CNOOC Limited
中国海洋石油有限公司

SEHK：00883 NYSE：CEO TSX：CNU

2020 ANNUAL REPORT

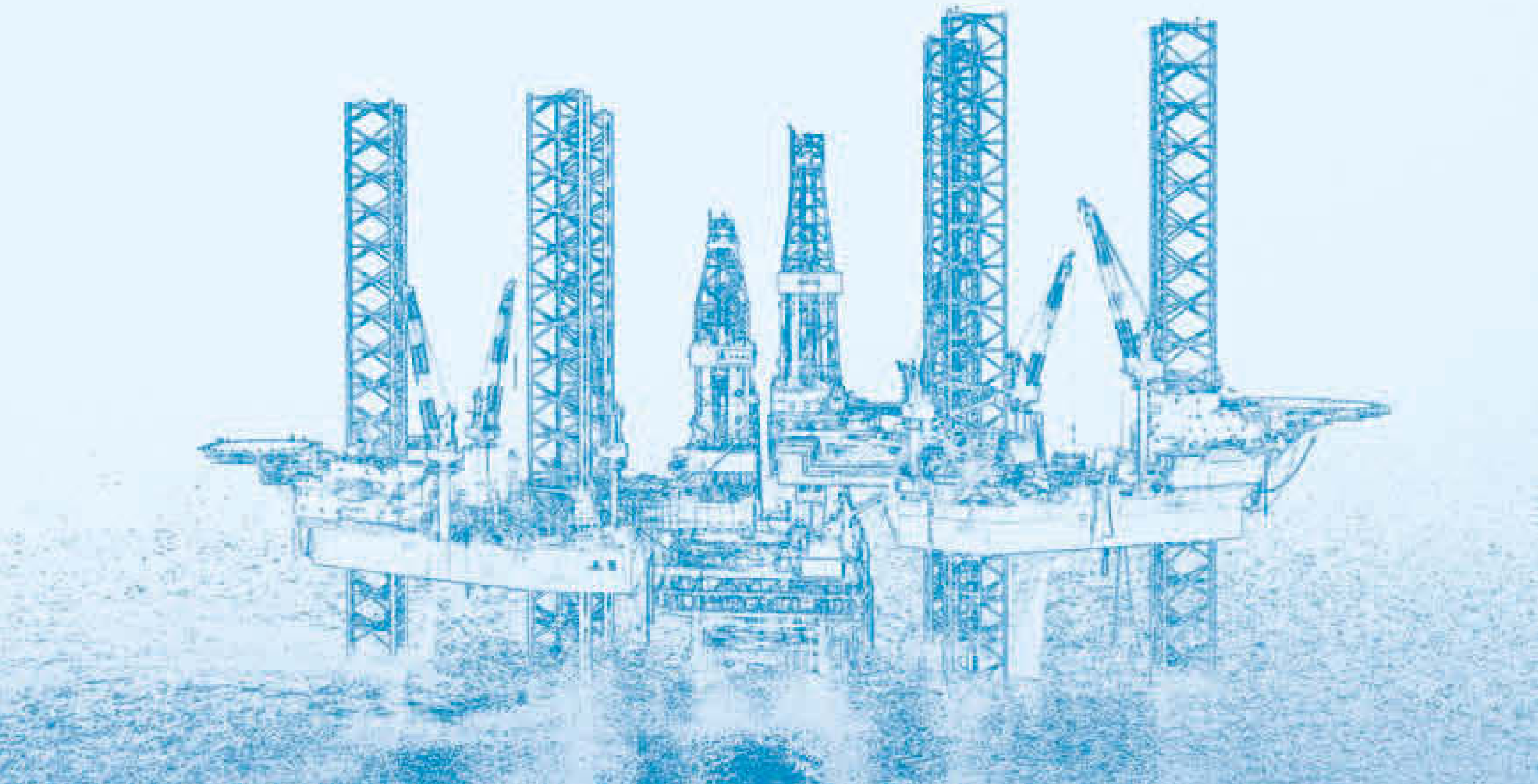
COMPANY PROFILE

CNOOC Limited (the "Company" or "CNOOC Limited", together with its subsidiaries, the "Group" or "we"), incorporated in the Hong Kong Special Administration Region ("Hong Kong") in August 1999, was listed on the New York Stock Exchange ("NYSE") (code: CEO) and The Stock Exchange of Hong Kong Limited (code: 00883) on 27 and 28 February 2001, respectively. The Company was admitted as a constituent stock of the Hang Seng Index in July 2001. The Company was listed on the Toronto Stock Exchange (code: CNU) on 18 September 2013. On 26 February 2021, NYSE announced to commence delisting proceedings of American Depositary Shares ("ADSs") of the Company. On 10 March 2021, the Company requested for review of NYSE's determination.

The Group is the largest producer of offshore crude oil and natural gas in China and one of the largest independent oil and gas exploration and production companies in the world. The Group mainly engages in exploration, development, production and sale of crude oil and natural gas.

The Group's core operation areas are Bohai, the Western South China Sea, the Eastern South China Sea and the East China Sea in offshore China. The Group has oil and gas assets in Asia, Africa, North America, South America, Oceania and Europe.

As of 31 December 2020, the Group owned net proved reserves of approximately 5.37 billion BOE, and its average daily net production was 1,443,201 BOE (unless otherwise stated, all amounts of reserve and production in this annual report include reserve and production accounted for by equity method). The Group had total assets of approximately RMB721.3 billion.



CONTENT

2 Financial Summary
3 Operating Summary
6 Chairman's Statement
8 Business Overview
8 Overview
11 Exploration
14 Engineering Construction, Development and Production
15 Overview by Region
22 Sales and Marketing
22 Research and Scientific Development
23 Health, Safety and Environmental Protection
25 Corporate Citizen
25 Human Resources
28 Risk Management and Internal Control
28 Risk Management and Internal Control System
28 Risk Factors
36 Corporate Governance Report
60 Directors and Senior Management
69 Report of the Directors
80 Management's Discussion and Analysis
85 Independent Auditor's Report
90 Consolidated Statement of Profit or Loss and Other Comprehensive Income
91 Consolidated Statement of Financial Position
92 Consolidated Statement of Changes in Equity
93 Consolidated Statement of Cash Flows
94 Notes to Consolidated Financial Statements
157 Supplementary Information on Oil and Gas Producing Activities (Unaudited)
171 Notice of Annual General Meeting
179 Glossary
180 Company Information

FINANCIAL SUMMARY

(All amounts expressed in millions of RMB)

Consolidated Statement of Profit or Loss and Other Comprehensive Income (Audited)

Year ended 31 December

	2016	2017	2018	2019	**2020**
Total revenues	146,490	186,390	227,711	233,199	**155,372**
Total expenses	(148,902)	(149,340)	(147,544)	(149,004)	**(118,983)**
(Finance costs)/interest income, net	(5,345)	(4,391)	(4,364)	(4,798)	**(4,717)**
Share of (losses)/profits of associates and a joint venture	(76)	855	(5,187)	1,002	**(632)**
Investment income	2,774	2,409	3,685	4,632	**2,978**
(Loss)/profit before tax	(5,275)	36,357	75,157	85,649	**34,907**
Income tax credit/(expense)	5,912	(11,680)	(22,482)	(24,604)	**(9,951)**
Profit for the year	637	24,677	52,675	61,045	**24,956**

Consolidated Statement of Financial Position (Audited)

As of 31 December

	2016	2017	2018	2019	**2020**
Current assets	122,045	138,838	191,151	205,935	**163,391**
Property, plant and equipment	432,465	395,868	413,383	440,554	**446,668**
Investments in associates and a joint venture	29,995	29,146	24,701	45,490	**42,366**
Intangible assets	16,644	15,070	16,073	16,306	**15,129**
Total assets	637,681	617,219	686,381	757,731	**721,275**
Current liabilities	(67,090)	(61,412)	(74,157)	(91,249)	**(74,852)**
Non-current liabilities	(188,220)	(175,832)	(192,314)	(218,256)	**(212,493)**
Total liabilities	(255,310)	(237,244)	(266,471)	(309,505)	**(287,345)**
Equity	382,371	379,975	419,910	448,226	**433,930**

OPERATING SUMMARY

Year ended 31 December

	2016	2017	2018	2019	**2020**
Production					
Net production of crude and liquids (barrels/day)					
China	739,378	706,955	705,366	726,866	**775,161**
Bohai	455,002	433,591	433,325	436,173	**452,625**
Western South China Sea	98,351	96,543	109,381	109,906	**110,247**
Eastern South China Sea	182,848	173,192	159,312	176,884	**206,911**
East China Sea	3,177	3,629	3,347	3,902	**5,377**
Overseas	321,131	335,887	317,224	368,886	**341,560**
Asia (excluding China)	48,577	57,395	59,240	45,020	**49,822**
Oceania	4,278	3,691	4,251	3,764	**5,131**
Africa	80,297	73,625	59,844	120,925	**90,750**
North America (excluding Canada)	48,078	46,785	53,120	62,749	**67,244**
Canada	40,304	57,711	64,026	69,947	**55,471**
Europe	98,672	95,750	73,678	62,544	**53,300**
South America	926	929	3,066	3,937	**19,842**
Subtotal	1,060,509	1,042,842	1,022,589	1,095,751	**1,116,721**
Net production of natural gas (mmcf/day)					
China	648.7	721.4	834.8	987.9	**1,153.1**
Bohai	134.3	149.3	165.0	158.3	**148.5**
Western South China Sea	273.9	273.5	265.2	318.2	**441.7**
Eastern South China Sea	185.9	238.2	345.4	390.9	**400.9**
East China Sea	54.6	56.3	49.4	44.9	**57.4**
Onshore	–	4.1	9.9	75.6	**104.7**
Overseas	472.5	432.8	453.9	388.7	**427.3**
Asia (excluding China)	150.2	141.4	164.2	145.7	**152.1**
Oceania	111.4	96.5	111.1	93.0	**140.5**
North America (excluding Canada)	127.3	130.3	126.4	137.1	**127.3**
Canada	48.9	38.7	34.5	4.1	**0.1**
Europe	34.8	25.8	17.6	8.9	**7.3**
Subtotal	1,121.2	1,154.2	1,288.8	1,376.6	**1,580.4**
Total net production (BOE/day)					
China	848,322	827,941	845,171	892,928	**970,793**
Bohai	477,380	458,473	460,822	462,564	**477,374**
Western South China Sea	144,835	142,870	154,248	164,352	**187,311**
Eastern South China Sea	213,835	212,895	216,877	242,026	**273,719**
East China Sea	12,273	13,016	11,580	11,389	**14,948**
Onshore	–	688	1,644	12,596	**17,442**
Overseas	405,320	412,832	398,187	437,812	**418,750**
Asia (excluding China)	75,780	82,958	88,662	70,715	**77,017**
Oceania	26,107	22,598	26,034	21,987	**32,673**
Africa	80,297	73,625	59,844	120,925	**90,750**
North America (excluding Canada)	69,290	68,507	74,184	85,595	**88,458**
Canada	48,448	64,167	69,783	70,627	**55,492**
Europe	104,473	100,046	76,615	64,027	**54,518**
South America	926	929	3,066	3,937	**19,842**
Total	1,253,643	1,240,773	1,243,357	1,330,740	**1,389,543**
Net production in equity method investees					
Crude and liquids (barrels/day)	22,592	22,144	28,159	29,039	**28,335**
Natural gas (mmcf/day)	155.0	146.4	173.7	161.3	**147.0**
Subtotal (BOE/day)	49,280	47,355	58,080	56,824	**53,658**
Total (BOE/day)	1,302,922	1,288,128	1,301,438	1,387,564	**1,443,201**

OPERATING SUMMARY

Year ended 31 December

	2016	2017	2018	2019	**2020**
Reserves at year end*					
Net proved crude and liquids reserves (million barrels)					
China	1,445.7	1,627.3	1,783.2	1,899.7	**1,952.6**
Bohai	903.8	1,050.4	1,104.1	1,161.7	**1,236.9**
Western South China Sea	168.3	196.5	223.0	223.4	**230.4**
Eastern South China Sea	363.1	371.9	448.6	500.5	**470.7**
East China Sea	10.6	8.5	7.5	14.1	**14.6**
Overseas**	870.2	1,571.9	1,515.1	1,583.8	**1,696.4**
Asia (excluding China)	77.3	69.9	54.1	56.1	**199.1**
Oceania	12.0	10.7	8.8	8.6	**5.7**
Africa	138.0	136.9	113.7	83.6	**77.5**
North America (excluding Canada)	260.3	282.1	263.4	249.8	**165.2**
Canada	300.5	904.3	884.4	933.2	**890.7**
Europe	80.6	88.4	111.2	107.5	**71.6**
South America	1.5	79.7	79.5	145.0	**286.6**
Subtotal	2,315.9	3,199.3	3,298.3	3,483.5	**3,649.0**
Net proved natural gas reserves (bcf)					
China	5,843.7	5,910.7	6,107.8	6,358.4	**6,863.3**
Bohai	278.7	305.7	753.4	1,112.3	**1,242.0**
Western South China Sea	3,896.8	3,880.1	3,715.6	3,602.8	**3,603.9**
Eastern South China Sea	854.9	970.5	903.7	800.1	**732.9**
East China Sea	813.3	754.4	735.1	774.9	**820.2**
Onshore	–	–	–	68.3	**464.3*** **
Overseas	1,642.4	1,632.6	1,519.0	1,468.8	**1,093.1**
Asia (excluding China)	952.4	885.0	841.6	798.7	**714.6**
Oceania	333.5	297.2	279.5	260.5	**185.5**
North America (excluding Canada)	349.6	421.5	390.9	405.3	**190.9**
Canada	–	24.2	0.2	–	**–**
Europe	6.9	4.8	6.7	4.4	**2.1**
Subtotal	7,486.1	7,543.3	7,626.8	7,827.1	**7,956.4**
Total net proved reserves (million BOE)					
China	2,420.7	2,613.3	2,804.6	2,964.3	**3,108.5**
Bohai	950.2	1,101.4	1,229.7	1,347.1	**1,443.9**
Western South China Sea	818.8	844.1	845.8	828.7	**843.0**
Eastern South China Sea	505.5	533.7	599.2	633.9	**592.9**
East China Sea	146.2	134.2	130.0	143.2	**151.3**
Onshore	–	–	–	11.4	**77.4*** **
Overseas	1,162.7	1,860.8	1,785.4	1,843.6	**1,892.7**
Asia (excluding China)	245.0	225.4	203.3	196.6	**326.9**
Oceania	77.4	69.0	63.6	59.6	**42.0**
Africa	138.0	136.9	113.7	83.6	**77.5**
North America (excluding Canada)	318.6	352.3	328.6	317.3	**197.0**
Canada	300.5	908.3	884.4	933.2	**890.7**
Europe	81.8	89.2	112.3	108.3	**72.0**
South America	1.5	79.7	79.5	145.0	**286.6**
Total	3,583.4	4,474.1	4,590.0	4,807.9	**5,001.2**
Net proved reserves in equity method investees					
Crude and liquids (million barrels)	195.3	244.8	258.1	269.8	**271.0**
Natural gas (bcf)	574.0	706.8	661.5	620.3	**583.6**
Subtotal (million BOE)	294.2	366.7	372.2	376.7	**371.6**
Total*	3,877.6	4,840.8	4,962.1	5,184.6	**5,372.7**

Year ended 31 December

	2016	2017	2018	2019	2020
Others					
Reserve life (years)	7.8	9.9	10.1	9.9	**9.8**
Reserve life (years) (including equity method investees)	8.1	10.3	10.5	10.2	**10.2**
Reserve replacement ratio (%)	6	297	126	145	**138**
Reserve replacement ratio (%) (including equity method investees)	8	305	126	144	**136**
Average realised price					
Crude oil (US$/barrel)	41.40	52.65	67.22	63.34	**40.96**
Natural gas (US$/mcf)	5.46	5.84	6.41	6.27	**6.17**

* *Approximately 60%, 65%, 69%, 66%, and 62%, respectively, of our net proved reserve estimates in 2016, 2017, 2018, 2019 and 2020 were based on the Company's internal evaluation and the remaining were made by independent third-party consultants. Our reserve data was prepared in accordance with the SEC's final rules on "Modernization of Oil and Gas Reporting", which became effective as of 1 January 2010.*

** *Includes 300.5 million barrels of synthetic oil in 2016; 785.9 million barrels of synthetic oil and 118.4 million barrels of bitumen in 2017; 796.3 million barrels of synthetic oil and 88.1 million barrels of bitumen in 2018; 779.6 million barrels of synthetic oil and 153.6 million barrels of bitumen in 2019; 796.7 million barrels of synthetic oil and 94.0 million barrels of bitumen in 2020.*

*** *Includes 276.0 billion cubic feet of coalbed methane.*

CHAIRMAN'S STATEMENT

Wang Dongjin
Chairman

Dear shareholders,

2020 was an extraordinary and challenging year. The outbreak of the COVID-19 pandemic coupled with the "cliff-like" drop in international oil prices brought unprecedented difficulties and challenges to the operation of the Company.

Faced with a severe and complex external environment, we strengthened confidence in development, and strived to foster new opportunities and seek new prospects. On the one hand, we focused on the pandemic prevention and control, and put in place a strict defense line with concerted efforts to ensure zero infection of operating personnel and no delay in project planning progress; on the other hand, we strove to increase the reserves and production, intensified efforts to reduce costs and enhance quality and efficiency, firmly advanced reform and innovation, and ensured safe production. Thanks to the hard work of all our staff, we achieved fruitful results in both pandemic control and operation.

In the first quarter of 2020, we timely responded to the sharp drop in international oil prices by adjusting the annual production target and capital expenditure plan. Meanwhile, we adhered to our strategies and our own development. As a result, the annual oil and gas reserves and production hit a record high. Oil and gas exploration achieved encouraging results, and 16 commercial discoveries were made. In offshore China, two discoveries with proven in-place volume exceeding 100 million tons of oil equivalent were made in Bohai, namely Kenli 6-1 and Bozhong 13-2 oil and gas fields; and Huizhou 26-6, a mid-sized oil and gas field, was discovered, representing a major breakthrough in risk exploration in Eastern South China Sea. For overseas exploration, three new discoveries were made in Stabroek block in Guyana. The reserve life maintained at a level above 10 years, laying a solid foundation for future production growth. Our development and production progressed smoothly. All new projects in offshore China were successfully brought on stream, and the decline rate of the producing oil fields was under control. Thus, we achieved net oil and gas production of 528.2 million BOE, representing a significant year-on-year increase.

We actively dealt with the challenge of low oil prices, and implemented effective actions to reduce costs and enhance quality and efficiency. Efforts were made throughout the full cycle of our business by optimising work deployment, strengthening on-site management, and conducting technology upgrades. In 2020, all-in cost decreased to US$26.34 per BOE, and operating cost was US$6.90 per BOE, both hitting a 10-year low, which continued to consolidate the cost competitive advantage of the Company and demonstrated the excellent management and execution capability of our management.

During the year, we carried out the innovation-driven strategy and conducted researches on key and core technologies aiming to increase oil and gas reserves and production, which strongly supported the Company's development. Breakthroughs in geological understanding successfully guided the discoveries of oil fields with proven in-place volume exceeding 100 million tons of oil equivalent including Kenli 6-1; we undertook research programme such as "Lingshui Semi-submersible Production Platform Research Project", and facilitated the high-quality development of the Company. New progress was made in digital transformation. With Kenli 3-2 unmanned platform started production, the Company further increased the percentage of its unmanned offshore platforms.

CHAIRMAN'S STATEMENT

To respond to the trend of energy transition, we actively implemented the strategy of green development to build a low-carbon enterprise. On the one hand, efforts were made to continuously increase the supply of clean energy and promote the development and construction of key natural gas projects. Bozhong 19-6 large-sized condensate gas field pilot development project in Bohai commenced production in 2020. Lingshui 17-2, a large-sized deepwater gas field in Western South China Sea, will also start production this year. They will provide low-carbon and safe energy supply for the Bohai Rim Region and Guangdong, Hong Kong and Hainan area, respectively. In addition, our onshore unconventional gas resources have accumulated to a proven in-place volume of 100 billion cubic metres in China. We actively promoted new energy business with a focus on offshore wind power. In September 2020, our first offshore wind power project generated electricity and was connected to the grid.

We have always put safety in the first place and insisted that "safety is the hardest bottom line, and also the warmest defense line". To this end, we fully advanced the implementation of the three-year action for operation safety rectification, intensified efforts to build a culture of safety, and improved our risk prevention and control system to continuously consolidate the foundation of our work. In 2020, by focusing on both pandemic prevention and resumption of work, we maintained a stable situation of safe operation throughout the year.

In 2020, we overcame the dual challenges of low oil prices and the pandemic, and achieved oil and gas sales of RMB139.6 billion and a net profit of RMB24.96 billion. CNOOC Limited's ranking in Platts Energy's 2020 "Top 250 Global Energy Companies" list rose to the eighth and its ranking in Brand Finance's 2021 "Top 50 Most Valuable Oil and Gas Brands" rose to 13th. In addition, the Company won various awards such as the "Best Listed Company" in the China Securities Golden Bauhinia Awards, reflecting the remarkable results achieved in developing itself as a world-class energy company. Given the sound financial position of the Company, the Board of Directors has recommended the payment of a final dividend of HK$0.25 per share (tax inclusive) for 2020.

In 2020, Mr. Li Yong was appointed as the Vice Chairman of the Board of Directors and a Non-executive Director of the Company, Ms. Wen Dongfen was appointed as a Non-executive Director and Mr. Hu Guangjie was appointed as an Executive Director and President. On behalf of the Board of Directors, I would like to extend my congratulations to Mr. Li Yong, Ms. Wen Dongfen and Mr. Hu Guangjie.

The year of 2021 is also a special year for CNOOC Limited. Since its dual listing in Hong Kong and New York in February 2001, CNOOC Limited has been in the capital market for 20 years. Over the past two decades, the Company has strictly complied with the laws and regulations of its listing venues. By upholding the concept of "creating value for our shareholders", we have brought considerable returns to shareholders after years of hard work and garnered wide recognition and support from our shareholders. I would like to express my gratitude to our shareholders on behalf of the Board of Directors.

At present, the COVID-19 pandemic has not been completely controlled, and there are still uncertainties in the trend of international oil prices. Moreover, CNOOC Limited continues to face tremendous pressure in the capital market. However, regardless of the uncertainties laying ahead, we will focus on our own business and continue to comply with applicable laws and regulations to continue to create value for shareholders. We will continue to increase oil and gas reserves and production, enhance our efforts in exploration and development in offshore China, and enhance efficiency and profitability of overseas business. We will thoroughly carry out innovation-driven strategy and accelerate the transformation of scientific and technological achievements into productivity. We will continue to promote the programme of cost reduction and quality and efficiency enhancement so as to further consolidate our cost competitive advantage. Concentrated efforts will be made to improve safe production to ensure a stable situation of safe production of the Company. We are determined to prevent and control the pandemic on an ongoing basis in order to ensure smooth and stable production and operation.

Looking forward, we will continue to take technological innovation as the driving force, focus on the oil and gas exploration and development business, accelerate energy transition, take further steps to enhance quality and efficiency, and constantly improve the ability to create value. We will vigorously facilitate the transition to green and low-carbon development, continue to improve the supply capacity of natural gas, promote the implementation of the onshore power project, enhance efforts in energy-saving technological transformation and the application of new technologies of emission reduction, and gradually implement technology research on carbon capture, reinjection and reuse. At the same time, we will actively explore the development of new energy business and promote offshore wind power business in a steady and orderly manner.

The journey is long and arduous but we will get through with determination and perseverance. In these unprecedented and rapidly changing times, we will press ahead with a focus on promoting high-quality development, actively respond to new challenges and seize new opportunities, and strive to achieve a high-quality, sustainable, safe and lower-carbon development, so as to take solid steps towards the goal of building a world-class energy company.

Wang Dongjin
Chairman

Hong Kong, 25 March 2021

BUSINESS OVERVIEW

Xu Keqiang
CEO

OVERVIEW

CNOOC Limited is an upstream company specialising in oil and natural gas exploration, development and production, and the dominant oil and natural gas producer in offshore China. In terms of reserves and production, it is one of the largest independent oil and natural gas exploration and production companies in the world. As of the end of 2020, the Company had net proved reserves of approximately 5.37 billion BOE (including approximately 0.37 billion BOE in its equity method investees). In 2020, the Company achieved a net production of 1,443,201 BOE/day (including a net production of approximately 53,658 BOE/day in its equity method investees).

In China, CNOOC Limited engages in oil and natural gas exploration, development and production in Bohai, Western South China Sea, Eastern South China Sea and East China Sea, as well as onshore unconventional oil and natural gas exploration, development and production, either independently or through cooperation with foreign partners under production sharing contracts ("PSCs"). As of the end of 2020, approximately 57.9% of the Company's net proved reserves and approximately 67.4% of its net production were derived from China.

For independent operations, we have been increasing our reserves and production mainly through independent exploration and development. As of the end of 2020, approximately 87.8% of our net proved reserves and approximately 81.0% of our net production in China were derived from independent oil and gas fields.

For PSC operations, China National Offshore Oil Corporation ("CNOOC"), our controlling shareholder, has the exclusive right to enter into PSCs with foreign oil companies to cooperate in the exploration, development and production of petroleum resources (including crude oil and natural gas) in offshore China which are open to foreign cooperation. CNOOC has transferred to the Company all its rights and obligations under the PSCs (except those relating to its management and regulatory functions as a state-owned company), including new PSCs that will be signed in the future.

In overseas, with our diversified portfolio of high-quality assets, we hold interests in a numbers of world-class oil and gas projects and have become a leading industry player. At present, our assets are scattered in more than 20 countries and regions in the world, including Indonesia, Australia, Nigeria, Iraq, Uganda, Argentina, the U.S., Canada, the U.K., Brazil, Guyana, Russia and the United Arab Emirates. As of the end of 2020, overseas oil and gas assets accounted for approximately 50% of the total oil and gas assets of the Company, and overseas net proven reserves and overseas net production accounted

for approximately 42.1% and approximately 32.6%, respectively.

We experienced an extraordinary series of events in 2020, as the world went through the worst public health crisis in a century and the most severe economic recession since the Great Depression. The World Bank estimated that the global economy would shrink by 4.3% year-on-year in 2020. China achieved remarkable results in pandemic prevention and control and took the lead in recovering from the recession. In 2020, China's GDP increased by 2.3% year-on-year, making it the only major economy to post positive growth. The "cliff-like" drop in international oil prices plunged the global oil and gas industry into a downturn, and the average price of Brent in 2020 dropped significantly by 33% year-on-year. Low oil prices coupled with the COVID-19 pandemic had a great impact on the production and operation of the Company.

We strengthened our confidence and proactively responded to the severe challenges. In the first quarter of the year, we adjusted our business strategy for the whole year in a timely manner, namely: focusing on high-quality development, pursuing profitable reserves and production, controlling the pace of investment, adhering to more stringent cost controls, and maintaining healthy cash flow of the Company.

In 2020, we made efforts to strictly implement epidemic prevention and control measures, vigorously increase the reserves and production levels, further advance cost reduction and efficiency enhancement, firmly facilitate technological innovation and ensure safe production with all our strength, which enabled us to accomplish various production and operation tasks. We strengthened the philosophy of value-driven exploration and enhanced exploration effectiveness. In China, we focused on the exploration of mid-to-large sized oil and gas fields, and enhanced exploration efforts in new areas, new frontiers, and new types. Overseas, we insisted on exploration management. A total of 16 new discoveries were made throughout the year, and 42 oil and gas bearing structures were successfully appraised. Meanwhile, steady progress was made in the construction of new projects. Nine new projects in offshore China planned to come on stream during the year and Liza oilfield phase I in Guyana were successfully put into production. Penglai 25-6 oilfield area 3 project was also put into production during the year. More than 20 projects were under construction throughout the year to support future sustainable development. Thanks to the effective prevention and control of the pandemic and effective management of production and operation, the Company exceeded the adjusted annual oil and gas production target, with a net production of 528.2 million BOE. Our all-in cost per BOE hit a record low in ten years, reaching US$26.34. The Company achieved a net profit

BUSINESS OVERVIEW

528.2 million BOE
Net Production

136%
Reserve Replacement Ratio

10.2 Years
Reserve Life

24.96 RMB billion
Net Profit

26.34 US$/BOE
All-in Cost

24.9%*
Gearing Ratio

0.25 HK$/share (tax inclusive)
Final Dividend (proposed)

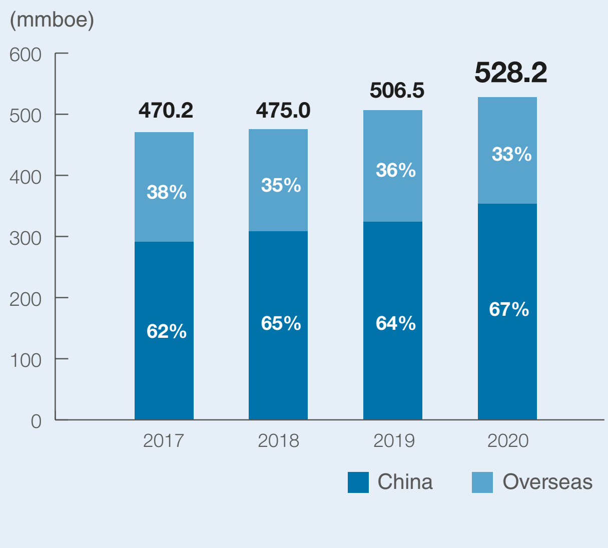
11.16 HK$ billion
Total Amount of Final Dividend

4.9%
Dividend Yield

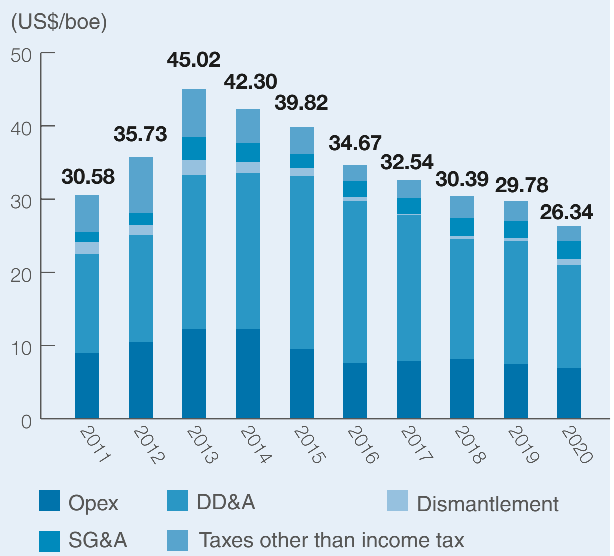
Cumulative Dividend Over 20 years of Listing | **344.9** HK$ billion

*   *Defined as interest-bearing debts divided by the sum of interest-bearing debts plus equity.*

Net Production



All-in Cost



of RMB24.96 billion and maintained a sound financial position. Meanwhile, its performance in the areas of health, safety and environmental protection remained stable.

At present, many countries have begun to vaccinate against the COVID-19, which brings more hope for the prevention and control of the pandemic and the recovery of the world economy. As forecasted by the World Bank, global economic growth will reach 4% in 2021. International oil prices have steadily recovered, and the Brent oil price has rallied above US$60 per barrel. However, there are still uncertainties in the future trend of international oil prices, and trade frictions will also put pressure on the Company. In view of this, we will pay more attention to efficiency and risk control. In 2021, the capital expenditure plan is set at RMB90.0-100.0 billion, and the production target is set at 545-555 million BOE. We plan to put 19 new projects into production during the year, and strive for a reserve replacement rate of 120%, while maintaining a high standard of health, safety and environmental protection.

Looking forward to the future, we will continue to enhance our capability to create value. While pursuing production growth, we will actively respond to climate change and build a green and low-carbon enterprise. To this end, the Company further strengthened its business strategy, mainly including: strengthening the efforts in nature gas exploration, promoting further production growth, focusing on investment returns, maintaining cost competitiveness, keeping a healthy financial position, optimizing the layout of overseas assets, and adhering to the low-carbon development principle.

EXPLORATION

In 2020, in the face of low oil prices, we adhered to the value-driven exploration philosophy, balanced the scale of discovery and profitability of reserves, and optimised exploration deployment. In China, we placed emphasis on rolling exploration in mature areas, and efficiently appraised existing discoveries. Overseas, we reduced expenditures on risk exploration to focus on hot areas of oil and gas exploration. The exploration workload of the Company was maintained at a high level throughout the year. We maintained our focus on core values, and continued to consolidate the resource base for increasing reserves and production. In 2020, the Company's reserve replacement ratio reached 136%, with a reserve life of 10.2 years, which remained stable at a level above 10 years for 4 consecutive years.

BUSINESS OVERVIEW

The Company's major exploration areas as of the end of 2020 are shown in the table below:

	Areas	Major Exploration Areas (Net) (km^2)
Offshore China	Bohai	40,160
	Western South China Sea	71,362
	Eastern South China Sea	48,135
	East China Sea	84,577
	Subtotal	**244,234**
Overseas	Asia (excluding China)	–
	Africa	8,453
	Oceania	1,938
	North America	5,756
	South America	8,333
	Europe	416
	Subtotal	**24,897**
Total		**269,131**

In offshore China, we adhered to the value-driven exploration philosophy, focused on exploration of mid-to-large sized oil and gas fields, and achieved remarkable results. A number of breakthroughs were achieved with enhanced effort, in exploration in new areas, new frontiers and new types. Risk exploration and rolling exploration achieved remarkable results as well. The activities in independent exploration wells and the acquisition of 3D seismic data remained at a high level. Throughout the year, a total of 186 exploration wells were drilled, including one PSC well. A total of 4,793 kilometres of 2D seismic data and 18,276 square kilometres of 3D seismic data were acquired under independent and PSCs. The Company made 13 new discoveries and successfully appraised 41 oil and gas bearing structures in offshore China. The success rate for independent exploration wells in offshore China was 49%-68%.

In 2020, the exploration results achieved in offshore China mainly include:

Firstly, two large oil and gas fields with proven in-place volume exceeding 100 million tons of oil equivalent, namely Kenli 6-1 and Bozhong 13-2, were successfully discovered, which further laid a solid foundation for the future production growth.

Secondly, a major breakthrough was made in risk exploration as Huizhou 26-6, a mid-sized oil and gas field, was discovered and appraised successfully, which was expected to become the biggest oil and gas field discovered by independent exploration in the Pearl River Mouth Basin.

Thirdly, continued to explore in new areas, new frontiers, and new types and breakthroughs were made in Qinhuangdao 22-3, Wenchang 9-7 and Lingshui 25-1 West, which expanded our base of reserve replacement.

Fourthly, the integration of exploration and development was promoted. The scale and efficiency of rolling exploration continuously increased to hit a new record; and the newly-added proven in-place volume exceeded 100 million tons of oil equivalent, which strongly supported the rapid conversion from reserve to production.

In onshore China, we stepped up unconventional gas exploration, drilled 97 unconventional exploration wells, and confirmed the resource base for the first 100 billion cubic meters of unconventional gas field, which will strongly support the growth of the Company's future natural gas production.

Overseas, we continued our exploration management and drilled 4 exploration wells. We made 3 new discoveries, and successfully appraised 1 oil and gas bearing structure. Three new discoveries were made in the Stabroek block of Guyana, including Uaru, Yellowtail-2, and Redtail. Yellowtail oil and gas bearing structure was successfully appraised, and breakthroughs were made in the new formation. As of the end of 2020, a total of 18 new discoveries were made in the Stabroek block. As disclosed by the operator, the current recoverable resources have been further expanded to about 9 billion BOE, and there is still huge exploration potential in the future.

The Company's major exploration activities in 2020 are set out in the table below:

	Exploration Wells				New Discoveries		Successful Appraisal Wells		Seismic Data			
	Independent		PSC						2D (km)		3D (km^2)	
	Wildcat	Appraisal	Wildcat	Appraisal	Independent	PSC	Independent	PSC	Independent	PSC	Independent	PSC
Offshore China												
Bohai	27	64	0	0	5	0	45	0	773	0	1,188	0
Eastern South China Sea	19	24	0	0	4	0	11	0	0	3,735	6,646	1,359
Western South China Sea	11	35	1	0	4	0	19	0	4,020	0	6,992	228
East China Sea	3	2	0	0	0	0	2	0	0	0	1,863	0
Subtotal	**60**	**125**	**1**	**0**	**13**	**0**	**77**	**0**	**4,793**	**3,735**	**16,689**	**1,587**
Overseas	**0**	**0**	**3**	**1**	**0**	**3**	**0**	**1**	**0**	**0**	**3,512**	**0**
Total	**60**	**125**	**4**	**1**	**13**	**3**	**77**	**1**	**4,793**	**3,735**	**20,201**	**1,587**

In 2021, we will adhere to the value-driven exploration philosophy and maintain our exploration investment so as to lay a solid reserve foundation for the Company's sustainable development. In offshore China, we will continue to strengthen exploration on three levels in new areas, new types and new layers. Targeting mid-to-large size discoveries, we will make efforts on both oil and gas exploration and strengthen gas exploration activities. We will maintain exploration in middle-shallow layers, strengthen exploration in middle-deep layers and actively prepare for deep layers exploration. In addition, we will increase efforts in risk exploration to achieve multiple breakthroughs in frontiers and new areas. Overseas, we will focus on strategic core areas, and pay attention to operating and non-operating projects.

ENGINEERING CONSTRUCTION, DEVELOPMENT AND PRODUCTION

In 2020, we actively responded to the challenge of low oil prices. In the first-quarter of the year, we timely adjusted our annual production target from 520-530 million BOE to 505-515 million BOE. At the same time, we optimised the production structure by increasing domestic profitable production and reducing overseas inefficient and loss-making crude oil production. Throughout the year, we accomplished various development and production tasks. Our net oil and gas production reached a record high, and key projects progressed steadily.

In 2020, the Company achieved a net oil and gas production of approximately 528.2 million BOE, exceeding the adjusted production target and reaching a record high. Nine of the new projects planned to be put into production during the year came on stream, including: Penglai 19-3 oilfield block 4 adjustment/Penglai 19-9 oilfield phase II, Qinhuangdao 33-1 South oilfield phase I, Luda 16-3/21-2 joint development project, Bozhong 19-6 condensate gas field pilot development project, Nanbao 35-2 oilfield S1 area, Jinzhou 25-1 oilfield 6/11 area, Liuhua 29-1 gas field development project and Liuhua 16-2 oilfield/Liuhua 20-2 oilfield joint development project, and Liza oilfield phase I in Guyana. In addition, Penglai 25-6 oilfield block 3 development project was also put into production during the year. Over 20 projects were under construction throughout the year, and the development and construction of key projects progressed smoothly. Among them, we completed the drilling of all development wells and onshore construction for Lingshui 17-2 gas fields project, and the construction of the Lufeng oilfields regional development project was carried out on track.

In 2020, the Company unswervingly adhered to the goal of increasing reserves and production, strengthened the leading role of technological innovation, reduced cost and enhanced quality and efficiency as a way to promote sustainable development. The main measures included:

Firstly, we organised operations efficiently and took multiple measures to promote the production potential of producing oil fields. Both the workload and production contribution of infill drillings reached record highs. We improved the recovery rate and reduced the decline rate of single well production as a way to continuously promote the "Year of Water Injection" programme. We also improved the level of refined management and operated at a high production efficiency.

Secondly, we promoted construction acceleration and efficiency enhancement, and strengthened our efforts in facilitating the development and construction of production capacity. We implemented an integrated and innovative management model for exploration and development, promoted the rapid and high-quality production of pilot projects, and realised efficient conversion from reserve to production.

Thirdly, we paid more attention to quality and efficiency, and the cost per BOE reached a new low. We established a long-term mechanism to further improve quality and reduce costs. We shifted the focus to high-yield and low-cost projects through structural optimisation in order to maximise production efficiency and deeply explore the potential to reduce the cost per BOE.

Fourthly, we took innovation as the driving force to facilitate the high-quality development of oil and gas fields. The application of new processes and technologies was promoted to accelerate the progress and enhance the efficiency of thermal recovery of heavy oil; the power transformation of offshore oilfields was advanced to accelerate the onshore power projects in Bohai oilfields; and the construction of smart oil and gas fields, unmanned platforms, and oilfield typhoon models was carried out in an orderly manner.

In 2021, we will continue to promote construction acceleration and efficiency enhancement so as to speed up project construction, and ensure that key projects are put into production on schedule. We will optimise the planning for infill drilling wells to enhance recovery rate of oilfields and increase the contribution of new production. We will continue to carry out the work of "controlling water and stabilising oil" for producing oilfields to control natural decline and ensure basic production. Meanwhile, we will make every effort to facilitate the development of heavy oil with low permeability and promote the effective utilisation of heavy oil reserves.

In 2021, a total of 19 new projects are planned to come on stream, mainly including Lingshui 17-2 gas fields development, Lufeng oilfields regional development and Caofeidian 6-4 oilfields in offshore China, as well as Buzzard oilfield phase II in the U.K. and Mero oilfield phase I in Brazil. In addition, the Company will actively advance the appraisal and construction of new projects. It is expected that more than 20 new projects will be under construction throughout the year, which will lay a solid foundation for mid- and long-term growth in production.

OVERVIEW BY REGION

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. The operational area in Bohai is mainly shallow water with a depth of approximately 10 to 30 metres. As of the end of 2020, the reserve and production in Bohai reached 1,443.9 million BOE and 477,374 BOE/day, respectively, representing approximately 26.9% of the Company's total reserves and approximately 33.1% of its production.

With rich oil and gas resources, Bohai has been one of the Company's core areas for exploration and development. In 2020, the Company made five successful discoveries in Bohai, namely Bozhong 8-4 South, Bozhong 13-2 deep formation, Bozhong 19-6 North, Caofeidian 28-1 and Kenli 9-2. In addition, the Company also successfully appraised 20 oil and gas bearing structures, including Bozhong 13-2, Bozhong 21-2, Bozhong 26-3, Bozhong 26-3 North, Bozhong 29-4, Bozhong 29-4 West, Bozhong 34-9, Bozhong 36-1, Bozhong 8-4 South, Caofeidian 2-2, Caofeidian 6-2, Kenli 10-1 North, Kenli 6-1, Luda 10-5/6, Luda 19-2, Luda 27-1, Luda 5-2, Qikou 17-2, Suizhong 36-1 North and Suizhong 36-2.

BUSINESS OVERVIEW

In 2020, we continued to appraise Bozhong 19-6 condensate gas fields, and expanded the exploration of Bozhong 13-2, which was another buried hill breakthrough after Bozhong 19-6, with proved in-place volume reaching 100 million tons. Kenli 6-1 was efficiently appraised, with proven in-place volume exceeding 100 million tons of oil equivalent, and is expected to become the first large-sized shallow lithology oilfield in the Laibei low uplift in Bohai. Meanwhile, exploration in new frontiers made the discovery of Qinhuangdao 22-3 structure in Bohai, which proved the exploration potential of the Qinnan Sag.

For development and production, in 2020, Penglai 19-3 oilfield block 4 adjustment/Penglai 19-9 oilfield phase II, Qinhuangdao 33-1 South oilfield phase I, Bozhong 19-6 condensate gas field pilot development project, Luda 16-3/21-2 joint development project, Nanbao 35-2 oilfield S1 area, Jinzhou 25-1 oilfield 6/11 area and Penglai 25-6 oilfield area 3 development project came on stream. Upon commencement of production, Bozhong 19-6 condensate gas field will provide low-carbon and safe energy supply for Bohai Rim Region and contribute to the growth in natural gas production of the Company in the future. At the same time, we steadily promoted the implementation of major scientific and technological projects such as the key technology research of "stabilizing production at 30 million tons with an aim of increasing to 40 million tons for Bohai oilfields", and achieved remarkable results, which supported the Company in achieving the goal of mid- and long-term production growth.

In 2021, it is expected that Bozhong 19-4 oilfield adjustment, Bozhong 26-3 oilfield expansion, Caofeidian 11-6 oilfield expansion, Caofeidian 6-4 oilfield, Jinzhou 31-1 gas field, Kenli 16-1 oilfield, Kenli 6-1 oilfield block 4-1 development project, Luda 29-1 oilfield, Luda 4-2 oilfield block 4-3, Luda 5-2 oilfield North, Luda 6-2 oilfield and Qinhuangdao/Caofeidian onshore power project will commence operation successively during the year. Among them, the Qinhuangdao/Caofeidian onshore power project will reduce carbon dioxide emissions by an average of 170,000 tons per year, which will effectively help achieve energy conservation, emission reduction and cost control.

Western South China Sea

Western South China Sea is one of the Company's important crude oil and natural gas production areas. The typical operating water depth in the region ranges from 40 to 1,500 metres. The crude oil produced here is mostly of light to medium gravity. As of the end of 2020, the reserves and production in Western South China Sea reached 843.0 million BOE and 187,311 BOE/day, respectively, representing approximately 15.7% of the Company's total reserves and approximately 13.0% of its production.

In 2020, the Company made four successful discoveries in Western South China Sea, namely Lingshui 25-1 West, Weizhou 12-1, Wenchang 9-7 and Weizhou 11-6. The Company also achieved a total of 12 successful appraisals, namely Weizhou 11-2, Weizhou 11-6, Weizhou 12-2, Weizhou 6-9, Wushi 1-6, Wushi 16-1, Wushi 23-5, Dongfang 13-1, Lingshui 17-2, Wenchang 19-1, Wenchang 8-3 East, and Wenchang 9-7. Among them, the discovery of natural gas from Lingshui 25-1 West-2 well in the Meishan Formation opened up the exploration in new frontiers for the new layer of Meishan Formation in the deepwater area of the Qiongdongnan Basin. In the drilling of Wenchang 9-7-1 well, thick oil layer was found and tested with high productivity, which opened up new frontiers of oil and gas exploration in the western Pearl River Mouth Basin.

During the year, the onshore construction and the drilling of development wells of Lingshui 17-2, the first large-sized deepwater independent gas field in offshore China, were completed. It is expected to be put into production in 2021. Upon commencement of production, Lingshui 17-2 will provide stable gas supply of more than 3 billion cubic metres to Guangdong, Hong Kong and Hainan area every year, which will greatly enhance the Company's natural gas supply capacity and promote the development of green and low-carbon transformation. In addition, Weizhou 11-2 oilfield phase II is expected to come on stream in 2021.

Eastern South China Sea

Eastern South China Sea is another important crude oil and natural gas producing area of the Company. The typical operating water depth in the region ranges from 100 to 1,500 metres. The crude oil produced here is mostly of light to medium gravity. As of the end of 2020, the reserves and production in Eastern South China Sea reached 592.9 million BOE and 273,719 BOE/day, respectively, representing approximately 11.0% of the Company's total reserves and approximately 19.0% of its production.

In 2020, the Company made four new discoveries in Eastern South China Sea, namely Enping 21-4, Huizhou 19-14, Huizhou 25-2 and Huizhou 26-6. Furthermore, seven oil and gas bearing structures were successfully appraised, namely Enping 18-6, Panyu 34-1, Huizhou 25-2, Huizhou 25-9, Huizhou 26-6, Liuhua 27-1 and Lufeng 9-2. Risk exploration of Huizhou 26-6 structure achieved a medium-sized commercial breakthrough, making it the biggest oil and gas field discovered by independent exploration in the Pearl River Mouth Basin. It will also drive oil and gas exploration in surrounding areas. The rolling exploration of Huizhou 25-2 was successful, and the proved reserves can be developed and produced through the surrounding platforms, which will accelerate the development of reserves and its conversion to production, and deliver good economic benefits.

As for development and production, Liuhua 16-2/Liuhua 20-2 oilfield joint development project and Liuhua 29-1 gas field development project started production in 2020. Liuhua 21-2 oilfield, Liuhua 29-2 gas field and Lufeng oilfields regional development are expected to come on stream in 2021.

East China Sea

The typical operating water depth in the East China Sea region is approximately 90 metres. As of the end of 2020, reserves and production in the region represented approximately 2.8% and approximately 1.1% of the Company's total reserves and production, respectively.

In 2020, the Company continued to promote pioneering innovation and exploratory experiments in the East China Sea. The technological experiments to enhance oil recovery rate, such as gas reservoir depressurisation extraction, achieved initial results. The unmanned transformation of producing oil and gas fields was completed. We achieved safe and efficient operation of unmanned offshore platforms and significantly reduced production costs.

Onshore

At present, taking CUCBM as a platform, we mainly engaged in the exploration, development, production and foreign cooperation of unconventional gas resources in onshore China. We have established two major production bases in the Qinshui Basin and the eastern edge of the Erdos Basin. As of the end of 2020, reserves and production in onshore China represented approximately 1.4% and approximately 1.2% of the Company's total reserves and production, respectively.

In 2020, proven in-place volume of onshore unconventional gas increased steadily and reached 100 billion cubic meters. In the future, we will continue to increase our efforts in development of onshore unconventional gas to strongly support the Company's green and low-carbon transformation and the growth in natural gas production.

New Energy Business

In line with the general trend of low-carbon development in the global energy industry, we actively explored the development of new energy businesses such as offshore wind power and carried out research on cutting-edge technologies by leveraging its extensive experience in offshore production, operation and management.

In 2020, the Company's first offshore wind power project located in the waters near Jiangsu was connected to the grid to generate electricity. The project has a planned installed capacity of 300 MW and plans to build 67 wind turbines offshore, which can save 280,000 tons of standard coal each year and reduce carbon dioxide emissions of 570,000 tons, equivalent to the total amount of carbon dioxide that 430,000 mu of trees can absorb each year. This signifies our solid steps to actively promote energy transition and implement the green and low-carbon strategy and will supply clean and reliable energy to facilitate the green development of the Yangtze River Delta region.

In addition, the second offshore wind power project, which is located near Shantou, Guangdong Province, is progressing smoothly.

Overseas

Asia (excluding China)

Asia (excluding China) is the first overseas region entered into by the Company, and has become one of the major overseas oil and gas producing areas of the Company. Currently, the Company owns oil and gas assets mainly in Indonesia, Iraq and the United Arab Emirates. As of the end of 2020, reserves and production derived from Asia (excluding China) reached 326.9 million BOE and 77,017 BOE/day, respectively, representing approximately 6.1% of the Company's total reserves and approximately 5.3% of its production.

Indonesia

As of the end of 2020, the Company's asset portfolio in Indonesia comprised mainly two development and production blocks, namely the Madura Strait and Tangguh.

Among them, the Madura Strait block is a joint operation block, and the production of BD gas field remained stable. Affected by the pandemic, downstream demand for gas decreased in 2020, and its daily net production slightly decreased. Other gas fields are under appraisal and construction.

The Company owns approximately 13.9% interest in the Tangguh LNG project in Indonesia. In 2020, production of the first phase of the project remained stable with a daily net production of approximately 22,000 BOE. The construction of the third LNG train in the phase II of the project is in progress as planned.

Iraq

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

In 2020, the Company continued to drill development wells in Missan oilfields, and the production of the project has steadily increased. However, due to the production curtailment of the OPEC, the daily net production decreased to approximately 35,000 BOE.

United Arab Emirates

In 2020, the Company has acquired 40% equity interest in the project companies of two former oilfield contract areas of CNPC, namely the Lower Zakum Shallow Water Oilfield and Umm Shaif & Nasr Oilfield in Abu Dhabi, and indirectly hold 4% interest in each of such two oilfield contract areas. In 2020, the projects maintained stable production with an average daily net production of approximately 12,000 BOE.

Oceania

Currently, the Company's oil and gas assets in Oceania are mainly located in Australia and Papua New Guinea. As of the end of 2020, reserves and production derived from Oceania reached 42.0 million BOE and 32,673 BOE/day, respectively, representing approximately 0.8% of the Company's total reserves and approximately 2.3% of its production.

Australia

The Company owns a 5.3% interest in the North West Shelf LNG Project ("NWS Project") in Australia. The project has commenced production and is currently supplying gas to end-users including the Dapeng LNG Terminal in Guangdong, China.

In 2020, the NWS Project achieved additional incremental gas production with favourable economic returns.

Other Regions in Oceania

The Company owns interests in three blocks which are still under exploration in Papua New Guinea.

Africa

Africa is one of the regions where the Company has a relatively large overseas oil and gas reserves and production. The Company's assets in Africa are primarily located in Nigeria and Uganda. As of the end of 2020, reserves and production in Africa reached 77.5 million BOE and 90,750 BOE/day, respectively, representing approximately 1.4% of the Company's total reserves and approximately 6.3% of its production.

Nigeria

The Company owns a 45% interest in the OML130 block in Nigeria. The OML130 block is a deepwater block comprising four oilfields, namely Akpo, Egina, Egina South and Preowei.

In 2020, Akpo oilfield maintained stable production, with a daily net production reaching approximately 41,000 BOE. Egina oilfield began to implement the production curtailment of the OPEC in May 2020, with a daily net production reaching approximately 44,000 BOE.

In addition, the Company holds a 20% non-operator interest in Usan oilfield in the OML138 block in offshore Nigeria, and an 18% non-operator interest in the OPL223 and OML139 PSC, respectively.

We will continue to carry out further integration to establish an oil and gas production base in West Africa centred in Nigeria.

Uganda

The Company owns a one-third interest in each of EA 1, EA 2 and EA 3A blocks in Uganda. EA 1, EA 2 and EA 3A blocks are located at the Lake Albert Basin in Uganda, which is one of the most promising basins in terms of oil and gas resources in onshore Africa.

In 2020, the Company fully facilitated the negotiation of the framework agreement for the long-distance transmission pipeline project in Uganda. In the future, the Company will adhere to the philosophy of mutually beneficial cooperation and continue to actively cooperate with project partners and the Ugandan government.

Other Regions in Africa

Apart from Nigeria and Uganda, the Company also owns interests in several blocks in Senegal, the Republic of the Congo and the Gabonese Republic.

North America

North America has become the Company's largest overseas oil and gas reserves and production region. The Company holds interests in oil and gas blocks in the U.S., Canada, Mexico and Trinidad and Tobago in North America. As of the end of 2020, the Company's reserves and production in North America reached 1,087.7 million BOE and 143,949 BOE/day, respectively, representing approximately 20.2% of the Company's total reserves and approximately 10.0% of its production.

The U.S.

The Company owns interests in two onshore shale oil and gas projects in the U.S. and two offshore deepwater projects in the Gulf of Mexico.

CNOOC Limited holds 27% and 12% interests in Eagle Ford and Rockies, respectively, which are two onshore shale oil and gas projects in the U.S. In 2020, the daily net production of Eagle Ford project and Rockies project reached 48,000 BOE and 9,000 BOE, respectively.

CNOOC Limited owns interests in two important deepwater projects, namely Stampede and Appomattox in the U.S. Gulf of Mexico. In 2020, with the improvement of surface facilities and oilfield water injection, the production of Stampede project remained stable. Affected by the low oil prices, we and our partners reduced the number of production wells in the Appomattox project with a daily net production of approximately 14,000 BOE. In addition, CNOOC Limited also owns interests in several other exploration blocks in the U.S. Gulf of Mexico.

Canada

Canada is one of the world's major enrichment areas for oil sands. The Company owns 100% working interest in Long Lake and three other oil sands projects in the Athabasca region of northeastern Alberta in Canada.

In 2020, facing with low oil prices, we effectively used the time gap to conduct Long Lake project overhaul in advance. After the recovery of the oil prices, the production has gradually increased. Its daily net production was approximately 31,000 BOE in 2020.

The Company holds a 7.23% interest in the Syncrude project and its daily net production in 2020 was approximately 20,000 BOE. The Company also holds a 25% interest in the Hangingstone oil sands project and non-operator interests under several other exploration and development licences.

The Company also holds 100% exploration interest in two exploration blocks in offshore East Canada. The drilling of one wildcat is expected to be completed in 2021.

In addition, the Company holds approximately 9.47% of shares in MEG Energy Corporation, a listed company in Canada.

Other Regions in North America

The Company owns a 12.5% interest in the 2C block and a 17.12% interest in the 3A block in Trinidad and Tobago, respectively, of which the 2C block is in production with stable production and favourable economic returns.

The Company also owns 100% exploration operator interest in block 1 and a 70% exploration operator interest in block 4 of the Cinturon Plegado Perdido deepwater exploration blocks in Mexico, respectively. In 2020, the drilling of one wildcat in block 1 was completed and the drilling of one wildcat in block 4 is scheduled to be completed in 2021.

South America

South America is one of the Company's important sources of future reserve and production growth. The Company holds interests in oil and gas blocks in Brazil, Guyana and Colombia in South America, as well as a 50% interest in BC ENERGY INVESTMENTS CORP. ("BC") in Argentina. As of the end of 2020, the Company's reserves and production derived from South America reached 286.6 million BOE and 72,018 BOE/day, respectively, representing approximately 5.3% of the Company's total reserves and approximately 5.0% of its production.

Brazil

Brazil is one of the world's most important deepwater oil and gas development regions. CNOOC Limited holds a 10% interest in Libra PSC, a deepwater pre-salt project in Brazil. The oilfield is located in the Santos Basin. In addition, CNOOC Limited holds a 5% interest in Búzios Surplus project in Brazil, which is a deepwater pre-salt project. Currently, negotiations on relevant agreements for the project are in progress.

The Mero oilfield in the northwest area of the Libra block includes four production units, namely Mero 1, Mero 2, Mero 3 and Mero 4. The production of the extended well trial project remained stable in 2020. The final investment decisions for Mero 1, Mero 2 and Mero 3 oilfields have been made and the projects are expected to commence production in 2021, 2023 and 2024, respectively. The development plan of Mero 4 has been completed.

In the future, we will fully leverage on the development opportunities of the Libra project and Búzios Surplus project to seek new drivers for production growth.

CNOOC Limited also holds 100% interest in the 592 block in offshore Brazil, a 20% interest in the ACF Oeste block and a 30% interest in the Pau Brasil block.

Guyana

CNOOC Limited holds a 25% interest in the Stabroek block in offshore Guyana.

The Phase I of Liza oilfield in the block commenced production ahead of schedule in December 2019. Its daily net production reached approximately 17,000 BOE in the end of 2020.

The final investment decision for Liza oilfield Phase II has been made and the oilfield is expected to commence production in 2022. For the Payara oilfield, the final investment decision has been made and the government's approval has been obtained.

In 2020, 3 new discoveries including Uaru, Yellowtail-2 and Redtail have been made in the Stabroek block, and Yellowtail oil and gas bearing structure was successfully appraised. Currently, a total of 18 new discoveries have been made in the block and the recoverable resources have been further expanded to approximately 9.0 billion BOE.

Argentina

CNOOC Limited holds a 50% interest in BC and makes joint decisions on its management. BC holds a 50% interest in Pan American Energy Group in Argentina.

In 2020, the daily net production of BC reached approximately 52,000 BOE.

Other Regions in South America

The Company also holds interests in several exploration and production blocks in Colombia.

Europe

In Europe, CNOOC Limited holds interests in oil and gas fields such as Buzzard and Golden Eagle in the U.K. North Sea, and holds a 10% equity interest in Arctic LNG 2 LLC in Russia. As of the end of 2020, the Company's reserves and production derived from Europe reached 72.0 million BOE and 54,518 BOE/day, respectively, representing approximately 1.3% of the Company's total reserves and approximately 3.8% of its production.

The U.K.

The U.K. is one of the Company's key overseas development areas. The Company's asset portfolio in the U.K. North Sea includes projects under production, development and exploration, which mainly include: holding a 43.21% interest in the Buzzard oilfield, one of the largest oilfields in the North Sea, and a 36.5% interest in the Golden Eagle oilfield.

Buzzard and Golden Eagle oilfields are making considerable contributions to the Company's production. In 2020, the Buzzard oilfield's daily net production reached approximately 38,000 BOE. In addition, Buzzard oilfield Phase II is expected to commence production in 2021.

The Company also holds 50% exploration interest of P2215 block and 100% exploration interest of P2279 block in the U.K. North Sea, and plans to complete the drilling of two appraisal wells in Glengorm before 2022.

In addition, the Company holds 30% interest in P2415 block in the U.K. West Shetland Basin.

Russia

The Company owns a 10% interest in Arctic LNG 2 LLC, which is located in the Gydan Peninsula in the Arctic region of Russia. The project is the second oil and gas cooperation project between China and Russia in the Arctic Circle which covers the whole industry chain. Three LNG production trains will be established as planned in the project and put into production in 2023, 2024 and 2026, respectively. It is expected to produce 19.80 million tons of LNG annually after full operation.

SALES AND MARKETING

Sales of Crude Oil

The Company sells crude oil produced in offshore China in domestic market mainly through CNOOC China Limited, its wholly-owned subsidiary. The Company sells crude oil produced overseas in international and domestic markets mainly through China Offshore Oil (Singapore) International Pte Ltd, its wholly-owned subsidiary, and CNOOC Marketing Canada and CNOOC Marketing U.S.A. Inc under CNOOC International Limited, another wholly-owned subsidiary.

The Company's crude oil sales prices are mainly determined by reference to the prices of international benchmark crude oil of similar quality, with certain premiums or discounts subject to the prevailing market conditions. Although the prices are denominated in U.S. dollar, customers in China settle in Renminbi. The Company currently sells three types of crude oil in China, i.e., heavy crude oil, medium crude oil and light crude oil. The benchmark oil price is Brent. The Company's major customers in China are China National Offshore Oil Corporation, CNPC, Sinopec Group and some local private refineries. Crude oil produced overseas is benchmarked at the Brent, Dubai, Oman and WTI prices and regularly updated official oil prices of national oil companies in oil producing countries and sold in international markets.

In 2020, as a result of the decrease in international oil prices, the Company's average realised oil price was US$40.96 per barrel, representing a year-on-year decrease of approximately 35.3%, basically in line with that of international oil prices.

Sales of Natural Gas

The Company's natural gas sales prices are mainly determined through negotiation with customers. Generally, natural gas sales agreements are long-term contracts, and the contract terms normally include a price review mechanism. The Company's natural gas customers are primarily located in the southeast coastal areas of China, and the major customers include CNOOC Gas and Power Group, China BlueChemical Ltd, Hong Kong Castle Peak Power Company Limited, etc.

Sales of LNG from the NWS Project in Australia and the Tangguh LNG Project in Indonesia are mainly based on long-term supply contracts to various customers in the Asia-Pacific region, including the Dapeng LNG Terminal in Guangdong Province and the LNG terminal in Putian, Fujian Province in China.

In 2020, the Company's average realised natural gas price was US$6.17/mcf, representing a year-on-year decrease of approximately 1.6%, which was mainly affected by the decrease of the gas price in North America.

In China, thanks to policy support, the consumption of natural gas based on metre reading has maintained growth. However, due to the increased domestic exploration and development efforts, coupled with the rapid growth of imported LNG, the overall supply of the natural gas market was relatively abundant and the supply and demand were generally balanced. Based on market conditions, the Company raised certain contract prices during peak demand season through negotiations.

RESEARCH AND SCIENTIFIC DEVELOPMENT

In 2020, the Company continued to implement the innovation-driven strategy, deepened the reform of the scientific and technological system, and further increased investment in scientific and technological research and development. The Company insisted on facilitating exploration and development with scientific and technological innovation, and strengthened the transformation and utilisation of technological achievements so as to increase the reserves and production level, as well as reduce cost and enhance quality and efficiency. It made a solid foundation for the research and implementation of key technologies such as "Stabilising production at 30 million tons with an aim of increasing to 40 million tons for Bohai oilfields". The Company also accelerated the research on critical core technological projects, which helped make breakthroughs in the localisation of a number of key equipment. Researches on offshore wind power, geothermal energy and other new energy fields were carried out to facilitate the Company's energy transition.

Major Scientific and Technological Project Developments

In 2020, the Company deepened the development of its core oil and gas business, and continued to carry out technological researches with a focus on key areas such as deepwater, high temperature and pressure, heavy oil, and low permeability. The technological research of the "Lingshui Semi-submersible Production Platform Research Project" was carried out, which facilitated the high-quality development of the Company. New progress has been made in key scientific and technological developments such as technologies for strengthening water flooding, increasing production and exploiting potential, effective development technology for large-sized thermal recovery of heavy oil, and improving the recovery rate of producing oil and gas fields. New breakthroughs have been made in the localisation of key technologies and equipment for deepwater oil and gas development, which will provide scientific and technological support for increasing oil and gas reserves and production.

Progress of Major Technological Innovations

In 2020, new progress was made in the construction of scientific research platforms. The construction of national key laboratory for natural gas hydrates was steadily advanced, and the experimental capabilities of multiple scientific research platforms such as unconventional oil and gas exploration and development, chemical flooding, and thermal recovery of heavy oil have been steadily improved. Significant progress has been made in projects such as "Natural gas hydrate accumulation mechanism and safe and efficient exploitation mechanism".

HEALTH, SAFETY AND ENVIRONMENTAL PROTECTION ("HSE")

As always, CNOOC Limited adheres to the core HSE values of "Safety First, Environment Paramount, People-oriented and Equipment Integrated". Under the general keynote of the "Three-year Special Action for improving safe operation and deepening the responsibility system for production safety among all employees", the Company continuously improves the management of the HSE system, and strives to provide a safe working environment for its employees and contractors so as to maintain a relatively stable performance of production safety and build a first-class safety risk management and control system.

In 2020, we focused on further implementation of the "Three-year Special Action" for improving safety production, with special supervision and superior review as the starting points, to further strengthen the implementation of the "Six Responsibilities" of safety production, improve the dual prevention mechanisms, further promote the construction of safety culture, continue to consolidate the foundation for safe production, and ensure the smooth progress of the Seven-year Action to increase reserves and production with high-quality work on safety and environmental protection.

During the year, we continued to strengthen the review and inspection of key operations, and enhanced safety control measures for major projects under construction, subsurface well operation safety, high-risk wells and production facilities, and typhoon prevention projects. In particular, we intensified well control safety management, and improved the well control management mechanism of the Company and its subsidiaries. We facilitated the implementation of the Company's system framework related to equipment and facilities integrity, supervised all units to formulate goals and plans for the integrity management related to equipment and facilities of the year, and strengthened the risk control and management of key equipment and facilities.

We continued to shape a robust of a safety culture featuring "People-oriented, Implementation and Intervention". Focusing on the Three-year Special Action for improving safety production, it organised and carried out discussion on the identification of safety hazards, and held online knowledge contests on safety and environmental protection, such as "Hazards Identification under Microscope" essay competition and "Be Healthy and Safe Everyday" photo contest, as a way to organise and mobilise employees to actively participate in safety culture activities. It continued to carry out "Safety Classes" taught by leaders to guide employees to focus on safety, continuously improve safety awareness, and improve safety skills.

We paid great attention to the HSE risk of overseas operations, and shared global security information in a timely manner. We strengthened the safety supervision and management of overseas projects, and enhanced the key responsibilities of overseas operation safety to ensure the compliant, safe and stable operation of overseas projects.

BUSINESS OVERVIEW

Since the outbreak of COVID-19 pandemic, we insisted on “prioritising the employees’ lives and health” and swiftly established a leading group and a joint prevention and control mechanism consisting of a “leadership commanding system”, “prevention and control system” and “supervision and management system” to closely track the development of the pandemic, coordinate the efforts in pandemic prevention and control, resumption of operation and production and normalised pandemic prevention and control, and adjust the prevention and control measures based on actual situation so as to cover every aspect of its business in pandemic prevention and control with no omission or negligence, thereby effectively protecting the lives and health of employees. In China, in strict compliance with the national requirements for pandemic prevention and control, we strengthened symptom screening and body temperature check, refined the shift plan and quarantine of personnel to and from offshore platforms, and formulated emergency plans. In this way, we achieved “zero infection” in domestic workplaces and among overseas Chinese employees. Overseas, we closely followed the development of the pandemic in the countries of operation. According to the risk levels of different countries and regions, we adopted different pandemic prevention and control methods such as home office and regional quarantine and fully implemented various on-going prevention and control measures to protect the lives, health and safety of overseas units and project employees with our best efforts.

We actively implemented the Green Development Action by promoting environmental protection management in key areas. Guided by the Green Development Action, we actively cultivated and established green factories and green manufacturing integration projects. In 2020, Hainan Branch actively integrated its development into the green industrial chain of Hainan Free Trade Port and was recognised as a national “Green Factory”; Enping oilfield operation area of Shenzhen Branch and Lishui 36-1 gas field terminal treatment plant of Shanghai Branch were named as “Green Factory” in petroleum and petrochemical industry.

In 2020, CNOOC Limited once again maintained a good performance in safety management and adhered to consistently high HSE standards. OSHA (Occupational Safety and Health Administration) statistics for the year are set out below.

Scope	Total Man-hours (million)	Number of Recordable Cases	Rate of Recordable Cases	Number of Lost Workday Cases	Rate of Lost Workday Cases	Fatalities
Staff of the Company	62	1	0.02	0	0.00	0
Staff of the Company and direct contractors	158	25	0.16	16	0.10	1

CORPORATE CITIZEN

As always, the Company strongly advocates social responsibility and the harmonious development between enterprise and society, and between people and nature. The Company regards fulfilling social responsibility as a fundamental obligation. While committed to the sustainable growth of the Company and creating value for its shareholders, the Company also strives to provide clean and reliable energy to the society and to pay attention to the needs of stakeholders.

While pursuing production growth, CNOOC Limited will actively respond to climate change, practise the concept of green and low-carbon development, and build itself into a green and low-carbon enterprise. Our social responsibility philosophy is: to build CNOOC Limited into a driving force for sustainable energy supply, a leading force for clean, healthy and green development, and a facilitating force for the mutual progress of stakeholders and society.

In 2021, the Company will publish on its website the "2020 Environmental, Social and Governance Report", which will provide a systematic review of the Company's activities to fulfill its corporate social responsibility in 2020.

HUMAN RESOURCES

The Company always believes that its employees are the driving force for its development and the foundation for the continuous growth of its corporate values. We regard our employees as the core competitiveness for the Company's development. We always adhere to the people-oriented development concept, constantly improve various employment policies, attach great importance to the rights and interests of employees, create a good environment for employees' development and help them grow in a healthy atmosphere.

Objective, Open and Equal Employment Policy

CNOOC Limited strictly complies with relevant applicable domestic and international laws and regulations, and continues to improve the Company's internal employment management policy. In China, CNOOC Limited strictly complies with international conventions approved by the Chinese government such as the Discrimination (Employment and Occupation) Convention and policies and regulations such as the Labour Law of the People's Republic of China and the Labour Contract Law of the People's Republic of China, and established the employment and labour contract management policy to safeguard various legitimate rights and interests of our employees. Overseas, CNOOC Limited abides by relevant laws and regulations, and established overseas employee management policy to ensure that the legitimate rights of all employees are respected.

The Company complies with the employment principles of diversity and anti-discrimination, and insists on the equal treatment of employees of different races, nationalities, beliefs, genders, ages, marital status and those protected by special laws in employee recruitment, training, promotion and remuneration system. The Company strives to provide equal opportunities for employees in all aspects, actively cultivates a respectful, open and inclusive corporate culture and cherishes the diverse talents of employees.

CNOOC Limited adheres to the principle of gender equality in employment, actively increases the number of female employees and conducts training and educational activities for women in management roles. In addition, the Company also enriches the leisure life of female employees in various ways and encourages them to participate in various activities. As of the end of 2020, the Company's female employees accounted for approximately 14% of the total workforce, and 16% employees in mid-level and senior management positions were female.

All employees signed employment contracts with the Company based on the principles of equality and voluntariness. The Company strictly complies with labour laws and regulations, opposes any form of inhumane treatment, abides by the regulations of its places of operation on salaries, overtime hours and statutory benefits and prohibits any forced labour.

Sufficient Safeguard on Employees' Rights

CNOOC Limited strives to create an open, transparent, equal and diverse work environment, adheres to the "people-oriented, employee caring" concepts, and places great emphasis on safeguarding the legitimate rights of employees.

We offer employees competitive compensation packages in the industry, established a salary increment mechanism, and gradually established a distribution system that matches market mechanism. The Company's remuneration system deploys multi-level and precise incentives closely associated with work quality and value contribution and further tilts to technological experts and frontline staff to match employee incomes with the Company's profit growth and enable employees to share the results of the Company's development.

A comprehensive and effective social security system has also been built, and various social and multi-level supplementary insurances are provided to employees on a timely basis. In addition to making contributions for the five basic social insurances (pension, medical, work-related injury, unemployment and maternity), the Company also provides employees with supplementary insurances such as personal injury insurance, critical illness insurance, commercial supplementary medical insurance and supplementary medical insurance for children. CNOOC Limited has also established annuity and housing subsidy programmes for employees.

At the same time, the Company respects and supports employees' freedom of association, assembly and joining trade union organisations under the laws. The Company has established trade union organisations at all levels in accordance with the Trade Union Law of the People's Republic of China to protect the legitimate rights of the employees, oversee the Company's performance of duties and obligations, supervise the Company's various business activities related to the interests of the employees, and communicate with the management on behalf of employees. The Company follows the management policies such as the Labour Contract Management Rules and organised the promotion and implementation within the Company. At the same time, the Company maintains close communication with the legal department and trade union organisations to jointly protect the legitimate rights of employees.

Overseas, CNOOC Limited comprehensively protects the legitimate rights of local employees, strictly complies with local employment regulations, provides employees with vacation, social insurance and other benefits in accordance with local labour laws and regulations. The Company also encourages local employees to develop together with the Company by creating remuneration adjustment mechanisms and incentive mechanisms that correspond to the practical situations of the respective localities. The Company provides necessary occupational skill trainings and skill enhancement trainings to local employees as well as development opportunities such as job exchanges, on-the-job trainings and overseas positions. The Company encourages cultural integration and actively participates in local community construction and activities, and encourages local employees to participate in competitions and cultural activities organised by the Company headquarter.

Staff Development

CNOOC Limited adheres to the common growth of employees and the Company, attaches importance to employee development, builds a multi-level training system for employees and continues to empower employees as needed. Diversified talent development strategies are continuously promoted and implemented. Allocation of training resources is optimised and intensified trainings for key professions and positions are carried out.

We constantly promote the implementation of diversified talent development strategies. The employee trainings were comprehensive. The average online and offline training received by an employee reached 189 hours throughout the year, representing an increase of 43% compared with 2019. The Company organised key personnel and outstanding talents of different ranks, functions, and business fields to attend key trainings including "Operation Capability Enhancement Class for Strategic Business Unit", "Young Talents Training Camp", "Drilling and Completion Directors Training Course". Talents reserve and cultivation were implemented while promoting the Company's business development. Meanwhile, the Company continued to strengthen the construction of content and resources and the promotion of the online platform, created contents of various topics such as digital knowledge, health, safety and environmental protection, well control, etc., and used the platform to carry out various forms of training activities such as learning, talent selection and competition.

In 2020, the Company has issued the "3+1" Project Implementation Plan for the Construction of Cadre Talent Team, and established a team of excellent young management talents to provide a reserve force for the development of the Company. The number of young management talents aged around 40 accounted for over 50% of the newly promoted middle and senior management personnel, which effectively optimised the structure of the management team. The Company implemented major talent projects and vigorously cultivated strategic high-level talents. The development channel for technology series was opened up by engaging the first batch of senior technical experts of the Company. Meanwhile, the Company vigorously promoted professional skill certifications and increased the proportion of highly skilled personnel. In 2020, the total number of appraisals reached 1,855. Currently, there are 4,620 employees with titles of senior worker or above, accounting for approximately 78% of the total technical workforce, and 1,080 technicians and senior technicians, accounting for approximately 18% of the total technical workforce.

Cultivation of International Talents

The Company's strong focus on cultivating international talents is manifested in its established training system by hierarchy and level and intensified training of international talents through various means, which strengthens the establishment of an international talent team.

In 2020, the Company continued to promote the training programme of international talents, studied and formulated the mid-to-long-term plan and future vision for the building of an international talent team, which specified the scale of overseas employees, determined key goals in the number of international and advanced management talents, technical talents and reserve talents, and formulated 14 specific measures to strengthen capacity building and building a talent pipeline. The Company organised and completed the two-year training for the second batch of international professionals, and organised online trainings.

RISK MANAGEMENT AND INTERNAL CONTROL

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

Since its establishment, the Company has treated risk management and internal control as a top priority. The Company recognises that it is the duty and obligation of its management to establish and maintain a risk management and internal control system which serves the Company's strategic objectives and meets the Company's business practice.

The Company's RMICC Committee (Risk Management, Internal Control and Compliance Management Committee) is directly managed by the Chief Executive Officer and has been authorised by the Board to be in charge with the organisation and implementation of the overall risk management and internal control, on-going monitoring of the risk management and internal control systems of the Company, and making periodic reports to the Board regarding the status of the risk management and internal control system and compliance control of the Company.

- With respect to risk management, the Company has chosen and adopted the ISO 31000:2018 Risk Management Guideline, and has taken the risk management framework issued by COSO (namely, the Committee of Sponsoring Organisations of the Treadway Commission) of the U.S. as an important reference, established a risk management system covering design, implementation, monitoring, assessment and continuous improvement. The RMICC Committee of the Company shall establish the overall targets and strategies of the risk management system which are in line with the strategic objectives of the Company, and identified, analysed and assessed the overall risks of the Company, including the Company's key risks in making major decisions, important events and key business processes. The RMICC Committee is also responsible for reviewing and approving the response plans to major risks, as well as following up and periodically reviewing the implementation of such response plans, in order to ensure that sufficient attention, monitoring and responses will be afforded to all key risks of the Company.

- With respect to internal control, the Company has chosen and adopted the internal control framework issued by COSO of the U.S., established an internal control system and mechanism over financial, operational and compliance controls and has conducted continuing review and evaluation of the internal control of the Company in order to ensure the timeliness, accuracy and completeness of all information reported.

- In 2020, relying on the existing framework of risk management and internal control system, the Company further refined and clarified the compliance responsibilities of the Board, the management and the executives, implemented the action plan for the construction of compliance management system, established strict internal prevention and management system, strengthened compliance training and cultural promotion and implementation, so as to regulate all employees to perform their duties properly.

- The Board considered that as of 31 December 2020, the Company's risk management system and the Company's internal control over financial reporting were effective.

As a company listed in Hong Kong, the U.S. and Canada, the Company will continue to strictly comply with all regulatory requirements, strengthen its risk management and internal control system, and maintain a high standard of corporate governance to ensure the Company's healthier development.

RISK FACTORS

Although we have established the risk management system to identify, analyse, evaluate and respond to risks, our business activities may subject to the following risks, which could have material effects on our strategies, operations, compliance and financial condition. We urge you to carefully consider the risks described below.

The Company and its controlling shareholder, CNOOC, have been added to the list of Chinese companies with alleged ties to the Chinese military issued by the U.S. government agencies and trading in the securities of the Company may be affected.

On 12 November 2020, the U.S. President signed Executive Order 13959 – "Addressing the Threat from Securities Investments that Finance Communist Chinese Military Companies" (as amended on 13 January 2021, "E.O. 13959"). On 3 December 2020, the U.S. Department of Defense added four Chinese companies (including CNOOC) to the list of Chinese companies with alleged ties to the Chinese military. On 8 January 2021, the Office of Foreign Assets Control ("OFAC") of the U.S. Department of the Treasury added the Company to its "Non-SDN Communist Chinese Military Companies List".

Pursuant to E.O. 13959, transactions, including purchases and sales, of publicly traded securities, or any securities that are derivative of, or are designed to provide investment exposure to such securities ("Covered Securities"), of the Company by any United States citizen, permanent resident alien, entity organised under the laws of the United States or any jurisdiction within the United States (including foreign branches), or any person in the United States ("U.S. person") will be prohibited. For the Company, such prohibition became effective beginning 9:30 a.m. (Eastern Standard Time) on 9 March 2021, subject to certain divestiture and other exemptions. However, any transaction made on or before 365 days from the date on which the Company was added to the "Non-SDN Communist Chinese Military Companies List" solely to divest, in whole or in part, from Covered Securities that any U.S. person held in the Company as of 9 March 2021 (Eastern Standard Time) is permitted. Afterwards, possession of any Covered Securities of the Company by a U.S. person is prohibited. On 26 February 2021 (Eastern Standard Time), the New York Stock Exchange ("NYSE") Regulation determined to commence proceedings to delist the ADSs of the Company on the basis that the Company is no longer suitable for listing pursuant to NYSE Listed Company Manual Section 802.01D in light of E.O. 13959 and updated guidance provided by OFAC in General License 1A and frequently asked questions 879 issued on 27 January 2021. The NYSE suspended trading in the ADSs of the Company at 4:00 a.m. (Eastern Standard Time) on 9 March 2021. On 10 March 2021 (Eastern Standard Time), the Company filed with the NYSE a written request for a review of the delisting determination. There is no assurance that the Company's review request will be successful.

The fact that the Company was added to such lists and trading in the Covered Securities are subject to the prohibition provided for by E.O. 13959 may cause U.S. persons to sell the Covered Securities, which may cause fluctuations in the market prices of our ADSs listed on the New York Stock Exchange and the Toronto Stock Exchange, our ordinary shares and debt securities listed on the Hong Kong Stock Exchange and any other securities and derivatives publicly traded. In such a situation, our business partners may re-evaluate the risk of transacting with us.

Our business, cash flows and profits fluctuate with volatility in oil and gas prices.

Prices for crude oil, natural gas and oil products may fluctuate widely in response to relative changes in the supply and demand for crude oil and natural gas, market uncertainty and various other factors beyond our control, including but not limited to overall economic conditions, political instability, armed conflict and acts of terrorism, economic conditions and actions of major oil-producing countries, the prices and accessibility of other energy sources, domestic and foreign government regulations, natural disasters, weather conditions and major public health emergencies (e.g. the novel coronavirus (COVID-19) outbreak in 2020). Changes in oil and gas prices could have a material effect on our business, cash flows and earnings.

Oil and gas prices are volatile. A downward trend in oil and gas prices which lasts for a long period may adversely affect our business, revenue and profits, and may also result in write-off of higher cost reserves and other assets, reduction in the amount of oil and natural gas we can produce economically and termination of existing contracts that have become uneconomic. The prolonged slump in oil and gas prices may also impact our long-term investment strategies and operation capability for our projects.

Our business and strategies may be substantially affected by complex macro economy, political instability, war and terrorism and changes in policies, laws and fiscal and tax regimes.
The international political and economic situation is complex and changeable. Some of the countries in which we operate may be considered politically and economically unstable. As a result, our financial condition and operating results could be adversely affected by associated international actions, domestic civil unrest and general strikes, political instability, war and acts of terrorism. Any changes in regime or social instability, or other political, economic or diplomatic developments, or changes in policies, laws, fiscal and tax regimes are not within our control. Our operations, existing assets or future investments may be materially and adversely affected by these changes as well as trade and economic sanctions due to deteriorated relations among different countries.

For example, with regard to the UK's exit from the European Union on 31 January 2020 ("Brexit"), the EU and the UK have reached an agreement on a new trade arrangement, which has been applied provisionally since 1 January 2021. However, there are still uncertainties about the actual consequences of Brexit, including the possibility that Brexit will lead to instability in the financial, stock and currency exchange markets, and the possibility that the supply and availability of goods and services between the UK and the EU will be further restricted. The ongoing oil and gas system reform in China may have certain impacts on the Company's business in China. At present, China's foreign investment access policies no longer restrict foreign investment to enter the oil and gas exploration and production industry in China through joint venture and cooperation only. At the end of 2019, China's ministry of natural resources management published the *Opinions on Several Matters Concerning Promoting Reform of Mineral Resources Administration* (for Trial Implementation), which imposed challenges for the Company to obtain and retain business in the oil and gas fields in the future. The above law and regulations and the ongoing oil and gas system reform in China may have certain impacts on the Company's existing business model.

Our financial performance is affected by the tax and fiscal regimes of host countries in which we operate. Any changes in these regimes may result in increased costs, including an increase in applicable tax rates for the Company in some circumstances. Furthermore, the Organisation for Economic Co-operation and Development (OECD) initiated the "Base Erosion and Profit Shifting Project" (BEPS Project) to enhance multilateral cooperation and strengthen supervision on global corporate taxation and transfer pricing activities. Numerous countries have responded to the BEPS Project by implementing tax law changes and amending tax treaties at a rapid pace.

Oil and gas industry is highly competitive.
We compete in the PRC and other countries in which we operate with national oil companies, major integrated oil and gas companies and various other independent oil and gas companies for access to oil and gas resources, products, alternative energy, customers, capital financing, technology and equipment, talents and business opportunities. Competition may result in shortage of these resources or over-supply of oil and gas, which could increase our cost or reduce our earnings, and adversely impact our business, financial condition and results of operations.

In addition to competition, as we need to obtain various approvals from governmental and other regulatory authorities in order to maintain our operations, we may face unfavourable results such as project delays and cost overruns, which may further impact the realisation of our strategies and adversely impact our financial condition.

At the same time, environmental protection supervision in the energy sector is becoming increasingly strict. Many countries have accelerated the global transition to low-carbon clean energy by setting emission reduction standards, strictly implementing the renewable energy proportion plan, levying high carbon taxes, and enacting strict regulatory bills. Green and low-carbon transformation may lead to intensified competition in the energy supply market, resulting in a substantial increase in our costs.

Rising climate change concerns could lead to additional regulatory measures that may result in higher costs.

It is expected that the CO_2 emissions will increase as our production grows. CO_2 emissions from combustion will continue to increase without a mature and reliable gas collection system in place. With the coming into force of the Paris Agreement and the continuing growth of the public's awareness of climate change problems, the carbon emission policies of different countries have been enacted one after another. The Company expects to be supervised by relevant agencies and organisations in the future. If we are unable to find economically viable and publicly acceptable solutions that could reduce our CO_2 emissions from our new and existing projects, we may experience additional costs, and our reputation may be adversely affected.

Our ability to deliver competitive returns and pursue commercial opportunities depends in part on the robustness and the long-lasting accuracy of our price predictions.

We review the oil and natural gas price predictions on a periodic basis when evaluating project decisions and business opportunities. We generally assess projects and other business opportunities based on a long-term price range. While we believe our current long-term price predictions are prudent, if such predictions proved to be incorrect, it could have a material adverse effect on us. For short-term planning purposes, we assess the project feasibility by using a wider price range.

Mergers, acquisitions and disposals may expose us to additional risks and uncertainties, and we may not be able to realise the anticipated benefits from acquisitions and disposals.

Mergers and acquisitions may not succeed due to various reasons, such as difficulties in integrating activities and realising synergies, outcomes differing from key assumptions, host countries' governments reacting or responding in a different manner from that envisaged, or liabilities and costs being underestimated. Any of these reasons would reduce our ability to realise the anticipated benefits. We may not be able to successfully dispose of non-core assets at acceptable prices, resulting in increased pressure on our cash position. In the case of asset disposals, we may be held liable for past acts, or failures to act or perform obligations, we may also be subject to liabilities if a purchaser fails to fulfill its commitments. These risks may result in an increase in our costs and inability to achieve our business goals.

The nature of our operations exposes us and the communities in which we operate to a wide range of health, safety, security and environment risks.

Every aspect of our daily operations exposes us to health, safety, security and environment (HSSE) risks given the geographical area, operational diversity and technical complexity of our operations. Part of our oil and gas operations are located in environmentally sensitive regions or politically unstable regions, such as Iraq, Nigeria, etc.; or operating in offshore environment, especially in new deep water area such as Mexico, etc. Our operations expose us and the communities in which we operate to a number of risks, including major process safety incidents, natural disasters, social unrest, personal health and safety mistakes and potential consequences from unforeseeable external destruction, for instance, typhoons, sea ice, etc. may damage platform structure, and submarine pipelines may lead to oil spills and gas leaks due to damage from external force. If a major HSSE risk materialises, such as an explosion or hydrocarbon spill, it could result in casualties, environmental damage, disruption to business activities and material impact on our reputation, exclusion from bidding or eventually loss of our licence to operate. In certain circumstances, liabilities imposed may be disproportionate to our fault in the matter. Regulatory regimes for HSSE in host countries in which we operate change constantly and may become more stringent over time. In the future, we may incur significant additional costs in complying with such requirements or bear liabilities such as fines, penalties, clean-up costs and third-party claims, as a result of breach of laws and regulations relating to HSSE matter.

RISK MANAGEMENT AND INTERNAL CONTROL

We maintain various insurance policies for our operations against potential losses. However, our ability to insure against our risks is subject to the availability of relevant insurance products in the market. In addition, we cannot assure you that our insurance coverage is sufficient enough to cover all losses that we may incur, or that we will be able to successfully claim our losses under our existing insurance policies on a timely basis, or at all. If any of our losses are not covered by our insurance coverage, or if the insurance compensation is less than our losses or the claim is not paid on a timely basis, our business, financial condition and results of operations could be materially and adversely affected.

Violations of anti-corruption, anti-fraud, anti-money laundering and corporate governance laws may expose us to various risks.

Laws and regulations of the host countries or regions in which we operate, such as laws on anti-corruption, anti-fraud, anti-money laundering and corporate governance, are constantly changing and becoming more comprehensive, especially in the U.S., the U.K., the EU, Canada, Australia, Guyana and China. The compliance with these laws and regulations may increase our cost. If the Company, our directors, executives or employees fail to comply with any of such laws and regulations, it may expose us to prosecution or punishment, damage to our reputation and image, and our ability to obtain new resources and/ or access to the capital markets, and it may even expose us to civil or criminal liabilities.

Data security, data privacy and data protection laws and other technology regulations increase our costs and violations of such laws and regulations will expose us or our employees to fines and liabilities.

Laws and regulations related to privacy and data protection are generally becoming more stringent. Some countries and jurisdictions where we operate in or have access to data have data security, data privacy or data protection laws and regulations, such as the European Union General Data Protection Regulation (GDPR) and the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong). As a company with operations in various countries and regions, we are subject to data privacy and security laws in numerous jurisdictions as a result of having access to and processing confidential, personal or sensitive data in the course of our business. Therefore, compliance with the various data privacy regulations around the world may require significant expenditures. In addition, failure to comply with current and future laws and regulations could result in government enforcement actions (including the imposition of significant penalties), criminal and civil liability for us and our officers and directors, private litigation and/ or adverse publicity that negatively affects our business.

Potential Changes in the U.S. sanctions regime could result in negative media and investor attention and possible sanctions imposed on the Company due to the Company's or its affiliate's activities in certain countries or regions, which could materially and adversely affect our shareholders.

Different levels of the U.S. government – federal, state or local – impose economic sanctions of varying severity against certain geographical areas and their populations or against designated governments, organisations, individuals and entities wherever located. Our controlling shareholder, CNOOC, non-controlling affiliates and the Group did not carry out any sanctionable activities in 2020. However, it is impossible to predict whether the Company or its affiliated companies will be restricted from operating or carrying out certain businesses in the future due to changes in the U.S. sanctions regime. If this happens, the impact may include that our Company is unable to continue to carry out the business with U.S. persons, the Company is prohibited from engaging in relevant activities in the U.S., the U.S.-related transactions in our securities and distributions to U.S. individuals and entities with respect to our securities are prohibited, pension or endowment funds of certain U.S. states and local governments or universities sell our securities, and we are subject to negative media or investor attention which may distract management, consume internal resources and affect investors' perception of our Company and investment in our Company.

Any failure to replace reserves and develop our proved undeveloped reserves could adversely affect our business and our financial position.
Our exploration and development activities involve inherent risks, including the risks of failing to discover commercially productive oil or gas reservoirs or that the wells we drill may not be able to commence production or may not be sufficiently productive to generate a return of our partial or full investments. In addition, approximately 53% of our proved reserves were undeveloped as of 31 December 2020. Our future success depends 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.

The reliability of reserve estimates depends on a number of factors, including the quality and quantity of technical and economic data, the market prices of our oil and gas products, the production dynamics of oil reservoirs, extensive engineering judgments, comprehensive judgement of engineers and the fiscal and tax regimes in the countries where we have operations or assets.

Many of the factors, assumptions and variables involved in estimating reserves are beyond our control and may be proved to be incorrect over time. Consequently, the results of drilling, testing, production and changes in oil and gas prices may require substantial upward or downward revisions to our initial reserve data.

If we fail to develop or gain access to appropriate technologies, or to deploy them effectively, the realisation of our strategies as well as our competitiveness and ability to operate may be adversely affected.
Technology and innovation are vital for us to enhance the Company's competitiveness in a competitive environment and exploration and development challenges. For example, we strive to rely on technologies and innovations to realise our strategy and enhance our competitiveness and operation capacity in the development of unconventional oil and gas resources, including heavy oil, oil sands, shale oil and gas and coalbed methane, deep water exploration and development, and offshore enhanced oil recovery. If our core technology reserves are insufficient, it may have a negative impact on the Company's reserves and production targets and cost control targets.

Breach of our cyber security or break down of our IT infrastructure could damage our operations and our reputation.
Malicious attacks on our cyber system, negligence in the management of our cyber security and IT system and other factors may cause damage or breakdown to our IT infrastructure, which may disrupt our operations, result in loss or misuse of data or sensitive information, cause injuries, environmental harm or damages in assets, violate laws or regulations and result in potential legal liability. These actions could result in significant increase in costs or damage to our reputation.

RISK MANAGEMENT AND INTERNAL CONTROL

CNOOC, the controlling shareholder of the Company, will have an impact on the Company to a certain extent, and we regularly enter into connected transactions with CNOOC and its affiliates.

Currently, CNOOC directly and indirectly owns or controls approximately 65.01% of our shares. As a result, CNOOC can have an impact on the election of our Board members, our dividend payments and other decisions. Under current PRC laws, CNOOC has the exclusive right to enter into PSCs with foreign enterprises for petroleum resources exploitation in offshore China. Although CNOOC has undertaken to transfer all of its rights and obligations (except for those relating to administrative functions as a state-owned company) under any new PSCs that it enters into to us (save for certain exceptions), our strategies, results of operations and financial position may be adversely affected in the event CNOOC takes actions that favour its own interests over ours.

In addition, we regularly enter into connected transactions with CNOOC and its affiliates. Certain connected transactions require a review by the Hong Kong Stock Exchange and are subject to prior approvals by our independent shareholders. If these transactions are not approved, the Company may not be able to proceed with these transactions as planned and it may adversely affect our business and financial condition.

Oil and natural gas transportation may expose us to financial loss and reputational harm.

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, explosions 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, operating loss, risk of financial loss and reputational harm. We may not be able to arrange insurance coverage for all of these risks and uninsured losses and liabilities arising from these hazards could reduce the funds available to us for financing, exploration and investment, which may have a material adverse effect on our business, financial condition and results of operations.

We face various risks with regard to our business and operations in Canada.

Transportation and export infrastructure in Canada is limited, and without the construction of new transportation and export infrastructure, realisation of our full oil and natural gas production capability may be affected. In addition, we may be required to sell our products into the North American markets at lower prices than in other (international) markets, which could materially and adversely affect our financial performance.

Furthermore, First Nations in Canada have aboriginal land claims, including claims to certain mineral resources, in a substantial portion of western Canada. As a result, negotiations with First Nations prior to commencing future projects (including surface activities necessary to conduct mineral extraction) are prudent. Failure to successfully negotiate with affected First Nations may result in timing uncertainties or delays of future development activities.

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

A portion of our operations are conducted in the form of partnerships or in joint ventures in which we may have limited capability to influence and control their operation or future development. Our limited ability to influence and control the operation or future development of such joint ventures could materially and adversely affect the realisation of our target returns on capital investment and lead to unexpected future costs.

If we depend heavily on key customers or suppliers, our business, results of operations and financial condition could be adversely affected.

Key sales customers – if any of our key customers reduces its crude oil or natural gas purchases from us significantly, our results of operation could be adversely affected. In crude oil sales, we adopt measures including confirming the annual sales plan and participating in market competition so as to maintain a stable cooperation with customers and to reduce reliance on a single customer. In natural gas sales, we adopt measures including signing long-term gas supply agreements with take-or-pay clause so as to minimise the risk of impact on our financial condition.

Key suppliers – we have strengthened our communication in business with our key suppliers in order to maintain a good working relationship. We have also established strategic partnerships through communications and reached a consensus in corporate cultures and mutually beneficial cooperation. Furthermore, we actively explore new suppliers to ensure supply adequacy and foster competition.

We face currency risks and liquidity risks.
Currency risks – The Company's oil and gas sales are substantially denominated in Renminbi and U.S. dollars. The appreciation of Renminbi against U.S. dollar may have double effects. The depreciation of U.S. dollar against Renminbi may reduce the Company's revenue from the sales of oil and gas, but may reduce our import costs of equipment and raw materials in the meantime.

Liquidity risks – Certain restrictions on dividend distribution imposed by the laws of the host countries in which we operate may adversely and materially affect our cash flows. For instance, the dividend of our wholly-owned subsidiaries in the PRC shall be distributed pursuant to the laws of the PRC and the articles and association of such subsidiaries, and we may face risks of not obtaining adequate cash flows from such subsidiaries.

CORPORATE GOVERNANCE REPORT

GOVERNANCE STANDARDS

The Company has always upheld and attained high standard of business ethics, for which its transparency and standard of governance have been recognised by the public and its shareholders. In 2020, the Company was honoured, among others, as "2020 China Securities Golden Bauhinia Awards – Best Listed Company", "Best CEO for Listed Companies" and "Best CFO for Listed Companies" hosted by Ta Kung Wen Wei Media Group, the "Most Honored Company", "Best ESG (Oil & Gas)", "Best IR Programs" and "Best CFO" in Institutional Investor's 2020 All-Asia Executive Team Awards, "Gold Award" in the 2020 ESG Corporate Awards by The Asset, "Best Investor Relations Company", "Asia's Best CEO (Investor Relations)" and "Asia's Best CFO (Investor Relations)" in the "Asian Excellence Award" hosted by Corporate Governance Asia. High and strict standard of corporate governance enables the Company to operate steadily and efficiently and is in the long-term interests of the Company and its shareholders.

Since its listing, the Company has endeavoured to maximise its shareholders' value. In 2020, the Company executed its corporate governance policies strictly and sought to comply with the relevant provisions in the "Corporate Governance Code and Corporate Governance Report" set out in Appendix 14 to the Listing Rules (the "CG Code"), ensuring that all decisions were made on the principles of trust and fairness and in an open and transparent manner so as to protect the interests of all shareholders. The Company values the importance of corporate governance and in light of the CG Code, the Company sets out a summary of its key corporate governance practices during 2020 below.

KEY CORPORATE GOVERNANCE PRINCIPLES AND THE COMPANY'S PRACTICES

A. DIRECTORS

A.1 The Board

Principle: "An issuer should be headed by an effective board which should assume responsibility for its leadership and control and be collectively responsible for promoting its success by directing and supervising its affairs. Directors should take decisions objectively in the best interests of the issuer.

The board should regularly review the contribution required from a director to perform his responsibilities to the issuer, and whether he is spending sufficient time performing them."

- The Board consisted of nine members, including two Executive Directors, three Non-executive Directors and four Independent Non-executive Directors, as of 31 December 2020.
- The list of Directors, their respective biographies, and their respective roles in the Committees and the management are set out on pages 60 to 68 and 180 of this annual report, respectively. The relevant information has also been disclosed on the Company's website.
- The Board and Committee members of the Company are dedicated, professional and accountable.
- The Company holds Board meetings at least four times a year at approximately quarterly intervals. Six Board meetings were held in 2020. Members of the Board have also actively participated in the discussions on the business and operation of the Company, either in person or through other electronic means of communication such as emails, when necessary.
- There exists an open atmosphere for Directors to contribute alternative views. All decisions of the Board are made on the principles of trust and fairness in an open and transparent manner, so as to protect the interests of all shareholders.
- The Board has regularly reviewed the contribution required from a Director to perform his responsibilities to the Company, and whether he is spending sufficient time performing them in accordance with the CG Code.

Attendance of individual Directors at full Board meetings held in 2020

	No. of meetings attended (Six meetings in total)	
	by Director	**by proxy**
Executive Directors		
Xu Keqiang *(Note 1)*	6	0
Hu Guangjie *(Note 2)*	6	0
Non-executive Directors		
Wang Dongjin *(Chairman) (Note 3)*	6	0
Li Yong *(Note 4)*	2	0
Wen Dongfen *(Note 5)*	3	1
Independent Non-executive Directors		
Chiu Sung Hong	6	0
Lawrence J. Lau	6	0
Tse Hau Yin, Aloysius	6	0
Qiu Zhi Zhong	6	0

Note 1: With effect from 20 March 2020, Mr. Xu Keqiang no longer served as the President of the Company. Mr. Xu remains as an Executive Director and the Chief Executive Officer of the Company.

Note 2: With effect from 20 March 2020, Mr. Hu Guangjie was appointed as an Executive Director and the President of the Company.

Note 3: With effect from 29 September 2020, Mr. Wang Dongjin no longer served as a member of the Remuneration Committee of the Company. Mr. Wang remains as a Non-executive Director and Chairman of the Board.

Note 4: With effect from 29 September 2020, Mr. Li Yong was appointed as a Non-executive Director, Vice Chairman of the Board and a member of the Remuneration Committee of the Company.

Note 5: With effect from 27 April 2020, Ms. Wen Dongfen was appointed as a Non-executive Director of the Company. Ms. Wen Dongfen appointed Mr. Wang Dongjin as her proxy to attend the Board meeting held on 13 October 2020.

- The Joint Company Secretaries consulted the Directors on matters to be included in the agenda for regular Board meetings.
- Dates of regular Board meetings have been scheduled at least two months before the meeting to provide sufficient notice to all Directors so that they can have an opportunity to attend. For non-regular Board meetings, reasonable advance notices have been given.
- Minutes of the meetings of the Board and Committees are kept by the Joint Company Secretaries and open for inspection at any reasonable time upon reasonable request by any Director.
- Minutes of the meetings of the Board and Committees recorded sufficient details of the matters considered by the Board and Committees and decisions reached, including any concerns raised by Directors or dissenting views expressed. Draft and final versions of the minutes of the Board meetings and Committee meetings are sent to all Directors and all Committee members respectively within a reasonable time after the Board meetings and Committee meetings for their comments and records.
- Committees may, upon reasonable request, seek independent professional advice in appropriate circumstances at the Company's expense. The Board would resolve to provide separate independent professional advice to Directors to assist them in performing their duties to the Company at the Company's expense.
- If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board and such interest has been considered to be material by the Board, the matter will not be dealt with by a written resolution but a Board meeting will be convened for that matter. Independent Non-executive Directors who do not (and whose close associates also do not) have material interest in the transaction will be present at such Board meeting.
- The Company has arranged appropriate insurance cover in respect of legal action against its Directors.

A.2 Chairman and Chief Executive

Principle: "There are two key aspects of the management of every issuer – the management of the board and the day-to-day management of business. There should be a clear division of these responsibilities to ensure a balance of power and authority, so that power is not concentrated in any one individual."

- The Chairman ensures all Directors are properly briefed on issues arising at Board meetings and is responsible for ensuring that Directors receive, in a timely manner, adequate information, which must be accurate, clear, complete and reliable.

- One of the important roles of the Chairman is to provide leadership for the Board. The Chairman ensures that the Board works effectively and performs its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner. The Chairman delegates the responsibility of drawing up the agenda for each Board meeting and Committee meeting to the Joint Company Secretaries who will take into account, where appropriate, any matters proposed by the other Directors for inclusion in the agenda, and the Chairman is primarily responsible for approving the agenda.

- The Chairman takes primary responsibility for ensuring that good corporate governance practices and procedures are established.

- The Chairman encourages all Directors to make full and active contribution to the Board's affairs and takes the lead to ensure that the Board acts in the best interests of the Company. The Chairman encourages Directors with different views to voice their concerns, allows sufficient time for discussion of issues and ensures that Board decisions fairly reflect Board consensus.

- The Chairman holds meetings with the Independent Non-executive Directors without the presence of other Directors at least annually.

- The Chairman ensures that appropriate steps are taken to provide effective communication with shareholders and that their views are communicated to the Board as a whole.

- The Chairman promotes a culture of openness and debate by facilitating the effective contribution of Non-executive Directors and Independent Non-executive Directors in particular and ensuring constructive relations between Executive, Non-executive and Independent Non-executive Directors.

- The CEO is responsible for conducting the Company's business and affairs consistent with the principles and directions established by the Board.

A.3 Board composition

Principle: "The board should have a balance of skills, experience and diversity of perspectives appropriate to the requirements of the issuer's business. It should ensure that changes to its composition can be managed without undue disruption. It should include a balanced composition of executive and non-executive directors (including independent non-executive directors) so that there is a strong independent element on the board, which can effectively exercise independent judgment. Non-executive directors should be of sufficient calibre and number for their views to carry weight."

- The Board, as representatives of the shareholders of the Company, is committed to the achievement of business success and the enhancement of long-term shareholder's value with the highest standards of integrity and ethics. The role of the Board is to direct, guide and oversee the conduct of the Company's business and to ensure that the interests of the shareholders are being served.

- As of 31 December 2020, the Board consisted of nine members: two of them were Executive Directors, three of them were Non-executive Directors and four of them were Independent Non-executive Directors. All Directors were identified by categories of Executive Director(s), Non-executive Director(s) and Independent Non-executive Directors in all corporate communications that set out the names of the Directors of the Company. A list of the Directors identifying their updated roles and functions was maintained on the Company's website and on the Hong Kong Stock Exchange's website during the reporting period.

- The Executive Directors of the Company are individuals with extensive experience in the Company's respective fields of operation. Both of them are familiar with the Company's businesses and have cooperated with leading global players in the oil and gas industry. Each of Mr. Xu Keqiang and Mr. Hu Guangjie has over 20 years of experience in the oil and gas industry.

- The Non-executive Directors of the Company are all individuals with extensive experience in the parent company's respective fields of operation.

- The Independent Non-executive Directors of the Company are all professionals or scholars with backgrounds in the legal, economic, financial and investment fields. They have extensive experience and knowledge of corporate management and make significant contributions to the Company's strategic decisions.

- The Company believes that the active involvement of the Non-executive Directors and Independent Non-executive Directors in the management and decision making of the Board and its Committees strengthens the objectivity and independence of the Board.

- The diverse backgrounds of the Board members ensure that they can fully represent the interests of all shareholders of the Company and to enhance the effectiveness of the Board and corporate governance.

- The Company has received annual confirmations from all of its Independent Non-executive Directors acknowledging full compliance with the relevant requirements in respect of their independence pursuant to Rule 3.13 of the Listing Rules. The Company is therefore of the view that all of the Independent Non-executive Directors are independent.

A.4& A.5 Appointments, re-election and removal & Nomination Committee

Principle: "There should be a formal, considered and transparent procedure for the appointment of new directors. There should be plans in place for orderly succession for appointments. All directors should be subject to re-election at regular intervals. An issuer must explain the reasons for the resignation or removal of any director."

- The Nomination Committee comprised two Independent Non-executive Directors (Mr. Lawrence J. Lau and Mr. Qiu Zhi Zhong) and one Non-executive Director (Mr. Wang Dongjin), with Mr. Wang Dongjin served as the Chairman of the Nomination Committee. A list of members of the Nomination Committee as of the date of this annual report is set out under the section headed "Company Information" on page 180 of this annual report.

- The role of the Nomination Committee is to determine the policy and establish proper procedures for the selection of the Company's leadership positions, upgrade the quality of Board members and perfect the Company's corporate governance structure.

- The main authorities and responsibilities of the Nomination Committee are to make recommendations to the Board for suitable candidates to serve as Directors and senior management of the Company for approval by the Board, to review the structure, size and composition of the Board (including the skills, knowledge and experience), and to evaluate the leadership abilities of Executive Directors, so as to ensure the competitiveness of the Company.

- With respect to nomination for new directors and re-election of directors, the Company follows a considered and transparent nomination policy and the Nomination Committee adheres to such policy for nomination of Directors. The nomination of Directors was made in accordance with the nomination policy and the objective criteria (including gender, age, cultural, educational background and relevant or professional experience, ethnicity, skills, knowledge, etc.), with due regard for the benefits of diversity, as set out under the board diversity policy of the Company. Under the nomination policy for Directors of the Company, the Nomination Committee shall nominate suitable candidates to the Board for it to consider and make recommendations to shareholders for election and re-election of Directors.

- When nominating a particular candidate for Director, the Nomination Committee will consider (1) integrity and character; (2) the breadth and depth of the management and/or leadership experience of the candidate; (3) financial literacy or other professional or business experience of the candidate that are relevant to the Company and its business; (4) the experience or knowledge of the candidate that are relevant to the Company's business and corporate strategy and in international operations; (5) commitment in respect of available time; (6) diversity including gender, age, cultural, educational background, ethnicity, skills, knowledge, experience, etc.; and (7) independence criteria as required under the Listing Rules for candidates for Independent Non-executive Directors. All candidates must be able to meet the standards set out in Rules 3.08 and 3.09 of the Listing Rules.

- The Nomination Committee considers the personal profile and credentials of the proposed candidates and may request candidates to provide additional information and documents if it considers necessary, and assesses the proposed candidates or incumbent candidates on criteria set out above. The Nomination Committee may also invite nominations of suitable candidates from Board members (if any) for consideration by the Nomination Committee prior to its meeting. For filling a casual vacancy, the Nomination Committee shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election and re-election at a general meeting, the Nomination Committee shall make nominations to the Board for its consideration and recommendation.

- When nominating an Independent Non-executive Director for re-election, the Board will propose shareholders' vote by way of a separate resolution and include in the circular and/or explanatory statement accompanying the notice of the relevant general meeting to shareholders the reasons why the Board considers such Director shall be re-elected. Mr. Qiu Zhi Zhong will retire from office and being eligible for re-election at the forthcoming annual general meeting of the Company to be held on 21 May 2021. In accordance with Code Provision A.5.5 of the CG Code, the Company will include in the circular of the annual general meeting of the Company to be held in 2021 the reasons why the Board considers Mr. Qiu shall be re-elected. Both the Nomination Committee of the Company and the Board are satisfied that Mr. Qiu has the required character, integrity, experience and independence to continue fulfilling the role of Independent Non-executive Director. Further, given Mr. Qiu's extensive knowledge, expertise and experience in the banking and financial industry, the Board considers the re-election of Mr. Qiu as an Independent Non-executive Director is in the best interest of the Company and the Shareholders as a whole and Mr. Qiu's professional knowledge and experience can contribute to the diversity of the Board.

- The Nomination Committee is also responsible for evaluating the contributions and independence of incumbent Directors so as to determine whether they should be recommended for re-election. Based on such evaluation, the Nomination Committee will recommend to the Board candidates for re-election at general meetings and appropriate replacements (if necessary). The Board, based on the recommendations of the Nomination Committee, will propose to the shareholders the candidates for re-election at the relevant general meetings.

- A Director appointed by the Board to fill a casual vacancy or as an addition shall hold office until the next extraordinary general meeting and/or annual general meeting (as appropriate).

- Our Non-executive Directors and Independent Non-executive Directors are appointed for a term of 36 months.

- All Directors are subject to retirement by rotation once every three years and are subject to re-election in accordance with the Articles of Association of the Company (as amended and adopted by special resolution of the Company on 27 May 2009) (the "Articles") and the CG Code.

- The following is a summary of the work performed by the Nomination Committee under its charter during the year:

  – Reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board and its committees and made recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

  – Assessed the independence of Independent Non-executive Directors;

  – Identified individuals suitably qualified to become Board members and made recommendations to the Board on the selection of individuals nominated for directorships;

  – Made recommendations to the Board on the re-election of Directors and reviewed succession planning for Directors, in particular the Chairman and CEO, according to the nomination procedure and process and criteria adopted by the Company;

  – Reviewed and monitored the training and continuous professional development of Directors and senior management and made recommendations to the Board in that regard; and

  – Evaluated and assessed the effectiveness of the Nomination Committee and the adequacy of the charter of the Nomination Committee and recommended the proposed changes to the charter to the Board (if necessary).

- During the year ended 31 December 2020, Mr. Xu Keqiang no longer served as the President of the Company with effect from 20 March 2020. Mr. Hu Guangjie was appointed as an Executive Director and the President of the Company with effect from 20 March 2020. Ms. Wen Dongfen was appointed as a Non-executive Director of the Company with effect from 27 April 2020. Mr. Wang Dongjin no longer served as a member of the Remuneration Committee of the Company with effect from 29 September 2020. Mr. Li Yong was appointed as a Non-executive Director, Vice Chairman of the Board and a member of the Remuneration Committee of the Company with effect from 29 September 2020. Other than the above, the Nomination Committee considered that any other change to the composition of the Board and its committees was not necessary. It will keep assessing whether any such change is required going forward and will recommend to the Board qualified candidates as Directors according to the nomination policy and procedure of the Nomination Committee.

- To demonstrate the Company's continued commitment to high standards of corporate governance, the Board adopted a board diversity policy (the "Policy") on 20 August 2013. The Policy aims to continue to improve corporate governance and ensure the diversity of Board members. A summary of the Policy is set out below:

Purpose:	The Policy aims to continue to improve corporate governance and ensure the diversity on the Board.
Policy statement:	With a view to leading its leap-forward development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and sustainable development. In designing the Board's composition, board diversity shall be considered from a number of aspects, including but not limited to, gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard to the benefits of diversity on the Board.
Selection criterion:	Selection of candidates will be based on diversity of perspectives, including but not limited to, gender, age, cultural and educational background, professional experience, skills, knowledge and diversified vision.

- Since the adoption of the Policy in August 2013, the Board has observed the Policy and took into account the objectives set out in the Policy in reviewing its Board composition. In particular, in selecting the candidates for Non-executive Director, not only the Board considered the knowledge, experience and industry-specific exposures of the candidates, the Board also took into account other factor such as cultural background and diversified vision of the candidates. In selecting candidates for Executive Director, the Board will consider knowledge and exposures in the oil and gas industry, leadership and management skills and experience and length of service in the industry. As a result, the Nomination Committee considered that the appointments of Executive Director, Non-executive Directors, the Vice Chairman of the Board, the member of the Remuneration Committee and the President of the Company (as the case maybe) during the reporting period were appropriate and that there is sufficient diversity at the Board level.

Attendance of individual members at Nomination Committee meetings in 2020

	No. of meeting attended (One meeting in total)	
Directors	**by committee member**	**by proxy**
Wang Dongjin *(Chairman)*	1	0
Lawrence J. Lau	1	0
Qiu Zhi Zhong	1	0

A.6 Responsibilities of Directors

Principle: "Every director must always know his responsibilities as a director of an issuer and its conduct, business activities and development. Given the essential unitary nature of the board, non-executive directors have the same duties of care and skill and fiduciary duties as executive directors."

- The Company regularly updates its Directors with changes in laws and regulations relevant to their roles as Directors of the Company.

- Directors' training and professional development

  – All Directors newly appointed to the Board receive a comprehensive, formal and tailored induction on appointment for the purpose of giving an overview of the business and operations of the Group and appropriate briefings and trainings from the Company covering the statutory and regulatory obligations of Directors, organisational structure, policies, procedures and codes of the Company and terms of reference of Committees. The senior management and the Joint Company Secretaries will also conduct subsequent briefings as and when necessary to ensure that the Directors are kept appraised of the latest developments relevant to the operations and business of the Company, and their responsibilities under statutes and common law, the Listing Rules, legal and other regulatory requirements as well as the Company's business and governance policies, so that they are able to discharge their responsibilities properly.

  – The Company also recognises the importance of continuous professional development of the Directors. Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. During the year, the Company arranged compliance trainings conducted by its external professional lawyers on the subjects of anti-corruption and anti-bribery. The trainings are closely related to the increasing complexity of the regulatory requirements with topics covering cases of violation of the law and the introduction of anti-bribery laws in China, the US and Canada, etc.

  – Certain Directors also attended trainings organised by the Company or external professional bodies on other regulatory updates as well as obligations of directors. In addition, Directors also read materials/publications which they thought appropriate and necessary for the fulfillment of their roles. The Directors provided their regular training records to the Company.

  – In addition, the Company also provided regular updates to Directors in respect of continuing obligations of listed issuers and their directors as well as monthly updates on the business and operations of the Group.

- The Non-executive Directors and the Independent Non-executive Directors actively participate in Board meetings and Committees meetings to exercise their independent judgement on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct of the Company. They are responsible for taking the lead where potential conflicts of interests arise.

- The Non-executive Directors and the Independent Non-executive Directors are invited to serve on the Audit, Remuneration and Nomination Committees of the Company.

- During 2020, each Non-executive Director or Independent Non-executive Director attended or otherwise appointed an alternate to attend all regularly scheduled meetings of the Board and Committees on which such Non-executive Director or Independent Non-executive Director sat in, and reviewed the meeting materials distributed in advance for such meetings and shared their experience, skills and expertise with the Board or the relevant Committees. All of the Non-executive Directors and Independent Non-executive Directors of the Company made positive contributions to the development of the Company's strategy and policies through independent, constructive and informed comments. The Non-executive Directors and the Independent Non-executive Directors have been responsible for scrutinising our performance in achieving agreed corporate goals and objectives and monitoring our performance reporting.

- Mr. Wang Dongjin, the Chairman of the Board, together with the Independent Non-executive Directors and Non-executive Directors attended the General Meetings held in 2020 and responded to questions raised by the shareholders in order to develop a balanced understanding of the views of shareholders.

Attendance of individual Directors at general meetings in 2020:

Directors	No. of meetings attended (Two meetings in total)
Executive Directors	
Xu Keqiang	2
Hu Guangjie	2
Non-executive Directors	
Wang Dongjin *(Chairman)*	2
Li Yong *(Note 1)*	1
Wen Dongfen	2
Independent Non-executive Directors	
Chiu Sung Hong	2
Lawrence J. Lau	2
Tse Hau Yin, Aloysius	2
Qiu Zhi Zhong	2

Note 1: With effect from 29 September 2020, Mr. Li Yong was appointed as a Non-executive Director, Vice Chairman of the Board and a member of the Remuneration Committee of the Company.

- The Directors are required to inform the Company in case of any change in the number and nature of offices held in public companies or organisations and other significant commitments. Please refer to "Directors and Senior Management" on pages 60 to 68 for the biographies of the Directors.

A.7 Supply of and access to information

Principle: "Directors should be provided in a timely manner with appropriate information in the form and quality to enable them to make an informed decision and perform their duties and responsibilities."

- The Company's senior management regularly provides the Board and its Committees with adequate information in a timely manner to enable them to make informed decisions. Senior management also organises presentations to the Board conducted by professional advisers on specific transactions as appropriate.

- For regular Board meetings and Committee meetings, the agenda and accompanying Board papers are sent in full to all Directors at least three days before the intended date of the Board meetings or Committee meetings.

- The Board and each Director have separate and independent access to the Company's senior management and also the Joint Company Secretaries, who will provide full and prompt responses to queries raised by the Directors. All Directors are entitled to have access to the Board papers, minutes and related materials upon reasonable notice.

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT AND BOARD EVALUATION

B.1 The level and make-up of remuneration and disclosure

Principle: "An issuer should disclose its directors' remuneration policy and other remuneration related matters. The procedure for setting policy on executive directors' remuneration and all directors' remuneration packages should be formal and transparent. Remuneration levels should be sufficient to attract and retain directors to run the company successfully without paying more than necessary. No director should be involved in deciding his own remuneration."

- From 1 January 2020 to 29 September 2020, the Remuneration Committee comprises two Independent Non-executive Directors (Mr. Chiu Sung Hong and Mr. Tse Hau Yin, Aloysius), and one Non-executive Director (Mr. Wang Dougjin), with Mr. Chiu Sung Hong serving as the Chairman of the Remuneration Committee. With effect from 29 September 2020, Mr. Wang Dongjin no longer served as a member of the Remuneration Committee, and Mr. Li Yong was appointed as a member of the Remuneration Committee. Since 29 September 2020, the Remuneration Committee comprises two Independent Non-executive Directors (Mr. Chiu Sung Hong and Mr. Tse Hau Yin, Aloysius), and one Non-executive Director (Mr. Li Yong), with Mr. Chiu Sung Hong still serving as the Chairman of the Remuneration Committee. The Remuneration Committee is delegated with the authority of determining and approving salaries, bonuses, share option packages, performance appraisal systems and retirement plans for all Executive Directors and senior management. A list of members of the Remuneration Committee is set out in "Company Information" on page 180 of this annual report.

- The major responsibilities and authorities of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure of the remuneration of Directors and senior management of the Company and on the establishment of a formal and transparent procedure for developing remuneration policy, determining and reviewing the service contracts and specific remuneration packages for all Executive Directors and senior management, such as benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, reviewing and approving the compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure consistency with contractual terms, and making recommendations to the Board on the remuneration of Non-executive Directors and Independent Non-executive Directors.

- The Company's emolument policy is to maintain fair and competitive packages with reference to industry standards and prevailing market conditions. The Remuneration Committee is mindful that levels of remuneration must be sufficient to attract and retain the Directors and senior management in order to run the Company successfully, but at the same time, the Company should avoid setting remunerations which are in excess of those necessary for this purpose. The Directors' emolument package may comprise the Director's fees, basic salaries and allowances, bonuses, share options and others. The following factors are considered in determining the Directors' remuneration package:

  – Business needs, company goals and objectives;

  – Responsibilities of the Directors and their individual contribution; and

  – Changes in relevant markets, for example, supply/demand fluctuations and changes in competitive conditions.

Details of the remuneration, as well as the share option benefits of Directors for the year ended 31 December 2020, are set out on pages 117 to 120 of this annual report.

No individual Director or any of his/her associates or senior management of the Company is permitted to determine his/her own remuneration.

The Company seeks to apply similar principles when determining the remuneration packages for senior management with reference to the Board's corporate goals and objectives. Other general staff and employees are rewarded on a performance-rated basis with other fringe benefits such as social insurance, pension funds and medical cover.

Please refer to notes 9 to 10 to the consolidated financial statements on pages 117 to 120 of this annual report for details of Directors' remuneration and senior management's remuneration by band and the five highest paid individuals in the Company.

- The remuneration of Non-executive Directors and Independent Non-executive Directors recommended by the Remuneration Committee is determined by the Board and no Directors participated in determining their own remuneration.

- The Remuneration Committee also administers the Company's share option schemes and all other employee equity-based compensation plans, with full authority to make all other determinations in the administration thereof, but subject to the limitations prescribed by laws and the rules of such plans and programmes.

- The Remuneration Committee consults the Chairman and CEO about its proposal relating to the remuneration of other Executive Directors and have access to independent professional advice if necessary.

- The following is a summary of the work performed by the Remuneration Committee under its charter during the year:

  – Reviewed and approved the remuneration packages of the Company's individual Executive Directors and senior management of the Company;

  – Reviewed and approved or recommended the remuneration packages of the newly appointed Directors and senior management;

  – Made recommendations to the Board on the Company's policy and structure for Directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

  – Assessed performance of Executive Directors and reviewed the service agreement templates for Executive Directors;

  – Made recommendations to the Board on the remuneration of the Company's Non-executive Directors; and

  – Evaluated and assessed the effectiveness of the Remuneration Committee and the adequacy of the charter of the Remuneration Committee and recommended the proposed changes to the charter to the Board (if necessary).

Attendance of individual members at Remuneration Committee meetings in 2020

Directors	No. of meetings attended (Two meetings in total) by committee member	by proxy
Chiu Sung Hong *(Chairman)*	2	0
Tse Hau Yin, Aloysius	2	0
Wang Dongjin *(Note 1)*	1	0
Li Yong *(Note 2)*	1	0

Note 1: With effect from 29 September 2020, Mr. Wang Dongjin no longer served as a member of the Remuneration Committee of the Company. Mr. Wang remains as a Non-executive Director and Chairman of the Board.

Note 2: With effect from 29 September 2020, Mr. Li Yong was appointed as a Non-executive Director, Vice Chairman of the Board and a member of the Remuneration Committee of the Company.

C. ACCOUNTABILITY AND AUDIT

C.1 Financial reporting

Principle: "The board should present a balanced, clear and comprehensible assessment of the company's performance, position and prospects."

- The Company has established a mechanism for reporting to the Board by providing a monthly management report in order to ensure that the Board fully understands the operating conditions and the relevant financial position of the Company. The Board is responsible for preparing accounts that give a true and fair view of the Group's financial position on a going-concern basis and other financial disclosures. Management provides the Board with the relevant information it needs to fulfill these responsibilities.

- Directors discuss the operating budget for the next year and approve the operating budget at the end of each year and will review the execution of the operating budget for the whole year. Management will also provide sufficient explanations and information to the Board. All significant changes in the operating conditions and investment decisions will be discussed in sufficient details by the Board.

- Directors also discuss and analyse the performance of the Group, the long-term business model and corporate strategies of the Company for achieving the Company's objectives and generating or preserving value over the longer term. Please refer to the relevant section in Management's Discussion and Analysis on pages 80 to 84 of this annual report for details.

- If necessary, the Directors will also engage professional independent consultants so that the Directors can gain an in-depth and comprehensive understanding and assessment of the relevant matters, in order to make well-grounded assessments.

- In response to Section 404 of the Sarbanes-Oxley Act promulgated by the U.S. Congress in 2002 to safeguard the interests of investors, increase the accuracy and effectiveness of financial reporting and financial information disclosure, the management has issued a statement on the responsibility and effectiveness of internal control based on financial reporting, and the auditors of the Company have also audited the effectiveness of internal control over financial reporting.

- The Company regularly updates investors with progress of development and performance of the Company through formal channels such as annual reports, interim reports and announcements made through the Hong Kong Stock Exchange's website and the Company's website, as well as through press releases. The Company also issues quarterly operational statistics and announces its strategy at the beginning of the year to enhance transparency about its performance and to give details of the latest development of the Company in a timely manner.

- The Company provides a balanced, clear and understandable assessment in its interim and annual reports, other financial disclosures required by the Listing Rules, reports to the regulators and information disclosed under statutory requirements to enable investors to appraise its development over the period and its financial position.

- The Company has also engaged independent technical consultant firms to conduct a review of its oil and gas business and discloses details of its oil and gas properties in its annual report (as set out on pages 157 to 170 of this annual report).

- The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern as referred to in Code Provision C.1.3 of the CG Code.

- The statement by the auditor of the Company regarding its reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 85 to 89 of this annual report.

C.2 Risk management and internal control

Principle: "The board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the issuer's strategic objectives, and ensuring that the issuer establishes and maintains appropriate and effective risk management and internal control systems. The board should oversee management in the design, implementation and monitoring of the risk management and internal control systems, and management should provide a confirmation to the board on the effectiveness of these systems."

- The Board acknowledges that it is its responsibilities to ensure that the Company establishes and maintains appropriate and effective risk management and internal control systems and review their effectiveness. Such systems are designed to manage rather than eliminate risks of failure to achieve business objectives, and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

- The Board regularly, and at least annually, receives reports from the management of the Company regarding the establishment, review and evaluation of the Company's strategic, financial, operational and compliance control, risk management and internal control systems. All major risks and compliance events are reported to the Board. The Board will also evaluate the corresponding risks, the response plan and the handling of the compliance events.

- The Audit Committee is delegated by the Board to oversee the risk management and internal control systems and the internal audit function of the Company on an on-going basis (at least annually). For work completed by the Audit Committee on the Company's risk management and internal control systems, please refer to the section headed "C.3 Audit Committee" below.

- The Company's RMICC Committee (Risk Management, Internal Control and Compliance Management Committee, formerly the Risk Management Committee) is directly managed by the CEO of the Company and has been authorised by the Board to be in charge with the organisation and implementation of the overall risk management and internal control. The RMICC is responsible for establishing the risk management and internal control systems, implementing standardised organisation, authorisation, responsibilities, procedures and methods for the risk management and internal control systems. The RMICC is also responsible for ongoing monitoring of the risk management and internal control systems of the Company, and makes periodic reports to the Audit Committee and the Board regarding the status of the risk management and internal control systems and compliance control of the Company.

- With respect to risk management, the Company has chosen and adopted the ISO 31000: 2018 Risk Management Guidelines, and has taken the risk management framework issued by COSO of the U.S. as an important reference, established a risk management system covering design, implementation, monitoring, assessment and continuous improvement. The RMICC Committee established the overall targets and policies of the risk management system which are in line with the strategic objectives of the Company, and identified, analysed and assessed the overall risk of the Company, including the Company's key risks in making major decisions, important events and key business processes. The RMICC Committee is also responsible for reviewing and approving the response plans to major risks, as well as following up and periodically reviewing the implementation of such response plans and the handling of the compliance events, in order to make sure that sufficient attention, monitoring and responses will be paid to all key risks and compliance events of the Company. The risk management reports are submitted to the Audit Committee and the Board periodically.

- With respect to internal control, the Company has chosen and adopted the internal control framework issued by COSO, established an internal control system and mechanism over financial, operational and compliance controls and has conducted continuing review and evaluation of the internal control system of the Company to ensure the timeliness, accuracy and completeness of all information reported.

- The Company has established procedures for identifying, handling and disseminating inside information in compliance with the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), including the issue of an inside information disclosure policy, the annual review and update (if necessary) of such inside information disclosure policy, pre-clearance on dealing in Company's securities by Directors and designated members of the management, notification of regular blackout period and securities dealing restrictions to relevant Directors and employees, identification of project by code name and dissemination of information to stated purpose and on a need-to-know base have been implemented by the Company to guard against possible mishandling of inside information within the Group.

- Whistleblowing policy and system have been established for employees and those who deal with the Company to raise concerns about possible improprieties in any matter relating to the Company.

- The Company has maintained an open channel to handle and discuss internal reports concerning finance, internal control and fraud to ensure that all reports will receive sufficient attention and any significant internal control weakness or reports will directly reach to the Chairman of the Audit Committee.

- The Company has established a mechanism for remediating internal control deficiency under which the management of each level are assigned with clear responsibilities relating to remediating internal control deficiency in accordance with their respective levels. Those responsibilities are also included in the internal performance indicators of the Company.

- During the reporting period, the Company's internal audit function provided independent assurance as to the scope, adequacy and effectiveness of the Company's risk management and internal control systems. The financial condition, operational control and compliance control of the Company were examined by the internal audit function according to the audit plan approved by the Audit Committee. Different audit areas were assigned according to risk priority. The internal audit function assisted the Board to monitor the effectiveness of the risk management and internal control systems. After completion of an internal audit, analysis, appraisals, recommendations related to the activities inspected were formulated. The internal audit function reported to the Audit Committee and the Board about internal audit findings, internal audit recommendation and the management responses. In addition, the internal audit function maintained a regular dialogue with the Company's external auditors so that both are aware of the significant factors which may affect their respective scope of work.

- Reports from external auditors on internal control and relevant financial reporting matters were presented to and reviewed by the Audit Committee.

- The management reported the above works to the Audit Committee for the purpose of assisting the Audit Committee to review the effectiveness of the risk management and internal control systems.

- The management evaluated the design and operating effectiveness of the Company's risk management system and the Company's internal control over financial reporting for 2020 and did not discover any material weakness from the evaluation. As a result, the Board considered that as of 31 December 2020, the Company's risk management system and the Company's internal control over financial reporting were effective.

C.3 Audit Committee

Principle: "The board should establish formal and transparent arrangements to consider how it will apply financial reporting, risk management and internal control principles and maintain an appropriate relationship with the issuer's auditors. The audit committee established under the Listing Rules should have clear terms of reference."

- The Audit Committee consists of three Independent Non-executive Directors (Mr. Tse Hau Yin, Aloysius, Mr. Chiu Sung Hong and Mr. Lawrence J. Lau), with Mr. Tse Hau Yin, Aloysius as the Audit Committee financial expert for the purposes of U.S. securities laws and the Chairman of the Audit Committee. A list of members of the Audit Committee is set out under the section headed "Company Information" on page 180 of this annual report.

- The Audit Committee meets at least twice a year and is responsible for reviewing the completeness, accuracy and fairness of the Company's accounts, evaluating the Company's auditing scope (both internal and external) and procedures as well as the effectiveness of the Company's risk management and internal control systems. The Audit Committee, together with senior management and the external auditors, review the accounting principles and practices adopted by the Group and discuss the risk management and internal control and financial reporting matters. The Board also assesses the effectiveness of risk management and internal control systems based on the reviews by the RMICC Committee, senior management, internal audit function and external auditors.

- The Audit Committee is also responsible for overseeing the operation of the internal control system so as to ensure that the Board is able to monitor the Company's overall financial position, to protect the Company's assets, and to prevent major errors or omissions in financial reporting. The Audit Committee also meets at least twice a year with our external auditors.

- The Audit Committee is responsible for overseeing and monitoring the risk management and internal control systems of the Company on an ongoing basis and reviewing with our external auditors and management periodically, not less than annually, the scope, adequacy and effectiveness of the Company's corporate accounting and financial controls, risk management and internal control systems, and any related significant findings regarding risks or exposures and consider recommendations for improvement of such controls. The review should cover all material aspects, including strategic, financial, operational and compliance controls. In conducting annual review, the Audit Committee in particular, considers the factors including (a) the changes, since the last annual review, in the nature and extent of significant risks, and the Company's ability to respond to changes in its business and the external environment; (b) the scope and quality of management's ongoing monitoring of risks and of the internal control systems, and where applicable, the work of its internal audit function and other assurance providers; (c) the extent and frequency of communication of monitoring results to the Board and the Audit Committee which enables them to assess the effectiveness of the risk management and internal control systems of the Company; (d) significant control failings or weaknesses that have been identified during the period. Also, the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or condition; and (e) the effectiveness of the Company's processes for financial reporting and Listing Rule compliance.

- The Audit Committee is also responsible for reviewing the Company's internal audit function, ensuring co-ordination within the Group and between the Company's internal and external auditors, and ensuring that the internal audit function is adequately resourced and has appropriate standing within the Company and to review and monitor its effectiveness.

- The following is a summary of the work performed by the Audit Committee under its charter during the year:

  – Reviewed the Company's audited accounts, annual results announcements, unaudited interim accounts and interim results announcements before they were tabled to the Board for approval, and discussed with senior management and the external auditors over such accounts;

  – The Audit Committee held formal meetings with the external auditors and senior management of the Company at least twice a year to discuss the matters including:

    (i) the external auditors' engagement letter and general scope of their audit work, including planning and staffing of the audit;

    (ii) the Company's management discussion and analysis disclosures in the annual report of the Company; and

    (iii) the applicable accounting standards relating to the audit of the Company's financial statements, including any recent changes;

  – In addition to formal meetings arranged by the Company, members of the Audit Committee were also given direct access to the external auditors, have frequent contacts with the external auditors to discuss issues from time to time;

  – On behalf of the Board, conducted a review of the effectiveness of the Company's risk management and internal control systems for the year ended 31 December 2020. The annual review included works such as:

(i) review of reports submitted by and discussions with the RMICC Committee and other senior management concerned regarding major risks identified, changes in the nature and extent of major risks since the last annual review, measures and response plans to manage risks identified, and the ability of the Company to respond to such changes in its business operation, etc;

(ii) review on whether the management has established effective risk management and internal control systems pursuant to the Listing Rules as well as under relevant US requirements and to evaluate the scope and quality of the management's works on the risk management system, internal control system and internal audit;

(iii) review the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, financial reporting functions and internal audit functions to ensure that the management had performed its duty;

(iv) review of the effectiveness of the internal audit function of the Company to ensure coordination within the Group and between the Company's internal and external auditors and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company;

(v) consider the major investigation findings on risk management and internal control systems and management's response to these findings; and

(vi) make recommendations to the Board and the senior management on the scope and quality of management's ongoing monitoring of risks and issues relevant to internal control.

On the basis of the aforesaid review, the Audit Committee was not aware of any significant issues that would have an adverse impact on the effectiveness and adequacy of the risk management and internal control systems of the Company;

– Reviewed the work performed by the Company's external auditors and their relationship with the Company's senior management, and made recommendations to the Board in relation to the appointment of the new external auditors, as well as the proposed auditors' fees;

– Reviewed and approved the Company's audit and non-audit pre-approval policy to ensure auditors' independence;

– Members of the Audit Committee received materials from the Company's external auditors from time to time in order to keep abreast of changes in financial reporting principles and practices, as well as issues relating to financial reporting, risk management and internal controls relevant to the Company;

– Considered and approved the non-audit services provided by the external auditors during the year;

– Reviewed the arrangements by which employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, risk management and internal control or other matters and ensure that proper arrangements are in place for fair and independent investigation and for appropriate follow-up actions;

  - Reported on its findings and suggestions to the Board following its review of different aspects of the Company's financial reporting and risk management and internal control systems and made appropriate recommendations where necessary;

  - Reviewed the Company's business ethics and compliance policies and related reports as appropriate and performed certain corporate governance duties delegated by the Board set out in Board Committees & Corporate Governance Functions section on page 54 of this annual report; and

  - Evaluated and assessed the effectiveness of the Audit Committee and the adequacy of the charter of the Audit Committee, and considered and recommended the proposed amendments to the charter and presented to the Board for approval.

- Full minutes of the Audit Committee meetings are kept by the Joint Company Secretaries. Draft and final versions of minutes of the Audit Committee meetings are sent to all members of the Audit Committee for their comments and records respectively, in both cases within a reasonable time after the meetings.

- The Audit Committee is provided with sufficient resources, including independent access to and advice from external auditors.

Attendance of individual members at Audit Committee meetings in 2020

	No. of meetings attended (Four meetings in total)	
Independent Non-executive Directors	**by committee member**	**by proxy**
Tse Hau Yin, Aloysius *(Chairman and Financial Expert)*	4	0
Chiu Sung Hong	4	0
Lawrence J. Lau	4	0

D. DELEGATION BY THE BOARD

D.1 Management functions

Principle: "An issuer should have a formal schedule of matters specifically reserved for board approval. The board should give clear directions to management on the matters that must be approved by it before decisions are made on the issuer's behalf."

- The Board is the ultimate decision-making body of the Company, other than those matters reserved to shareholders of the Company. The Board oversees and provides strategic guidance to senior management in order to enhance the long-term value of the Company for its shareholders. The Board delegates its management and administration functions to management and gives clear directions as to the powers of management at the same time, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on the Company's behalf.

- The day-to-day management is conducted by senior management and employees of the Company, under the direction of the CEO and the oversight of the Board. In addition to its general oversight of the management, the Board also performs a number of specific functions. The Company formalises the functions reserved to the Board and those delegated to management and reviews those arrangements periodically to ensure that they remain appropriate to the Company's needs.

- The primary functions performed by the Board include:

  (i) Reviewing and approving long-term strategic plans and annual operating plans, and monitoring the implementation and execution of these plans;

  (ii) Reviewing and approving significant financial and business transactions and other major corporate actions;

(iii) Reviewing and approving financial statements and reports, and overseeing the establishment and maintenance of controls, processes and procedures to ensure accuracy, integrity and clarity in financial and other disclosures; and

(iv) Overall responsibility for the Company's ESG strategy and reporting, evaluating and determining the Company's ESG-related risks, and ensuring appropriate and effective ESG risk management and internal control systems are in place.

- The Board and the senior management have respective responsibilities, accountabilities and contributions. The primary functions performed by the senior management are to conduct the daily business and implement the abovementioned affairs approved and delegated by the Board and other matters as the Board may from time to time request.

- The Directors review such delegation arrangements periodically to ensure they remain appropriate to our needs.

- Directors clearly understand delegation arrangements in place. The Company has entered into service agreements with the Executive Directors, Non-executive Directors and Independent Non-executive Directors setting out the key terms and conditions of their engagements.

D.2& D.3 Board Committees & Corporate Governance and Functions

Principle: "Board committees should be formed with specific written terms of reference which deal clearly with their authority and duties."

- The Company has established an Audit Committee, a Remuneration Committee and a Nomination Committee (each a "Committee") and has established a specific written committee charter (the "Charter") for each of the Committees which deals clearly with its authority and duties. The Charters of the Committees are published on the websites of the Hong Kong Stock Exchange and the Company. These Committees will report to the Board on their decisions and recommendations.

- The Board has delegated the responsibility for performing certain corporate governance related duties and functions to the Audit Committee and the Nomination Committee.

- The Audit Committee shall be responsible for performing the corporate governance duties set out below:

  (i) Developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board;

  (ii) Reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements and making recommendations to the Board in that regard;

  (iii) Developing, reviewing and monitoring the Code of Ethics for Directors and Senior Officers ("Code of Ethics") and making recommendations to the Board in that regard; and

  (iv) Reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report and making recommendations to the Board in that regard.

- The Nomination Committee shall be responsible for reviewing and monitoring the training and continuous professional development of Directors and senior management and making recommendations to the Board in that regard.

E. COMMUNICATION WITH SHAREHOLDERS

E.1 Effective communication

Principle: "The board should be responsible for maintaining an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with them and encourage their participation."

- The Board recognises the importance of good and effective communication with all shareholders. With a policy of being transparent, strengthening investor relations and providing consistent and stable returns to shareholders, the Company seeks to ensure transparency through establishing and maintaining different communication channels with shareholders.

- The Company has a professionally-run investor relations department to serve as an important communication channel between the Company and its shareholders and other investors.

- A key element of effective communication with shareholders and investors is prompt and timely dissemination of information in relation to the Company. In addition to announcing its interim and annual results to shareholders and investors, the Company also publicises its major business developments and activities through press releases, announcements and the Company's website in accordance with relevant rules and regulations. Press conferences and analyst briefings are held from time to time on financial performance and major transactions.

- The general meetings also provide a useful forum for shareholders to exchange views with the Board. The Chairman of the Board, as well as Chairmen of the Audit Committee, Nomination Committee and Remuneration Committee, or in their absence, members of the respective Committees, and the external auditors of the Company, are available to answer questions from shareholders at annual general meetings and extraordinary general meetings of the Company.

- The Chairman of each of the Board and all Committees, or in his absence, an alternate appointed by him will, whenever possible, propose separate resolutions for each substantially separate issue at general meetings of the Company.

- The Company's management ensures the external auditors attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditors' independence.

- The Board has established a shareholders' communication policy and reviews it on a regular basis to ensure its effectiveness.

E.2 Voting by Poll

Principle: "The issuer should ensure that shareholders are familiar with the detailed procedures for conducting a poll."

- In 2020, as impacted by the Covid-19 epidemic, the Company held its general meetings via video and on-site conference, and all votes of shareholders at the general meetings of the Company were taken by poll or otherwise in accordance with the Listing Rules. The Chairmen of the meetings ensured that shareholders were familiar with the procedures of voting by poll at the general meetings of the Company.

- The results of the poll are published on the Hong Kong Stock Exchange's website and the Company's website.

F. COMPANY SECRETARY

Principle: "The company secretary plays an important role in supporting the board by ensuring good information flow within the board and that board policy and procedures are followed. The company secretary is responsible for advising the board through the chairman and/or the chief executive on governance matters and should also facilitate induction and professional development of directors."

- Ms. Wu Xiaonan and Ms. Tsue Sik Yu, May are the Joint Company Secretaries of the Company. Their biographies are set out on page 68 of this annual report. The Nomination Committee of the Company has the responsibility to make recommendation for suitable candidates for the appointment of company secretary to the Board and the Board has the responsibility to approve their selection, appointment or dismissal by physical meeting of the Board.

- The Joint Company Secretaries will report to the Chairman of the Board and/or the CEO.

- Each of the Joint Company Secretaries has taken no less than 15 hours of relevant professional training every year.

- All Directors have access to the advice and services of the Joint Company Secretaries to ensure that Board procedures as well as all applicable rules and regulations are followed.

SHAREHOLDERS' COMMUNICATION AND RIGHTS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

The procedures for shareholders to convene an extraordinary general meeting of the Company ("EGM") are governed by Article 60 of the Articles and sections 566 to 568 of the Companies Ordinance (Cap. 622 of the Laws of Hong Kong). On the request of shareholders of the Company, representing at least 5% of the total voting rights of all shareholders having a right to vote at general meetings, the Directors are required to call a general meeting.

The request must state the general nature of the business to be dealt with at the EGM and may include the text of a resolution that may properly be moved and is intended to be moved at the EGM, be authenticated by the shareholder(s) making the request, and sent to the Company in hard copy form or in electronic form. The Directors must call an EGM within 21 days after the date on which they become subject to the requirement and such EGM must be held on a date not more than 28 days after the date of the notice convening the meeting is given.

Whilst giving the above request, shareholders are recommended to provide written explanation of the reasons and material implications relating to the proposed resolutions to enable all of the shareholders to properly consider and determine the proposed resolutions.

The Company will, upon receipt of a request referred to above, issue a notice of extraordinary general meeting of the proposed resolutions and (if applicable) circulars containing further information relating to the proposed resolutions in accordance with the Listing Rules.

Further enquiries relating to the above or enquiries that shareholders wish to be put to the Board may be addressed to the Joint Company Secretaries of the Company at 65/F, Bank of China Tower, 1 Garden Road, Hong Kong.

PROCEDURES FOR PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS BY SHAREHOLDERS

Shareholders are requested to follow sections 615 and 616 of the Companies Ordinance (Cap. 622 of the Laws of Hong Kong) if they wish to request the Company to give to other shareholders, who are entitled to receive notice of the annual general meeting, notice of a resolution that may properly be moved and is intended to be moved at the annual general meeting.

Shareholders are requested to follow sections 580 to 583 of the Companies Ordinance (Cap. 622 of the Laws of Hong Kong) if they wish to request the Company to circulate to other shareholders, who are entitled to receive notice of a general meeting, a statement with respect to a matter mentioned in a proposed resolution or other business to be dealt with at the general meeting.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

For the year ended 31 December 2020, the Company has complied with the provisions of the CG Code as set out in Appendix 14 to the Listing Rules, except for the temporary deviation from the CG Code Provision A.4.1 and the deviation from the CG Code Provision A.4.2 of the CG Code. The following summarises the requirements under the above-mentioned CG Code Provisions A.4.1 and A.4.2 and the reason for such deviations.

CG Code Provision A.4.1

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

None of the existing Independent Non-executive Directors of the Company was appointed for a specific term from January to May 2020. This constitutes a deviation from Code Provision A.4.1 of the CG Code. However, all the Directors are subject to the retirement provisions under article 97 of the Articles of Association of the Company ("Article 97"). According to Article 97, one-third of the Directors for the time being must retire from the office by rotation at each annual general meeting. The Company has observed the need for good corporate governance practices. All the incumbent Independent Non-executive Directors of the Company have retired from the office by rotation and have been re-elected in the past three years. Therefore, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code. In November 2019, the Board approved the revised service agreement templates for Executive Directors, Non-executive Directors and Independent Non-executive Directors, respectively, among which the service agreement template for Independent Non-executive Directors has a term of 36 months. All of the Independent Non-executive Directors entered into service agreements with the Company in June 2020, and the Company has been in compliance with CG Code Provision A.4.1 since then.

CG Code Provision A.4.2

Under CG Code Provision A.4.2, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Mr. Li Yong was appointed as a Non-executive Director, Vice Chairman of the Board and a member of the Remuneration Committee of the Company with effect from 29 September 2020. Mr. Li did not retire and offer himself for re-election by shareholders in the extraordinary general meeting of the Company held on 20 November 2020. This constitutes a deviation from Code Provision A.4.2 of the CG Code. However, the Company believes that this is a minor deviation at the operational level only. The shareholders' interests are not adversely impaired since any Director appointed by the Board is subject to the retirement and re-election provisions under article 101 of the Articles of Association of the Company ("Article 101"). According to Article 101, Mr. Li Yong will retire from office and being eligible for re-election at the forthcoming annual general meeting of the Company.

CHANGES IN DIRECTORS

During the year ended 31 December 2020, there was the following change in Directors.

With effect from 20 March 2020, (i) Mr. Xu Keqiang no longer served as the President of the Company and remains as an Executive Director and the Chief Executive Officer of the Company, and (ii) Mr. Hu Guangjie was appointed as an Executive Director and the President of the Company. With effect from 27 April 2020, Ms. Wen Dongfen was appointed as a Non-executive Director of the Company. With effect from 29 September 2020, (i) Mr. Wang Dongjin no longer served as a member of the Remuneration Committee of the Company and remains as a Non-executive Director and Chairman of the Board, and (ii) Mr. Li Yong was appointed as a Non-executive Director, Vice Chairman of the Board and a member of the Remuneration Committee of the Company.

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51(B) of the Listing Rules, there is no other change in the information of Directors of the Company except as disclosed in this annual report.

CODE OF ETHICS

The Board adopted a Code of Ethics in 2003 to provide guidelines to the senior management and Directors in legal and ethical matters as well as the sensitivity involved in reporting illegal and unethical matters. The Code of Ethics covers areas such as supervisory rules, insider dealing, market malpractices, conflict of interests, company opportunities, protection and proper use of the Company's assets as well as reporting requirements. As part of its continued efforts to improve its corporate governance standards, the Board conducted an annual review to the Code of Ethics since 2009, and the current version of the Code of Ethics was reviewed and adopted in August 2020.

The Company has provided all its Directors and senior officers with a copy of the Code of Ethics and requires them to comply with the Code of Ethics, so as to ensure the Company's operation is proper and lawful. The Company will take disciplinary actions towards any act which is in breach of the Code of Ethics. All the senior management members and Directors are required to familiarise themselves with and follow the Code of Ethics to ensure that the Company's operations are honest and legal. Violations of the rules will be penalised and serious breaches will result in dismissal.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the abovementioned Code of Ethics which has incorporated the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules. All Directors have confirmed that they complied, during the year ended 31 December 2020, with the Company’s Code of Ethics and the required standards set out in the Model Code.

SERVICES AND REMUNERATION OF AUDITORS

Deloitte Touche Tohmatsu, appointed as the independent auditors of the Company on 24 May 2013, was re-appointed and engaged as the Company and its subsidiaries’ auditors (“Auditors”) for the financial year ended 31 December 2020. Services provided by the Auditors and fees charged by the Auditors for the services for the year ended 31 December 2020 are as follows:

Audit Fees

The aggregate fees billed for professional services rendered by the Auditors for the audit of the Company’s annual financial statements or services that are normally provided by the Auditors in connection with statutory and regulatory filings or engagements were RMB54.1 million for the financial year ended 31 December 2019 and RMB55.0 million for the financial year ended 31 December 2020.

Audit-related Fees

The aggregate fees billed for assurance and related services by the Auditors that are reasonably related to the performance of the audit or review of the Company’s financial statements and are not reported under “Audit Fees” were RMB8.2 million for the financial year ended 31 December 2019 and RMB7.8 million for the financial year ended 31 December 2020.

Tax Fees

The aggregate fees billed for professional service rendered by the Auditors for tax compliance, tax advice and tax planning were RMB2.1 million for the financial year ended 31 December 2019 and RMB0.04 million for the financial year ended 31 December 2020.

All Other Fees

The aggregate fees billed for professional service rendered by the Auditors for risk management advisory services and information systems reviews were RMB0.25 million for the financial year ended 31 December 2019 and RMB0.23 million for the financial year ended 31 December 2020.

There are no other fees payable to the Auditors for products and/or services provided by the Auditors, other than the services reported above, for the financial year ended 31 December 2019 and for the financial year ended 31 December 2020.

DIVIDEND DISTRIBUTION POLICY

The payment of any future dividends will be determined by the Board, subject to requirements of applicable laws and the Articles and shareholders’ approval for all dividends other than interim dividends, based upon, among other things, our future earnings, capital requirements, financial conditions, future prospects and other factors which our Board may consider relevant. Our ability to pay dividends will also depend on the cash flows determined by the dividends, if any, received by us from our subsidiaries, associates and joint ventures. Holders of our shares will be entitled to receive such dividends declared by our Board and approved by the shareholders (if necessary) pro rata according to the amounts paid up or credited as paid up on the shares.

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

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

http://www.cnoocltd.com/encnoocltd/gsgz/socg

DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Wang Dongjin

Born in 1962, Mr. Wang is a professor-level senior engineer and received a Bachelor of Science degree in Petroleum Drilling from Development Department of China University of Petroleum and a Doctor of Science degree in Petroleum Engineering Management from China University of Petroleum-Beijing in 2012. From July 1995 to December 1997, he was appointed as Deputy Director-General of Jiangsu Petroleum Exploration Bureau. From December 1997 to October 2002, he was appointed as Vice President of China National Oil & Gas Exploration and Development Corporation ("CNODC"). From December 2000 to October 2002, he also served as President of CNPC International (Kazakhstan) Ltd. and President of AktobeMunai Gas Corp. From October 2002 to September 2008, he served as President of CNODC. From January 2004 to September 2008, he was appointed as Assistant President of China National Petroleum Corporation ("CNPC") and Vice Chairman of CNODC. From September 2008 to March 2018, he served as Vice President of CNPC. From May 2011 to May 2014, he was concurrently appointed as Director of PetroChina Company Limited ("PetroChina"). From July 2013 to March 2018, he was concurrently appointed as President of PetroChina. From May 2014 to March 2018, he served as Vice Chairman of PetroChina. In March 2018, Mr. Wang was appointed as a Director of CNOOC. From October 2018 to October 2019, Mr. Wang was appointed as President of CNOOC. In October 2019, Mr. Wang was appointed as Chairman of CNOOC. On 27 April 2018, Mr. Wang was appointed as a Non-executive Director of the Company. From 27 April 2018 to 29 September 2020, Mr. Wang Dongjin served as a member of the Remuneration Committee of the Company. From 5 December 2018 to 18 November 2019, Mr. Wang was appointed as the Vice Chairman of the Company. Mr. Wang has been appointed as Chairman of the Board and Chairman of the Nomination Committee of the Company with effect from 18 November 2019.

Li Yong

Born in 1963, Mr. Li is a senior engineer. He received a Bachelor of Science degree in Petroleum Engineering from Southwest Petroleum Institute and an MBA degree from Peking University. From April 2003 to October 2005, he served as Vice General Manager of Tianjin Branch of CNOOC China Limited. From October 2005 to April 2009, he served as Executive Vice President of China Oilfield Services Limited ("COSL"). From April 2009 to September 2010, he served as President of COSL. From September 2010 to June 2016, he served as Chief Executive Officer and President of COSL. From June 2016 to March 2017, he served as Assistant President of CNOOC, Executive Vice President of the Company, Director of Bohai Petroleum Administration Bureau and General Manager of Tianjin Branch of CNOOC China Limited. He also served as a Director of CNOOC International Limited from June 2016 to May 2017. From March 2017 to September 2020, he served as Vice President of China Petrochemical Corporation. From May 2018 to September 2020, he also served as Director of China Petroleum & Chemical Corporation. In September 2020, Mr. Li served as Director and President of CNOOC. Mr. Li has been appointed as the Vice Chairman of the Board, a Non-executive Director and a member of the Remuneration Committee of the Company with effect from 29 September 2020.

Wen Dongfen

Born in 1964, Ms. Wen is a professor-level senior accountant. She received a Bachelor of Economics Degree in Business Management from Shanxi Finance and Economics College. She served as Deputy Director of Financial Planning Department of China Petrochemical Corporation ("Sinopec Group"), Deputy Director of Financial Department of Sinopec Group and Director of Financial Department of Sinopec Group. From May 2012 to December 2015, she also served as Chairwoman of Shengjun International Investment Limited. From December 2015 to July 2016, she served as Financial Director and Director of Financial Department of China Petroleum & Chemical Corporation. Since July 2016, she has been serving as Chief Accountant of CNOOC. From August 2016 to August 2017, she also served as Chairwoman of CNOOC International Financial Leasing Co., LTD. From August 2016 to February 2018, she also served as Chairwoman of CNOOC Finance Corporation Limited and CNOOC Insurance Limited. From August 2016 to May 2018, she also served as Chairwoman of Zhonghai Trust Co., Ltd. Ms. Wen was appointed as a Non-executive Director of the Company with effect from 27 April 2020.

EXECUTIVE DIRECTORS

Xu Keqiang

Born in 1971, Mr. Xu is a professor-level senior engineer. He graduated from Northwest University with a Bachelor of Science degree in Oil and Gas Geology. He received a master's degree in Coalfield Oil and Gas Geology from Northwest University in 1996. Mr. Xu joined China National Petroleum Corporation in 1996 and served different positions. From April 2003 to April 2005, he served as Deputy General Manager of Sinopetro Investment Company Ltd. From April 2005 to September 2008, he served as Deputy General Manager of CNPC International (Kazakhstan) Ltd. and concurrently General Manager of CNPC Ai-Dan Munai Joint Stock Company. From September 2008 to March 2014, he served as Deputy General Manager of CNPC International (Kazakhstan) Ltd. and concurrently General Manager of Joint Stock Company CNPC International Aktobe Petroleum. From March 2014 to March 2017, he served as General Manager of PetroChina Tuha Oilfield Company, and Director of Tuha Petroleum Exploration & Development Headquarters. From March 2017 to February 2020, Mr. Xu served as a Vice President of CNOOC. From 25 February 2020, Mr. Xu has been appointed as a Director of CNOOC. From April 2017 to June 2018, Mr. Xu served as the Chairman of Nexen Energy ULC, a subsidiary of the Company. In between May 2017 and June 2018, he served as the Chairman and a Director of a subsidiary of the Company-CNOOC International Limited. In May 2017, Mr. Xu was appointed as a Director of CNOOC China Limited, a subsidiary of the Company. From May 2018 to April 2020, Mr. Xu served as the General Manager of CNOOC China Limited. Mr. Xu was appointed as an Executive Director of the Company with effect from 18 April 2017, and was appointed as the President of the Company from April 2017 to March 2020. He has been appointed as the Chief Executive Officer of the Company with effect from 19 November 2019.

Hu Guangjie

Born in 1973, Mr. Hu is a professor-level senior engineer. He received a Bachelor of Science degree in Petroleum Engineering (Reservoir Engineering) from Chengdu University of Technology and a Master's degree in Oil and Gas Field Development Engineering from China University of Petroleum (Huadong). He served in a number of positions in China Petrochemical Corporation ("Sinopec Group") from August 2008 to October 2018, including Vice Manager of Northwest Oil Field Company, a subsidiary of China Petroleum & Chemical Corporation ("Sinopec Corp."), Vice General Manager of Northwest Oil Field Company, Executive Vice Director General of Northwest Petroleum Bureau, Executive Vice General Manager of Northwest Oil Field Company, Director General of Northwest Petroleum Bureau, General Manager of Northwest Oil Field Company and General Manager of Northwest Petroleum Bureau Co., Ltd. From October 2018 to March 2020, he served as an Executive Vice Director of Oilfield Exploration & Production Department of Sinopec Corp., Director of Oilfield Exploration & Production Department, General Manager of Oilfield Exploration & Production Department. In March 2020, Mr. Hu was appointed as Vice President of CNOOC. In April 2020, Mr. Hu was appointed as the General Manager of CNOOC China Limited, a subsidiary of the Company. In November 2020, Mr. Hu was appointed as a Director of CNOOC China Limited. Mr. Hu has been appointed as an Executive Director and the President of the Company with effect from 20 March 2020, and he serves as the Chief Safety Official of the Company since 29 September 2020.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chiu Sung Hong

Born in 1947, Mr. Chiu received an LL.B. degree from the University of Sydney. He was admitted as a solicitor of the Supreme Court of New South Wales and the High Court of Australia. He has over 30 years' experience in legal practice and had been a director of a listed company in Australia. Mr. Chiu was the founding member of the Board of Trustees of the Australian Nursing Home Foundation and a senior research fellow of Centre for Law & Globalization of Renmin University of China since 2016. He also served as the General Secretary of the Australian Chinese Community Association of New South Wales. Mr. Chiu is also an Independent Non-executive Director of Tianda Pharmaceuticals Limited (formerly Yunnan Enterprises Holdings Limited, Tianda Holdings Limited) since April 2008, a company listed on The Stock Exchange of Hong Kong Limited. Mr. Chiu is also an Independent Non-executive Director of Bank of China (Australia) Limited (a wholly subsidiary of Bank of China Limited). Mr. Chiu was appointed as an Independent Non-executive Director of the Company with effect from 7 September 1999.

Lawrence J. Lau

Born in 1944, Professor Lau graduated with a B.S. (with Great Distinction) in Physics from Stanford University in 1964, and received his M.A. and Ph.D. degrees in Economics from the University of California at Berkeley in 1966 and 1969 respectively. He joined the faculty of the Department of Economics at Stanford University in 1966, becoming Professor of Economics in 1976, the first Kwoh-Ting Li Professor in Economic Development in 1992, and Kwoh-Ting Li Professor in Economic Development, Emeritus in 2006. From 2004 to 2010, Professor Lau served as the Vice-chancellor (President) of The Chinese University of Hong Kong. From September 2010 to September 2014, Professor Lau served as Chairman of CIC International (Hong Kong) Co., Limited. From March 2008 to February 2018, Professor Lau served as a member of the 11th and 12th National Committee of the Chinese People's Political Consultative Conference (and a Vice Chairman of its Economics Subcommittee). Professor Lau specializes in economic development, economic growth, and the economies of East Asia, including that of China. He has authored, co-authored, or edited sixteen books, including The China-U.S. Trade War and Future Economic Relations, and published more than 210 articles and notes in professional journals. Professor Lau serves as a member of the Hong Kong Special Administrative Region Exchange Fund Advisory Committee Currency Board Subcommittee, and a member of the Hong Kong Trade Development Council (HKTDC) Belt and Road and Greater Bay Area Committee. In addition, he also serves as the Chairman of the Board of Directors of the Chinese University of Hong Kong (Shenzhen) Advanced Finance Institute, aka Shenzhen Finance Institute, a member and Chairman of the Prize Recommendation Committee of the LUI Che Woo Prize Company, as well as a Vice-Chairman of Our Hong Kong Foundation. He was appointed a Justice of the Peace in Hong Kong in July 2007 and awarded the Gold Bauhinia Star in 2011 by the Government of the Hong Kong Special Administrative Region. He currently serves as the Ralph and Claire Landau Professor of Economics at the Lau ChorTak Institute of Global Economics and Finance, the Chinese University of Hong Kong, an independent non-executive director of AIA Group Limited and Semiconductor Manufacturing International Corporation, and served as an independent non-executive director from December 2014 to May 2020 of Hysan Development Company Limited, all listed on the Hong Kong Stock Exchange. He also serves as an independent non-executive director of Far EasTone Telecommunications Company Limited, Taipei, which is listed on the Taiwan Stock Exchange. Professor Lau was appointed as an Independent Non-executive Director of the Company with effect from 31 August 2005.

Tse Hau Yin, Aloysius

Born in 1948, Mr. Tse is a fellow of The Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Mr. Tse is a past president and a former member of the Audit Committee of the HKICPA. He joined KPMG in 1976, became a partner in 1984 and retired in March 2003. Mr. Tse was a non-executive Chairman of KPMG's operations in the PRC and a member of the KPMG China advisory board from 1997 to 2000. Mr. Tse is currently an independent non-executive director of China Telecom Corporation Limited, SJM Holdings Limited, Sinofert Holdings Limited and China Huarong Asset Management Company, Limited, companies listed on The Stock Exchange of Hong Kong Limited. From 2004 to 2010, he was an independent non-executive director of China Construction Bank Corporation, which is listed on the HKSE Main Board. From 2005 to 2016, Mr. Tse was also an independent non-executive director of Daohe Global Group Limited (formerly known as Linmark Group Limited), which is listed on the HKSE Main Board, Mr. Tse is currently an independent non-executive director of CCB International (Holdings) Limited, a wholly owned subsidiary of China Construction Bank Corporation and OCBC Wing Hang Bank Limited (formerly named as Wing Hang Bank Limited whose shares were delisted from The Stock Exchange of Hong Kong Limited with effect from 16 October 2014). Mr. Tse is also a member of the International Advisory Council of the People's Municipal Government of Wuhan. Mr. Tse was appointed as an Independent Non-executive Director of the Company with effect from 8 June 2005.

Qiu Zhi Zhong

Born in 1955, Mr. Qiu obtained a Bachelor of Science degree in Computer Science from New York University and a Bachelor of Engineering degree in Electrical Engineering from Cooper Union for the Advancement of Science and Art in 1983, a Master of Science degree in Electrical Power Engineering from Ohio State University in 1985, and a Master of Business Administration from Harvard Business School in 1990. Mr. Qiu has served as an independent non-executive director and chairman of the nomination committee of Sinochem Energy Co., Ltd since November 2020. He also serves as the Honorary Consul of Republic of Rwanda in Hong Kong. From 1991 to 2002, Mr. Qiu served as the Chairman of Greater China Region and a Managing Director of Credit Suisse First Boston. From 2002 to 2006, Mr. Qiu established and served as the Managing Director of Quartz Capital. From 2004 to 2014, he served as the Chairman of the DragonTech Ventures Fund and DragonTech Ventures Management Limited. From 2006 to 2009, he served as the Executive Chairman of China and Vice Chairman of Asia of ABN AMRO Bank N.V., and during this period he also served as the Chairman of ABN AMRO (China) Co. Ltd. and the Chairman of ABN AMRO Leasing (China) Co. Ltd. From 2009 to March 2013, he served as a Managing Director, the Vice Chairman of Asia Pacific and Chairman of Greater China of Barclays Capital. From 2013 to 2016, he served as the Chairman of Meridian Capital (Asia) Limited. In 1994 and 1995, Mr. Qiu was named as one of the world's "50 Most Wanted in Finance" and "World's 50 Derivatives Superstars" respectively by the Global Finance magazine. Mr. Qiu was appointed as an independent non-executive director and a member of the Nomination Committee of the Company with effect from 7 May, 2019.

OTHER MEMBERS OF SENIOR MANAGEMENT

Xie Yuhong

Born in 1961, Mr. Xie is an Executive Vice President and the Chief Safety Official of the Company as well as a professor-level senior engineer. Mr. Xie obtained a Ph.D. degree from China University of Geosciences in 2005. From 1982 to 1995, Mr. Xie served as an engineer of Research Institute and Exploration Department of CNOOC Naihai West Corporation. From 1995 to 1996, he served as the Deputy Manager of Exploration Department of CNOOC Naihai West Corporation. From 1996 to 1999, he served as Manager of Tepu Company of CNOOC Naihai West Corporation, Deputy Chief Earth Physicist and Manager of Exploration Department of Naihai West Corporation. From 2001 to 2005, he was Deputy Chief Manager of CNOOC China Limited Zhanjiang Branch. From 2005 to 2013, he served as the Chief Manager of CNOOC China Limited Zhanjiang Branch. From 2013 to 2015, he was appointed as the Director of Naihai West Petroleum Administrative Bureau of CNOOC. From July 2015 to May 2016, he was appointed as Deputy Chief Geologist of CNOOC and Deputy Chief Geologist of the Company. From July 2015 to October 2019, he was appointed as General Manager of Exploration Department of the Company. From 2016 to September 2020, he was appointed as the Chief Geologist of CNOOC and an Executive Vice President of the Company. From May 2018 to September 2020, he was appointed as the Chief Safety Official of the Company. From September 2020, Mr. Xie resigned as Executive Vice President and Chief Safety Official of the Company.

Cao Xinjian

Born in 1966, Mr. Cao is an Executive Vice President and the General Manager of CNOOC China Limited Tianjin Branch as well as a professor-level senior economist. Mr. Cao obtained a master degree of Business Administration from the University of Wales in 2003. From 1989 to 1999, Mr. Cao served as a geological delegate of the Contract Area of CNOOC Donghai Company & Caltex and the deputy manager of Exploration Department of CNOOC Donghai Company. From 1999 to 2004, he served as Exploration Manager of Exploration Department, Assistant Manager, Acting Manager and Manager of Human Resources Department of CNOOC China Limited Shanghai Branch. From 2004 to 2006, he served as Deputy Director of the CNOOC Talent Work Leading Group's Office. From 2006 to 2013 he served as Deputy General Manager of CNOOC China Limited Shanghai Branch. From 2009 to 2013, he also served as Deputy Director of Donghai Petroleum Administration Bureau of CNOOC. From 2013 to 2017, he served as Deputy General Manager and General Manager of Human Resources Department of CNOOC and the Company. From March 2017 to February 2020, he served as the Director of Bohai Petroleum Administration Bureau of CNOOC. From March 2017, he has served as General Manager of CNOOC China Limited Tianjin Branch. From August 2017, he was appointed as an Executive Vice President of the Company. In September 2017, he was appointed as Assistant President of CNOOC.

Xia Qinglong

Born in 1964, Mr. Xia is a professor-level senior engineer. He graduated from Geophysical Exploration Department of Chengdu Institute of Geology with a bachelor's degree in engineering. He graduated from Institute of Geology and Geophysics, Chinese Academy of Sciences with a PhD degree of science in solid earth geophysics. From August 1986 to November 2005, Mr. Xia successively served as assistant engineer and engineer of the Computation Centre of Bohai Oil Corporation, project manager of Bohai Oil Research Institute, an officer, chief of geophysics, deputy chief engineer (geophysical prospect) and exploration chief of the exploration department of Bohai Oil Corporation, Chief engineer (exploration) of Bohai Research Institute CNOOC Research Institute and the manager of at the Technology Department of CNOOC (China) Limited Tianjin Branch. He served as chief geologist, deputy general manager and executive deputy general manager of CNOOC (China) Limited Tianjin Branch from November 2005 to May 2016, deputy director and executive deputy director of CNOOC Bohai Petroleum Administrative Bureau from April 2013 to May 2016, and successively served as Chief Executive Officer and President, Chairman of BlueChemical Ltd. from May 2016 to December 2019. He serves as Chairman of the Board of CNOOC International Limited since December 2019 and was appointed as an Executive Vice President of the Company on 20 March 2020.

Xie Weizhi

Born in 1964, Mr. Xie is the Chief Financial Officer of the Company. Mr. Xie is a Senior Accountant. He graduated from Guanghua School of Management of Peking University with a master's degree in Business Administration. Mr. Xie joined CNOOC in 1986. Mr. Xie served as Deputy Manager of Finance Department of CNOOC Nanhai West Corporation, Deputy Manager and Manager of Controllers' Department and General Manager of Treasury Department of CNOOC. From January 2002 to February 2011, Mr. Xie served as General Manager of CNOOC Finance Corporation Ltd. From February 2011 to May 2016, Mr. Xie served as Assistant President of CHINALCO, Executive Director of CHINALCO Finance Company Limited, President of CHINALCO Offshore Holding Company, Vice President & CFO of CHALCO, President of CHALCO (Hong Kong), Chairman of CHINALCO Finance Company Limited, General Auditor & Director of Audit Department CHINALCO. From 2016 to 2017, Mr. Xie was appointed as General Manager of Finance Department of CNOOC. From August 2017, Mr. Xie was appointed as the Chief Financial Officer of the Company.

Deng Yunhua

Born in 1963, Mr. Deng is an academician of the Chinese Academy of Engineering and the Deputy Chief Exploration Engineer of the Company. Mr. Deng graduated from the Scientific Research Institute of Petroleum Exploration and Development with a major in Petroleum Geology and Exploration and received a master's degree in Engineering in 1988. He was assistant geologist and then geologist in the Exploration Department of CNOOC Bohai Corporation Institute from 1988 to 1989; and served as the Team Leader of the Comprehensive Petroleum Geological Research Team, Project Manager, Deputy Principal of Geologist, Deputy Principal Geologist and Director of the Exploration Department and Deputy Chief Geologist in the CNOOC Bohai Corporation Institute from 1989 to 1999. Mr. Deng became Deputy Chief Geology Engineer and Deputy General Manager of CNOOC China Limited Tianjian Branch from 1999 to 2005. He was Deputy Director of CNOOC Research Center from 2005 to 2006. He served as the Deputy Chief Exploration Engineer of the Company and Deputy Director of Beijing Research Center of CNOOC China Limited since 2006. He served as the Deputy Director of CNOOC Research Center from 2006 to 2009. Mr. Deng served as Deputy Chief Geology Engineer of CNOOC since 2007; and Deputy General Director of CNOOC Research Institute and Deputy Chief Manager of CNOOC Research Institute Co., Ltd. from 2009.

DIRECTORS AND SENIOR MANAGEMENT

Yang Yun

Born in 1964, Mr. Yang is a professor-level senior engineer. He graduated from Southwest Petroleum Institute with a bachelor of engineering degree in oil exploration engineering department and graduated from School of Economics and Management of Tsinghua University with an MBA degree in business administration. From September 1985 to December 1999, Mr. Yang successively serviced as assistant engineer, engineer and deputy officer of the craft room of oil production plant of Qinghai Petroleum Management Bureau, engineer and deputy head of the operation department of Nanhai West Oil Corporation, a section level officer and chief engineer of the production office of Nanhai West Oil Corporation and the manager of development and production department of CNOOC. From December 1999 to June 2007, he served as production manager of the production department of the Company. From June 2007 to May 2011, he served as the deputy general manager of CNOOC (China) Limited Shenzhen Branch and the deputy director of CNOOC Nanhai East Petroleum Administration Bureau. From May 2011 to July 2015, he served as the executive vice president of Offshore Oil Engineering Co., Ltd.. From July 2015 to December 2019, he served as the director of CNOOC Donghai Petroleum Administration Bureau, general manager of CNOOC (China) Limited Shanghai Branch and chairman of CNOOC Rongfeng Energy Co., Ltd.. He was appointed as the general manager of CNOOC (China) Limited Zhanjiang Branch in December 2019 and was appointed as a Vice President of the Company on 20 March 2020. From October 2020, he concurrently served as the general manager of CNOOC China Limited Hainan Branch.

Duan Chenggang

Born in 1963, Mr. Duan is a professor-level senior engineer. He graduated from Southwest Petroleum Institute with a bachelor degree of engineering in petroleum geological exploration and graduated from China University of Petroleum with a mater degree of management in management science and engineering. From August 1984 to May 2001, Mr. Duan successively served as an engineer of the exploration department and the science and technology research center, the chief engineer, deputy director of science and technology research center, deputy manager of exploration and development department of CNOOC Nanhai East Corporation. He served as the chief representative of the Chinese side of the joint management committee of the contract area, Assistant to General Manager and Deputy General Manager of CNOOC (China) Limited Shenzhen Branch from May 2001 to June 2007, Executive Vice President and President of CNOOC Southeast Asia Co., Ltd. from June 2007 to August 2012, General Manager of CNOOC Iraq Limited from August 2012 to February 2016. From February 2016 to February 2020, he served as Director of CNOOC Nahai East Petroleum Administration Bureau. From February 2016, he served as General Manager of CNOOC (China) Limited Shenzhen Branch. He was appointed as a Vice President of the Company on 20 March 2020.

Sun Fujie

Born in 1965. Mr. Sun graduated from China University of Petroleum (Beijing) with a Doctor Degree of Engineering in Oil and Gas Field Development. From July 1988 to April 1998, he serviced as Engineer of Development Office, Deputy Director of 1st Development Office, Deputy Director of Development Office and Deputy Chief Engineer and Deputy Director of Research Institute of CNOOC Bohai Company. From April 1998 to July 1999, he served as Chief Engineer of Development Department of CNOOC Bohai Company. From July 1999 to January 2002, he served as Deputy Chief Geologist of Tianjin Branch of CNOOC China Limited. From January 2002 to December 2011, he served as Chief Development Engineer, Chief Development and Design Engineer and Manager of Development and Design Department, Chief Development and Design Engineer of CNOOC Research Center, and Chief Development and Design Engineer of CNOOC Research Institute. From December 2011 to December 2013, he served as Chief Engineer of Development, Deputy General Manager and Chief Engineer of Development of Development and Production Department of the Company. From December 2013 to February 2017, he served as General Manager of Science and Technology Development Department of CNOOC and the Company. From February 2017 to December 2020, he served as Executive Deputy Director of CNOOC Consulting Center. Mr. Sun has been appointed as the Vice President of the Company with effect from 31 December, 2020.

Wu Xiaonan

Born in 1967, Ms. Wu Xiaonan is the Joint Company Secretary of the Company. Ms. Wu is an Enterprise Legal Adviser (註冊企業法律顧問) and Certified Senior Enterprise Risk Manager (註冊高級企業風險管理師). Ms. Wu received a bachelor of laws degree from China University of Political Science and Law in 1990. Ms. Wu has been working in the oil and gas industry for over 20 years. From September 1999 to June 2002, Ms. Wu successively worked in the Regulatory and Legislative Division of the Legal Department of CNOOC and the Company. From June 2002 to February 2012, Ms. Wu served as the Manager of the Regulatory and Legislative Division of the Legal Department of the Company. From February 2012 to May 2016, she served as the Deputy General Manager of the Legal Department of the Company. From May 2016 to December 2020, Ms. Wu served as the General Manager of the Legal Department. From September 2018 to December 2020, she served as the Director of the Legal Support Center of CNOOC. From August 2018 to February 2021, Ms. Wu served as the Vice General Counsel of CNOOC and the General Counsel and the Compliance Officer of the Company. Ms. Wu was appointed as a Joint Company Secretary of the Company with effect from 19 November 2018.

JOINT COMPANY SECRETARIES

Wu Xiaonan

Please refer to the biography of Ms. Wu on page 67 of this annual report for details.

Tsue Sik Yu, May

Born in 1973, Ms. Tsue Sik Yu, May is the Joint Company Secretary of the Company. She graduated from Curtin University of Technology in Australia with a bachelor of commerce in accounting. Ms. Tsue furthered her education at The Hong Kong Polytechnic University in Master of Corporate Governance from 2004 to 2006, and MBA from The University of Hong Kong from 2014 to 2016. She is a fellow member of both The Chartered Governance Institute and the Hong Kong Institute of Chartered Secretaries since 2012 and became a member of Company Secretaries Panel and Advisor for Academy of Professional Certification in the same year, and became a member of ACCA since 2016. She is also a fellow member and certified risk trainer of the Institute of Crisis and Risk Management and an associate member of CPA Australia. Furthermore, she was granted a Practitioner's Endorsement (PE) since 2017/2018 under The Hong Kong Institute of Chartered Secretaries and accredited a General Mediator under Hong Kong Mediation Accreditation Association Limited (HKMAAL) since August 2017. From August 1998 to March 1999, Ms. Tsue worked in LG International (HK) Ltd. as a senior accounts clerk. Ms. Tsue joined China Ocean Oilfield Services (HK) Limited in 1999 as an accountant. She helped to manage the finance of the CNOOC Insurance Limited since 2000 and became its employee in 2004 as a manager of finance department. She serves as company secretary of CNOOC Insurance Limited since March 2007. Ms. Tsue gained The Chartered Governance Professional (CGP) qualification of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries on 30 September 2018. She volunteered on Hong Kong Management Association (HKMA) of Panel of Adjudicators HKMA Best Annual Reports Awards since 2018. She volunteered on the Hong Kong Institute of Chartered Secretaries of Committee member of Professional Development Council (PDC) since 2021 and Committee member of Company Secretaries Panel (CSP) since 2017. Ms. Tsue was appointed as a Joint Company Secretary of the Company with effect from 25 November 2008.

REPORT OF THE DIRECTORS

The directors (the "Directors") of the Company are pleased to present their report together with the audited financial statements of the Company for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding of its subsidiaries. These subsidiaries are principally engaged in the exploration, development, production and sales of crude oil and natural gas.

SUMMARY OF FINANCIAL INFORMATION AND OPERATING RESULTS

Please refer to the financial summary on page 2 of this annual report for a summary of the assets and liabilities of the Group as of 31 December 2020 and the operating results of the Group for the year then ended.

BUSINESS REVIEW

Overview and Performance of the Year

A review of the business of the Group and analysis of the Group's performance using financial key performance indicators is provided in the Business Overview and Management's Discussion and Analysis section on pages 8 to 27 and pages 80 to 84 of this annual report.

Environmental Policies and Performance

During the process of oilfield exploitation, the Company highly values the protection of natural and ecological environment, helps the nation to resolutely win the fight against pollution, and its comprehensive environmental protection measures ensure the Company to comply with the applicable laws and regulations on environmental protection.

The Company's environmental protection management system emphasises the management principles of environmental protection control throughout the whole process, and we place Environment Impact Assessment (EIA), compliance with set standards or targets on pollutant emissions, control on total discharge amount and reduction on emissions as our priorities. During the pre-feasibility study phase, the environmental risk pre-assessment report will be prepared to identify environmental risks and avoid environmentally sensitive sea areas for protecting marine ecosystem. During the feasibility study phase/basic design stage, an environmental impact assessment will be conducted to comprehensively evaluate the environmental impact in the construction phase of the project, take necessary environmental protection measures, enhance fishery resource protection and marine ecosystem restoration in order to obtain the local government's environmental approval before the construction phase of the project as a necessary prerequisite. During the construction phase, environmental protection supervision and management are strictly performed and tightened in order to reduce the impact on natural and social environment. During the production phase, pollutant discharge is controlled and emission concentration is reduced, and environmental protection measures are adopted to achieve "increased production without increasing pollution" or "increased production with reduced pollution", and build green oil fields.

For the year ended 31 December 2020, the Company has carried out the laws and regulations of the PRC on energy saving and reduction in emission, viewing energy saving and reduction in emission as important works for the transformation of the mode of development and optimisation of the industrial structure. We kept on strictly carrying out energy-saving assessment and examination on oil & gas field investment projects, ensuring this work can be integrated from the initial stage of projects. We also strengthened the efforts in technical reformation, which is the key to improve energy efficiency and reduce carbon emissions.

Regarding the environmental issues that have material impacts on the Company's business performance and future development, please refer to the environmental, social and governance report of 2020 prepared by the Company (the "2020 ESG report") to be available on the Company's website.

Compliance with Relevant Laws and Regulations

For the year ended 31 December 2020, compliance procedures were in place to ensure adherence to applicable laws, rules and regulations which have significant impact on the Group. The Board and senior management within their respective duties in conjunction with internal and external professional advisors monitored the Group's policies and practices on compliance with legal and regulatory requirements. Changes in the applicable laws, rules and regulations which have significant impact on the Group (if any) were brought to the attention of relevant employees and relevant operation units from time to time. During the reporting period, various works of the Board and senior management were in compliance with the relevant applicable laws and regulations, the Articles, charters of the board committees, internal policies and the relevant provisions of various internal control systems. Decision-making process was legitimate and effective. Directors and senior management performed in a diligent and responsible manner and the resolutions of the general meetings and board meetings were implemented faithfully. Meanwhile, the Company has timely performed its disclosure obligations which were in strict compliance with the requirements of the listing rules or manuals of the Hong Kong Stock Exchange, the New York Stock Exchange and the Toronto Stock Exchange.

In accordance with the requirements of the laws, regulations and related policies in Hong Kong, PRC and relevant other jurisdictions in which the Group operates, the Group provides and maintains statutory benefits for its staff, including but not limited to pension schemes, mandatory provident fund, basic medical insurance, work injury insurance, etc. Further, the Group has been committed in complying with relevant laws and regulations on work and occupational safety of employees of the Group.

Key Relationships with Stakeholders

The support and trust of our stakeholders is integral to the Company's growth and success. Our stakeholders include shareholders and creditors, employees and employee organisations, governments and regulatory authorities, business partners and service providers, the public and communities, charities and non-government organisations (NGOs), and clients. We place emphasis on communications with our stakeholders and have established an open and transparent communication channel for each category of stakeholders to understand their expectations and requests. Through specified communication methods, we looked into and sorted out the focuses and concerns of the stakeholders, and responded with corresponding actions and measures. We continued to strengthen the quality and effectiveness of information disclosure, comply with applicable laws and regulations and actively participate in public welfare activities, with the purpose of achieving mutual development and value sharing with our stakeholders. We have also formulated key indicators based on the focuses and concerns of different stakeholders to reflect our management performance on various subject matters. Some of our key indicators include return on equity and payout ratio for shareholders and creditors; employee training frequency, turnover rate and OSHA statistics for employees and employee organisations; data for emissions, use of resources, environment and natural resources and safety environment performance; partners' feedback and contracts' execution capability for business partners and service providers; public opinion and corporate image concerned by the public; community evaluations for communities; participation in charities' and NGOs' relevant activities and client satisfaction surveys and feedbacks; etc. Going forward, we will endeavor to improve our current policies, strive to maximise our stakeholders' value and achieve a mutually beneficial outcome.

For more details on Company's key relationships with stakeholders, please refer to the 2020 ESG report.

Key Risks and Uncertainties

A description of principal risks and uncertainties that the Group may be facing is provided in the Risk Management and Internal Control on pages 28 to 35 of this annual report.

Prospects

A description of the likely future development in the Company's future business is provided in the Chairman's statement on pages 6 to 7 and Business Overview on pages 8 to 27 of this annual report.

Subsequent Event

Please refer to note 41 to the consolidated financial statements for details of the significant events after the reporting period of the Group.

LOANS

Please refer to note 28 to the consolidated financial statements on pages 137 to 139 of this annual report for details of the loans and borrowings of the Group as of 31 December 2020.

PROPERTY, PLANT AND EQUIPMENT

Please refer to note 14 to the consolidated financial statements on pages 125 to 126 of this annual report for the movements in property, plant and equipment of the Group for the year ended 31 December 2020.

RESERVES

The distributable reserves of the Company as of 31 December 2020 amounted to RMB199,188 million.

Please refer to the consolidated statement of changes in equity on page 92 and note 42 to the consolidated financial statements on pages 155 to 156 of this annual report for movements in the reserves of the Group and the Company, respectively, for the year ended 31 December 2020.

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Particulars of the Company's subsidiaries, associates and joint ventures as of 31 December 2020 are set out in notes 17, 18 and 19 to the consolidated financial statements on pages 130 to 134 of this annual report.

DIVIDENDS

An interim dividend of HK$0.20 (tax inclusive) per share was declared on 19 August 2020, and paid to the shareholders of the Company on 16 October 2020.

The Board recommended a payment of a final dividend of HK$0.25 (tax inclusive) per share for the year ended 31 December 2020, payable on 9 July 2021 to all shareholders on the register of members of the Company on 11 June 2021 subject to shareholders' approval.

RETIREMENT BENEFITS

Please refer to note 34 to the consolidated financial statements on page 147 of this annual report for details of the retirement benefits of the Group for the year ended 31 December 2020.

MAJOR SUPPLIERS AND CUSTOMERS

Purchases from the largest supplier of the Group for the year ended 31 December 2020 represented approximately 18% of the Group's total purchases. The total purchases attributable to the five largest suppliers of the Group accounted for approximately 48% of the total purchases of the Group for the year ended 31 December 2020.

Sales to the largest third party customer for the year ended 31 December 2020 represented approximately 5% of the Group's total revenue. The total sales attributable to the five largest third party customers of the Group accounted for approximately 8% of the Group's total revenue for the year ended 31 December 2020.

For the year ended 31 December 2020, except for the continuing connected transactions with its indirect controlling shareholder CNOOC and its associates, as disclosed in the section entitled "Connected Transactions" below, none of the Directors or their respective close associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interests in the five largest suppliers or customers of the Group.

CHARITABLE DONATIONS

The donations by the Group for the year ended 31 December 2020 amounted to RMB93.3 million.

CONNECTED TRANSACTIONS

The Independent Non-executive Directors have confirmed that the following continuing connected transactions for the year ended 31 December 2020 to which any member of the Group was a party were entered into by the Group:

1. in the ordinary and usual course of its business;
2. on normal commercial terms or better; and
3. in accordance with the relevant agreements (including pricing principles and guidelines set out therein) governing the transactions on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

The Company entered into a comprehensive framework agreement on 1 November 2019 with CNOOC, the controlling shareholder of the Company, for the provision (1) by the Group to CNOOC and/or its associates and (2) by CNOOC and/or its associates to the Group, of a range of products and services which may be required and requested from time to time by either party and/or its associates in respect of the continuing connected transactions. The comprehensive framework agreement is substantially on the same terms as the terms contained in the comprehensive framework agreements entered into by the Company on 15 November 2016, with more details about the pricing principles. The term of the comprehensive framework agreement is for a period of three years from 1 January 2020. The continuing connected transactions under the comprehensive framework agreement and the relevant annual caps for the three years from 1 January 2020 were approved by the independent shareholders of the Company on 21 November 2019. The continuing connected transactions under the comprehensive framework agreement and the relevant annual caps are set out below:

Categories of continuing connected transactions	**Annual caps for 2020 to 2022**
Provision of exploration, oil and gas development, oil and gas production as well as sales, management and ancillary services by CNOOC and/or its associates to the Group	
(a) Provision of exploration and support services	For the three years ended 31 December 2022, RMB13,892 million, RMB14,811 million and RMB15,444 million, respectively
(b) Provision of oil and gas development and support services	For the three years ended 31 December 2022, RMB49,083 million, RMB48,857 million and RMB58,536 million, respectively
(c) Provision of oil and gas production and support services	For the three years ended 31 December 2022, RMB18,815 million, RMB20,651 million and RMB22,778 million, respectively
(d) Provision of sales, management and ancillary services	For the three years ended 31 December 2022, RMB2,773 million, RMB3,004 million and RMB3,231 million, respectively
(e) FPSO vessel leases	For the three years ended 31 December 2022, RMB1,663 million, RMB1,394 million and RMB1,316 million, respectively
Provision of management, technical, facilities and ancillary services, including the supply of materials by the Group to CNOOC and/or its associates	
Provision of management, technical, facilities and ancillary services, including the supply of materials to CNOOC and/or its associates	For the three years ended 31 December 2022, RMB100 million, RMB100 million and RMB100 million, respectively
Sales of petroleum and natural gas products by the Group to CNOOC and/or its associates	
(a) Sales of petroleum and natural gas products (other than long-term sales of natural gas and liquefied natural gas)	For the three years ended 31 December 2022, RMB229,990 million, RMB250,736 million and RMB278,819 million, respectively
(b) Long-term sales of natural gas and liquefied natural gas	For the three years ended 31 December 2022, RMB28,270 million, RMB38,509 million and RMB51,642 million, respectively
Financial services provided by CNOOC Finance Corporation Limited to the Group	

On 21 November 2019, the Company entered into a financial services framework agreement ("Financial Services Framework Agreement") with CNOOC Finance Corporation Limited ("CNOOC Finance"), an associate of CNOOC, pursuant to which CNOOC Finance provided a range of financial services as may be required and requested by the Group, for a term of three years from 1 January 2020 to 31 December 2022. The Financial Services Framework Agreement is substantially on the same terms as the terms contained in the financial services framework agreement entered into by the Company on 1 December 2016. The continuing connected transactions in respect of the depositary services under the Financial Services Framework Agreement are exempted from independent shareholders' approval requirement, but subject to the annual reporting, annual review and announcement requirements.

The maximum daily outstanding balance of deposits and interest (excluding funds placed for the purpose of extending entrustment loans pursuant to the entrustment loan services) placed by the Group with CNOOC Finance shall not exceed RMB23.5 billion for the period from 1 January 2020 to 31 December 2022.

The Independent Non-executive Directors have further confirmed that for the year ended 31 December 2020:

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

   (a) The aggregate annual volume of transactions for the provision of exploration and support services did not exceed RMB13,892 million.

   (b) The aggregate annual volume of transactions for the provision of oil and gas development and support services did not exceed RMB49,083 million.

   (c) The aggregate annual volume of transactions for the provision of oil and gas production and support services did not exceed RMB18,815 million.

   (d) The aggregate annual volume of transactions for the provision of sales, management and ancillary services did not exceed RMB2,773 million.

   (e) The aggregate annual volume of transactions for FPSO vessel leases did not exceed RMB1,663 million.

(ii) The aggregate annual volume of transactions for the provision of management, technical, facilities and ancillary services, including the supply of materials by the Group to CNOOC and/or its associates did not exceed RMB100 million;

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

   (a) The aggregate annual volume of transactions for the sales of petroleum and natural gas products (other than long-term sales of natural gas and liquefied natural gas) did not exceed RMB229,990 million.

   (b) The aggregate annual volume of the transactions for the long-term sales of natural gas and liquefied natural gas did not exceed RMB28,270 million.

(iv) The maximum daily outstanding balance of deposits and interest (excluding funds placed for the purpose of extending entrustment loans pursuant to the entrustment loan services) placed by the Group with CNOOC Finance did not exceed RMB23.5 billion.

The independent auditors of the Group have reviewed the continuing connected transactions referred to above and confirmed to the Board that the continuing connected transactions:

1. have received the approval of the Board;

2. were in accordance with the pricing policies for the transactions involving the provision of goods or services by the Group as stated in the Company's financial statements;

3. were entered into in accordance with the relevant agreements governing the transactions; and

4. have not exceeded the applicable caps.

Please also refer to note 33 to the consolidated financial statements on pages 143 to 146 of this annual report for a summary of the related party transactions which include the Group's continuing connected transactions.

SHARE CAPITAL

Please refer to note 31 to the consolidated financial statements on page 141 of this annual report for details of movements in the Company's total issued shares for the year ended 31 December 2020.

SHARE OPTION SCHEMES

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

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

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

Please refer to note 31 to the consolidated financial statements on pages 141 to 142 of this annual report for details regarding each of these share option schemes of the Company. Save as those disclosed in the annual report, no right to subscribe for equity or debt securities of the Company has been granted by the Company to, nor have any such rights been exercised by, any other person during the year ended 31 December 2020.

During the year ended 31 December 2020, the movements in the options granted under all of the above share option schemes were as follows:

Name or category of grantee	Number of share options						Date of grant of share options	Exercise period of share options*	Price of the Company's shares		Weighted average closing price of the Company's shares	
	As of 1 January 2020	Granted during the year	Exercised during the year	Forfeited during the year	Expired during the year	As of 31 December 2020			Exercise price of share options	Immediately before the grant date of options	Immediately before the exercise date	At exercise date of options
									HK$ per share	HK$ per share	HK$ per share	HK$ per share
Directors	–	–	–	–	–	–	–	–	–	–	–	–
Other Employees in aggregate	27,030,000	–	–	(3,255,000)	(23,775,000)	–	20 May 2010	20 May 2010 to 20 May 2020	12.696	12.22	–	–
Total	27,030,000	–	–	(3,255,000)	(23,775,000)	–						

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

EQUITY-LINKED AGREEMENT

Save as disclosed in this annual report, there was no equity-linked agreement entered into by the Company during the year ended 31 December 2020.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Save as disclosed in this annual report, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of its listed securities during the year ended 31 December 2020.

NAME OF DIRECTOR

The Directors of the Company during the year and up to the date of this annual report are:

Executive Directors

Xu Keqiang *(Note 1)*
Hu Guangjie *(Note 2)*

Non-executive Directors

Wang Dongjin *(Chairman) (Note 3)*
Li Yong *(Vice chairman) (Note 4)*
Wen Dongfen *(Note 5)*

Independent Non-executive Directors

Chiu Sung Hong
Lawrence J. Lau
Tse Hau Yin, Aloysius
Qiu Zhi Zhong

Note 1: With effect from 20 March 2020, Mr. Xu Keqiang resigned as the President of the Company. Mr. Xu remains as an Executive Director and the Chief Executive Officer of the Company.

Note 2: With effect from 20 March 2020, Mr. Hu Guangjie was appointed as an Executive Director and the President of the Company.

Note 3: With effect from 29 September 2020, Mr. Wang Dongjin resigned as a member of the Remuneration Committee of the Company. Mr. Wang remains as a Non-executive Director and Chairman of the Board.

Note 4: With effect from 29 September 2020, Mr. Li Yong was appointed as a Non-executive Director, Vice Chairman of the Board and a member of the Remuneration Committee of the Company.

Note 5: With effect from 27 April 2020, Ms. Wen Dongfen was appointed as a Non-executive Director of the Company.

In accordance with the Articles and pursuant to Appendix 14 to Listing Rules, Mr. Wang Dongjin, Mr. Li Yong, Mr. Xu Keqiang and Mr. Qiu Zhi Zhong will retire at the forthcoming Annual General Meeting and, who being eligible, will offer themselves for re-election.

The list of directors who have served on the boards of the subsidiaries of the Company included in the annual consolidated financial statements for the financial year ended 31 December 2020 during the year and up to the date of this report is as follows:

Cao Xinjian, Chen Ming, Chen Yan, Chen Zhaoguang, Chen Zhuobiao, Cui Hanyun, Dai Weihua, Dai Yi, Dai Zhaohui, Duan Chenggang, Fang Zhi, Gao Dongsheng, Geng Jie, Gu Li, Gu Yan, Guo Benguang, Han Mei, He Qunhui, Huang Yehua, Huang Chunlin, Hu Guangjie, Jiang Qing, Jing Fengjiang, Kang An, Kang Siwei, Ke Lvxiong, Kuang Likun, Kuang Xiaobing, Leng Haoyu, Li Bo, Li Daquan, Li Guanghui, Li Zhijun, Liang Yu, Ling Fuhai, Liu Bo, Liu Daping, Liu Guangcheng, Liu Huan, Liu Jianzhong, Liu Mingquan, Liu Song, Liu Xiangdong, Liu Xiaoxiang, Liu Xiaofei, Liu Yongjie, Liu Yongjie, Liu Zongzhao, Lu Feng, Lu Baoshan, Lu Guojun, Lv Ruhong, Luan Xiangdong, Luo Yong, Ma Hongwei, Ma Jin, Ma Liwu, Ma Peixin, Mao Xingquan, Mei Yaolun, Pan Yuguang, Pan Yiyong, Sang Yi, Shen Yiming, Shi Hesheng, Sun Hongjun, Tan Dongling, Tang Guangrong Tao Weixiang, Tian Lixin, Tian Wenxue, Wan Xiaoxun, Wei Gang, Wang Shoushan, Wang Wei, Wang Yaohui, Wang Yufan, Wu Peikang, Xiao Zongwei, Xu Jianjun, Xia Qinglong, Xie Min, Xie Weizhi, Xie Wensheng, Xie Yuhong, Xing Weiqi, Xu Keqiang, Yang Li, Yang Xiaoyue, Yang Hongli, Yang Yun, Yin Kai, Yu Guimin, Yu Jin, You Xuegang, Yuan Guangyu, Yue Jianghe, Zhang Bing, Zhang Fuya, Zhang Linqiang, Zhang Shude, Zhao Jianchen, Zhao Shunqiang, Zhou Hongbo, Zhou Guangzhi, Zhou Zhenhua, Zi Shilong, CNOOC Limited.

Alan O'Brien, Ariel D. Schneider, Baptiste Aubry, Bastiaan Spaargaren, Brent C. Tilford, Christine M. O'Connor, Colin T.O. Brewer, Colleen V. Johnson, Eduardo Riccetto, Ekaterina Alexeyevna Kovalgina, Graham S. Larson, Heather M. Osecki, Howie A. Thomas, Hui Max Liu, J. Kirk Bailey, James C.P. Waithman, Jamie D. Doyle, Jerome A. van Zuijlen, John F. M. Abbott, Keith Henderson, Kenneth J. Krieg, Lester C. Jager, Marie L. Jersak, Marjorie Allo, Mark Roelf Albert Hofstee Holtrop, Quinn E. Wilson, R. Jeffrey Pendrel, Ray C. J. Riddoch, Rick L. Sumrall, Robert H. Henkhuzens, Rosalind L. C. Bynoe, Simon R. Perchard, Tiara Ltd., Tilak R.K. Nithiyeswaran, Admiral Timothy J., Keating USN (Ret.), Tina R. Mares, TMF Management Limited, Todd R. Nicol, Trevor L. Norman

DIRECTORS' INTERESTS

As of 31 December 2020, apart from holding personal interests in options to subscribe for shares in the Company granted under the share option schemes of the Company as disclosed in this annual report, the interests of each Director and chief executive of the Company in the equity or debt securities of the Company or any associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) which were required (i) to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Hong Kong Stock Exchange are as follows:

Name of Director	Nature of interest	Ordinary shares held	Approximate percentage of total issued shares
Chiu Sung Hong	Beneficial interest	1,650,000	0.004%
Lawrence J. Lau	Beneficial interest	400,000	0.000%

Save as disclosed above, as of 31 December 2020, none of the Directors and chief executive of the Company was interested in the equity or debt securities of the Company or any associated corporations (within the meaning of the SFO) which were required (i) to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange. All the interests held by the Directors and chief executive represent long positions.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As of 31 December 2020, so far as was known to the Directors and chief executive of the Company, the persons, other than a Director or chief executive of the Company, who had an interest or a short position in the shares and underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

		Ordinary shares held	Approximate percentage of total issued shares
(i)	CNOOC (BVI) Limited	28,772,727,268	64.44%
(ii)	Overseas Oil & Gas Corporation, Ltd. ("OOGC")	28,772,727,273	64.44%
(iii)	CNOOC	29,026,607,273	65.01%

Note: CNOOC (BVI) Limited is a direct wholly-owned subsidiary of OOGC, which is a direct wholly-owned subsidiary of CNOOC. Accordingly, CNOOC (BVI) Limited's interests are recorded as the interests of OOGC and CNOOC.

All the interests stated above represent long positions. As of 31 December 2020, save as disclosed above, the Directors and chief executive of the Company are not aware of any other person having interests or short positions (other than the Directors and chief executives of the Company) in the shares and underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY

Please refer to pages 60 to 68 of this annual report for information concerning the Directors and senior management of the Company.

DIRECTORS' SERVICE CONTRACTS AND INTERESTS IN TRANSACTION, ARRANGEMENT AND CONTRACT OF SIGNIFICANCE

No Director (including those to be re-elected) has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than normal statutory obligations).

Save as disclosed in this annual report, as of 31 December 2020 or during the year, none of the Directors or entities connected with the Directors was materially interested, either directly or indirectly, in any transaction, arrangement or contract which is significant in relation to the business of the Group to which the Company or any of its subsidiaries was a party.

DIRECTORS' PERMITTED INDEMNITY PROVISION

Pursuant to the Articles, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto. The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group during the year ended 31 December 2020.

MANAGEMENT CONTRACTS

Other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company during the year.

EMOLUMENTS OF THE DIRECTORS, SENIOR MANAGEMENT AND THE FIVE HIGHEST PAID INDIVIDUALS

Please refer to notes 9 and 10 to the consolidated financial statements on pages 117 to 120 of this annual report for details of the emoluments of the Directors, senior management and the five highest paid individuals of the Company.

MATERIAL LEGAL PROCEEDINGS

As of 31 December 2020, the Company was not involved in any material litigation or arbitration and no material litigation or arbitration were pending or threatened or made against the Company so far as the Company is aware.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Except for the temporary deviation from the CG Code Provision A.4.1 and the deviation from the CG Code Provision A.4.2, the Company has complied with the code provisions of the CG Code as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2020.

Please refer to the Corporate Governance Report on pages 36 to 59 of this annual report for details.

AUDITORS

Deloitte Touche Tohmatsu was appointed as the auditors of the Company for the year ended 31 December 2020 and has audited the accompanying financial statements. A resolution to appoint Ernst & Young as the independent auditors of the Group for Hong Kong reporting and Ernst & Young Hua Ming LLP as the independent auditors for U.S. 20-F reporting for the year 2021, and to authorise the Board to fix their remuneration will be proposed at the forthcoming Annual General Meeting to be held on 21 May 2021.

SUFFICIENCY OF PUBLIC FLOAT

As of the date of this report, the Directors confirmed that based on information that is publicly available to the Company and within the knowledge of the Directors, the Company had maintained sufficient amount of public float as required under the Listing Rules. As of the date of this report, based on publicly available information and within the Directors' knowledge, approximately 34.99% of the Company's total issued shares were held by the public. The total number of issued shares of the Company is 44,647,455,984. The closing price of the share of the Company as of 31 December 2020 is HK$7.18 per share.

VOTING BY POLL

In 2020, all votes of shareholders were taken by poll in the annual general meeting and extraordinary general meeting of the Company. Pursuant to the Rule 13.39(4), all votes of shareholders will be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands.

By Order of the Board
WANG Dongjin
Chairman

Hong Kong, 25 March 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis should be read in conjunction with the Chairman's Statement and the Business Overview sections, as well as the Group's audited financial statements and the related notes.

DEVELOPMENT STRATEGY

As one of the largest independent oil and gas exploration and production companies, we mainly engage in the exploration, development, production and sales of oil and natural gas. The principal components of our strategy are as follows:

Focus on reserve and production growth

As an upstream company specialising in the exploration, development, production and sale of oil and natural gas, we strive to increase our reserves and production, through exploration, development and value-driven acquisitions. In China, we will continue to concentrate on our independent exploration efforts in major operating areas, while continuing to cooperate with our partners through production sharing contracts to lower capital expenditures and exploration risks. Overseas, we will strive to acquire more high-quality exploration blocks and improve exploration efficiency.

We increase our production primarily through the development of proved undeveloped reserves. As of 31 December 2020, approximately 53% of our proved reserves were classified as proved undeveloped reserves, which provide a solid resource base for the Company's continued production growth in the future.

Develop natural gas business

The Company adopts the low-carbon development concept and actively expands the natural gas business. We will continue to develop the natural gas market, strengthen exploration and development activities in natural gas fields, and enhance natural gas supply capability. We will advance key natural gas projects such as Lingshui 17-2 and Bozhong 19-6, and strengthen the development of onshore unconventional gas. The Company expects to increase the proportion of natural gas production to 30% in 2025.

Maintain a prudent financial policy

We will continue to maintain our prudent financial policy. As an essential part of our corporate culture, we will continue to raise cost awareness among all of our employees. At the same time, in our performance evaluation system, cost control has been one of the most important key performance indicators. In 2020, we continued to tap the potential of technological innovation and management innovation to lower costs and enhance efficiency. All-in cost per BOE was at its lowest in nearly a decade and our cost competitiveness was maintained.

We also attached great importance to cash flow management and maintained a healthy financial position.

2020 OVERVIEW

In 2020, due to the impact of the COVID-19 pandemic, the global economy experienced the worst recession since the World War II, and the international financial market saw extreme volatility. Major economies rolled out large-scale economic stimulus policies, such as the unlimited quantitative easing policies launched by the Federal Reserve. With effective control of the pandemic, China became the only major economy to post growth with a GDP growth rate of 2.3% in 2020.

In 2020, international oil prices rebounded after decline, showing a deep "V" shape trend. Since March, due to the spread of the pandemic coupled with Saudi Arabia's announcement of increasing production and cutting price, international oil prices plummeted. On 20 April, WTI oil prices fell to US$-37.63 per barrel. Afterwards, as major oil-producing countries cut their production and major economies gradually eased pandemic restrictions and restarted their economies, international oil prices rebounded. At the end of the year, as the COVID-19 vaccines were successfully developed and applied in various countries, international oil prices continued to rise, with the Brent oil prices closed at US$51 per barrel at the end of the year. In 2020, the average price of Brent crude oil was US$43.21 per barrel, a year-on-year decrease of 33%.

In 2020, the Company strictly implemented pandemic prevention and control measures and vigorously promoted reserves and production growth, further conducted cost reduction and efficiency enhancement, and firmly facilitated technological innovation so as to ensure safe production with all strength. The Company realised a net production of 528.2 million BOE, representing an increase of approximately 4.3% year-on-year, which exceeded the adjusted annual oil and gas production target.

Influenced by the trend of international oil price, our profitability decreased in 2020, while partially offset by optimisation of production structure and cost control. Oil and gas sales were RMB139,601 million (US$20,199.8 million with the exchange rate applicable for 2020 at US$1=RMB6.9110), representing a decrease of approximately 29.2% year over year. Net profit was RMB24,956 million (US$3,611.1 million), representing a decrease of approximately 59.1% year over year.

As of 31 December 2020, the Company's basic and diluted earnings per share were RMB0.56 and RMB0.56, respectively. The Board of Directors has recommended the payment of a final dividend of HK$0.25 per share (tax inclusive).

At present, many countries have begun to vaccinate against the COVID-19, which brings more hope for the recovery of the global economy. As forecasted by the World Bank, global economic growth will reach 4% in 2021. International oil prices have steadily recovered, and the Brent oil price has rallied above US$60 per barrel. However, there are still uncertainties in the future trend of international oil prices, trade frictions will also put pressure on the Company, and the external environment remains challenging and complex. On 26 February 2021, NYSE announced to commence delisting proceedings of ADSs of the Company and suspended the trading in ADSs since 9 March 2021. On 10 March 2021, the Company requested for review of NYSE's determination.

Looking forward to the future, we will continue to enhance our capability to create value. While pursuing production growth, we will actively respond to climate change and build a green and low-carbon enterprise. To this end, the Company will further strengthen its business strategy, mainly including: intensifying natural gas exploration efforts, increasing production to a new level, focusing on return on investment, consolidating cost competitiveness, maintaining a healthy financial position, optimizing the layout of overseas assets, and practicing the concept of green and low-carbon development.

BUSINESS REVIEW

For details, please refer to the "Business Overview" section on page 8 to 27 of this annual report.

FINANCIAL RESULTS

Consolidated net profit

Our consolidated net profit decreased 59.1% to RMB24,956 million (US$3,611.1 million) in 2020 from RMB61,045 million in 2019, primarily as a result of the decrease in profitability under the lower international oil price environment, at the same time, effective measures taken to strictly control costs partially offset the impact of lower oil price.

Revenues

Our oil and gas sales, realised prices and sales volume in 2020 were as follows:

			Change	
	2020	**2019**	**Amount**	**%**
Oil and gas sales (RMB million)	**139,601**	197,173	(57,572)	(29.2%)
Crude and liquids	**114,985**	175,495	(60,510)	(34.5%)
Natural gas	**24,616**	21,678	2,938	13.6%
Sales volume (million BOE)*	**505.8**	487.8	18.0	3.7%
Crude and liquids (million barrels)	**406.2**	402.2	4.0	1.0%
Natural gas (bcf)	**577.2**	501.9	75.3	15.0%
Realised prices				
Crude and liquids (US$/barrel)	**40.96**	63.34	(22.38)	(35.3%)
Natural gas (US$/mcf)	**6.17**	6.27	(0.10)	(1.6%)

* *Excluding our interest in equity-accounted investees.*

The decrease in crude and liquids sales in 2020 was primarily due to the decline of international oil price. The increase in natural gas sales in 2020 was primarily due to the higher sales volume.

Operating expenses

Our operating expenses decreased 2.0% to RMB24,240 million (US$3,507.5 million) in 2020 from RMB24,735 million in 2019, the operating expenses per BOE decreased 6.4% to RMB47.7 (US$6.90) per BOE in 2020 from RMB50.9 (US$7.39) per BOE in 2019. China operating expenses per BOE decreased 7.1% to RMB44.5 (US$6.43) per BOE in 2020 from RMB47.9 (US$6.95) per BOE in 2019. Overseas operating expenses per BOE decreased 3.6% to RMB55.1 (US$7.97) per BOE in 2020 from RMB57.1 (US$8.29) per BOE in 2019. Through strict costs control and efficiency enhancement, our operating expenses per BOE decreased compared with last year.

Taxes other than income tax

Our taxes other than income tax decreased 21.4% to RMB7,200 million (US$1,041.8 million) in 2020 from RMB9,156 million in 2019, mainly due to the decrease in oil and gas sales.

Exploration expenses

Our exploration expenses decreased 54.6% to RMB5,601 million (US$810.4 million) in 2020 from RMB12,342 million in 2019, mainly due to the optimised exploration deployment and the enhanced exploration effectiveness.

Depreciation, depletion and amortization

Our total depreciation, depletion and amortisation decreased 9.3% to RMB52,306 million (US$7,568.5 million) in 2020 from RMB57,699 million in 2019.

The dismantlement-related depreciation, depletion and amortisation costs increased 116.0% to RMB2,709 million (US$391.9 million) in 2020 from RMB1,254 million in 2019. Our average dismantling costs per BOE increased 106.6% to RMB5.33 (US$0.77) per BOE in 2020 from RMB2.58 (US$0.37) per BOE in 2019, primarily due to the increase of the present value of asset retirement obligations brought by the decrease of RMB bond and US bond interest rate in the market.

Our depreciation, depletion and amortisation, excluding the dismantling costs, decreased 12.1% to RMB49,597 million (US$7,176.6 million) in 2020 from RMB56,445 million in 2019. Our average depreciation, depletion and amortisation per BOE, excluding the dismantling costs, decreased 16.1% to RMB97.5 (US$14.11) per BOE in 2020 from RMB116.2 (US$16.87) per BOE in 2019, primarily as a result of the change in proportional distribution of production.

Impairment and provision

Our impairment and provision increased 148.3% to RMB5,199 million (US$752.3 million) in 2020 from RMB2,094 million in 2019, mainly due to the impairment of certain oil and gas properties located in North America, Africa and China resulting from the change of reserve assessment and the decline of forecasted oil price. Please refer to Note 14 to the Consolidated Financial Statement of this annual report.

Selling and administrative expenses

Our selling and administrative expenses increased 9.4% to RMB8,821 million (US$1,276.4 million) in 2020 from RMB8,062 million in 2019. Our selling and administrative expenses per BOE increased 4.5% to RMB17.35 (US$2.51) per BOE in 2020 from RMB16.60 (US$2.41) per BOE in 2019, due to the increase of research and development expenses, arising from the further increased investment in scientific and technological research and development.

Finance costs/Interest income

Our finance costs increased 5.5% to RMB6,190 million (US$895.7 million) in 2020 from RMB5,865 million in 2019, primarily due to the decreased capitalised interest expense as some oil and gas fields commencement of production. Our interest income increased 38.1% to RMB1,473 million (US$213.1 million) in 2020 from RMB1,067 million in 2019, primarily due to the expanded deposit scale.

Exchange losses/gains, net

Our net exchange gains changed to RMB445 million (US$64.4 million) in 2020, while there were net exchange losses of RMB213 million in 2019, primarily arising from RMB fluctuation against the US dollars and Hong Kong dollars.

Investment income

Our investment income decreased 35.7% to RMB2,978 million (US$430.9 million) in 2020 from RMB4,632 million in 2019, primarily attributable to the decreased average stock of corporate wealth management products and money market funds.

Share of losses/profits of associates and a joint venture

Our share of losses of associates and a joint venture changed to RMB632 million (US$91.4 million) in 2020, while in 2019 our shared profits was RMB1,002 million, mainly due to the decreased profitability of the joint venture resulting from the decline of international oil price.

Income tax expense

Our income tax expense decreased 59.6% to RMB9,951 million (US$1,439.9 million) in 2020 from RMB24,604 million in 2019, mainly because our overall profitability before tax decreased resulting from lower international oil price in 2020.

CAPITAL RESOURCES AND LIQUIDITY

Overview

Our primary source of cash during 2020 was cash flows from operating activities. We used cash primarily to fund capital expenditure and dividends. The changes are as follows:

	2020		2019	Change	
	RMB million	US$ million	RMB million	RMB million	%
Generated from operating activities	82,338	11,914.1	123,521	(41,183)	(33.3%)
Used in investing activities	(50,850)	(7,357.8)	(67,457)	16,607	(24.6%)
Used in financing activities	(38,698)	(5,599.5)	(37,691)	(1,007)	2.7%

Cash generated from operating activities

The cash inflow from operating activities decreased 33.3% to RMB82,338 million (US$11, 914.1 million) in 2020 from RMB123,521 million in 2019, primarily attributable to the decrease in oil and gas sales cash inflow caused by the decline of international oil price.

Cash used in investing activities

In 2020, our capital expenditure payment increased 6.9% to RMB71,000 million (US$10,273.5 million) from 2019. Our development expenditures in 2020 were primarily related to the capital expenditure of Lingshui 17-2 project in China and overseas projects in Guyana, Iraq and the United Arab Emirates, as well as the expenses incurred for improving recovery factors of the oil and gas fields in producing. Our cash outflow from acquisition of oil and gas properties was RMB4,418 million (US$639.3 million) and our cash outflow from increased investments in associates was RMB6,401 million (US$926.2 million).

In addition, our cash used in investing activities was also attributable to the purchase of corporate wealth management products and money market funds of RMB140,375 million (US$20,311.8 million) this year. Our cash generated from investing activities was mainly from the proceeds from the sales of corporate wealth management products and money market funds in the amount of RMB190,142 million (US$27,513.0 million), and the increase in our time deposits with maturity over three months in the amount of RMB24,236 million (US$3,506.9 million).

Cash used in financing activities

In 2020, the net cash outflow from financing activities was mainly due to the repayment of bank loans of RMB2,186 million (US$316.3 million), repayment of financial notes of RMB10,642 million (US$1,539.9 million) and the cash outflow of the distribution of dividends of RMB25,851 million (US$3,740.6 million), partially offset by the proceeds of bank loans of RMB7,417 million (US$1,073.2 million).

At the end of 2020, our total interest-bearing outstanding debt was RMB143,549 million (US$20,771.1 million), compared to RMB158,547 million at the end of 2019. The decrease in debt in 2020 was primarily attributable to the repayment of financial notes and impact of changes in the exchange rate of the US dollar and RMB. Our gearing ratio, which is defined as interest-bearing debts divided by the sum of interest-bearing debts plus equity, was 24.9%, lower than that of 26.1% in 2019, mainly due to the decrease of scale of interest-bearing debts.

Capital Expenditure

The following table sets forth the Company's actual capital expenditure for the periods indicated.

	Year ended 31 December		
	2018	**2019**	**2020**
	(RMB million)		
China			
Development	26,212	35,659	45,527
Exploration	9,995	15,120	11,689
Subtotal	**36,207**	**50,779**	**57,216**
Overseas			
Development	23,564	24,253	17,503
Exploration	2,331	3,546	2,687
Subtotal	**25,895**	**27,799**	**20,190**
Total	**62,102**	**78,578**	**77,406**

Note: Capitalised interests for 2018, 2019 and 2020 were RMB2,838 million, RMB3,048 million and RMB2,483 million, respectively.

OTHERS

Employees

As of 31 December 2020, the Company had 16,040 employees in China, 2,111 employees overseas and 202 contracted employees.

Since 4 February 2001, the Company has adopted four share option schemes that were applicable to Directors, senior management and other eligible grantees, and has granted options thereunder to the Company's Directors, senior management and other eligible grantees in accordance with each share option scheme.

The Company has set up a market-oriented recruitment structure and has adopted a more appropriate remuneration structure.

For more information on employees and human resources, please refer to "Human Resources" in the "Business Overview" section of this annual report.

CHARGES ON ASSETS

Please refer to note 40 to the Consolidated Financial Statements of this annual report.

CONTINGENCIES

Please refer to note 36 to the Consolidated Financial Statements of this annual report.

Deloitte. 德勤

TO THE SHAREHOLDERS OF CNOOC LIMITED
(Incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of CNOOC Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 90 to 156, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (continued)

Key audit matter

Impairment and provision; Depreciation, depletion and amortisation-The estimation of oil and gas reserves has a significant impact on the consolidated financial statements, particularly oil and gas properties' impairment testing and depreciation, depletion and amortisation charges - Refer to notes 3 and 14 to the consolidated financial statements

The estimation of oil and gas reserves has a significant impact on the consolidated financial statements, particularly oil and gas properties' impairment testing and depreciation, depletion and amortisation charges. For the year ended 31 December 2020, oil and gas properties' impairment and provision, depreciation, depletion and amortisation of RMB6,697 million and RMB51,816 million respectively were recognised.

We identified the estimation of oil and gas reserves as a key audit matter because of the significant judgments made by the management in assessing quantities of reserves. This required extensive audit effort and a high degree of auditor judgment, when performing audit procedures to evaluate the reasonableness of the management's assessment.

How our audit addressed the key audit matter

Our procedures related to the estimation of oil and gas reserves included the following, among others:

- We tested the effectiveness of controls over reserves estimation and review process.
- We evaluated whether the methodology adopted by the Group's internal and external reserve specialists to estimate oil and gas reserves was consistent with recognised industry standards.
- We evaluated the competence and objectivity of the reserve specialists to assess whether they were appropriately qualified to carry out the estimation of oil and gas reserves.
- We compared the Group's oil and gas reserves volumes at 31 December 2020 to that at 31 December 2019, and performed corroborative inquires of the reserve specialists and the management as to the reason for any significant changes.
- We tested whether the updated estimation of oil and gas reserves was included appropriately in the Group's consideration in oil and gas properties' impairment testing and depreciation, depletion and amortisation charges.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment and provision-Determination of the recoverable amount of the oil and gas properties - Refer to notes 3 and 14 to the consolidated financial statements	

We identified the determination of the recoverable amount of the oil and gas properties, where an indication of impairment exists, as a key audit matter. The Group used the discounted cash flow model ("DCF") to estimate the recoverable amounts, which require management to make significant estimates and assumptions related to estimated future oil and gas prices, future production estimates, estimated future capital expenditures, estimated future operating expenses and the discount rates applied. Changes in these assumptions could have a significant impact on the amount of any impairment charge.	Our procedures in relation to the determination of the recoverable amount of oil and gas properties included:
	• We tested the effectiveness of controls over oil and gas properties' impairment assessment processes.
	• We examined the methodology used in management's determination of the recoverable amount of oil and gas properties.
	• We assessed the key assumptions and estimations used in the DCF in management's determination of the recoverable amount, including:
	  • Checked the estimated future oil and gas prices by comparing with forecasted prices derived from third parties and the Group's internal oil and gas prices forecasts.
	  • Assessed the future production estimates, estimated future capital expenditures and estimated future operating expenses by comparing with prior year estimates, and with corresponding data from reserve reports prepared by the Group's internal and external reserve specialists.
	  • Evaluated the competence and objectivity of the internal and external reserve specialists and performing procedures to assess the reliability of data provided to the external reserve specialists.
	• We involved our valuation specialists to assess the reasonableness of the discount rates used by management.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB, HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Lam Kwok Yan.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
25 March 2021

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2020
(All amounts expressed in millions of Renminbi, except per share data)

	Notes	2020	2019
REVENUE			
Revenue recognised from contracts with customers			
Oil and gas sales	5	**139,601**	197,173
Marketing revenues	5	**12,131**	30,867
Other revenue		**3,640**	5,159
		155,372	233,199
EXPENSES			
Operating expenses		**(24,240)**	(24,735)
Taxes other than income tax	11(ii)	**(7,200)**	(9,156)
Exploration expenses		**(5,601)**	(12,342)
Depreciation, depletion and amortisation	7	**(52,306)**	(57,699)
Special oil gain levy	11(iii)	**(79)**	(894)
Impairment and provision	7, 14	**(5,199)**	(2,094)
Crude oil and product purchases		**(11,671)**	(29,040)
Selling and administrative expenses		**(8,821)**	(8,062)
Others		**(3,866)**	(4,982)
		(118,983)	(149,004)
PROFIT FROM OPERATING ACTIVITIES		**36,389**	84,195
Interest income	7	**1,473**	1,067
Finance costs	8	**(6,190)**	(5,865)
Exchange gains/(losses), net		**445**	(213)
Investment income	7	**2,978**	4,632
Share of profits of associates	18	**171**	459
(Loss)/profit attributable to a joint venture	19	**(803)**	543
Other income, net		**444**	831
PROFIT BEFORE TAX	7	**34,907**	85,649
Income tax expense	11(i)	**(9,951)**	(24,604)
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT		**24,956**	61,045
OTHER COMPREHENSIVE (EXPENSE)/INCOME			
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translation of foreign operations		**(11,983)**	2,848
Share of other comprehensive (expense)/income of associates		**(85)**	25
Other items that will not be reclassified to profit or loss			
Fair value change on equity investments designated as at fair value through other comprehensive expense	20(i)	**(1,040)**	(1,167)
Others		**(128)**	(133)
OTHER COMPREHENSIVE (EXPENSE)/INCOME FOR THE YEAR, NET OF TAX		**(13,236)**	1,573
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT		**11,720**	62,618
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT			
Basic (RMB Yuan)	12	**0.56**	1.37
Diluted (RMB Yuan)	12	**0.56**	1.37

Details of the dividends proposed and paid for the year are disclosed in note 13 to the consolidated financial statements.

Consolidated Statement of Financial Position

31 December 2020
(All amounts expressed in millions of Renminbi)

	Notes	2020	2019
NON-CURRENT ASSETS			
Property, plant and equipment	14	**446,668**	440,554
Right-of-use assets	15	**9,161**	9,179
Intangible assets	16	**15,129**	16,306
Investments in associates	18	**23,544**	24,513
Investment in a joint venture	19	**18,822**	20,977
Debt investment		**3,620**	1,618
Equity investments	20(i), 37	**1,829**	2,936
Deferred tax assets	11(i)	**27,751**	25,992
Other non-current assets	21	**11,360**	9,721
Total non-current assets		**557,884**	551,796
CURRENT ASSETS			
Inventories and supplies	22	**5,644**	6,314
Trade receivables	23	**18,982**	24,794
Other financial assets	20(ii), 37	**61,662**	114,513
Other current assets		**11,272**	9,475
Time deposits with maturity over three months	24	**41,812**	17,160
Cash and cash equivalents	24	**24,019**	33,679
Total current assets		**163,391**	205,935
CURRENT LIABILITIES			
Loans and borrowings	28	**11,217**	13,908
Trade and accrued payables	25	**41,203**	40,146
Lease liabilities	29	**1,297**	1,425
Contract liabilities	26	**1,544**	2,231
Other payables and accrued liabilities	27	**12,139**	19,583
Taxes payable		**7,452**	13,956
Total current liabilities		**74,852**	91,249
NET CURRENT ASSETS		**88,539**	114,686
TOTAL ASSETS LESS CURRENT LIABILITIES		**646,423**	666,482
NON-CURRENT LIABILITIES			
Loans and borrowings	28	**125,013**	136,152
Lease liabilities	29	**6,022**	7,062
Provision for dismantlement	30	**69,444**	64,163
Deferred tax liabilities	11(i)	**5,119**	3,602
Other non-current liabilities		**6,895**	7,277
Total non-current liabilities		**212,493**	218,256
NET ASSETS		**433,930**	448,226
EQUITY			
Issued capital	31	**43,081**	43,081
Reserves	32	**390,627**	405,106
Equity attributable to owners of the parent		**433,708**	448,187
Non-controlling interests		**222**	39
TOTAL EQUITY		**433,930**	448,226

XU Keqiang
Director

HU Guangjie
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2020
(All amounts expressed in millions of Renminbi)

	Attributable to owners of the parent								
	Issued capital	Cumulative translation reserves	Statutory and non-distributable reserves	Other reserves	Retained earnings	Proposed final dividend	Total	Non-controlling interests	Total equity
Balance at 1 January 2019	43,081	(4,000)	70,000	7,131	288,467	15,221	419,900	10	419,910
Profit for the year	–	–	–	–	61,045	–	61,045	–	61,045
Other comprehensive income/ (expense), net of tax	–	2,848	–	(1,275)	–	–	1,573	–	1,573
Total comprehensive income/ (expense)	–	2,848	–	(1,275)	61,045	–	62,618	–	62,618
2018 final dividend	–	–	–	–	(489)	(15,221)	(15,710)	–	(15,710)
2019 interim dividend	–	–	–	–	(13,290)	–	(13,290)	–	(13,290)
Proposed 2019 final dividend	–	–	–	–	(18,055)	18,055	–	–	–
Acquisition of a subsidiary under common control	–	–	–	(5,331)	–	–	(5,331)	29	(5,302)
Balance at 31 December 2019	43,081	(1,152)*	70,000*	525*	317,678*	18,055*	448,187	39	448,226
Balance at 1 January 2020	**43,081**	**(1,152)**	**70,000**	**525**	**317,678**	**18,055**	**448,187**	**39**	**448,226**
Profit for the year	**–**	**–**	**–**	**–**	**24,956**	**–**	**24,956**	**–**	**24,956**
Other comprehensive expense, net of tax	**–**	**(11,983)**	**–**	**(1,253)**	**–**	**–**	**(13,236)**	**–**	**(13,236)**
Total comprehensive (expense)/ income	**–**	**(11,983)**	**–**	**(1,253)**	**24,956**	**–**	**11,720**	**–**	**11,720**
2019 final dividend	**–**	**–**	**–**	**–**	**(297)**	**(18,055)**	**(18,352)**	**–**	**(18,352)**
2020 interim dividend	**–**	**–**	**–**	**–**	**(7,847)**	**–**	**(7,847)**	**–**	**(7,847)**
Proposed 2020 final dividend	**–**	**–**	**–**	**–**	**(9,314)**	**9,314**	**–**	**–**	**–**
Others	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**183**	**183**
Balance at 31 December 2020	**43,081**	**(13,135)***	**70,000***	**(728)***	**325,176***	**9,314***	**433,708**	**222**	**433,930**

* These reserve accounts constitute the consolidated reserves of approximately RMB390,627 million (2019: RMB405,106 million) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2020
(All amounts expressed in millions of Renminbi)

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	35	**99,813**	145,979
Income taxes paid		**(17,475)**	(22,458)
Net cash flows from operating activities		**82,338**	123,521
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of oil and gas properties		**(4,418)**	(5,619)
Capital expenditure		**(71,000)**	(66,395)
Additions to investments in associates		**(6,401)**	(7,707)
Increase in time deposits with maturity over three months		**(24,236)**	(3,095)
Dividends received from associates		**329**	231
Dividends received from a joint venture		**42**	172
Interest received		**1,016**	923
Investment income received		**4,075**	3,822
Purchase of other financial assets		**(140,375)**	(187,805)
Purchase of equity investments		**(26)**	–
Proceeds from sale of other financial assets		**190,142**	197,952
Proceeds from disposal of property, plant and equipment		**2**	64
Net cash flows used in investing activities		**(50,850)**	(67,457)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of guaranteed notes		**–**	10,464
Repayment of guaranteed notes		**(10,642)**	(2,067)
Repayments of lease liabilities		**(1,619)**	(1,451)
Proceeds from bank loans		**7,417**	3,846
Repayment of bank loans		**(2,186)**	(8,206)
Dividends paid		**(25,851)**	(28,973)
Interest paid		**(6,000)**	(5,998)
Acquisition of a subsidiary under common control		**–**	(5,335)
Others		**183**	29
Net cash flows used in financing activities		**(38,698)**	(37,691)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(7,210)**	18,373
Cash and cash equivalents at beginning of year		**33,679**	14,995
Effect of foreign exchange rate changes, net		**(2,450)**	311
CASH AND CASH EQUIVALENTS AT END OF YEAR	24	**24,019**	33,679

Total cash outflow for leases amounted to RMB3,668 million.

1. CORPORATE INFORMATION

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

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

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

2.1 STATEMENT OF COMPLIANCE

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The IASB has issued a number of new and amendments to IFRS standards that are first effective for the current accounting year commencing 1 January 2020 or later but available for early adoption. The equivalent new and amendments to HKFRSs consequently issued by the HKICPA have the same effective dates as those issued by the IASB and are in all material aspects identical to the pronouncements issued by the IASB.

The accounting policies adopted are consistent with those of the year ended 31 December 2019, except for the first time adoption of the new and amendments to IFRS standards/HKFRSs effective for the Group's financial year beginning on 1 January 2020. The application of the new and amendments to IFRS standards/HKFRSs in the current year has had no material impact on the accounting policies, the disclosures or the amounts recognised in the consolidated financial statements of the Group.

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

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

IFRS 17/HKFRS 17	Insurance Contracts and the related Amendments[1]
Amendments to IFRS 16/HKFRS 16	Covid-19-Related Rent Concessions[4]
Amendments to IFRS 3/HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to IFRS 9/HKFRS 9, IAS 39/HKAS 39, IFRS 7/HKFRS 7, IFRS 4/HKFRS 4 and IFRS 16/HKFRS 16	Interest Rate Benchmark Reform – Phase 2[5]
Amendments to IFRS 10/HKFRS 10 and IAS 28/HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1/HKAS 1	Classification of Liabilities as Current or Non-current And related amendments to Hong Kong Interpretation 5 (2020)[1]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to IAS 8	Definition of Accounting Estimates[1]
Amendments to IAS 16/HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use[2]
Amendments to IAS 37/HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to IFRS standards/HKFRSs	Annual Improvements to IFRS standards/HKFRSs 2018-2020[2]

1 Effective for annual periods beginning on or after 1 January 2023
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 June 2020
5 Effective for annual periods beginning on or after 1 January 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2020.

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations or asset acquisitions

Optional concentration test

Effective from 1 January 2020, the Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

Asset acquisitions

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognizes the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Business combinations

Business combinations, other than business combinations under common control, are accounted for using the acquisition method. The consideration transferred is measured at fair value which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities assumed by the Group from the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are recongnised in profit or loss as incurred.

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

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations or asset acquisitions (continued)

Business combinations (continued)

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or group of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

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

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

Subsidiaries

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

Associates

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

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

Joint arrangements

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

Joint control

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint arrangements (continued)

Joint operations

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

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

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

Joint venture

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

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

Related parties

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

(a) the party is a person or a close member of that person's family and that person:

- (i) has control or joint control of the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group.

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

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

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

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

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

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the parent of the Company.

Impairment of non-financial assets other than goodwill

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

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

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

Property, plant and equipment

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

(a) Oil and gas properties

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

(a) Oil and gas properties (continued)

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

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

(b) Vehicles, office equipment and others

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

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

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

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

Intangible assets other than goodwill

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Major maintenance and repairs

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

Research and development costs

All research costs are expensed as incurred.

Expenditure (other than that relating to oil and gas properties discussed above) incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Financial assets

Financial assets are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15/HKFRS 15. All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

(a) Financial assets at amortised cost

Debt instruments that meet the following conditions are subsequently measured at amortised cost less impairment loss:

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

All other financial assets are subsequently measured at fair value.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that accurately discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

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

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

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

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

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

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as at FVTOCI are measured at FVTPL.

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

Fair value

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

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 37.

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including cash and cash equivalents, time deposits with maturity over three months, trade receivables, other receivables and debt investment), which are subject to impairment assessment under IFRS 9/HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment is done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables without significant financing component.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lenders of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lenders would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables and other receivables where the corresponding adjustment is recognised through a loss allowance account.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

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

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

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

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

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

Financial liabilities including trade and accrued payables, other payables, and interest-bearing loans and borrowings are initially stated at fair value including directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit of loss.

When the contractual terms of financial liability are modified, the revised terms would result in a substantial modification from the original terms, after taking into account all relevant facts and circumstances including qualitative factors, such modification is accounted for as derecognition of the original financial liability and the recognition of new financial liability. The difference between the carrying amount of financial liability derecognised and the fair value of consideration paid or payable, including any liabilities assumed is recognised in profit or loss.

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities is calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting of financial instruments

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

Inventories and supplies

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

Cash and cash equivalents

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

Provisions

(a) General

A provision is recognised 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 recognised for a provision is the present value at the reporting date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in profit or loss.

(b) Dismantlement liability

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

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

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

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

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

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

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

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

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

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

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

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

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

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if any one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using the Black-Scholes option pricing model, further details of which are given in note 31.

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

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

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

Retirement and termination benefits

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

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

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16/HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the consolidated financial statements would not differ materially from individual leases within the portfolio.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period in which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review or expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

Contingencies

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

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

Significant accounting judgements, estimates and assumptions

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

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

(a) Reserve base

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

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

(b) Carrying value of oil and gas properties

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgements, estimates and assumptions (continued)

(c) Recoverable amount of oil and gas properties

The Group makes an assessment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, or when there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. In any event, the Group would make an estimate of the asset's recoverable amount, which is calculated at the higher of the asset's value in use and its fair value less costs of disposal. The Group recognises an impairment loss only if the carrying amount of an asset exceeds its recoverable amount. The Group charges an impairment loss to the profit or loss in the period in which it arises. A reversal of an impairment loss is credited to the profit or loss in the period in which it arises.

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

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

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

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

In the calculations of the recoverable amount of the oil and gas properties in a joint venture, the Group uses the approach above.

(d) Dismantlement costs

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

(e) Taxes

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

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

4. ACQUISITION AND OTHER VENTURE

2020

During 2020, the Company did not enter into material acquisitions.

2019

On 7 June 2019, the Company and CEPR Limited ("CEPR"), a wholly-owned subsidiary of the Company, entered into a share purchase agreement with Joint Stock Company Novatek ("JSC Novatek") and Ekropromstroy Limited Liability Company ("Ekropromstroy"), a wholly-owned subsidiary of JSC Novatek, pursuant to which, CEPR shall acquire a 10% equity interest in Arctic LNG 2 LLC held by Ekropromstroy. The acquisition was completed on 19 July 2019. The Company has the ability to participate in the financial and operating policy decisions through the voting power of its share ownership interest at general meetings of shareholders, which is the decision-making institution of Arctic LNG 2 LLC. It is therefore determined that the Company has significant influence, and recognised Arctic LNG 2 LLC as an associate and accounted for its participation interest using the equity method. The total consideration comprised a cash consideration of US$903 million paid in 2019, a deferred consideration of US$820 million paid in 2020, and a series of contingent payments, which were capped at US$920 million, based on the date on which the LNG facility train 1 achieves operational start-up and future oil prices.

On 1 August 2019, CNOOC China Limited ("CNOOC China"), a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with CNOOC, pursuant to which, CNOOC China shall acquire the 100% equity interest in China United Coalbed Methane Corporation Limited ("CUCBM") held by CNOOC at a total consideration of approximately RMB5.335 billion, which was settled in cash by CNOOC China. The acquisition was completed on 11 October 2019 and CUCBM became an indirect wholly-owned subsidiary of the Company.

Since the Group and CUCBM are under common control of CNOOC, the Group's acquisition of CUCBM was accounted for as a combination of entities under common control. Accordingly, the assets and liabilities of CUCBM were accounted for at historical amounts and consolidated financial statements of the Group prior to the acquisition were combined with the financial statements of CUCBM. The consideration for the acquisition was accounted for as an equity transaction in the consolidated statement of changes in equity.

5. OIL AND GAS SALES AND MARKETING REVENUES

	2020	2019
Gross sales	**142,863**	202,635
Less: Royalties	**(2,725)**	(4,432)
PRC government's share of oil	**(537)**	(1,030)
Oil and gas sales	**139,601**	197,173
Marketing revenues	**12,131**	30,867

Oil and gas sales represent the sales of oil and gas, net of royalties and obligations to government and other mineral interest owners. Revenue from the sales of oil and gas is recognised at a point in time when oil and gas has been delivered to the customer, which is when the customer obtains the control of oil and gas, and the Group has present right to payment and the collection of the consideration is probable.

Marketing revenues principally represent the sales of oil and gas belonging to the foreign partners under the production sharing contracts and revenue from the trading of oil and gas through the Company's subsidiaries, which is recognised at a point in time when oil and gas has been delivered to the customer, which is when the customer obtains the control of oil and gas, and the Group has present right to payment and the collection of the consideration is probable. The cost of the oil and gas sold is included in "Crude oil and product purchases" in the consolidated statement of profit or loss and other comprehensive income.

The payment is typically due within 30 days after the delivery of oil and gas. For contracts where the period between payment and transfer of the associated goods is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

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

6. SEGMENT INFORMATION

(a) Segment results

The Group is engaged worldwide in the upstream operating activities of the conventional oil and gas, shale oil and gas, oil sands and other unconventional oil and gas business. The Group reports the business through three operating and reporting segments: E&P, trading business and corporate. The division of these operating segments is made because the Group's chief operating decision makers make decisions on resource allocation and performance evaluation by reviewing the financial information of these operating segments. The geographical information is separately disclosed in (b).

The following table presents the segment financial information of the Group for the years ended 31 December 2020 and 2019.

	E&P		Trading business		Corporate		Eliminations		Consolidated	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
External Revenue	**128,847**	179,654	**26,362**	53,093	**163**	452	**-**	–	**155,372**	233,199
Intersegment Revenue*	**14,257**	22,256	**(14,257)**	(22,256)	**158**	84	**(158)**	(84)	**-**	–
Total revenue	**143,104**	201,910	**12,105**	30,837	**321**	536	**(158)**	(84)	**155,372**	233,199
Segment profit/(loss) for the year	**24,895**	60,296	**179**	1,517	**1,342**	(776)	**(1,460)**	8	**24,956**	61,045
Amounts included in the measure of segment profit or loss										
Operating expenses	**(24,243)**	(24,754)	**-**	–	**-**	–	**3**	19	**(24,240)**	(24,735)
Taxes other than income tax	**(7,120)**	(9,094)	**1**	–	**(81)**	(62)	**-**	–	**(7,200)**	(9,156)
Exploration expenses	**(5,601)**	(12,342)	**-**	–	**-**	–	**-**	–	**(5,601)**	(12,342)
Depreciation, depletion and amortisation	**(51,982)**	(57,213)	**(63)**	(79)	**(328)**	(478)	**67**	71	**(52,306)**	(57,699)
Impairment and provision	**(5,085)**	(2,094)	**-**	–	**(114)**	–	**-**	–	**(5,199)**	(2,094)
Selling and administrative expenses	**(6,857)**	(6,124)	**(188)**	(199)	**(1,863)**	(1,757)	**87**	18	**(8,821)**	(8,062)
Interest income	**871**	759	**2**	4	**1,059**	1,104	**(459)**	(800)	**1,473**	1,067
Finance costs	**(4,240)**	(4,451)	**(2)**	(2)	**(2,517)**	(2,238)	**569**	826	**(6,190)**	(5,865)
Share of (losses)/profits of associates and a joint venture	**(272)**	31	**-**	–	**(360)**	971	**-**	–	**(632)**	1,002
Income tax expense	**(10,311)**	(21,551)	**(5)**	(7)	**265**	(3,046)	**100**	–	**(9,951)**	(24,604)
Other segment information										
Investments in associates and a joint venture	**19,450**	20,447	**-**	–	**22,916**	25,043	**-**	–	**42,366**	45,490
Others	**547,774**	541,591	**3,781**	6,347	**404,484**	407,851	**(277,130)**	(243,548)	**678,909**	712,241
Segment assets	**567,224**	562,038	**3,781**	6,347	**427,400**	432,894	**(277,130)**	(243,548)	**721,275**	757,731
Segment liabilities	**(404,959)**	(384,359)	**(2,244)**	(4,535)	**(201,981)**	(152,870)	**321,839**	232,259	**(287,345)**	(309,505)
Capital expenditure	**80,492**	85,001	**-**	–	**342**	487	**-**	–	**80,834**	85,488

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

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

6. SEGMENT INFORMATION (continued)

(b) Geographical information

The Group mainly engages in the exploration, development, production and sale of crude oil and natural gas in China, Canada, the United States of America, the United Kingdom, Nigeria, Argentina, Indonesia, Uganda, Iraq, Brazil, Guyana, Russia and Australia etc.

In presenting the Group's geographical information, revenues from external customers are based on the location of the Group's customers, and non-current assets are attributed to the segments based on the location of the Group's assets. 71% (2019: 66%) of the Group's revenues are generated from PRC customers, and revenues generated from customers in other locations are individually less than 10%.

The following table presents certain non-current assets information for the Group's geographical information for the years ended 31 December 2020 and 2019.

	PRC		Canada		Others		Consolidated	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
Property, plant and equipment	**224,742**	197,115	**86,251**	92,537	**135,675**	150,902	**446,668**	440,554
Right-of-use assets	**6,402**	5,774	**562**	689	**2,197**	2,716	**9,161**	9,179
Investments in associates and a joint venture	**4,865**	4,649	**2**	–	**37,499**	40,841	**42,366**	45,490
Other non-current assets	**11,027**	9,275	**287**	405	**46**	41	**11,360**	9,721

(c) Information about major customers

The current year's revenue of approximately RMB7,585 million (2019: RMB19,126 million) was derived from sales by the E&P segment and the trading business segment to China Petroleum & Chemical Corporation. Sales to CNOOC, its subsidiaries (excluding the Group) and associates (the "CNOOC Group") are included in note 33(iii).

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

7. PROFIT BEFORE TAX

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

	2020	2019
Crediting:		
Interest income from bank deposits	**(1,473)**	(1,067)
Investment income:		
– Fair value changes on other financial assets	**(2,978)**	(4,603)
Insurance compensation on disposal of property, plant and equipment	**(65)**	(436)
Charging:		
Auditors' remuneration:		
– Audit fee	**55**	54
– Other fees	**8**	10
	63	64
Employee wages, salaries, allowances and social security costs	**7,968**	7,943
Impairment and provision:		
– Property, plant and equipment	**6,697**	2,072
– (Reversal)/recognition of expected credit losses, net	**(1,373)**	57
– Others	**(125)**	(35)
	5,199	2,094
Depreciation, depletion and amortisation:		
– Property, plant and equipment	**52,106**	54,862
– Right-of-use assets	**1,258**	1,359
– Intangible assets	**402**	365
– Net amount capitalised	**(1,460)**	1,113
	52,306	57,699
Lease rentals:		
– Office properties	**413**	444
– Plant and equipment	**412**	280
	825	724
Repairs and maintenance	**4,721**	5,415
Research and development costs	**2,702**	1,632
Gain on disposal of property, plant and equipment	**(1)**	(92)

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

8. FINANCE COSTS

	2020	2019
Interest on bank loans	**51**	114
Interest on other loans	**5,579**	5,631
Interest on lease liabilities	**399**	348
Other borrowing costs	**8**	26
Total borrowing costs	**6,037**	6,119
Less: Amount capitalised in property, plant and equipment (note 14)	**(2,483)**	(3,048)
	3,554	3,071
Other finance costs:		
Unwinding of discount on provision for dismantlement (note 30)	**2,636**	2,794
	6,190	5,865

During the year ended 31 December 2020, the effective interest rates used to determine the amount of related borrowing costs for capitalisation varied from 0.7% to 7.875% (2019: from 0.7% to 7.875%) per annum.

9. KEY MANAGEMENT PERSONNEL'S REMUNERATION

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

(i) Directors' remuneration

	Fees[1] RMB'000	Salaries, allowances and benefits in kind[1] RMB'000	Performance related bonuses[1] RMB'000	Pension scheme contributions RMB'000	Total paid/ payable during the year RMB'000
2020					
Executive directors:					
Xu Keqiang[2]	–	239	576	149	964
Hu Guangjie[3]	–	176	193	116	485
Subtotal	–	415	769	265	1,449
Non-executive directors:					
Wang Dongjin[6]	–	–	–	–	–
Li Yong[5]	–	–	–	–	–
Wen Dong Fen[4]	–	–	–	–	–
Subtotal	–	–	–	–	–
Independent non-executive directors:					
Chiu Sung Hong	998	–	–	–	998
Lawrence J. Lau	846	–	–	–	846
Tse Hau Yin, Aloysius	1,042	–	–	–	1,042
Qiu Zhi Zhong	846	–	–	–	846
Subtotal	3,732	–	–	–	3,732
Total	3,732	415	769	265	5,181

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

9. KEY MANAGEMENT PERSONNEL'S REMUNERATION (continued)

(i) Directors' remuneration (continued)

	Fees[1] RMB'000	Salaries, allowances and benefits in kind[1] RMB'000	Performance related bonuses[1] RMB'000	Pension scheme contributions RMB'000	Total paid/payable during the year RMB'000
2019					
Executive directors:					
Xu Keqiang[12]	–	257	870	186	1,313
Yuan Guangyu[10]	–	175	1,034	128	1,337
Subtotal	–	432	1,904	314	2,650
Non-executive directors:					
Wang Dongjin[11]	–	–	–	–	–
Yang Hua[9]	–	–	–	–	–
Subtotal	–	–	–	–	–
Independent non-executive directors:					
Chiu Sung Hong	985	–	–	–	985
Lawrence J. Lau	835	–	–	–	835
Tse Hau Yin, Aloysius	1,029	–	–	–	1,029
Qiu Zhi Zhong[8]	543	–	–	–	543
Kevin G. Lynch[7]	294	–	–	–	294
Subtotal	3,686	–	–	–	3,686
Total	3,686	432	1,904	314	6,336

9. KEY MANAGEMENT PERSONNEL'S REMUNERATION (continued)

(i) Directors' remuneration (continued)

Notes:

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

(2) On 20 March 2020, Mr. Xu Keqiang resigned as the President of the Company and he remains to serve as an Executive Director and the Chief Executive Officer of the Company.

(3) On 20 March 2020, Mr. Hu Guangjie was appointed as an Executive Director and the President of the Company.

(4) On 27 April 2020, Ms. Wen Dongfen was appointed as a Non-executive Director of the Company.

(5) On 29 September 2020, Mr. Li Yong was appointed as Vice Chairman of the Board, a Non-executive Director and a member of the Remuneration Committee of the Company.

(6) On 29 September 2020, Mr. Wang Dongjin ceased to serve as a member of the Remuneration Committee of the Company.

(7) On 7 May 2019, Mr. Kevin G. Lynch resigned as an Independent Non-executive Director and a member of the Nomination Committee of the Company.

(8) On 7 May 2019, Mr. Qiu Zhi Zhong was appointed as an Independent Non-executive Director and a member of the Nomination Committee of the Company.

(9) On 2 September 2019, Mr. Yang Hua resigned as a Non-executive Director, the Chairman of the Board and the Chairman of the Nomination Committee of the Company.

(10) On 2 September 2019, Mr. Yuan Guangyu resigned as an Executive Director and the Chief Executive Officer of the Company.

(11) On 18 November 2019, Mr. Wang Dongjin was appointed as the Chairman of the Board and the Chairman of the Nomination Committee of the Company, and no longer served as the Vice Chairman of the Board.

(12) On 19 November 2019, Mr. Xu Keqiang, Executive Director and the then President of the Company, was appointed as the Chief Executive Officer of the Company.

The Company has adopted the share option schemes for the grant of options to the Company's directors. The fair value of share options for the directors is measured according to the Group's accounting policies as set out in note 3. No Directors exercised any share option in 2020 or 2019. No new share option was granted to Directors in respect of their services to the Group under the applicable share option schemes of the Company in 2020 or 2019. Further details of share option scheme and valuation techniques are set out in note 31.

Save as disclosed above, there was no arrangement under which a director waived or agreed to waive any remuneration during the year. In 2020 and 2019, the executive directors' remuneration shown above were for their services in connection with the management of the affairs of the Company. The other directors' remuneration shown above were for their services as directors of the Company.

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

9. KEY MANAGEMENT PERSONNEL'S REMUNERATION (continued)

(ii) Other key management personnel's (excluding Directors') remuneration

	2020	2019
Short term employee benefits	**10**	13
Pension scheme contributions	**1**	1
Amount paid/payable during the year	**11**	14

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

	Number of employees	
	2020	2019
Nil to RMB2,000,000	**10**	4
RMB2,000,001 to RMB2,500,000	**–**	3
	10	7

10. FIVE HIGHEST PAID EMPLOYEES

During the year, none (2019: none) of the Directors, details of whose remuneration are disclosed in note 9(i) above, received an amount which falls within the category of the five highest paid employees. Details of the remuneration of the five (2019: five) highest paid employees, for the year are as follows:

	2020	2019
Salaries, allowances, and benefits in kind(1)	**25**	27
Performance-related bonuses	**18**	18
Pension scheme contributions	**2**	2
Amount paid/payable during the year	**45**	47

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

The remuneration of the five (2019: five) highest paid employees, falls within the following bands:

	Number of employees	
	2020	2019
RMB6,500,001 – RMB7,000,000	**1**	–
RMB7,000,001 – RMB7,500,000	**1**	–
RMB7,500,001 – RMB8,000,000	**–**	2
RMB8,000,001 – RMB8,500,000	**1**	1
RMB8,500,001 – RMB9,000,000	**–**	–
RMB10,000,001 – RMB10,500,000	**–**	1
RMB10,500,001 – RMB11,000,000	**1**	–
RMB12,500,001 – RMB13,000,000	**1**	1
	5	5

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

11. TAX

(i) Income tax

The Company and its subsidiaries are subject, on an entity basis, to income taxes on profits arising in or derived from the tax jurisdictions in which the entities of the Group are domiciled and operate. The Company is subject to profits tax at a rate of 16.5% (2019: 16.5%) on profits arising in or derived from Hong Kong.

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

The Company's subsidiary in Mainland China, CNOOC China, is a wholly-owned foreign enterprise. It is subject to corporate income tax at the rate of 25% under the prevailing tax rules and regulations. CNOOC Deepwater Development Limited, a wholly-owned subsidiary of CNOOC China, is subject to corporate income tax at the rate of 15% from 2018 to 2020, after being assessed as a high and new technology enterprise. The company is in the process of re-applying to be assessed as a high and new technology enterprise from 2021 to 2023.

Subsidiaries of the Group domiciled outside the PRC are subject to income tax at rates ranging from 10% to 82% (2019: 10% to 50%). The provincial income tax rate of Alberta, Canada reduced from 12% to 11% on 1 July 2019, and will decrease by one percentage point on 1 January of each year until it reaches 8% on 1 January 2022.

As at 31 December 2020, deferred tax liabilities related to undistributed earnings of the Company's overseas subsidiaries have not been provided since the timing of the reversal of the taxable temporary differences can be controlled by the Company and it is probable that the temporary differences would not reverse in the foreseeable future.

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

	2020	2019
Current tax		
Provision for PRC enterprise income tax on the estimated taxable profits for the year	**9,821**	19,054
Provision for overseas enterprise income tax on the estimated taxable profits for the year	**2,080**	3,179
Deferred tax		
Temporary differences in the current year	**(1,950)**	(130)
Effect of changes in tax rates	**–**	2,501
Income tax expense for the year	**9,951**	24,604

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

11. TAX (continued)

(i) Income tax (continued)

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

	2020 %	2019 %
PRC statutory enterprise income tax rate	25.0	25.0
Effect of different tax rates for overseas subsidiaries	4.3	2.6
Effect of changes in tax rates	–	2.9
Tax credit from the government	(3.3)	(2.6)
Tax reported in equity-accounted entities within China	(0.3)	(0.1)
Others	2.8	0.9
Group's effective income tax rate	28.5	28.7

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

	2020	2019
Opening Balance	(22,390)	(24,285)
Credit to the profit or loss	(1,950)	(130)
Changes in tax rates	–	2,501
Charge to equity	2	(111)
Exchange differences	1,706	(365)
Closing Balance	(22,632)	(22,390)

Principal components of deferred tax balances are as follows:

	2020	2019
Deferred tax assets		
Property, plant and equipment	6,064	5,996
Provision for dismantlement	12,980	12,418
Losses available for offsetting against future taxable profit	20,157	19,367
Fair value of long term borrowings	1,316	1,472
Others	1,070	687
	41,587	39,940
Deferred tax liabilities		
Property, plant and equipment	(18,632)	(17,313)
Others	(323)	(237)
	(18,955)	(17,550)
Net deferred tax assets	22,632	22,390
Of which		
– deferred tax assets	27,751	25,992
– deferred tax liabilities	(5,119)	(3,602)

11. TAX (continued)

(i) Income tax (continued)

As at 31 December 2020, the Group had approximately RMB98,008 million (2019: RMB95,794 million) of carryforward tax losses, predominantly in North America, that would be available to offset against future taxable profits of the subsidiaries in which the tax losses arose. Most of the US and Canadian tax losses will expire in 4 to 20 years.

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

As at 31 December 2020, the Group's recognised deferred tax assets on tax losses amounted to RMB92,644 million (2019: RMB89,268 million). Unrecognised tax losses, where recovery is not currently expected, amounted to RMB5,364 million (2019: RMB6,526 million). These unrecognised tax losses are subject to time limits in accordance with tax regulations in different countries.

At 31 December 2020, the Group's unrecognised deferred tax assets related to unused tax credits amounted to RMB7,382 million (2019: RMB10,220 million), which are subject to time limits in accordance with tax regulations in different countries.

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

(ii) Other taxes

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

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

ii. Value added tax ("VAT") at the rates from 10% to 16% on taxable sales under independent oil and gas fields before 1 April 2019. VAT rates of 16% and 10% have been adjusted to 13% and 9% respectively since 1 April 2019 according to "Announcement on Policies for Deepening the VAT Reform" (Announcement [2019] No. 39 of the Ministry of Finance, the State Taxation Administration and the General Administration of Customs).

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

iii. Resource tax at the rate of 6% (reduced tax rates may apply to specific products and fields) on the oil and gas sales revenue (excluding production tax) derived by oil and gas fields under production sharing contracts signed after 1 November 2011 and independent offshore oil and gas fields, except for those under production sharing contracts signed before 1 November 2011 which will be subject to related resource tax requirement after the expiration of such production sharing contracts;

iv. City construction tax at the rates of 1% or 7% on the production tax and VAT paid;

v. Educational surcharge at the rate of 3% on the production tax and VAT paid; and

vi. Local educational surcharge at the rate of 2% on the production tax and VAT paid.

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

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

11. TAX (continued)

(iii) Special Oil Gain Levy

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

12. EARNINGS PER SHARE

	2020	2019
Earnings:		
Profit for the purpose of basic and diluted earnings per share calculation	**24,956**	61,045
Number of shares:		
Number of ordinary shares for the purpose of basic earnings per share calculation	**44,647,455,984**	44,647,455,984
Effect of dilutive potential ordinary shares under the share option schemes	**–**	3,654,758
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**44,647,455,984**	44,651,110,742
Earnings per share:		
Basic (RMB Yuan)	**0.56**	1.37
Diluted (RMB Yuan)	**0.56**	1.37

13. DIVIDENDS

	2020	2019
Dividend per ordinary share:		
2020 interim dividend – HK$0.20 (2019: interim dividend HK$0.33) per ordinary share	**7,744**	13,260
2019 final dividend – HK$0.45 (2018: final dividend HK$0.40) per ordinary share	**18,107**	15,713
2020 final dividend proposed at HK$0.25 per ordinary share by the Board of Directors – not recognised as a liability as at the end of the year	**9,314**	18,107

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

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

14. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Vehicles and office equipment and others	Total
Cost:			
At 1 January 2019	972,605	5,269	977,874
Additions	78,523	710	79,233
Acquisitions	5,619	–	5,619
Disposals and write-offs	(9,270)	(313)	(9,583)
Exchange differences	8,463	36	8,499
At 31 December 2019	1,055,940	5,702	1,061,642
At 1 January 2020	1,055,940	5,702	1,061,642
Additions	74,862	1,383	76,245
Acquisitions	4,418	–	4,418
Disposals and write-offs	(3,018)	(232)	(3,250)
Exchange differences	(33,710)	(139)	(33,849)
At 31 December 2020	1,098,492	6,714	1,105,206
Accumulated depreciation, depletion and amortisation and impairment:			
At 1 January 2019	(562,144)	(2,347)	(564,491)
Depreciation charge for the year	(54,451)	(411)	(54,862)
Impairment	(2,072)	–	(2,072)
Disposals and write-offs	4,312	278	4,590
Exchange differences	(4,233)	(20)	(4,253)
At 31 December 2019	(618,588)	(2,500)	(621,088)
At 1 January 2020	(618,588)	(2,500)	(621,088)
Depreciation charge for the year	(51,816)	(290)	(52,106)
Impairment	(6,697)	–	(6,697)
Disposals and write-offs	2,163	227	2,390
Exchange differences	18,886	77	18,963
At 31 December 2020	(656,052)	(2,486)	(658,538)
Net book value:			
At 31 December 2019	437,352	3,202	440,554
At 31 December 2020	442,440	4,228	446,668

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Included in the current year's additions was an amount of approximately RMB2,483 million (2019: approximately RMB3,048 million) in respect of interest capitalised in property, plant and equipment (note 8). Included also in the depreciation charge for the year was an amount of approximately RMB2,764 million (2019: approximately RMB1,199 million) in respect of a depreciation charge on dismantlement cost capitalised in oil and gas properties.

Impairment and provision recognised during the year included the impairment loss to reduce the carrying amount of certain oil and gas properties to the recoverable amount. In 2020, impairment losses of RMB6,697 million (2019: RMB2,072 million in North America and China) related to oil and gas properties in North America, Africa and China were recognised as impairment and provision in profit or loss, primarily triggered by the change of reserve assessment and the decline of forecasted oil price.

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

The discount rate is derived from the Company's weighted average cost of capital ("WACC") and is adjusted, where applicable, to take into account any specific risks relating to the country where the asset is located as well as the asset specific characteristics, such as specific tax treatments, cash flow profiles and economic life. The discount rate used for value in use calculations was 7%-12% in 2020 after tax (2019: 8%). A derived pre-tax discount rate would be 7%-16% (2019: 8%-10%).

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

15. RIGHT-OF-USE ASSETS

	FPSO	Building and structures	Equipment	Pipelines	Leasehold lands	Total
Cost:						
At 1 January 2020	7,365	752	864	922	877	10,780
Additions	–	209	230	–	1,224	1,663
Disposals and write-offs	(91)	(27)	(741)	(1)	–	(860)
Exchange differences	(118)	(37)	(56)	(60)	–	(271)
At 31 December 2020	7,156	897	297	861	2,101	11,312
Accumulated depreciation, depletion and amortisation and impairment:						
At 1 January 2020	(712)	(169)	(422)	(187)	(111)	(1,601)
Depreciation charge for the year	(706)	(207)	(275)	(39)	(31)	(1,258)
Disposals and write-offs	12	23	624	–	–	659
Exchange differences	10	–	27	12	–	49
At 31 December 2020	(1,396)	(353)	(46)	(214)	(142)	(2,151)
Net book value:						
At 1 January 2020	6,653	583	442	735	766	9,179
At 31 December 2020	5,760	544	251	647	1,959	9,161
Expense relating to short-term leases	44	357	–	12	–	413
Variable lease payments not included in the measurement of lease liabilities	412	–	–	–	–	412

For both years, the Group leases various FPSO and offices for its operations. Lease contracts are entered into for fixed term of 13 months to 171 months, but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

During the current period, the Group recognised right-of-use assets of approximately RMB113 million for leases with the CNOOC Group.

Variable lease payments

Leases of FPSO are either with only fixed lease payments or contain variable lease payment that are based on production volume and minimum annual lease payment that are fixed over the lease term. The fixed and variable lease payments paid to relevant FPSO lessors for the year ended 31 December 2020 amounted to RMB1,002 million and RMB412 million.

The overall financial effect of using variable payment terms is that higher rental costs are incurred by FPSO with higher production volume. Variable rent expenses are expected to continue to represent a similar proportion of production volume in future years.

31 December 2020
(All amounts expressed in millions of Renminbi unless otherwise stated)

16. INTANGIBLE ASSETS

	Gas processing rights under NWS Project	Exploration rights	Marketing transportation and storage contracts	Software and others	Goodwill	Total
Cost:						
At 1 January 2019	1,259	531	1,507	3,039	14,592	20,928
Additions	–	–	–	348	–	348
Disposal	–	–	–	(27)	–	(27)
Exchange differences	21	–	24	14	239	298
At 31 December 2019	1,280	531	1,531	3,374	14,831	21,547
At 1 January 2020	1,280	531	1,531	3,374	14,831	21,547
Additions	–	–	–	221	–	221
Disposal	–	–	–	(1)	–	(1)
Exchange differences	(83)	–	(99)	(66)	(960)	(1,208)
At 31 December 2020	1,197	531	1,432	3,528	13,871	20,559
Accumulated amortisation:						
At 1 January 2019	(836)	(219)	(1,299)	(2,501)	–	(4,855)
Amortisation charge for the year	(53)	(30)	(55)	(227)	–	(365)
Disposal	–	–	–	27	–	27
Exchange differences	(15)	–	(20)	(13)	–	(48)
At 31 December 2019	(904)	(249)	(1,374)	(2,714)	–	(5,241)
At 1 January 2020	(904)	(249)	(1,374)	(2,714)	–	(5,241)
Amortisation charge for the year	(75)	(30)	(58)	(239)	–	(402)
Exchange differences	63	–	92	58	–	213
At 31 December 2020	(916)	(279)	(1,340)	(2,895)	–	(5,430)
Net book value:						
At 31 December 2019	376	282	157	660	14,831	16,306
At 31 December 2020	281	252	92	633	13,871	15,129

16. INTANGIBLE ASSETS (continued)

Goodwill represents the excess of the purchase price over the estimated fair value of the assets acquired and liabilities assumed in a business combination. Goodwill acquired through business combinations is held at the E&P segment.

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

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

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

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

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

17. INVESTMENTS IN SUBSIDIARIES

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

Name of entity	Place of establishment	Nominal value of ordinary shares issued and paid-up/ registered capital	Percentage of equity attributable to the Group	Principal activities
Directly held subsidiaries:				
CNOOC China Limited[(1)]	Tianjin, PRC	RMB20 billion	100%	Offshore petroleum and natural gas exploration, development, production and sales, and shale gas exploration in the PRC
China Offshore Oil (Singapore) International Pte Ltd	Singapore	SG$3 million	100%	Sales and marketing of petroleum and natural gas products outside the PRC
CNOOC International Limited[(2)]	British Virgin Islands	US$24,000,000,002	100%	Investment holding
CNOOC Finance (2003) Limited	British Virgin Islands	US$1,000	100%	Bond issuance
CNOOC Finance (2011) Limited	British Virgin Islands	US$1,000	100%	Bond issuance
CNOOC Finance (2012) Limited	British Virgin Islands	US$1,000	100%	Bond issuance
CNOOC Finance (2013) Limited	British Virgin Islands	US$1,000	100%	Bond issuance
CEPR Limited	Hong Kong, PRC	EUR1,000	100%	Investment holding
Indirectly held subsidiaries[(3)]:				
CNOOC Deepwater Development Limited[(1) (4)]	Zhuhai, PRC	RMB22.28 billion	100%	Deepwater and low-grade oil and gas fields exploitation in the PRC and exploration, development, production and sales of oil and gas in the oil and gas fields of South China Sea
China United Coalbed Methane Corporation Limited	Beijing, PRC	RMB1.311 billion	100%	Coalbed methane exploration and sales, Coalbed methane surface exploration, gas mineral prospecting, shallow gas development and utilisation in the coalbed methane fields in the PRC
CNOOC Southeast Asia Limited	Bermuda	US$12,000	100%	Investment holding
CNOOC Muturi Limited	Isle of Man	US$7,780,770	100%	Petroleum and natural gas exploration, development and production in Indonesia

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

17. INVESTMENTS IN SUBSIDIARIES (continued)

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

Name of entity	Place of establishment	Nominal value of ordinary shares issued and paid-up/ registered capital	Percentage of equity attributable to the Group	Principal activities
CNOOC NWS Private Limited	Singapore	SG$2	100%	Offshore petroleum and natural gas exploration, development and production in Australia
CNOOC Exploration & Production Nigeria Limited	Nigeria	NGN10 million	100%	Petroleum and natural gas exploration, development and production in Africa
CNOOC Iraq Limited	British Virgin Islands	US$1	100%	Providing services of petroleum and natural gas exploration and development in the Republic of Iraq
CNOOC Canada Energy Ltd.	Canada	100 common shares without a par value 103,000 preferred shares without a par value	100%	Oil sands exploration, development and production in Canada
CNOOC Uganda Ltd	Uganda	1 million Uganda Shilling	100%	Petroleum and natural gas exploration, development and production in Africa
CNOOC Petroleum North America ULC	Canada	13,671,421,700 common shares without a par value	100%	Petroleum and natural gas exploration, development and production in Canada
CNOOC Petroleum Europe Limited	England and Wales	GBP98,009,131	100%	Petroleum and natural gas exploration, development and production in the UK
Nexen Petroleum Nigeria Limited	Nigeria	NGN30 million	100%	Petroleum and natural gas exploration, development and production in Nigeria
CNOOC Energy U.S.A. LLC	USA	N/A	100%	Petroleum and natural gas exploration, development and production in the USA
CNOOC Petroleum Offshore U.S.A. Inc.	USA	US$15,830	100%	Petroleum and natural gas exploration, development and production in the USA
CNOOC Oil Sands Canada	Canada	N/A	100%	Petroleum and natural gas exploration, development and production in Canada
CNOOC PETROLEUM BRASIL LTDA[5]	Brazil	R$7,207,464,100	100%	Petroleum and natural gas exploration, development and production in Brazil

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

17. INVESTMENTS IN SUBSIDIARIES (continued)

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

Name of entity	Place of establishment	Nominal value of ordinary shares issued and paid-up/ registered capital	Percentage of equity attributable to the Group	Principal activities
CNOOC Finance (2014) ULC	Canada	100 common shares without a par value	100%	Bond issuance
CNOOC Finance (2015) U.S.A. LLC	USA	N/A	100%	Bond Issuance
CNOOC Finance (2015) Australia Pty Ltd	Australia	US$1	100%	Bond Issuance
CNOOC Petroleum Guyana Limited	Barbados	US$200,100	100%	Petroleum and natural gas exploration, development and production in Guyana

(1) Registered as a wholly foreign owned enterprise under the PRC law.

(2) CNOOC Limited subscribed for 2,000 redeemable shares with a par value of US$1.00 each in CNOOC International Limited for the sum of US$4,000,000,000 on 10 January 2020.

(3) All subsidiaries are indirectly held through CNOOC International Limited, except CNOOC Deepwater Development Limited and China United Coalbed Methane Corporation Limited which are indirectly held through CNOOC China.

(4) The registered capital of CNOOC Deepwater Development Limited increased from 20.78billion to 22.28billion on 30 December 2020.

(5) The registered capital of CNOOC PETROLEUM BRASIL LTDA increased from R$6,778,134,300 to R$7,207,464,100 on 15 December 2020.

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

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

18. INVESTMENTS IN ASSOCIATES

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

Name of associates	Place of establishment	Nominal value of ordinary shares issued and paid-up/ registered capital	Percentage of equity attributable to the Group	Principal activities
Shanghai Petroleum Corporation Limited(1)	Shanghai, PRC	RMB900 million	30.0%	Production, processing and technology consultation of oil, gas and relevant products in the PRC
CNOOC Finance Corporation Limited(1)	Beijing, PRC	RMB4 billion	31.8%	Provision of deposit, transfer, settlement, loan, discounting and other financing services to CNOOC and its member entities
Jiangsu Shuangchuang Renewable Energy Development Corporation Limited(1)	Jiangsu, PRC	RMB960 million	47%	New energy technology research and development, technical consulting, technical services; wind power; technical services for power system and facilities; power engineering and construction (operated with qualification certificates); generator set installation, commissioning and maintenance
Arctic LNG 2 LLC	Russian Federation	RUB15,976 million	10%	Exploration and development of natural gas and production and marketing of liquefied natural gas in Russia

(1) Registered as a limited liability company under the PRC Law.

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

The Group's investments in associates represent:

	2020	2019
Share of net assets	**23,544**	24,513

None of the Group's associates are considered to be individually material. The following table illustrates the Group's share of the profits and other comprehensive income of its associates in the consolidated financial statements:

	2020	2019
Profit for the year	**171**	459
Other comprehensive income	**(85)**	25
Total comprehensive income	**86**	484

Dividend of RMB329 million was received from the associates in 2020 (2019: RMB231 million).

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

19. INVESTMENT IN A JOINT VENTURE

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

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

Summarised financial information of the joint venture is disclosed below:

	2020	2019
Current assets	9,092	10,742
Non-current assets	47,737	49,417
Current liabilities	(7,391)	(7,616)
Non-current liabilities	(11,794)	(10,589)
Revenue	12,089	18,178
Depreciation, depletion and amortisation	(3,321)	(3,195)
Interest income	101	140
Finance costs	(946)	(822)
(Loss)/profit before tax	(1,641)	1,961
Income tax credit/(expense)	35	(875)
(Loss)/profit after tax	(1,606)	1,086
Total comprehensive (expense)/income	(1,606)	1,086

Dividend of US$6 million (equivalent to RMB42 million) was received from the joint venture in 2020 and US$25 million (equivalent to RMB172 million) was received from the joint venture in 2019.

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

20. EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS

(i) Equity investments

	2020	2019
Non-current:		
Publicly traded investments		
Equity investment in MEG Energy Corporation ("MEG") classified at FVTOCI(1)	**653**	1,127
	653	1,127
Non-publicly traded investments		
Private equity fund in Kerogen Energy Fund classified at FVTOCI(2)	**1,140**	1,778
Other equity investments classified at FVTOCI	**36**	31
	1,176	1,809
	1,829	2,936

(1) MEG is principally engaged in the exploitation and production of oil sands. The investment in MEG is designated by the Group as at FVTOCI. As at 31 December 2020, the investment in MEG was stated at the quoted market price.

(2) Kerogen Energy Fund is principally engaged in the investment in the oil and gas industry. The equity investment in Kerogen Energy Fund is designated by the Group as at FVTOCI.

During the year, the fair value changes on the Group's equity investments recognised directly in other comprehensive expense amounted to RMB1,040 million (2019: other comprehensive income RMB1,167 million).

(ii) Other financial assets

	2020	2019
Current:		
Publicly traded investments classified at FVTPL:		
Money market funds(1)	**–**	6,660
Non-publicly traded investments classified at FVTPL:		
Corporate wealth management products(2)	**61,662**	107,853
	61,662	114,513

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

(2) The corporate wealth management products will mature from 6 January, 2021 to 13 October 2021 (2019: from 8 January, 2020 to 14 October 2020).

The gains of the Group's other financial assets recognised in the profit or loss for the year was RMB2,978 million (2019: RMB4,603 million).

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

21. OTHER NON-CURRENT ASSETS

Included in the other non-current assets were mainly restricted deposits for future dismantlement. Pursuant to the Provisional Regulations on the Dismantlement of Offshore Oil and Gas Production Facilities of the People's Republic of China, the Group accrues dismantlement costs for all the oil and gas fields under production sharing contracts in the PRC, and makes monthly cash contributions to the specified dismantlement fund accounts supervised by the PRC government. The deposit cannot be withdrawn or utilised for any other purposes but the dismantlement of oil and gas production facilities in the future. As at 31 December 2020, the balance of the specified dismantlement fund accounts was RMB9,738 million (31 December 2019: RMB8,860 million).

22. INVENTORIES AND SUPPLIES

	2020	2019
Materials and supplies	**5,064**	5,758
Oil in tanks	**1,377**	1,483
Less: Provision for inventory obsolescence	**(797)**	(927)
	5,644	6,314

23. TRADE RECEIVABLES

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

All customers have good credit quality with good repayment history and no significant receivables are past due. As at 31 December 2020 and 31 December 2019, the age of substantially all the trade receivables was within one year.

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

The Group's cash and cash equivalents mainly consist of current deposits and time deposits with maturity within seven days. The bank balances are deposited with creditworthy banks.

The weighted average effective interest rate of the Group's bank deposits was 2.56% per annum, for the year ended 31 December 2020 (2019: 2.71% per annum).

25. TRADE AND ACCRUED PAYABLES

As at 31 December 2020 and 2019, substantially all the trade and accrued payables were aged within six months. The trade and accrued payables are non-interest-bearing.

26. CONTRACT LIABILITIES

	2020	2019
Contract liabilities	**1,544**	2,231
– Current	**1,544**	2,231

Under the natural gas sale contracts, which contain take-or-pay clauses, the Group recorded the payments received from customers for natural gas not yet taken as contract liabilities.

The amount of RMB1,242 million contract liability at the beginning of the year has been recognised as revenue for the year ended 31 December 2020.

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

27. OTHER PAYABLES AND ACCRUED LIABILITIES

	2020	2019
Accrued payroll and welfare payable	1,765	2,128
Accrued expenses	589	1,527
Special oil gain levy payable	–	327
Royalties payable	136	81
Provision for dismantlement (note 30)	916	1,439
Deferred consideration to Arctic LNG 2 LLC	–	5,720
Other payables	8,733	8,361
	12,139	19,583

28. LOANS AND BORROWINGS

Current*

	Effective interest rate and final maturity	2020 Loans	2020 Notes	2020 Total	2019 Loans	2019 Notes	2019 Total
Short-term loans and borrowings							
General loans*****	LIBOR+0.60% to 3.915% per annum with maturity within one year	–	–	–	1,905	–	1,905
		–	–	–	1,905	–	1,905
Loans and borrowings due within one year							
For Tangguh LNG Project***	LIBOR+0.19% to 0.335% per annum with maturity within one year	78	–	78	226	–	226
For Tangguh LNG III Project****	LIBOR+1.37% to 3.45% per annum with maturity within one year	142	–	142	–	–	–
For Arctic LNG 2 Project*****	EURIBOR+0.7% to 1.2% per annum with maturity in 2026	18	–	18	–	–	–
General loans	LPR-60BPS per annum with maturity in 2033	1	–	1	–	–	–
Notes**		–	10,978	10,978	–	11,777	11,777
		239	10,978	11,217	226	11,777	12,003
		239	10,978	11,217	2,131	11,777	13,908

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

28. LOANS AND BORROWINGS (continued)

Non-current*

		2020			2019		
	Effective interest rate and final maturity	Loans	Notes	Total	Loans	Notes	Total
For Tangguh LNG Project***	LIBOR+0.19% to 0.335% per annum with maturity through to 2021	–	–	–	84	–	84
For Tangguh LNG III Project****	LIBOR+1.37% to 3.45% per annum with maturity from 2021 to 2029	3,233	–	3,233	2,866	–	2,866
For Arctic LNG 2 Project*****	EURIBOR+0.7% to 1.2% per annum with maturity in 2026	7,011	–	7,011	735	–	735
General loans	LPR-60BPS per annum with maturity in 2033	814	–	814	–	–	–
Notes**		–	113,955	113,955	–	132,467	132,467
		11,058	113,955	125,013	3,685	132,467	136,152

* The amount of loans and borrowings incuded interest payable.

** The details of notes are as follows:

			Outstanding Principal Amount	
Issued by	Maturity	Coupon Rate	31 December 2020 USD million	31 December 2019 USD million
CNOOC Finance (2003) Limited	Due in 2033	5.500%	300	300
CNOOC Finance (2011) Limited	Due in 2021	4.25%	1,500	1,500
CNOOC Finance (2011) Limited	Due in 2041	5.75%	500	500
CNOOC Finance (2012) Limited	Due in 2022	3.875%	1,500	1,500
CNOOC Finance (2012) Limited	Due in 2042	5.000%	500	500
CNOOC Finance (2013) Limited	Due in 2023	3.000%	2,000	2,000
CNOOC Finance (2013) Limited	Due in 2043	4.250%	500	500
CNOOC Finance (2013) Limited	Due in 2029	2.875%	1,000	1,000
CNOOC Finance (2013) Limited	Due in 2049	3.300%	500	500
CNOOC Finance (2014) ULC	Due in 2024	4.25%	2,250	2,250
CNOOC Finance (2014) ULC	Due in 2044	4.875%	500	500
CNOOC Petroleum North America ULC	Due in 2028	7.4%	200	200
CNOOC Petroleum North America ULC	Due in 2032	7.875%	500	500
CNOOC Petroleum North America ULC	Due in 2035	5.875%	790	790
CNOOC Petroleum North America ULC	Due in 2037	6.4%	1,250	1,250
CNOOC Petroleum North America ULC	Due in 2039	7.5%	700	700
CNOOC Finance (2015) Australia Pty Ltd	Matured in 2020	2.625%	–	1,500
CNOOC Finance (2015) Australia Pty Ltd	Due in 2045	4.200%	300	300
CNOOC Finance (2015) U.S.A. LLC	Due in 2023	3.75%	450	450
CNOOC Finance (2015) U.S.A. LLC	Due in 2025	3.500%	2,000	2,000
CNOOC Finance (2015) U.S.A. LLC	Due in 2028	4.375%	1,000	1,000

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

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

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

28. LOANS AND BORROWINGS (continued)

Non-current (continued)

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

***** As at 31 December 2020, US$1,075 million of the bank loans for Arctic LNG 2 Project and general loans (2019: US$378 million) were guaranteed by the Company.

As at 31 December 2020, no shareholder loans (2019: nil) were included in general loans.

The maturities of the long term loans are as follows:

	2020	2019
Repayable:		
Within one year	239	226
After one year but within two years	288	204
After two years but within three years	326	244
After three years but within four years	495	277
After four years but within five years	649	320
After five years	9,300	2,640
	11,297	3,911
Amount due within one year shown under current liabilities	(239)	(226)
	11,058	3,685

Supplemental information with respect to the long term loans:

For the year ended 31 December	Balance at year end	Weighted average interest rate at year end	Weighted average interest rate during the year(1)
2020	11,297	0.95%	1.83%
2019	3,911	2.70%	3.43%

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

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

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

29. LEASE LIABILITIES

	31/12/2020	31/12/2019
Lease liabilities payable:		
Within one year	**1,522**	1,732
Within a period of more than one year but not more than two years	**1,218**	1,266
Within a period of more than two years but not more than five years	**2,762**	3,091
Within a period of more than five years	**3,632**	4,536
	9,134	10,625
Less: Discount to present value	**(1,815)**	(2,138)
Total lease liabilities	**7,319**	8,487

The incremental borrowing rates applied to lease liabilities range from 3.3% to 5.16% (2019: from 3.3% to 5.16%).

30. PROVISION FOR DISMANTLEMENT

	2020	2019
At 1 January	**65,602**	54,878
New projects(1)	**3,765**	3,309
Revision(1)	**35**	5,117
Utilisation	**(444)**	(1,141)
Deletion	**(115)**	(15)
Unwinding of discount(2) (note 8)	**2,636**	2,794
Exchange differences	**(1,119)**	660
At 31 December	**70,360**	65,602
Current portion of provision for dismantlement included in other payables and accrued liabilities (note 27)	**(916)**	(1,439)
At 31 December	**69,444**	64,163

(1) The amounts are included in the additions of oil and gas properties in note 14.

(2) The discount rates used for calculating the provision for dismantlement is 3.25%-4.25% (2019: 3.50%-4.25%).

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

31. SHARE CAPITAL

	Number of shares	Issued share capital equivalent of RMB million
Issued and fully paid:		
Ordinary shares with no par value as at 1 January 2019, as at 31 December 2019 and as at 31 December 2020	44,647,455,984	43,081

Share option schemes

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

(1) Pre-Global Offering Share Option Scheme (expired in 2011);

(2) 2001 Share Option Scheme (expired in 2011);

(3) 2002 Share Option Scheme (expired in 2015); and

(4) 2005 Share Option Scheme (as defined below).

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

2005 Share Option Scheme

On 31 December 2005, the Company adopted a new share option scheme (the "2005 Share Option Scheme"). The purpose of the 2005 Share Option Scheme is to provide incentive and/or reward to eligible persons for their contribution to, and continuing efforts to promote the interests of the Company. Under the 2005 Share Option Scheme, the Board has the authority to grant options to subscribe for shares to the directors, officers and employees of the Group, and any other persons who in the sole discretion of the Board, have contributed or will contribute to the Group. Unless approved by the shareholders, the total number of shares issued and to be issued upon exercise of the options granted to each individual (including exercised and unexercised options) under the 2005 Share Option Scheme or any other share option scheme adopted by the Company, in any 12-month period, must not exceed 1% of the shares in issue of the Company.

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

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

(2) the average closing price of the shares as stated in the daily quotation sheets of The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of grant; and

(3) the closing price of the shares as stated in the HKSE's daily quotation sheet on the date of grant.

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

31. SHARE CAPITAL (continued)

2005 Share Option Scheme (continued)

The period within which the options must be exercised, as well as any minimum holding period or performance targets which apply to the options, will be specified by the Board of the Company at the time of grant. The exercise periods for options granted under the 2005 Share Option Scheme shall end no later than 10 years from the date of grant. No options may be granted under the 2005 Share Option Scheme after the date of the 10th anniversary of the adoption of the 2005 Share Option Scheme. The exercise periods for all options granted under the 2005 Share Option Scheme have lapsed.

No new share option was granted during the year (2019: nil) and the Group recognised an equity-settled share option expense of nil (2019: nil) during the year.

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

Details of the share options outstanding are as follows:

	2020		2019	
	Number of share options	**Weighted average exercise price HK$**	Number of share options	Weighted average exercise price HK$
Outstanding at the beginning of the year	**27,030,000**	**12.70**	67,907,000	11.44
Granted during the year	**–**	**–**	–	–
Forfeited during the year	**(3,255,000)**	**12.70**	(9,977,000)	12.70
Expired during the year	**(23,775,000)**	**12.70**	(30,900,000)	9.93
Exercised during the year	**–**	**–**	–	–
Outstanding at the end of the year	**–**	**–**	27,030,000	12.70
Exercisable at the end of the year	**–**	**–**	27,030,000	12.70

No share options had been cancelled or modified during the years ended 31 December 2020 and 2019.

32. RESERVES

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

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

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

As at 31 December 2020, the general reserve fund amounted to RMB57,504 million (2019: RMB57,504 million).

In accordance with the "Temporary Regulation for Safety Expense Financial Management of Higher Risk Industry" and the implementation guidance issued by the MOF of the PRC, the Group is required to accrue a safety fund for its oil and gas exploration and production activities within the PRC by appropriating a portion of its net profit to other reserves based on its annual production from offshore China. Such reserve is reduced for expenses incurred to improve the safety conditions of oil and gas production. When the safety fund is fully utilised, additional expenses incurred for safety production purposes are charged directly to the profit or loss for the year. As of 31 December 2020, the Group's safety fund reserve under the PRC regulations amounted to nil (2019: nil).

33. RELATED PARTY TRANSACTIONS

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

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

As the Group is controlled by CNOOC, transactions with the CNOOC Group are disclosed as related party transactions. The connected transactions or continuing connected transactions defined in Chapter 14A of the Listing Rules in respect of items listed below also constitute related party transactions. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules for continuing connected transactions listed below. The Company entered into a comprehensive framework agreement with CNOOC on 1 November 2019 for the provision (1) by the Group to the CNOOC Group and (2) by the CNOOC Group to the Group, of a range of products and services which may be required and requested from time to time by either party and/or its associates in respect of the continuing connected transactions. The term of the comprehensive framework agreement is for a period of three years from 1 January 2020. The continuing connected transactions under the comprehensive framework agreement and the relevant annual caps for the three years from 1 January 2020 were approved by the independent shareholders of the Company on 21 November 2019. The approved continuing connected transactions are as follows:

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

   a) Provision of exploration and support services

   b) Provision of oil and gas development and support services

   c) Provision of oil and gas production and support services

   d) Provision of sales, management and ancillary services

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

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

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

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

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

Pricing principles

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

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

33. RELATED PARTY TRANSACTIONS (continued)

Pricing principles (continued)

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

(a) government-prescribed price; or

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

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

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

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

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

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

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

	2020	2019
Provision of exploration and support services	8,536	10,284
– Inclusive of amounts capitalised under property, plant and equipment	5,962	6,369
Provision of oil and gas development and support services	36,776	31,723
Provision of oil and gas production and support services (note a)	9,726	9,414
Provision of sales, management and ancillary services (note b)	1,940	1,261
FPSO vessel leases (note c)*	1,249	1,236
	58,227	53,918

* For the right-of-use assets recognised during this period from the lease agreements with CNOOC Group please refer to note 15.

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

The Group did not enter into any transactions in the above category for the years ended 31 December 2020 and 2019.

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

33. RELATED PARTY TRANSACTIONS (continued)

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

	2020	2019
Sales of petroleum and natural gas products (other than long-term sales of natural gas and liquefied natural gas) (note d)	88,843	132,222
Long term sales of natural gas and liquefied natural gas (note e)	14,613	15,425
	103,456	147,647

(iv) Transactions and balances with CNOOC Finance Corporation Limited ("CNOOC Finance") (note f)

(a) Interest income received by the Group

	2020	2019
Interest income from deposits in CNOOC Finance	303	333

(b) Deposits balances made by the Group

	2020	2019
Deposits in CNOOC Finance	23,370	23,380

(v) Balances with the CNOOC Group

	2020	2019
Amount due to CNOOC		
– included in other payables and accrued liabilities	2	3
Amounts due to other related parties		
– included in trade and accrued payables	23,097	20,318
– included in lease liabilities	4,767	5,327
	27,866	25,648
Amounts due from other related parties		
– included in trade receivables	9,508	14,788
– included in other current assets	741	512
	10,249	15,300

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

33. RELATED PARTY TRANSACTIONS (continued)

(vi) Balance with a joint venture

	2020	2019
Amount due from a joint venture		
– included in other current assets	82	77

(vii) Transactions and balances with other state-owned enterprises

The Group enters into extensive transactions covering sales of crude oil and natural gas, purchase of property, plant and equipment and other assets, receiving of services, and making deposits with state-owned enterprises, other than the CNOOC Group, in the normal course of business on terms comparable to those with other non-state-owned enterprises. The purchases of property, plant and equipment and other assets, and receipt of services from these state owned enterprises are individually not significant. The individually significant sales transactions with these state-owned enterprises are disclosed in note 38. In addition, the Group has certain of its cash in bank and time deposits with certain state-owned banks in the PRC as at 31 December 2020, as summarised below:

	2020	2019
Cash and cash equivalents	14,071	22,129
Time deposits with maturity over three months	21,844	221
Specified dismantlement fund accounts (note 21)	9,738	8,860
	45,653	31,210

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

(viii) Key management personnel's remuneration

Key management personnel's remuneration is disclosed in note 9.

Notes:

a) These represent the services for production operations, the provision of various facilities and ancillary services.

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

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

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

e) It is the market practice for sales terms to be determined based on the estimated reserves and production profile of the relevant gas fields. The long term sales contracts usually last for 5 to 25 years.

f) CNOOC Finance is a 31.8% owned associate of the Company and also a subsidiary of CNOOC. The financial services provided by CNOOC Finance to the Group also constitute continuing connected transactions defined in Chapter 14A of the Listing Rules and the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules for the continuing connected transactions. Under the financial services framework agreement with CNOOC Finance dated 21 November 2019, CNOOC Finance continues to provide to the Group settlement, depository, discounting, loans and entrustment loans services. The agreement is effective from 1 January 2020 to 31 December 2022. The depository services were exempted from independent shareholders' approval requirements under the Listing Rules. On 21 November 2019, the Board approved to maintain the maximum daily outstanding balance of deposits and interest (excluding funds placed for the purpose of extending entrustment loans pursuant to the entrustment loan services) placed by the Group with CNOOC Finance for the period from 1 January 2020 to 31 December 2022 with the amount of RMB23,500 million. The Group's actual maximum daily outstanding balance for deposits and interest stated in CNOOC Finance (excluding funds placed for the purpose of extending entrustment loans pursuant to the entrustment loan services) in 2020 did not exceed RMB23,500 million (2019: RMB23,500 million).

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

34. RETIREMENT BENEFITS

All the Group's full-time employees in the PRC are covered by a state-managed retirement benefit plan operated by the government of the PRC, and are entitled to an annual pension. The PRC government is responsible for the pension liabilities to these retired employees. The Group is required to make annual contributions to the state-managed retirement benefit plan at rates ranging from 13% to 16% of the employees' base salaries.

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

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

During the year, the Group's pension costs charged to the consolidated statement of profit or loss and other comprehensive income amounted to RMB900 million (2019: RMB1,075 million).

35. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of profit before tax to cash generated from operations

	2020	2019
Profit before tax	**34,907**	85,649
Adjustments for:		
Interest income	**(1,473)**	(1,067)
Finance costs	**6,190**	5,865
Exchange (gains)/losses, net	**(445)**	213
Share of profits of associates	**(171)**	(459)
Loss/(profit) attributable to a joint venture	**803**	(543)
Investment income	**(2,978)**	(4,632)
Impairment and provision	**5,199**	2,094
Depreciation, depletion and amortisation	**52,306**	57,699
Loss on disposal and write-off of property, plant and equipment	**941**	4,238
Subtotal	**95,279**	149,057
Decrease/(Increase) in trade receivables and other current assets	**5,621**	(3,213)
Decrease/(Increase) in inventories and supplies	**2,248**	(1,304)
(Decrease)/Increase in trade and accrued payables, contract liabilities and other payables and accrued liabilities	**(3,335)**	1,439
Cash generated from operations	**99,813**	145,979

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

35. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Reconciliation of liabilities arising from financing activities

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

	Loans and borrowings (Note 28)	Lease liabilities (Note 29)	Dividend payable	Total
At 1 January 2019	143,751	9,139	–	152,890
Financing cash flows	(1,961)	(1,451)	(28,973)	(32,385)
New lease entered	–	687	–	687
Foreign exchange translation	2,499	(236)	(27)	2,236
Finance costs (Note 8)	5,771	348	–	6,119
Dividends declared	–	–	29,000	29,000
At 31 December 2019	150,060	8,487	–	158,547
At 1 January 2020	**150,060**	**8,487**	**–**	**158,547**
Financing cash flows	**(11,411)**	**(1,619)**	**(25,851)**	**(38,881)**
New lease entered	**–**	**439**	**–**	**439**
Foreign exchange translation	**(8,057)**	**(387)**	**(348)**	**(8,792)**
Finance costs (Note 8)	**5,638**	**399**	**–**	**6,037**
Dividends declared	**–**	**–**	**26,199**	**26,199**
At 31 December 2020	**136,230**	**7,319**	**–**	**143,549**

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

36. COMMITMENTS AND CONTINGENCIES

(i) Capital commitments

As at 31 December 2020, the Group had the following capital commitments, principally for the construction of property, plant and equipment:

	2020	2019
Contracted, but not provided for[1]	**30,856**	64,542

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

The above table includes a commitment of approximately RMB8,854 million (2019: RMB10,528 million) contracted with the CNOOC Group.

Capital commitments of a joint venture:

	2020	2019
Contracted, but not provided for	**800**	344

As at 31 December 2020, the Group had unutilised banking facilities amounting to approximately RMB55,080 million (2019: RMB54,948 million).

(ii) Contingencies

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

The Group is subject to tax in numerous jurisdictions around the world. There are audits in progress and items under review. Difference in positions taken by taxation authorities over the interpretation and application of tax laws and regulations may increase the Group's tax liability. Management of the Company has assessed the possible future outcome of matters that are currently under dispute. Management of the Company believes that an adequate provision for future tax liability has been included in the consolidated financial statements based on available information.

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

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

37. FINANCIAL INSTRUMENTS

Fair value of financial instruments

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

The fair value of the Group's long term bank loans with floating interest rates approximated to the carrying amount as at 31 December 2020 and 2019.

The estimated fair value of the Group's long term guaranteed notes was approximately RMB136,996 million as at 31 December 2020 (2019: RMB154,407 million), which was determined by reference to the market price as at 31 December 2020.

Fair value hierarchy

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

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

Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The Group obtains information from sources of independent price publications, over-the-counter broker quotes and the fund management's quotations as at the reporting date.

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

As at 31 December 2020 and 31 December 2019, the Group held the following financial instruments measured at fair value for each hierarchy respectively:

	31 December 2020	Level 1	Level 2	Level 3
Assets measured at fair value				
Other financial assets – current				
Corporate wealth management products	61,662	–	61,662	–
Money market funds	–	–	–	–
Equity investments				
Non-publicly traded investments – non current	1,176	–	–	1,176
Publicly traded investments – non current*	653	653	–	–
	63,491	653	61,662	1,176

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

37. FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

As at 31 December 2020 and 31 December 2019, the Group held the following financial instruments measured at fair value for each hierarchy respectively: (continued)

	31 December 2019	Level 1	Level 2	Level 3
Assets measured at fair value				
Other financial assets – current				
Corporate wealth management products	107,853	–	107,853	–
Money market funds	6,660	6,660	–	–
Equity investments				
Non-publicly traded investments – non current	1,809	–	–	1,809
Publicly traded investments – non current*	1,127	1,127	–	–
	117,449	7,787	107,853	1,809

* All gains and losses included in other comprehensive income related to financial assets at fair value through other comprehensive income held at the end of the reporting period are reported as fair value change on equity investments designated as at fair value through other comprehensive income.

Financial assets classified within Level 3 are made up of Kerogen Energy Fund invested by the Group. Significant unobservable inputs are used to determine the fair value of the financial assets. As observable prices are not available, the fair value of the financial assets is derived by using valuation techniques, mainly including embedded terms of the instrument, bid offer price as well as valuations based on net asset value using the discounted cash-flow of each project or asset, having applied an appropriate risk factor for the stage of development of the project. The significant unobservable inputs used in the fair value measurement include net asset value, price to net asset value.

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

38. CONCENTRATION OF CUSTOMERS

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

	2020	2019
China Petroleum & Chemical Corporation*	**7,585**	19,126
Castle Peak Power Station	**4,471**	1,476
BP p.l.c.	**2,832**	2,807
Phillips 66	**2,643**	5,197
PetroChina Company Limited*	**2,373**	6,964

* These transactions are with other state-owned enterprises.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

(i) Credit risk and management assessment

As at 31 December 2020, the carrying amounts of the Group's cash and cash equivalents, time deposits with maturity more than three months, trade receivables and other receivables (approximately RMB6,631 million included in other current assets) represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new counterparties, the Group uses an internal credit scoring system to assess the potential counterparty's credit quality and defines credit limits by counterparty. Limits and scoring attributed to counterparties are reviewed twice a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of IFRS 9/HKFRS 9 on trade receivables individually or based on provision matrix, and other receivables individually. In this regard, the Directors of the Company consider that the Group's credit risk is significantly reduced.

Concentrations of credit risk are managed by counterparty and by geographical region. At 31 December 2020, the Group has certain concentrations of credit risk as 6.62% (2019: 1.89%) and 10.27% (2019: 5.83%) of the Group's trade receivables were due from the Group's largest third-party customer and the five largest third-party customers, respectively.

(ii) Oil and gas price risk

Since the Group makes reference to international oil prices to determine its realised oil price, fluctuations in international oil price would have a significant impact on the Group's sales revenue, profit, assets value and cash-flow. In addition, certain of the Group's natural gas sales contracts contain price adjustment provisions. Any changes in international oil prices, inflation rate and domestic natural gas pricing policies may result in changes in natural gas prices, which will affect the Group's profitability.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(iii) Currency risk

Substantially all of the Group's oil and gas sales are denominated in RMB and United States dollars ("US dollars"). Starting from 21 July 2005, China reformed the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. RMB would no longer be pegged to the US dollars. From 1 January 2020 to 31 December 2020, RMB has appreciated by approximately 6.92% (2019: depreciated by approximately 1.62%) against the US dollars. At 31 December 2020, approximately 42% (2019: 52%) of the Group's cash and cash equivalents and time deposits with maturity over three months were denominated in RMB, and the remaining amounts were substantially denominated in US dollars and Hong Kong dollars. The Group also has exposures to currencies other than the US dollars, such as Canadian dollars and British Pounds as such exposures are considered insignificant.

Management has assessed the Group's exposure to foreign currency risk by using a sensitivity analysis on the change in foreign exchange rate of the US dollars, to which the Group is mainly exposed to as at 31 December 2020 and 2019. Based on management's assessment at 31 December 2020, a 5% strengthening/weakening of RMB against US dollars would have increased/decreased the profit for the year of the Group by 0.35% (2019: 0.04%) and the equity of the Group by 0.51% (2019: 0.47%). This analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to the foreign currency balances to which the Group has significant exposure with all other variables held constant. The analysis is performed on the same basis for 2019.

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

(iv) Interest rate risk

The interest rate risk is closely monitored by the Group's senior management. As at the end of 2020, the interest rates for 91.34% of the Group's debts were fixed. Apart from borrowing for General loan, Tangguh LNG Project and Arctic LNG Project, all of the Group's long term debts are fixed rate. The weighted average term of the Group's debt balance outstanding was approximately 8.58 years. The fixed interest rates can reduce the volatility of finance costs under uncertain environments and the Group's exposure to changes in interest rates is not expected to be material.

(v) Liquidity risk

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

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

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

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(vi) Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may return capital to shareholders, raise new debt or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 2019.

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

	2020	2019
Loans and borrowings	**136,230**	150,060
Lease liability	**7,319**	8,487
Total Equity	**433,930**	448,226
Total capital	**577,479**	606,773
Gearing ratio	**24.9%**	26.1%

40. CHARGES ON ASSETS

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

41. SUBSEQUENT EVENTS

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

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

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2020	2019
NON-CURRENT ASSETS		
Property, plant and equipment	–	–
Investments in subsidiaries	168,721	177,497
Right-of-use assets	19	7
Total non-current assets	168,740	177,504
CURRENT ASSETS		
Other current assets	–	3
Amounts due from subsidiaries	2,935	10,780
Loans to a subsidiary	24,639	4,954
Other financial assets	–	2,354
Time deposits with maturity over three months	18,605	–
Cash and cash equivalents	16,670	19,379
Total current assets	62,849	37,470
CURRENT LIABILITIES		
Loans and borrowings	–	–
Lease liabilities	19	7
Other payables and accrued liabilities	66	440
Total current liabilities	85	447
NET CURRENT ASSETS	62,764	37,023
NET ASSETS	231,504	214,527
EQUITY		
Equity attributable to owners of the parent		
Issued capital	43,081	43,081
Reserves	188,423	171,446
TOTAL EQUITY	231,504	214,527

Xu Keqiang
Director

Hu Guangjie
Director

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

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

A summary of the Company's reserves is as follows:

	Cumulative translation reserve	Other reserves	Retained earnings	Total equity
Balance at 1 January 2019	(6,471)	5,558	151,539	150,626
Profit for the year	–	–	45,492	45,492
Other comprehensive income, net of tax	4,328	–	–	4,328
Total comprehensive income	4,328	–	45,492	49,820
2018 final dividend	–	–	(15,710)	(15,710)
2019 interim dividend	–	–	(13,290)	(13,290)
Balance at 31 December 2019	(2,143)	5,558	168,031*	171,446
Balance at 1 January 2020	**(2,143)**	**5,558**	**168,031**	**171,446**
Profit for the year	**–**	**–**	**57,356**	**57,356**
Other comprehensive expense, net of tax	**(14,180)**	**–**	**–**	**(14,180)**
Total comprehensive (expense)/ income	**(14,180)**	**–**	**57,356**	**43,176**
2019 final dividend	**–**	**–**	**(18,352)**	**(18,352)**
2020 interim dividend	**–**	**–**	**(7,847)**	**(7,847)**
Balance at 31 December 2020	**(16,323)**	**5,558**	**199,188***	**188,423**

* As at 31 December 2020, the distributable retained earnings of the Company amounted to approximately RMB199,188 million (2019: RMB168,031 million).

43. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 25 March 2021.

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

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

(a) Reserve quantity information

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

For the years 2020, 2019 and 2018, approximately 62%, 66% and 69%, respectively, of our total proved reserves were evaluated by us, and the remaining were evaluated by independent third parties.

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

We established the Reserve Management Committee, or RMC, which is led by one of our Executive Vice Presidents and comprises the general managers of the relevant departments. The RMC's main responsibilities are to:

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

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

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

The RMC delegates its daily operation to our Reserves Office, which is led by our Chief Reserve Supervisor. The Reserves Office is mainly responsible for supervising reserves estimates and auditing. It reports to the RMC periodically and is independent from operating divisions such as the exploration, development and production departments. Our Chief Reserve Supervisor has 25 years' experience in oil and gas industry.

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

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

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

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

(a) Reserve quantity information (continued)

Proved developed and undeveloped reserves:

	PRC		Asia (excluding PRC)		Oceania		Africa		Canada				North America (excluding Canada)		South America		Europe		Total			
	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Synthetic oil (mmbls)	Bitumen (mmbls)	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Synthetic oil (mmbls)	Bitumen (mmbls)
Consolidated entities																						
31 December 2017	1,627	5,911	70	885	11	297	137	-	-	24	786	118	282	421	80	-	88	5	2,295	7,543	786	118
Purchase/(Disposal) of reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Discoveries and extensions	213	519	-	-	-	-	1	-	-	-	13	1	28	47	-	-	11	3	253	570	13	1
Improved Recovery	-	4	-	-	-	-	-	-	-	-	-	-	5	1	-	-	-	-	5	5	-	-
Production	(257)	(305)	(22)	(60)	(2)	(41)	(22)	-	-	(13)	(6)	(17)	(19)	(46)	(1)	-	(27)	(6)	(350)	(470)	(6)	(17)
Revisions of prior estimates	200	(21)	6	17	-	23	(2)	-	-	(11)	4	(14)	(32)	(32)	1	-	38	5	211	(20)	4	(14)
31 December 2018	1,783	6,108	54	842	9	280	114	-	-	-	796	88	263	391	79	-	111	7	2,414	7,627	796	88
Purchase/(Disposal) of reserves	-	96	-	-	-	-	-	-	-	-	-	-	(1)	(3)	-	-	-	-	(1)	93	-	-
Discoveries and extensions	175	639	-	-	-	-	-	-	-	-	26	1	22	69	67	-	3	1	268	709	26	1
Improved Recovery	-	2	-	-	-	-	-	-	-	-	-	-	5	1	-	-	-	-	5	3	-	-
Production	(265)	(361)	(16)	(53)	(1)	(34)	(44)	-	-	(1)	(7)	(19)	(23)	(50)	(1)	-	(23)	(3)	(374)	(502)	(7)	(19)
Revisions of prior estimates	207	(125)	19	10	1	15	14	-	-	1	(36)	83	(17)	(3)	(1)	-	16	-	239	(102)	(36)	83
31 December 2019	1,900	6,358	56	799	9	260	84	-	-	-	780	154	250	405	145	-	108	4	2,550	7,827	780	154
Purchase/(Disposal) of reserves	-	-	126	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	126	-	-	-
Discoveries and extensions	189	807	-	-	-	-	-	-	-	-	21	1	2	11	43	-	1	-	235	818	21	1
Improved Recovery	3	16	-	-	-	-	-	-	-	-	-	-	-	-	89	-	-	-	93	16	-	-
Production	(284)	(422)	(18)	(56)	(2)	(51)	(33)	-	-	-	(7)	(13)	(25)	(47)	(7)	-	(20)	(3)	(388)	(578)	(7)	(13)
Revisions of prior estimates	144	104	35	(28)	(1)	(24)	27	-	-	-	3	(48)	(62)	(179)	17	-	(17)	-	143	(127)	3	(48)
31 December 2020	1,953	6,863	199	715	6	185	77	-	-	-	797	94	165	191	287	-	72	2	2,758	7,956	797	94
Enterprise's share of equity method investees:																						
31 December 2017	1	6	-	-	-	-	-	-	-	-	-	-	-	-	244	701	-	-	245	707	-	-
Purchase/(Disposal) of reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Discoveries and extensions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	11	36	-	-	11	36	-	-
Improved Recovery	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-	-	2	-	-
Production	-	(2)	-	-	-	-	-	-	-	-	-	-	-	-	(10)	(62)	-	-	(10)	(63)	-	-
Revisions of prior estimates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12	(19)	-	-	12	(19)	-	-
31 December 2018	1	5	-	-	-	-	-	-	-	-	-	-	-	-	258	657	-	-	258	661	-	-
Purchase/(Disposal) of reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Discoveries and extensions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	20	46	-	-	20	46	-	-
Improved Recovery	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-	-	1	-	-
Production	-	(2)	-	-	-	-	-	-	-	-	-	-	-	-	(10)	(57)	-	-	(11)	(59)	-	-
Revisions of prior estimates	1	3	-	-	-	-	-	-	-	-	-	-	-	-	1	(33)	-	-	2	(30)	-	-
31 December 2019	1	6	-	-	-	-	-	-	-	-	-	-	-	-	269	614	-	-	270	620	-	-
Purchase/(Disposal) of reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Discoveries and extensions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8	36	-	-	8	36	-	-
Improved Recovery	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Production	-	(2)	-	-	-	-	-	-	-	-	-	-	-	-	(10)	(52)	-	-	(10)	(54)	-	-
Revisions of prior estimates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3	(19)	-	-	3	(18)	-	-
31 December 2020	1	5	-	-	-	-	-	-	-	-	-	-	-	-	270	578	-	-	271	584	-	-
Total consolidated and equity Interests in reserves																						
31 December 2018	1,784	6,112	54	842	9	280	114	-	-	-	796	88	263	391	337	657	111	7	2,672	8,288	796	88
31 December 2019	1,901	6,365	56	799	9	260	84	-	-	-	780	154	250	405	414	614	108	4	2,820	8,447	780	154
31 December 2020	1,953	6,868	199	715	6	185	77	-	-	-	797	94	165	191	557	578	72	2	3,029	8,540	797	94

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

(a) Reserve quantity information (continued)

Proved developed reserves:

	PRC		Asia (excluding PRC)		Oceania		Africa		Canada				North America (excluding Canada)		South America		Europe		Total			
	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Synthetic oil (mmbls)	Bitumen (mmbls)	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Synthetic oil (mmbls)	Bitumen (mmbls)
Consolidated entities																						
31 December 2018	902	1,544	25	531	8	260	102	–	–	–	136	–	143	275	1	–	98	3	1,279	2,614	136	–
31 December 2019	910	1,730	30	473	8	241	80	–	–	–	122	95	166	278	26	–	97	1	1,317	2,723	122	95
31 December 2020	1,047	2,514	124	419	5	169	74	–	–	–	120	91	143	180	73	–	65	–	1,531	3,282	120	91
Enterprise's share of equity method investees:																						
31 December 2018	–	5	–	–	–	–	–	–	–	–	–	–	–	–	135	486	–	–	136	491	–	–
31 December 2019	1	6	–	–	–	–	–	–	–	–	–	–	–	–	139	445	–	–	140	452	–	–
31 December 2020	1	5	–	–	–	–	–	–	–	–	–	–	–	–	141	385	–	–	142	390	–	–

Proved undeveloped reserves:

	PRC		Asia (excluding PRC)		Oceania		Africa		Canada				North America (excluding Canada)		South America		Europe		Total			
	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Synthetic oil (mmbls)	Bitumen (mmbls)	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Synthetic oil (mmbls)	Bitumen (mmbls)
Consolidated entities																						
31 December 2018	882	4,564	29	310	–	20	11	–	–	–	660	88	120	116	78	–	13	4	1,135	5,013	660	88
31 December 2019	989	4,628	26	326	–	20	4	–	–	–	657	58	84	127	119	–	11	4	1,233	5,105	657	58
31 December 2020	906	4,349	76	296	–	16	4	–	–	–	677	3	22	11	214	–	6	2	1,228	4,675	677	3
Enterprise's share of equity method investees:																						
31 December 2018	–	–	–	–	–	–	–	–	–	–	–	–	–	–	122	171	–	–	122	171	–	–
31 December 2019	–	–	–	–	–	–	–	–	–	–	–	–	–	–	130	169	–	–	130	169	–	–
31 December 2020	–	–	–	–	–	–	–	–	–	–	–	–	–	–	129	193	–	–	129	193	–	–

31 December 2020
(All amounts expressed in millions of Renminbi unless otherwise stated)

(b) Results of operations

	2018 Consolidated entities								
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Net sales to customers	134,993	12,567	1,567	10,025	4,690	8,573	529	12,928	185,872
Operating expenses	(14,870)	(2,098)	(438)	(933)	(3,183)	(1,221)	(198)	(1,327)	(24,268)
Taxes other than income tax	(7,823)	–	(192)	(359)	(155)	(438)	(89)	(16)	(9,072)
Exploration expense	(5,054)	(125)	(1)	(441)	(5,660)	(849)	(346)	(514)	(12,990)
Accretion expense	(1,935)	(3)	–	(133)	(150)	(93)	(2)	(244)	(2,560)
Depreciation, depletion and amortization, and impairment	(25,805)	(7,648)	(199)	(6,919)	(2,719)	(3,721)	(91)	(3,389)	(50,491)
Special oil gain levy	(2,599)	–	–	–	–	–	–	–	(2,599)
	76,907	2,693	737	1,240	(7,177)	2,251	(197)	7,438	83,892
Income tax expense	(19,227)	(1,292)	(221)	(621)	1,880	(137)	203	(3,022)	(22,437)
Result of operations	57,680	1,401	516	619	(5,297)	2,114	6	4,416	61,455

	2018 Enterprise's share of equity method investees								
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Net sales to customers	208	–	–	–	–	–	3,651	–	3,859
Operating expenses	(101)	–	–	–	–	–	(1,554)	–	(1,655)
Taxes other than income tax	(13)	–	–	–	–	–	(1,320)	–	(1,333)
Exploration expense	–	–	–	–	–	–	(22)	–	(22)
Accretion expense	(9)	–	–	–	–	–	(69)	–	(78)
Depreciation, depletion and amortization, and impairment	(132)	–	–	–	–	–	(11,877)	–	(12,009)
Special oil gain levy	–	–	–	–	–	–	–	–	–
	(47)	–	–	–	–	–	(11,191)	–	(11,238)
Income tax expense	–	–	–	–	–	–	–	–	–
Result of operations	(47)	–	–	–	–	–	(11,191)	–	(11,238)
Total result of operations for producing activities	57,633	1,401	516	619	(5,297)	2,114	(11,185)	4,416	50,217

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

(b) Results of operations (continued)

	2019 Consolidated entities								
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Net sales to customers	139,386	9,728	1,389	20,016	7,117	9,080	507	9,950	197,173
Operating expenses	(15,606)	(1,044)	(517)	(1,718)	(3,062)	(1,426)	(178)	(1,203)	(24,754)
Taxes other than income tax	(7,826)	–	(142)	(514)	(111)	(389)	(67)	(45)	(9,094)
Exploration expense	(6,480)	(55)	(3)	(1,311)	(2,666)	(198)	(292)	(1,337)	(12,342)
Accretion expense	(2,032)	(6)	–	(225)	(151)	(112)	(13)	(256)	(2,795)
Depreciation, depletion and amortization, and impairment	(27,921)	(6,733)	(178)	(13,362)	(2,324)	(6,706)	(99)	(1,962)	(59,285)
Special oil gain levy	(894)	–	–	–	–	–	–	–	(894)
	78,627	1,890	549	2,886	(1,197)	249	(142)	5,147	88,009
Income tax expense	(19,656)	(755)	(165)	(1,833)	446	342	15	(2,393)	(23,999)
Result of operations	58,971	1,135	384	1,053	(751)	591	(127)	2,754	64,010

	2019 Enterprise's share of equity method investees								
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Net sales to customers	198	–	–	–	–	–	9,159	–	9,357
Operating expenses	(106)	–	–	–	–	–	(753)	–	(859)
Taxes other than income tax	(11)	–	–	–	–	–	(976)	–	(987)
Exploration expense	–	–	–	–	–	–	(141)	–	(141)
Accretion expense	(9)	–	–	–	–	–	(72)	–	(81)
Depreciation, depletion and amortization, and impairment`	(21)	–	–	–	–	–	(1,598)	–	(1,619)
Special oil gain levy	–	–	–	–	–	–	–	–	–
	51	–	–	–	–	–	5,619	–	5,670
Income tax expense	(7)	–	–	–	–	–	–	–	(7)
Result of operations	44	–	–	–	–	–	5,619	–	5,663
Total result of operations for producing activities	59,015	1,135	384	1,053	(751)	591	5,492	2,754	69,673

31 December 2020
(All amounts expressed in millions of Renminbi unless otherwise stated)

(b) Results of operations (continued)

	2020 Consolidated entities								
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Net sales to customers	104,904	6,692	1,709	9,538	3,196	6,623	1,557	5,382	139,601
Operating expenses	(15,799)	(1,110)	(632)	(1,622)	(2,377)	(1,040)	(734)	(930)	(24,244)
Taxes other than income tax	(5,846)	(247)	(169)	(338)	(86)	(333)	(37)	(64)	(7,120)
Exploration expense	(4,838)	(11)	–	(13)	(224)	(246)	(134)	(135)	(5,601)
Accretion expense	(1,967)	(18)	–	(162)	(182)	(85)	–	(223)	(2,637)
Depreciation, depletion and amortization, and impairment	(29,937)	(3,432)	(229)	(9,492)	(2,041)	(11,316)	(635)	(1,597)	(58,679)
Special oil gain levy	(79)	–	–	–	–	–	–	–	(79)
	46,438	1,874	679	(2,089)	(1,714)	(6,397)	17	2,433	41,241
Income tax expense	(11,610)	(755)	(204)	1,006	640	1,789	–	(633)	(9,767)
Result of operations	34,828	1,119	475	(1,083)	(1,074)	(4,608)	17	1,800	31,474

	2020 Enterprise's share of equity method investees								
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Net sales to customers	194	–	–	–	–	–	2,036	–	2,230
Operating expenses	(94)	–	–	–	–	–	(1,266)	–	(1,360)
Taxes other than income tax	(9)	–	–	–	–	–	(197)	–	(206)
Exploration expense	–	–	–	–	–	–	(6)	–	(6)
Accretion expense	(10)	–	–	–	–	–	(78)	–	(88)
Depreciation, depletion and amortization, and impairment	(38)	–	–	–	–	–	(1,636)	–	(1,674)
Special oil gain levy	–	–	–	–	–	–	–	–	–
	43	–	–	–	–	–	(1,147)	–	(1,104)
Income tax expense	(6)	–	–	–	–	–	–	–	(6)
Result of operations	37	–	–	–	–	–	(1,147)	–	(1,110)
Total result of operations for producing activities	34,865	1,119	475	(1,083)	(1,074)	(4,608)	(1,130)	1,800	30,364

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

(c) Capitalized costs

	2018 Consolidated entities								
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Proved oil and gas properties	471,242	46,634	2,558	101,050	50,554	64,875	3,856	20,402	761,171
Unproved oil and gas properties	18,908	1,645	2	27,835	77,824	35,502	9,471	33,519	204,706
Accumulated depreciation, depletion and amortization	(324,046)	(36,000)	(1,692)	(78,819)	(36,785)	(37,164)	(1,088)	(45,652)	(561,246)
Net capitalized costs	166,104	12,279	868	50,066	91,593	63,213	12,239	8,269	404,631

	2018 Enterprise's share of equity method investees								
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Proved oil and gas properties	2,159	–	–	–	–	–	40,661	–	42,820
Unproved oil and gas properties	–	–	–	–	–	–	4,675	–	4,675
Accumulated depreciation, depletion and amortization	(2,100)	–	–	–	–	–	(13,956)	–	(16,056)
Net capitalized costs	59	–	–	–	–	–	31,380	–	31,439

	2019 Consolidated entities								
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Proved oil and gas properties	520,332	52,968	2,597	109,525	45,485	75,140	11,852	23,977	841,876
Unproved oil and gas properties	23,139	2,101	2	24,149	85,849	31,749	13,189	33,886	214,064
Accumulated depreciation, depletion and amortization	(348,621)	(42,497)	(1,830)	(92,951)	(39,509)	(43,677)	(1,204)	(48,299)	(618,588)
Net capitalized costs	194,850	12,572	769	40,723	91,825	63,212	23,837	9,564	437,352

	2019 Enterprise's share of equity method investees								
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Proved oil and gas properties	2,252	–	–	–	–	–	41,827	–	44,079
Unproved oil and gas properties	–	–	–	–	–	–	6,627	20,565	27,192
Accumulated depreciation, depletion and amortization	(2,122)	–	–	–	–	–	(15,804)	–	(17,926)
Net capitalized costs	130	–	–	–	–	–	32,650	20,565	53,345

31 December 2020
(All amounts expressed in millions of Renminbi unless otherwise stated)

(c) Capitalized costs (continued)

	2020 Consolidated entities								
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Proved oil and gas properties	572,782	60,047	2,429	106,271	33,527	76,058	22,956	18,295	892,365
Unproved oil and gas properties	26,187	576	2	19,356	91,106	26,837	6,172	35,891	206,127
Accumulated depreciation, depletion and amortization	(377,546)	(42,924)	(1,856)	(96,475)	(39,037)	(51,042)	(1,764)	(45,408)	(656,052)
Net capitalized costs	221,423	17,699	575	29,152	85,596	51,853	27,364	8,778	442,440

	2020 Enterprise's share of equity method investees								
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Proved oil and gas properties	2,252	–	–	–	–	–	41,032	–	43,284
Unproved oil and gas properties	–	–	–	–	–	–	6,264	21,016	27,280
Accumulated depreciation, depletion and amortization	(2,160)	–	–	–	–	–	(24,732)	–	(26,892)
Net capitalized costs	92	–	–	–	–	–	22,564	21,016	43,672

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

	2018 Consolidated entities								
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Acquisition costs:									
– Proved	–	–	–	–	–	–	–	–	–
– Unproved	–	–	–	–	–	–	264	–	264
Exploration costs	10,075	181	1	357	246	178	846	531	12,415
Development costs*	26,801	6,158	–	8,263	463	7,117	2,215	176	51,193
Total costs incurred	36,876	6,339	1	8,620	709	7,295	3,325	707	63,872

	2018 Enterprise's share of equity method investees								
	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Acquisition costs:									
– Proved	–	–	–	–	–	–	–	–	–
– Unproved	–	–	–	–	–	–	–	–	–
Exploration costs	–	–	–	–	–	–	32	–	32
Development costs*	–	–	–	–	–	–	2,455	–	2,455
Total costs incurred	–	–	–	–	–	–	2,487	–	2,487

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

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

2019 Consolidated entities	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Acquisition costs:									
– Proved	833	–	–	–	–	–	–	–	833
– Unproved	5,185	–	–	–	–	–	5,619	–	10,804
Exploration costs	14,974	87	1	121	291	112	1,192	1,465	18,243
Development costs*	41,571	6,281	–	3,220	3,737	6,242	4,845	2,802	68,698
Total costs incurred	62,563	6,368	1	3,341	4,028	6,354	11,656	4,267	98,578

2019 Enterprise's share of equity method investees	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Acquisition costs:									
– Proved	–	–	–	–	–	–	–	–	–
– Unproved	–	–	–	–	–	–	–	19,075	19,075
Exploration costs	–	–	–	–	–	–	252	–	252
Development costs*	92	–	–	–	–	–	2,230	1,490	3,812
Total costs incurred	92	–	–	–	–	–	2,482	20,565	23,139

2020 Consolidated entities	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Acquisition costs:									
– Proved	–	4,418	–	–	–	–	–	–	4,418
– Unproved	–	–	–	–	–	–	–	–	–
Exploration costs	11,686	17	–	84	312	974	783	318	14,174
Development costs*	49,192	4,942	–	616	1,223	2,808	4,617	1,022	64,420
Total costs incurred	60,878	9,377	–	700	1,535	3,782	5,400	1,340	83,012

2020 Enterprise's share of equity method investees	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Acquisition costs:									
– Proved	–	–	–	–	–	–	–	–	–
– Unproved	–	–	–	–	–	–	–	–	–
Exploration costs	–	–	–	–	–	–	76	–	76
Development costs*	–	–	–	–	–	–	2,024	1,887	3,911
Total costs incurred	–	–	–	–	–	–	2,100	1,887	3,987

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

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

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

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

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

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

Present value of estimated future net cash flows:

					2018 Consolidated entities					
	Notes	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Future cash inflows	(1)	1,265,804	56,121	10,388	53,962	339,668	125,898	38,104	53,669	1,943,614
Future production costs		(435,664)	(23,068)	(2,576)	(10,929)	(227,445)	(51,544)	(14,271)	(18,333)	(783,830)
Future development costs	(2)	(233,501)	(3,990)	(1,792)	(8,373)	(43,197)	(15,186)	(6,539)	(8,939)	(321,517)
Future income taxes		(118,666)	(9,665)	(1,507)	(4,895)	–	(5,537)	(1,616)	(9,882)	(151,768)
Future net cash flows	(3)	477,973	19,398	4,513	29,765	69,026	53,631	15,678	16,515	686,499
10% discount factor		(174,025)	(7,780)	(1,044)	(4,375)	(52,665)	(20,690)	(6,481)	(3,364)	(270,424)
Standardised measure of discounted future net cash flows		303,948	11,618	3,469	25,390	16,361	32,941	9,197	13,151	416,075

					2018 Enterprise's share of equity method investees					
	Notes	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Future cash inflows	(1)	509	–	–	–	–	–	116,334	–	116,843
Future production costs		(282)	–	–	–	–	–	(39,352)	–	(39,634)
Future development costs	(2)	(174)	–	–	–	–	–	(12,577)	–	(12,751)
Future income taxes		–	–	–	–	–	–	(14,202)	–	(14,202)
Future net cash flows	(3)	53	–	–	–	–	–	50,203	–	50,256
10% discount factor		36	–	–	–	–	–	(27,336)	–	(27,300)
Standardised measure of discounted future net cash flows		89	–	–	–	–	–	22,867	–	22,956
Total standardised measure of discounted future net cash flow		304,037	11,618	3,469	25,390	16,361	32,941	32,064	13,151	439,031

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

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

2019
Consolidated entities

	Notes	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Future cash inflows	(1)	1,271,208	67,935	9,746	37,014	337,576	98,597	61,932	46,503	1,930,511
Future production costs		(406,482)	(27,631)	(2,595)	(10,012)	(205,623)	(41,739)	(22,611)	(13,542)	(730,235)
Future development costs	(2)	(218,067)	(12,807)	(1,565)	(7,383)	(46,306)	(11,633)	(13,163)	(8,949)	(319,873)
Future income taxes		(116,697)	(8,320)	(1,383)	–	–	(4)	(2,052)	(8,998)	(137,454)
Future net cash flows	(3)	529,962	19,178	4,204	19,619	85,646	45,222	24,107	15,015	742,952
10% discount factor		(196,568)	(7,252)	(916)	(2,153)	(66,281)	(15,609)	(8,444)	(3,201)	(300,424)
Standardised measure of discounted future net cash flows		333,394	11,926	3,288	17,466	19,365	29,613	15,663	11,814	442,529

2019
Enterprise's share of equity method investees

	Notes	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Future cash inflows	(1)	774	–	–	–	–	–	105,608	–	106,382
Future production costs		(318)	–	–	–	–	–	(31,515)	–	(31,833)
Future development costs	(2)	(240)	–	–	–	–	–	(13,541)	–	(13,781)
Future income taxes		–	–	–	–	–	–	(10,974)	–	(10,974)
Future net cash flows	(3)	215	–	–	–	–	–	49,578	–	49,794
10% discount factor		31	–	–	–	–	–	(28,372)	–	(28,341)
Standardised measure of discounted future net cash flows		246	–	–	–	–	–	21,206	–	21,452
Total standardised measure of discounted future net cash flow		333,640	11,926	3,288	17,466	19,365	29,613	36,869	11,814	463,982

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

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

2020 Consolidated entities

	Notes	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Future cash inflows	(1)	964,397	72,286	5,322	21,097	204,691	42,177	75,883	19,420	1,405,273
Future production costs		(319,368)	(28,704)	(1,497)	(8,919)	(165,730)	(20,380)	(35,618)	(8,443)	(588,659)
Future development costs	(2)	(204,411)	(13,535)	(983)	(4,612)	(35,995)	(4,925)	(14,761)	(7,630)	(286,852)
Future income taxes		(70,878)	(10,763)	(581)	–	–	(41)	(1,953)	–	(84,216)
Future net cash flows	(3)	369,740	19,284	2,261	7,566	2,966	16,831	23,551	3,347	445,546
10% discount factor		(142,949)	(7,126)	(346)	(691)	(7,945)	(4,136)	(8,369)	996	(170,566)
Standardised measure of discounted future net cash flows		226,791	12,158	1,915	6,875	(4,979)	12,695	15,182	4,343	274,980

2020 Enterprise's share of equity method investees

	Notes	PRC	Asia (excluding PRC)	Oceania	Africa	Canada	North America (excluding Canada)	South America	Europe	Total
Future cash inflows	(1)	544	–	–	–	–	–	66,673	–	67,217
Future production costs		(319)	–	–	–	–	–	(27,583)	–	(27,902)
Future development costs	(2)	(224)	–	–	–	–	–	(10,811)	–	(11,035)
Future income taxes		–	–	–	–	–	–	(1,510)	–	(1,510)
Future net cash flows	(3)	1	–	–	–	–	–	26,769	–	26,770
10% discount factor		60	–	–	–	–	–	(15,440)	–	(15,380)
Standardised measure of discounted future net cash flows		61	–	–	–	–	–	11,329	–	11,390
Total standardised measure of discounted future net cash flow		226,852	12,158	1,915	6,875	(4,979)	12,695	26,511	4,343	286,370

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

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

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

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

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

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

	2018		
	Consolidated Total	**Equity share of equity method investee**	**Consolidated and equity share of equity method investee**
Standardised measure, beginning of year	241,904	13,341	255,245
Sales of production, net of royalties and production costs	(152,494)	(872)	(153,366)
Net change in prices, net of royalties and production costs	210,479	5,771	216,250
Extensions discoveries and improved recovery, net of related future costs	65,730	1,743	67,473
Change in estimated future development costs	(73,551)	(1,754)	(75,305)
Development costs incurred during the year	50,833	2,552	53,385
Revisions in quantity estimates	38,365	850	39,215
Accretion of discount	30,145	2,142	32,287
Net change in income taxes	(51,384)	941	(50,443)
Purchase of properties	–	–	–
Changes in timing and other	56,048	(1,758)	54,290
Standardised measure, end of year	416,075	22,956	439,031

	2019		
	Consolidated Total	**Equity share of equity method investee**	**Consolidated and equity share of equity method investee**
Standardised measure, beginning of year	416,075	22,956	439,031
Sales of production, net of royalties and production costs	(163,282)	(7,604)	(170,886)
Net change in prices, net of royalties and production costs	(2,633)	(557)	(3,190)
Extensions discoveries and improved recovery, net of related future costs	69,736	2,388	72,125
Change in estimated future development costs	(16,430)	(7,787)	(24,217)
Development costs incurred during the year	34,193	16,201	50,394
Revisions in quantity estimates	43,404	(42)	43,363
Accretion of discount	52,330	2,991	55,321
Net change in income taxes	12,169	1,881	14,050
Purchase of properties	2,789	–	2,789
Changes in timing and other	(5,822)	(8,976)	(14,797)
Standardised measure, end of year	442,529	21,452	463,982

31 December 2020
(All amounts expressed in millions of Renminbi unless otherwise stated)

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

	2020		
	Consolidated Total	Equity share of equity method investee	Consolidated and equity share of equity method investee
Standardised measure, beginning of year	442,529	21,452	463,982
Sales of production, net of royalties and production costs	(108,161)	(3,911)	(112,072)
Net change in prices, net of royalties and production costs	(207,451)	(19,639)	(227,090)
Extensions discoveries and improved recovery, net of related future costs	53,325	653	53,978
Change in estimated future development costs	(31,412)	(5,356)	(36,768)
Development costs incurred during the year	63,274	14,596	77,870
Revisions in quantity estimates	19,800	1,228	21,028
Accretion of discount	49,640	2,445	52,085
Net change in income taxes	30,843	3,751	34,594
Purchase of properties	9,360	–	9,360
Changes in timing and other	(46,765)	(3,831)	(50,596)
Standardised measure, end of year	274,982	11,388	286,371

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting (the "**AGM**") of the shareholders of CNOOC Limited (the "**Company**") will be held on 21 May 2021, at 3:00 p.m. at Grand Hyatt Hong Kong, 1 Harbour Road, Wan Chai, Hong Kong, for the following purposes:

A. As ordinary business, to consider and, if thought fit, pass with or without amendments, the following ordinary resolutions:

1. To receive and consider the audited financial statements together with the Report of the Directors and Independent Auditor's Report thereon for the year ended 31 December 2020.

2. To declare a final dividend for the year ended 31 December 2020.

3. To re-elect Mr. Wang Dongjin as a Non-executive Director of the Company.

Wang Dongjin

Born in 1962, Mr. Wang is a professor-level senior engineer and received a Bachelor of Science degree in Petroleum Drilling from Development Department of China University of Petroleum and a Doctor of Science degree in Petroleum Engineering Management from China University of Petroleum-Beijing in 2012. From July 1995 to December 1997, he was appointed as Deputy Director-General of Jiangsu Petroleum Exploration Bureau. From December 1997 to October 2002, he was appointed as Vice President of China National Oil & Gas Exploration and Development Corporation ("**CNODC**"). From December 2000 to October 2002, he also served as President of CNPC International (Kazakhstan) Ltd. and President of AktobeMunai Gas Corp. From October 2002 to September 2008, he served as President of CNODC. From January 2004 to September 2008, he was appointed as Assistant President of China National Petroleum Corporation ("**CNPC**") and Vice Chairman of CNODC. From September 2008 to March 2018, he served as Vice President of CNPC. From May 2011 to May 2014, he was concurrently appointed as Director of PetroChina Company Limited ("**PetroChina**"). From July 2013 to March 2018, he was concurrently appointed as President of PetroChina. From May 2014 to March 2018, he served as Vice Chairman of PetroChina. In March 2018, Mr. Wang was appointed as a Director of CNOOC. From October 2018 to October 2019, Mr. Wang was appointed as President of CNOOC. In October 2019, Mr. Wang was appointed as Chairman of CNOOC. On 27 April 2018, Mr. Wang was appointed as a Non-executive Director of the Company. From 27 April 2018 to 29 September 2020, Mr. Wang Dongjin served as a member of the Remuneration Committee of the Company. From 5 December 2018 to 18 November 2019, Mr. Wang was appointed as the Vice Chairman of the Company. Mr. Wang has been appointed as Chairman of the Board and Chairman of the Nomination Committee of the Company with effect from 18 November 2019.

Save as aforesaid, Mr. Wang does not have any relationship with any other Director, senior management, substantial shareholder or controlling shareholder of the Company.

Mr. Wang has no interest in the Company's securities within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**").

If re-elected, Mr. Wang's appointment shall continue for a period of 36 months and would be renewed every 36 months as determined by the Board or the shareholders of the Company, subject to one month's notice of termination by either party. Mr. Wang is subject to the provisions of his service agreement and the retirement provisions in the Articles of Association of the Company (the "**Articles**"). The Company does not pay him any Director's fee. The Remuneration Committee of the Company will review the level of Directors' emoluments and make recommendation to the Board for adjustments if necessary.

There is no other information required to be disclosed pursuant to any of the requirements of Rule 13.51(2)(h) to 13.51(2)(v) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), nor are there any other matters to be brought to the attention of the shareholders of the Company.

4. To re-elect Mr. Li Yong as a Non-executive Director of the Company.

Li Yong
Born in 1963, Mr. Li is a senior engineer. He received a Bachelor of Science degree in Petroleum Engineering from Southwest Petroleum Institute and an MBA degree from Peking University. From April 2003 to October 2005, he served as Vice General Manager of Tianjin Branch of CNOOC China Limited. From October 2005 to April 2009, he served as Executive Vice President of China Oilfield Services Limited ("**COSL**"). From April 2009 to September 2010, he served as President of COSL. From September 2010 to June 2016, he served as Chief Executive Officer and President of COSL. From June 2016 to March 2017, he served as Assistant President of CNOOC, Executive Vice President of the Company, Director of Bohai Petroleum Administration Bureau and General Manager of Tianjin Branch of CNOOC China Limited. He also served as a Director of CNOOC International Limited from June 2016 to May 2017. From March 2017 to September 2020, he served as Vice President of China Petrochemical Corporation. From May 2018 to September 2020, he also served as Director of China Petroleum & Chemical Corporation. In September 2020, Mr. Li served as Director and President of CNOOC. Mr. Li has been appointed as the Vice Chairman of the Board, a Non-executive Director and a member of the Remuneration Committee of the Company with effect from 29 September 2020.

Save as aforesaid, Mr. Li does not have any relationship with any other Director, senior management, substantial shareholder or controlling shareholder of the Company.

Mr. Li has no interest in the Company's securities within the meaning of Part XV of the SFO.

If re-elected, Mr. Li's appointment shall continue for a period of 36 months and would be renewed every 36 months as determined by the Board or the shareholders of the Company, subject to one month's notice of termination by either party. Mr. Li is subject to the provisions of his service agreement and the retirement provisions in the Articles. The Company does not pay him any Director's fee. The Remuneration Committee of the Company will review the level of Directors' emoluments and make recommendation to the Board for adjustments if necessary.

There is no other information required to be disclosed pursuant to any of the requirements of Rule 13.51(2)(h) to 13.51(2)(v) of the Listing Rules, nor are there any other matters to be brought to the attention of the shareholders of the Company.

5. To re-elect Mr. Xu Keqiang as an Executive Director of the Company.

Xu Keqiang

Born in 1971, Mr. Xu is a professor-level senior engineer. He graduated from Northwest University with a Bachelor of Science degree in Oil and Gas Geology. He received a master's degree in Coalfield Oil and Gas Geology from Northwest University in 1996. Mr. Xu joined China National Petroleum Corporation in 1996 and served different positions. From April 2003 to April 2005, he served as Deputy General Manager of Sinopetro Investment Company Ltd. From April 2005 to September 2008, he served as Deputy General Manager of CNPC International (Kazakhstan) Ltd. and concurrently General Manager of CNPC Ai-Dan Munai Joint Stock Company. From September 2008 to March 2014, he served as Deputy General Manager of CNPC International (Kazakhstan) Ltd. and concurrently General Manager of Joint Stock Company CNPC International Aktobe Petroleum. From March 2014 to March 2017, he served as General Manager of PetroChina Tuha Oilfield Company, and Director of Tuha Petroleum Exploration & Development Headquarters. From March 2017 to February 2020, Mr. Xu served as a Vice President of CNOOC. From 25 February 2020**,** Mr. Xu has been appointed as a Director of CNOOC. From April 2017 to June 2018, Mr. Xu served as the Chairman of Nexen Energy ULC, a subsidiary of the Company. In between May 2017 and June 2018, he served as the Chairman and a Director of a subsidiary of the Company-CNOOC International Limited. In May 2017, Mr. Xu was appointed as a Director of CNOOC China Limited, a subsidiary of the Company. From May 2018 to April 2020, Mr. Xu served as the General Manager of CNOOC China Limited. Mr. Xu was appointed as an Executive Director of the Company with effect from 18 April 2017, and was appointed as the President of the Company from April 2017 to March 2020. He has been appointed as the Chief Executive Officer of the Company with effect from 19 November 2019.

Save as aforesaid, Mr. Xu does not have any relationship with any other Director, senior management, substantial shareholder or controlling shareholder of the Company.

Mr. Xu has no interest in the Company's securities within the meaning of Part XV of the SFO.

If re-elected, Mr. Xu's appointment shall continue for a period of 36 months and would be renewed every 36 months as determined by the Board or the shareholders of the Company, subject to one month's notice of termination by either party. Mr. Xu is subject to the provisions of his service agreement and the retirement provisions in the Articles. The Company does not pay him any Director's fee. The Remuneration Committee of the Company will review the level of Directors' emoluments and make recommendation to the Board for adjustments if necessary.

There is no other information required to be disclosed pursuant to any of the requirements of Rule 13.51(2)(h) to 13.51(2)(v) of the Listing Rules, nor are there any other matters to be brought to the attention of the shareholders of the Company.

6. To re-elect Mr. Qiu Zhi Zhong as an Independent Non-executive Director of the Company.

Qiu Zhi Zhong
Born in 1955, Mr. Qiu obtained a Bachelor of Science degree in Computer Science from New York University and a Bachelor of Engineering degree in Electrical Engineering from Cooper Union for the Advancement of Science and Art in 1983, a Master of Science degree in Electrical Power Engineering from Ohio State University in 1985, and a Master of Business Administration from Harvard Business School in 1990. Mr. Qiu has served as an independent non-executive director and chairman of the nomination committee of Sinochem Energy Co., Ltd since November 2020. He also serves as the Honorary Consul of Republic of Rwanda in Hong Kong. From 1991 to 2002, Mr. Qiu served as the Chairman of Greater China Region and a Managing Director of Credit Suisse First Boston. From 2002 to 2006, Mr. Qiu established and served as the Managing Director of Quartz Capital. From 2004 to 2014, he served as the Chairman of the DragonTech Ventures Fund and DragonTech Ventures Management Limited. From 2006 to 2009, he served as the Executive Chairman of China and Vice Chairman of Asia of ABN AMRO Bank N.V., and during this period he also served as the Chairman of ABN AMRO (China) Co. Ltd. and the Chairman of ABN AMRO Leasing (China) Co. Ltd. From 2009 to March 2013, he served as a Managing Director, the Vice Chairman of Asia Pacific and Chairman of Greater China of Barclays Capital. From 2013 to 2016, he served as the Chairman of Meridian Capital (Asia) Limited. In 1994 and 1995, Mr. Qiu was named as one of the world's "50 Most Wanted in Finance" and "World's 50 Derivatives Superstars" respectively by the Global Finance magazine. Mr. Qiu was appointed as an independent non-executive director and a member of the Nomination Committee of the Company with effect from 7 May, 2019.

Mr. Qiu does not have any relationship with any other Director, senior management, substantial shareholder or controlling shareholder of the Company.

Mr. Qiu has no interest in the Company's securities within the meaning of Part XV of the SFO.

If re-elected, Mr. Qiu's appointment shall continue for a period of 36 months and would be renewed every 36 months as determined by the Board or the shareholders of the Company, subject to one month's notice of termination by either party. Mr. Qiu is subject to the provisions of his service agreement and the retirement provisions in the Articles. Mr. Qiu's emoluments comprise an annual Director's fee of HK$950,000 (before deduction of Hong Kong tax). The emolument of Mr. Qiu was determined by the Board with reference to perception of industry standards and prevailing market conditions. The Remuneration Committee of the Company will review the level of Directors' emoluments and make recommendation to the Board for adjustments if necessary.

There is no other information required to be disclosed pursuant to any of the requirements of Rule 13.51(2)(h) to 13.51(2)(v) of the Listing Rules, nor are there any other matters to be brought to the attention of the shareholders of the Company.

7. To authorise the Board to fix the remuneration of each of the Directors.

8. To appoint Ernst & Young as the independent auditors of the Group for Hong Kong reporting and Ernst & Young Hua Ming LLP as the independent auditors for U.S. 20-F reporting for the year 2021, and to authorise the Board to fix their remuneration.

B. As special business, to consider and, if thought fit, pass with or without amendments, the following resolutions as ordinary resolutions:

1. **"THAT**:

(a) subject to paragraph (b) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to buy back shares in the capital of the Company on the Stock Exchange or on any other exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose ("**Recognised Stock Exchange**"), subject to and in accordance with all applicable laws, rules and regulations and the requirements of the Listing Rules, or of any other Recognised Stock Exchange and the Articles, be and is hereby generally and unconditionally approved;

(b) the aggregate number of shares of the Company which the Company is authorised to buy back pursuant to the approval in paragraph (a) above shall not exceed 10% of the total number of issued shares of the Company as at the date of the passing of this resolution; and

(c) for the purposes of this resolution:

"**Relevant Period**" means the period from the date of the passing of this resolution until whichever is the earlier of:

(i) the conclusion of the next annual general meeting of the Company following the passing of this resolution; and

(ii) the date on which the authority given under this resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting."

2. **"THAT**:

(a) subject to the following provisions of this resolution, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to issue, allot and deal with additional shares in the capital of the Company and to make or grant offers, agreements, options and similar rights to subscribe for or convert any security into shares in the Company (including bonds, notes, warrants, debentures and securities convertible into shares of the Company) which would or might require the exercise of such powers be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) above shall authorise the Directors during the Relevant Period to make or grant offers, agreements, options and similar rights to subscribe for or convert any security into shares in the Company (including bonds, notes, warrants, debentures and securities convertible into shares of the Company) which would or might require the exercise of such powers after the end of the Relevant Period;

(c) the aggregate number of shares of the Company allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and any options, warrants or rights to be issued or granted by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to:

(i) a Rights Issue (as hereinafter defined);

(ii) an issue of shares pursuant to any specific authority granted by shareholders of the Company in general meeting, including upon the exercise of rights of subscription or conversion under the terms of any warrants issued by the Company or any bonds, notes, debentures or securities convertible into shares of the Company;

(iii) the grant of options and the exercise of any option granted under any share option scheme or similar arrangement for the time being adopted by the Company and/or any of its subsidiaries;

(iv) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles; or

(v) any adjustment, after the date of grant or issue of any options, rights to subscribe for or convert any security into shares or other securities referred to above, in the price at which shares in the Company shall be subscribed, and/or in the number of shares in the Company which shall be subscribed, on exercise of relevant rights under such options, warrants or other securities, such adjustment being made in accordance with, or as contemplated by, the terms of such options, rights to subscribe or other securities, shall not exceed 20% of the total number of issued shares of the Company as at the date of the passing of this resolution; and that this resolution shall be limited by the applicable rules and requirements of the Stock Exchange as amended from time to time, including the restrictions for using the approval in paragraph (a) above to issue (i) securities convertible into new shares for cash consideration, if the initial conversion price of such convertible securities is lower than the Benchmarked Price (as hereinafter defined) of the Shares at the time of the relevant placing; and (ii) warrants, options or similar rights to subscribe for new shares or securities convertible into new shares for cash consideration.

(d) for the purposes of this resolution:

"**Relevant Period**" means the period from the date of passing of this resolution until whichever is the earlier of:

(i) the conclusion of the next annual general meeting of the Company following the passing of this resolution; and

(ii) the date on which the authority given under this resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting.

"**Benchmarked Price**" means the higher of (a) the closing price on the date of the relevant placing agreement or other agreement involving the proposed issue of securities under the general mandate to be approved under this resolution; and (b) the average closing price in the 5 trading days immediately prior to the earlier of: (i) the date of announcement of the placing or the proposed transaction or arrangement involving the proposed issue of securities under the general mandate to be approved under this resolution; (ii) the date of the placing agreement or other agreement involving the proposed issue of securities under the general mandate to be approved under this resolution; and (iii) the date on which the placing or subscription price is fixed.

"**Rights Issue**" means an offer of shares open for a period fixed by the Directors made to holders of shares whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in or in any territory outside Hong Kong)."

3. "**THAT** subject to the passing of the resolutions numbered B1 and B2 as set out in the notice convening this meeting, the general mandate granted to the Board to issue, allot and deal with additional shares of the Company and to make or grant offers, agreements, options and similar rights to subscribe for or convert any security into shares in the Company pursuant to resolution numbered B2 as set out in this notice be and is hereby extended by the addition to it of an amount representing the aggregate number of shares of the Company which are bought back by the Company pursuant to and since the granting to the Company of the general mandate to buy back shares in accordance with resolution numbered B1 as set out in this notice, provided that such extended amount shall not exceed 10% of the total number of issued shares of the Company as at the date of the passing of this resolution."

By Order of the Board
CNOOC Limited
Wu Xiaonan
Joint Company Secretary

Hong Kong, 8 April 2021

Registered office:
65th Floor
Bank of China Tower
1 Garden Road
Hong Kong

Notes:

1. *Every member entitled to attend and vote at the AGM (or at any adjournment thereof) is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a shareholder of the Company. If more than one proxy is so appointed, the appointment shall specify the number and the class of shares in respect of which each such proxy is so appointed. In view of the ongoing COVID-19 pandemic, you are strongly encouraged to appoint the chairman of the meeting as proxy to attend and vote on your behalf at the AGM or any adjournment thereof.*

2. *In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon, together with the power of attorney or other authority (if any) under which it is signed, or a copy of such authority notarially certified, must be completed and returned to the Company's registrar, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not less than 36 hours before the time fixed for the holding of the AGM or any adjournment thereof (as the case may be).*

3. *Completion and return of the form of proxy will not preclude a shareholder of the Company entitled to attend and vote at the AGM from attending and voting in person at the AGM or any adjournment thereof if the shareholder so desires and, in such event, the relevant form of proxy shall be deemed to be revoked.*

4. *Where there are joint registered holders of any shares, any one of such persons may vote at the AGM (or at any adjournment of it), either personally or by proxy, in respect of such shares as if he/she were solely entitled thereto but the vote of the senior holder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.*

5. *With respect to resolution numbered B1, approval is being sought from shareholders for a general mandate to buy back shares to be given to the Board. The Explanatory Statement containing the information necessary to enable the shareholders to make an informed decision on whether to vote for or against the resolution to approve the buy-back by the Company of its own shares, as required by the Listing Rules, is set out in a separate letter from the Company.*

6. *With respect to resolution numbered B2, approval is being sought from shareholders for a general mandate to issue, allot and deal with shares to be given to the Board. Approval is being sought from the shareholders as a general mandate for the purpose of Section 141 of the Companies Ordinance (Cap. 622 of the Laws of Hong Kong) and the Listing Rules.*

7. *With respect to resolution numbered B3, approval is being sought from shareholders for an extension of the general mandate granted to the Board to issue and allot shares by adding to it the number of shares purchased under the authority granted pursuant to resolution numbered B1.*

8. *Pursuant to Rule 13.39(4) of the Listing Rules, voting for all the resolutions set out in the notice of the AGM will be taken by poll, except where the chairman of the meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands.*

9. *For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from 17 May 2021 (Monday) to 21 May 2021 (Friday) (both days inclusive), during which period no transfer of shares in the Company will be registered. In order to be eligible to attend and vote at the AGM, members are reminded to ensure that all instrument of transfer of shares accompanied by the relevant share certificate(s) must be lodged with the Company's registrar, Hong Kong Registrars Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 14 May 2021 (Friday).*

   After the AGM, if the resolution of final dividend was passed, the register of members of the Company will be closed from 7 June 2021 (Monday) to 11 June 2021 (Friday) (both days inclusive), during which no transfer of shares in the Company will be registered. In order to qualify for the proposed final dividend, members are reminded to ensure that all instrument of transfer of shares accompanied by the relevant share certificate(s) must be lodged with the Company's registrar, Hong Kong Registrars Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 4 June 2021 (Friday).

10. *With respect to resolutions numbered A3 to A6, the Company is exempt from the requirement of the Toronto Stock Exchange (the "**TSX**") to adopt a majority voting policy requiring that each director must be elected by a majority of the votes cast with respect to his or her election at an uncontested meeting by virtue of the fact that the Company is majority controlled indirectly by CNOOC. The Company does not intend to adopt a majority voting policy at this time or for so long as CNOOC is the majority controlling shareholder, as majority approval of each such director is already assured.*

    In addition, the Company is exempt from the TSX requirement that at each annual meeting of holders of listed securities, the board of directors of a listed issuer must permit security holders of each class or series to vote on the election of all directors to be elected by such class or series. The Company is exempt from each such requirement by virtue of qualifying as an "Eligible International Interlisted Issuer" for purposes of the TSX Company Manual.

    The Company has provided a notice to the TSX pursuant to the requirements of the TSX Company Manual indicating its intention to rely on such exemption in respect of the Company's 2020 AGM and anticipates providing similar such notices for each successive year.

GLOSSARY

API
The American Petroleum Institute's scale to specify gravity for liquid hydrocarbons, measured in degrees

Wildcat
A well drilled on any rock formation for the purpose of searching for petroleum accumulations, including a well drilled to obtain geological and geophysical parametres

Appraisal well
An exploratory well drilled for the purpose of evaluating the commerciality of a geological trap in which petroleum has been discovered

Upstream business
Oil and gas exploration, development, production and sales

FPSO
Floating Production, Storage and Offloading vessel

LNG
Liquefied Natural Gas

Proved Reserves
Based on geological and engineering date, estimates of oil or natural gas quantities reasonably thought to be recoverable from known oil and gas reservoirs under existing economic, operating conditions and regulations in future years

PSC
Production sharing contract

Reserve replacement ratio
For a given year, total additions to proved reserves divided by production during the year

ACRONYMS OF UNITS OF MEASUREMENT

Bbl
Barrel

Bcf
Billion cubic feet

BOE
Barrel of oil equivalent

Mbbls
Thousand barrels

Mboe
Thousand barrels of oil equivalent

Mcf
Thousand cubic feet

Mmboe
Million barrels of oil equivalent

Mmbbls
Million barrels

Mmcf
Million cubic feet

Note: In calculating barrels of oil equivalent, or BOE, we have assumed that 6,000 cubic feet of natural gas equals one BOE, with the exception of natural gas from South America, Oceania, Madura and Tangguh projects in Indonesia in Asia, and Dongfang 13-2, Wenchang 9-2/9-3/10-3 and Yacheng 13-1 gas fields in China, which we have used the actual thermal unit for conversion.

COMPANY INFORMATION

Board of Directors:

Non-executive Directors
Wang Dongjin *(Chairman)*
Li Yong *(Vice Chairman)*
Wen Dongfen

Executive Directors
Xu Keqiang *(CEO)*
Hu Guangjie *(President)*

Independent Non-executive Directors
Chiu Sung Hong
Lawrence J. Lau
Tse Hau Yin, Aloysius
Qiu Zhi Zhong

Audit Committee
Tse Hau Yin, Aloysius *(Chairman and Financial Expert)*
Chiu Sung Hong
Lawrence J. Lau

Nomination Committee
Wang Dongjin *(Chairman)*
Lawrence J. Lau
Qiu Zhi Zhong

Remuneration Committee
Chiu Sung Hong *(Chairman)*
Tse Hau Yin, Aloysius
Li Yong

Other Members of the Senior Management
Cao Xinjian *(Executive Vice President)*
Xia Qinglong *(Executive Vice President)*
Xie Weizhi *(Chief Financial Officer)*
Deng Yunhua *(Deputy Chief Exploration Engineer)*
Yang Yun *(Vice President)*
Duan Chengang *(Vice President)*
Sun Fujie *(Vice President)*

Joint Company Secretaries
Wu Xiaonan
Tsue Sik Yu, May

Principal Banks:
Bank of China
Industrial and Commercial Bank of China
China Construction Bank
Bank of China (Hong Kong) Limited
Citi Bank, N.A.
Bank of America

Hong Kong Share Registrar:
Hong Kong Registrars Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

ADS Depositary:
JPMorgan Chase Bank, N.A.
Floor 11, 383 Madison Ave
New York, NY 10179
United States of America

Stock codes:
HKSE: 00883
NYSE: CEO
TSX: CNU

Investor Relations:
Tel: (8610) 8452 1917
Fax: (8610) 8452 1441
E-mail: ir@cnooc.com.cn

Media/Public Relations:
Tel: (8610) 8452 3404
Fax: (8610) 8452 1441
E-mail: mr@cnooc.com.cn

Registered Office:
65/F, Bank of China Tower
1 Garden Road
Hong Kong, China
Tel: (852) 2213 2500
Fax: (852) 2525 9322

Beijing Office:
No.25 Chaoyangmen Beidajie
Dongcheng District
Beijing
China
Zip Code: 100010
Website: www.cnoocltd.com

CNOOC LIMITED

www.cnoocltd.com