applies to all entities. It requires management to exercise significant judgement to determine which entities are controlled, and therefore are required to be consolidated by a parent.

The standard introduces a new definition on control under which control of investee requires an investor to possess all the following three elements: 1) the power over the investee; 2) the exposure or rights to variable returns from its involvement with the investee; and 3) the ability to use its power over the investee to affect the amount of the investor's returns.

IFRS 11/HKFRS 11 – Joint Arrangements

IFRS 11/HKFRS 11 replaces IAS 31/HKAS 31 Interests in Joint Ventures and Standing Interpretation Committee-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11/HKFRS 11 addresses only two forms of joint arrangements (joint operations and joint ventures) where there is joint control. In determining the type of arrangements, IFRS 11/HKFRS 11 requires parties to the arrangement to assess: 1) the legal form of the separate vehicle; 2) the terms of the contractual arrangement; and 3) other facts and circumstances that give them right to the assets and obligations for the liabilities or right to the net assets of the vehicle. A joint arrangement that meets the definition of a joint venture must be accounted for using the equity method. For a joint operation, an entity recognises its assets, liabilities, revenues and expenses relating to its relative shares thereof.

IFRS 12/HKFRS 12 – Disclosure of Interests in Other Entities

IFRS 12/HKFRS 12 establishes the disclosure objectives for an entity to disclose information concerning its interest in a subsidiary, a joint arrangement, and associate or an unconsolidated structured entity. It also requires an entity to disclose the significant judgements and assumptions it has made in determining the

nature of its interest in another entity or arrangement, also in determining the type of joint arrangement in which it has an interest.

#### IAS 27/HKAS 27 (Revised) – Separate Financial Statements

Revisions are made resulting from the issuance of IFRS 10/HKFRS 10 and consolidated financial statements are now addressed by IFRS 10/HKFRS 10. Therefore, IAS 27/HKAS 27 are revised to only address separate financial statements, including how to prepare separate financial statements of an investor and what disclosures should be made in the separate financial statements.

#### IAS 28/HKAS 28 (Revised) – Investments in Associates and Joint Ventures

Revisions are made resulting from the issuance of IFRS 11/HKFRS 11. An entity applies IFRS 11/HKFRS 11 to determine the type of a joint arrangement in which it is involved. Once it has determined that it has an interest in a joint venture, the entity recognises an investment and accounts for it using the equity method.

Except for IAS 24/HKAS 24, all the other five new or revised standards are mandatorily effective for annual periods beginning on or after 1 January 2013 and should be applied in accordance with respective transition requirements. Early application is permitted so long as all of the five new or revised standards are applied early. The Group has adopted these five new or revised standards on 1 January 2011.

#### Impacts of adopting new accounting standards:

The adoption of IFRS 10/HKFRS 10, IAS 24/HKAS 24, IAS 27/HKAS 27 and IAS 28/HKAS 28 has no material impact on the accounting policies of the Group and has no material financial impacts on the Group's interim condensed consolidated financial statements.

Summarized below are the significant assumptions and judgements adopted by the Company in determining the nature of its interest in another entity or arrangement and the type of joint arrangement in which it has an interest:

#### Subsidiaries

The Company directly or indirectly holds more than 50% of equity interest and substantive voting rights in all of its subsidiaries, giving it the power to direct the operating and financing activities that significantly affect the returns of the subsidiaries. Therefore, the Company controls the subsidiaries for the purpose of consolidation.

#### 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.

### Joint arrangements

Certain of the Group's activities are conducted through joint arrangements.

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. This evaluation applies to both the Group's interests in production sharing arrangements and certain jointly-controlled entities.

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. Bridas Corporation is a separate legal entity that controls its own assets, earns its own income and incurs its own expenses and liabilities. The Group's rights as a shareholder of Bridas Corporation are limited to dividends or distributions of the net assets of Bridas Corporation, rather than having direct rights to any operating assets, liabilities or production output. Accordingly, the Group has evaluated its interest in Bridas Corporation as an investment in joint venture under IFRS 11/HKFRS 11.

Prior to 2011, the Group's interest in Bridas Corporation was accounted for as an investment in a jointly-controlled entity and was included in the consolidated financial statements in proportion to the Group's interests in its income, expenses, assets and liabilities since the acquisition date in accordance with IAS 31/HKAS 31. Upon the adoption of IFRS 11/HKFRS 11, the Company changed the accounting for its investment in Bridas Corporation from proportionate consolidation to the equity method from the date of acquisition on 4 May 2010. The comparative period has been restated with the investments in Bridas Corporation being equity accounted since the date of acquisition. The effect on the consolidated statement of financial position as at 31 December 2010 and the consolidated statement of comprehensive income for the six-month period ended 30 June 2011 and 2010 are shown below.

The following presents the effect of adopting IFRS 11/HKFRS 11 on the consolidated statement of financial position comparing the restated 2010 balances to the balances previously reported, and the 2011 recorded balances to what would have been reported had the Group continued to proportionately consolidate Bridas Corporation:

Increase/(decrease)	At 30 June 2011 (Unaudited)	At 31 December 2010 (Audited)
<b>Assets:</b>		
Property, plant and equipment	(25,104 )	(25,653 )
Intangible assets and goodwill	(1,831 )	(1,874 )
Investment in a joint venture	20,665	20,823
Other non-current assets	(13,085 )	(1,523 )
Trade receivables	(548 )	(555 )
Cash and cash equivalents	(863 )	(12,284 )
Other current assets	11,286	11,570
	(9,480 )	(9,496 )
<b>Liabilities:</b>		
Loans and borrowings	(2,184 )	(2,294 )
Other non-current liabilities	(387 )	(371 )
Deferred tax liabilities	(5,995 )	(6,281 )
Trade payables	(538 )	(494 )
Other current liabilities	(376 )	(56 )
	(9,480 )	(9,496 )

The following presents the effect of adopting IFRS 11/HKFRS 11 on the consolidated statement of comprehensive income comparing the restated 2010 amounts to the amounts previously reported, and the 2011 recorded amounts to what would have been reported had the Group continued to proportionately consolidate Bridas Corporation:



	Six-month period ended 30 June	
	2011 (Unaudited)	2010 (Unaudited)
(Decrease) in revenue	(2,415 )	(742 )
Decrease in operating expenses	427	118
Decrease in taxes other than income tax	688	249
Decrease in depreciation, depletion and amortisation	703	257
Decrease in other expenses	148	31
Decrease in income tax expense	132	22
Increase in share of profits of a joint venture	317	65
<b>Total increase in net profit</b>	<b>–</b>	<b>–</b>

The adoption of IFRS 11/HKFRS 11 has no material impact on basic and diluted earnings per share for the six-month period ended 30 June 2011 and 2010.

Recognition of the Company's interest in Bridas Corporation as at 31 December 2010:

	At 31 December 2010 (Audited)
<b>Assets:</b>	
Property, plant and equipment	25,653
Intangible assets and goodwill	1,874
Other non-current assets	1,523
Trade receivables	555
Cash and cash equivalents	12,284
Other current assets	118
<b>Liabilities:</b>	
Loans and borrowings	(2,294 )
Other non-current liabilities	(371 )
Deferred tax liabilities	(6,281 )
Trade payables	(494 )
Other current liabilities	(11,744 )
Investment in a joint venture	20,823

#### Improvements to IFRSs/HKFRSs

Apart from the above, the IASB/HKICPA has also issued improvements to IFRSs/HKFRSs which set out amendments to a number of IFRSs/HKFRSs primarily with a view to remove inconsistencies and clarify wording. The adoption of those amendments upon their effective dates did not have any material impact on

the accounting policies, interim financial position or performance of the Group.

### 3. ACQUISITIONS AND OTHER VENTURE

(i) The Company and Bidas Energy Holdings Ltd. (“BEH”), through Bidas Corporation, entered into a share purchase agreement with BP PLC (“BP”) on 28 November 2010, pursuant to which Bidas Corporation will acquire a 60% equity interest in Pan American Energy LLC (“PAE”) from BP for a consideration of approximately US\$7.06 billion. The acquisition excludes PAE’s assets in Bolivia.

CNOOC International Limited (“CNOOC International”) and BEH have agreed to contribute an aggregate amount of approximately US\$4.94 billion to Bidas Corporation, to finance 70% of the consideration of the acquisition. The contribution will be made in equal amounts, i.e. approximately US\$2.47 billion, by each of CNOOC International and BEH. The remaining 30% of the consideration, or approximately US\$2.12 billion, will be satisfied by third party loans to be arranged by Bidas Corporation and/or additional contributions from CNOOC International and BEH.

Completion of the acquisition is conditional on, amongst others, all necessary governmental and regulatory approvals.

(ii) On 29 January 2011, CNOOC International through its wholly-owned subsidiary, OOGC America, Inc., signed a purchase agreement with Chesapeake Exploration, LLC, a subsidiary of Chesapeake Energy Corporation to purchase a 33.3% undivided interest in the Denver-Julesburg (DJ) and Powder River Basins in northeast Colorado and southeast Wyoming with a cash consideration of US\$570 million. In addition, CNOOC International has agreed to fund 66.7% of Chesapeake’s share of drilling and completion costs in the project until an additional US\$697 million has been paid. The deal was closed on 11 February 2011.

(iii) On 29 March 2011, CNOOC Uganda Limited, a wholly-owned subsidiary of CNOOC International, entered into a sales and purchase agreement with Tullow Uganda Limited and Tullow Uganda Operation Pty. Limited, wholly-owned subsidiaries of Tullow Oil Plc., to acquire a 33.3333% working interest in Uganda block 1, 2 and 3A (the “Assets”) respectively, for an initial cash consideration of US\$1.467 billion. Final consideration is subject to adjustments on actual cash expenditure of the Assets before the completion of the transaction. The closing of the transaction is subject to obtaining all governmental and regulatory approvals, permissions and consents among other terms and conditions.

### 4. OIL AND GAS SALES AND MARKETING REVENUES

Oil and gas sales represent the invoiced value of sales of oil and gas attributable to the interests of the Group, net of royalties and the government share oil that is lifted and sold on behalf of the government. Revenue from the sale of oil is recognised 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 recognised 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.

Marketing revenues principally represent the sales of oil and gas purchased from the foreign partners under the production sharing contracts and revenues from the trading of oil and gas through the Company's subsidiaries. The cost of the oil and gas sold is included in "Crude oil and product purchases" in the interim condensed consolidated statement of comprehensive income.

5. SPECIAL OIL GAIN LEVY

In 2006, a Special Oil Gain Levy ("SOG Levy") was imposed by the Ministry of Finance of the PRC at the progressive rates from 20% to 40% on the portion of the monthly weighted average sales price of the crude oil lifted in the PRC exceeding US\$40 per barrel. The SOG Levy paid can be claimed as a deductible expense for enterprise income tax purposes and is calculated based on the actual volume of the crude oil entitled.

6. FINANCE COSTS

Accretion expenses of approximately RMB421 million (six months ended 30 June 2010: approximately RMB304 million) relating to the provision for dismantlement liabilities has been recognised in the interim condensed consolidated statement of comprehensive income for the six months ended 30 June 2011.

7. 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% (2010: 16.5%) on profits arising in or derived from Hong Kong, which is qualified as a foreign tax credit to offset the PRC enterprise income tax starting from 1 January 2008.

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 enterprise income tax at the rate of 25% starting from 1 January 2008.

The Company's subsidiary in Mainland China, CNOOC China Limited, is a wholly-owned foreign enterprise. It is subject to enterprise income tax at the rate of 25% under the prevailing tax rules and regulations.

Subsidiaries of the Group domiciled outside the PRC are subject to income tax at rates ranging from 10% to 56%.

## (ii) Other taxes

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

- Production taxes at the rate of 5% on independent production and production under production sharing contracts;

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

- Business tax at rates of 3% to 5% on other income;

- City construction tax at the rate of 1% or 7% on the actual paid production taxes and business tax; and

- Educational surcharge at the rate of 3% on the actual paid production taxes and business tax.

In addition, other taxes paid and payable for the Company's non-PRC subsidiaries and jointly-controlled entities include gross production assessments, duties and export tariffs as well as taxes levied on petroleum related income, profit, budgeted operating and capital expenditures.

## 8. EARNINGS PER SHARE

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited and Restated)
<b>Earnings:</b>		
Profit for the period attributable to ordinary equity holders for the basic and diluted earnings per share calculation	RMB39,343 million	RMB25,988 million
<b>Number of shares:</b>		
Number of ordinary shares issued at the beginning of the period	44,669,199,984	44,669,199,984
Weighted average number of ordinary shares for the purpose of basic earnings per share	44,669,199,984	44,669,199,984
Effect of dilutive potential ordinary shares under the share option schemes	220,916,382	144,031,917
Weighted average number of ordinary shares for the purpose of diluted earnings per share	44,890,116,366	44,813,231,901
Earnings per share – Basic	RMB0.88	RMB0.58
– Diluted	RMB0.88	RMB0.58



## 9. NET GAIN ON AVAILABLE-FOR-SALE FINANCIAL ASSETS, NET OF TAX

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
Available-for-sale financial assets:		
Net gain arising during the period	1,870	56
Less: Reclassification adjustment for net gain included in the investment income	(660 )	(56 )
	1,210	–

## 10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2011, additions to the Group's property, plant and equipment, including the property, plant and equipment acquired in acquisitions, amounted to approximately RMB25,044 million (six months ended 30 June 2010: approximately RMB17,336 million, unaudited and restated).

The interest of the Group in the North West Shelf ("NWS") Project in Australia has been collateralised to the other partners of the project as security for certain of the Group's liabilities relating to the project.

Included in the current period's additions was an amount of approximately RMB456 million (six months ended 30 June 2010: approximately RMB199 million) in respect of interest capitalised in property, plant and equipment.

## 11. INTANGIBLE ASSETS

The intangible assets of the Company comprise software, gas processing rights of the NWS Project and land-use rights. The computer software and land-use rights are amortised over their respective useful lives on the straight-line basis. The intangible asset regarding the gas processing rights has been amortised upon the commencement of commercial production of the liquefied natural gas using the unit-of-production method.

## 12. TRADE RECEIVABLES

The credit terms of the Group are generally within 30 days after the delivery of oil and gas, except for new customers, where payment in advance is normally required. Trade receivables are non-interest-bearing.

As at 30 June 2011 and 31 December 2010, substantially all the trade receivables were aged within 30 days.

## 13. TIME DEPOSITS WITH MATURITY OVER THREE MONTHS

Included in the time deposit is a deposit of RMB12.0 billion placed by CNOOC China Limited, a wholly-owned subsidiary of the Company, with the Bank of China to secure loans of US\$1.77 billion (note 15) granted by the Bank of China.

## 14. TRADE AND ACCRUED PAYABLES

As at 30 June 2011 and 31 December 2010, substantially all the trade and accrued payables were aged within six months. The trade and accrued payables are non-interest-bearing.

## 15. LOANS AND BORROWINGS

## Current

	Effective interest rate and final maturity	30 June 2011			31 December 2010		
		Bank loan	Notes/ Bonds	Total	Bank loan	Notes/ Bonds	Total
Short-term loans and borrowings							
General loan (note 13)	LIBOR+0.7% to 1.3% per annum with maturity within one year	15,985	–	15,985	16,358	–	16,358
		15,985	–	15,985	16,358	–	16,358
Loans and borrowings due within one year							
For Tangguh LNG Project****	LIBOR+0.23% to 0.38% per annum with maturity within one year	194	–	194	184	–	184
For Nigeria OML130 Project	LIBOR+4% per annum with maturity within one year	2,580	–	2,580	4,652	–	4,652
Finance (2002)*		–	3,232	3,232	–	–	–
		2,774	3,232	6,006	4,836	–	4,836
		18,759	3,232	21,991	21,194	–	21,194





		Non-current					
		30 June 2011			31 December 2010		
E f f e c t i v e interest rate and final maturity		Bank loan	(Unaudited) Notes/ Bonds	Total	(Audited and Restated) Bank loan	Notes/ Bonds	Total
For Tangguh LNG Project****	LIBOR+0.23% to 0.38% per annum with maturity through 2021	2,742	–	2,742	2,911	–	2,911
For Nigeria OML130 Project	LIBOR+4% per annum with maturity through 2015	–	–	–	387	–	387
Finance (2002)*		–	–	–	–	3,305	3,305
Finance (2003)**		–	3,184	3,184	–	3,256	3,256
Finance (2011)***		–	12,741	12,741	–	–	–
		2,742	15,925	18,667	3,298	6,561	9,859

As at 30 June 2011, except for general loans of US\$1.77 billion secured by time deposits (note 13), all the bank loans of the Group were unsecured. None of the outstanding borrowings was guaranteed by CNOOC.

\*The principal amount of US\$500 million of 6.375% guaranteed notes due in 2012 was issued by CNOOC Finance (2002) Limited, a wholly-owned subsidiary of the Company. The obligations of CNOOC Finance (2002) Limited in respect of the notes are unconditionally and irrevocably guaranteed by the Company.

\*\*The principal amount of US\$200 million of 4.125% guaranteed notes due in 2013 and the principal amount of US\$300 million of 5.500% guaranteed notes due in 2033 were issued by CNOOC Finance (2003) Limited, a wholly-owned subsidiary of the Company. The obligations of CNOOC Finance (2003) Limited in respect of the notes are unconditionally and irrevocably guaranteed by the Company.

\*\*\*The principal amount of US\$1,500 million of 4.25% guaranteed notes due in 2021 and the principal amount of US\$500 million of 5.75% guaranteed notes due in 2041 were issued by CNOOC Finance (2011) Limited, a wholly-owned subsidiary of the Company. The obligations of CNOOC Finance (2011) Limited in respect of the notes are unconditionally and irrevocably guaranteed by the Company.

\*\*\*\*In connection with the Tangguh LNG Project in Indonesia, the Company delivered, in favour of Mizuho Corporate Bank, Ltd., a guarantee over the payment obligations of the trustee borrower under the loan agreement dated 29 October 2007. Together with the guarantee over the payment obligations of the trustee borrower under the loan agreement dated 31 July 2006, the total maximum guarantee cap to the Company is US\$652,750,000.

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



## 16. ISSUED CAPITAL

Shares	Number of shares	Share capital HK\$ million	Issued share capital equivalent of RMB million
Authorised:			
Ordinary shares of HK\$0.02 each as at 30 June 2011 and 31 December 2010	75,000,000,000	1,500	
Issued and fully paid:			
Ordinary shares of HK\$0.02 each as at 1 January 2010	44,669,199,984	893	949
As at 31 December 2010 (audited)	44,669,199,984	893	949
As at 30 June 2011 (unaudited)	44,669,199,984	893	949

## 17. DIVIDEND

On 24 August 2011, the board of Directors (the “Board”) declared an interim dividend of HK\$0.25 (tax inclusive) per share (six months ended 30 June 2010: HK\$0.21 (tax inclusive) per share), totalling approximately HK\$11,167 million (tax inclusive) (equivalent to approximately RMB9,287 million (tax inclusive)) (six months ended 30 June 2010: approximately RMB8,183 million (tax inclusive)), based on the number of issued shares as at 30 June 2011.

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 enterprise 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 at relevant record date and who are not individual natural person (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 distributes the dividend after deducting enterprise income tax of 10%. The Company does not withhold or pay individual income tax in respect of dividend payable to any natural person shareholders whose names appear on the Company’s register of members as at relevant record date.

## 18. SHARE OPTION SCHEMES

The Company has adopted the following four share option schemes:

- (i) Pre-Global Offering Share Option Scheme (as defined in the Other Information section);
- (ii) 2001 Share Option Scheme (as defined in the Other Information section);
- (iii) 2002 Share Option Scheme (as defined in the Other Information section); and
- (iv) 2005 Share Option Scheme (as defined in the Other Information section).

Details of these share option schemes are disclosed in the Other Information section in these interim condensed consolidated financial statements.

During the six months ended 30 June 2011, the movements in the options granted under all of the above share option schemes were as follows:

	Number of share options	Weighted average exercise price HK\$
Outstanding as at 1 January 2011	474,054,900	9.14
Granted during the period	–	–
Exercised during the period	–	–
Forfeited during the period	(12,929,000 )	5.71
Outstanding as at 30 June 2011	461,125,900	9.24
Exercisable as at 30 June 2011	365,940,000	8.56

No share options had been cancelled during the six months ended 30 June 2011.

Other than those disclosed in these interim condensed consolidated financial statements, no right to subscribe for equity or debt securities of the Company was granted by the Company to, nor have any such rights been exercised by, any other person during the six months ended 30 June 2011.

The weighted average fair value of all options granted under the above four share option schemes at the respective dates of grants was HK\$2.28 per share. The weighted average exercise price of the total share options granted by the Company was HK\$7.88 per share.

The assumptions on which the option pricing model is based represent the subjective estimation of the Directors as to the circumstances existing at the time the options were granted.



19. RELATED PARTY TRANSACTIONS

The majority of the Group's business activities are conducted with state-owned enterprises (including CNOOC and its associates). As the Group is controlled by CNOOC, transactions with CNOOC and its associates are disclosed as related party transactions.

The Group is controlled by the Chinese government and had transactions with enterprises which are controlled, jointly controlled or significantly influenced by the same government. Exemption from disclosure requirements under IAS 24/HKAS 24 is applied.

25% of the Group's revenue in the six-month period ended 30 June 2011 is generated from crude oil and natural gas sold to two major customers, PetroChina Company Limited and China Petroleum and Chemical Corporation. These two customers are controlled by the Chinese government. Other transactions with enterprises which are controlled, jointly controlled or significantly influenced by the same government are individually not significant and are in the ordinary course of business.

The Company entered into a comprehensive framework agreement with CNOOC on 1 November 2010 for the provision (1) by the Group to CNOOC and/or its associates and (2) by CNOOC and/or its associates to the Group, of a range of products and services which may be required and requested from time to time by either party and/or its associates in respect of continuing connected transactions. The term of the comprehensive framework agreement is for a period of three years from 1 January 2011. The continuing connected transactions and relevant annual caps were approved by the independent shareholders of the Company on 24 November 2010. The approved related party/continuing connected transactions are as follows:

1. Provision of exploration, oil and gas development, oil and gas production as well as marketing, management and ancillary services by CNOOC and/or its associates to the Group:
  - a) Provision of exploration and support services
  - b) Provision of oil and gas development and support services
  - c) Provision of oil and gas production and support services
  - d) Provision of marketing, management and ancillary services
  - e) FPSO vessel leases

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

3. Sales of petroleum and natural gas products by the Group to CNOOC and/or its associates:
  - a) Sales of petroleum and natural gas products (other than long term sales of natural gas and



liquefied natural gas)

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

Pricing principles

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

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

(i) state-prescribed prices; or

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

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

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

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

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

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 period and the balances arising from related party transactions at the end of the period:



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

	Six months ended 30 June	
	2011 (Unaudited)	2010 (Unaudited)
Provision of exploration and support services	3,024	2,690
– Inclusive of amount capitalised under property, plant and equipment	1,860	1,345
Provision of oil and gas development and support services	3,165	6,274
Provision of oil and gas production and support services (Note a)	2,661	2,027
Provision of marketing, management and ancillary services (Note b)	236	284
FPSO vessel leases (Note c)	641	691
	9,727	11,966

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

The Group did not enter into any transactions in the above category for the periods from 1 January to 30 June of 2011 and 2010.

(iii) Sales of petroleum and natural gas products by the Group to CNOOC and/or its associates

	Six months ended 30 June	
	2011 (Unaudited)	2010 (Unaudited)
Sales of petroleum and natural gas products (other than long term sales of natural gas and liquefied natural gas) (Note d)	66,627	41,688
Long term sales of natural gas and liquefied natural gas (Note e)	2,925	1,923
	69,552	43,611

(iv) Transactions with CNOOC Finance Corporation Limited (“CNOOC Finance”)

(a) Interest income received by the Group

	Six months ended 30 June	
	2011 (Unaudited)	2010 (Unaudited)
Interest income from deposits in CNOOC Finance (Note f)	40	45

(b) Deposits made by the Group

	30 June 2011 (Unaudited)	31 December 2010 (Audited)
Deposits in CNOOC Finance (Note f)	9,038	7,872

(v) Balances with CNOOC and/or its associates and joint venture

	30 June 2011 (Unaudited)	31 December 2010 (Audited and Restated)
Amount due to CNOOC		
– included in other payables and accrued liabilities	74	307
Amounts due to other related parties		
– included in trade and accrued payables	5,729	8,328
	5,803	8,635
Amounts due from other related parties		
– included in trade receivables	11,969	9,369
– included in other current assets	178	179
	12,147	9,548
Amounts due from a joint venture		
– included in other current assets	11,421	11,688

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, CNOOC and/or its associates leased certain premises to the Group for use as office premises and staff quarters out of which they provided management services to certain properties.
- c) CNOOC Energy Technology & Services Limited (formerly known as “CNOOC Oil Base Group Limited”) leased floating production, storage and offloading (FPSO) vessels to the Group for use in oil production operations.
- d) The sales include crude oil, condensate oil, liquefied petroleum gas, natural gas and liquefied natural gas to CNOOC and/or its associates. Individual sales contracts were entered into from time to time between the Group and CNOOC and/or its associates.
- e) It is market practice for sales terms to be determined based on the estimated reserves and production profile of the relevant gas fields. The long term sales contracts usually last for 15 to 20 years.
- f) CNOOC Finance is a 31.8% owned associate of the Company and also a subsidiary of CNOOC. Under the renewed financial services framework agreement with CNOOC Finance dated 20 August 2010, CNOOC Finance continues to provide to the Group settlement, depository, discounting, loans and entrustment loans services. The renewal agreement is effective from 1 January 2011 to 31 December 2013. The depository services were exempted from independent shareholders’ approval requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The stated deposits in (iv) (b) above represent the maximum daily outstanding balance for deposits (including accrued interest) during the period.

The related party transactions in respect of items listed above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

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

## 20. COMMITMENTS AND CONTINGENCIES

### (i) Capital commitments

As at 30 June 2011, the following capital commitments are principally for the construction and purchases of property, plant and equipment:

	30 June 2011 (Unaudited)	31 December 2010 (Audited)
Contracted, but not provided for*	9,696	9,621
Authorised, but not contracted for	93,160	46,125



\*The amount includes the estimated payments with respect to the Group's exploration and production licenses to the Ministry of Land and Resources of the PRC for the next five years.

The capital commitments include the commitment of joint venture but do not include investment commitments for acquisitions of equity interest or working interest, which have been disclosed in note 3 and note 22.

As at 30 June 2011, the Group had unutilised banking facilities amounted to approximately RMB176 billion (31 December 2010: approximately RMB179 billion).

(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 one month to five years.

As at 30 June 2011, the Group had total minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2011 (Unaudited)	31 December 2010 (Audited)
Commitments due:		
Within one year	151	121
In the first to second years, inclusive	22	52
After the second but before the fifth years, inclusive	20	23
	193	196

(b) Plant and equipment

The Group leases certain of its plant and equipment under operating lease arrangements for terms ranging from six to ten years. The rent of certain FPSO vessel leasing arrangements contains fixed rent at market prices and contingent rent determined on the production quantity from relevant field and a fixed fee rate.

As at 30 June 2011, the Group had total minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2011 (Unaudited)	31 December 2010 (Audited)
Commitments due:		
Within one year	671	703
In the first to second years, inclusive	498	547
After the second but before the fifth years, inclusive	575	746
After the fifth year	399	485
	2,143	2,481

(iii)

Contingent liabilities

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

In 2007, a local tax office in Nigeria (the “Nigerian Local Tax Office”) conducted a tax audit on SAPETRO. According to the preliminary tax audit results, the Nigerian Local Tax Office has raised a disagreement with the tax filings made for the OML130 Transaction.

The tax audit assessment made by the Nigerian Local Tax Office has been contested by the Company in accordance with Nigerian laws. The Company then filed a suit in the Nigerian Federal High Court. In March 2011, the Nigerian Federal High Court delivered a binding judgement in favour of the Company, agreeing that the Company is not subject to Value Added Tax for OML130 Transaction. However, the judgement might be appealed by counterparties to the Higher Court. After the assessment of the Company’s management, no provision has been made for any expenses which might arise as a result of the dispute.

(b) The Company has extended interest-free intercompany loans to CNOOC International, a wholly-owned subsidiary, to provide onward funding to its subsidiaries domiciled outside the PRC. Upon receipt of the Chinese Resident Enterprise Approval, the Company may be liable to pay taxes on the deemed interest income for the intercompany loan to CNOOC International starting from 1 January 2008. The Company is currently applying to, and awaiting confirmation from its in-charge tax authority for an exemption on this possible deemed interest income. In 2011, the Company approved the transfer of the interest-free intercompany loans to share capital account of CNOOC International, in order to reduce the future tax exposure arising from any deemed interest income for the intercompany loans.

(c) ConocoPhillips China Inc. (“COPC”), the Operator of Penglai (PL) 19-3 field, informed the Company on 13 July 2011 that, COPC had suspended the production of Platforms B and C of PL19-3 field immediately upon and according to requirements of State Oceanic Administration of People’s Republic of China (“SOA”). As the non-operator, the Company, in accordance with the provisions set up in related contract and agreement and upon the request of COPC, has been actively mobilising the resources and assisting COPC in completing the clean-up work as quickly as possible and endeavoring to reduce the impact of the oil spill incidents on the marine environment. According to SOA’s requirement, the Company also has been keeping urging, coordinating and cooperating with COPC to perform thorough investigations to find oil spill points and to cut off the sources of the oil spills. The financial impact of the oil spill incidents is subject to the causes of the incidents and the liabilities related which have not been determined.

## 21. SEGMENT INFORMATION

The Group is organised on a worldwide basis into three major operating segments. The Group is involved in the upstream operating activities of the petroleum industry that comprise independent operations, operations under production sharing contracts or the joint arrangement and trading business. These segments are determined primarily because the Group’s chief operating decision maker makes key operating decisions and assesses performance of the segments separately. The Group evaluates the performance of each segment based on profit or loss from operations before income tax.

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

The following table presents revenue, profit and assets information for the Group’s operating segments.

	Independent operations		Production sharing contracts/ Other joint arrangements		Trading business		Corporate		Eliminations	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
			(Unaudited and Restated)		(Unaudited and Restated)		(Unaudited and Restated)		(Unaudited and Restated)	
<b>Segment revenue</b>										
Sales to external customers:										
Oil and gas sales	56,731	39,443	40,299	27,460	–	–	–	–	–	–
Marketing revenues	–	–	–	–	27,110	14,941	–	–	–	–
Intersegment revenues	–	–	10,114	8,394	–	–	–	–	(10,114)	(8,394)
Other income	149	36	223	303	–	–	56	230	–	–
<b>Total</b>	<b>56,880</b>	<b>39,479</b>	<b>50,636</b>	<b>36,157</b>	<b>27,110</b>	<b>14,941</b>	<b>56</b>	<b>230</b>	<b>(10,114)</b>	<b>(8,394)</b>
<b>Segment results</b>										

Edgar Filing: Discover Financial Services - Form 11-K

Profit before tax	30,188	21,268	31,035	21,352	84	111	883	117	(10,114)	(8,394)
Profit for the period	30,188	21,268	31,035	21,352	84	111	(11,850)	(8,349)	(10,114)	(8,394)



	Independent operations		Production sharing contracts/Other joint arrangements		Trading business		Corporate		Eliminations		Consolidated	
	31	31	31	31	31	31	31	31	31	31	31	31
	30 June	December	30 June	December	June	December	30 June	December	June	December	30 June	December
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Other segment information												
Segment assets	93,525	93,405	179,244	161,921	3,470	3,160	86,188	59,944	-	-	362,427	318,430

22. SUBSEQUENT EVENT

On 20 July 2011, the Company entered into an Arrangement Agreement, through its indirect wholly-owned subsidiary, CNOOC Luxembourg S.à r.l, to acquire OPTI Canada Inc (“OPTI”) with a total consideration of approximately US\$2.1 billion, which includes an aggregate cash consideration of US\$1.25 billion payable to the holders of the OPTI shares (US\$34 million) and the Second Lien Noteholders (US\$1.216 billion). In addition, due to a change in control of OPTI as a result of the transaction, OPTI will be required to offer to repay the holders of its outstanding First Lien Notes (US\$825 million in principal amount) pursuant to the indentures governing the First Lien Notes.

The transaction is subject to approvals by the Second Lien Noteholders at a special meeting that is expected to be held in September 2011. Completion of the acquisition is also conditional on, amongst others, all necessary government and regulatory approvals by relevant authorities in Canada and the People’s Republic of China, and Canadian court approval. The transaction is expected to be completed in the fourth quarter of 2011. Upon completion of the transaction, OPTI will become an indirect wholly-owned subsidiary of the Company. It is expected that the OPTI shares will be delisted from the Toronto Stock Exchange on or prior to the completion of the transaction.

23.

COMPARATIVE AMOUNTS

Certain comparative amounts have been adjusted to conform to the current period's presentation. In addition, due to the adoption of the new and revised IFRSs/HKFRSs during the current period, certain comparative amounts were restated accordingly (note 2).

24.

APPROVAL OF INTERIM FINANCIAL STATEMENTS

The interim condensed consolidated financial statements for the six months ended 30 June 2011 were approved and authorised for issue by the Board on 24 August 2011.

41

---

## REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

To the Shareholders of  
CNOOC Limited  
(Incorporated in the Hong Kong Special Administrative Region with limited liability)

### INTRODUCTION

We have reviewed the accompanying interim condensed financial statements set out on pages 9 to 40 which comprises the interim condensed consolidated statement of financial position of CNOOC Limited (“the Company”) and its subsidiaries (collectively as the “Group”) as of 30 June 2011 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 Interim Financial Reporting (“IAS 34”) issued by the International Accounting Standards Board or Hong Kong Accounting Standard 34 Interim Financial Reporting (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants.

The directors are responsible for the preparation and fair presentation of these interim condensed financial statements in accordance with IAS 34 and HKAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34 and HKAS 34.

Ernst & Young  
Certified Public Accountants

18th Floor, Two International Finance Centre  
8 Finance Street, Central  
Hong Kong  
24 August 2011

## OTHER INFORMATION

## DIRECTORS' INTERESTS

As at 30 June 2011, the interests of the Directors and the Chief Executives of the Company in the equity securities of the Company and its associated corporations (all within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register required to be kept under section 352 of the SFO or disclosed in accordance with the Listing Rules comprised only the personal interests in options to subscribe for shares of the Company referred to below.

During the six months ended 30 June 2011, the following persons had the following personal interests in options to subscribe for shares of the Company granted under the share option schemes of the Company:

Name of grantee	No. of shares involved in the options outstanding at the beginning of the period	No. of shares involved in the options outstanding at the end of the period	Date of grant	Exercise period of share option*	Closing price per share immediately before the date of grant (HK\$)	Exercise price (HK\$)
<b>E x e c u t i v e</b>						
<b>Directors</b>						
Yang Hua	1,150,000	–	12 March 2001	12 March 2001 to 12 March 2011**	1.23	1.19
			27 August 2001	27 August 2001 to 27 August 2011	1.46	1.232
	1,150,000	1,150,000	24 February 2003	24 February 2003 to 24 February 2013	2.09	2.108
			5 February 2004	5 February 2004 to 5 February 2014	3.13	3.152
	1,610,000	1,610,000	31 August 2005	31 August 2005 to 31 August 2015	5.75	5.62
			14 June 2006	14 June 2006 to 14 June 2016	5.30	5.56
	1,857,000	1,857,000	25 May 2007	25 May 2007 to 25 May 2017	7.43	7.29
			29 May 2008	29 May 2008 to 29 May 2018	14.20	14.828
	2,835,000	2,835,000	27 May 2009	27 May 2009 to 27 May 2019	9.33	9.93
			20 May 2010	20 May 2010 to 20 May 2020	12.22	12.696
Wu Guangqi	1,610,000	1,610,000	31 August 2005	31 August 2005 to 31 August 2015	5.75	5.62

Edgar Filing: Discover Financial Services - Form 11-K

1,770,000	1,770,000	14 June 2006	14 June 2006 to 14 June 2016	5.30	5.56
1,857,000	1,857,000	25 May 2007	25 May 2007 to 25 May 2017	7.43	7.29
1,857,000	1,857,000	29 May 2008	29 May 2008 to 29 May 2018	14.20	14.828
1,857,000	1,857,000	27 May 2009	27 May 2009 to 27 May 2019	9.33	9.93
1,857,000	1,857,000	20 May 2010	20 May 2010 to 20 May 2020	12.22	12.696

Edgar Filing: Discover Financial Services - Form 11-K

Name of grantee	No. of shares involved in the options outstanding at the beginning of the period	No. of shares involved in the options outstanding at the end of the period	Date of grant	Exercise period of share option*	Closing price per share immediately before the date of grant (HK\$)	Exercise price (HK\$)
<b>Non-executive Directors</b>						
Fu Chengyu***	1,750,000	–	12 March 2001	12 March 2001 to 12 March 2011**	1.23	1.19
	1,750,000	–	27 August 2001	27 August 2001 to 27 August 2011	1.46	1.232
	1,150,000	–	24 February 2003	24 February 2003 to 24 February 2013	2.09	2.108
	2,500,000	–	5 February 2004	5 February 2004 to 5 February 2014	3.13	3.152
	3,500,000	–	31 August 2005	31 August 2005 to 31 August 2015	5.75	5.62
	3,850,000	–	14 June 2006	14 June 2006 to 14 June 2016	5.30	5.56
	4,041,000	–	25 May 2007	25 May 2007 to 25 May 2017	7.43	7.29
	4,041,000	–	29 May 2008	29 May 2008 to 29 May 2018	14.20	14.828
	4,041,000	–	27 May 2009	27 May 2009 to 27 May 2019	9.33	9.93
	2,100,000	–	20 May 2010	20 May 2010 to 20 May 2020	12.22	12.696
Zhou Shouwei	1,400,000	–	12 March 2001	12 March 2001 to 12 March 2011**	1.23	1.19
	1,750,000	1,750,000	27 August 2001	27 August 2001 to 27 August 2011	1.46	1.232
	1,750,000	1,750,000	24 February 2003	24 February 2003 to 24 February 2013	2.09	2.108
	1,750,000	1,750,000	5 February 2004	5 February 2004 to 5 February 2014	3.13	3.152
	2,450,000	2,450,000	31 August 2005	31 August 2005 to 31 August 2015	5.75	5.62
	2,700,000	2,700,000	14 June 2006	14 June 2006 to 14 June 2016	5.30	5.56
	2,835,000	2,835,000	25 May 2007	25 May 2007 to 25 May 2017	7.43	7.29
	2,835,000	2,835,000	29 May 2008	29 May 2008 to 29 May 2018	14.20	14.828

Edgar Filing: Discover Financial Services - Form 11-K

	1,800,000	1,800,000	27 May 2009	27 May 2009 to 27 May 2019	9.33	9.93
	1,800,000	1,800,000	20 May 2010	20 May 2010 to 20 May 2020	12.22	12.696
Wu Zhenfang	800,000	800,000	31 August 2005	31 August 2005 to 31 August 2015	5.75	5.62
	1,770,000	1,770,000	14 June 2006	14 June 2006 to 14 June 2016	5.30	5.56
	1,857,000	1,857,000	25 May 2007	25 May 2007 to 25 May 2017	7.43	7.29
	1,857,000	1,857,000	29 May 2008	29 May 2008 to 29 May 2018	14.20	14.828
	1,800,000	1,800,000	27 May 2009	27 May 2009 to 27 May 2019	9.33	9.93
	1,800,000	1,800,000	20 May 2010	20 May 2010 to 20 May 2020	12.22	12.696
Independent Non-executive Directors						
Chiu Sung Hong	1,150,000	1,150,000	5 February 2004	5 February 2004 to 5 February 2014	3.13	3.152



Edgar Filing: Discover Financial Services - Form 11-K

Name of grantee	No. of shares involved in the options outstanding at the beginning of the period	No. of shares involved in the options outstanding at the end of the period	Date of grant	Exercise period of share option*	Closing price per share immediately before the date of grant (HK\$)	Exercise price (HK\$)
<b>Other Employees</b>						
In aggregate	3,250,000	–	12 March 2001	12 March 2001 to 12 March 2011**	1.23	1.19
	9,300,000	11,050,000	27 August 2001	27 August 2001 to 27 August 2011	1.46	1.232
	10,649,966	11,799,966	24 February 2003	24 February 2003 to 24 February 2013	2.09	2.108
	17,649,934	20,149,934	5 February 2004	5 February 2004 to 5 February 2014	3.13	3.152
	27,230,000	30,730,000	31 August 2005	31 August 2005 to 31 August 2015	5.75	5.62
	40,370,000	44,220,000	14 June 2006	14 June 2006 to 14 June 2016	5.30	5.56
	47,848,000	51,889,000	25 May 2007	25 May 2007 to 25 May 2017	7.43	7.29
	61,032,000	63,966,000	29 May 2008	29 May 2008 to 29 May 2018	14.20	14.828
	76,226,000	78,167,000	27 May 2009	27 May 2009 to 27 May 2019	9.33	9.93
	92,335,000	92,263,000	20 May 2010	20 May 2010 to 20 May 2020	12.22	12.696

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

\*\* 50 percent of the share options granted are vested 18 months after the date of grant, the remaining 50 percent are vested 30 months after the date of grant.

\*\*\* Mr. Fu Chengyu resigned as Chairman of the Board and Non-executive Director of the Company with effect from 15 April 2011. Information on Mr. Fu's share options outstanding at the end of the period is included in the category of "Other employees".

During the six months ended 30 June 2011, no share options granted under the share option schemes of the Company were exercised.

All the interests stated above represent long positions. As at 30 June 2011, no short positions were recorded in the register of directors' and chief executives' interests and short positions required to be kept under section 352 of the

SFO.

Other than those disclosed in this interim report, no right to subscribe for equity or debt securities of the Company has been granted by the Company to, nor have any such rights been exercised by, any other person during the six months ended 30 June 2011.

46

---

## SUBSTANTIAL INTERESTS IN SHARE CAPITAL

The register maintained by the Company pursuant to the SFO recorded that, as at 30 June 2011, the following companies had the interests (as defined in the SFO) in the Company set opposite their respective names below:

	Ordinary shares held	Percentage of total issued shares
(i) CNOOC (BVI) Limited	28,772,727,268	64.41%
(ii) Overseas Oil & Gas Corporation, Ltd. ("OOGC")	28,772,727,273	64.41%
(iii) CNOOC	28,772,727,273	64.41%

CNOOC (BVI) Limited is a wholly-owned subsidiary of OOGC, which in turn is a wholly-owned subsidiary of CNOOC. Accordingly, the interests of CNOOC (BVI) Limited are recorded as the interests of OOGC and CNOOC.

All the interests stated above represent long positions. As at 30 June 2011, no short positions were recorded in the register of interests in shares and short positions required to be kept under section 336 of the SFO.

## INFORMATION ON SHARE OPTION SCHEMES

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

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

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 31 December 2005, being the date on which the shareholders of the Company approved the 2005 Share Option Scheme, excluding shares under options which have lapsed.

#### Pre-Global Offering Share Option Scheme

On 4 February 2001, the Company adopted a pre-global offering share option scheme (the “Pre-Global Offering Share Option Scheme”). Pursuant to the Pre-Global Offering Share Option Scheme:

1. options to subscribe for an aggregate of 23,100,000 shares have been granted; and
2. the exercise price for such options is HK\$1.19 per share.

The exercise periods for the options granted under the Pre-Global Offering Share Option Scheme shall end not later than 10 years from 12 March 2001. No further options may be granted under the Pre-Global Offering Share Option Scheme.

#### 2001 Share Option Scheme

On 4 February 2001, the Company adopted a share option scheme (the “2001 Share Option Scheme”) for the purposes of recognising the contribution that certain individuals had made to the Company and for attracting and retaining the best available personnel to the Company. Pursuant to the 2001 Share Option Scheme:

1. options to subscribe for an aggregate of 44,100,000 shares have been granted; and
2. the exercise price for such options is HK\$1.232 per share.

The exercise periods for the options granted under the 2001 Share Option Scheme shall end not later than 10 years from 27 August 2001. No further options may be granted under the 2001 Share Option Scheme.

#### 2002 Share Option Scheme

In June 2002, the Company adopted a new share option scheme (the “2002 Share Option Scheme”) for the purposes of recognising the contribution that certain individuals had made to the Company and for attracting and retaining the best available personnel to the Company.

Under the 2002 Share Option Scheme, the Board may, at its discretion, offer to grant to the directors and employees of the Company or any of its subsidiaries options to subscribe for shares of the Company. The maximum number of shares in respect of which options may be granted under the 2002 Share Option Scheme to any individual in any 12-month period up to the date of the latest grant shall not exceed 1% of the total issued share capital of the Company from time to time.

According to the 2002 Share Option Scheme, the consideration payable by a grantee for the grant of options will be HK\$1.00. The exercise price for such options is determined by the Board at their discretion at the date of grant, except that such price shall be not less than the higher of:

1. the nominal value of a share of the Company on the date of grant;

2. the average closing price of the shares on the Stock Exchange of Hong Kong Limited (“HKSE”) as stated in the HKSE’s quotation sheets for the five trading days immediately preceding the date of grant; and
3. the closing price of the shares on the HKSE as stated in the HKSE’s quotation sheets on the date of grant.

The exercise periods for the options granted under the 2002 Share Option Scheme shall end not later than 10 years from the date of grant.

On 31 December 2005, the Company terminated the 2002 Share Option Scheme. Upon termination of the 2002 Share Option Scheme, no further options may be granted under the 2002 Share Option Scheme, but in all other respects the provisions of the 2002 Share Option Scheme shall remain in force. The outstanding options under the 2002 Share Option Scheme shall continue to be subject to the provisions of the 2002 Share Option Scheme.

#### 2005 Share Option Scheme

On 31 December 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 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 months period, must not exceed 1% of the shares in issue of the Company.

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

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

## AUDIT COMMITTEE

The Audit Committee of the Board has reviewed together with the management the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters. The interim results for the six months ended 30 June 2011 are unaudited, but have been reviewed by Ernst & Young in accordance with Hong Kong Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by the Hong Kong Institute of Certified Public Accountants. This interim report has been reviewed by the Audit Committee of the Board.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There was no purchase, sale or redemption of the Company's shares by the Company or any of its subsidiaries during the six months ended 30 June 2011.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of Listing Rules throughout the six months ended 30 June 2011, except for the deviations from the code provisions ("Code Provision") A.4.1 only. The following summarises the requirement under the relevant Code Provisions and the Company's reasons for such deviation.

### Code Provision A.4.1

Under Code Provision A.4.1, non-executive directors should be appointed for a specific term and be subject to re-election.

None of the existing Independent Non-executive Directors of the Company is appointed for a specific term. This constitutes a deviation from Code Provision A.4.1. However, all the Directors are subject to the retirement provisions under article 97 of the articles of association of the Company ("Article 97"). According to Article 97, one-third of the Directors for the time being must retire from the office by rotation at each annual general meeting. The Company has observed the need for good corporate governance practices. All the incumbent Non-executive Directors and Independent Non-executive Directors of the Company have retired from the office by rotation and have been re-elected in the past three years according to Article 97. Therefore, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted a code of ethics ("Code of Ethics") incorporating the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. All Directors have confirmed that they complied, during the six months ended 30 June 2011, with the Company's Code of Ethics and the required standards set out in the Model Code.

## CHANGES IN CHAIRMAN AND NON-EXECUTIVE DIRECTORS

During the six months ended 30 June 2011, there were changes in chairman and non-executive directors.

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

## CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51(B) of the Listing Rules, the changes in information of Directors of the Company subsequent to the date of the 2010 Annual Report of the Company are set out below:

Name of Director	Details of Changes
Yang Hua	Resigned as President of CNOOC China Limited on 12 July 2011
Li Fanrong	Appointed as President of CNOOC China Limited on 12 July 2011
Lawrence J. Lau	Appointed as an Non-Executive Director of Semiconductor Manufacturing International Corporation on 30 June 2011
Edgar W. K. Cheng	Appointed as an external director of the China State Development Investment Corporation in March 2011 Appointed as a member of the Hospital Governing Committee of the Prince of Wales Hospital in April 2011

## STATEMENT OF SIGNIFICANT DIFFERENCES IN CORPORATE GOVERNANCE PRACTICES FOR PURPOSES OF SECTION 303A.11 OF THE NEW YORK STOCK EXCHANGE LISTED COMPANY MANUAL

The Company is incorporated under the laws of Hong Kong. The principal trading market for the ordinary shares of the Company is The Stock Exchange of Hong Kong Limited. In addition, because the Company's ordinary shares are registered with the United States Securities and Exchange Commission and are listed on the New York Stock Exchange (the "NYSE"), the Company is subject to certain corporate governance requirements. However, many of the corporate governance rules in the NYSE Listed Company Manual (the "NYSE Standards") do not apply to the Company as a "foreign private issuer" and the Company is permitted to follow its home country corporate governance practices in lieu of most corporate governance standards contained in the NYSE Standards. Section 303A.11 of the NYSE Listed Company Manual requires NYSE-listed foreign private issuers to describe the significant differences between their corporate governance practices and the corporate governance standards applicable to U.S. companies listed on the NYSE. The Company has posted a brief summary of such significant differences on its website, which may be accessed through the following web page:

<http://www.cnoocld.com/encnoocld/gsgz/socg/default.shtml>

#### MISCELLANEOUS

The Directors are of the opinion that there have been no material changes to the information published in its annual report for the year ended 31 December 2010, other than those disclosed in this interim report.

#### CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 7 September 2011 to 14 September 2011 (both days inclusive) during which no transfer of shares of the Company can be registered. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's registrar, Hong Kong Registrars Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on 6 September 2011. The interim dividend will be paid on or around 30 September 2011 to those shareholders on the register of members on 14 September 2011 (the "Record Date").

#### Withholding and payment of enterprise income tax for non-resident enterprises in respect of 2011 Interim Dividend

Pursuant to the "Enterprise Income Tax Law of the People's Republic of China", the "Detailed Rules for the Implementation of the Enterprise Income Tax Law of the People's Republic of China" and the "Notice regarding Matters on Determination of Tax Residence Status of Chinese-controlled Offshore Incorporated Enterprises under Rules of Effective Management", the Company has been confirmed as a resident enterprise of People's Republic of China ("PRC") and the withholding and payment obligation lies with the Company. The Company is required to withhold and pay 10% enterprise income tax when it distributes the 2011 interim dividend to its non-resident enterprise (as defined in the "Enterprise Income Tax Law of the People's Republic of China") shareholders. In respect of all shareholders whose names appear on the Company's register of members as at the Record Date who are not individual natural person (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 2011 interim dividend after deducting enterprise income tax of 10%. The Company will not withhold and pay the income tax in respect of the 2011 interim dividend payable to any natural person shareholders whose names appear on the Company's register of members as at the Record Date.

If any resident enterprise (as defined in the "Enterprise Income Tax Law of the People's Republic of China") listed on the Company's register of members which is duly incorporated in the PRC or under the laws of a foreign country (or a region) but with a PRC-based de facto management body, or any non-resident enterprise shareholder who is subject to a withholding tax rate of less than 10% pursuant to any tax treaty between the country of residence of such shareholder and the PRC or tax arrangements between the mainland of China and Hong Kong or Macau, or any other enterprise shareholder who may be entitled to a deduction or exemption of enterprise income tax in



accordance with the applicable PRC rules, does not desire to have the Company withhold and pay the total amount of the said 10% enterprise income tax, it shall lodge with Hong Kong Registrars Limited documents from its governing tax authority confirming its PRC resident enterprise status, or the documents in support that a withholding tax of less than 10% is required to be paid pursuant to the above-mentioned tax treaty or arrangements, or the documents confirming its entitlement to a deduction or exemption of enterprise income tax in accordance with the applicable PRC rules at or before 4:00 p.m. on 6 September 2011.

If anyone would like to change the identity of the holders in the register of members, please enquire about the relevant procedures with the nominees or trustees. The Company will withhold for payment of the enterprise income tax for its non-resident enterprise shareholders strictly in accordance with the relevant laws and requirements of the relevant government departments and adhere strictly to the information set out in the Company's register of members on the Record Date. The Company assumes no liability whatsoever in respect of and will not entertain any claims arising from any delay in, or inaccurate determination of, the status of the shareholders at the aforesaid date or any disputes over the mechanism of withholding.

By Order of the Board  
Jiang Yongzhi  
Joint Company Secretary

Hong Kong, 24 August 2011

#### FORWARD-LOOKING STATEMENTS

This interim report includes "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, including statements regarding expected future events, business prospectus or financial results. The words "believe," "intend," "expect," "anticipate," "project," "estimate," "plan," "predict" and similar expressions are intended to identify such forward-looking statements.

These statements are based on assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors the Company believes are appropriate under the circumstances. However, whether actual results and developments will meet the expectations and predictions of the Company depends on a number of risks and uncertainties which could cause the actual results, performance and financial condition to differ materially from the Company's expectations, including those associated with fluctuations in crude oil and natural gas prices, the exploration or development activities, the capital expenditure requirements, the business strategy, the highly competitive nature of the oil and natural gas industries, the foreign operations, environmental liabilities and compliance requirements, and economic and political conditions in the People's Republic of China. For a description of these and other risks and uncertainties, please see the documents the Company files from time to time with the United States Securities and Exchange Commission, including the 2010 Annual Report on Form 20-F filed on 29 April 2011. Consequently, all of the forward-looking statements made in this interim report are qualified by these cautionary statements. The Company cannot assure that the actual results or developments anticipated will be realised or, even if substantially realised, that they will have the expected effect on the Company, its business or operations.

Exhibit 99.2

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)  
(Stock Code: 00883)

ANNOUNCEMENT

Reference is made to the announcement of the Company dated 13 July 2011 (the “Announcement”). Terms defined in the Announcement shall, unless the context otherwise requires, bear the same meaning herein.

On 2 September 2011 (after trading hours), the State Oceanic Administration of the People’s Republic of China (the “SOA”) announced, through SOA’s official website, that ConocoPhillips China Inc. (the “COPC”) has neither completely screened out the risk of oil spillage nor completely sealed the sources of oil spillage at the Penglai (PL) 19-3 oil field. The SOA has ordered COPC, the Operator of the PL 19-3 oil field, to suspend water injection, drilling and oil and gas production operations at the entire PL 19-3 oil field (the “Three Suspensions”). The SOA also ordered COPC to continue screening out the risk of oil spillage and sealing the sources of oil spillage and to complete the clean up work in connection with the oil spillage in a timely manner. In addition, the SOA ordered COPC to re-compose the Oceanic Environmental Impact Assessment (the “EIA”) for the development of the PL 19-3 oil field and, upon further approval of the EIA, to resume gradually operations at the PL 19-3 oil field. According to the SOA’s announcement, the Operator must revise the Overall Development Plan (the “ODP”) for the PL 19-3 oil field, and the Three Suspensions will only be lifted after the approval of the ODP by relevant authorities.

The SOA also announced that, according to the analysis of the Joint Investigation Team (the “JIT”), the JIT had determined that the oil spill incident at PL19-3 oil field is clarified as an accident involving liabilities as COPC did not fulfil its duties as a reasonable and prudent operator. The SOA will, on behalf of the State, make claims against COPC for the damage to the marine environment caused by the oil spill accident at the PL 19-3 oil field in accordance with the Marine Environment Protection Law of the People's Republic of China.

The PL19-3 oil field is an oil field operated under a Production Sharing Contract (the “PSC”). COPC is the Operator and responsible for the management of daily operations. The Company holds 51% of the participating interest during the development and production phase under the PSC.

The operations of Platforms B and C of PL19-3 oil field were suspended on 13 July 2011 as required by the SOA. As a result, the Company's net production has been reduced by approximately 22,000 barrels per day. The suspension of operations of the entire PL19-3 oil field will further reduce the Company's net production by approximately 40,000 barrels per day.

The Company will continue to closely monitor the situation and issue further announcements as and when required under the Listing Rules.

This announcement is made pursuant to Rule 13.09(1) of the Listing Rules.

By Order of the Board  
CNOOC Limited  
Jiang Yongzhi  
Joint Company Secretary

Hong Kong, 4 September 2011

As at the date of this announcement, the Board comprises the following:

Executive Directors  
Yang Hua (Vice Chairman)  
Li Fanrong  
Wu Guangqi

Independent Non-executive Directors  
Edgar W. K. Cheng  
Chiu Sung Hong  
Lawrence J. Lau  
Tse Hau Yin, Aloysius  
Wang Tao

Non-executive Directors  
Wang Yilin (Chairman)  
Zhou Shouwei  
Wu Zhenfang

Exhibit 99.3

CNOOC LIMITED

For Immediate Release

SOA Announced its Decisions on PL19-3 Oil Spill Incident

(Hong Kong, September 4, 2011) - CNOOC Limited (the “Company”, NYSE: CEO, SEHK:0883) noticed that on September 2, 2011 State Oceanic Administration of People’s Republic of China “SOA” announced, through SOA’s official website, that ConocoPhillips China Inc (“COPC”) as the Operator of Penglai (PL) 19-3 oil field, has neither completely screened out the oil spill risks nor completely sealed the sources of oil spillage. The SOA also announced that, according to the analysis of the Joint Investigation Team (“JIT”), the JIT had determined that the oil spill incident at PL19-3 oil field is clarified as an accident involving liabilities as COPC did not fulfill its duties as a reasonable and prudent operator.

SOA has ordered COPC to suspend water injection, drilling and oil and gas production operations (the “Three Suspensions”) at the entire PL19-3 oil field, and to take effective measures to continue screening out the potential oil spill risks, seal all sources of oil spillage and complete the cleanup work in a timely manner. In addition, as announced by the SOA, it has ordered COPC to recompose the Oceanic Environmental Impact Assessment (the “EIA”) for the development of PL19-3 oil field and upon further approval on the EIA to resume the operations gradually, and further ordered that COPC must revise the Overall Development Plan (the “ODP”) and the “Three Suspensions” will only be lifted after the approval on the ODP.

In addition, the SOA also announced it will, on behalf of State, make claims against COPC for the damage to the marine environment caused by PL19-3 oil spill accident in accordance with Marine Environment Protection Law of the People’s Republic of China. Currently, the relevant preparation work is underway.

We fully respect the decisions made by SOA. As the non-operator, the Company will continue to assist COPC to execute SOA’s decisions and to inform the public of the work progress as well as to welcome the supervision from the public.

PL19-3 is an oil field operated under a Production Sharing Contract (“PSC”).

---

COPC is the Operator and responsible for the management of daily operations. CNOOC Limited holds 51% of participating interest during the development and production phase under the PSC.

The operations of Platforms B and C of PL19-3 oil field were already suspended on July 13 as required by the SOA. As a result, the Company's net production has been reduced by approximately 22,000 barrels per day. The suspension of operations of the entire PL19-3 oil field will further reduce the Company's net production by approximately 40,000 barrels per day.

– End –

Notes to Editors:

More information about the Company is available at <http://www.cnooltd.com>.

\*\*\* \*\*

This press release includes “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, including statements regarding expected future events, business prospectus or financial results. The words “believe”, “intend”, “expect”, “anticipate”, “project”, “estimate”, “plan”, “predict” and similar expressions are intended to identify such forward-looking statements. These statements are based on assumptions and analysis made by the Company in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors that the Company believes reasonable under the circumstances. However, whether actual results and developments will meet the Company's expectations and predictions depends on a number of risks and uncertainties which could cause the actual results, performance and financial conditions to differ materially from the Company's expectations, including those associated with fluctuations in crude oil and natural gas prices, the exploration or development activities, the capital expenditure requirements, the business strategy, the highly competitive nature of the oil and natural gas industries, the foreign operations, environmental liabilities and compliance requirements, and economic and political conditions in the People's Republic of China. For a description of these and other risks and uncertainties, please see the documents the Company has filed from time to time with the United States Securities and Exchange Commission, including 2010 Annual Report on Form 20-F filed on April 29, 2011.

Consequently, all of the forward-looking statements made in this press release are qualified by these cautionary statements. The Company cannot assure that the actual results or developments anticipated will be realized or, even if substantially realized, that they will have the expected effect on the Company, its business or operations.

\*\*\* \*\*

For further enquiries, please contact:

Mr. Jiang Yongzhi

Joint Company Secretary and General Manager of Investor Relations Department  
CNOOC Limited

Tel: +86-10-8452-1731  
Fax: +86-10-8452-1441  
E-mail: jiangyzh2@cnooc.com.cn

Ms. Ding Jianchun  
Manager, Media / Public Relations  
CNOOC Limited  
Tel: +86-10-8452-2973  
Fax: +86-10-8452-1441  
E-mail: dingjch@cnooc.com.cn

Ms. Angela Hui  
Ketchum Newscan Public Relations Ltd  
Tel: +852-3141-8091  
Fax: +852-2510-8199  
E-mail: angela.hui@knprhk.com

---