CNOOC LTD
Form 20-F
April 17, 2014

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

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2013

OR

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

For the transition period from _________________ to ________________

OR

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

Date of event requiring this shell company report ________________

Commission File Number 1-14966

CNOOC LIMITED
(Exact name of Registrant as specified in its charter)

N/A
(Translation of Registrant's name into English)

Hong Kong
(Jurisdiction of incorporation or organization)

65th Floor, Bank of China Tower
One Garden Road, Central
Hong Kong
(Address of principal executive offices)

Hua Zhong
65th Floor, Bank of China Tower
One Garden Road, Central
Hong Kong
Tel +852 2213 2500

Fax +852 2525 9322
(Name, telephone, e-mail and/or facsimile number and address of company contact person)

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

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

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

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

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

Shares	44,646,305,984

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

Yes ý No ¨

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

Yes ¨ No ý

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

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

Yes ý No ¨

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

Yes ¨ No ý

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

Large accelerated filer ý Accelerated filer ¨ Non-accelerated filer ¨

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

U.S. GAAP ¨

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

Other ¨

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

Item 17 ¨ Item 18 ¨

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

Yes ¨ No ý

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

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TERMS AND CONVENTIONS

Definitions

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

- "CNOOC" are to our controlling shareholder, China National Offshore Oil Corporation, a PRC state-owned enterprise, and its affiliates, excluding us and our subsidiaries;
- "CNOOC Limited" are to CNOOC Limited, a Hong Kong limited liability company and the registrant of this annual report;
- "Our company", "Company", "Group", "we", "our" or "us" are to CNOOC Limited and its subsidiaries;
- "ADRs" are to the American depositary receipts that evidence our ADSs;
- "ADSs" are to our American depositary shares, each of which represents 100 shares;
- "Cdn$" are to Canadian dollar, the legal currency of Canada;
- "China" or "PRC" are to the People's Republic of China, excluding for purposes of geographical reference in this annual report, the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan;
- "Hong Kong" are to the Hong Kong Special Administrative Region of the People's Republic of China;
- "Hong Kong Stock Exchange" or "HKSE" are to The Stock Exchange of Hong Kong Limited;
- "HK$" are to Hong Kong dollar, the legal currency of the Hong Kong Special Administrative Region;
- "HKICPA" are to the Hong Kong Institute of Certified Public Accountants;
- "HKFRS" are to all Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards and Interpretations approved by the Council of the HKICPA;
- "IASB" are to the International Accounting Standards Board;
- "IFRS" are to all International Financial Reporting Standards, including International Accounting Standards and Interpretations, as issued by the International Accounting Standards Board;
- "Nexen Inc." or "Nexen" are to Nexen Inc., a Canada-based energy company previously listed on the TSX and the NYSE, which was acquired by us in 2013;
- "Nexen Energy ULC" are to Nexen Energy ULC, a Canadian unlimited liability company and an amalgamated company arising from CNOOC Canada Holding ULC and Nexen Inc.. Nexen Energy ULC now manages all of our assets in North and Central America as well as the assets previously managed by Nexen Inc.;
- "NYSE" are to the New York Stock Exchange;

- "Rmb" are to Renminbi, the legal currency of the PRC;

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- “TSX” are to the Toronto Stock Exchange; and
- “US$” are to U.S. dollar, the legal currency of the United States of America.

Conventions

We publish our financial statements in Renminbi. Unless otherwise indicated, we have translated amounts from Renminbi into U.S. dollars solely for the convenience of the reader at the noon buying rate for cable transfers of Renminbi per U.S. dollar certified for customs purposes by the Federal Reserve Bank of New York, as set forth in the H.10 weekly statistical release of the Federal Reserve Board on December 31, 2013 of US$1.00=Rmb 6.0537. We have translated amounts in Hong Kong dollars solely for the convenience of the reader at the noon buying rate for cable transfers of Hong Kong dollars per U.S. dollar certified for customs purposes by the Federal Reserve Bank of New York, as set forth in the H.10 weekly statistical release of the Federal Reserve Board on December 31, 2013 of US$1.00=HK$7.7539. We have also translated amounts in Canadian dollars solely for the convenience of the reader at the noon buying rate for cable transfers of Canadian dollars per U.S. dollar certified for customs purposes by the Federal Reserve Bank of New York, as set forth in the H.10 weekly statistical release of the Federal Reserve Board on December 31, 2013 of US$1.00=Cdn$1.0637. We make no representation that the Renminbi amounts, Hong Kong dollar amounts or Canadian dollar amounts could have been, or could be, converted into U.S. dollars at those rates on December 31, 2013, or at all. For further information on exchange rates, see “Item 3—Key Information—Selected Financial Data.”

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

For the years 2011, 2012 and 2013, approximately 23%, 36% and 52%, respectively, of our reserves were evaluated by our internal reserve evaluation staff, and the remaining were based upon estimates prepared by independent petroleum engineering consulting companies and reviewed by us. Our reserve data for 2011, 2012 and 2013 were prepared in accordance with the SEC’s final rules on “Modernization of Oil and Gas Reporting”, which became effective for accounting periods ended on or after December 31, 2009. Except as otherwise stated, all amounts of reserve and production in this report include our interests in equity method investees.

In calculating barrels-of-oil equivalent amounts, we have assumed that 6,000 cubic feet of natural gas equals one BOE, with the exception of natural gas from South America, Oceania, Indonesia in Asia and Yacheng 13-1/13-4 gas field in the Western South China Sea, for which we have used actual thermal unit for such conversion purpose.

Glossary of Technical Terms

Unless otherwise indicated in the context, references to:

- “API gravity” means the American Petroleum Institute’s scale for specific gravity for liquid hydrocarbons, measured in degrees.
- “appraisal well” means an exploratory well drilled after a successful wildcat well to gain more information on a newly discovered oil or gas reserve.
- “developed oil and gas reserves” are reserves of any category that can be expected to be recovered:

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

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

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

- “LNG” means liquefied natural gas.

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

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

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

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

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

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

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

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

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

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

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

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

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

For further definitions relating to reserves:

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

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

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

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

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

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

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- bbls means barrels, which is equivalent to approximately 0.134 tons of oil (33 degrees API);
- mmbbls means million barrels;
- BOE means barrels-of-oil equivalent;
- mcf means thousand cubic feet;
- mmcf means million cubic feet;
- bcf means billion cubic feet, which is equivalent to approximately 28.32 million cubic meters; and
- BTU means British Thermal Unit, a universal measurement of energy.

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FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

Our consolidated financial statements for the years ended December 31, 2011, 2012 and 2013 included in this annual report on Form 20-F have been prepared in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board.

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

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

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

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

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

The following tables present selected historical financial data of our company as of and for the years ended December 31, 2009, 2010, 2011, 2012 and 2013. Except for amounts presented in U.S. dollars, the selected historical consolidated statement of financial position data and consolidated statement of profit or loss and other comprehensive income data as of and for the years ended December 31, 2009, 2010, 2011, 2012 and 2013 set forth below are derived from, should be read in conjunction with, and are qualified in their entirety by reference to, our consolidated financial statements and their notes under "Item 18—Financial Statements" and "Item 5—Operating and Financial Review and Prospects" in this annual report. As disclosed above under "Special Note on the Financial Information and Certain Statistical Information Presented in This Annual Report", our consolidated financial statements as of and for the years ended December 31, 2009, 2010, 2011, 2012 and 2013 have been prepared and presented in accordance with IFRS.

	Year ended December 31,					
	2009	2010(1)	2011	2012	2013	2013
	Rmb	Rmb	Rmb	Rmb	Rmb	US$
	(in millions, except per share and per ADS data)					
Statement of Profit or Loss and Other Comprehensive Income Data:						
Operating revenues:						
Oil and gas sales	83,914	146,134	189,279	194,774	226,445	37,406
Marketing revenues	20,752	32,446	50,469	50,771	55,495	9,167
Other income	529	1,456	1,196	2,082	3,917	647
Total operating revenues	105,195	180,036	240,944	247,627	285,857	47,220
Expenses:						
Operating expenses	(12,490)	(15,647)	(18,264)	(21,445)	(30,014)	(4,958)
Taxes other than income tax	(3,888)	(7,109)	(10,332)	(15,632)	(15,937)	(2,632)
Exploration expenses	(3,234)	(5,483)	(5,220)	(9,043)	(17,120)	(2,828)
Depreciation, depletion and amortization	(15,943)	(26,756)	(30,521)	(32,903)	(56,456)	(9,326)
Special oil gain levy	(6,357)	(17,706)	(31,982)	(26,293)	(23,421)	(3,869)
Impairment and provision	(7)	(27)	(22)	(31)	45	7
Crude oil and product purchases	(20,455)	(32,236)	(50,307)	(50,532)	(53,386)	(8,819)
	(2,264)	(3,039)	(2,854)	(3,377)	(7,859)	(1,298)

Selling and administrative expenses						
Others	(232)	(888)	(835)	(1,230)	(3,206)	(529)
Total expenses	(64,870)	(108,891)	(150,337)	(160,486)	(207,354)	(34,252)
Profit from operating activities	40,325	71,145	90,607	87,141	78,503	12,968
Interest income	638	618	1,196	1,002	1,092	181
Finance costs	(535)	(1,122)	(1,707)	(1,603)	(3,457)	(571)
Exchange gains, net	54	995	637	359	873	144
Investment income	200	427	1,828	2,392	2,611	431
Share of profits of associates	173	199	320	284	133	22
Share of profits/(losses) of a joint venture	-	199	247	(311)	762	126
Non-operating income/(expenses), net	(34)	142	(563)	908	334	55
Profit before tax	40,821	72,603	92,565	90,172	80,851	13,356

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	Year ended December 31,					
	2009	2010(1)	2011	2012	2013	2013
	Rmb	Rmb	Rmb	Rmb	Rmb	US$
	(in millions, except per share and per ADS data)					
Income tax expense	(11,335)	(18,193)	(22,310)	(26,481)	(24,390)	(4,029)
Profit for the year	29,486	54,410	70,255	63,691	56,461	9,327
Earnings per share (basic)(2)	0.66	1.22	1.57	1.43	1.26	0.21
Earnings per share (diluted) (3)	0.66	1.21	1.57	1.42	1.26	0.21
Earnings per ADS (basic) (2)	66.01	121.81	157.28	142.66	126.46	20.89
Earnings per ADS (diluted) (3)	65.86	121.39	156.63	142.14	126.07	20.82
Dividend per share						
Interim	0.176	0.181	0.204	0.122	0.198	0.03
Proposed final	0.176	0.211	0.227	0.259	0.252	0.04

	As of December 31,					
	2009	2010(1)	2011	2012	2013	2013
	Rmb	Rmb	Rmb	Rmb	Rmb	US$
	(in millions)					
Statement of Financial Position Data:						
Cash and cash equivalents	22,615	27,287	23,678	55,024	14,318	2,365
Available-for sale financial assets	8,582	18,940	27,576	61,795	51,103	8,442
Held-to-maturity financial assets	-	3,040	23,467	-	-	-
Current assets	70,871	99,384	131,923	170,894	146,552	24,209
Property, plant and equipment, net	165,320	186,678	220,567	252,132	419,102	69,231
Investments in associates	1,727	1,781	2,822	3,857	4,094	676
Investments in a joint venture	-	20,823	20,175	20,160	20,303	3,354
Intangible assets	1,230	1,148	1,033	973	17,000	2,808
Long term available-for-sale financial assets	3,120	8,616	7,365	7,051	6,798	1,123
Total assets	242,268	318,430	384,264	456,070	621,473	102,660
Current loans and borrowings	122	21,194	19,919	28,830	49,841	8,233
Current liabilities	31,042	68,423	70,216	82,437	128,948	21,301
Long term loans and borrowings, net of current portion	18,570	9,859	18,076	29,056	82,011	13,547
Total non-current liabilities	37,291	34,241	51,192	63,853	150,905	24,927
Total liabilities	68,333	102,664	121,408	146,290	279,853	46,228
Capital stock	43,078	43,078	43,078	43,078	43,081	7,116
Shareholders' equity	173,936	215,766	262,856	309,780	341,620	56,432

(1) From January 1, 2011, the Company adopted IFRS 10-Consolidated Financial Statements, IFRS 11-Joint Arrangements, IFRS 12-Disclosure of Interest in Other Entities, IAS 27 (Revised)-Separated Financial Statements

and IAS 28 (Revised)-Investments in Associates and Joint Ventures before their mandatory effective date on January 1, 2013. Certain comparative figures have been adjusted.

(2) Earnings per share (basic) and earnings per ADS (basic) for each year from 2009 to 2013 have been computed, without considering the dilutive effect of the shares underlying our share option schemes and, as applicable, convertible bonds, by dividing profit by the weighted average number of shares and the weighted average number of ADSs of 44,669,199,984 and 446,692,000, respectively, for 2009, 44,669,199,984 and 446,692,000, respectively, for 2010, 44,668,570,359 and 446,685,704, respectively, for 2011, 44,646,305,984 and 446,463,060, respectively, for 2012, and 44,646,825,847 and 446,468,258, respectively, for 2013, in each case based on a ratio of 100 shares to one ADS.

(3) Earnings per share (diluted) and earnings per ADS (diluted) for each year from 2009 to 2013 have been computed, after considering the dilutive effect of the shares underlying our share option schemes and, as applicable, convertible bonds, by using 44,771,714,329 shares and 447,717,143 ADSs for 2009, 44,821,187,466 shares and 448,211,875 ADSs for 2010, 44,853,615,010 shares and 448,536,150 ADSs for 2011, 44,808,042,330 shares and 448,080,423 ADSs for 2012 and 44,787,119,089 shares and 447,871,191 ADSs for 2013.

	Year ended December 31,					
	2009	2010(1)	2011	2012	2013	2013
	Rmb	Rmb	Rmb	Rmb	Rmb	US$
	(in millions, except percentages and ratios)					
Other Financial Data:						
Capital expenditures paid(2)	39,376	28,332	36,823	54,331	79,716	13,168
Cash provided by/(used for):						
Operating activities	49,624	70,883	116,171	92,574	110,891	18,318
Investing activities	(37,307)	(64,203)	(99,036)	(63,797)	(170,032)	(28,087)
Financing activities	(9,403)	(1,610)	(20,246)	2,584	18,601	3,073
Gearing ratio(3)	9.7%	12.6%	12.6%	15.7%	27.8%	27.8%

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

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

Period	Noon Buying Rate (Rmb per US$1.00) End	Average(1)	High	Low
2009	6.8259	6.8295	6.8470	6.8176
2010	6.6000	6.7603	6.8330	6.6000
2011	6.2939	6.4475	6.6364	6.2939
2012	6.2301	6.2990	6.3879	6.2221
2013	6.0537	6.1412	6.2438	6.0537
October 2013	6.0943	—	6.1209	6.0815
November 2013	6.0922	—	6.0993	6.0903
December 2013	6.0537	—	6.0927	6.0537
January 2014	6.0590	—	6.0600	6.0402
February 2014	6.1448	—	6.1448	6.0591
March 2014	6.2164	—	6.2273	6.1183

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

On March 31, 2014, the noon buying rate between U.S. dollars and Renminbi as set forth in the H.10 weekly statistical release of the Federal Reserve Board was Rmb 6.2164 to US$1.00.

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

Period	Noon Buying Rate (HK$ per US$1.00) End	Average(1)	High	Low
2009	7.7536	7.7513	7.7618	7.7495
2010	7.7810	7.7692	7.8040	7.7501
2011	7.7663	7.7793	7.8087	7.7634
2012	7.7507	7.7556	7.7699	7.7493
2013	7.7539	7.7565	7.7654	7.7503
October 2013	7.7530	—	7.7545	7.7524
November 2013	7.7526	—	7.7535	7.7512
December 2013	7.7539	—	7.7550	7.7517
January 2014	7.7642	—	7.7663	7.7534
February 2014	7.7608	—	7.7645	7.7547

March 2014	7.7567	—	7.7669	7.7563

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

On March 31, 2014, the noon buying rate between U.S. dollars and Hong Kong dollars as set forth in the H.10 weekly statistical release of the Federal Reserve Board was HK$7.7567 to US$1.00.

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

	Noon Buying Rate			
Period	End	Average(1)	High	Low
	(Cdn$ per US$1.00)			
2009	1.0461	1.1373	1.2995	1.0289
2010	1.0009	1.0353	1.0776	0.996
2011	1.0168	0.9857	1.0605	0.9448
2012	0.9958	0.9994	1.0417	0.971
2013	1.0637	1.0347	1.0697	0.9839
October 2013	1.0429	—	1.0454	1.0282

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November 2013	1.0597	—	1.0597	1.0414
December 2013	1.0637	—	1.0697	1.0577
January 2014	1.1116	—	1.1171	1.0612
February 2014	1.1075	—	1.1137	1.0952
March 2014	1.1053	—	1.1251	1.0965

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

On March 31, 2014, the noon buying rate between U.S. dollars and Canadian dollars as set forth in the H.10 weekly statistical release of the Federal Reserve Board was Cdn$1.1053 to US$1.00.

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

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

Risks Relating to Our Operations

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

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

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

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

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

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

Many of the factors, assumptions and variables involved in estimating reserves are beyond our control and may prove to be incorrect over time. In addition, many of the factors involved in estimating reserves over which we do have control, such as the recovery factor estimates and the projected production decline rates, may also prove to be incorrect over time. Consequently, the results of drilling,

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testing and production and oil and gas price changes may require substantial upward or downward revisions in our initial reserve data.

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

Exploring for, developing and acquiring reserves is highly risky and capital intensive. Our exploration and development activities involve inherent risks, including the risk that we will not encounter commercially productive oil or gas reservoirs and the wells we drill may not be productive or not sufficiently productive to recover a portion or all of our investment. In addition, approximately 59.7% of our proved reserves were undeveloped as of December 31, 2013. Our future success will depend on our ability to develop these reserves in a timely and cost-effective manner. There are various risks in developing reserves, mainly including construction, operational, geophysical, geological and regulatory risks.

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

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

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

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

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

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

In the past few years, we expanded our operations into Argentina, the U.S., Canada, Uganda, United Kingdom and certain other countries through mergers and acquisitions. For example, we completed our significant acquisition of Nexen, a Canada-based energy company previously listed on the TSX and the NYSE, in February 2013. We may continue to pursue opportunities for mergers and acquisitions to expand our business in the future.

In light of political instability, unexpected changes to fiscal regime and various other factors, there may be uncertainties with respect to the operations of those merged and acquired overseas assets. In particular, we may face increasing exploration and environmental risks arising from Nexen’s unconventional resources development, including oil sands, shale gas and coalbed methane. The relatively high production cost of Nexen’s oil sands operations may negatively affect our overall profitability. In addition, acquisitions may result in the incurrence and inheritance of debts and other

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liabilities, assumption of potential legal liabilities in respect of the acquired businesses, and incurrence of impairment charges related to goodwill and other intangible assets, any of which could harm our results of operations and financial condition. In particular, if any of the acquired businesses fails to perform as we expect, we may be required to recognize a significant impairment charge, which may materially and adversely affect our results of operations. Further, we may face other risks and uncertainties as we become subject to additional regulatory requirements as a result of the acquisition of Nexen. Therefore, we may not be able to achieve the anticipated economic return. Also, the increase in the scale of our operations may increase our operational risks.

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

The integration process involves inherent costs and uncertainties. We expect the acquisition of Nexen will expand our existing business and assets and create sustainable growth opportunities, synergies and other benefits. However, our anticipated benefits may not develop. In addition, implementation of the acquisition and the successful integration of Nexen will also require management time and attention, as well as those employees with the appropriate skill sets for the tasks associated with such integration. The integration process may also adversely affect our profitability because we will incur additional costs, such as depreciation and employee costs, during such process. Any failures, material delays or unexpected costs of the integration process could therefore have a material adverse effect on our business, results of operations and financial condition.

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

CNOOC indirectly owned or controlled 64.44% of our shares as of March 31, 2014. As a result, CNOOC is able to control the composition of the board of directors of our company, or our Board, determine the timing and amount of our dividend payments and otherwise control us. If CNOOC takes actions that favor its interests over ours, our results of operations and financial position may be adversely affected.

In addition, we regularly enter into transactions with CNOOC and its affiliates. Some of our transactions with CNOOC and its affiliates constitute connected transactions under The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, or the Hong Kong Stock Exchange Listing Rules. Furthermore, these connected transactions are subject to review by the Hong Kong Stock Exchange and may also be subject to the prior approval of our independent shareholders. For example, we have obtained independent shareholders' approval in respect of certain continuing connected transactions under a comprehensive framework agreement with CNOOC and its affiliates on November 27, 2013. If we do not obtain these approvals, we will not be allowed to effect these transactions and our business operations and financial condition could be adversely affected.

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

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

We sell a significant proportion of our production to Sinopec, PetroChina and CNOOC-affiliated companies. However, we currently do not have long-term crude oil sales contracts with these customers.

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Our business, results of operations and financial condition could be adversely affected if any of them significantly reduced their crude oil purchases from us.

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

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

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

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

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

We conduct exploration and development in deepwater areas in both offshore China and overseas by cooperating with our partners and by ourselves. Operations in deepwater may require a significant amount of time between discovery and initial production, thus increasing the risks involved in these operations. Also, operations in deepwater are more difficult, risky and costly than those in shallower water and are subject to certain risks including well control and other catastrophic events. The consequences of blowouts and other catastrophic events occurring in deepwater operations can be more difficult, uncertain and time-consuming to remedy.

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

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

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

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

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

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

In recent years, the U.S. Government has implemented a number of sanctions targeting non-U.S. companies that engage in certain Iran-related transactions. The Iran Sanctions Act, as amended, or ISA, the Comprehensive Iran Sanctions, Accountability and Divestment Act of 2010, or CISADA, the National Defense Authorization Act for Fiscal Year 2012, or NDAA, the Iran Threat Reduction and Syria Human Rights Act of 2012, or TRA, the Iran Freedom and Counter-Proliferation Act of 2012, or IFCA, Executive Order 13622 of July 31, 2012, and Executive Order 13645 of June 3, 2013 authorize the imposition of sanctions on companies that engage in, among other things, certain activities related to Iran's energy, petrochemical, shipping or shipbuilding sectors, and in certain instances, on their parent companies. It is possible that the U.S. Government could determine that CNOOC or its affiliates engage in activities targeted by U.S. sanctions. If the U.S. President determined that CNOOC or one of its affiliates engaged in targeted activities, CNOOC and/or its affiliate could be subject to U.S. sanctions, which range from restrictions on U.S. exports or bank financing to outright blocking of CNOOC or its affiliate's property within U.S. jurisdiction. If the most extreme sanction, blocking, were applied to CNOOC's property, including controlled subsidiaries, we could be prohibited from engaging in business activities in the United States or with U.S. individuals or entities, and U.S. transactions in our securities and distributions to U.S. individuals and entities with respect to our securities could also be prohibited.

As required by the Iran Threat Reduction and Syria Human Rights Act of 2012, which added a disclosure requirement to the Securities Exchange Act of 1934, we are providing certain information regarding our non-controlled affiliates' activities. To our knowledge, in 2013, China Oilfield Services Limited (COSL), one of our non-controlled affiliates, continued to provide certain drilling and other related services in Iran in relation to subcontracting agreements entered into in 2009, as it did in 2012. We cannot predict at this time whether U.S. sanctions will be imposed on any of our affiliates.

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

The global economy has recovered moderately from the recession following the 2008 financial market disruptions and the European sovereign debt crisis. However, concerns about the systemic impact of a prolonged recession and adverse economic conditions, energy costs, geopolitical issues and the availability and cost of credit have contributed to increased market volatility and diminished expectations for economic growth around the world. The complex economic outlook has negatively affected business and consumer confidence and contributed to volatility levels. We cannot predict the short- and long-term impacts of these events on our business and financial condition, which could be materially and adversely affected.

Our unconventional oil and gas operations carry additional risks and uncertainties

Oil sands, shale oil and gas and coalbed methane ("CBM") are unconventional oil and gas resources produced through the application of relatively new and expensive technologies. As a result, our unconventional oil and gas operations are subject to the challenges of immature technology and also expose us to higher environmental compliance standards and requirements. In the event of any failure to

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comply with such standards and requirements, such failure may lead to public concerns about our unconventional oil and gas operations, which may also harm our corporate reputation.

Our projects may not be completed on time or within budget

We are involved in a variety of projects at any given time, including exploration and development projects, and the construction and expansion of projects facilities. Project delays may adversely affect expected revenues and cost overruns may adversely affect project economics. Our ability to complete projects on time and within budget depends on many factors beyond our control, including the need for government and regulatory approvals, especially the approvals from environmental agencies, the availability of equipment and personnel, weather, accidents, equipment breakdown, unexpected or uncontrollable increases in the costs of materials or labor and processing capacity.

Oil and gas transportation may expose us to the risk of financial loss and damaged reputation

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

Pipeline and export infrastructure in North America is limited

An increase in the supply of crude oil and natural gas from unconventional sources in North America has reduced commodity prices in North America relative to many other markets. The increased supply in North America is expected to fill existing North American pipeline infrastructure. Without new transportation and export infrastructure, the current transportation network in North America may not be able to accommodate the increased volumes of crude oil and natural gas expected from the development of unconventional oil and gas, including oil and gas produced from our oil sands and shale gas properties in western Canada. This, in turn, could delay the development of our oil and gas reserves in western Canada. In addition, North America has limited export infrastructure and without new export infrastructure, we may be required to sell our production into the North American markets at lower prices than are available in other markets, which could materially and adversely affect our financial performance.

Our lands in western Canada could be subject to aboriginal claims

Aboriginal peoples in Canada have claimed aboriginal title and rights to a substantial portion of western Canada, including the lands on which our shale gas and oil sands interests, and those of most other oil sands and shale gas operators in Alberta and British Columbia of Canada, are located. As a result, aboriginal consultation on surface activities is required and may result in timing uncertainties or delays of future development activities. Such claims, if successful, could have a significant adverse effect on our oil sands and shale gas developments in Canada.

The energy marketing operations of Nexen expose us to the risk of trading losses

Nexen has an energy marketing business, which primarily markets Nexen's proprietary crude oil and natural gas production and also engages in market optimization activities including the purchase and sale of third-party production. The energy marketing operations of Nexen expose us to the risk of financial losses from various sources, which may have a material adverse effect on our financial performance. Nexen's energy marketing team maintains a portfolio comprised of long and short physical and financial positions, which may be significant in size or number at any time. This portfolio of positions is managed based on a trading thesis for expected future pricing levels and trends in forward or regional markets. Unanticipated volatility in commodity price levels and trends

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upon which those positions are based may cause a position to decrease in value. The transportation and storage assets and contracts undertaken by Nexen's energy marketing business may decrease in value due to changes in temporal and regional commodity pricing.

Risks Relating to the Petroleum Industry

The oil and natural gas industries are very competitive

We compete in the PRC and international markets with national oil companies, major integrated oil and gas companies and various other independent oil and gas companies for oil and gas properties or leases, customers, capital financing and business opportunities, including desirable oil and gas prospects. We also compete for the equipment and personnel required to explore, develop and operate oil and gas properties. Competition may result in shortage of these resources, customers or opportunities, and also an over-supply of oil and gas, which could negatively impact our business, financial condition and results of operations.

Political, economic and security risks and changes in laws and regulations could have an adverse effect on our operations overseas

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

Some of the countries in which we have operations may be considered politically and economically unstable. A portion of our revenue is derived from operations in these countries. As a result, our financial condition and operating results could be significantly affected by risks associated with international activities, including, civil unrest and general strikes, political instability, risk of war and acts of terrorism, changes in governmental policies or social instability or other political, economic or diplomatic developments in or affecting these foreign nations which are not within our control, including, among other things, a change in crude oil or natural gas pricing policy, expropriation, nationalization, renegotiation or nullification of existing concessions and contracts, cost recovery, taxation policies, foreign exchange and repatriation restrictions, changing political conditions and currency controls.

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

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

War and acts of terrorism could materially and adversely affect us

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

We are required to obtain government or other regulatory approvals in order to operate

Our oil and gas operations require approvals from domestic as well as various international, federal, state, provincial, territorial and local governmental authorities in order to meet the requirement of laws and regulations designed to govern the activities of oil and gas in the process through exploration,

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development and production. These laws and regulations may impose significant liabilities on a failure to comply with their requirements including the possibility of administrative, civil and criminal penalties, cancellation or suspension of permits or authorizations, investigations or other proceedings. If we are unable to obtain any necessary approvals, our business, financial condition, reputation and results of operations could be materially and adversely affected.

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

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

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

Risks Relating to the PRC

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

We are the largest producer of offshore crude oil and natural gas in the PRC. The PRC government exercises control over the PRC petroleum industry, including licensing, exploring, producing, distributing, pricing, taxing, importing, exporting and allocating of various resources. We have benefited from various favorable PRC government policies, laws and regulations that have been enacted to encourage the development of the offshore petroleum industry. We cannot guarantee that the legal and fiscal regimes affecting our businesses will remain substantially unchanged or that we will continue to benefit from favorable PRC government policies.

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

From 2011, the Ministry of Finance and the State Administration of Taxation of the PRC promulgated the Circular on Printing and Issuing the Pilot Proposals for the Conversion from Business Tax to Value-Added Tax and various supporting Circulars. As a result, since January 1, 2012, the business tax in certain industries and regions has been replaced by value-added tax. This tax reform is very complex and may have some financial impact on the Company.

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

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

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

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

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

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

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

Proceedings instituted by the SEC against five Mainland China -based accounting firms, including the affiliate of our independent registered public accounting firm, could result in financial statements being determined to not be in compliance with the requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act

In late 2012, the SEC commenced administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the Mainland Chinese affiliates of the ''big four'' accounting firms (including the Mainland affiliate of our auditors) and also against Dahua (the former BDO affiliate in China). The Rule 102(e) proceedings initiated by the SEC relate to these firms' failure to produce documents, including audit work papers, in response to the request of the SEC pursuant to Section 106 of the Sarbanes-Oxley Act of 2002, as the auditors located in Mainland China are not in a position lawfully to produce documents directly to the SEC because of restrictions under PRC law and specific directives issued by the China Securities Regulatory Commission. The issues raised by the proceedings affect equally all audit firms based in Mainland China and all China-based businesses with securities listed in the United States.

In January 2014, the administrative judge reached an Initial Decision that the "big four " accounting firms in Mainland China should be barred from practicing before the SEC for six months. Although the principal auditor of our financial statements is Deloitte Touche Tohmatsu in Hong Kong which is not subject to the proceedings or the Initial Decision, our auditors use their Mainland affiliate to assist in the auditing of the Mainland China components of our operations. However, it is

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currently impossible to determine the ultimate outcome of this matter as the accounting firms have indicated their intention to file a petition for review of the Initial Decision and pending that review the effect of the Initial Decision is suspended. It will, therefore, be for the Commissioners of the SEC to make a legally binding order specifying the sanctions if any to be placed on these audit firms. Once such an order was made, the accounting firms would have a further right to appeal to the US Federal courts, and the effect of the order might be further suspended pending the outcome of that appeal.

Depending upon the final outcome, listed companies in the United States with major Mainland China operations may find it difficult or impossible to retain auditors in respect of their operations in the PRC, which may result in their delisting. Moreover, any negative news about the proceedings against these audit firms may erode investor confidence in China-based, United States listed companies and the market price of our ADSs may be adversely affected.

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT

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

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

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

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

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

CNOOC has undertaken to us that:

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

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

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

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

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

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

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

The undertakings from CNOOC will cease to have any effect:

- if we become a wholly owned subsidiary of CNOOC;

- if our securities cease to be listed on any stock exchange or automated trading system; or

- 12 months after CNOOC or any other PRC government-controlled entity ceases to be our controlling shareholder.

In February 2013, we completed the acquisition of Nexen. Incorporated in Canada in 1971, Nexen is an independent global energy company. Upon completion of the acquisition, the Company established its North and Central America headquarters in Calgary, Canada, to be responsible for operating the Company's businesses in North and Central America as well as Nexen's global operations.

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

B. BUSINESS OVERVIEW

Overview

We are an upstream company specializing in the exploration, development and production of oil and natural gas. We are the dominant oil and natural gas producer in offshore China and, in terms of reserves and production, we are also one of the largest independent oil and natural gas exploration and production companies in the world. As of the end of 2013, we had net proved reserves of approximately 4.43 billion BOE (including approximately 0.29 billion BOE under our equity method investees). In 2013, we had a total net oil and gas production of 1,127,967 BOE per day (including net oil and gas production of approximately 45,173 BOE per day under our equity method investees).

Competitive Strengths

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

- large and diversified asset base with significant exploitation opportunities;

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

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Large and diversified asset base with significant exploitation opportunities

We have a large net proved reserve base spread across offshore China and globally. As of December 31, 2013, we had approximately 4.43 billion BOE of net proved reserves. Our core operating area, offshore China, contributed approximately 55% of our net proved reserves, while overseas contributed the balance of 45%.

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

As of December 31, 2013, approximately 59.7% of our net proved reserves were classified as net proved undeveloped. Our large proved reserve base gives us the opportunity to achieve substantial production growth.

Sizable operating areas in offshore China with demonstrated exploration potential

We are the dominant oil and gas producer in offshore China, a region that we believe has substantial exploration upside. As of December 31, 2013, our total major exploration areas acreage in offshore China was approximately 257 thousand km2. We believe that offshore China is relatively underexplored, compared to other prolific offshore exploration areas such as the shallow water of the U.S. Gulf of Mexico, providing us with substantial exploration upside.

We have maintained an active drilling exploration program, which continues to demonstrate the exploration potential of offshore China. During 2013, we and our foreign partners together drilled a total of 100 exploratory wells in offshore China, of which 47 were wildcat wells. During the same year, we and our foreign partners made 10 new discoveries in offshore China.

Successful independent exploration and development track record

We have a strong record of growing our reserves base for oil and natural gas, both independently and with our foreign partners through PSCs. In recent years, we have been adding reserves and production mainly through independent exploration and development. As of the end of 2013, in offshore China, approximately 82.3% of our net proved reserves were independent and approximately 69.6% of our production came from independent projects.

In 2013, in offshore China, our independent exploration resulted in 10 new discoveries. We also successfully appraised 15 oil and gas structures. On the development front, in 2013, our major new development projects progressed smoothly with 6 new projects on stream in offshore China.

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

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

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

Experienced management team and a high level of corporate governance standard

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

We have a proven track record of complying with a high level of corporate governance standard, which was recognized by the industry. For example, we were awarded the “Corporate Governance Recognition Awards — Asia’s Icon on Corporate Governance” by Corporate Governance Asia Magazine and the “2013 Excellence in Management and Corporate Governance Awards-Platinum” by The Asset in 2013.

Business Strategy

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

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

Focus on reserve and production growth

As an upstream company specializing in the exploration, development, production and sales of oil and natural gas, we consider reserve and production growth as top priority. We plan to increase our reserves and production through drill bits and value-driven acquisitions. We will continue to concentrate independent exploration efforts on major operating areas, especially in offshore China. In the meantime, we will continue to enter into PSCs with foreign partners to lower capital requirements and exploration risks. In 2013, we achieved a reserve replacement ratio of 327%.

We increase production primarily through the development of proved undeveloped reserves. As of December 31, 2013, approximately 59.7% of our proved reserves were classified as proved undeveloped, which gives us the opportunity to achieve future production growth, as long as these proved undeveloped reserves are developed faster than the depletion rate of our currently producing reserves.

Develop natural gas business

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

In 2014, the large-size gas field Liwan 3-1 in deepwater South China Sea will commence production. We expect that our natural gas production would continue to increase accordingly.

Maintain prudent financial policy

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

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

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Currently, we have a strong financial profile. We intend to maintain our financial strength by managing key measures such as capital expenditures, cash flows and costs per BOE. We also intend to actively manage our account receivables and inventories to enhance liquidity and improve profitability. We will continue to monitor our foreign currency denominated assets and debts and to manage exposure to foreign exchange rate fluctuations.

Selected Operating and Reserves Data

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

Our reserve data for 2011, 2012 and 2013 were prepared in accordance with the SEC's final rules on "Modernization of Oil and Gas Reporting", which became effective for accounting periods ended on or after December 31, 2009.

	Year ended December 31,		
	2011	2012	2013
Net Production(1):			
Oil (daily average bbls/day)	708,286	742,765	912,603
Gas (daily average mmcf/day)	1,171.7	1,109.7	1,247.4
Oil equivalent (BOE/day)	909,000	935,615	1,127,967
Net Proved Reserves (end of period):			
Oil (mmbbls)	1,873.3	2,031.1	2,290.2
Gas (bcf)	5,627.4	6,005.3	6,323.3
Synthetic Oil (mmbbls)	87.4	137.0	736.4
Bitumen (mmbbls)	8.6	12.6	33.8
Total (million BOE)	2,921.1	3,202.6	4,138.7
Total with equity method investees (million BOE)(1)	3,190.1	3,491.9	4,427.6
Annual reserve replacement ratio(2)	167%	187%	337%
Annual reserve replacement ratio(1)	158%	188%	327%
Estimated reserve life (years)	9.3	9.8	10.5
Estimated reserve life (years)(1)	9.6	10.2	10.8
Standardized measure of discounted future net cash flow (million Rmb)	339,234	356,998	389,022

(1) Including our interest in equity method investees.
(2) For information on the calculation of this ratio, see "Terms and Conventions—Glossary of Technical Terms—reserve replacement ratio."

For the years 2011, 2012 and 2013, approximately 23%, 36% and 52%, respectively, of our reserves were evaluated by our internal reserve evaluation staff and the remaining were based upon estimates prepared by independent petroleum engineering consulting companies and reviewed by us. For further information regarding our reserves, see "Item 3—Key Information—Risk Factors—Risks Relating to Our Operations—The oil and gas reserve estimates in this annual report may require substantial revision as a result of future drilling, testing, production and oil and gas price changes" and "Item 4—Information on the Company—Business Overview—Exploration, Development and Production."

Summary of Oil and Gas Reserves

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

	Net proved reserves at December 31,		Net proved reserves at December 31, 2013				
	2011	2012	Crude Oil	Natural Gas	Synthetic Oil	Bitumen	Total
	(mmboe)	(mmboe)	(mmbbls)	(bcf)	(mmbbls)	(mmbbls)	(mmboe) (1)
Developed							
Offshore China							
Bohai	632.9	579.6	478.5	331.2	—	—	533.7
Western South China Sea	230.4	207.8	98.1	654.2	—	—	210.8
Eastern South China Sea	213.4	209.5	123.4	317.8	—	—	176.4
East China Sea	8.4	7.1	0.4	33.3	—	—	5.9
Subtotal	1,085.1	1,004.0	700.3	1,336.6	—	—	926.8
Overseas							
Asia (excluding China)	68.0	105.3	24.3	414.9	—	—	98.9
Oceania	34.9	30.2	8.3	182.9	—	—	44.4
Africa	46.4	44.2	58.9	—	—	—	58.9
North America (excluding Canada)	47.0	105.4	84.5	193.2	—	—	116.7
Canada (2)	—	—	0.1	195.0	208.8		241.4
Europe	—	—	128.2	26.3	—	—	132.6
South America	—	—	1.7	—	—	—	1.7
Subtotal	196.3	285.1	306.0	1,012.3	208.8	—	694.6
Total Developed	1,281.4	1,289.1	1,006.2	2,348.9	208.8	—	1,621.3
Undeveloped							
Offshore China							
Bohai	466.9	586.3	609.1	221.7	—	—	646.1
Western South China Sea	356.3	414.4	130.2	1,851.1	—	—	438.7
Eastern South China Sea	306.5	340.5	233.6	796.4	—	—	366.3
East China Sea	60.0	63.6	19.5	269.8	—	—	64.4
Subtotal	1,189.7	1,404.9	992.4	3,139.0	—	—	1,515.5
Overseas							
Asia (excluding China)	155.3	102.2	59.3	474.4	—	—	141.7
Oceania	75.8	66.6	7.6	203.1	—	—	47.7
Africa	87.3	91.5	96.5	—	—	—	96.5
North America (excluding	131.7	248.3	90.5	156.4	—	—	116.5

Canada)							
Canada	—	—	—	—	527.6	33.8	561.4
Europe	—	—	37.8	1.5	—	—	38.0
Subtotal	450.1	508.6	291.6	835.4	527.6	33.8	1,001.8
Total Undeveloped	1,639.8	1,913.5	1,283.9	3,974.4	527.6	33.8	2,517.3
TOTAL PROVED	2,921.1	3,202.6	2,290.2	6,323.3	736.4	33.8	4,138.7
Equity method investees	269.0	289.3	199.3	519.9	—	—	288.9
Total with equity method investees	3,190.1	3,491.9	2,489.5	6,843.2	736.4	33.8	4,427.6

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

(2) As Canada contained over 15% of the Group's total proved reserves as at the end of 2013, the Group's proved reserves and production data in Canada are disclosed separately for year 2013. For year 2012 and before, Canada's numbers are included in North America (if applicable) and disclosed on a combined basis.

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

Total Net Proved Crude and Liquids Reserves
(mmbbls)

	As of December 31,		As of December 31, 2013		
	2011	2012	Developed	Undeveloped	Total
Offshore China					
Bohai	1,000.4	1,067.2	478.5	609.1	1,087.6
Western South China Sea	250.5	224.8	98.1	130.2	228.3
Eastern South China Sea	316.1	354.0	123.4	233.6	357.0
East China Sea	17.7	19.8	0.4	19.5	19.8
Subtotal	1,584.7	1,665.7	700.3	992.4	1,692.6
Overseas					
Asia (excluding China)	81.8	65.0	24.3	59.3	83.6
Oceania	19.0	16.7	8.3	7.6	15.9
Africa	133.7	135.7	58.9	96.5	155.4
North America (excluding Canada)	54.1	297.6	84.5	90.5	175.0
Canada	—	—	208.9 (1)	561.4 (2)	770.3
Europe	—	—	128.2	37.8	166.0
South America	—	—	1.7	—	1.7
Subtotal	288.6	515.0	514.8	853.0	1,367.8
Total	1,873.3	2,180.7	1,215.1	1,845.3	3,060.4
Equity method entities	196.3	200.7	102.1	97.2	199.3
Total with equity method investees	2,069.6	2,381.5	1,317.2	1,942.5	3,259.7

(1) Including Synthetic oil 208.8 mmbbls and crude oil 0.1 mmbbls.
(2) Including Synthetic oil 527.6 mmbbls and Bitumen 33.8 mmbbls.

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Total Net Proved Natural Gas Reserves
(bcf)

	As of December 31,		As of December 31, 2013		
	2011	2012	Developed	Undeveloped	Total
Offshore China					
Bohai	596.2	592.5	331.2	221.7	552.9
Western South China Sea	2,017.2	2,384.9	654.2	1,851.1	2,505.4
Eastern South China Sea	1,222.4	1,175.7	317.8	796.4	1,114.2
East China Sea	303.7	305.9	33.3	269.8	303.1
Subtotal	4,139.5	4,459.0	1,336.6	3,139.0	4,475.6
Overseas					
Asia (excluding China)	848.7	800.4	414.9	474.4	889.4
Oceania	467.8	409.5	182.9	203.1	386.0
Africa	—	—	—	—	—
North America (excluding Canada)	171.4	336.4	193.2	156.4	349.6
Canada	—	—	195.0	-	195.0
Europe	—	—	26.3	1.5	27.8
South America	—	—	—	—	—
Subtotal	1,487.9	1,546.3	1,012.3	835.4	1,847.7
Total	5,627.4	6,005.3	2,348.9	3,974.4	6,323.3
Equity method investees	422.0	513.7	352.7	167.1	519.9
Total with equity method investees	6,049.4	6,519.0	2,701.6	4,141.5	6, 843.2

Total Net Proved Reserves
(million BOE)

	As of December 31,		As of December 31, 2013		
	2011	2012	Developed	Undeveloped	Total
Offshore China					
Bohai	1,099.8	1,165.9	533.7	646.1	1,179.7
Western South China Sea	586.7	622.3	210.8	438.7	649.6
Eastern South China Sea	519.9	550.0	176.4	366.3	542.7
East China Sea	68.4	70.7	5.9	64.4	70.4
Subtotal	2,274.8	2,408.9	926.8	1,515.5	2,442.3
Overseas					
Asia (excluding China)	223.2	207.5	98.9	141.7	240.6
Oceania	110.7	96.8	44.4	47.7	92.0
Africa	133.7	135.7	58.9	96.5	155.4
North America (excluding Canada)	178.7	353.7	116.7	116.5	233.2
Canada	—	—	241.4	561.4	802.8
Europe	—	—	132.6	38.0	170.6
South America	—	—	1.7	—	1.7
Subtotal	646.3	793.7	694.6	1,001.8	1,696.4
Total	2,921.1	3,202.6	1,621.3	2,517.3	4,138.7
Equity method investees	269.0	289.3	162.9	126.0	288.9
Total with equity method investees	3,190.1	3,491.9	1,784.3	2,643.3	4,427.6

Proved Undeveloped Reserves

As of December 31, 2013, we had proved undeveloped reserves of 2,643.3 million BOE, including 1,381.1 million barrels of crude oil, 527.6 million barrels of synthetic oil, 33.8 million barrels of bitumen and 4,141.5 bcf of natural gas, representing an increase of 601.8 million BOE as compared to proved undeveloped reserves of 2,041.5 million BOE as of December 31, 2012.

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The changes in our proved undeveloped reserves mainly include:

- An increase of 321.3 million BOE due to new discoveries and extensions, details of which are described below;
- An increase of 452.0 million BOE due to acquisitions, which is primarily attributable to the acquisition of Nexen;
- An increase of 48.0 million BOE due to revision of previous estimates; and
- A decrease of 219.5 million BOE due to proved undeveloped reserves being developed into proved developed reserves;

In 2013, the significant change for discoveries and extensions in the amount of 321.3 million BOE was primarily attributable to:

Ø Offshore China:

- Bohai: the discoveries and extensions of oil and gas reserves in the amount of 100.8 million BOE and 20.7 million BOE, respectively (for example, Penglai 15-2, Qinghuangdao 29-2 East and Luda 6-2);
- Western South China: the discoveries and extensions of oil and gas reserves in the amount of 61.3 million BOE and 5.6 million BOE, respectively (for example, Dongfang 1-4, Wushi 12-2 South and Dongfang 13-2); and
- Eastern South China: the discoveries and extensions of oil and gas reserves in the amount of 28.2 million BOE and 37.1 million BOE, respectively (for example, Enping 18-1, Enping 23-1 and Panyu 11-5); and

Ø Overseas:

- Canada: the discoveries and extensions of oil and gas reserves in the amount of 40.6 million BOE;
- North America (excluding Canada): the discoveries and extensions of oil and gas reserves in the amount of 13.9 million BOE; and
- Asia: the discoveries of oil and gas reserves in the amount of 12.4 million BOE.

In 2013, we spent approximately US$7.6 billion on developing proved undeveloped reserves into proved developed reserves. US$6.8 billion, or 90%, were spent on 22 major development projects in Bohai, Western South China Sea and Eastern South China Sea in offshore China and Nigeria, Iraq, the United Kingdom, Canada, the U.S. and Argentina. The remaining 10% was spent mainly on the infill drilling programs in offshore China.

As of December 31, 2013, 164.5 million BOE of our proved undeveloped reserves were first booked before 2009. These proved undeveloped reserves were mainly located in East China Sea, Eastern South China Sea and Western South China Sea, including (i) 29.1 million BOE in East China Sea, more than half of which are under construction and planned to be developed within the next two years; (ii) 48.3 million BOE in Eastern South China Sea, including Panyu 34-1/35-2 gas fields that are currently under construction and expected to be put on stream in 2014; and (iii) 87.1 million BOE in Western South China Sea, including Wenchang 13-6 oil field that is currently under construction and expected to be on stream in 2014. The development of proved undeveloped reserves relating to the above projects is not expected to be completed within five years from initial booking due to the specific circumstances associated with the relevant development activities and delivery obligations. The Company books proved reserves for which development is scheduled to commence after more than five years only if these proved reserves satisfy the SEC's standards for attribution of proved status and the Company's management has reasonable certainty that these proved reserves will be produced.

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

Since 2001, we have engaged independent third party consulting firms to perform annual estimates for our proved oil and gas reserves under our consolidated subsidiaries. In 2013, Ryder Scott Company, L.P. and Gaffney, Cline & Associates (Consultants) Pte Ltd. were engaged by us as independent third party consulting firms to perform annual estimates for our proved oil and gas reserves under our consolidated subsidiaries. Meanwhile, in 2013, the reserves of certain fields in offshore China and overseas were evaluated by our internal reserve evaluation staff, which accounted for approximately 52% of our total net proved reserves.

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

While we engage third parties to conduct our annual estimates for part of our reserves, we continue to enhance the supervision over our procedures to ensure the quality control of our reserve evaluation process. For the year ended December 31, 2013, we implemented rigorous in-house technical scrutiny and compliance audit for the reserves evaluated by us, while third party consulting firms, such as Ryder Scott Company, McDaniel & Associates Consultants Ltd. and DeGolyer and MacNaughton, were also engaged to perform annual audit for over 90% of the reserves evaluated by us to monitor the entire reserves estimation procedure and certain key metrics in order to ensure market transparency and compliance.

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

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

The RMG's main responsibilities are to:

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

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

The reserves estimators and auditors are required to be members of China Petroleum Society, or CPS, and are required to take the professional trainings and examinations provided by CPS and us.

The RMG delegates its daily operation to our Reserves Office, which is led by our Chief Reserves Supervisor. The Reserves Office is mainly responsible for supervising reserves estimates and auditing. It reports to the RMG periodically and is independent from operating divisions such as the

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exploration, development and production departments. Our Chief Reserve Supervisor has over 30 years' experience in oil and gas industry.

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

Exploration, Development and Production

Summary

In offshore China, the Company engages in oil and natural gas exploration, development and production in Bohai, Western South China Sea, Eastern South China Sea and East China Sea, either independently or in cooperation with foreign partners through production sharing contracts ("PSCs"). As at the end of 2013, approximately 55.2% of the Company's net proved reserves and approximately 63.8% of its production were located in offshore China.

In its independent operations, the Company has been adding more reserves and production mainly through independent exploration and development in offshore China. As at the end of 2013, approximately 82.3% of the Company's net proved reserves and approximately 69.6% of its production in offshore China were derived from independent projects.

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

Overseas, the Company holds interests in oil and natural gas blocks in Indonesia, Australia, Nigeria, Uganda, Argentina, the U.S., Canada, the United Kingdom, Brazil and various other countries.

Exploration

Exploration is a top priority for the Company. In 2013, the Company achieved remarkable results and breakthroughs in both shallow and deepwater area exploration in offshore China and overseas. The Company's reserve replacement ratio reached 327% in 2013. Excluding the effects of the acquisition of Nexen, the Company's reserve replacement ratio was 119%.

The Company's investments in exploration and activities reached another record high in offshore China, with the acquisition of approximately 31,600 km of 2D seismic data and 25,100 km² of 3D seismic data and the completion of drilling of 100 exploration wells through independent and PSC exploration. An aggregate of 10 new discoveries were made and 15 oil and gas structures were successfully appraised in offshore China, resulting in a success rate of 46%-67% in independent exploration wells.

In 2013, our achievements in exploration in offshore China mainly included:

1. We made several mid-sized oil and gas discoveries during the year, including Bozhong 8-4, Kenli 9-5, Kenli 9-6 and Luda 5-2 North.

2. Major breakthroughs in exploration in new areas were achieved. First discovery was made in the Kaiping Trough in the Pearl River Mouth Basin, opening up new frontiers in exploration in the area. A new discovery of Kenli 10-4 was made, marking a significant achievement in exploration in the southern Laizhou Bay in Bohai.

3. Three major successful appraisals were obtained. The reserve size of Penglai 9-1 continued to expand after further appraisals. Qinhuangdao 29-2 East was successfully appraised and expected to be

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developed into another large- scale light oil field in Bohai. Luda 5-2 North was successfully appraised as a result of our efforts in making technological breakthroughs.

4. Rolling exploration maintained a relatively high success rate, resulting in discoveries including the Weizhou 12-11 medium-scale oil and gas structure.

The Company achieved remarkable results in overseas exploration with eight new discoveries and five successful appraisals of oil and gas structures. Among these achievements, one new discovery was made by the successful drilling of the Elephant-1 Well in Congo, West Africa. Three new discoveries were made in the HBR permit in Algeria, which further enhanced the scale of discoveries in the area. Two new discoveries were made in Exploration Areas (“EA”) 1 and 2 in Uganda. One new discovery of Vicksburg A was made in the Gulf of Mexico in the U.S.

These achievements demonstrate considerable potential of offshore China and our unique advantages in exploration activities in this area, as well as the excellent prospects for the Company’s exploration activities overseas.

Through changing its line of thinking and constantly taking innovative approaches, the Company made a series of achievements in exploration in 2013. First, mindset innovation: the Company persisted in the guiding principle to explore and search for large and medium size oil and gas fields, optimizing exploration portfolio and ensuring appropriate allocation of capital in mature, rolling and new exploration areas. Second, theory innovation: including hydrocarbon accumulation theories in Bohai active fault zone and in Yinggehai high-temperature and high-pressure reservoir. Third, technology innovation: successfully adopted large area 3D seismic acquisition and processing, as well as seismic acquisition and processing technology on high-dip fault.

The Company’s major exploratory activities in 2013 are set out in the table below:

	Exploration Wells				New Discoveries		Successful Appraisal Wells		Seismic Data		
	Independent		PSC						2D (km)		3D (km2)
	Wildcat	Appraisal	Wildcat	Appraisal	Independent	PSC	Independent	PSC	Independent	PSC	Independent
Offshore China											
Bohai	14	25	-	-	7	-	21	-	-	-	6,510
Eastern South China Se	11	4	3	-	1	-	-	-	12,418	-	3,098
Western South China Sea	16	22	-	-	2	-	13	-	12,080	-	4,625
East China Sea	3	2	-	-	-	-	-	-	3,281	-	4,566
Subtotal	44	53	3	-	10	-	34	-	27,779	-	18,800
Overseas	-	-	13	22	-	8	-	14	-	3,771	-

Total	44	53	16	22	10	8	34	14	27,779	3,771	18,800

Engineering Construction, Development and Production

In 2013, the Company, by carefully allocating its operational resources, made smooth progress in engineering construction and achieved remarkable results in engineering construction as well as development and production operations.

So far, new projects that were scheduled to commence production in 2013, including Weizhou 6-12, Wenchang 19-1 North, Wenchang 8-3 East, Weizhou 12-8 West, Qikou 18-1 Adjustment, Liuhua 19-5 gas field and Suizhong 36-1 Phase II Adjustment came on stream gradually. Overseas, the Rochelle gas field in UK North Sea also commenced production as scheduled.

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In 2013, the Company overcame considerable challenges in its oil and gas development and production. Adverse factors included delays in the commencement of production for some new projects and frequent typhoons that affected operations, all of which put tremendous pressure on the Company's development and production. Despite this grim situation, the Company still managed to accomplish its annual production target mainly by focusing on the following areas:

First, ensuring sustainable and stable production of existing oil and gas fields. This mainly includes: carrying out intensive work and carefully planning, developing key measures for existing oil and gas fields based on refined studies on geological reservoirs, and maintaining stable or low production decline rates; strengthening management of producing wells and keeping high production time efficiency of oil and gas fields; achieving good results in the management of equipment integrity which led to a continuous decline of accidents on equipment failures and production losses; and preventing potential accidents to ensure safe and highly efficient operations.

Second, bringing on stream new oil and gas fields and new wells for production contribution. Through our efforts, new oil and gas fields including the Suizhong 36-1 Phase II Adjustment project, Wenchang 8-3 East and Weizhou 6-12 came on stream during the year, making contribution to the Company's production volume. Meanwhile, the Company optimized its operational measures in a timely manner to ensure that new development wells and infill drilling wells were implemented as planned and contributed for production growth.

Third, confronted by complicated and unpredictable operation conditions at sea, the Company shortened suspension time for maintenance of its major projects and reduced losses in production by optimizing construction processes and procedures and selecting appropriate time windows.

Through the relentless efforts of the Company, net oil and gas production in 2013 reached 411.7 million BOE. Excluding the production contribution from the acquisition of Nexen, the Company's net production was 350.9 million BOE, representing an increase of 2.5% year on year and achieving stable production growth.

In 2014, the Company expects to see another new peak for construction work with its full capacity to be utilized for onshore construction and offshore installation. A total of about 20 new projects is expected to be under construction, among which seven to ten new oil and gas fields are expected to commence production in 2014, including the Kenli 3-2 oilfield group, Qinhuangdao 32-6 comprehensive adjustment and the Golden Eagle project in the UK North Sea. Other projects are expected to commence production in the next few years and will provide additional momentum for the Company's growth in medium-to-long term production.

In 2014, the Company will implement its various tasks with emphasis on the following areas:

First, the Company will focus on major tasks so as to accomplish its annual production target. The Company has set its net production target at 422-435 million BOE in 2014. In order to accomplish this target, we will carefully coordinate our resources to facilitate the timely commencement of production of new projects; strengthen our management and maintain the basic production at existing oil and gas fields; enhance the deployment of measures such as infill drilling wells to increase production; plan our construction in a meticulous manner and arrange planned shutdown and maintenance at our major projects.

Second, the Company will focus on cost control and efficiency enhancement. The year of 2014 has been designated as the "Year of Quality and Efficiency" for the Company. The focus of our cost-saving measures with respect to development and production will be directed to the following aspects: strengthening the management of operating costs with an emphasis on well operations and maintenance expenses, improving production capitalization management and introducing innovation in management mechanisms in order to control costs effectively.

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Third, the Company will implement advanced planning to ensure the accomplishment of its production growth target for 2011-2015. We will enhance the application of new technologies, to increase the application of heavy oil thermal recovery technology and development technology at oilfields with low permeability to improve the recovery of producing oil fields, promote engineering construction of new projects and speed up development to make sure that new oil and gas fields can commence production as scheduled.

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

Overseas Development

In recent years, the Company has extended its global presence and raised its international profile with its geographical presence in Asia, Africa, Oceania, North America, South America and Europe. It now covers conventional oil and gas resources and unconventional resources such as shale oil and gas, oil sands and coalbed methane. The proportion of overseas reserves, production, and oil and gas sales has increased and accounted for 44.8%, 36.2% and 30.5% of the Company's total reserves, production and oil and gas sales, respectively, and therefore overseas business has become a key driving force for the Company's sustainable growth. The overseas operations of the Company have been developed into a favorable portfolio with the co-existence of conventional and unconventional resources and the orderly development of the exploration and production business.

In February 2013, the Company completed its acquisition of Nexen, achieving a significant development in its overseas business. In December 2013, the Company signed a 35- year PSC to develop the Libra oilfield in offshore Brazil. Based on public information, Libra oilfield is one of the super-large deepwater hydrocarbon accumulations in the world. Among the consortium that won the joint bid, we hold 10% equity interest in the Libra oilfield. The participation in the Libra oilfield marks a significant milestone of our strategic entry into the ultra-deepwater presalt area and is also in line with our philosophy of expanding our global presence through partnership arrangements.

Along with the development of our overseas operations, the Company will further revitalize its business management overseas. We will continue to strengthen our capabilities in operational management, resource integration and risk control in order to enhance our international development endeavors.

Regional Overview

Offshore China

Bohai

Bohai is the most important crude oil producing area for the Company. The crude oil produced in this region is mainly heavy oil. As of the end of 2013, the reserve and daily production volume in Bohai were 1,179.7 million BOE and 413,650 BOE/day, respectively, representing approximately 26.6% and 36.7% of the Company's total reserves and daily production, respectively. The operation area in Bohai is mainly shallow water with a depth of 10 to 30 meters.

Bohai has rich oil and gas resources and has been one of the Company's primary areas for exploration and development. In 2013, the Company made seven successful discoveries in Bohai, namely Bozhong 34-9, Bozhong 8-4, Kenli 10-4, Bozhong 23-3, Luda 5-2 North, Kenli 9-5 and Kenli 9-6. In addition, the Company also successfully appraised eight oil and gas structures, including Kenli 2-1, Penglai 9-1, Penglai 15-2, Qinhuangdao 29-2 East, Bozhong 8-4, Luda 5-2 North, Kenli 9-5 and Kenli 9-6. The Company's major accomplishments in Bohai included:

First, several mid-sized oil and gas discoveries including Bozhong 8-4, Kenli 9-5, Kenli 9-6 and Luda 5-2 North were made during the year.

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Second, three major successful appraisals were obtained. The reserve size of Penglai 9-1 continued to expand after further successful appraisals. The successful appraisal of Qinhuangdao 29-2 East has made it possible to become another large-scale light oil and gas field in Bohai. Luda 5-2 North was successfully appraised as a result of our efforts in making technological breakthroughs, paving a new way for the development of heavy oil reservoir assets.

Third, we advocated innovation and encouraged new concepts for exploration. Major breakthroughs were achieved in the exploration of the Neogene of Jinzhou 23-2 structure following a transition from medium-to-deep oil and gas to shallow oil and gas exploration.

Fourth, a new discovery of Kenli 10-4 was made, marking a significant achievement in exploration in southern Laizhou Bay, Bohai.

Benefiting from new discoveries and successful appraisals, reserve replacement ratio of Bohai reached 109% in 2013, further reflecting Bohai's potential as a core production region for the Company.

For development and production, Penglai 19-3 oilfield has resumed its normal state in February 2013 with stable production following a series of rectification measures. In October, Suizhong 36-1 Phase II Adjustment project commenced production successfully and provided a new impetus for production growth in Bohai.

The Company continued to implement regional development and comprehensive adjustment for its oil and gas fields. According to our plans, the regional development in Kenli 3-2 and the Qinhuangdao 32-6 adjustment project are expected to commence production successively in 2014.

In addition, the Company has strengthened its management, improved injection-production ratio and reduced decline rate constantly through the application of various methods such as increasing the number of injections. Through careful planning and meticulous work, the Company has also strengthened the management of its existing oil and gas fields to enable the facilities to maintain a high operational efficiency.

Western South China Sea

Western South China Sea is one of the most important natural gas production areas for the Company. Currently, the typical water depth of the Company's operation area in this region ranges from 40 to 120 meters. As of the end of 2013, the reserves and daily production volume in Western South China Sea reached 649.6 million BOE and 132,284 BOE/day, respectively, representing approximately 14.7% and 11.7%, respectively, of the Company's total reserves and daily production.

In 2013, the Company made two new independent discoveries in Western South China Sea, namely Dongfang 1-4 and Weizhou 12-11, among which, Weizhou 12-11 has the potential to be developed into a medium scale oilfield. The Company had seven successful appraisals, namely Dongfang 1-4, Dongfang 13-1, Dongfang 13-2, Weizhou 12-11, Weizhou 12-2, Weizhou 11-10 and Wushi 17-2.

In 2013, the commencement of production of Weizhou 6-12, Weizhou 12-8 West, Wenchang 19-1 North and Wenchang 8-3 East in Western South China Sea have made significant contributions to the production growth of the Company. On the other hand, due to decreasing production capacities of Yacheng 13-1 and other gas fields, gas production in this region recorded a 9.3% decline over the previous year. Accordingly, the Company continued to implement streamlined management and optimize the production process for all oil and gas fields, resulting in the stabilization of production in this region.

Eastern South China Sea

Eastern South China Sea is one of the Company’s most important crude oil producing areas. Currently, the typical water depth of the Company’s operation area in this region ranges from 100 to 300 meters. The crude oil produced is mostly of light to medium gravity. As of the end of 2013, the reserves and daily production volume in Eastern South China Sea reached 542.7 million BOE and 166,778

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BOE/day, respectively, representing approximately 12.3% and 14.8%, respectively, of the Company's total reserves and daily production.

Eastern South China Sea is the main battlefield for the Company's deepwater exploration. In 2013, the Company had one new independent deepwater discovery, namely Liwan 3-2. Through a series of exploration activities, the Company deepened its understanding of the geological conditions in the deepwater area of Eastern South China Sea and further ascertained its future exploration targets.

Net oil and gas production derived from Eastern South China Sea rose steadily in 2013. This was attributable to the production contributions from the Panyu 4-2/5-1 adjustment projects, which commenced production in 2012, the resumption of normal production of Liuhua 11-1 after the completion of the overhaul of its FPSO, the completion of permanent repair of subsea pipeline of Zhuhai Terminal, as well as the reduced impact of typhoons on production activities through the Company's thorough planning.

In early 2014, Liuhua 19-5 gas field in Eastern South China Sea successfully commenced production. According to our plans, several projects including Panyu 10-2/5/8, Panyu 34-1/35-1/35-2 and Enping 24-2 will also commence production successively in 2014, bringing a new momentum to the production growth of the Company.

East China Sea

The typical water depth of the Company's operation area in East China Sea region is approximately 90 meters. As of the end of 2013, approximately 1.6% of the Company's reserves and 0.6% of the Company's production were derived from East China Sea.

In 2013, the Company continued to focus on rolling explorations surrounding the existing production facilities and oil and gas fields, which achieved positive results and laid a strong foundation of resources for future production growth.

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

In 2013, the Company's production volume of oil and gas in East China Sea remained stable.

Overseas

Asia (excluding China)

Asia was the first overseas region that the Company entered into and has become one of its major overseas oil and gas producing areas. Currently, the Company holds oil and gas assets mainly in Indonesia and Iraq. As of the end of 2013, the reserves and daily production volume derived from Asia (excluding China) reached 240.6 million BOE and 54,529 BOE/day, respectively, representing approximately 5.4% and 4.8%, respectively, of the Company's total reserves and daily production.

Indonesia

The Company has four development and production blocks in Indonesia, one block under development and two exploration blocks, among which, the Company acted as the operator for three blocks. Meanwhile, the Company also holds working interests in non-operating areas in Malacca PSC and Tangguh LNG Project.

The Company owns approximately 13.90% interests in the Tangguh LNG Project in Indonesia. Currently, it is preparing for the development of the third LNG train in Phase II, which is expected to complete and commence production in 2019.

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In 2013, facing with many challenges such as production decline from mature oil fields and the aging of production facilities, the Company carried out studies of refined reservoirs , increased the workload on policy making, strengthened the comprehensive management of production equipment, and deeply explored the potential of oilfields, which effectively made up the output gap.

Iraq

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

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

In 2013, the Company vigorously promoted project construction, resulting in a gradual increase in the production from the Missan oilfields with an average daily net production reaching approximately 14,800 barrels. According to the requirements of the service contract, the Company timely submitted a report on production improvement plans for the Missan oilfields to the government of Iraq.

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

Other Regions in Asia

In addition, the Company owns interests in several production and exploration blocks in Yemen, Myanmar and Qatar.

Oceania

Currently, the Company's oil and gas resources in Oceania are located in Australia and Papua New Guinea. As of the end of 2013, the reserves and daily production volume derived from Oceania reached 92.0 million BOE and 23,909 BOE/day, respectively, representing approximately 2.1% and 2.1%, respectively, of the Company's total reserves and daily production.

Australia

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

In 2013, the North West Shelf LNG Project generated stable production and healthy returns.

Furthermore, the Company also owns exploration blocks in Australia, which are currently under exploration and appraisal period.

Other Regions in Oceania

The Company owns interests in several blocks in Papua New Guinea. These blocks are still under exploration.

Africa

The Company has a relatively large oil and gas reserves base in Africa. The Company's assets in Africa are primarily located in Nigeria and Uganda. As of the end of 2013, the reserves and daily production volume derived from Africa reached 155.4 million BOE and 77,343 BOE/day, respectively,

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representing approximately 3.5% and 6.9%, respectively, of the Company's total reserves and daily production.

Nigeria

The Company owns a 45% interest in the OML 130 block in Nigeria, which is a deepwater project and comprises of four oilfields, namely, Akpo, Egina, Egina South and Preowei. The Akpo oilfield commenced production in March 2009. In 2013, the Akpo oilfield maintained stable operation and recorded significant increase in production over the previous year with an average daily production reaching approximately 61,300 barrels.

In 2013, TOTAL S.A., the operator of the Egina project, announced that the final investment decision for the Egina field had been approved. The project has entered into the phase of engineering construction.

In addition, Nexen Petroleum Nigeria Limited holds a 20% non-operating interest as contractor in the PSC that covers the Usan oilfield in OML 138 block. The Usan oilfield commenced production in early 2012.

Uganda

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

In 2013, as the operator of EA 3A, the Company took great efforts to promote the development of the Kingfisher Field and obtained the approval from the government of Uganda on the Kingfisher Field's Field Development Plan and Petroleum Reservoir Report, and the Kingfisher Field entered into development stage.

Other Regions in Africa

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

North America

The Company holds interests in the oil and gas exploration areas in the U.S., Canada and Trinidad and Tobago in North America, as well as part of the shares of MEG Energy Corporation in Canada. As of the end of 2013, the Company's reserves and daily production volume derived from North America reached 1,036.0 million BOE and 120,030 BOE/day, respectively, representing approximately 23.4% and 10.6%, respectively, of the Company's total reserves and daily production.

The Company completed the acquisition of Nexen in February 2013. Subsequently, the Company established its North and Central America headquarter in Calgary, Canada, to be responsible for operating the Company's businesses in North and Central America as well as Nexen's global operations.

The U.S.

The Company holds 33.3% of the interests in two shale oil and gas projects, located in the Eagle Ford and Niobrara plays onshore USA. Currently the Company's position is all non-operating.

In 2013, the Company's share of production from the Eagle Ford project saw a continuous increase with average daily production reaching approximately 44,800 BOE, which is attributable to an increasing number of wells and our deeper understanding of underground resources, together with the increase in investment which led to an acceleration of the development of high-quality assets. For the

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Niobrara project, the determination of core regions and discoveries on shallow levels in the Powder River Basin are expected to contribute to the Company's production in the future.

Shale oil and gas resources have become one of the growth areas for the world's oil and gas exploration and development, and participation in these fields has brought sustainable growth to the Company.

Furthermore, through the acquisition of Nexen, the Company owns approximately 175 exploration blocks with 36 prospects, leads and concepts in the U.S. Gulf of Mexico, which we are actively maturing. The Company also owns interests in several exploration blocks offshore Alaska.

Canada

Canada is one of the countries with rich oil sands resources, significant shale gas plays and mature conventional oil and gas areas. As oil sands are one of the new growth areas of oil and gas exploration and development, participation in oil sands development will be favorable to the sustainable growth of the Company.

In 2013, after the completion of the acquisition of Nexen, the Company holds 100% of the interests in the Long Lake project and the other three oil sands projects in northeastern Alberta. The Long Lake project is at the oil producing stage. The Company also holds part of the interests in the Syncrude oil sands project, which has been producing for over 35 years. The Company has also entered into new shale gas basins through this acquisition. With a total of approximately 300,000 acres, the Horn River, Cordova and Liard basins are regions in North America with quality shale gas, and the great potential for development.

In 2013, the Company continued to facilitate the development of the Long Lake project, with the completion of pads 14/15. Both pads commenced steam injection in the year with first production expected to be in early 2014. The construction of the K1A project continued to progress with first steam planned for mid 2014. The production of the Long Lake project maintained a steady growth with average daily production of approximately 24,000 BOE in 2013.

In addition, the Company owns 12.39% of the shares of MEG Energy Corporation in Canada. The Company also owns a 60% interest in Northern Cross (Yukon) Limited, which owns oil and gas exploration blocks in the Yukon area in Canada.

Other Regions in North America

The Company owns a 12.5% interest in the 2C block and a 12.75% interest in the 3A block in Trinidad and Tobago. The 2C block is in production.

South America

In South America, the Company mainly holds a 50% interest in Bridas Corporation ("Bridas") and a 10% interest in the PSC of the Libra oilfield in Brazil, among which, the Company's interest in Bridas is accounted for by the equity method. As of the end of 2013, the Company's reserves and daily production volume derived from South America reached 289.4 million BOE and 44,183 BOE/day, respectively, representing approximately 6.5% and 3.9%, respectively, of the Company's total reserves and daily production.

Argentina

The Company holds a 50% shareholding interests in Bridas Corporation in Argentina. Mainly through its affiliates (including the 40% interest in Pan American Energy (“PAE”)), Bridas engages in oil and gas exploration and production activities in Argentina. The Company makes joint decisions on the management of Bridas Corporation and applies the equity method for its accounting.

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In 2013, PAE fully leveraged the favourable oil and gas price policies enacted by the local government and employed production enhancement measures in major producing blocks which worked well and maintained a stable production.

Brazil

In October 2013, the Company, as part of a consortium comprised of Petrobras, Shell, TOTAL S.A. and China National Petroleum Corporation, was awarded a 35-year PSC to develop the Libra oilfield in Brazil. The Company holds a 10% interest in the PSC.

Libra oilfield is located in Santos Basin, approximately 170 kilometers off the coast of Rio de Janeiro. The block covers approximately 1,550 square kilometers with water depths of approximately 2,000 meters. The National Petroleum Agency of Brazil estimates that a total gross peak oil production could reach 1.4 million barrels per day.

Other Regions in South America

Through the acquisition of Nexen, the Company holds interests in several exploration and production blocks in Colombia.

Europe

In Europe, the Company holds interests in several oil and gas fields such as Buzzard in the North Sea of the United Kingdom. As of the end of 2013, the Company's reserves and daily production volume derived from Europe reached 170.6 million BOE and 88,241 BOE/day, respectively, representing approximately 3.9% and 7.8%, respectively, of the Company's total reserves and daily production.

United Kingdom

In 2013, the Company entered into the North Sea in the United Kingdom for the first time as a result of the acquisition of Nexen. The Company's asset portfolio in the North Sea consists of projects under production, development and exploration, mainly including: a 43.2% interest in Buzzard oilfield which made the Company the second largest crude oil producer in the North Sea, and a 36.5% interest in the Golden Eagle block, which is expected to commence production in 2014.

The Buzzard oilfield is one of the largest oilfields in the North Sea. In 2013, the operational efficiency of the Buzzard oilfield reached a three-year high and its annualized production of the last 10 months of 2013 was approximately 68,000 BOE/day. Furthermore, the Rochelle gas field in the North Sea successfully came on stream in 2013.

Other Regions in Europe

The Company holds a license issued by the government of Iceland for carrying out oil exploration operations in the Norwegian Sea in Northeastern Iceland.

Other Oil and Gas Data

Oil and Gas Production, Production Prices and Production Costs

The following table sets forth our net production, average sales price and average production cost (excluding ad valorem and severance taxes) in the years of 2011, 2012 and 2013.

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	Net Production			Average Sales Price		Average Production Cost
	Total	Crude and Liquids	Gas	Crude and Liquids	Gas	
	(BOE/day)	(Bbls/day)	(Mmcf/day)	(US$/bbl)	(US$/Mmcf)	(US$/ BOE)
2013						
Offshore China						
Bohai	413,650	392,413	127.4	—	—	—
Western South China Sea	132,284	75,606	330.5	—	—	—
Eastern South China Sea	166,778	141,545	151.4	—	—	—
East China Sea	5,072	872	25.2	—	—	—
Subtotal	717,784	610,435	634.5	106.86	6,323	10.06
Overseas						
Asia (excluding China)	54,529	28,997	140.3	105.40	8,193	23.65
Oceania	23,909	4,533	98.2	118.48	3,151	9.61
Africa	77,343	77,343	—	108.29		7.54
North America (excluding Canada)	62,496	44,245	109.5	79.59	3,632	8.47
Canada	57,534	39,872	106.0	90.52	2,901	45.58
Europe	88,241	83,460	28.7	103.58	9,700	12.38
South America	960	960	—	97.62		13.98
Subtotal	365,010	279,409	482.7	99.67	5,067	17.42
Total	1,082,795	889,845	1,117.1	104.60	5,780	12.54
Equity method investees	45,173	22,758	130.2	—	—	—
2012						
Offshore China						
Bohai	432,285	411,642	123.9	—	—	—
Western South China Sea	135,007	72,672	364.1	—	—	—
Eastern South China Sea	155,070	130,266	148.8	—	—	—
East China Sea	4,925	542	26.3	—	—	—
Subtotal	727,287	615,122	663.1	111.71	6,019	9.28
Overseas						
Asia (excluding China)	43,752	14,883	157.8	112.38	7,752	23.58
Oceania	24,628	4,846	101.1	99.73	3,171	9.26
Africa	56,998	56,998	—	111.39	—	9.41
North America	36,183	27,896	49.7	82.83	1,426	23.80
Subtotal	161,561	104,623	308.6	103.38	5,232	16.45
Total	888,848	719,745	971.7	110.48	5,769	10.58
Equity method investees	46,767	23,020	138.0	—	—	—
2011						
Offshore China						
Bohai	426,190	405,682	123.0	—	—	—
Western South China Sea	138,712	72,006	390.4	—	—	—
Eastern South China Sea	146,864	120,563	157.8	—	—	—

East China Sea		3,453	339	18.7	—	—	—
	Subtotal	715,219	598,590	689.9	109.59	5,305	8.50
Overseas							
Asia (excluding China)		53,872	17,427	218.7	115.09	5,647	19.91
Oceania		25,195	5,382	101.1	104.58	3,230	8.48
Africa		56,348	56,348	—	111.74	—	8.03
North America		9,096	4,836	25.6	93.46	4,481	15.78
	Subtotal	144,511	83,993	345.3	110.86	4,850	12.98
Total		859,730	682,582	1,035.2	109.75	5,153	9.25

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Equity method investees	49,270	25,704	136.5	—	—	—

Drilling and Other Exploratory and Development Activities

The following table sets forth our net exploratory wells and development wells drilled in the years of 2011, 2012 and 2013.

	Net Exploratory Wells Drilled			Net Development Wells Drilled		
	Total	Productive	Dry	Total	Productive	Dry
2013						
Offshore China						
Independent						
Bohai	39	28	11	161	161	—
Western South China Sea	38	15	23	26	26	—
Eastern South China Sea	15	1	14	13	13	—
East China Sea	5	3	2	—	—	—
Subtotal	97	47	50	200	200	—
PSCs						
Bohai	—	—	—	67	67	—
Western South China Sea	3	—	3	8.4	8.4	—
Eastern South China Sea	—	—	—	29.5	29. 5	—
East China Sea	—	—	—	2.0	2.0	—
Subtotal	3	—	3	106.9	106.9	—
Overseas						
Asia (excluding China)	1.9	1.5	0.4	8.5	8.5	—
Oceania	—	—	—	—	—	—
Africa	7.4	5.9	1.5	4.0	4.0	—
North America	0.9	0.3	0.6	186.7	186.4	—
South America	1.0	—	1.0	0.2	0.2	—
Europe	1.4	1.0	0.4	2.9	2.9	—
Subtotal	12.6	8.7	3.9	202.3	202.0	—
2012						
Offshore China						
Independent						
Bohai	50	35	15	101	101	—
Western South China Sea	24	9	15	29	29	—
Eastern South China Sea	15	4	11	20	19	1
East China Sea	7	5	2	—	—	—
Subtotal	96	53	43	150	149	1
PSCs						
Bohai	—	—	—	25	25	—
Western South China Sea	3	1	2	—	—	—
Eastern South China Sea	—	—	—	11	11.3	—
East China Sea	—	—	—	2	2	—
Subtotal	3	1	2	38	38	—
Overseas						
Asia (excluding China)	8.2	3.4	4.8	14.5	14.5	—

Oceania		—	—	—	—	—	—
Africa		7.4	5.8	1.6	0.9	0.9	—
North America		60.9	60.7	0.2	127.3	127.3	—
	Subtotal	76.5	69.6	6.6	142.7	142.7	—
2011							
Offshore China							
Independent							
Bohai		39	21	18	106	106	—
Western South China Sea		24	13	11	8	8	—
Eastern South China Sea		14	4	10	19	19	—
East China Sea		5	5	—	—	—	—
	Subtotal	82	43	39	133	133	—
PSCs							
Bohai		3	3	—	72	72	—
Western South China Sea		0.5	0.5	—	1.0	1.0	—
Eastern South China Sea		2	2	—	4.5	4.5	—
East China Sea		2.5	2.5	—	2.5	2.5	—
	Subtotal	8.0	8.0	—	79.5	79.5	—
Overseas							
Asia (excluding China)		5.0	3.7	1.3	10.0	10.0	—

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Oceania	—	—	—	—	—	—
Africa	—	—	—	1.8	1.8	—
North America	0.3	0.2	0.1	145.0	145.0	—
Subtotal	5.3	3.9	1.4	156.8	156.8	—

Present Activities

The following tables set forth our present activities as of December 31, 2013.

	Wells Being Drilled		Waterfloods Being Installed	
	Gross	Net	Gross	Net
Offshore China				
Bohai	9	8	430	386.2
Western South China Sea	2	2	25	25
Eastern South China Sea	13	12.3	—	—
East China Sea	—	—	—	—
Subtotal	24	22.3	455	411.2
Overseas				
Asia (excluding China)	3	2.2	—	—
Oceania	—	—	—	—
Africa	2	0.7	1	0.2
North America	19	4.4	—	—
South America	2	1.2	—	—
Europe	2	0.9	—	—
Subtotal	28	9.4	1	0.2

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Oil and Gas Properties, Wells, Operations, and Acreage

The following table sets forth our productive wells, developed acreage and undeveloped acreage as of December 31, 2013.

	Productive Wells				Developed Acreage (km2)		Undeveloped Acreage (km2)	
	Crude and Liquids		Natural Gas					
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Offshore China								
Bohai	1,690	1,449.5	31	31	2,296	2,296	43,068	43,068
Western South China Sea	228	2,07.85	75	64.7	1,806	1,806	73,388	73,388
Eastern South China Sea	317	256.2	16	12.6	1,686	1,686	55,424	55,424
East China Sea	13	3.9	34	14.4	—	—	85,413	85,413
Subtotal	2,248	1,917.5	156	122.6	5,788	5,788	257,292	257,292
Overseas								
Asia (excluding China)	666	414.1	23	7.8	18,600	7,433.4	41,056	21,473
Oceania	—	—	48	2.5	3,950	209.0	22,066	6,100
Africa	34	11.8	—	—	1,302	584.3	41,766	33,333
North America	1,485	571.5	220	71.9	1,212	621.2	9,482	4,538
South America	112	11.5	—	—	2	0.2	3,180	1,687
Europe	73	36.6	2	0.8	74	39.8	4,775	2,129
Subtotal	2,370	1,045.5	293	83.0	25,140	8,887.9	122,325	69,260
Total	4,618	2,963.0	449	205.6	30,928	14,675.9	379,617	326,552

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

Delivery Commitment

We have certain delivery commitments under the take-or-pay contracts for sales of natural gas. In 2013, the annual sales from our largest gas contract contributed to only approximately 0.3% of our total oil and gas sales and the total revenues from gas sales accounted for approximately 5.1% of our total revenues in 2013. Moreover, the total gas quantities that are subject to delivery commitments under existing contracts or agreements are not significant to the Company. Therefore, we believe that we did not have any material delivery commitment as of the end of 2013.

Sales and Marketing

Sales of Crude Oil

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

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

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Brent and WTI oil prices.

In 2013, the world economy is in a slow recovery, and global oil supply is relatively sufficient. The average international oil prices rebounded slightly on a year-on year basis due to better than expected growth of the U.S. economy, an increase in demand from the U.S. market following several years of decline, as well as market speculation. As Japan adjusted its energy consumption structure, the natural gas consumption increased accordingly, which decreased the demand for crude oil in the Far East, and hence the benchmark crude oil prices returned to a normal level.

In 2013, the Company has been closely monitoring market movements and striving to meet customer demand in order to realize relatively high oil prices. Since the fundamental economics and demand for oil products in the Asia-Pacific region were weaker than last year, and also due to the lower oil prices in North America, there was mounting pressure on the selling price of the Company's crude oil. For these reasons, the Company's average realized oil price was US$104.60/barrel, representing a decrease of 5.3% from the previous year.

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

		Year ended December 31,		
		2011	2012	2013
Sales and Marketing Volumes (mmbbls)(1)	Benchmark Prices			
Light Crude	PLATTS Tapis(2)	12.4	14.1	12.4
Medium Crude	Daqing OSP(3)	114.4	120.2	126.7
Heavy Crude	ICP Duri(4)	136.6	123.5	128.3

(1) Includes the sales volumes of us and our foreign partners under production sharing contracts.
(2) Tapis is a light crude oil produced in Malaysia.
(3) Daqing official selling price. Daqing is a medium crude oil produced in northeast China.
(4) Duri is a heavy crude oil produced in Indonesia. The Indonesian crude price ("ICP") Duri has been the sole benchmark price for heavy crude since 2006.

Sales of Natural Gas

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

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

In 2013, the Company's average realized natural gas price was US$5.78/mcf, representing a 0.2% increase over the previous year, primarily due to: on one hand, benefiting from the Chinese government's gradual onshore natural gas price reform, the Company successively adjusted its sales price to major natural gas customers through negotiation; on the other hand, the sales price of natural gas of Nexen was relatively low since the gas price in North American continued to be at a low level, which partially offset the impact of the abovementioned price adjustment.

Apart from the above sales activities, Nexen Energy ULC, a wholly-owned subsidiary of the Company in Canada, engaged in purchase and sales of oil and gas products from third parties, as well as trading derivatives to mitigate risks arising from oil and gas price fluctuations.

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

	Year ended December 31,		
	2011	2012	2013
Average Realized Prices			
Crude and Liquids (US$/bbl)	109.75	110.48	104.60
Natural Gas (US$/mcf)	5.15	5.77	5.78
West Texas Intermediate (US$/bbl)	95.08	94.10	98.01

The international benchmark crude oil price, West Texas Intermediate, was US$98.42 per barrel as of December 31, 2013 and US$101.58 per barrel as of March 31, 2014.

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

	Year ended December 31,		
	2011	2012	2013
	(Rmb in millions, except percentages)		
Revenues sourced in the PRC	185,671	184,619	191,764
Revenues sourced outside the PRC	55,273	63,008	94,093
Total revenues	240,944	247,627	285,857
% of revenues sourced outside the PRC	22.9 %	25.4 %	32.9 %

Procurement of Services

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

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

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

Research and Development

In 2013, the Company continued to implement its “Technology-driven Strategy”, securing stable growth in reserves and production by technological innovation. Certain research findings have been applied to operations and generated positive results. “The Creation and Application of Floating-over Technology for Ultra-large Platform of Offshore Oilfield” was honored with the Second-Class National Technological Progress Award of China in 2013.

Major Scientific Project Development

With a view to strengthen key technologies and to provide support for the Company's sustainable development, a number of major projects and a batch of pioneering subjects have been established, primarily including new areas and technologies for offshore oil exploration, efficient development and enhanced oil recovery of offshore oilfield, deepwater oilfield development projects and overseas exploration and development as well as exploration and development for oil and gas fields with low grade.

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In addition, the Company undertook a number of national science and technology projects such as “Development of Large-scale Oil and Gas Fields and Coalbed Methane” and obtained various achievements such as forming its geological understanding of offshore large-scale oil and gas fields and new breakthroughs in exploration.

Innovative Development of Key Technologies

In 2013, major technological innovation and developments achieved in offshore exploration and development of oil and gas by the Company included:

First, through innovations in research and composite applications of new geophysical exploration technologies in complex overseas exploration areas, the Company developed a series of technologies on complex reservoirs such as reservoirs with low resolution and estimation of reservoirs in areas with few wells or even no well, which resolved various practical issues in key exploration target areas, providing strong support for overseas exploration process.

Second, thermal recovery equipments and process technologies were utilized for the first time, and successfully passed tests in extra heavy oil wells in structures including Luda 5-2 North, which are expected to provide effective methods and technical directions for utilization and development of offshore heavy oil.

Third, the intelligent acidizing system developed by the Company independently was applied in Suizhong 36-1 and other operating areas for many times and generated remarkable effects in removing blockage. The successful application of this system simplified the repeat acidizing procedures, improved operational efficiency and reduced operation costs.

Health, Safety and Environmental Protection, or HSE

As an offshore exploration and production company, we face considerable operational safety and environmental protection risks. Therefore, the Company has been putting a lot of emphasis on health, safety and environmental protection (HSE) issues. Promoting the philosophy and culture of HSE among its employees, the Company strives to establish a comprehensive management system to improve employees’ awareness of HSE during operations and to strengthen their ability to identify potential risks as well as their skills on risk management.

In 2013, along with the rapid growth of the Company’s businesses, the scope of management in health, safety and environmental protection also expanded accordingly and the Company is facing greater challenges. For these reasons, the Company continued to improve its management system, promote intrinsic safety management and strengthen supervision, inspection and training in these areas. As a result, the Company’s overall stability in performance in the areas of health, safety and environmental protection has been achieved and respective targets have been accomplished. In production activities, the health, safety and environmental protection system was effectively implemented. No oil spill accident that was above a small size was recorded throughout the year, and neither was there any single accident that resulted in economic losses of over Rmb 1 million.

In offshore China, the Company carried out safety inspections and implemented measures to prevent potential accidents in 2013. Considering arrangements for annual key tasks and actual situations of affiliated organizations, the Company’s headquarter organized an inspection team, which comprised of relevant experts from various functional departments, their affiliated units and intermediary institutions in charge of safety technologies to conduct random inspections of four subsidiaries. Learned from the issues discovered, we were able to make solid progress in detecting and managing potential risks.

The Company also fully introduced the task of emergency management improvement, which included establishing a healthy organizational system, forming an offshore mobile communication system command units, establishing the capacity for emergency response to oil spill accidents and constructing a global emergency resource management platform. In addition, the Company further strengthened its management of pollutant discharge to promote energy saving and emission reduction.

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For overseas projects, in accordance with the characteristics of different countries, regions, cultures, cooperation models, local legal environments as well as project durations and nature of operations, the Company enhanced its study on the involved countries and regions and conducted dynamic evaluations on potential risks. The Company has been closely tracking and making scientific judgments on the safety situations of such countries and regions, which increased its risk identification ability and facilitated the formulation of targeted HSE management plans for overseas projects. The Company also formulated comprehensive management requirements for the daily HSE management of Nexen.

To obtain health, safety and environmental protection information, the Company utilized an environmental management information system to successfully track pollutants in 2013, and adopted categorized management on the risk identification system.

In 2013, there was no accident causing critical casualties. The Company's Occupational Safety and Health Administration ("OSHA") statistics were maintained at a good level, and the Company's performance continued to improve.

Operating Hazards and Uninsured Risks

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

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

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

As of December 31, 2013, we have purchased a number of insurance policies with varying policy coverage and limits to meet our risk management requirements and cover our potential liabilities arising from accidents at any of our offshore and onshore locations. We maintain insurance for costs relating to property damage to our facilities, control of well including drilling relief wells, removal of wreck, pollution clean-up, liability for bodily injury and property damage to third parties. The policy limits and other terms and conditions of these insurance policies comply with all applicable laws and regulations in the PRC and other relevant jurisdictions. However, we may not have sufficient coverage for some of the risks we face, either because insurance is not available or because of high premium costs. See "Item 3—Key Information—Risk Factors—Risks Relating to Our Operations—Extreme weather conditions may ha a material adverse impact on us and could result in losses that are not covered by insurance."

We have purchased a number of insurance policies with varying policy coverage and limits to meet our risk management requirements and cover our potential liabilities arising from accidents at any of our offshore and onshore locations. We maintain insurance for costs relating to property damage to our facilities, control of wells including drilling relief wells, removal of wreck, pollution clean-up, liability for bodily injury and property damage to third parties. The policy limits and other terms and conditions of these insurance policies comply with all applicable laws and regulations in the PRC and other relevant jurisdictions. Excluding Nexen, the coverage under operational insurance policies and construction insurance policies are subject to policy limits of US$20.9 billion in aggregate and US$7.6 billion in aggregate, respectively. The coverage under operator's extra-expense and third-party liabilities insurance policies are mainly subject to policy limits of US$20 million to US$200 million for each and every occurrence. The deductible for each insurance policy mainly ranges from US$2 million to US$5 million for different types of insurance policies. For Nexen, we are insured for amounts up to US$600 million (100%). We have separate, additional insurance covering liability for bodily injury and property damage to third parties of up to US$ 490 million (100%), which responds whether the liability arises from pollution or from other causes. Where we are the operator of a well or a facility in the Gulf of Mexico, we are insured for our working interest share up to US$ 35 million of coverage relating to our obligations under Section 1001 of the US Oil Pollution Act of 1990, which includes liability for damage to natural resources. For declared deep-water wells, we are insured for our working interest share of up to US$ 750 million for costs related to control of the well.

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

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

Competition

Domestic Competition

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

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

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

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

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Foreign Competition

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

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

Segment Information

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

	Year ended December 31,					
	2011		2012		2013	
	Rmb in millions	%	Rmb in millions	%	Rmb in millions	%
Exploration and production	211,082	87.6	210,706	85.1	247,303	86.5
Trading businesses	50,469	20.9	50,771	20.5	55,716	19.5
Unallocated and elimination	(20,607)	(8.6)	(13,850)	(5.6)	(17,162)	(6.0)
Total operating revenues	240,944	100.0	247,627	100.0	285,857	100.0

We are mainly engaged in the exploration, development, production and sales of crude oil and natural gas primarily in offshore China. For the year ended December 31, 2013, approximately 67.0% of our total revenue was sourced in the PRC. Our overseas activities are mainly conducted in Canada, the United States of America, United Kingdom, Nigeria, Argentina, Indonesia, Uganda and Australia, etc.

Regulatory Framework in the PRC

Government Control

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

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

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fields, require holders to pay an annual production right usage fee based on the area under license. All of our proved reserves in offshore China are under production licenses granted by the PRC government.

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

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

Fiscal Regimes for Independent Operations

Taxation

We are subject to income taxes on an entity basis on income arising in or derived from the tax jurisdictions in which we and each of our subsidiaries are domiciled and operate. Our profits arising in or derived from Hong Kong are subject to tax at a rate of 16.5%, which is qualified as a foreign tax credit to offset the PRC corporate income tax starting from January 1, 2008.

We received a formal approval from the State Administration of Taxation of the PRC on October 19, 2010, confirming that we are regarded as a Chinese Resident Enterprise, or CRE, pursuant to the provisions of the "Notice regarding Matters on Determination of Tax Residence Status of Chinese-controlled Offshore Incorporated Enterprises under Rules of Effective Management", the "Enterprise Income Tax Law of the People's Republic of China" and the "Detailed Rules for the Implementation of the Enterprise Income Tax Law of the People's Republic of China". According to the formal approval, we are subject to the PRC enterprise income tax at a rate of 25% starting from January 1, 2008.

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

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

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

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

- production taxes at the rate of 5% on independent production and production under PSCs;
- resource taxes at the rate of 5% (reduced tax rates may apply to specific products and fields) on the oil and gas sales revenue (excluding production taxes) derived from oil and gas fields under production sharing contracts signed after

November 1, 2011 and independent offshore oil and gas fields starting from November 1, 2011, which replaced the royalties for oil and gas fields except for those under production sharing contracts signed before November 1, 2011;

- mineral resource compensation at the temporary rate of 1% on the oil and gas sales revenue derived by oil and gas fields under production sharing contracts signed after November 1, 2011 and independent offshore oil and gas fields starting from November 1, 2011;

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

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- business tax at the rates of 3% to 5% or value-added tax at the rate of 6% on other income;
- city construction tax at the rates of 1% or 7% on the actual paid production taxes, business tax and value-added tax;
- educational surcharge at the rate of 3% on the actual paid production taxes, business tax and value-added tax; and
- local educational surcharge at the rate of 2% on the actual paid production taxes, business tax and value-added tax.

We calculate our deferred tax to account for the temporary differences between our tax base, which is used for income tax reporting and prepared in accordance with applicable tax guidelines, and our accounting base, which is prepared in accordance with applicable financial reporting requirements. The temporary differences include accelerated amortization allowances for oil and gas properties, which are partially offset by provisions for dismantlement and for impairment of property, plant and equipment and write-off of unsuccessful exploratory drilling. As of December 31, 2011, 2012 and 2013, we had Rmb 5,488 million, Rmb 3,363 million and Rmb 22,633 million (US$ 3,739 million) respectively, in net deferred tax liabilities. See note 12 to our consolidated financial statements included elsewhere in this annual report.

Royalty

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

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

Special Oil Gain Levy

In March 2006, the PRC government imposed a special oil gain levy at progressive rates from 20% to 40% on any income derived from sales of locally produced crude oil by an oil exploration and production company at a price that exceeds US$40 per barrel. In December 2011, the PRC government increased the threshold of the special oil gain levy from US$40 per barrel to US$55 per barrel, with effect from November 1, 2011. The special oil gain levy is collected on a quarterly basis. For the years ended December 31, 2011, 2012 and 2013 we incurred approximately Rmb 32.0 billion, Rmb 26.3 billion and Rmb 23.4 billion (US$3.87 billion) for the Special Oil Gain Levy. As international oil prices, the exchange rate of Renminbi and our crude oil production fluctuate, we cannot ascertain the full impact of the Special Oil Gain Levy going forward.

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

Realized Oil Price (US$/bbl)	Rate of the Levy

55-60 (Include 60)	20%
60-65 (Include 65)	25%
65-70 (Include 70)	30%
70-75 (Include 75)	35%
Above 75	40%

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Fiscal Regimes for PSC Operations

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

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

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

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

Bidding Process

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

Terms of PSCs

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

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

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

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

Percentage of annual gross production	Allocation
5.0%	Production tax payable to the PRC government(1)
62.5%	For the payment of resource tax or recovery: 1. Resource tax(2) payable to the PRC government 2. Cost recovery oil(3) allocated according to the following priority: (1). recovery of current year operating costs by us and foreign partner(s); (2). recovery of earlier exploration costs by foreign partner(s); (3). recovery of development costs and deemed interest by us and foreign partner(s) based on participating interests; and (4). any excess, allocated to the remainder oil.
32.5%(4)	Remainder oil allocated according to the following formula: 1. (1-X) multiplied by 32.5% represents share oil payable to the PRC government; and 2. X multiplied by 32.5% represents remainder oil distributed according to each partner's participating interest.

(1) In this annual report and in our consolidated financial statements included elsewhere in this annual report, references to production tax on oil and gas produced offshore China are the value-added tax set out in our PSCs offshore China.
(2) For PSCs that came into effect prior to November 1, 2011, instead of resource tax, royalties (with the rate ranging from 0.0%-12.5% of the annual gross production, depending on the annual gross production of the oilfield) shall be paid to the PRC government.
(3) The amount of crude oil equivalent to 62.5% of annual gross production minus the amount of crude oil for payment of resource tax shall be cost recovery oil.
(4) The ratio "X" is agreed in each PSC based on commercial considerations and ranges from 8% to 100%.

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

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

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

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

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

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

Abandonment Costs. Any party to our PSCs shall pay the abandonment cost in proportion to its participating interests in the development of such oil field and/or gas field in accordance with relevant laws, decrees, and other rules and regulations then existing with respect to the abandonment of offshore facilities of the PRC when such party either abandons the production of an oil field and/or gas field during a production period or when the production period of the oil field and/or gas field expires.

Regulatory Framework in Overseas

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

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

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

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

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

Taxation

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

Our subsidiaries domiciled outside of the PRC are subject to income tax rates ranging from 10% to 62%.

Environmental Regulation

Our operations are required to comply with various applicable environmental laws and regulations, including PRC laws and regulations administered by the State Oceanic Administration and national and local environmental protection bureaus for our operations in China. We are also subject to

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

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

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

The PRC environmental laws require offshore petroleum developers to pay abandonment costs. Our financial statements include provisions for costs associated with the dismantlement of oil and gas fields as of December 31, 2011, 2012 and 2013 of approximately Rmb 24,964.3 million, Rmb 29,406.0 million and Rmb 42,351.0 million (US$6,995.9 million), respectively.

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

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

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

Patents and Trademarks

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

Employees and Employee Benefits

During the years ended December 31, 2011, 2012 and 2013, we employed 5,377 persons, 10,063 persons and 17,553 persons, respectively. The increase of employees in 2013 was mainly due to the acquisition of Nexen. Of the 17,553 employees we employed as of December 31, 2013, approximately 76.9% were involved in oil exploration, development and production activities, approximately 3.4% were involved in accounting and finance work and the remainder were senior management and others. Part of the workers for the operation of the oil and gas fields, maintenance and ancillary service are hired on a contract basis.

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

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

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

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

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

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

For further details regarding retirement benefits, see note 31 to our consolidated financial statements included elsewhere in this annual report.

As an oil and gas exploration and production company operating in highly competitive markets, we depend in large part on our employees for effective and efficient operations. We devote significant resources to train our employees. During 2013, we held approximately 16,700 training workshops, which were attended by approximately over 195,000 person-times of participants. To ensure smooth implementation of our overseas strategy, we have established an international human resources system to attract and retain talent in the international market. In order to enhance the planning and budget control of our labor costs, we have installed target benchmarks in performance appraisals to guide various business units to cut their labor costs and to increase the accuracy of their budgets.

C. ORGANIZATIONAL STRUCTURE

CNOOC indirectly owned or controlled an aggregate of approximately 64.44% of our shares as of March 31, 2014. Accordingly, CNOOC continues to be able to exercise all the rights of a controlling shareholder, including electing our directors and voting to amend our articles of association. Although CNOOC has retained a controlling interest in us, the management of our business will be our directors' responsibility.

The following chart sets forth our controlling entities and our directly-held subsidiaries as of March 31, 2014 and notes our significant indirectly-held subsidiaries.

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(1) Overseas Oil & Gas Corporation, Ltd. also directly owns five shares of our company.
(2) Owner of our overseas interests in oil exploration and production businesses and operations, including our indirect wholly-owned subsidiaries CNOOC Southeast Asia Limited, CNOOC SES Ltd. , CNOOC Muturi Limited, CNOOC NWS Private Limited, CNOOC Exploration & Production Nigeria Limited, CNOOC Iraq Limited, CNOOC Canada Inc., CNOOC Uganda Ltd., Nexen Energy ULC, Nexen Petroleum UK Limited, Nexen Petroleum Nigeria Limited, OOGC America LLC, Nexen Petroleum Offshore U.S.A. Inc., Nexen Marketing, Nexen Oil Sands Partnership, CNOOC Petroleum Brasil LTDA, and our joint venture, Bridas Corporation.
(3) Owner of substantially all of our PRC oil exploration and production businesses, operations and properties.
(4) Business vehicle through which we engage in sales and marketing activities in the international markets.
(5) Includes CNOOC Finance (2003) Limited, CNOOC Finance (2011) Limited, CNOOC Finance (2012) Limited and CNOOC Finance (2013) Limited, all of which are our financing vehicles. These finance companies are our wholly owned subsidiaries with our company as their sole corporate director.

D. PROPERTY, PLANTS AND EQUIPMENT

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

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

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ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. OPERATING RESULTS

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

Overview

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

Factors Affecting Our Results of Operations

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

Oil and Gas Prices

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

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

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

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

	Year ended December 31,		
	2011	2012	2013
Average net realized prices:			
Crude oil (US$ per bbl)	109.75	110.48	104.60
Natural gas (US$ per mcf)	5.15	5.77	5.78

Production and Sales Volumes

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

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

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

	Year ended December 31,		
	2011	2012	2013
Net production of crude oil (bbl/day)(1)	708,286	742,765	912,603
Net production of natural gas (mmcf/day)(1)	1,171.7	1,109.7	1,247.4

(1) Including our interest in equity method investees.

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

Critical Accounting Policies

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

Oil and Gas Properties

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

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

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

Reserves Estimation

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

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

Impairment of Non-Financial Assets other than Goodwill

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

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

Business Combinations and Goodwill

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

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

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Joint Arrangements

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

Joint Operations

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

Joint Venture

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

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

Fair Value

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

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

Provisions

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

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

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

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Deferred Tax

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

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

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

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

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

Recognition of Revenue from Oil and Gas Sales and Marketing

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

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

Results of Operations

Overview

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

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	Year ended December 31,					
	2011		2012		2013	
	(Rmb in millions, except percentages and production data)					
Revenues:						
Oil and gas sales:						
Crude oil	176,703	73.3%	181,825	73.4%	211,838	74.1%
Natural gas	12,576	5.2%	12,949	5.2%	14,607	5.1%
Total oil and gas sales	189,279	78.6%	194,774	78.7%	226,445	79.2%
Marketing revenues	50,469	20.9%	50,771	20.5%	55,495	19.4%
Other income	1,196	0.5%	2,082	0.8%	3,917	1.4%
Total revenues	240,944	100.0%	247,627	100.0%	285,857	100%
Net production (million BOE)(1):						
Crude oil	258.5	77.9%	271.9	79.4%	333.1	80.9%
Natural gas	73.3	22.1%	70.6	20.6%	78.6	19.1%
Total net production	331.8	100.0%	342.4	100.0%	411.7	100%

(1) Including our interest in equity method investees.

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

	Year ended December 31,					
	2011		2012		2013	
Operating Revenues:						
Oil and gas sales	78.6	%	78.7	%	79.2	%
Marketing revenues	20.9	%	20.5	%	19.4	%
Other income	0.5	%	0.8	%	1.4	%
Total revenues	100.0	%	100.0	%	100.0	%
Expenses:						
Operating expenses	(7.6	)%	(8.7	)%	(10.5	)%
Taxes other than income tax	(4.3	)%	(6.3	)%	(5.6	)%
Exploration expenses	(2.2	)%	(3.7	)%	(6.0	)%
Depreciation, depletion and amortization	(12.7	)%	(13.3	)%	(19.7	)%
Special oil gain levy	(13.3	)%	(10.6	)%	(8.2	)%
Impairment and provision	0.0	%	0.0	%	0.0	%
Crude oil and product purchases	(20.9	)%	(20.4	)%	(18.7	)%
Selling and administrative expenses	(1.2	)%	(1.4	)%	(2.7	)%
Others	(0.3	)%	(0.5	)%	(1.1	)%
Total expenses	(62.4	)%	(64.8	)%	(72.5	)%
Interest income	0.5	%	0.4	%	0.4	%
Finance costs	(0.7	)%	(0.6	)%	(1.2	)%
Exchange gain, net	0.3	%	0.1	%	0.3	%

Investment income	0.8%	1.0%	0.9%
Share of profits of associates	0.1%	0.1%	0.0%
Share of profits/(losses) of a joint venture	0.1%	(0.1)%	0.3%
Non-operating income/(expenses), net	(0.2)%	0.4%	0.1%
Profit before tax	38.4%	36.4%	28.3%
Income tax expense	(9.3)%	(10.7)%	(8.5)%
Profit for the year	29.2%	25.7%	19.8%

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Calculation of Revenues

China

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

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

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

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

Indonesia

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

Iraq

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

Australia

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

Nigeria

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

Trinidad and Tobago

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

The U.S. and Canada

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

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

United Kingdom

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

Unconsolidated Investees

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

2013 versus 2012

Consolidated net profit

Our consolidated net profit decreased 11.4% to Rmb56,461 million (US$9,326.7million) in 2013 from Rmb63,691 million in 2012, primarily as a result of the comprehensive impact of the decreased oil price and the increased costs.

Revenues

	Year ended December 31,			
	2013	2012	Change	Change (%)
Oil and gas sales (Rmb million)	226,445	194,774	31,671	16.3%
Crude and liquids	211,838	181,825	30,013	16.5%
Natural gas	14,607	12,949	1,658	12.8%
Sales volume (million BOE)	397.2	322.6	74.6	23.1%
Crude and liquids (million barrels)	326.8	260.8	66.0	25.3%
Natural gas (bcf)	408	356	52	14.7%
Realized prices				
Crude and liquids (US$/barrel)	104.60	110.48	(5.88)	(5.3%)
Natural gas (US$/mcf)	5.78	5.77	0.01	0.2%
Net production (million BOE)	411.7	342.4	69.3	20.2%
China	262.7	267.0	(4.3)	(1.6%)
Overseas	149.0	75.4	73.6	97.4%

The increase of our oil and gas sales was primarily due to the significant increase of production attributable from the Nexen acquisition.

In 2013, our net production was 411.7 million BOE (including our interest in equity-accounted investees), representing an increase of 20.2% from 342.4 million BOE in 2012, benefitting from the addition from the Nexen acquisition and the increased production of shale oil and gas in North America and technical service contract in Iraq. The overseas production volume accounted for 36.2% of our total net production volume in 2013, compared with 22.0% in 2012.

Operating expenses

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Our operating expenses increased 40.0% to Rmb30,014 million (US$4,958.0 million) in 2013 from Rmb21,445 million in 2012, and the operating expenses per BOE increased 15.2% to Rmb75.9 (US$12.55) per BOE in 2013 from Rmb65.9 (US$10.58) per BOE in 2012, primarily as a result of the addition from the Nexen acquisition. Operating expenses per BOE offshore China increased 5.4% to Rmb60.9 (US$10.06) per BOE in 2013 from Rmb57.8 (US$9.28) per BOE in 2012. Overseas operating expenses per BOE increased 2.9% to Rmb105.5 (US$17.43) per BOE in 2013 from Rmb102.5 (US$16.46) per BOE in 2012.

Taxes other than income tax

Our taxes other than income tax increased 2.0% to Rmb15,937 million (US$2,632.6 million) in 2013 from Rmb15,632 million in 2012, primarily as a result of the comprehensive impact of changes in oil and gas sales in offshore China and overseas.

Exploration expenses

Our exploration expenses increased 89.3% to Rmb17,120 million (US$2,828.0 million) in 2013 from Rmb9,043 million in 2012, primarily as a result of the addition from the Nexen acquisition, and our continuous enhancement of exploratory activities in offshore China, especially in deepwater. Meanwhile, due to the unfavourable exploration appraisal results and some overdue land leasehold contracts, some of the unproved properties of shale oil and gas project located in North America were written off in 2013. Nexen focuses on opportunities in the deepwater of U.S. Gulf of Mexico and U.K. North Sea, which are deepwater areas with good exploration prospect. Meanwhile, in the recent two years, our continuing efforts in exploration in offshore China has led to a series of important reserves discoveries and upgrades, but also resulted in continuing increased exploration expenses. Dry hole expenses increased 78.5% to Rmb7,140 million (US$1,179.4 million) in 2013 from Rmb3,999 million in 2012, including costs of some uncertain wells that were capitalized previously and written off according to appraisal result.

Depreciation, depletion and amortization

Our depreciation, depletion and amortization increased 71.6% to Rmb56,456 million (US$9,325.9 million) in 2013 from Rmb32,903 million in 2012, primarily as a result of the addition from the Nexen acquisition, the increased production of shale oil and gas in North America and technical service contract in Iraq and the commencement of production on new oil and gas fields in offshore China. Our average depreciation, depletion and amortization per BOE, excluding the dismantlement-related depreciation, depletion and amortization, increased 41.5% to Rmb130.3 (US$21.53) per BOE in 2013 from Rmb92.1 (US$14.78) per BOE in 2012. These increases were mainly attributable to the increased production proportion from oil sands, shale oil and gas and technical service contract overseas, which have higher depreciation, depletion and amortization rate. In addition, the increased proportion of production on new oil and gas fields in offshore China in recent year, which were developed under the environment of increasing prices of raw materials and services over the past few years, also contributed to the increase of depreciation, depletion and amortization per BOE.

The dismantlement-related depreciation, depletion and amortization costs increased 68.2% to Rmb4,954 million (US$818.3 million) in 2013 from Rmb2,946 million in 2012, primarily as a result of the addition from the Nexen acquisition. Our average dismantling costs per BOE increased 38.4% to Rmb12.53 (US$2.07) per BOE in 2013 from Rmb9.06 (US$1.45) per BOE in 2012.

Special Oil Gain Levy

Our Special Oil Gain Levy decreased 10.9% to Rmb23,421 million (US$3,868.9 million) in 2013 from Rmb26,293 million in 2012, primarily as a result of our decreased oil sales in offshore China.

Selling and administrative expenses

Our selling and administrative expenses increased 132.7% to Rmb7,859 million (US$1,298.2 million) in 2013 from Rmb3,377 million in 2012. Such increases were primarily due to the addition from

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the Nexen acquisition and the related commissions and consulting expenses. Our selling and administrative expenses per BOE increased 91.6% to Rmb19.89 (US$3.28) per BOE in 2013 from Rmb10.38 (US$1.67) per BOE in 2012.

Finance costs/Interest income

Our finance costs increased 115.7% to Rmb3,457 million (US$571.1 million) in 2013 from Rmb1,603 million in 2012, primarily due to the addition from the Nexen acquisition and capital demand increase from expansion in overseas investment as well as the increase in unwinding of discount on provision for dismantlement due to commencement of production on new oil and gas fields. Our interest income increased 9.0% to Rmb1,092 million (US$180.4 million) in 2013 from Rmb1,002 million in 2012, primarily due to the increased effective rate of return from increased time deposits.

Exchange gains, net

Our net exchange gains increased 143.2% to Rmb873 million (US$144.2 million) in 2013 from Rmb359 million in 2012, primarily as a result of the further appreciation of Renminbi/US dollars and Renminbi/HK dollars.

Investment income

Our investment income increased 9.2% to Rmb2,611 million (US$431.3 million) in 2013 from Rmb2,392 million in 2012, primarily attributable to the increase in aggregate corporate wealth management products under the condition that the products and portfolios are of good liquidity and low risk.

Share of profits of associates/a joint venture

Our share of profits of associates/a joint venture was Rmb895 million (US$147.8 million) in 2013, while in 2012 we shared losses of Rmb27 million, primarily attributable to the increased profitability of overall assets contributed by the downstream refinery which was acquired by Bridas in the second half of 2012.

Income tax expense

Our income tax expense decreased 7.9% to Rmb24,390 million (US$4,028.9 million) in 2013 from Rmb26,481 million in 2012, and the effective tax rate increased to 30.2% in 2013 from 29.4% in 2012. The increase in effective tax rate was mainly attributable to the Nexen acquisition, partially offset by the increased tax credits arising from certain qualified capital expenditure in Nigeria along with the development of Egina oilfield of OML130 project.

2012 versus 2011

Consolidated net profit

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

Revenues

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

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

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

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

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

Operating expenses

Our operating expenses increased 17.4% to Rmb 21,445 million in 2012 from Rmb 18,264 million in 2011. Operating expenses per BOE increased 13.3% to Rmb 65.9 per BOE in 2012 from Rmb 58.2 per BOE in 2011. Operating expenses per BOE offshore China increased 8.1% to Rmb 57.8 per BOE in 2012 from Rmb 53.5 per BOE in 2011, mainly attributable to the increased workload on maintenance, workover and well stimulation. Overseas operating expenses per BOE increased 25.4% to Rmb 102.5 per BOE in 2012 from Rmb 81.7 per BOE in 2011. These increases were primarily contributed by the increased production proportion from oil sands in Canada, which has higher operating cost than conventional projects, and the commencement of production of Iraq technical service contract.

Taxes other than income tax

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

Exploration expenses

Our exploration expenses increased 73.3% to Rmb 9,043 million in 2012 from Rmb 5,220 million in 2011, primarily as a result of our continuously enhancing exploratory activities in offshore China. In 2012, we acquired 16,100 km2 2D seismic data and 26,700 km2 3D seismic data offshore China, among which the collection of 3D seismic data represented an increase of 3,300 km2 from 2011. Our continuing efforts in exploration has led to a series of important reserves discoveries and upgrade. In addition, our investment in drilling also increased continuously. Our independent exploration activities consisted of 96 exploration wells, increased by 17.1% from 82 exploration wells. Dry hole expenses increased 101.4% to Rmb 3,999 million in 2012 from Rmb 1,986 million in 2011, including costs of some uncertain wells those were capitalized previously and written off according to appraisal result this year. In addition, due to the unfavorable exploration drilling results, some of the unproved properties of shale oil and gas project located in North America were written off in 2012, which also contributed to the increase of exploration expenses.

Depreciation, depletion and amortization

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

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

Special Oil Gain Levy

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

Selling and administrative expenses

Our selling and administrative expenses increased 18.3% to Rmb 3,377 million in 2012 from Rmb 2,854 million in 2011. Our selling and administrative expenses per BOE increased 14.1% to Rmb 10.38 per BOE in 2012 from Rmb 9.10 per BOE in 2011. These increases were primarily due to the continuous increase in technical research expenses, which was in accordance with the Company's strategy of leading future development through technology innovation in the Company's blueprint of "A New Leap Forward".

Finance costs/Interest income

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

Exchange gains, net

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

Investment income

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

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

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

Income tax expense

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

B. LIQUIDITY AND CAPITAL RESOURCES

Our primary source of cash during 2013 was cash flow from operating activities. We used cash primarily to fund capital spending program and dividends. The following table summarizes our cash flows for the periods presented:

	Year ended December 31,		
	2011	2012	2013
		(Rmb in millions)	
Cash generated from (used for):			
Operating activities	116,171	92,574	110,891
Investing activities	(99,036)	(63,797)	(170,032)
Financing activities	(20,246)	2,584	18,601
Net increase/(decrease) in cash and cash equivalents	(3,111)	31,361	(40,540)

Cash Generated from Operating Activities

In 2013, the increase in cash inflow from operating activities was mainly attributable to the contribution from Nexen.

Cash Used in Investing Activities

In 2013, cash outflow from investing activities mainly included the Nexen acquisition, acquisition of oil and gas properties and other capital expenditure. Our major acquisitions included (1) Rmb87,926 million for the Nexen acquisition; (2) Rmb4,100 million for the signature bonus on entering into a PSC in Block LIBRA in Brasil; (3) Rmb879 million for the acquisition of part of working interest in Yacheng 13-1; and (4) Rmb2,022 million to fund Chesapeake’s share of drilling and completion costs pursuant to a commitment made at the acquisition of the Niobrara project.

Our capital expenditure (excluding acquisition) increased 46.7% to Rmb79,716 million (US$13,168.1 million) from 2012, primarily as a result of the increase in exploration activities and the development of projects under construction. Our development expenditures in 2013 were primarily related to the capital expenditure of Nexen, the development of the Eagle Ford project and OML130 project, as well as the expenses incurred for improving recovery factors of the oilfields in production.

In addition, our cash used in investing activities was also attributable to purchase of available-for-sale financial assets of Rmb80,532 million (US$13,302.9 million). Our cash generated from investing activities was mainly from the proceeds from the sales of available-for-sale financial assets in the amount of Rmb90,852 million (US$15,007.7 million). Our time deposits with maturity of more than three months increased by Rmb9,328 million (US$1,540.9 million) in 2013.

Cash Generated from Financing Activities

In 2013, the increase in net cash inflow from financing activities was mainly due to the proceeds of bank borrowings of Rmb59,186 million (US$9,776.8 million) and Rmb24,363 million (US$4,024.5 million) from the issuance of guaranteed notes, partially offset by the cash outflow of the distribution of dividends of Rmb20,226 million (US$3,341.1 million), the repayment of bank loans of Rmb36,793

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million (US$6,077.8 million), the repayment of guaranteed notes and the redemption of subordinated debt of Rmb4,100million (US$677.3 million).

At the end of 2013, our total interest-bearing outstanding debt was Rmb131,852 million (US$21,780.4 million), compared to Rmb57,886 million at the end of 2012. The increase in debt in 2013 was primarily attributable to the additional guaranteed notes resulting from the Nexen acquisition, the issuance of guaranteed notes of US$4 billion to refinance the Nexen acquisition and the increase of short-term bank loans. Our gearing ratio, which is defined as interest-bearing debts divided by the sum of interest-bearing debts plus equity, was 27.8%, higher than that of 15.7% in 2012.

We have debt service obligations consisting of principal and interest payments on our outstanding indebtedness. The following table summarizes the maturities of our long-term debt (including the current portion) outstanding as of December 31, 2013.

	Debt maturities (principal only)		
Due by December 31,	Original currency US$	Total Rmb equivalents	Total US$ equivalents
	(in millions, except percentages)		
2014	176.0	1,065.5	176.0
2015-2016	937.5	5,675.1	937.5
2017-2018	881.9	5,338.9	881.9
2019 and beyond	10,692.6	64,729.7	10,692.6
Total	12,688.0	76,809.2	12,688.0
Percentage of total debt	61.2%	61.2%	61.2%

In March 2013, we unconditionally and irrevocably guaranteed various series of senior unsecured notes of Nexen for a total outstanding principal amount of approximately US$3.9 billion.

In May 2013, we, through CNOOC Finance (2013) Limited, our wholly owned subsidiary, issued US$750 million 1.125% guaranteed notes due 2016, US$750 million 1.750% guaranteed notes due 2018, US$2,000 million 3.000% guaranteed notes due 2023 and US$500 million 4.250% guaranteed notes due 2043. The obligations of CNOOC Finance (2013) Limited in respect of the notes are unconditionally and irrevocably guaranteed by us. The net proceeds of this notes offering were used to repay part of the outstanding borrowings of our wholly-owned subsidiary CNOOC Canada Holding ULC (formerly known as CNOOC Canada Holding Ltd. and already amalgamated with Nexen) under the US$6.0 billion facility agreement dated February 19, 2013 for the purpose of financing the acquisition of Nexen.

As of December 31, 2013, we had total foreign currency debt of US$20,598 million, all of which is in U.S. dollars. As of March 31, 2014, we had total foreign currency debt of US$20,197 million, all of which is in U.S. dollars.

As of December 31, 2013, we had unutilized banking facilities amounting to approximately Rmb 56,440 million (US$9,323 million) as compared to Rmb 57,662.3 million as of December 31, 2012.

In 2011, 2012 and 2013, we paid dividends totaling Rmb 18,392.4 million, Rmb 15,635.1 million and Rmb 20,226 million (US$3,341 million) (before PRC withholding tax deducted), respectively. The payment and the amount of any dividends in the future will depend on our results of operations, cash flows, financial condition, the payment by our subsidiaries of cash dividends to us, future prospects and other factors which our directors may consider relevant. The amount of dividends we paid historically is not indicative of the dividends that we will pay in the future.

We believe our future cash flows from operations, borrowing capacity and funds raised from our debt offerings will be sufficient to fund planned capital expenditures and investments, debt maturities and working capital requirements through at least 2014. However, our ability to obtain adequate financing to satisfy our capital expenditures and debt service requirements may be limited by our financial condition and results of operations and the liquidity of international and domestic financial markets. See "Item 3—Key Information—Risk Factors—Risks Relating to Our Operations—Our future prospects largely depend on our capital expenditures, which are subject to various risks."

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Capital Expenditures

For 2014, we have budgeted approximately Rmb 121.5 billion for capital expenditures for exploration and development. The following table sets forth actual or budgeted capital expenditures on an accrual basis for the periods indicated.

	Year ended December 31,				
	2011(1)	2012(1)	2013(1)	2014(2)	2013(1)
Offshore China		(Rmb million)			(US$ million)
Development	23,086	31,360	43,757	51,445	7,228
Exploration					