



CNOOC Limited 中国海洋石油有限公司

SEHK : 00883

ANNUAL REPORT 2021



COMPANY PROFILE

CNOOC Limited (the “Company” or “CNOOC Limited”), incorporated in the Hong Kong Special Administration Region (“Hong Kong”) in August 1999, was listed on The Stock Exchange of Hong Kong Limited (stock code: 00883) on 28 February 2001. The Company was admitted as a constituent stock of the Hang Seng Index in July 2001.

The Company 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 Company mainly engages in exploration, development, production and sale of crude oil and natural gas.

The Company’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 Company has oil and gas assets in Asia, Africa, North America, South America, Oceania and Europe.

As of 31 December 2021, the Company owned net proved reserves of approximately 5.73 billion BOE, and its average daily net production was 1,569,560 BOE (unless otherwise stated, all amounts of reserve and production in this annual report include reserve and production accounted for by equity method). The Company had total assets of approximately RMB786.6 billion.





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FINANCIAL SUMMARY

(All amounts expressed in millions of RMB)

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

Year ended 31 December

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|--|-----------|-----------|-----------|-----------|------------------|
| Total revenues | 186,390 | 227,711 | 233,199 | 155,372 | 246,111 |
| Total expenses | (149,340) | (147,544) | (149,004) | (118,983) | (150,132) |
| (Finance costs)/interest income, net | (4,391) | (4,364) | (4,798) | (4,717) | (4,678) |
| Share of profits/(losses) of associates and a joint venture | 855 | (5,187) | 1,002 | (632) | 346 |
| Investment income | 2,409 | 3,685 | 4,632 | 2,978 | 2,850 |
| Profit before tax | 36,357 | 75,157 | 85,649 | 34,907 | 95,821 |
| Income tax expense | (11,680) | (22,482) | (24,604) | (9,951) | (25,514) |
| Profit for the year | 24,677 | 52,675 | 61,045 | 24,956 | 70,307 |

Consolidated Statement of Financial Position (Audited)

As of 31 December

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|--|-----------|-----------|-----------|-----------|------------------|
| Current assets | 138,838 | 191,151 | 205,935 | 163,391 | 207,982 |
| Property, plant and equipment | 395,868 | 413,383 | 440,554 | 446,668 | 465,451 |
| Investments in associates and a joint venture | 29,146 | 24,701 | 45,490 | 42,366 | 41,540 |
| Intangible assets | 15,070 | 16,073 | 16,306 | 15,129 | 14,864 |
| Total assets | 617,219 | 686,381 | 757,731 | 721,275 | 786,569 |
| Current liabilities | (61,412) | (74,157) | (91,249) | (74,852) | (93,951) |
| Non-current liabilities | (175,832) | (192,314) | (218,256) | (212,493) | (210,642) |
| Total liabilities | (237,244) | (266,471) | (309,505) | (287,345) | (304,593) |
| Equity | 379,975 | 419,910 | 448,226 | 433,930 | 481,976 |



OPERATING SUMMARY

Year ended 31 December

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|--|------------------|------------------|------------------|------------------|------------------|
| Production | | | | | |
| Net production of crude and liquids (barrels/day) | | | | | |
| China | 706,955 | 705,366 | 726,866 | 775,161 | 851,389 |
| Bohai | 433,591 | 433,325 | 436,173 | 452,625 | 494,019 |
| Western South China Sea | 96,543 | 109,381 | 109,906 | 110,247 | 108,793 |
| Eastern South China Sea | 173,192 | 159,312 | 176,884 | 206,911 | 243,084 |
| East China Sea | 3,629 | 3,347 | 3,902 | 5,377 | 5,493 |
| Overseas | 335,887 | 317,224 | 368,886 | 341,560 | 359,723 |
| Asia (excluding China) | 57,395 | 59,240 | 45,020 | 49,822 | 69,566 |
| Oceania | 3,691 | 4,251 | 3,764 | 5,131 | 4,684 |
| Africa | 73,625 | 59,844 | 120,925 | 90,750 | 85,078 |
| North America (excluding Canada) | 46,785 | 53,120 | 62,749 | 67,244 | 61,157 |
| Canada | 57,711 | 64,026 | 69,947 | 55,471 | 62,532 |
| Europe | 95,750 | 73,678 | 62,544 | 53,300 | 42,624 |
| South America | 929 | 3,066 | 3,937 | 19,842 | 34,082 |
| Subtotal | 1,042,842 | 1,022,589 | 1,095,751 | 1,116,721 | 1,211,111 |
| Net production of natural gas (mmcf/day) | | | | | |
| China | 721.4 | 834.8 | 987.9 | 1,153.1 | 1,299.7 |
| Bohai | 149.3 | 165.0 | 158.3 | 148.5 | 168.4 |
| Western South China Sea | 273.5 | 265.2 | 318.2 | 441.7 | 498.2 |
| Eastern South China Sea | 238.2 | 345.4 | 390.9 | 400.9 | 376.5 |
| East China Sea | 56.3 | 49.4 | 44.9 | 57.4 | 68.6 |
| Onshore | 4.1 | 9.9 | 75.6 | 104.7 | 188.0 |
| Overseas | 432.8 | 453.9 | 388.7 | 427.3 | 474.4 |
| Asia (excluding China) | 141.4 | 164.2 | 145.7 | 152.1 | 154.1 |
| Oceania | 96.5 | 111.1 | 93.0 | 140.5 | 131.8 |
| Africa | – | – | – | – | 70.7 |
| North America (excluding Canada) | 130.3 | 126.4 | 137.1 | 127.3 | 114.2 |
| Canada | 38.7 | 34.5 | 4.1 | 0.1 | – |
| Europe | 25.8 | 17.6 | 8.9 | 7.3 | 3.6 |
| Subtotal | 1,154.2 | 1,288.8 | 1,376.6 | 1,580.4 | 1,774.1 |
| Total net production (BOE/day) | | | | | |
| China | 827,941 | 845,171 | 892,928 | 970,793 | 1,071,681 |
| Bohai | 458,473 | 460,822 | 462,564 | 477,374 | 522,084 |
| Western South China Sea | 142,870 | 154,248 | 164,352 | 187,311 | 195,511 |
| Eastern South China Sea | 212,895 | 216,877 | 242,026 | 273,719 | 305,828 |
| East China Sea | 13,016 | 11,580 | 11,389 | 14,948 | 16,927 |
| Onshore | 688 | 1,644 | 12,596 | 17,442 | 31,331 |
| Overseas | 412,832 | 398,187 | 437,812 | 418,750 | 444,526 |
| Asia (excluding China) | 82,958 | 88,662 | 70,715 | 77,017 | 97,114 |
| Oceania | 22,598 | 26,034 | 21,987 | 32,673 | 30,516 |
| Africa | 73,625 | 59,844 | 120,925 | 90,750 | 96,859 |
| North America (excluding Canada) | 68,507 | 74,184 | 85,595 | 88,458 | 80,192 |
| Canada | 64,167 | 69,783 | 70,627 | 55,492 | 62,532 |
| Europe | 100,046 | 76,615 | 64,027 | 54,518 | 43,232 |
| South America | 929 | 3,066 | 3,937 | 19,842 | 34,082 |
| Total | 1,240,773 | 1,243,357 | 1,330,740 | 1,389,543 | 1,516,208 |
| Net production in equity method investees | | | | | |
| Crude and liquids (barrels/day) | 22,144 | 28,159 | 29,039 | 28,335 | 28,295 |
| Natural gas (mmcf/day) | 146.4 | 173.7 | 161.3 | 147.0 | 145.5 |
| Subtotal (BOE/day) | 47,355 | 58,080 | 56,824 | 53,658 | 53,353 |
| Total (BOE/day) | 1,288,128 | 1,301,438 | 1,387,564 | 1,443,201 | 1,569,560 |

OPERATING SUMMARY

Year ended 31 December

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|--|----------------|----------------|----------------|----------------|----------------|
| Reserves at year end* | | | | | |
| Net proved crude and liquids reserves (million barrels) | | | | | |
| China | 1,627.3 | 1,783.2 | 1,899.7 | 1,952.6 | 2,094.5 |
| Bohai | 1,050.4 | 1,104.1 | 1,161.7 | 1,236.9 | 1,313.7 |
| Western South China Sea | 196.5 | 223.0 | 223.4 | 230.4 | 229.5 |
| Eastern South China Sea | 371.9 | 448.6 | 500.5 | 470.7 | 534.8 |
| East China Sea | 8.5 | 7.5 | 14.1 | 14.6 | 16.5 |
| Overseas | 1,571.9 | 1,515.1 | 1,583.8 | 1,696.4 | 1,829.2 |
| Asia (excluding China) | 69.9 | 54.1 | 56.1 | 199.1 | 183.8 |
| Oceania | 10.7 | 8.8 | 8.6 | 5.7 | 5.6 |
| Africa | 136.9 | 113.7 | 83.6 | 77.5 | 51.1 |
| North America (excluding Canada) | 282.1 | 263.4 | 249.8 | 165.2 | 180.6 |
| Canada | 904.3 | 884.4 | 933.2 | 890.7 | 884.2 |
| Europe | 88.4 | 111.2 | 107.5 | 71.6 | 65.6 |
| South America | 79.7 | 79.5 | 145.0 | 286.6 | 458.3 |
| Subtotal | 3,199.3 | 3,298.3 | 3,483.5 | 3,649.0 | 3,923.8 |
| Net proved natural gas reserves (bcf) | | | | | |
| China | 5,910.7 | 6,107.8 | 6,358.4 | 6,863.3 | 7,019.8 |
| Bohai | 305.7 | 753.4 | 1,112.3 | 1,242.0 | 1,338.8 |
| Western South China Sea | 3,880.1 | 3,715.6 | 3,602.8 | 3,603.9 | 3,557.2 |
| Eastern South China Sea | 970.5 | 903.7 | 800.1 | 732.9 | 782.1 |
| East China Sea | 754.4 | 735.1 | 774.9 | 820.2 | 832.1 |
| Onshore | – | – | 68.3 | 464.3 | 509.5 |
| Overseas | 1,632.6 | 1,519.0 | 1,468.8 | 1,093.1 | 1,331.4 |
| Asia (excluding China) | 885.0 | 841.6 | 798.7 | 714.6 | 736.2 |
| Oceania | 297.2 | 279.5 | 260.5 | 185.5 | 173.3 |
| Africa | – | – | – | – | 9.5 |
| North America (excluding Canada) | 421.5 | 390.9 | 405.3 | 190.9 | 322.3 |
| Canada | 24.2 | 0.2 | – | – | – |
| Europe | 4.8 | 6.7 | 4.4 | 2.1 | 2.7 |
| South America | – | – | – | – | 87.5 |
| Subtotal | 7,543.3 | 7,626.8 | 7,827.1 | 7,956.4 | 8,351.2 |
| Total net proved reserves (million BOE) | | | | | |
| China | 2,613.3 | 2,804.6 | 2,964.3 | 3,108.5 | 3,289.1 |
| Bohai | 1,101.4 | 1,229.7 | 1,347.1 | 1,443.9 | 1,536.9 |
| Western South China Sea | 844.1 | 845.8 | 828.7 | 843.0 | 847.0 |
| Eastern South China Sea | 533.7 | 599.2 | 633.9 | 592.9 | 665.1 |
| East China Sea | 134.2 | 130.0 | 143.2 | 151.3 | 155.2 |
| Onshore | – | – | 11.4 | 77.4 | 84.9 |
| Overseas | 1,860.8 | 1,785.4 | 1,843.6 | 1,892.7 | 2,066.2 |
| Asia (excluding China) | 225.4 | 203.3 | 196.6 | 326.9 | 315.5 |
| Oceania | 69.0 | 63.6 | 59.6 | 42.0 | 39.6 |
| Africa | 136.9 | 113.7 | 83.6 | 77.5 | 52.7 |
| North America (excluding Canada) | 352.3 | 328.6 | 317.3 | 197.0 | 234.3 |
| Canada | 908.3 | 884.4 | 933.2 | 890.7 | 884.2 |
| Europe | 89.2 | 112.3 | 108.3 | 72.0 | 66.1 |
| South America | 79.7 | 79.5 | 145.0 | 286.6 | 473.9 |
| Total | 4,474.1 | 4,590.0 | 4,807.9 | 5,001.2 | 5,355.3 |
| Net proved reserves in equity method investees | | | | | |
| Crude and liquids (million barrels) | 244.8 | 258.1 | 269.8 | 271.0 | 275.2 |
| Natural gas (bcf) | 706.8 | 661.5 | 620.3 | 583.6 | 563.5 |
| Subtotal (million BOE) | 366.7 | 372.2 | 376.7 | 371.6 | 372.3 |
| Total* | 4,840.8 | 4,962.1 | 5,184.6 | 5,372.7 | 5,727.6 |

OPERATING SUMMARY

Year ended 31 December

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|--|-------|-------|-------|-------|--------------|
| Others | | | | | |
| Reserve life (years) | 9.9 | 10.1 | 9.9 | 9.8 | 9.7 |
| Reserve life (years) (including equity method investees) | 10.3 | 10.5 | 10.2 | 10.2 | 10.0 |
| Reserve replacement ratio (%) | 297 | 126 | 145 | 138 | 164 |
| Reserve replacement ratio (%) (including equity method investees) | 305 | 126 | 144 | 136 | 162 |
| Average realised price | | | | | |
| Crude oil (US\$/barrel) | 52.65 | 67.22 | 63.34 | 40.96 | 67.89 |
| Natural gas (US\$/mcf) | 5.84 | 6.41 | 6.27 | 6.17 | 6.95 |

* Approximately 65%, 69%, 66%, 62% and 74%, respectively, of our net proved reserve estimates in 2017, 2018, 2019, 2020 and 2021 were based on the Company's internal evaluation and the remaining were made by independent third-party consultants. The Company referred to the SEC's final rules on "Modernization of Oil and Gas Reporting", which became effective as of 1 January 2010 to evaluate reserves.





Wang Dongjin
Chairman

CHAIRMAN'S STATEMENT

Dear shareholders,

In the past year, the world economy struggled to recover amid COVID-19 pandemic outbreaks. Global oil demand gradually revived, while energy transition continued to accelerate. For CNOOC Limited, the capital market environment had undergone tremendous changes.

To survive the extremely challenging external environment, we adhered to the business strategy of seeking progress while maintaining stability. We strived to increase reserves and production, steadily implemented major projects, firmly promoted technological innovation, actively expedited green and low-carbon development, and insisted on enhancing quality and efficiency to reduce costs. By fighting through hardship and challenges, we reached new heights and delivered excellent results.

We continued to step up our efforts in exploration and development, thereby bringing our reserves and production to new records. 22 commercial discoveries were made throughout the year. In offshore China, 4 middle-to-large sized oil and gas fields including Kenli 10-2 were confirmed. Overseas, continuous new discoveries were made in the Stabroek block in Guyana, which now contained a total recoverable resource of over 10 billion BOE. The reserve life of the Company remained above 10 years, which effectively guaranteed the resource base for our sustainable development. During the year, new projects came on stream in succession, firmly underpinning the production growth. The measures to increase production in Bohai oilfields have achieved remarkable results, making it the largest crude oil production base in China. The successful commissioning of “Shenhai-1”, the ultra-deep water large gas field, will fuel the construction of a major trillion-cubic-meter-level gas production area in the South China Sea. In 2021, our net production reached 573 million BOE, exceeding the target set at the beginning of the year and hitting a record high.

We actively promoted the innovation-driven strategy and made new breakthroughs in key core technologies. “Shenhai-1” energy station, the world’s first 100,000-ton deepwater semi-submersible oil production and storage platform, achieved three world-class innovations, which signified a historic leap into ultra-deep water for the Company’s exploration and development activities in offshore China. New progresses were made in digitalization and intelligentization. The proportion of unmanned offshore production platforms was further increased. Enping oilfields realized unmanned production in typhoon condition for the first time.

CHAIRMAN'S STATEMENT

We accelerated our transition into green and low-carbon development. Natural gas would take a larger share in our production mix, as the ultra-deep water large gas field “Shenhai-1” was commissioned and the large-sized condensate gas field Bozhong 19-6 made steady progress. Meanwhile, the Company facilitated the establishment of a new energy business development system by setting up a new energy branch. Qinhuangdao/Caofeidian onshore power project, a power-from-shore project, commenced operation as scheduled, marking a major breakthrough for the Company's efforts to optimize its development model to save energy and reduce consumption, to control cost and enhance efficiency. The carbon capture and storage (CCS) demonstration project at Enping oilfields made remarkable progress. The first 300 MW offshore wind farm had been connected to the grid at full capacity.

We dedicated unswerving efforts to reduce costs, to enhance quality and efficiency, and witnessed significant improvement in our profitability. All-in cost was US\$29.49 per BOE, and operating cost was US\$7.83 per BOE, which further sharpened our cost competitive edge. We seized favorable opportunity of the rebound of international oil prices and achieved oil and gas sales revenue of RMB222.1 billion. The net profit hit a new high of RMB70.3 billion.

In addition to delivering outstanding operational results, we continued to implement occupational safety campaigns. We improved the risk prevention and control system, and enhanced our emergency response capabilities to ensure a stable performance in health, safety and environmental protection.

In 2021, Mr. Xia Qinglong was appointed as an Executive Director of the Company, and Mr. Hu Guangjie resigned as an Executive Director. On behalf of the Board of Directors, I would like to extend my congratulations to Mr. Xia Qinglong and thank Mr. Hu Guangjie for his contributions to the development of the Company.

A new chapter has begun. We will continue to pursue the strategic goal of building a world-class energy company, by solidly advancing the three major projects of Reserves & Production Augmentation, Independent Technology Innovation, Green Energy Transition, and by further enhancing quality and efficiency. On the basis of ensuring safe and compliant operations, we will continue to consolidate our cost competitiveness, improve profitability, and deliver impressive results.

CNOOC Limited has smoothly delisted from the New York Stock Exchange (NYSE) and the Toronto Stock Exchange (TSX), and has promoted RMB share Issue in an orderly manner. As disclosed in the announcement of the Company dated 30 March 2022, the China Securities Regulatory Commission (the “CSRC”) has approved the RMB Share Issue of the Company. In order to avoid the impact on the progress of RMB Share Issue of the Company, the Board decides not to recommend the declaration of the 2021 year-end dividend and will announce a special dividend plan as soon as possible after the completion of the RMB Share Issue, and the 2021 year-end dividend as originally planned and the special dividend for the 20th anniversary of the listing in Hong Kong shall be combined and declared as a special dividend.

In the new capital market environment, we will remain committed to generating returns to our shareholders. The Company has promised at the beginning of the year that, subject to the approval by the general meeting of shareholders on the dividend proposed for each year, the expected annual payout ratio will be no less than 40% in the next three years, and the annual absolute dividend will not be less than HK\$0.70 per share (tax inclusive). In 2022, the Company will appropriately implement share buybacks subject to the authorization granted at the general meeting of shareholders.

Pines do not shed their needles in cold weather, and the emerald sea gets clearer in its vastness. Dear shareholders, riding the waves of 20 years hard working, CNOOC Limited is now in its prime time. We will embark on a new journey with persistence and perseverance, along with all our shareholders to pursue a brighter future.

Wang Dongjin
Chairman

Hong Kong, 30 March 2022

BUSINESS OVERVIEW



Xu Keqiang
CEO

OVERVIEW

CNOOC Limited is an upstream company specialising in oil and natural gas exploration, development and production, and remains 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 2021, the Company had net proved reserves of approximately 5.73 billion BOE (including approximately 0.37 billion BOE in its equity method investees). In 2021, the Company achieved a net production of 1,569,560 BOE/day (including a net production of approximately 53,353 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 partners. As of the end of 2021, approximately 57.5% of the Company's net proved reserves and approximately 68.4% of its net production were from China.

Independent operations. We have been increasing our reserves and production mainly through independent exploration and development. As of the end of 2021, approximately 90.2% of our net proved reserves and approximately 83.0% of our net production in China were obtained from the oil and gas fields 100% owned and operated by CNOOC Limited.

Cooperation projects. CNOOC Limited cooperates with partners through product sharing contracts ("PSCs") in oil resources (including crude oil and gas) exploitations. China National Offshore Oil Corporation ("CNOOC"), our controlling shareholder, has the exclusive right to enter into PSCs with foreign contractors to cooperate in the exploration, development and production of petroleum resources (including crude oil and natural gas) in offshore China where acreage are open to foreign cooperation. CNOOC has transferred to the Company all its rights and obligations under the existing and future PSCs (except those rights and obligations related to the management and supervision that should be implemented by a State Corporation).

In overseas, we have a diversified and high-quality portfolio. We hold interests in a number of world-class oil and gas projects and have become a leading player in the industry.

BUSINESS OVERVIEW

Our assets locate in more than 20 countries and regions around the globe, 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 2021, overseas oil and gas assets accounted for approximately 47.1% of the total oil and gas assets of the Company, and overseas net proven reserves and overseas net production accounted for approximately 42.5% and approximately 31.6%, respectively.

In 2021, the world economy struggled to recover amid the ongoing COVID-19 pandemic outbreaks, with emerging markets and developing economies performing prominently. According to the data released by the International Monetary Fund, the global economy grew by 5.5%, and China's GDP grew by 8.1% in 2021. As global oil demand gradually revived from the pandemic, international oil prices climbed amid fluctuations, and the annual average price of Brent crude oil surged by 64.2% year-on-year to US\$70.9 per barrel.

To thrive in the complex and volatile external environment, the Company adhered to the business strategy of seeking progress while maintaining stability, vigorously increased reserves and production, solidly advanced the construction of major projects, resolutely implemented technological

innovation, actively developed in a green and low-carbon manner, and enhanced quality and efficiency to reduce costs. As a result, the operating performance reached another record-high.

We kept looking for mid-to-large sized oil and gas fields, and stepped up our exploration efforts. During the year, we made 22 new discoveries and successfully appraised 30 oil and gas bearing structures. In offshore China, 4 new mid-to-large sized oil and gas discoveries including Kenli 10-2 were made. Overseas, 6 new discoveries were made in Stabroek block in Guyana. The recoverable resources in the block have been expended to over 10 billion BOE.

We remained committed to increasing oil and gas production, strived to enhance output and efficiency, and steadily advanced the construction of new projects. New projects including Caofeidian 6-4 oilfield, Kenli 6-1 oilfield, Shenhai-1 gas field in offshore China, and Buzzard phase II in the U.K. North Sea have all been successfully commissioned. Over 20 projects were under construction in the year, which would strongly support our sustainable development. Thanks to scientific management of production and operation, the net production of the Company reached 573 million BOE, exceeding the annual target and hitting another record high.



BUSINESS OVERVIEW

572.9

million BOE

Net Production

5,727.6

million BOE

Net Proved Reserves

70.31

RMB Billion

Net Profit

29.49

US\$/BOE

All-in Cost

88.73

RMB Billion

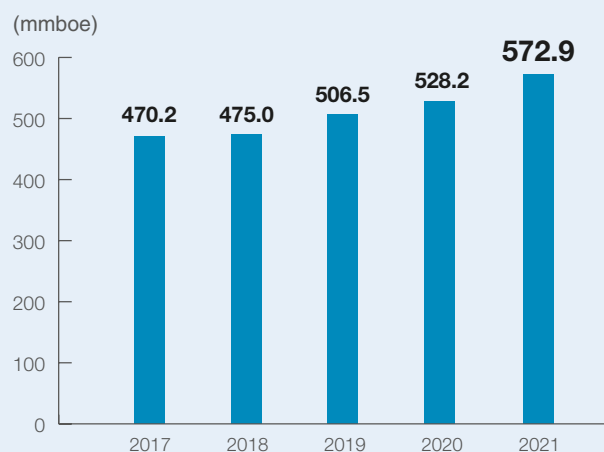
Capex

147.89

RMB Billion

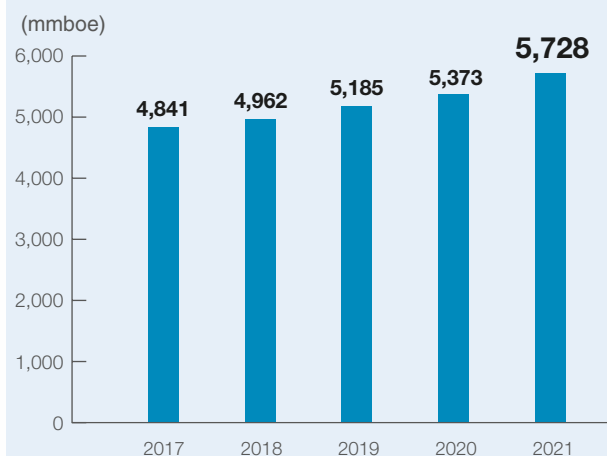
Net Operating Cash Flow

Net Production



* In 2021, net production from China and overseas was 68% vs 32%.

Net Proved Reserves



* In 2021, net proved reserves from China and overseas was 58% vs 42%.

BUSINESS OVERVIEW

We insisted on enhancing quality and efficiency to reduce costs. The all-in cost was US\$29.49 per BOE, which further strengthened the cost competitiveness. Benefiting from higher international oil prices, growth in oil and gas production and effective cost control, the Company achieved oil and gas sales revenue of RMB222.1 billion, and a record high net profit of RMB70.3 billion. Profitability of the Company was significantly enhanced.

In 2021, the Company's capital market environment saw significant changes. The Company delisted from the NYSE and the TSX in October and December, 2021, respectively. In order to expand financing channels, we actively progressed RMB share Issue. On 30 March 2022, the CSRC has approved the RMB Share Issue of the Company.

Meanwhile, we continued to implement occupational safety campaigns. We improved the safety management systems to enhance our risk prevention and control capabilities. We maintained strict pandemic-control measures and achieved stable performance in health, safety and environmental protection.

EXPLORATION

In 2021, we adhered to the value-driven exploration philosophy, balanced the scale of discovery and profitability of reserves, optimised exploration deployment, and continued to maintain a high level of investment in exploration. In China, rolling exploration in mature areas were well organized to achieve growth in reserves. We increased efforts in risk exploration and expanded new areas of oil and gas discovery. Overseas, we focused on strategic core areas, and made progress in the Stabroek block in Guyana. The exploration workload of the Company remained at a high level throughout the year, and yielded a positive trend of oil and gas discoveries. In 2021, the Company's reserve replacement ratio reached 162%, with a reserve life of 10.0 years. For 5 consecutive years, our reserve life remained above 10 years, providing a sound resource base for our sustainable development.



BUSINESS OVERVIEW

The Company's major exploration areas as of the end of 2021 are shown in the table below:

| | Areas | Major Exploration Areas (Net) (km ²) |
|--------------|-------------------------|--|
| China | Bohai | 38,124 |
| | Western South China Sea | 70,559 |
| | Eastern South China Sea | 47,527 |
| | East China Sea | 84,577 |
| | Onshore | 11,877 |
| | Subtotal | 252,664 |
| Overseas | Asia (excluding China) | – |
| | Africa | 18,608 |
| | Oceania | 1,938 |
| | North America | 5,756 |
| | South America | 8,333 |
| | Europe | 374 |
| | Subtotal | 35,009 |
| Total | | 287,673 |

In offshore China, we adhered to the value-driven exploration philosophy and focused on exploration of mid-to-large sized oil and gas fields. We made solid progress in the integration of exploration and development. Rolling exploration achieved remarkable results as well and we continued to maintain higher exploration investment. The activities in independent exploration wells and the acquisition of 3-Dimensional (3D) seismic data remained at a high level. Throughout the year, a total of 206 exploration wells were drilled, including 4 PSC wells. A total of 14,343 square kilometres of 3D seismic data and 3,397 kilometres of 2-Dimensional (2D) seismic data were acquired through independent operations. The Company made 16 new discoveries and successfully appraised 30 oil and gas bearing structures in offshore China.



BUSINESS OVERVIEW

In 2021, the exploration achievements in offshore China mainly include:

Firstly, we have successfully discovered Kenli 10-2 a large oil and gas field with 100 million-ton scale of resources, as well as Luda 10-6, Bozhong 13-2 encirclement area, Baodao 21-1, and Wenchang 9-7 medium-sized oil and gas fields, which would further underpin our future production growth.

Secondly, we continue to explore in new areas, new fields and new types. Breakthroughs were achieved in Kaiping 11-4, Baodao 21-1 and Huizhou 21-8, expanding new areas for exploration. Baodao 21-1 achieved a major breakthrough in exploration, realizing the biggest discovery in more than half a century in Songnan-Bodao Sag. The two wells in Kaiping 11-4 both encountered over 100 meters of oil-bearing layers. Our risk exploration has been fruitful.

Thirdly, we have strengthened the integration of exploration and development. The efficiency of rolling exploration has been continuously improved, and more than 100 million tons of oil have been found, effectively supporting the rapid conversion from reserves to production.

In onshore China, we stepped up unconventional natural gas exploration, drilled 149 exploration wells, acquired 817 square kilometers 3D seismic data and 639 kilometers 2D seismic data. The maximum open flow per well in the Linxing block exceeded 1 million cubic meters per day, setting a new high for the Company's unconventional gas well test production.

Overseas, we drilled 18 exploration wells. Six new discoveries were made in the Stabroek block of Guyana, including Uaru-2, Longtail-3, Whiptail, Pinktail, Turbot-2 and Cataback-1. As of the end of 2021, a total of 20 new discoveries were made in the Stabroek block, with the total recoverable resources in the block exceeding 10 billion BOE.

The Company's major exploration activities in 2021 are set out in the table below:

| | Exploration Wells | | | | New Discoveries | | Successful Appraisal Wells | | Seismic Data | | | | |
|-------------------------|-------------------|------------|----------|-----------|-----------------|----------|----------------------------|----------|--------------|----------|-----------------------|----------|--|
| | Independent | | PSC | | Independent | PSC | Independent | PSC | 2D (km) | | 3D (km ²) | | |
| | Wildcat | Appraisal | Wildcat | Appraisal | | | | | Independent | PSC | Independent | PSC | |
| Offshore China | | | | | | | | | | | | | |
| Bohai | 14 | 87 | 1 | 0 | 6 | 0 | 63 | 0 | 1,120 | 0 | 3,352 | 0 | |
| Eastern South China Sea | 23 | 20 | 2 | 1 | 6 | 0 | 1 | 1 | 770 | 0 | 5,798 | 0 | |
| Western South China Sea | 20 | 29 | 0 | 0 | 4 | 0 | 14 | 0 | 460 | 0 | 3,311 | 0 | |
| East China Sea | 4 | 5 | 0 | 0 | 0 | 0 | 0 | 0 | 1,047 | 0 | 1,882 | 0 | |
| Subtotal | 61 | 141 | 3 | 1 | 16 | 0 | 78 | 1 | 3,397 | 0 | 14,343 | 0 | |
| Overseas | 3 | 2 | 6 | 7 | 0 | 6 | 0 | 7 | 0 | 0 | 2,701 | 0 | |
| Total | 64 | 143 | 9 | 8 | 16 | 6 | 78 | 8 | 3,397 | 0 | 17,044 | 0 | |

BUSINESS OVERVIEW

In 2022, we will adhere to the value-driven exploration philosophy and increase exploration workload and maintain our exploration investment so as to lay a solid reserve foundation for the Company's sustainable development. In China, we will continue to target mid-to-large size discoveries, develop oil and gas businesses concurrently and prioritise gas exploration activities, maintain a stable development in Bohai, accelerate the development in the South China Sea and promote unconventional gas development, and focus on risk exploration and field exploration to find replacement areas. Overseas, we will continue to focus on efficiency and value exploration in the hot exploration basins.

ENGINEERING CONSTRUCTION, DEVELOPMENT AND PRODUCTION

We continued to optimise the production organization, actively advanced key projects and maintained large volume of investment, to make concerted efforts to increase production and efficiency. In 2021, the Company achieved a net oil and gas production of approximately 573 million BOE, exceeding the production target of 545 to 555 million BOE set at the beginning of the year and reaching another record high.

New projects were put into production in succession during the year, including: Caofeidian 6-4 oilfield, Lihua 29-2 gas field, Weizhou 11-2 oilfield phase II, Shenhai-1 gas field, Luda 29-1 oilfield, Qinhuangdao/Caofeidian power-from-shore project, Bozhong 19-4 oilfield adjustment project, Bozhong 26-3 oilfield expansion project, Luda 6-2 oilfield, Lihua 21-2 oilfield, Lufeng oilfields regional development project, Caofeidian 11-6 oilfield expansion project, Kenli 16-1 oilfield and Buzzard oilfield phase II project. More than 20 projects were under construction throughout the year, and the development and construction of key projects progressed smoothly.



BUSINESS OVERVIEW

In 2021, the Company focused on the goal of increasing reserves and production. We strengthened the support from technological progress, expedited the construction of capacities and adopted innovative development mode. The main measures included:

Firstly, we optimised the organization of production. We continued with the “Year of Water Injection” programme and the “water cut control” campaign. Oil field decline rate and water cut were brought under effective control. Heavy oil thermal recovery technology was put into production. Offshore low permeability development test was accelerated. The development of sub-commercial reserves has taken a key step forward.

Secondly, we actively promoted construction acceleration and efficiency enhancement. We fast tracked the drilling and completion of development wells and adjustment wells. The number of new production wells and the designed production capacity remained at a high level. Single well contribution was sustained at a high level and further enhanced, providing strong support to the increase of oil and gas reserves and production.

Thirdly, we enhanced the integration of exploration and development. Pilot projects were implemented to improve producing reserves, shorten the construction period, and reduce the development cost. The integration of exploration and development achieved remarkable results.

Fourthly, we levered technological breakthroughs and adopted innovative development mode to facilitate high-quality development of the Company. The power-from-shore project of Bohai oilfield initiated the offshore oil field “onshore power” development mode. New breakthroughs were made in the construction of smart oil fields, unmanned platforms and oilfield typhoon production modes.

In 2022, we will actively promote the construction of new capacity, speed up project construction and drive the speed and efficiency of drilling and completion, promote the economic production from heavy oil fields and low permeability oilfields. In the meanwhile, we will continue to optimise the planning for infill wells, increase the single-well production capacity, tap the potential of EOR measures and to reduce the decline rate.

In 2022, a total of 13 new projects are planned to come on stream, mainly including Bozhong 29-6 oilfield development, Kenli 6-1 oilfield block 5-1, 5-2, 6-1 development, Enping 15-1/10-2/15-2/20-4 oilfields joint development and southern Shenfu gas field development in China as well as oversea Liza oilfield phase II in Guyana and Indonesia 3M (MDA, MBH, MAC) projects. 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 of 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 2021, the reserve and production in Bohai reached 1,536.9 million BOE and 522,084 BOE/day, respectively, representing approximately 26.8% of the Company’s total reserves and approximately 33.3% of its production.

With rich oil and gas resources, Bohai has been one of the Company’s core areas for exploration and development. In 2021, the Company successfully made six discoveries in Bohai, namely Kenli 10-2, Caofeidian 11-3 East, Qinhuangdao 35-5, Jinzhou 25-3, Bozhong 28-1 and Longkou 31-3. In addition, the Company also successfully appraised 19 oil and gas bearing structures, including Bozhong 13-2, Bozhong 19-6, Bozhong 19-2, Bozhong 29-4, Bozhong 19-4, Bozhong 29-1 East, Caofeidian 2-2, Caofeidian 11-3 East, Kenli 10-2, Kenli 20-1, Luda 10-6, Luda 25-1, Luda 27-1, Suizhong 36-2, Jinzhou 25-1 South, Jinzhou 20-5, Qinhuangdao 33-3, Qinhuangdao 27-3 and Longkou 15-2.

BUSINESS OVERVIEW

In 2021, we efficiently appraised Kenli 10-2 oilfield, and the proven in-place volume exceeded 100 million tons of oil equivalent, which changed the situation that no discovery of lithologic oilfields with 100 million tons of oil equivalent was made in the shallow layers of the sag belt of Bohai oilfields. We continued to explore Luda 10-6 medium-deep lithologic oil and gas reservoirs, which was proved to be light and mid-to-large sized oil and gas fields. We expanded the exploration of Bozhong 13-2 encirclement area, with proven in-place volume exceeding 31 million tons of oil equivalent, another breakthrough in the exploration of hydrocarbon accumulation inside buried hills.

We sped up the capacity construction of new projects. Caofeidian 6-4 oilfield, Luda 29-1 oilfield, Qinhuangdao/Caofeidian oilfields onshore power project, Bozhong 19-4 oilfield adjustment project, Bozhong 26-3 oilfield expansion project, Luda 6-2 oilfield, Caofeidian 11-6 oilfield expansion project and Kenli 16-1 oilfield have all been put into production. Among them, the Qinhuangdao/Caofeidian onshore power project, the world's largest power-from-shore project to supply offshore oilfields, was put into operation on schedule. It marks that China's offshore oilfields have achieved historic changes in the way of electricity consumption, and that the transition into low-carbon energy consumption by offshore oilfields has entered the stage of full implementation. In 2021, the crude oil production in Bohai oilfields exceeded 30 million tons, making it the largest crude oil production base in China and providing a solid foundation for the Company to achieve its production growth target in the mid-and-long term.

In 2022, Kenli 6-1 oilfield 10-1 North block development project, Kenli 6-1 oilfield 5-1, 5-2, 6-1 block development project, Bozhong 29-6 oilfield development project and Jinzhou 31-1 gas field development project will be put into production within the year.

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 light or medium. As of the end of 2021, the reserves and production in Western South China Sea reached 847.0 million BOE and 195,511 BOE/day, respectively, representing approximately 14.8% of the Company's total reserves and approximately 12.5% of its production.



BUSINESS OVERVIEW

In 2021, the Company made 4 discoveries in the Western South China Sea, namely Wushi 16-5, Wushi 1-6, Wushi 22-9 and Baodao 21-1. In addition, the Company successfully appraised 9 structures, namely Weizhou 11-6, Wushi 16-9, Wushi 1-6, Lingshui 17-2, Wenchang 9-3, Wenchang 19-1, Wenchang 8-3, Wenchang 9-7 and Dongfang 13-1. Among them, positive progress was made in the efficient appraisal of Baodao 21-1 gas field, with the proven in-place gas reserves of approximately 30 billion cubic meters, the biggest breakthrough in the Songnan-Baodao sag in more than half a century. Wenchang 9-7 marks the largest discovery made in Wenchang A sag structure in 12 years.

The construction of new projects progressed in an orderly manner. Shenhai-1 gas field and Weizhou 11-2 oilfield were put into production in 2021. The successful production of Shenhai-1 gas field, the first self-operated large deepwater gas field in offshore China, marks a major leap forward of CNOOC Limited's offshore oil and gas exploration and development to the ultra-deep water depth of 1,500 meters. The gas field will steadily produce 3 billion cubic meters per annum of natural gas for 10 consecutive years, and will become one of the important sources to meet the gas demand in Guangdong, Hong Kong and Hainan area. It will also drive the efficient development of surrounding and follow-up gas fields and help the Company's progress in its low-carbon transition. In addition, the development projects in the southeast area of Dongfang 1-1 gas field and the south block of Ledong 22-1 gas field are expected to be commissioned in 2022.

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 light or medium. As of the end of 2021, the reserves and production in Eastern South China Sea reached 665.1 million BOE and 305,828 BOE/day, respectively, representing approximately 11.6% of the Company's total reserves and approximately 19.5% of its production.

In 2021, the Company made six new discoveries in Eastern South China Sea, namely Xijiang 24-4, Xijiang 30-1, Panyu 11-12, Huizhou 33-4, Huizhou 19-5 and Lufeng 13-8. One oil and gas bearing structure was successfully appraised, namely Lufeng 13-8. The Company has promoted the multi-type, multi-layer exploration in southern Lufeng as a whole, building new and promising bases for increasing reserves in the Eastern South China Sea.

Liuhua 21-2 oilfield, Liuhua 29-2 gas field and Lufeng oilfields regional development project started production in 2021. Enping 15-1/10-2/15-2/20-4 oilfields joint development project is expected to come on stream in 2022.

East China Sea

The typical operating water depth in the East China Sea region is approximately 90 metres. As of the end of 2021, the reserves and production in the region represented approximately 2.7% and approximately 1.2% of the Company's total reserves and production, respectively.

In 2021, 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 China

We mainly engaged in the exploration, development and production of unconventional natural 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 2021, the reserves and production in onshore China represented approximately 1.5% and approximately 2.0% of the Company's total reserves and production, respectively.

In 2021, the proven in-place volume of onshore unconventional natural gas of the Company increased steadily, with newly added proven in-place volume of approximately 30 billion cubic meters. Linxing gas field implemented the development strategy of "achieving high yield with fewer wells" and positive results had been achieved. High-yield wells accounted for a higher proportion of total well counts. The open flow of fractured wells recorded a new high. In addition, the Shen'an pipeline (Shanxi-Hebei section), the longest coalbed methane pipeline in China led by CUCBM, the wholly owned subsidiary of CNOOC Limited, has been fully commissioned. In the future, the pipeline will supply stable clean energy to North China. It will also further expand onshore sales channels for the Company.

BUSINESS OVERVIEW

In 2022, Shenfu South gas field development project, Central Linxing 4/5 development project and Panhe thin layer coalbed methane development project are expected to be put into production. In the future, we will step up the development of onshore unconventional natural gas to boost the proportion of natural gas in our production mix.

Overseas

Asia (excluding China)

Asia (excluding China) is the first overseas region the Company entered 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 2021, the reserves and production in Asia (excluding China) reached 315.5 million BOE and 97,114 BOE/day, respectively, representing approximately 5.5% of the Company's total reserves and approximately 6.2% of its production.

Indonesia

As of the end of 2021, the Company's asset portfolio in Indonesia comprised mainly of 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. In 2021, the output grew slightly to a daily net production of approximately 7,800 BOE. At the same time, the Company actively developed market for the product. Other gas fields are under appraisal and construction, among which, the 3M (MDA, MBH, MAC) gas field is expected to commence production in 2022.

The Company owns approximately 13.9% interest in the Tangguh LNG project in Indonesia. In 2021, phase I production remained stable with a daily net production of approximately 22,000 BOE. The third LNG train of phase II is under construction as planned and is expected to be delivered in 2022.

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.

In 2021, the Company continued to drill development wells in Missan oilfields, and the production of the project has steadily increased. When OPEC lifted its production curtailment, the capacity of the oilfields was effectively released, yielding a daily net production of approximately 41,000 BOE.

United Arab Emirates

The Company indirectly held 4% interest in each of the two oilfield contract areas, namely the Lower Zakum Shallow Water Oilfield and Umm Shaif & Nasr Oilfield in Abu Dhabi. In 2021, the projects maintained stable production with an average daily net production of approximately 26,000 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 2021, the reserves and production from Oceania reached 39.6 million BOE and 30,516 BOE/day, respectively, representing approximately 0.7% of the Company's total reserves and approximately 1.9% of its production.

BUSINESS OVERVIEW

Australia

The Company owns a 5.3% interest in the North West Shelf LNG Project (“NWS Project”) in Australia. The producing project supplies gas to the end-users including the Dapeng LNG Regasification Terminal in Guangdong, China.

In 2021, production from the NWS Project remained stable. The incremental gas production exceeded target and generated favourable economic returns.

Other Regions in Oceania

The Company owns interests in three exploration blocks 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 2021, the reserves and production in Africa reached 52.7 million BOE and 96,859 BOE/day, respectively, representing approximately 0.9% of the Company’s total reserves and approximately 6.2% of its production.

Nigeria

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

In 2021, Akpo oilfield maintained stable production, with a daily net production of 50,000 barrels. The production implementation of Egina oilfield is slightly higher than the production curtailment of the OPEC, with a daily net production of approximately 40,000 barrels.

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

We will deepen our regional coordination to establish an oil and gas production base in West Africa centred around Nigeria.

Uganda

The Company owns a one-third interest in each of EA 1, EA 2 and EA 3A blocks in Uganda. The 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 onshore Africa.

In November 2021, the final investment decision and approval by all partners for the projects were obtained, and the construction officially started in February 2022. 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 operating interests in several blocks in Senegal and Gabon. Among them, the Company holds a 65% interest in AGC Profond block in Senegal and holds 100% interest in BC9 and BCD10 block in Gabon.

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. As of the end of 2021, the Company’s reserves and production in North America reached 1,118.5 million BOE and 142,724 BOE/day, respectively, representing approximately 19.5% of the Company’s total reserves and approximately 9.1% of its production.

BUSINESS OVERVIEW

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 2021, Eagle Ford project and Rockies project witnessed decreased drilling activities due to the pandemic, with daily net production of 37,000 BOE and 8,000 BOE respectively.

CNOOC Limited owns interests in two important deepwater projects, namely Stampede and Appomattox in the U.S. Gulf of Mexico. In 2021, the two projects overcame the impacts of hurricanes, and the production gradually recovered and remained stable. In particular, the daily net production of Appomattox project reached approximately 20,000 BOE. In addition, the Company also owns interests in several other exploration blocks in the U.S. Gulf of Mexico.

Canada

Canada is one of the areas rich in oil sands resources in the world. 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 2021, the Company seized the opportunity of oil price recovery, actively drilled adjustment wells and put the Long Lake Southwest project into production. We have a daily net production of approximately 39,000 barrels from the projects.

The Company holds a 7.23% interest in the Syncrude project and its daily net production in 2021 was approximately 18,000 BOE. The Company also holds a 25% interest in the Hangingstone oil sands project and non-operating interests under several other exploration and development licences.

The Company also holds 100% interest in two exploration blocks in offshore East Canada. The drilling of one wildcat well was completed in 2021.

In addition, the Company holds approximately 9.35% 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 in Trinidad and Tobago, which is a producing asset with stable output and favourable economic returns.

The Company also owns 100% operating interest in block 1 and a 40% operating interest in block 4 of the Cinturon Plegado Perdido deepwater exploration blocks in Mexico, respectively. In 2021, the drilling of one wildcat well in block 1 was completed and the drilling of one wildcat well in block 4 was completed.

South America

South America is one of the important sources of future reserve and production growth for the Company. The Company holds interests in oil and gas blocks in Brazil, Guyana and Colombia, as well as a 50% interest in BC ENERGY INVESTMENTS CORP. ("BC") in Argentina. As of the end of 2021, the Company's reserves and production from South America reached 844.8 million BOE and 86,086 BOE/day, respectively, representing approximately 14.7% of the Company's total reserves and approximately 5.5% 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, a deepwater pre-salt project. Production from the project has been booked since September 2021.

The Mero oilfield in the northwest area of the Libra project includes four production units, namely Mero 1, Mero 2, Mero 3 and Mero 4. The output of the extended trial production remained stable in 2021. The final investment decisions for Mero 1, Mero 2, Mero 3 and Mero 4 oilfields have been made, and the projects are expected to commence production in 2022, 2023, 2024 and 2025, respectively.

BUSINESS OVERVIEW

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

CNOOC Limited also holds 100% interest in block 592 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 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 25,000 BOE in the end of 2021. In February 2022, the Phase II of Liza oilfield has been put into production ahead of schedule with a peak production of 220,000 BOE/day expected. For the Payara oilfield, the Phase III of Liza oilfield, the final investment decision has been made and the government's approval has been obtained. Payara oilfield is expected to commence production in 2024.

In 2021, 6 new discoveries including Uaru-2, Longtail-3, Whiptail, Pinktail, Turbot-2 and Cataback-1 have been made in the Stabroek block. Currently, the recoverable resources in the block have exceeded 10 billion BOE. The total production of the block is expected to reach 800,000 BOE/day in 2025.

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 2021, 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 2021, the Company's reserves and production derived from Europe reached 66.1 million BOE and 43,232 BOE/day, respectively, representing approximately 1.2% of the Company's total reserves and approximately 2.8% of its production.

The U.K.

The U.K. is one of the key overseas development areas for the Company. The Company's asset portfolio in the U.K. North Sea comprises of producing projects and development and exploration projects, which mainly include: 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 2021, the Buzzard oilfield's daily net production reached approximately 27,000 BOE. In addition, Buzzard oilfield Phase II has commenced production in November 2021.

The Company also holds a 50% exploration interest in P2215 block in the U.K. North Sea, and completed the drilling of two appraisal wells in Glengorm in 2021.

In addition, the Company holds a 37.5% interest in P2415 block in the U.K. West Shetland Basin.

Russia

The Company owns a 10% interest in Arctic LNG 2 LLC. The project is located in the Gydan Peninsula in the Arctic region of Russia. Three LNG production trains are planned and are expected to start production in 2023, 2024 and 2025, respectively. It is expected to produce 19.8 million tons of LNG annually after full operation.

BUSINESS OVERVIEW

SALES AND MARKETING

Sales and marketing of crude oil and natural gas is one of the main business sectors of the Company. In 2021, the Company reformed its sales and trade system, to optimise the management and coordination of the sales and trade teams. To that end, we established CNOOC International Trading Co., Ltd.

Sales of Crude Oil

The Company sells the crude oil produced in offshore China in domestic market mainly through CNOOC International Trading Co., Ltd., its wholly-owned subsidiary. The Company sells the crude oil produced overseas in international and domestic markets mainly through CNOOC International Trading Co., Ltd. and CNOOC International Limited.

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 with 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 international crude price benchmarked against is Brent. The Company's major customers in China are China National Offshore Oil Corporation, CNPC, Sinopec Group and some local private refineries. Overseas crude oil sold in international markets is benchmarked against the Brent, Dubai, Oman and WTI prices and regularly updated official oil prices of the host countries.

In 2021, due to the prolonged sluggish international oil prices, the Company's average realised oil price was US\$67.89 per barrel, nonetheless, still representing a sharp year-on-year increase of approximately 65.7%, basically in line with 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.

LNG cargoes imported from the NWS Project in Australia and the Tangguh LNG Project in Indonesia are under long-term supply contracts and are sold 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 2021, the Company's average realised natural gas price was US\$6.95/mcf, representing a year-on-year increase of approximately 12.6%, which was mainly due to the rise in natural gas sales prices in overseas markets.

In China, thanks to the combined impact of the proper prevention and control of COVID-19, economic recovery and the carbon peaking and carbon neutrality goals, the consumption of natural gas based on metre reading has maintained growth. Domestic exploration and development efforts have been intensified, and production and sales have continued to grow. The Company paid close attention to market conditions, and realized favorable natural gas sales prices through negotiations with the customers.

RESEARCH AND SCIENTIFIC DEVELOPMENT

In 2021, CNOOC Limited further promoted the innovation-driven strategy, advanced the reform of scientific and technological system, increased the research and development investments by 32.5% year on year and witnessed the investment into research and development reaching 1.7% of the total capex. The Company insisted on facilitating exploration and development with scientific and technological innovations and strengthened the utilization of technological achievements, so as to further consolidate the technology foundation for its position as "the oil and gas expert in offshore China". Meanwhile, we made continuous progress in the research and development of core technologies and made contributions to the breakthroughs in the localisation of key equipment.

BUSINESS OVERVIEW

Deepen geological understanding to achieve exploration breakthroughs

Based on the study of buried hills, such as “Accumulation Mechanism of Large Condensate Gas Reservoirs Inside Deeply Buried Hills in Bohai”, the Company achieved a significant breakthrough in the exploration of hydrocarbon accumulation inside buried hills in Bohai in 2021, with proven reserves in Luda 10-6 structure exceeding 35 million tons of oil equivalent, and proven reserves in Bozhong 13-2 encirclement area exceeding 30 million tons of oil equivalent. In the meantime, the Company applied the “Accumulation Mechanism of Deepwater Natural Gas Reservoirs in Continental Edge of Northern South China Sea” to explore the continental slope in northern South China Sea.

Advance development technologies to release potential reserves

The Company made relentless efforts in the development of critical technologies to address the challenges in the extraction of deep water and deep layer, high temperature and high pressure and low-permeability heavy oil resources. Milestone progresses were achieved, which provided a strong technology support to the increase of oil and gas reserves and production. For heavy oil extraction, the Company has developed key technologies including thermal recovery, long-term sand control and integrated injection and production, which significantly enhanced the recovery rate of the producing oilfields. In 2021, Luda 21-2 oilfield built the Company’s first demonstration platform for large-scale development of offshore heavy oil thermal recovery. The output of heavy oil thermal recovery in Bohai exceeded 300,000 tons, with more heavy oil reserves expected to be developed in the future.

Strengthen innovation to improve independent operation capacities

In 2021, the semi-submersible production platform “Shenhai-1” energy station was put into production. It achieved three world-class innovations and addressed 12 challenges related to the localisation of key equipment. Fixed production platforms in Bohai Bay reported 90% of localisation rate. The first set of localised shallow-water subsea wellhead and Christmas tree accomplished the sea trial, and the deep-water subsea oil and gas production system completed the localised development and sea trial verification. The first localised LPG treatment for light hydrocarbon recovery was applied in Lihua 16-2.

Accelerate digital transformation to reduce costs, improve efficiency and ensure safety

In 2021, the construction of Dongfang intelligent gas fields was preliminarily completed, which shortened the time of resuming production after the shutdown of offshore platforms by 83%, improve the gas supply speed by 10 times and downsize staff on the platforms by 20%. Phase I of Qinhuangdao 32-6 intelligent oilfield, the first cloud-edge collaboration platform in the industry, was completed and put into production, achieving edge remote system management, improving productivity by 30%, reducing operation costs effectively and downsizing staff on the platforms by 20%. Enping oilfields realised unmanned remote-controlled production in typhoon for the first time, reduced crude oil production losses by more than 100,000 barrels, and generated economic benefits of more than RMB53 million. A total of 10 platforms accomplished unmanned or less-manned transformation and designs, and the unmanned offshore producing platforms reached a rate of over 12%.

Support technological innovation, winning the national science and technology prize

In 2021, “Key Technologies and Applications for Efficient Development of Coalbed Methane in Reservoirs with Complex Geological Conditions” won the National Science and Technology Progress Award – the Second Prize (國家科學技術進步獎二等獎); “Key Technology and Industrial Application of Deep-water Shallow Well Drilling”, “Key Technologies and Equipment for Well Control in Deepwater Drilling”, and “Key Technology of New Polymer Flooding to Enhance Oil Recovery Rate” won the Second Prize of National Technology Invention Award (國家技術發明獎二等獎).

LOW CARBON DEVELOPMENT

In 2021, the Company actively responded to the green and low-carbon trend of the oil and gas industry, deployed new energy business sectors, and officially started a new journey of building a new energy industry with CNOOC Limited’s characteristics.

The Company established a new energy department and a new energy branch, to lead the top-level design of the development of new energy industry. Based on the knowledge of domestic and international new energy industries and CNOOC Limited’s comparative advantages, the Company has decided to actively advance offshore wind power business and develop onshore wind power and photovoltaic projects on a selective basis.

BUSINESS OVERVIEW

Relying on its capability to develop marine resources, the Company actively promotes the large-scale and profitable development of offshore wind power. In October 2021, the first offshore wind power project of the Company in the waters of Jiangsu province was put into operation at full capacity. The annual on-grid electricity of this project can reach 865 million kWh. The second offshore wind power project in the waters near Shantou, Guangdong province is progressing in an orderly manner. During the year, the Company also actively promoted several demonstration projects such as Wenchang floating wind power in deep water, which highlighted the confidence and capability of the Company to develop offshore wind power resources in deep waters.

The Company is actively involved in the competitive allocation of onshore wind power and photovoltaic resources. In January 2022, China's first photovoltaic power station in offshore oilfields – photovoltaic power station in Weizhou oilfields was officially put into operation. By 2025, a new power supply model of “offshore wind farm + photovoltaic + energy storage + onshore power” will be realized in Weizhou oilfields, and the first offshore demonstration oilfield of “zero-carbon” power supply will be built.

The Company actively promotes researches on carbon market and explores the large-scale commercialization of negative carbon technology. In 2021, CNOOC Limited officially launched China's first offshore carbon capture and storage (CCS) demonstration project at Enping 15-1 oilfields, which enables permanent storage of associated carbon dioxide in seabed reservoirs, with an estimated storage capacity of over 1.46 million tons. This project fills the gap in China's offshore CCS technology, and is an example to the green development of offshore oil and gas fields.

In addition, the Company actively promotes energy conservation and emission reduction to facilitate low-carbon development. In 2021, 40 energy conservation projects were implemented, saving 161,000 tons of standard coal and reducing carbon dioxide emissions by 409,000 tons. The onshore power project of Qinhuangdao/Caofeidian oilfields, the world's largest onshore power project of AC transmission at the highest voltage for offshore oilfields, was put into production and expected to reduce carbon dioxide emissions by about 200,000 tons every year. The project also built the sea-land optical fibre communication “highway”, which lays foundation for the intelligent transformation of offshore platforms.

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 Intact”. Under the keynote of “Three-year special action for improving work safety and deepening the work safety responsibility system for 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 2021, the Company promoted a special rectification action on work safety, and initiated a 100-day campaign to improve work safety. We stayed problem-oriented and organized large-scale work safety inspections, reflections and rectifications. We continued to improve the safety management systems, compiled and issued the Interim Provisions on Accountability for Safety and Environmental Protection Violations and Accidents to strengthen the accountability of violations and accidents for safety and environmental protection and reinforce warning education on work safety.

BUSINESS OVERVIEW

We strengthened inspections to continuously improve our capabilities of risk control. Special attention had been dedicated to the supervision of key operation processes, schedule and major engineering projects. We built a closed-loop of inspections, analysis and supervision. Special investigation and rectification of potential safety risks were conducted at offshore oil platforms to achieve full coverage of self-inspection.

We continued to shape a robust safety culture featuring “People orientation, Implementation and Intervention”. Focusing on fulfilling the work safety responsibilities, we arranged one-on-one interviews with the leaders in charge of work safety, so that they would play an exemplary and leading role. We intensified education on the necessity and tasks of safety and environmental protection through “safety classes” and safety seminars. We honored and awarded the most outstanding personnel in the field of work safety to cultivate a favorable internal atmosphere. We also organized employees to actively participate in online contest on safety, environmental protection and emergency responses, to continuously improve the safety awareness and skills of our staff.

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

We normalized the pandemic prevention and control measures, strictly implemented the “responsibilities of four parties”, adjusted prevention and control measures when necessary, reserved pandemic prevention supplies. We required all the production and operation units to review and refine the emergency plans for pandemic prevention and control, and actively advanced vaccination, and kept the bottom line of “zero infection” of the COVID-19 in the workplace.

During the year, the Company vigorously promoted energy-saving and emission-reduction projects to improve resource utilization efficiency and build a resource-saving green enterprise. We have managed environmental risk control in full-life cycle, and have promoted the management of environmental protection in key areas to ensure compliant discharge of all the pollutants. In 2021, Shenzhen Branch, Weizhou operating company of Zhanjiang Branch and Dongfang operating company of Hainan Branch were awarded the title of advanced unit of energy conservation during the 13th Five-Year Plan in petrochemical industry. Qinhuangdao 32-6 operating company of Tianjin Branch, Panyu operating company of Shenzhen Branch and Weizhou operating company of Zhanjiang Branch were elected as 2021 green factories in petrochemical industry.

In 2021, CNOOC Limited adhered to 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 | 38 | 8 | 0.21 | 3 | 0.08 | 0 |
| Staff of the Company and direct contractors | 161 | 29 | 0.04 | 18 | 0.02 | 3 |

BUSINESS OVERVIEW

CORPORATE CITIZEN

We are committed to extracting natural resources in a safe, efficient, and environmentally-friendly manner, to providing society with clean, reliable and stable energy, to meeting people's reasonable energy demand and thereby achieving sustainable development of the Company. The economy, environment, and society form three cornerstones for us to develop energy resources and generate value. Along with the steady growth of our business and economic contributions, we will press ahead on the road of environmental protection and social progress, so as to drive the sustainable development of the Company.

While pursuing production growth, CNOOC Limited will actively respond to climate change, practise the concept of green and low-carbon development, and transform itself into a green and low-carbon enterprise. The philosophy of our social responsibility could be summarized as follows. 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 common progress of stakeholders and society.

In 2022, the Company will publish on its website the "2021 Environmental, Social and Governance Report", which will provide a systematic review of the Company's activities to fulfill its corporate social responsibility in 2021.

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 of the Company's development. We always adhere to the people-oriented development concept, constantly improve employment policies, attach great importance to the rights and interests of employees, and create a good environment for their development.

Objective, Open and Equal Employment Policy

CNOOC Limited strictly complies with relevant 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 establishes 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 offers trainings to female employees 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 2021, the Company had 3,009 female employees, accounting for approximately 16% of the total workforce, and 16% employees in mid-level and senior management positions were female.

BUSINESS OVERVIEW

All employees sign 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 on salaries, overtime hours and statutory benefits promulgated by jurisdictions where the business are operated 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, establish a salary increment mechanism and gradually establish a distribution system that matches market practice. 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. The income of our employees stays aligned with the Company's profit growth and enable our 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 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 organises the promotion and implementation of the Rules 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 protects all 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. We champion cultural integration, and actively participate in the construction and activities of local communities. We also encourage the overseas employees to participate in competitions and cultural activities organised by the headquarters.

BUSINESS OVERVIEW

Staff Development

CNOOC Limited adheres to the development concept of common growth of employees and the Company, improves the training system, optimizes employee growth and development system, and opens channels for talent development to provide opportunities for each employee to become the backbone of the Company.

The Company actively promotes the school-enterprise joint talent cultivation mechanism. On the one hand, CNOOC Limited helps young talents in universities to grow. On the other hand, CNOOC Limited actively signs strategic cooperation agreements with China University of Petroleum (Beijing), China University of Petroleum (Huadong) and other universities to deepen the cooperation in talent cultivation. We help to advance the cultivation of young talents for scientific and technological innovation. In 2021, the Company selected 90 young science and technology talents aged about 35 and helped them to improve the creative thinking and practical abilities in the professional aspects of oil and gas exploration, development and drilling.

In the meantime, the Company actively implements the rating of vocational skills and has completed the rating of 1,855 employees for five professional skill levels across eight professional jobs, including primary workers, junior workers, senior workers, technicians and senior technicians. It encourages the frontline staff to apply for vocational experts rating. Over 150 frontline employees are qualified as experts. All of these moves provide talent support for high-quality development of the Company.

Cultivation of International Talents

In 2021, the Company continued to strengthen the cultivation of international talents, focused on the key and difficult issues of overseas business development, optimized the training mode, established a systematic training system and an international talent reserve mechanism of hierarchical linkage. Training courses were provided for three different groups: business and legal affairs, project management and finance. A total of more than 70 personnel selected to participate in the medium to long term off-job trainings for international talents.

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 recognizes 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) has been authorized by the Board to be in charge with the organization 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, meanwhile has taken the risk management framework issued by COSO (namely, the Committee of Sponsoring Organizations of the Treadway Commission) of the U.S. and Guidelines for Comprehensive Risk Management of Central Companies by the State-owned Assets Supervision and Administration Commission (SASAC) 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 established an internal control system and mechanism for financial, operational and compliance monitoring in accordance with the provisions of the Basic Standard for Enterprise Internal Control and the supporting guidelines jointly formulated by the five ministries, including Ministry of Finance of the PRC and the internal control framework formulated by the COSO, and has conducted continuing review and evaluation of the internal control system of the Company, in order to ensure the timeliness, accuracy and completeness of all information reported.
- 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, 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 Company maintained the mechanism of "Commitment to Compliance" signed by all employees to enhance their awareness of integrity and compliance responsibility, and established a unified domestic and overseas compliance complaint channel (<https://www.cnoc ltd.com/complaint>), and conducted investigations timely.
- The Board considered that as of 31 December 2021, 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 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, analyze, 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.

RISK MANAGEMENT AND INTERNAL CONTROL

Macro economy and policy risk

Macro economy risk

The industry in which the Company operates is closely linked to the macro economy. The de-globalization of some major economies has hit the world economy. Due to the outbreak of the COVID-19 in 2020, the growth rates of the world's major economies have declined with different degrees. The conflicts between Russia and Ukraine has pushed up the global prices of energy and agricultural products, exacerbated tensions in the global industrial chain and supply chain, increased inflationary pressure in various countries, and slowed the global economic growth. Oil prices will continue to fluctuate under geopolitical pressure. Macro economy changes will affect the supply and downstream demand for oil and gas, which adversely affects the Company's performance.

Risk of changing international, political and economic factors

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 changes, 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.

Risk of industry policy changes

The ongoing oil and gas system reform in China may have certain impacts on the Company's business in China. For example, at present, China's foreign investment access policies no longer restrict foreign investment to participate in the oil and gas exploration and development business in China through joint venture and cooperation only. As at 31 December 2019, the Ministry of Natural Resources published the Opinions of the Ministry of Natural Resources on Several Matters Concerning Promoting Reform of Mineral Resources Administration (for Trial Implementation), which put forward opinions on the reform of mineral resources management, including opening the oil and gas exploration and exploitation market. In the future, the Company may face competition and challenges from a variety of competitors in the industry to obtain and retain exploration rights in oil and gas fields.

Risk of climate change and environmental policy changes

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. China has also put forward the time goal of "Carbon peak and Carbon neutrality". The goal of "Carbon peak and Carbon neutrality" proposed by various countries will greatly accelerate the process of energy transition, posing challenges to the oil and gas industry. It is expected that the CO2 emissions will increase as our production grows. CO2 emissions arising from the burning of fossil fuels in oil and gas fields will continue to increase without a mature and reliable CO2 reduction technologies in place. The Company expects to be supervised by relevant agencies and organizations in the future. If we are unable to find economically viable and publicly acceptable solutions that could reduce our CO2 emissions from our new and existing projects, we may experience additional costs, and our reputation may be adversely affected.

At present, some 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 and other relevant measures. Green and low-carbon transformation may lead to intensified competition in the energy supply market, resulting in an increase in our operating costs.

Our offshore operating platforms and exploration and development activities will generate sewage and waste. If they are not properly handled, they may not meet the standard of waste water discharge or the waste disposal process is not in compliance, which will damage our reputation and operations and increase costs, and even expose us to lawsuits and penalties.

RISK MANAGEMENT AND INTERNAL CONTROL

Market risk

Risk arising from 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, such as macroeconomic conditions, oil policies of OPEC and major oil exporting countries, geopolitics, economic conditions and actions related to major oil-producing countries, the prices and accessibility of other energy sources, natural disasters, weather conditions and major global public health emergencies, etc.

Volatility in oil and gas prices may impact our business, cash flows and profits fluctuate. 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.

Risk arising from increasing market competition

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.

At the same time, environmental protection supervision in energy sector is becoming increasingly strict, and the world is actively promoting the transition and transformation to low-carbon and clean energy. The green and low-carbon transformation may lead to increasing demand for alternative energy, which in turn will lead to increasing competition in the energy supply market, which may adversely affect the operations and performance of the Company.

Business risk

HSSE risk

Given the geographical area, operational diversity and technical complexity of our operations, every aspect of our daily operations exposes us to potential health, safety, security and environment (HSSE) risk. Part of our operations are located in environmentally sensitive regions or politically unstable regions, and part of our business are operated 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 probable major safety incidents, and 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. At the same time, regulatory regimes for HSSE in the countries in which we operate may become more stringent over time. In the future, we may incur significant costs, such as fines, penalties, clean-up costs and third-party claims, as a result of breach of laws and regulations relating to HSSE matter.

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 risk and uninsured losses and liabilities arising from these hazards may have a material and adverse effect on our business, financial condition and results of operations.

RISK MANAGEMENT AND INTERNAL CONTROL

Risk of deviation of forward-looking judgment and actual situation of oil and gas prices

The Company, as an oil and gas exploration and development enterprise, will make forward-looking judgments on oil and gas prices when evaluating oil and gas projects or related business opportunities, while economic returns of projects normally depend to some extent on the Company's robustness and accuracy of price predictions. The Company will review the oil and natural gas price predictions on a periodic basis. Although we believe our current forward-looking predictions on long-term price range are prudent, if such predictions are deviated in the future, it could have a material and adverse effect on us.

Risk that the anticipated benefits from mergers and acquisitions and disposals may not be realized

Part of the Company's oil and gas assets are acquired through mergers and acquisitions. In mergers and acquisitions practice, mergers and acquisitions may not succeed due to various reasons, such as difficulties in integrating activities and realizing 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 realize 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.

Risk of limited control over our investments in joint ventures and our joint operation with partners

Due to the special nature of the oil and gas industry, a portion of our operations are conducted in the form of partnerships or in joint operation, 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 realization of our target returns on capital investment and lead to unexpected future costs.

The risk of high concentration of customers

During the reporting period, sales to major customers of the Company accounted for a relatively high proportion. If any of our major customers reduces its crude oil or natural gas purchases from us significantly, and the Company fails to find alternative customers in time, our results would be adversely affected.

The risk of high supplier concentration

During the reporting period, procurement from the Company's major suppliers accounted for a relatively high proportion. The Company, as an exploration, development and production of oil and gas enterprise, is principally engaged in the exploration and development with services procurement as its main procurement. We maintain a good working relationship with our major suppliers, and actively explore new suppliers to ensure supply adequacy and foster competition. However, if the major suppliers fail to continue to provide services to the Company due to accidental factors, and the Company fails to find suitable alternative suppliers, its operating activities may be disrupted and the performance would be adversely affected.

Risk from unrealizable undeveloped reserves

By the end of 2021, approximately 48.2% of our proved reserves were undeveloped as of December 31, 2021. There are various risks in developing reserves, mainly including construction, operational, geophysical, geological and regulatory risk. Failure to develop these reserves in a timely and cost-effective manner could adversely affect the Company's results. 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. The factors, assumptions and variables involved in estimating reserves are beyond our control and may be proved to be incorrect over time. That may result in volatility of our initial reserve data.

RISK MANAGEMENT AND INTERNAL CONTROL

Technology development and deployment risk

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 realize 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.

Network security and IT infrastructure damage risk

Malicious attacks on our cyber system, negligence in the management of our cyber security and IT system and other factors may cause destruction or failure of 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.

Risks to business and operations in Canada

Transportation and export infrastructure in Canada is limited, and without the construction of new transportation and export infrastructure, realization 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.

Financial risk

Exchange rate risk

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 for equipment and raw materials. The Company may have exchange rate risk in the case of inconsistency between revenue and cost scale. When there is a capital gap in overseas capital expenditure, the Company needs to remit overseas payment by converting domestic RMB into USD, and the exchange rate fluctuation of RMB against USD brings certain exchange rate risks.

The risk of foreign exchange control

Certain restrictions on dividend distribution imposed by the laws of the countries in which we operate may adversely and materially affect our cash flows. For instance, subsidiaries established in countries and regions with foreign exchange control to remit funds overseas shall satisfy the regulatory requirements of local laws and regulations, and face the risk of policy changes at any time, which may cause the Company's failure to recover the cash income of subsidiaries in a timely manner.

Risk of related party transactions

We regularly enter into connected transactions with CNOOC and its affiliates. Certain connected transactions require a review by the regulatory authorities of the place where the shares are listed 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.

RISK MANAGEMENT AND INTERNAL CONTROL

Management risk

Risk caused by the actual controller's influence on the Company

As of the signing date of the Report, CNOOC directly and indirectly owns or controls approximately 65.21% 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 favor its own interests over ours.

Legal risks

Risk of violating anti-corruption, fraud, money laundering and corporate governance and other laws and regulations

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. 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.

Risk of violating laws and regulations related to data security

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 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.

The risk of U.S. sanctions

Different levels of the U.S. government – federal, state or local government may impose economic sanctions of varying severity against certain countries or regions and their residents or designated governments, individuals, and entities. It is impossible to predict whether the business of the Company or its affiliates, the countries/regions where the business is conducted or its partners will be affected by the U.S. sanctions regime in the future due to changes in the U.S. sanctions regime. If this happens, the Company may not be able to continue to carry out relevant business, or it may not be able to continue to carry out business in the affected countries or regions or with the affected partners, thus affecting investors' perception of the Company and investment in the Company, and harming the Company's opportunity or ability to obtain new business.

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 2021, the Company was honoured, among others, as “2021 China Securities Golden Bauhinia Awards – Best Investment Value Award for Listed Company in the 14th Five Year Plan”, and “Most Excellent Entrepreneur for the Year 2021” hosted by Ta Kung Wen Wei Media Group, the “Most Honored Company”, “Best ESG (Oil & Gas)”, “Best IR Programs (Oil & Gas)” and “Best CFO (Oil & Gas)” in Institutional Investor’s 2021 All-Asia Executive Team Awards, “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, “Best Corporate Governance Responsibility Award” in the “2021 China ESG Golden Responsibility Award” hosted by Sina Finance. 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 2021, 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”), unless otherwise specified, references in this Report to the CG Code or Corporate Governance Principles refer to the 2021 CG Code as currently in force and the Corporate Governance Principles set forth therein, 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 2021 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 2021.
- The list of Directors, their respective biographies, and their respective roles in the Committees and the management are set out on pages 60 to 67 and 160 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. Nine Board meetings were held in 2021. 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.

CORPORATE GOVERNANCE REPORT

Attendance of individual Directors at full Board meetings held in 2021

| | No. of meetings attended (Nine meetings in total) | |
|--|--|----------|
| | by Director | by proxy |
| Executive Directors | | |
| Xu Keqiang | 9 | 0 |
| Xia Qinglong (Note 1) | 6 | 0 |
| Hu Guangjie (Note 2) | 0 | 1 |
| Non-executive Directors | | |
| Wang Dongjin (Chairman) | 9 | 0 |
| Li Yong (Vice Chairman) (Note 3) | 7 | 2 |
| Wen Dongfen (Note 4) | 4 | 5 |
| Independent Non-executive Directors | | |
| Chiu Sung Hong | 9 | 0 |
| Lawrence J. Lau | 9 | 0 |
| Tse Hau Yin, Aloysius | 9 | 0 |
| Qiu Zhi Zhong | 9 | 0 |

Note 1: With effect from 3 August 2021, Mr. Xia Qinglong was appointed as an Executive Director of the Company.

Note 2: With effect from 21 April 2021, Mr. Hu Guangjie resigned as an Executive Director and the President of the Company. Mr. Hu Guangjie appointed Mr. Xu Keqiang as his proxy to attend the Board meeting held on 25 March 2021 and to vote on his behalf.

Note 3: Mr. Li Yong appointed Ms. Wen Dongfen as his proxy to attend the two Board meetings held on 21 May 2021 and to vote on his behalf.

Note 4: Ms. Wen Dongfen appointed Mr. Li Yong as her proxy to attend the two Board meetings held on 26 September 2021, the two Board meetings held on 29 October 2021, and the Board meeting held on 17 November 2021 and to vote on her behalf.

- 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.
- The Board and Committees may, upon reasonable request, seek independent professional advice in appropriate circumstances at the Company's expense and ensure independent views and input are available to the Board. 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.

CORPORATE GOVERNANCE REPORT

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 2021, 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 Director(s) 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.

CORPORATE GOVERNANCE REPORT

- 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. Xia Qinglong 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& Appointments, re-election and removal & A.5 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 160 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.

CORPORATE GOVERNANCE REPORT

- 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.
- 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.

CORPORATE GOVERNANCE REPORT

- 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 (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 considered and proposed the amendments to the charter and presented to the Board for approval.
- During the year ended 31 December 2021, Mr. Hu Guangjie no longer served as the Executive Director and President of the Company with effect from 21 April 2021. Mr. Xia Qinglong was appointed as the President of the Company with effect from 21 May 2021 and an Executive Director with effect from 3 August 2021. 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.

CORPORATE GOVERNANCE REPORT

- 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 high quality 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 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. In addition, in accordance with the Listing Rules which states that the Exchange will not consider diversity to be achieved for a single gender board, and in this regard, gender diversity is achieved at the Board level with one female Director.
- The Board has reviewed the implementation and effectiveness of the Company's policy on board diversity in 2021.

CORPORATE GOVERNANCE REPORT

- In accordance with the principles of diversity and anti-discrimination in employment, the Company insists on treating employees equally in the recruitment, training, promotion and remuneration systems regardless of race, nationality, creed, gender, age, marital status or whether subject to special statutory protections, strives to provide employees with equal opportunities in all aspects, and creates a respectful, open and tolerant corporate culture and values the diverse talents of its employees. The Company adheres to the principle of gender equality in employment, actively increases the number of female employees and carries out cultivation and education activities for female management. In addition, the Company also through a variety of ways to enrich the spare time of female employees, encourage female employees to participate in various activities. As of the end of 2021, the Company had a total of 3,009 female employees, accounting for 16% of its total workforce and 16% of its senior and middle management.
- 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 Company and its subsidiaries 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 apprised 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 for the Directors a brief introduction of the continuing regulatory system for Shanghai and Hong Kong dual listed company provided by the Shanghai Stock Exchange as well as a training for Directors and senior managers of the companies proposing to be listed in A share market conducted by external consultants. In addition, the Company provided compliance training on International Anti-Corruption/Anti-Bribery to all Directors.

Attendance of individual members at Nomination Committee meetings in 2021

| Directors | No. of meeting attended (One meeting in total) 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.

CORPORATE GOVERNANCE REPORT

- 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, monthly updates on the business and operations of the Company and its subsidiaries, as well as public opinion monitoring information domestically and abroad on every business day.
- 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 2021, 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 2021 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 2021:

| Directors | No. of meetings attended (Two meetings in total) |
|--|--|
| Executive Directors | |
| Xu Keqiang | 2 |
| Xia Qinglong (Note 1) | 1 |
| Hu Guangjie (Note 2) | 0 |
| Non-executive Directors | |
| Wang Dongjin (Chairman) | 2 |
| Li Yong (Vice Chairman) | 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 |

CORPORATE GOVERNANCE REPORT

Note 1: With effect from 3 August 2021, Mr. Xia Qinglong was appointed as an Executive Director of the Company

Note 2: With effect from 21 April 2021, Mr. Hu Guangjie resigned as an Executive Director and the President 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 67 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.”

- 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 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 160 of this annual report.

CORPORATE GOVERNANCE 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 remuneration of Independent Non-executive Directors only includes cash, and the Company does not grant equity-based remuneration with performance-related elements to Independent Non-executive Directors to avoid bias in their decision-making and compromise their objectivity and independence. 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 of Directors for the year ended 31 December 2021, are set out on pages 119 to 121 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 8 to 9 to the consolidated financial statements on pages 119 to 122 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.

CORPORATE GOVERNANCE REPORT

- 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 considered and proposed the amendments to the charter and presented to the Board for approval.

Attendance of individual members at Remuneration Committee meetings in 2021

| 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 |
| Li Yong | 2 | 0 |

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 Company and its subsidiaries’ 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.

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- 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 Company and its subsidiaries, 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 78 to 83 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.
- The management has evaluated the effectiveness of the Company's internal control over financial reporting in accordance with the provisions of *the Basic Standard for Enterprise Internal Control* and the supporting guidelines and the internal control framework formulated by the COSO, and the auditor 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 155 to 158 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 Company and its subsidiaries is set out in the Independent Auditor's Report on pages 84 to 87 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.

CORPORATE GOVERNANCE REPORT

- 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) 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 Committee 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 Committee 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, *Guidelines for Comprehensive Risk Management of Central Companies* by the State-owned Assets Supervision and Administration Commission (SASAC) the Comprehensive Risk Management Guidance for State-owned Enterprises issued by the SASAC of the PRC as an important reference, established a risk management system covering design, implementation, monitoring, assessment and continuous improvement. The RMICC Risk Management 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 Risk Management Committee is also responsible for reviewing the response plans to major risks, as well as periodically following up and reviewing the implementation of such response plans, and the handling of 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 established an internal control system and mechanism for financial, operational and compliance monitoring in accordance with the provisions of *the Basic Standard for Enterprise Internal Control* and the supporting guidelines jointly formulated by five ministries, including Ministry of Finance of the PRC and the internal control framework formulated by the COSO, and has conducted continuing review and evaluation of the internal control system of the Company, in order to ensure the timeliness, accuracy and completeness of all information reported.

CORPORATE GOVERNANCE REPORT

- 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 Company and its subsidiaries.
- 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.
- The Company has formulated the Compliance Manual for Entities and Employees, the Policy for Compliance Management and other policies, which stipulates basic compliance requirements in anti-corruption, anti-fraud, anti-money laundering, anti-monopoly and other aspects. The Company has established a unified domestic and overseas compliance complaint channel (<https://www.cnoocld.com/complaint>), which provides the complaint channels for employees and those who deal with the Company (e.g. customers and suppliers) to raise concerns, in confidence, with the Company about possible improprieties.
- During the reporting period, the Company's internal audit function provided independent assurance as to the adequacy and effectiveness of the Company's risk management and internal control systems. The financial condition and operational 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.

CORPORATE GOVERNANCE REPORT

- 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 2021 and did not discover any material weakness from the evaluation. As a result, the Board considered that as of 31 December 2021, 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 160 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 Company and its subsidiaries 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.

CORPORATE GOVERNANCE REPORT

- The Audit Committee is also responsible for reviewing the Company's internal audit function, ensuring co-ordination within the Company and its subsidiaries 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 2021. 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 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 Company and its subsidiaries 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;

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- (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 proposed the 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.

CORPORATE GOVERNANCE REPORT

Attendance of individual members at Audit Committee meetings in 2021

| Independent Non-executive Directors | No. of meetings attended (Five meetings in total) | |
|---|--|----------|
| | by committee member | by proxy |
| Tse Hau Yin, Aloysius (Chairman and Financial Expert) | 5 | 0 |
| Chiu Sung Hong | 5 | 0 |
| Lawrence J. Lau | 5 | 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;
 - (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; and
 - (v) Determining the appointment or dismissal of senior management, determining the performance assessment results of senior management, and reasonably control the remuneration level of senior management.
- 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.

CORPORATE GOVERNANCE REPORT

D.2& Board Committees &

D.3 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. The Company has dedicated telephone, fax and E-mail address, to enable active responses to the shareholders and investors' inquiries through a variety of ways, and to timely feedback to the management of reasonable suggestions. The shareholders can also directly put forward their opinions and suggestions to the directors and the management of the Company at the general meetings and the performance release conferences.

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- 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, annual and other periodic 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, 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 the Company reviews it on an annual basis to ensure its effectiveness. After the review of the implementation and effectiveness of the shareholders' communication policy, the Company is of the view that the policy is effective in providing channels for shareholders to communicate their views on various matters affecting the Company and for the Company to solicit and understand the views of the shareholders.

E.2 Voting by Poll

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

- In 2021, as impacted by the Covid-19 epidemic, the Company held its general meetings via video and on-site conference, and gave sufficient notices to shareholders in advance of the meetings. 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.

CORPORATE GOVERNANCE REPORT

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 67 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.

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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.

PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION

Certain proposed amendments to the Articles of Association of the Company for the RMB Share Issue were approved at the extraordinary general meeting of the Company on 26 October, 2021, and the proposed amendments would take effect from the date of listing of the RMB Shares on the main board of the Shanghai Stock Exchange. For details of the proposed amendments to the Articles of Association, please refer to the circular of the Company dated 4 October, 2021.

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.

SUMMARY OF GENERAL MEETINGS

| Sessions and No. of Meeting | Date | Designated websites on which poll results were published | Disclosure date of poll results | Resolutions |
|------------------------------------|------------------|---|--|--|
| Annual General Meeting | May 21, 2021 | The Hong Kong Stock Exchange's website (http://www.hkexnews.hk) The Company's website (https://www.cnooltd.com/) | 21 May, 2021 | A total of 11 proposals were proposed and duly passed at the meeting. For details, please refer to the Company's announcement published on the Hong Kong Stock Exchange's website and the Company's website. |
| Extraordinary General Meeting | October 26, 2021 | The Hong Kong Stock Exchange's website (http://www.hkexnews.hk) The Company's website (https://www.cnooltd.com/) | 26 October, 2021 | A total of 13 proposals were proposed and duly passed at the meeting. For details, please refer to the Company's announcement published on the Hong Kong Stock Exchange's website and the Company's website. |

CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

For the year ended 31 December 2021, 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.4.2 of the CG Code. The following summarises the requirements under the above-mentioned CG Code Provision A.4.2 and the reason for such deviations.

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. Xia Qinglong was appointed as an Executive Director with effect from 3 August 2021. Mr. Xia Qinglong did not retire and offer himself for re-election by shareholders in the extraordinary general meeting of the Company held on 26 October 2021. 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 ("Article 101"). According to Article 101, Mr. Xia Qinglong 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 2021, there was the following change in Directors.

With effect from 21 April 2021, Hu Guangjie no longer served as an Executive Director and the President of the Company. With effect from 21 May 2021, Mr. Xia Qinglong was appointed as the President of the Company. With effect from 3 August 2021, Mr. Xia Qinglong was appointed as an Executive Director 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 2021.

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 2021, with the Company's Code of Ethics and the required standards set out in the Model Code.

CORPORATE GOVERNANCE REPORT

SERVICES AND REMUNERATION OF AUDITORS

As was approved in the 2021 Annual General Meeting, following the retirement of Deloitte Touche Tohmatsu upon expiration of its term of office (with effect from the conclusion of the Annual General Meeting dated 21 May 2021), the Company has appointed Ernst & Young as the new independent auditors (“Auditors”) of the Company and its subsidiaries for Hong Kong reporting and Ernst & Young Hua Ming LLP as the independent auditors (“Auditors”) for the U.S. annual reporting on Form 20-F for the year 2021 with effect from 21 May 2021 until the conclusion of the next annual general meeting of the Company. Due to the termination of the Company’s reporting obligations under the U.S. Securities Exchange Act of 1934, Ernst & Young Hua Ming LLP did not issue any audit opinion for the U.S. annual reporting on Form 20-F for the year 2021. Services provided by the Auditors and fees charged by the Auditors for the services for the year ended 31 December 2021 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 RMB55.00 million for the financial year ended 31 December 2020 and RMB55.12 million for the financial year ended 31 December 2021.

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 RMB7.8 million for the financial year ended 31 December 2020 and nil for the financial year ended 31 December 2021.

Tax Fees

The aggregate fees billed for professional service rendered by the Auditors for tax compliance, tax advice and tax planning were RMB0.04 million for the financial year ended 31 December 2020 and RMB11.42 million for the financial year ended 31 December 2021.

All Other Fees

The aggregate fees billed for professional service rendered by the Auditors for risk management advisory services and information systems reviews were RMB0.23 million for the financial year ended 31 December 2020 and RMB3.03 million for the financial year ended 31 December 2021.

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 2020 and for the financial year ended 31 December 2021.

A DISTRIBUTION POLICY

The Company has always attached importance to shareholder returns and paid dividends twice a year. 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 in the long run. 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.

To ensure shareholders’ return, subject to the approval by the general meeting of shareholders on the proposed dividends for each year, from 2022 to 2024, the expected annual payout ratio of the Company will be no less than 40%. From 2022 to 2024, the annual absolute dividend is expected to be no less than HK\$0.70/share (tax inclusive) regardless of the operational results of the Company.

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. Since March 2019, Mr. Wang has served as a Director of Overseas Oil & Gas Corporation, Ltd. (OOGC) and CNOOC (BVI) Limited (CNOOC (BVI)). In October 2019, Mr. Wang was appointed as Chairman of CNOOC. From November 2019, Mr. Wang was appointed as the Chairman and the President of OOGC, and as the Chairman of CNOOC (BVI). 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. From September 2020, Mr. Li has been appointed as a Director of OOGC and CNOOC (BVI). 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. Since March 2020, Ms. Wen was appointed as a Director of OOGC and CNOOC (BVI). Ms. Wen was appointed as a Non-executive Director of the Company with effect from 27 April 2020.

DIRECTORS AND SENIOR MANAGEMENT

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. From November 2019, Mr. Xu has been appointed as a Director of OOGC, and as a Director of CNOOC (BVI). 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.

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 different positions at Bohai Oil Research Institute and 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 of China BlueChemical Ltd. ("China BlueChem"), a company listed on the Stock Exchange of Hong Kong Limited, from June 2016 to March 2018. He was also the Executive Director of China BlueChem from July 2016 to December 2019. From March 2018 to December 2019, he served as the Chairman of the Board of China BlueChem. He serves as Chairman of the Board of CNOOC International Limited since December 2019. Mr. Xia Qinglong also serves as the Director of CNOOC (China) Limited starting from March 2020, and he has been appointed as the General Manager of CNOOC (China) Limited from June 2021. Since August 2021, Mr. Xia was appointed as a Director of OOGC. He served as an Executive Vice President of the Company from March 2020 to May 2021, and he was appointed as the President of the Company with effect from 21 May 2021. Mr. Xia Qinglong was appointed as the Executive Director of the Company on 3 August 2021.

DIRECTORS AND SENIOR MANAGEMENT

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 served as an Executive Director and the President of the Company from 20 March 2020 to 21 April 2021, and he also served as the Chief Safety Official of the Company since 29 September 2020 to 21 April 2021.

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.

DIRECTORS AND SENIOR MANAGEMENT

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, a Non-official Member of the Candidate Eligibility Review Committee of the Hong Kong SAR, the Chairman of the Board of Directors of the Chinese University of Hong Kong (Shenzhen) Advanced Finance Institute, aka Shenzhen Finance Institute, 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 (Mr. Tse resigned as an independent non-executive director from China Huarong Asset Management company in March 2021, and the resignation shall take effect after the commencement of terms of office of the new independent Non-executive Director.), companies listed on The Stock Exchange of Hong Kong Limited (HKSE). 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. From November 2004 to June 2021, Mr. Tse was an independent non-executive director of 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 currently an independent non-executive director of CCB International (Holdings) Limited, a wholly owned subsidiary of China Construction Bank Corporation, and 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.

DIRECTORS AND SENIOR MANAGEMENT

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

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.

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. In May 2021, he was appointed as the Chief Safety Officer & General Manager of New Energy Department of the Company. Mr. Yang was appointed as the Executive Vice President of the Company with effect from 8 June 2021.

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

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.

Xu Yugao

Born in 1969, doctor of Tsinghua University, a professorial senior economist. Mr. Xu was an assistant researcher of the 21st Century Development Research Institute of Tsinghua University, Mr. Xu was an assistant professor at the Institute of 21st Century Development, Tsinghua University, served as staff and strategic project manager of Strategic Planning Department of China Oilfield Services Limited (COSL), the Policy Research Manager of the Development Research Office of China National Offshore Oil Corporation (CNOOC), CFO of CNOOC Oil Base Group Co., Ltd., Vice President and CFO of CNOOC Energy Technology & Services Limited. From August 2013 to May 2016, he served as General Manager of the Legal Department of CNOOC (CNOOC Limited). From May 2016 to July 2018, he served as Director of the Policy Research Office of CNOOC. From July 2018 to June 2020, he served as President of CNOOC Institute for Executive Development. Since June 2020, he has been serving as the General Manager of International Cooperation Department and Director of Foreign Affairs Department of CNOOC (CNOOC Limited). Since April 2021, he has been serving as the Deputy General Legal Officer of CNOOC. Mr. Xu was appointed as the General Counsel and the Compliance Officer of the Company in May, 2021.

Ke Ivxiang

Born in 1964, Mr. Ke is a professor-level senior engineer. In 1987, he graduated from China University of Petroleum with a Bachelor's degree. Later, majored in administration at Zhongnan University of Economics and Law, he obtained a Master's degree in Management. From August 1987 to December 2000, Mr. Ke successively served as instrument engineer, supervisor, manager of Wei10-3 oil field, chief engineer, deputy general manager of Oil Production Company, Nanhai West Company, and operation manager of production department of Nanhai West Company. From December 2000 to April 2013, he served as operation manager of production department of CNOOC (China) Limited Zhanjiang Branch & deputy chief representative of JMC (Wenchang13-1/2 contract area), manager of production department & chief representative of JMC (Wenchang13-1/2 contract area), general manager of Wenchang13-1/2 oilfield operation company, chief representative of JMC (Wenchang39/05 contract area), and Deputy General Manager of CNOOC (China) Limited Zhanjiang Branch. From April 2013 to February 2017, he successively served as Deputy Director & Executive Deputy Director of Nanhai West Petroleum Administration Bureau of CNOOC, Vice General Manager & Executive Vice General Manager of CNOOC (China) Limited Zhanjiang Branch. From February 2017 to March 2018, he served as Executive Vice General Manager of CNOOC Gas & Power Group Ltd. From March 2018 to December 2019, he served as Deputy Safety Officer & General Manager of Development and Production Department in CNOOC Ltd. From December 2019 to March 2021, he served as General Manager of CNOOC (China) Limited Shanghai Branch. Since March 2021, he has been the General Manager of CNOOC (China) Limited Zhanjiang Branch. Mr. Ke was appointed as the Vice President of the Company with effect from 8 June 2021.

DIRECTORS AND SENIOR MANAGEMENT

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 China National Offshore Oil Corporation (“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 as above.

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 Chartered Governance Institute 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 FCCA since 2020. 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 Chartered Governance Institute 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 Chartered Governance Institute 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 Chartered Governance Institute 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 2021.

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 Company and its subsidiaries as of 31 December 2021 and the operating results of the Company and its subsidiaries for the year then ended.

BUSINESS REVIEW

Overview and Performance of the Year

A review of the business of the Company and its subsidiaries and analysis of the Company and its subsidiaries’ performance using financial key performance indicators is provided in the Business Overview and Management’s Discussion and Analysis section on pages 8 to 28 and pages 78 to 83 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 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, and 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. 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. At the stage of decommissioning and abandonment projects, the environmental protection program for decommissioning and abandonment (or dismantling) as well as the disposal program are prepared as required, and the special fund for environmental protection is withdrawn from the decommissioning and abandonment expenses to restore the marine ecological environment.

For the year ended 31 December 2021, aligning the national targets of peak carbon dioxide emissions and carbon neutrality, the Company started formulating an action plan of that enables CNOOC Limited to achieve its carbon peaking and carbon neutrality goals. The Company views energy saving and reduction in emission as important works. 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 2021 prepared by the Company (the “2021 ESG report”) to be available on the Company’s website.

REPORT OF THE DIRECTORS

Compliance with Relevant Laws and Regulations

For the year ended 31 December 2021, compliance procedures were in place to ensure adherence to applicable laws, rules and regulations which have significant impact on the Company and its subsidiaries. The Board and senior management within their respective duties in conjunction with internal and external professional advisors monitored the Company and its subsidiaries' policies and practices on compliance with legal and regulatory requirements. Changes in the applicable laws, rules and regulations which have significant impact on the Company and its subsidiaries (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, the Toronto Stock Exchange and relevant applicable securities laws and regulations.

In accordance with the requirements of the laws, regulations and related policies in Hong Kong, PRC and relevant other jurisdictions in which the Company and its subsidiaries operates, the Company and its subsidiaries 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 Company and its subsidiaries have been committed in complying with relevant laws and regulations on work and occupational safety of employees of the Company and its subsidiaries.

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; public opinion and corporate image concerned by the public; community evaluations for communities; participation in charities' and NGOs' relevant activities; 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 2021 ESG report.

Key Risks and Uncertainties

A description of principal risks and uncertainties that the Company and its subsidiaries may be facing is provided in the Risk Management and Internal Control on pages 29 to 34 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 28 of this annual report.

Subsequent Event

Please refer to note 40 to the consolidated financial statements for details of the significant events after the reporting period of the Company and its subsidiaries.

REPORT OF THE DIRECTORS

LOANS

Please refer to note 27 to the consolidated financial statements on pages 137 to 139 of this annual report for details of the loans and borrowings of the Company and its subsidiaries as of 31 December 2021.

PROPERTY, PLANT AND EQUIPMENT

Please refer to note 13 to the consolidated financial statements on pages 127 to 128 of this annual report for the movements in property, plant and equipment of the Company and its subsidiaries for the year ended 31 December 2021.

RESERVES

The distributable reserves of the Company as of 31 December 2021 amounted to RMB207,460 million.

Please refer to the consolidated statement of changes in equity on page 92 and note 41 to the consolidated financial statements on pages 153 to 154 of this annual report for movements in the reserves of the Company and its subsidiaries and the Company, respectively, for the year ended 31 December 2021.

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Particulars of the Company's subsidiaries, associates and joint ventures as of 31 December 2021 are set out in notes 16, 17 and 18 to the consolidated financial statements on pages 130 to 134 of this annual report.

DIVIDENDS

An interim dividend of HK\$0.30 (tax inclusive) per share was declared on 19 August 2021, and paid to the shareholders of the Company on 13 October 2021.

As disclosed in the announcement of the Company dated 30 March 2022, the CSRC has approved the RMB Share Issue of the Company. In accordance with the regulations of the CSRC, the Company is required to suspend the RMB Share Issue if it proposes a cash dividend plan during the period of the RMB Share Issue. In order to avoid the impact on the progress of RMB Share Issue of the Company, the Board decides not to recommend

the declaration of the 2021 year-end dividend and will announce a special dividend plan as soon as possible after the completion of the RMB Share Issue, and the 2021 year-end dividend as originally planned and the special dividend for the 20th anniversary of the listing in Hong Kong shall be combined and declared as a special dividend.

RETIREMENT BENEFITS

Please refer to note 33 to the consolidated financial statements on page 145 of this annual report for details of the retirement benefits of the Company and its subsidiaries for the year ended 31 December 2021.

MAJOR SUPPLIERS AND CUSTOMERS

Purchases from the largest supplier of the Company and its subsidiaries for the year ended 31 December 2021 represented approximately 17% of the Company and its subsidiaries' total purchases. The total purchases attributable to the five largest suppliers of the Company and its subsidiaries accounted for approximately 48% of the total purchases of the Company and its subsidiaries for the year ended 31 December 2021.

Sales to the largest third party customer for the year ended 31 December 2021 represented approximately 4% of the Group's total revenue. The total sales attributable to the five largest third party customers of the Company and its subsidiaries accounted for approximately 16% of the Company and its subsidiaries' total revenue for the year ended 31 December 2021.

For the year ended 31 December 2021, 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 Company and its subsidiaries.

CHARITABLE DONATIONS

The donations by the Company and its subsidiaries for the year ended 31 December 2021 amounted to RMB95.81 million.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS

The Independent Non-executive Directors have confirmed that the following continuing connected transactions for the year ended 31 December 2021 to which any member of the Company and its subsidiaries was a party were entered into by the Company and its subsidiaries:

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 for the provision (1) by the Company and its subsidiaries to CNOOC and/or its associates and (2) by CNOOC and/or its associates to the Company and its subsidiaries, 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 Company and its subsidiaries

| | |
|---|--|
| (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 |

REPORT OF THE DIRECTORS

Provision of management, technical, facilities and ancillary services, including the supply of materials by the Company and its subsidiaries 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 Company and its subsidiaries 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 Company and its subsidiaries

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 Company and its subsidiaries, 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 Company and its subsidiaries 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 2021:

- (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 Company and its subsidiaries:
 - (a) The aggregate annual volume of transactions for the provision of exploration and support services did not exceed RMB14.811 billion.
 - (b) The aggregate annual volume of transactions for the provision of oil and gas development and support services did not exceed RMB48.857 billion.

REPORT OF THE DIRECTORS

- (c) The aggregate annual volume of transactions for the provision of oil and gas production and support services did not exceed RMB20.651 billion.
 - (d) The aggregate annual volume of transactions for the provision of sales, management and ancillary services did not exceed RMB3.004 billion.
 - (e) The aggregate annual volume of transactions for FPSO vessel leases did not exceed RMB1.394 billion.
- (ii) The aggregate annual volume of transactions for the provision of management, technical, facilities and ancillary services, including the supply of materials by the Company and its subsidiaries to CNOOC and/or its associates did not exceed RMB100 million;
- (iii) Sales of petroleum and natural gas products by the Company and its subsidiaries 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 RMB250.736 billion.
 - (b) The aggregate annual volume of the transactions for the long-term sales of natural gas and liquefied natural gas did not exceed RMB38.509 billion.
- (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 Company and its subsidiaries with CNOOC Finance did not exceed RMB23.5 billion.

The independent auditors of the Company and its subsidiaries 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 Company and its subsidiaries 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 32 to the consolidated financial statements on pages 141 to 145 of this annual report for a summary of the related party transactions which include the Company and its subsidiaries' continuing connected transactions.

SHARE CAPITAL

Please refer to note 30 to the consolidated financial statements on page 140 of this annual report for details of movements in the Company's total issued shares for the year ended 31 December 2021.

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 2021.

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 2021.

REPORT OF THE DIRECTORS

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
Xia Qinglong (*Note 1*)
Hu Guangjie (*Note 2*)

Non-executive Directors

Wang Dongjin (*Chairman*)
Li Yong (*Vice chairman*)
Wen Dongfen

Independent Non-executive Directors

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

Note 1: With effect from 3 August 2021, Mr. Xia Qinglong was appointed as an Executive Director of the Company.

Note 2: With effect from 21 April 2021, Mr. Hu Guangjie resigned as an Executive Director and the President of the Company.

In accordance with the Articles and pursuant to Appendix 14 to Listing Rules, the Company will give sufficient notice on the Board candidates who will retire from the office by rotation 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 2021 during the year and up to the date of this report is as follows:

Cao Xinjian, Chen Rongqi, Chen Yan, Chen Zhuobiao, Cui Hanyun, Dai Tong, Dai Zhaohui, Duan Chenggang, Gao Dongsheng, Geng Jie, Huang Chunlin, Huang Yehua, Hu Guangjie, Hu Senlin, Jiang Qing, Kang Zhuowei, Kuang Likun, Li Chunsheng, Li Zhijun, Lin Rongqing, Liu Daping, Liu Song, Liu Xiaoxiang, Liu Yongjie, Lu Baoshan, Luo Yong, Ma Jin, Mao Xingquan, Miao Qian, Pan Yuguang, Pan Yiyong, Qi Meisheng, Sang Yi, Shao Dan, Shen Yiming, Tian Lixin, Wang Guang, Wang Guodong, Wang Li, Wang Shoushan, Wang Tongliang, Wang Yufan, Xia Qinglong, Xie Min, Xie Weizhi, Xie Wensheng, Xing Weiqi, Xu Keqiang, Yang Jinghong, Yang Li, Yu Guimin, Yuan Guangyu, Zhang Fuya, Zhao Shunqiang, Zhou Linfeng, Zhou Zhenhua, CNOOC Limited.

Alan O'Brien, Ariel D. Schneider, Christine M. O'Connor, Colin T. O. Brewer, Colleen V. Johnson, Fernando Aguilar, Heather M. Osecki, Jamie D. Doyle, Jerome A. van Zuijlen, Oliver George Webster, Paul Gunn, Robert Shepherd, Rosalind L. C. Bynoe, Tilak R.K. Nithiyeswaran.

DIRECTORS' INTERESTS

As of 31 December 2021, 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:

REPORT OF THE DIRECTORS

| 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 2021, 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 2021, 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 | 29,112,507,273 | 65.21% |

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.

REPORT OF THE DIRECTORS

All the interests stated above represent long positions. As of 31 December 2021, 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 Company and its subsidiaries.

DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY

Please refer to pages 60 to 67 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 2021 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 Company and its subsidiaries 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 Company and its subsidiaries during the year ended 31 December 2021.

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 8 and 9 to the consolidated financial statements on pages 119 to 122 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 2021, 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 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 2021.

Please refer to the Corporate Governance Report on pages 35 to 59 of this annual report for details.

AUDITORS

As was approved in the 2021 Annual General Meeting, following the retirement of Deloitte Touche Tohmatsu upon expiration of its term of office (with effect from the conclusion of the Annual General Meeting dated 21 May 2021), the Company has appointed Ernst & Young as the new independent auditor of the Company and its subsidiaries for Hong Kong reporting and Ernst & Young Hua Ming LLP as the independent auditor for the U.S. annual reporting on Form 20-F for the year 2021 with effect from 21 May 2021 until the conclusion of the next annual general meeting of the Company. Due to the termination of the Company's reporting obligations under the U.S. Securities Exchange Act of 1934, Ernst & Young Hua Ming LLP did not issue any audit opinion upon the U.S. annual reporting on Form 20-F for the year 2021. Ernst & Young has audited the accompanying financial statements for the year ended 31 December 2021.

REPORT OF THE DIRECTORS

A resolution to appoint the auditors of the Company and its subsidiaries for the year 2022, and to authorise the Board to fix their remuneration will be proposed at the forthcoming Annual General Meeting in 2022.

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 34.79% 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 2021 is HK\$8.03 per share.

VOTING BY POLL

In 2021, 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, 30 March 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis should be read along with the Chairman's Statement and the Business Overview sections, as well as the Company and its subsidiaries' audited financial statements and the related notes.

DEVELOPMENT STRATEGY

As one of the largest independent oil and gas exploration and production companies in the world, we mainly engage in the exploration, development, production and sales of crude oil and natural gas. The Company's development strategy mainly covers the following three aspects.

Focus on reserves and production growth

As an upstream company specialising in the exploration, development, production and sale of oil and natural gas, the Company focuses on the increase of reserves and production, which it regards as the cornerstone of development. The increase of reserves and production is achieved mainly by exploration, development and value-driven acquisitions. In China, the Company will adhere to the strategy of boosting the production of both oil and gas and prioritising the gas sector. We will maintain stable development in Bohai, accelerate the development in South China Sea and promote onshore unconventional. Meanwhile, it will focus on risk exploration and field exploration to find replacement areas.

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, step up the exploration and development activities, and enhance gas supply capacities. In 2021, the successful commissioning of "Shenhai-1" ultra-deep water gas field will drive the construction of a gas producing area of trillion-cubic-meter resources in the South China Sea. We will further advance the construction of key natural gas projects, such as Bozhong 19-6 large-sized condensate gasfield, and strengthen the development of onshore unconventional gas to increase the proportion of natural gas production.

Maintain prudent financial policies

The Company will continue to maintain our prudent financial policies. As an essential part of the corporate culture, the Company will continue to raise the awareness of cost control among all the employees. Actually, in the performance evaluation system, cost control has been one of the most important performance indicators. Thanks to years of continuous growth in reserves and production and cost control, the Company's profitability has improved significantly. In 2021, the all-in cost was under US\$30 per BOE, and net profit, amounting to RMB70.3 billion, reaching the best level in history.

The Company also attaches great importance to cash flow management and maintains a healthy financial position. In 2021, the Company's free cash flow was RMB65.5 billion and the gearing ratio was 21.9% as at the end of the year.

2021 OVERVIEW

In 2021, the global economy has struggled to recover from the severe recession caused by the pandemic and recorded a year-on-year growth of 5.5%. The emerging markets and developing economies achieved outstanding performance, and China's growth rate reached 8.1%.

In 2021, with a tight balance of supply and demand, the international oil prices increased sharply amid fluctuations, as supported by the favorable factors from both supply and demand. In terms of demand, the impact of the pandemic has been significantly reduced due to the growing vaccination rate. As the recovery took hold, the demand for crude oil rebounded. As to supply, major oil producing countries maintained moderate output growth policies. In 2021, the average price of Brent crude oil was US\$70.9 per barrel, a year-on-year increase of 64.2%.

In 2021, the Company vigorously increased reserves and production, and adhered to quality improvement, cost reduction and efficiency enhancement. The Company firmly advanced the construction of major projects, resolutely implemented technological innovation, and actively developed in a green and low-carbon manner. The Company realised a net production of 573 million BOE, representing an increase of approximately 8.5% year-on-year, exceeding the annual target of oil and gas production and hitting another record high.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Thanks to the upward trend of international oil prices and effective cost control in 2021, the Company's profitability was at an all-time high. Oil and gas sales were RMB222,125 million (US\$34,414.5 million with the exchange rate applicable for 2021 at US\$1=RMB6.4544), representing an increase of approximately 59.1% year on year. Net profit was RMB70,307 million (US\$10,892.9 million), representing an increase of approximately 181.7% year on year. The Company's basic and diluted earnings per share were RMB1.57 and RMB1.57, respectively.

As disclosed in the announcement of the Company dated 30 March 2022, the CSRC has approved the RMB Share Issue of the Company. In order to avoid the impact on the progress of RMB Share Issue of the Company, the Board decides not to recommend the declaration of the 2021 year-end dividend and will announce a special dividend plan as soon as possible after the completion of the RMB Share Issue, and the 2021 year-end dividend as originally planned and the special dividend for the 20th anniversary of the listing in Hong Kong shall be combined and declared as a special dividend.

In 2021, the Company's capital market environment has undergone significant changes. On 26 February 2021, the NYSE announced the delisting proceedings of the Company. On 10 March 2021, the Company requested for review of NYSE's determination. On 8 October 2021, the NYSE maintained the decision on the delisting of the Company. The Company's delisting from the NYSE took effect after the market closed on 22 October 2021. On 3 December 2021, the Company applied for voluntary delisting of its ADRs from the TSX. On 31 December 2021, the Company was delisted from the TSX. Since 2 February 2022, the Company bears no reporting obligation in Canada. Since 1 March 2022, the Company bears no reporting obligation in the U.S. In order to expand financing channels, we actively promoted RMB Share Issue. In the new capital market environment, we will continue to create value for our shareholders and distribute returns to our shareholders.

The World Bank forecasts that the global economy will grow by 4.3% in 2022. Chinese government has proposed a national economic growth target of 5.5% for 2022. Even in the context of low-carbon transition, oil and gas will still account for more than 50% of global primary energy consumption for a long time. However, global trade frictions have brought uncertainty to the trend of international oil prices. In the future, we will steadily promote the increase of oil and gas reserves and production, champion green transition and advance technological innovation. We will further improve the quality and efficiency of our operations, to enhance our value creation capacity and bring greater returns to shareholders. Subject to the approval of the general meeting of shareholders on the dividend proposed for each year, the expected annual payout ratio will be no less than 40% in the next three years, and the annual absolute dividend will not be less than HK\$0.70 per share (tax inclusive).

BUSINESS REVIEW

For details, please refer to the "Business Overview" section on page 8 to 28 of this annual report.

FINANCIAL RESULTS

Consolidated net profit

Our consolidated net profit increased 181.7% to RMB70,307 million (US\$10,892.9 million) in 2021 from RMB24,956 million in 2020, primarily as a result of the increase in profitability under the higher international oil price environment and production volume.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenues

Our oil and gas sales, realised prices and sales volume in 2021 were as follows:

| | 2021 | 2020 | Change | |
|--|----------------|---------|--------|-------|
| | | | Amount | % |
| Oil and gas sales (RMB million) | 222,125 | 139,601 | 82,524 | 59.1% |
| Crude and liquids | 193,027 | 114,985 | 78,042 | 67.9% |
| Natural gas | 29,098 | 24,616 | 4,482 | 18.2% |
| Sales volume (million BOE)* | 552.1 | 505.8 | 46.3 | 9.2% |
| Crude and liquids (million barrels) | 440.5 | 406.2 | 34.3 | 8.4% |
| Natural gas (bcf) | 648.7 | 577.2 | 71.5 | 12.4% |
| Realised prices | | | | |
| Crude and liquids (US\$/barrel) | 67.89 | 40.96 | 26.93 | 65.7% |
| Natural gas (US\$/mcf) | 6.95 | 6.17 | 0.78 | 12.6% |

* Excluding our interest in equity-accounted investees.

The increase in crude and liquids sales in 2021 was primarily due to the higher international oil price and sales volume. The increase in natural gas sales in 2021 was primarily reflected the higher market price and sales volume.

Operating expenses

Our operating expenses increased 15.4% to RMB27,985 million (US\$4,335.8 million) in 2021 from RMB24,240 million in 2020, the operating expenses per BOE increased 6.1% to RMB50.6 (US\$7.83) per BOE in 2021 from RMB47.7 (US\$6.90) per BOE in 2020. China operating expenses per BOE increased 3.6% to RMB46.1 (US\$7.15) per BOE in 2021 from RMB44.5 (US\$6.43) per BOE in 2020. Overseas operating expenses per BOE increased 11.4% to RMB61.4 (US\$9.51) per BOE in 2021 from RMB55.1 (US\$7.97) per BOE in 2020. Our operating expenses per BOE for 2021 were higher primarily reflected the commencement of new oil and gas field and was further impacted by higher commodity prices.

Taxes other than income tax

Our taxes other than income tax increased 55.2% to RMB11,172 million (US\$1,730.9 million) in 2021 from RMB7,200 million in 2020, mainly due to the increase in oil and gas sales which impacted by the higher international oil price.

Exploration expenses

Our exploration expenses increased 108.9% to RMB11,702 million (US\$1,813.0 million) in 2021 from RMB5,601 million in 2020, mainly driven by the promoted exploration of new areas, new frontiers and new types in order to increase reserves and production, brings the higher level of exploration investment and exploration expensed ratio.

Depreciation, depletion and amortization

Our total depreciation, depletion and amortisation increased 9.4% to RMB57,236 million (US\$8,867.7 million) in 2021 from RMB52,306 million in 2020.

The dismantlement-related depreciation, depletion and amortisation costs decreased 8.5% to RMB2,478 million (US\$383.9 million) in 2021 from RMB2,709 million in 2020. Our average dismantling costs per BOE decreased 15.9% to RMB4.48 (US\$0.69) per BOE in 2021 from RMB5.33 (US\$0.77) per BOE in 2020, primarily due to higher reserve of oil and gas fields in production.

Our depreciation, depletion and amortisation, excluding the dismantling costs, increased 10.4% to RMB54,758 million (US\$8,483.8 million) in 2021 from RMB49,597 million in 2020. Our average depreciation, depletion and amortisation per BOE, excluding the dismantling costs, increased 1.4% to RMB98.9 (US\$15.33) per BOE in 2021 from RMB97.5 (US\$14.11) per BOE in 2020, primarily as a result of the depreciation, depletion and amortization, excluding the dismantling costs increase of certain projects with the rise in oil prices.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Impairment and provision

Our impairment and provision increased 53.0% to RMB7,957 million (US\$1,232.8 million) in 2021 from RMB5,199 million in 2020, primarily related to the impairment of several oil and gas properties located in North America resulting from the change of reserve assessment and the uncertainty of future development plans. Please refer to Note 13 to the Consolidated Financial Statement of this annual report.

Selling and administrative expenses

Our selling and administrative expenses increased 1.6% to RMB8,961 million (US\$1,388.4 million) in 2021 from RMB8,821 million in 2020. Our selling and administrative expenses per BOE decreased 6.7% to RMB16.19 (US\$2.51) per BOE in 2021 from RMB17.35 (US\$2.51) per BOE in 2020, benefit from strict costs control while increased production.

Finance costs/Interest income

Our finance costs decreased 2.8% to RMB6,019 million (US\$932.5 million) in 2021 from RMB6,190 million in 2020, primarily reflected the decreased interest expense as repayment of bonds due this year. Our interest income decreased 9.0% to RMB1,341 million (US\$207.8 million) in 2021 from RMB1,473 million in 2020, primarily due to the downward trend of US dollar deposit interest rate.

Exchange gains/losses, net

Our net exchange gains increased 66.7% to RMB742 million (US\$115.0 million) in 2021 from RMB445 million in 2020, primarily arising from RMB fluctuation against the US dollars and Hong Kong dollars, as well as Euro fluctuation against the US dollars.

Share of profits/losses of associates and a joint venture

Our share of profits of associates and a joint venture changed to RMB346 million (US\$53.6 million) in 2021, while in 2020 our share of losses were RMB632 million, mainly driven by the increased profitability of the joint venture resulting from the increase of international oil price.

Income tax expense

Our income tax expense increased 156.4% to RMB25,514 million (US\$3,953.0 million) in 2021 from RMB9,951 million in 2020, mainly because our overall profitability before tax increased resulting from higher international oil price in 2021.

CAPITAL RESOURCES AND LIQUIDITY

Overview

Our primary source of cash during 2021 was cash flows from operating activities. We used cash primarily to fund capital expenditure and dividends. The changes are as follows:

| | 2021 | | 2020 RMB million | Change | |
|-------------------------------------|----------------|-----------------|------------------------|----------------|--------|
| | RMB million | US\$ million | | RMB million | % |
| Generated from operating activities | 147,893 | 22,913.5 | 82,338 | 65,555 | 79.6% |
| Used in investing activities | (96,235) | (14,910.0) | (50,850) | (45,385) | 89.3% |
| Used in financing activities | (33,333) | (5,164.4) | (38,698) | 5,365 | -13.9% |

MANAGEMENT'S DISCUSSION AND ANALYSIS

Cash generated from operating activities

The cash inflow from operating activities increased 79.6% to RMB147,893 million (US\$22,913.5 million) in 2021 from RMB82,338 million in 2020, primarily attributable to the increase in oil and gas sales cash inflow caused by the higher international oil price.

Cash used in investing activities

In 2021, our capital expenditure payment increased 2.9% to RMB73,088 million (US\$11,323.7 million) from 2020. Our development expenditures in 2021 were primarily related to the capital expenditure of Shenhai-1 gas field in offshore China and overseas projects in Guyana, Iraq and Brazil, 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 RMB9,349 million (US\$1,448.5 million).

In addition, our cash used in investing activities was also attributable to the purchase of corporate wealth management products of RMB103,308 million (US\$16,005.8 million) this year. Our cash generated from investing activities was mainly from the maturity of corporate wealth management products in the amount of RMB82,296 million (US\$12,750.4 million), and the decrease in our time deposits with maturity over three months in the amount of RMB3,814 million (US\$590.9 million).

Cash used in financing activities

In 2021, the net cash outflow from financing activities was mainly due to the repayment of bank loans of RMB3,231 million (US\$500.6 million), repayment of financial notes of RMB9,857 million (US\$1,527.2 million) and the cash outflow of the distribution of dividends of RMB20,473 million (US\$3,171.9 million), partially offset by the proceeds of bank loans of RMB8,108 million (US\$1,256.2 million).

At the end of 2021, our total interest-bearing outstanding debt was RMB135,142 million (US\$20,938.0 million), compared to RMB143,549 million at the end of 2020. The decrease in debt in 2021 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 21.9%, lower than that of 24.9% in 2020, 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 | | |
|-----------------|------------------------|---------------|---------------|
| | 2019 | 2020 | 2021 |
| | (RMB million) | | |
| China | | | |
| Development | 35,659 | 45,527 | 48,450 |
| Exploration | 15,120 | 11,689 | 14,898 |
| Subtotal | 50,779 | 57,216 | 63,348 |
| Overseas | | | |
| Development | 24,253 | 17,503 | 21,088 |
| Exploration | 3,546 | 2,687 | 3,156 |
| Subtotal | 27,799 | 20,190 | 24,244 |
| Total | 78,578 | 77,406 | 87,592 |

Note: Capitalised interests for 2019, 2020 and 2021 were RMB3,048 million, RMB2,483 million and RMB2,086 million, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OTHERS

Employees

As of 31 December 2021, the Company had 16,758 employees in China, 2,129 employees overseas and 199 contracted employees.

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 39 to the Consolidated Financial Statements of this annual report.

CONTINGENCIES

Please refer to note 35 to the Consolidated Financial Statements of this annual report.

Independent Auditor's Report



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Quarry Bay, Hong Kong

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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 (the “Group”) set out on pages 88 to 154, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the 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 2021, 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 judgement, 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



KEY AUDIT MATTERS (continued)

Key audit matter

The estimation of oil and gas reserves

At 31 December 2021, the carrying amount of the Group's oil and gas properties was RMB458,870 million, and depreciation, depletion and amortisation expense was RMB54,994 million for the year ended 31 December 2021. Oil and gas properties are depreciated on a unit-of-production basis at a rate calculated by reference to the proved reserves. Commercial reserves are determined using estimates of oil in place, future oil price and recovery factors. 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. Relevant disclosures are included in Note 3 and Note 13 to the consolidated financial statements.

Management made significant judgments when assessing quantities of reserves. Hence, we consider the estimation of oil and gas reserves as a key audit matter.

How our audit addressed the key audit matter

We obtained an understanding, evaluated the design and tested the operating effectiveness of internal controls that address the risks of material misstatement relating to the reserve estimation process.

We evaluated the competency and objectivity of the Group's internal and external reserve specialists. We evaluated whether the methodology adopted by the Group's internal and external reserve specialists to estimate oil and gas reserves and selection of related estimates were consistent with the recognised industry standards.

We compared the Group's oil and gas reserves volumes at 31 December 2021 to that at 31 December 2020, and performed corroborative inquiries of the reserve specialists and the management on the reasons 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 in accordance with the Group's accounting policy.

We also assessed the adequacy of the Group's disclosures included in Notes 3 and Note 13 to the consolidated financial statements regarding the estimation of oil and gas reserves.

Independent Auditor's Report



OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than 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 THE DIRECTORS 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities 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. Our report is made 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 HKSA's, we exercise professional judgement and maintain professional scepticism 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 the Audit Committee 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 the Audit Committee 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 the Audit Committee, 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 this independent auditor's report is Cheong Ming Yik.

Ernst & Young
Certified Public Accountants
Hong Kong
30 March 2022

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2021

(All amounts expressed in millions of Renminbi, except per share data)

| | Notes | 2021 | 2020 |
|--|------------|----------------------------------|-------------------|
| REVENUE | | | |
| Revenue recognised from contracts with customers | | | |
| Oil and gas sales | 4 | 222,125 | 139,601 |
| Marketing revenues | 4 | 18,084 | 12,131 |
| Other revenue | | 5,902 | 3,640 |
| | | 246,111 | 155,372 |
| EXPENSES | | | |
| Operating expenses | | (27,985) | (24,240) |
| Taxes other than income tax | 10(ii) | (11,172) | (7,200) |
| Exploration expenses | | (11,702) | (5,601) |
| Depreciation, depletion and amortisation | 6 | (57,236) | (52,306) |
| Special oil gain levy | 10(iii) | (2,611) | (79) |
| Impairment and provision | 6, 13 | (7,957) | (5,199) |
| Crude oil and product purchases | | (16,641) | (11,671) |
| Selling and administrative expenses | | (8,961) | (8,821) |
| Others | | (5,867) | (3,866) |
| | | (150,132) | (118,983) |
| PROFIT FROM OPERATING ACTIVITIES | | | |
| Interest income | 6 | 1,341 | 1,473 |
| Finance costs | 7 | (6,019) | (6,190) |
| Exchange gains, net | | 742 | 445 |
| Investment income | 6 | 2,850 | 2,978 |
| Share of profits of associates | 17 | 611 | 171 |
| Loss attributable to a joint venture | 18 | (265) | (803) |
| Other income, net | | 582 | 444 |
| PROFIT BEFORE TAX | | | |
| Income tax expense | 6 10(i) | 95,821 (25,514) | 34,907 (9,951) |
| PROFIT FOR THE YEAR | | | |
| Attributable to: | | | |
| Owners of the parent | | 70,320 | 24,956 |
| Non-controlling interests | | (13) | – |
| | | 70,307 | 24,956 |

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2021
(All amounts expressed in millions of Renminbi, except per share data)

| | Notes | 2021 | 2020 |
|--|-------|----------------|----------|
| OTHER COMPREHENSIVE (EXPENSE)/INCOME | | | |
| Items that may be subsequently reclassified to profit or loss | | | |
| Exchange differences on translation of foreign operations | | (4,577) | (11,983) |
| Share of other comprehensive expense of associates | | (1) | (85) |
| Other items that will not be reclassified to profit or loss | | | |
| Fair value change on equity investments designated as at fair value through other comprehensive income/(expense) | 19(i) | 1,172 | (1,040) |
| Others | | 759 | (128) |
| OTHER COMPREHENSIVE EXPENSE FOR THE YEAR, NET OF TAX | | (2,647) | (13,236) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 67,660 | 11,720 |
| Attributable to: | | | |
| Owners of the parent | | 67,673 | 11,720 |
| Non-controlling interests | | (13) | – |
| | | 67,660 | 11,720 |
| EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT | | | |
| Basic (RMB Yuan) | 11 | 1.57 | 0.56 |
| Diluted (RMB Yuan) | 11 | 1.57 | 0.56 |

Details of the dividends proposed and paid for the year are disclosed in note 12 to the consolidated financial statements.

Consolidated Statement of Financial Position

31 December 2021

(All amounts expressed in millions of Renminbi)

| | Notes | 2021 | 2020 |
|---|------------|---------|---------|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 13 | 465,451 | 446,668 |
| Right-of-use assets | 14 | 8,731 | 9,161 |
| Intangible assets | 15 | 14,864 | 15,129 |
| Investments in associates | 17 | 23,456 | 23,544 |
| Investment in a joint venture | 18 | 18,084 | 18,822 |
| Debt investment | | 4,483 | 3,620 |
| Equity investments | 19(i), 36 | 2,675 | 1,829 |
| Deferred tax assets | 10(i) | 28,592 | 27,751 |
| Other non-current assets | 20 | 12,251 | 11,360 |
| Total non-current assets | | 578,587 | 557,884 |
| CURRENT ASSETS | | | |
| Inventories and supplies | 21 | 5,703 | 5,644 |
| Trade receivables | 22 | 27,048 | 18,982 |
| Other financial assets | 19(ii), 36 | 82,440 | 61,662 |
| Other current assets | | 13,061 | 11,272 |
| Time deposits with maturity over three months | 23 | 38,298 | 41,812 |
| Cash and cash equivalents | 23 | 41,432 | 24,019 |
| Total current assets | | 207,982 | 163,391 |
| CURRENT LIABILITIES | | | |
| Loans and borrowings | 27 | 15,329 | 11,217 |
| Trade and accrued payables | 24 | 48,990 | 41,203 |
| Lease liabilities | 28 | 1,208 | 1,297 |
| Contract liabilities | 25 | 1,983 | 1,544 |
| Other payables and accrued liabilities | 26 | 9,903 | 12,139 |
| Taxes payable | | 16,538 | 7,452 |
| Total current liabilities | | 93,951 | 74,852 |
| NET CURRENT ASSETS | | 114,031 | 88,539 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 692,618 | 646,423 |

Consolidated Statement of Financial Position

31 December 2021
(All amounts expressed in millions of Renminbi)

| | Notes | 2021 | 2020 |
|---|-------|----------------|---------|
| NON-CURRENT LIABILITIES | | | |
| Loans and borrowings | 27 | 112,893 | 125,013 |
| Lease liabilities | 28 | 5,712 | 6,022 |
| Provision for dismantlement | 29 | 75,482 | 69,444 |
| Deferred tax liabilities | 10(i) | 6,915 | 5,119 |
| Other non-current liabilities | | 9,640 | 6,895 |
| Total non-current liabilities | | 210,642 | 212,493 |
| NET ASSETS | | | |
| EQUITY | | | |
| Issued capital | 30 | 43,081 | 43,081 |
| Reserves | 31 | 437,831 | 390,627 |
| Equity attributable to owners of the parent | | 480,912 | 433,708 |
| Non-controlling interests | | 1,064 | 222 |
| TOTAL EQUITY | | 481,976 | 433,930 |

XU Keqiang
Director

XIA Qinglong
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2021
(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 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 |
| Balance at 1 January 2021 | 43,081 | (13,135) | 70,000 | (728) | 325,176 | 9,314 | 433,708 | 222 | 433,930 |
| Profit/(loss) for the year | - | - | - | - | 70,320 | - | 70,320 | (13) | 70,307 |
| Other comprehensive (expense)/income, net of tax | - | (4,577) | - | 1,930 | - | - | (2,647) | - | (2,647) |
| Total comprehensive (expense)/income | - | (4,577) | - | 1,930 | 70,320 | - | 67,673 | (13) | 67,660 |
| 2020 final dividend | - | - | - | - | 26 | (9,314) | (9,288) | - | (9,288) |
| 2021 interim dividend | - | - | - | - | (11,159) | - | (11,159) | - | (11,159) |
| Capital contributions from shareholders | - | - | - | - | - | - | - | 855 | 855 |
| Others | - | - | - | (22) | - | - | (22) | - | (22) |
| Balance at 31 December 2021 | 43,081 | (17,712)* | 70,000* | 1,180* | 384,363* | -* | 480,912 | 1,064 | 481,976 |

* These reserve accounts constitute the consolidated reserves of approximately RMB437,831 million (2020: RMB390,627 million) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2021
(All amounts expressed in millions of Renminbi)

| | Notes | 2021 | 2020 |
|--|-------|------------------|-----------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash generated from operations | 34 | 164,363 | 99,813 |
| Income taxes paid | | (16,470) | (17,475) |
| Net cash flows from operating activities | | 147,893 | 82,338 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Acquisition of oil and gas properties | | (9,349) | (4,418) |
| Capital expenditure | | (73,088) | (71,000) |
| Additions to investments in associates | | - | (6,401) |
| Decrease/(increase) in time deposits with maturity over three months | | 3,814 | (24,236) |
| Dividends received from associates | | 284 | 329 |
| Dividends received from a joint venture | | - | 42 |
| Interest received | | 1,041 | 1,016 |
| Investment income received | | 2,071 | 4,075 |
| Purchase of other financial assets | | (103,308) | (140,375) |
| Purchase of equity investments | | (35) | (26) |
| Proceeds from sale of other financial assets | | 82,296 | 190,142 |
| Proceeds from disposal of property, plant and equipment | | 39 | 2 |
| Net cash flows used in investing activities | | (96,235) | (50,850) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Repayment of guaranteed notes | | (9,857) | (10,642) |
| Repayments of lease liabilities | | (1,903) | (1,619) |
| Proceeds from bank loans | | 8,108 | 7,417 |
| Repayment of bank loans | | (3,231) | (2,186) |
| Dividends paid | | (20,473) | (25,851) |
| Interest paid | | (6,832) | (6,000) |
| Others | | 855 | 183 |
| Net cash flows used in financing activities | | (33,333) | (38,698) |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | | |
| | | 18,325 | (7,210) |
| Cash and cash equivalents at beginning of year | | 24,019 | 33,679 |
| Effect of foreign exchange rate changes, net | | (912) | (2,450) |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 23 | 41,432 | 24,019 |

Total cash outflow for leases amounted to RMB2,713 million.

Notes to Consolidated Financial Statements

31 December 2021

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

1. CORPORATE INFORMATION

CNOOC Limited (the “Company”) was incorporated in the Hong Kong Special Administrative Region (“Hong Kong”) of the People’s Republic of China (the “PRC”) on 20 August 1999 to hold the interests in certain entities thereby creating a group comprising the Company and its subsidiaries. During the year, the Company and its subsidiaries were 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 Company and its subsidiaries is set out below.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The IASB has issued a number of new and amendments to IFRSs that are first effective for the current accounting year commencing 1 January 2021 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 2020, except for the first time adoption of the new and amendments to IFRSs/HKFRSs effective for the Company and its subsidiaries’ financial year beginning on 1 January 2021 as follows:

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

Amendments to IFRS 16/HKFRS 16

Covid-19-Related Rent Concessions

Notes to Consolidated Financial Statements

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Amendments to IFRS 9/HKFRS 9, IAS 39/HKAS 39, IFRS 7/HKFRS 7, IFRS 4/HKFRS 4 and IFRS 16/HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate (“RFR”). The amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9/HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity’s financial instruments and risk management strategy.

As at 31 December 2021, a wholly-owned subsidiary of the Company’s Tangguh LNG III Project loan (note 27) was denominated in United States dollars, the interest rate of which is based on the LIBOR with a tenor of 6 months, which will cease to be published after 30 June 2023. Replacement of the benchmark rates of these instruments from LIBOR to an RFR has yet to commence but it is expected that there will be renegotiations of terms in the future.

The Company and its subsidiaries will apply this practical expedient upon the modification of these borrowings when the “economically equivalent” criterion is met and expects that no significant modification gain or loss will arise as a result of applying the amendments to these changes.

Besides the abovementioned amendments, the application of other new and amendments to IFRSs/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 Company and its subsidiaries.

ISSUED BUT NOT YET EFFECTIVE IFRSs/HKFRSs

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

| | |
|--|--|
| Amendments to IFRS 16/HKFRS 16 | <i>Covid-19-Related Rent Concessions beyond 30 June 2021¹</i> |
| Amendments to IFRS 3/HKFRS 3 | <i>Reference to the Conceptual Framework²</i> |
| Amendments to IFRS 10/HKFRS 10 and IAS 28/HKAS 28 (2011) | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁴</i> |
| IFRS 17/HKFRS 17 | <i>Insurance Contracts³</i> |
| Amendments to IFRS 17/HKFRS 17 | <i>Initial Application of IFRS 17/HKFRS 17 and IFRS 9/HKFRS 9-Comparative Information³</i> |
| Amendments to IFRS 17/HKFRS 17 | <i>Insurance Contract^{3, 6}</i> |
| Amendments to IAS 1/HKAS 1 | <i>Classification of Liabilities as Current or Non-current^{3, 5}</i> |
| Amendments to IAS 1/HKAS 1 and IFRS/HKFRS Practice Statement 2 | <i>Disclosure of Accounting Policies³</i> |
| Amendments to IAS 8/HKAS 8 | <i>Definition of Accounting Estimates³</i> |
| Amendments to IAS 12/HKAS 12 | <i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction³</i> |
| Amendments to IAS 16/HKAS 16 | <i>Property, Plant and Equipment: Proceeds before Intended Use²</i> |
| Amendments to IAS 37/HKAS 37 | <i>Onerous Contracts – Cost of Fulfilling a Contract²</i> |
| Annual Improvements to IFRSs/HKFRSs 2018-2020 | <i>Amendments to IFRS 1/HKFRS 1, IFRS 9/HKFRS 9, Illustrative Examples accompanying IFRS 16/HKFRS 16, and IAS 41/HKAS 41</i> |

Notes to Consolidated Financial Statements

31 December 2021

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

ISSUED BUT NOT YET EFFECTIVE IFRSs/HKFRSs (continued)

- ¹ Effective for annual periods beginning on or after 1 April 2021
- ² Effective for annual periods beginning on or after 1 January 2022
- ³ Effective for annual periods beginning on or after 1 January 2023
- ⁴ No mandatory effective date yet determined but available for adoption
- ⁵ As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion
- ⁶ As a consequence of the amendments to IFRS 17/HKFRS 17 issued in June 2020 and October 2020, respectively, IFRS 4/HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39/HKAS 39 rather than IFRS 9/HKFRS 9 for annual periods beginning before 1 January 2023

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 2021.

The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Company or its subsidiaries obtain 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.

Business combinations or asset acquisitions

Optional concentration test

Effective from 1 January 2020, the Company and its subsidiaries 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations or asset acquisitions (continued)

Asset acquisitions

When the Company or its subsidiaries acquire a group of assets and liabilities that do not constitute a business, the Company or its subsidiaries identify and recognise 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 Company or its subsidiaries, liabilities assumed by the Company or its subsidiaries from the former owners of the acquiree and the equity interests issued by the Company or its subsidiaries in exchange for control of the acquiree. For each business combination, the Company or its subsidiaries elect 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 recognised in profit or loss as incurred.

If the business combination is achieved in stages, the Company or its subsidiaries' 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 Company or its subsidiaries' 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.

For the purposes of impairment testing, goodwill is allocated to each of the Company and its subsidiaries' 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.

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31 December 2021

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations or asset acquisitions (continued)

Business combinations (continued)

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 Company and its subsidiaries have power over the investee such that the Company and its subsidiaries are 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 Company and its subsidiaries' ownership percentage (considering its direct ownership as well as potentially exercisable or convertible shares) and other contractual terms, the Company and its subsidiaries have significant influence over its associates, rather than the power to control.

The Company and its subsidiaries' investments in associates are stated in the consolidated statement of financial position at the Company and its subsidiaries' 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 Company and its subsidiaries' share of the profit or loss and other comprehensive income of the associate. Unrealised gains and losses resulting from transactions between the Company and its subsidiaries and its associates are eliminated to the extent of the Company and its subsidiaries' 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 Company and its subsidiaries' investments in associates and is not individually tested for impairment.

Joint arrangements

Certain of the Company and its subsidiaries' 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.

Joint operations

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint arrangements (continued)

Joint operations (continued)

The Company and its subsidiaries entered into numerous production sharing arrangements or similar agreements in China and overseas countries. The Company and its subsidiaries' participating interest may vary in each arrangement. The Company and its subsidiaries, as one of the title owners under certain exploration and/or production licenses or permits, are 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 Company and its subsidiaries account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs/HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

Joint venture

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

The Company and its subsidiaries' investments in joint ventures are stated in the consolidated statement of financial position at the Company and its subsidiaries' 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 Company and its subsidiaries' share of the profit or loss and other comprehensive income of the joint venture. Where the profit sharing ratios are different to the Company and its subsidiaries' 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 Company and its subsidiaries and its joint ventures are eliminated to the extent of the Company and its subsidiaries' 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 Company and its subsidiaries' investments in joint ventures and is not individually tested for impairment.

Related parties

A party is considered to be related to the Company and its subsidiaries 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 Company;
- (ii) has significant influence over the Company; or
- (iii) is a member of the key management personnel of the Company and its subsidiaries or of a parent of the Company.

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

- (i) the entity and the Company and its subsidiaries 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);

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

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

- (iii) the entity and the Company are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company and its subsidiaries or an entity related to the Company and its subsidiaries;
- (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 and its subsidiaries 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Company and its subsidiaries capitalise 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 proved properties. The costs of drilling and equipping successful exploratory wells, all development expenditures on construction, installation or completion of infrastructure facilities such as platforms, pipelines, processing plants and the drilling of development wells and the building of enhanced recovery facilities, including those renewals and betterments that extend the economic lives of the assets, and the related borrowing costs are capitalised. The costs of unsuccessful exploratory wells and all other exploration costs are expensed as incurred.

The Company and its subsidiaries carry 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 Company and its subsidiaries are 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.

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.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets other than goodwill

The intangible assets of the Company and its subsidiaries comprise software and others, gas processing rights under NWS Project, marketing transportation and storage contracts, and 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.

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 Company and its subsidiaries, 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 Company and its subsidiaries 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

(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.

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

On initial recognition, the Company and its subsidiaries can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. The Company and its subsidiaries have 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 Company and its subsidiaries' 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value

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

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 36.

Impairment of financial assets

The Company and its subsidiaries perform 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 Company and its subsidiaries' 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 Company and its subsidiaries always recognise lifetime ECL for trade receivables without significant financing component.

For all other instruments, the Company and its subsidiaries measure 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 Company and its subsidiaries recognise 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 Company and its subsidiaries compare 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 Company and its subsidiaries consider 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;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant increase in credit risk (continued)

- 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 Company and its subsidiaries presume that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Company and its subsidiaries have reasonable and supportable information that demonstrates otherwise.

The Company and its subsidiaries regularly monitor 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 Company and its subsidiaries consider 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 Company and its subsidiaries, in full (without taking into account any collaterals held by the Company and its subsidiaries).

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 Company and its subsidiaries write 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 Company and its subsidiaries' 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Definition of default (continued)

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 Company and its subsidiaries in accordance with the contract and all the cash flows that the Company and its subsidiaries expect to receive, discounted at the effective interest rate determined at initial recognition.

The Company and its subsidiaries recognise 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.

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 Company and its subsidiaries have transferred its rights to receive cash flows from the asset, or the Company and its subsidiaries retain 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 Company and its subsidiaries have 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 Company and its subsidiaries continue to recognise the transferred asset to the extent of the Company and its subsidiaries' continuing involvement. In that case, the Company and its subsidiaries also recognise an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company and its subsidiaries have 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

The Company and its subsidiaries derecognise financial liabilities when, and only when the Company and its subsidiaries' 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 or 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.

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 Company or its subsidiaries have 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.

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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 Company and its subsidiaries operate and generate 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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 Company and its subsidiaries consider whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be used 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.

Revenue

The Company and its subsidiaries recognise 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 Company and its subsidiaries’ performance as the Company and its subsidiaries perform;
- the Company and its subsidiaries’ performance creates or enhances an asset that the customer controls as the Company and its subsidiaries perform; or
- the Company and its subsidiaries’ performance does not create an asset with an alternative use to the Company and its subsidiaries and the Company and its subsidiaries have 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 Company and its subsidiaries’ obligation to transfer goods or services to a customer for which the Company and its subsidiaries have received consideration (or an amount of consideration is due) from the customer.

Retirement and termination benefits

The Company and its subsidiaries participate 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 Company and its subsidiaries’ contributions to these defined contribution plans are charged to profit or loss in the year to which they relate.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement and termination benefits (continued)

For defined benefit plans, the Company and its subsidiaries attribute the welfare obligations arising from the defined benefit plans to the period when employees provide services according to the formula determined by the expected cumulative welfare unit method, and recognise in profit and loss or relevant costs. Service costs and net interests on net defined benefit liabilities or assets are recognised in profit and loss. Remeasurements arising from net defined benefit liabilities or assets are recognised in other comprehensive income. Remeasurements are not reclassified to profit or loss in subsequent periods.

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 Company and its subsidiaries assess 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 Company and its subsidiaries 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 Company and its subsidiaries allocate 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 Company and its subsidiaries reasonably expect 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 Company and its subsidiaries apply 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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 Company and its subsidiaries; and
- an estimate of costs to be incurred by the Company and its subsidiaries 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 Company and its subsidiaries are 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 Company and its subsidiaries present right-of-use assets as a separate line item on the consolidated statement of financial position.

Lease liabilities

At the commencement date of a lease, the Company and its subsidiaries recognise and measure 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 Company and its subsidiaries use 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 Company and its subsidiaries under residual value guarantees;
- the exercise price of a purchase option if the Company and its subsidiaries are reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Company and its subsidiaries 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Lease liabilities (continued)

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

The Company and its subsidiaries remeasure lease liabilities (and make 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 Company and its subsidiaries present lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

The Company and its subsidiaries account 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 Company and its subsidiaries remeasure 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 Company and its subsidiaries account 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 Company and its subsidiaries allocate 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.

Foreign currencies

These consolidated financial statements are presented in RMB. The Company and each of its subsidiaries maintain its books and records in its own functional currency. Foreign currency transactions are initially recorded using the Company and each of its subsidiaries' 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The functional currencies of the Company and certain subsidiaries 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 Company and its subsidiaries 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 exchange rates at the dates of the transaction. The resulting exchange differences are included in the cumulative translation reserves. 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 Company and its subsidiaries' 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, future oil price and recovery factors. Future oil price has impacts on the proportion of the gross reserves which are attributable to the host government under the terms of the production sharing contracts. The level of estimated commercial reserves is also a key determinant in assessing whether the carrying value of any of the Company and its subsidiaries' 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 Company and its subsidiaries use 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgements, estimates and assumptions (continued)

(c) Recoverable amount of oil and gas properties

The Company and its subsidiaries make an assessment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, or when there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. In any event, the Company and its subsidiaries would make an estimate of the asset's recoverable amount, which is calculated at the higher of the asset's value in use and its fair value less costs of disposal. The Company and its subsidiaries recognise an impairment loss only if the carrying amount of an asset exceeds its recoverable amount. The Company and its subsidiaries charge an impairment loss to the profit or loss in the period in which it arises. A reversal of an impairment loss is credited to the profit or loss in the period in which it arises.

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

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

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

The sensitivity analysis for the impairment testing involves estimates and judgments to consider numerous assumptions comprehensively. Those assumptions interact on each other and interrelate with each other complexly and do not have fixed patterns along with the changes in price. Accordingly, the Company and its subsidiaries believe 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 Company and its subsidiaries use the same approach above.

(d) Dismantlement costs

Dismantlement costs will be incurred by the Company and its subsidiaries at the end of the operating life of certain of the Company and its subsidiaries' 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgements, estimates and assumptions (continued)

(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 Company and its subsidiaries establish 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 Company and its subsidiaries' 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 entities' domicile.

4. OIL AND GAS SALES AND MARKETING REVENUES

| | 2021 | 2020 |
|-------------------------------|---------|---------|
| Gross sales | 225,729 | 142,863 |
| Less: Royalties | (2,591) | (2,725) |
| PRC government's share of oil | (1,013) | (537) |
| Oil and gas sales | 222,125 | 139,601 |
| Marketing revenues | 18,084 | 12,131 |

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 Company and its subsidiaries have present right to payment and 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 revenues 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 Company and its subsidiaries have present right to payment and 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 Company and its subsidiaries apply the practical expedient of not adjusting the transaction price for any significant financing component.

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5. SEGMENT INFORMATION

(a) Segment results

The Company and its subsidiaries are 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 Company and its subsidiaries report the business through three operating and reporting segments, including exploration of production (“E&P”), trading business and corporate. The division of these operating segments is made because the Company’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 Company and its subsidiaries for the years ended 31 December 2021 and 2020.

| | E&P | | Trading business | | Corporate | | Eliminations | | Consolidated | |
|---|-----------|-----------|------------------|----------|-----------|-----------|--------------|-----------|--------------|-----------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| External Revenue | 96,185 | 128,847 | 149,390 | 26,362 | 536 | 163 | - | - | 246,111 | 155,372 |
| Intersegment Revenue* | 131,276 | 14,257 | (131,276) | (14,257) | 171 | 158 | (171) | (158) | - | - |
| Total revenue | 227,461 | 143,104 | 18,114 | 12,105 | 707 | 321 | (171) | (158) | 246,111 | 155,372 |
| Segment profit for the year | 68,687 | 24,895 | 2,102 | 179 | 10,638 | 1,342 | (11,120) | (1,460) | 70,307 | 24,956 |
| Amounts included in the measure of segment profit or loss | | | | | | | | | | |
| Operating expenses | (28,003) | (24,243) | - | - | - | - | 18 | 3 | (27,985) | (24,240) |
| Taxes other than income tax | (11,031) | (7,120) | (87) | 1 | (54) | (81) | - | - | (11,172) | (7,200) |
| Exploration expenses | (11,702) | (5,601) | - | - | - | - | - | - | (11,702) | (5,601) |
| Depreciation, depletion and amortisation | (56,874) | (51,982) | (59) | (63) | (354) | (328) | 51 | 67 | (57,236) | (52,306) |
| Impairment and provision | (7,955) | (5,085) | - | - | (2) | (114) | - | - | (7,957) | (5,199) |
| Selling and administrative expenses | (6,978) | (6,857) | (283) | (188) | (1,808) | (1,863) | 108 | 87 | (8,961) | (8,821) |
| Interest income | 455 | 871 | 69 | 2 | 817 | 1,059 | - | (459) | 1,341 | 1,473 |
| Finance costs | (3,636) | (4,240) | (3) | (2) | (2,525) | (2,517) | 145 | 569 | (6,019) | (6,190) |
| Share of profits/(losses) of associates and a joint venture | 241 | (272) | - | - | 105 | (360) | - | - | 346 | (632) |
| Income tax expense | (25,368) | (10,311) | (393) | (5) | 247 | 265 | - | 100 | (25,514) | (9,951) |
| Other segment information | | | | | | | | | | |
| Investments in associates and a joint venture | 19,202 | 19,450 | - | - | 22,338 | 22,916 | - | - | 41,540 | 42,366 |
| Others | 442,250 | 547,774 | 20,642 | 3,781 | 420,115 | 404,484 | (137,978) | (277,130) | 745,029 | 678,909 |
| Segment assets | 461,452 | 567,224 | 20,642 | 3,781 | 442,453 | 427,400 | (137,978) | (277,130) | 786,569 | 721,275 |
| Segment liabilities | (298,099) | (404,959) | (17,388) | (2,244) | (200,904) | (201,981) | 211,798 | 321,839 | (304,593) | (287,345) |
| Capital expenditure | 90,427 | 80,492 | 3 | - | 533 | 342 | - | - | 90,963 | 80,834 |

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

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5. SEGMENT INFORMATION (continued)

(b) Geographical information

The Company and its subsidiaries mainly engage 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 Company and its subsidiaries' geographical information, revenues from external customers are based on the location of the Company and its subsidiaries' customers, and non-current assets are attributed to the segments based on the location of the Company and its subsidiaries' assets. 70% (2020: 71%) of the Company and its subsidiaries' 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 Company and its subsidiaries' geographical information for the years ended 31 December 2021 and 2020.

| | PRC | | Canada | | Others | | Consolidated | |
|---|---------|---------|--------|--------|---------|---------|--------------|---------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Property, plant and equipment | 250,687 | 224,742 | 77,986 | 86,251 | 136,778 | 135,675 | 465,451 | 446,668 |
| Right-of-use assets | 4,440 | 6,402 | 670 | 562 | 3,621 | 2,197 | 8,731 | 9,161 |
| Investments in associates and a joint venture | 5,135 | 4,865 | - | 2 | 36,405 | 37,499 | 41,540 | 42,366 |
| Other non-current assets | 11,106 | 11,027 | 857 | 287 | 288 | 46 | 12,251 | 11,360 |

(c) Information about major customers

The current year's revenue of approximately RMB10,531 million (2020: RMB2,373 million) was derived from sales by the E&P segment and the trading business segment to PetroChina Company Limited. Sales to CNOOC, its subsidiaries (excluding the Company and its subsidiaries) and associates (the "CNOOC Group") are included in note 32(iii).

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6. PROFIT BEFORE TAX

The Company and its subsidiaries' profit before tax is arrived at after (crediting)/charging:

| | 2021 | 2020 |
|--|----------------|---------|
| Crediting: | | |
| Interest income from bank deposits | (1,341) | (1,473) |
| Investment income: | | |
| – Fair value changes on other financial assets | (2,850) | (2,978) |
| Insurance compensation on disposal of property, plant and equipment | (43) | (65) |
| Charging: | | |
| Auditors' remuneration: | | |
| – Audit fee | 55 | 55 |
| – Other fees | 14 | 8 |
| | 69 | 63 |
| Employee wages, salaries, allowances and social security costs | 9,708 | 7,968 |
| Impairment and provision: | | |
| – Property, plant and equipment | 7,923 | 6,697 |
| – Reversal of expected credit losses, net | (6) | (1,373) |
| – Others | 40 | (125) |
| | 7,957 | 5,199 |
| Depreciation, depletion and amortisation: | | |
| – Property, plant and equipment | 55,271 | 52,106 |
| – Right-of-use assets | 1,324 | 1,258 |
| – Intangible assets | 490 | 402 |
| – Net amount capitalised | 151 | (1,460) |
| | 57,236 | 52,306 |
| Lease payments not included in the measurement of lease liabilities: | | |
| – Office properties | 431 | 413 |
| – Plant and equipment | 379 | 412 |
| | 810 | 825 |
| Repairs and maintenance | 5,861 | 4,721 |
| Research and development costs | 2,926 | 2,702 |
| Loss/(gain) on disposal of property, plant and equipment | 54 | (1) |

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7. FINANCE COSTS

| | 2021 | 2020 |
|--|---------|---------|
| Interest on bank loans | 216 | 51 |
| Interest on other loans | 4,691 | 5,579 |
| Interest on lease liabilities | 364 | 399 |
| Other borrowing costs | 14 | 8 |
| Total borrowing costs | 5,285 | 6,037 |
| Less: Amount capitalised (note 13) | (2,086) | (2,483) |
| | 3,199 | 3,554 |
| Other finance costs: | | |
| Unwinding of discount on provision for dismantlement (note 29) | 2,820 | 2,636 |
| | 6,019 | 6,190 |

During the year ended 31 December 2021, the effective interest rates used to determine the amount of related borrowing costs for capitalisation varied from 1.08% to 7.875% (2020: from 0.7% to 7.875%) per annum.

8. KEY MANAGEMENT PERSONNEL'S REMUNERATION

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

(i) Directors' remuneration

| | Fees ⁽¹⁾ RMB'000 | Salaries, allowances and 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 |
|---|--------------------------------|--|---|---|--|
| 2021 | | | | | |
| Executive directors: | | | | | |
| Xu Keqiang ⁽⁴⁾ | - | 251 | 634 | 168 | 1,053 |
| Hu Guangjie ⁽²⁾ | - | 82 | 348 | 56 | 486 |
| Xia Qinglong ⁽³⁾ | - | 229 | 185 | 78 | 492 |
| Subtotal | - | 562 | 1,167 | 302 | 2,031 |
| Non-executive directors: | | | | | |
| Wang Dongjin ⁽⁶⁾ | - | - | - | - | - |
| Li Yong ⁽⁷⁾ | - | - | - | - | - |
| Wen Dongfen ⁽⁶⁾ | - | - | - | - | - |
| Subtotal | - | - | - | - | - |
| Independent non-executive directors: | | | | | |
| Chiu Sung Hong | 930 | - | - | - | 930 |
| Lawrence J. Lau | 789 | - | - | - | 789 |
| Tse Hau Yin, Aloysius | 972 | - | - | - | 972 |
| Qiu Zhi Zhong | 789 | - | - | - | 789 |
| Subtotal | 3,480 | - | - | - | 3,480 |
| Total | 3,480 | 562 | 1,167 | 302 | 5,511 |

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8. KEY MANAGEMENT PERSONNEL'S REMUNERATION (continued)

(i) Directors' remuneration (continued)

| | Fees ⁽¹⁾ RMB'000 | Salaries, allowances and benefits in kind ⁽¹⁾ RMB'000 | Performance related bonuses ⁽¹⁾ RMB'000 | Pension scheme contributions RMB'000 | Total paid/ payable during the year RMB'000 |
|--------------------------------------|--------------------------------|--|---|--|--|
| 2020 | | | | | |
| Executive directors: | | | | | |
| Xu Keqiang ⁽⁴⁾ | – | 239 | 576 | 149 | 964 |
| Hu Guangjie ⁽⁵⁾ | – | 176 | 193 | 116 | 485 |
| Subtotal | – | 415 | 769 | 265 | 1,449 |
| Non-executive directors: | | | | | |
| Wang Dongjin ⁽⁸⁾ | – | – | – | – | – |
| Li Yong ⁽⁷⁾ | – | – | – | – | – |
| Wen Dongfen ⁽⁶⁾ | – | – | – | – | – |
| 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 |

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 21 April 2021, Mr. Hu Guangjie has resigned as an Executive Director and the President of the Company.
- (3) On 3 August 2021, Mr. Xia Qinglong, the President of the Company (with effective from 21 May 2021), was appointed as the Executive Director of the Company.
- (4) 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.
- (5) On 20 March 2020, Mr. Hu Guangjie was appointed as an Executive Director and the President of the Company.

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8. KEY MANAGEMENT PERSONNEL'S REMUNERATION (continued)

(i) Directors' remuneration (continued)

- (6) On 27 April 2020, Ms. Wen Dongfen was appointed as a Non-executive Director of the Company.
- (7) 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.
- (8) On 29 September 2020, Mr. Wang Dongjin ceased to serve as a member of the Remuneration Committee of the Company.

Save as disclosed above, there was no arrangement under which a director waived or agreed to waive any remuneration during the year. In 2021 and 2020, 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.

(ii) Other key management personnel's (excluding Directors') remuneration

| | 2021 | 2020 |
|-------------------------------------|-----------|------|
| Short term employee benefits | 11 | 10 |
| Pension scheme contributions | 1 | 1 |
| Amount paid/payable during the year | 12 | 11 |

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 | |
|------------------------------|---------------------|------|
| | 2021 | 2020 |
| Nil to RMB2,000,000 | 10 | 10 |
| RMB2,000,001 to RMB2,500,000 | - | - |
| | 10 | 10 |

9. FIVE HIGHEST PAID EMPLOYEES

During the year, none (2020: none) of the Directors, details of whose remuneration are disclosed in note 8(i) above, received an amount which falls within the category of the five highest paid employees. Details of the remuneration of the five (2020: five) highest paid employees, for the year are as follows:

| | 2021 | 2020 |
|---|-----------|------|
| Salaries, allowances, and benefits in kind ⁽¹⁾ | 9 | 25 |
| Performance-related bonuses | 15 | 18 |
| Pension scheme contributions | 1 | 2 |
| Amount paid/payable during the year | 25 | 45 |

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9. FIVE HIGHEST PAID EMPLOYEES (continued)

- (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 (2020: five) highest paid employees, falls within the following bands:

| | Number of employees | |
|-------------------------------|---------------------|----------|
| | 2021 | 2020 |
| RMB3,500,001 – RMB4,000,000 | 1 | – |
| RMB4,000,001 – RMB4,500,000 | 2 | – |
| RMB4,500,001 – RMB5,000,000 | 1 | – |
| RMB6,500,001 – RMB7,000,000 | – | 1 |
| RMB7,000,001 – RMB7,500,000 | – | 1 |
| RMB8,000,001 – RMB8,500,000 | 1 | 1 |
| RMB10,500,001 – RMB11,000,000 | – | 1 |
| RMB12,500,001 – RMB13,000,000 | – | 1 |
| | 5 | 5 |

10. TAX

(i) Income tax

The Company and its subsidiaries are subject, on an entity basis, to income taxes on profits arising in or derived from the tax jurisdictions in which the Company and its subsidiaries are domiciled and operate. The Company is subject to profits tax at a rate of 16.5% (2020: 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.

Principal subsidiaries of the Company domiciled outside the PRC are subject to income tax at rates ranging from 10% to 82% (2020: 10% to 82%). The provincial income tax rate of Alberta, Canada reduced from 12% to 11% on 1 July 2019, and gradually reduced to 8% in the following years.

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10. TAX (continued)

(i) Income tax (continued)

As at 31 December 2021, 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 Company and its subsidiaries' consolidated statement of profit or loss and other comprehensive income is as follows:

| | 2021 | 2020 |
|--|---------------|---------|
| Current tax | | |
| Provision for PRC enterprise income tax on the estimated taxable profits for the year | 20,443 | 9,821 |
| Provision for overseas enterprise income tax on the estimated taxable profits for the year | 5,171 | 2,080 |
| Deferred tax | | |
| Temporary differences in the current year | (100) | (1,950) |
| Income tax expense for the year | 25,514 | 9,951 |

A reconciliation of the PRC statutory corporate income tax rate to the effective income tax rate of the Company and its subsidiaries are as follows:

| | 2021 % | 2020 % |
|---|-------------|-----------|
| PRC statutory enterprise income tax rate | 25.0 | 25.0 |
| Effect of different tax rates for overseas subsidiaries | 3.3 | 4.3 |
| Tax credit from the government | (4.0) | (3.3) |
| Tax reported in equity-accounted entities within China | (0.1) | (0.3) |
| Others | 2.4 | 2.8 |
| Group's effective income tax rate | 26.6 | 28.5 |

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

| | 2021 | 2020 |
|------------------------------|---------------|---------|
| Opening Balance | 22,632 | 22,390 |
| Credit to the profit or loss | 100 | 1,950 |
| Charge to equity | (187) | (2) |
| Exchange differences | (868) | (1,706) |
| Closing Balance | 21,677 | 22,632 |

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10. TAX (continued)

(i) Income tax (continued)

Principal components of deferred tax balances are as follows:

| | 2021 | 2020 |
|---|-----------------|----------|
| Deferred tax assets | | |
| Property, plant and equipment | 13,142 | 6,064 |
| Provision for dismantlement | 13,860 | 12,980 |
| Losses available for offsetting against future taxable profit | 19,734 | 20,157 |
| Fair value of long term borrowings | 1,225 | 1,316 |
| Others | 1,074 | 1,070 |
| | 49,035 | 41,587 |
| Deferred tax liabilities | | |
| Property, plant and equipment | (26,767) | (18,632) |
| Others | (591) | (323) |
| | (27,358) | (18,955) |
| Net deferred tax assets | 21,677 | 22,632 |
| Of which | | |
| – deferred tax assets | 28,592 | 27,751 |
| – deferred tax liabilities | (6,915) | (5,119) |

As at 31 December 2021, the Company and its subsidiaries had approximately RMB95,595 million (2020: RMB98,008 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 2024 and beyond.

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 2021, the Company and its subsidiaries' recognised deferred tax assets on tax losses amounted to RMB90,828 million (2020: RMB92,644 million). Unrecognised tax losses, where recovery is not currently expected, amounted to RMB4,767 million (2020: RMB5,364 million). These unrecognised tax losses are subject to time limits in accordance with tax regulations in different countries.

At 31 December 2021, the Company and its subsidiaries' unrecognised deferred tax assets related to unused tax credits amounted to RMB4,141 million (2020: RMB7,382 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.

10. TAX (continued)

(ii) Other taxes

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

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

(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.

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11. EARNINGS PER SHARE

| | 2021 | 2020 |
|---|----------------|----------------|
| Earnings: | | |
| Profit for the purpose of basic and diluted earnings per share calculation | 70,320 | 24,956 |
| Number of shares: | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share and diluted earnings per share | 44,647,455,984 | 44,647,455,984 |
| Earnings per share: | | |
| Basic (RMB Yuan) | 1.57 | 0.56 |
| Diluted (RMB Yuan) | 1.57 | 0.56 |

The Company had no potentially dilutive ordinary shares in issue during the years ended 31 December 2021 and 2020.

12. DIVIDENDS

| | 2021 | 2020 |
|---|--------|--------|
| Dividend per ordinary share: | | |
| 2021 interim dividend – HK\$0.30 (2020: interim dividend HK\$0.20) per ordinary share | 11,159 | 7,744 |
| 2020 final dividend – HK\$0.25 (2019: final dividend HK\$0.45) per ordinary share | 9,314 | 18,107 |

As disclosed in the announcement of the Company dated 30 March 2022, the CSRC has approved the RMB Share Issue of the Company. In order to avoid the impact on the progress of RMB Share Issue of the Company, the Board decides not to recommend the declaration of the 2021 year-end dividend and will announce a special dividend plan as soon as possible after the completion of the RMB Share Issue, and the 2021 year-end dividend as originally planned and the special dividend for the 20th anniversary of the listing in Hong Kong shall be combined and declared as a special dividend (2020: final dividend proposed at HK\$0.25 per ordinary share by the Board of Directors, approximately RMB9,314 million in aggregate).

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%.

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13. PROPERTY, PLANT AND EQUIPMENT

| | Oil and gas properties | Vehicles and office equipment and others | Total |
|---|------------------------|--|-----------|
| Cost: | | | |
| 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 |
| At 1 January 2021 | 1,098,492 | 6,714 | 1,105,206 |
| Additions | 89,524 | 3,361 | 92,885 |
| Disposals and write-offs | (13,944) | (893) | (14,837) |
| Exchange differences | (15,003) | (28) | (15,031) |
| At 31 December 2021 | 1,159,069 | 9,154 | 1,168,223 |
| Accumulated depreciation, depletion and amortisation and impairment: | | | |
| 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) |
| At 1 January 2021 | (656,052) | (2,486) | (658,538) |
| Depreciation charge for the year | (54,994) | (277) | (55,271) |
| Impairment | (7,923) | – | (7,923) |
| Disposals and write-offs | 8,926 | 175 | 9,101 |
| Exchange differences | 9,844 | 15 | 9,859 |
| At 31 December 2021 | (700,199) | (2,573) | (702,772) |
| Net book value: | | | |
| At 31 December 2020 | 442,440 | 4,228 | 446,668 |
| At 31 December 2021 | 458,870 | 6,581 | 465,451 |

Included in the current year's additions was an amount of approximately RMB2,086 million (2020: approximately RMB2,483 million) in respect of interest capitalised in property, plant and equipment. Included also in the depreciation charge for the year was an amount of approximately RMB2,438 million (2020: approximately RMB2,764 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 2021, impairment losses of RMB7,923 million (2020: RMB6,697 million in North America, Africa and China) related to oil and gas properties in North America were recognised as impairment and provision in profit or loss, triggered by the change of reserve assessment and the uncertainty in future development plans.

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13. PROPERTY, PLANT AND EQUIPMENT (continued)

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 Company and its subsidiaries' 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% in 2021 after tax (2020: 7%-12%). A derived pre-tax discount rate would be 9% (2020: 7%-16%).

14. 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 |
| At 1 January 2021 | 7,156 | 897 | 297 | 861 | 2,101 | 11,312 |
| Additions | 68 | 202 | 636 | 155 | 16 | 1,077 |
| Disposals and write-offs | (97) | (132) | (228) | - | 2 | (455) |
| Exchange differences | (39) | (17) | (4) | (20) | - | (80) |
| At 31 December 2021 | 7,088 | 950 | 701 | 996 | 2,119 | 11,854 |
| 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) |
| At 1 January 2021 | (1,396) | (353) | (46) | (214) | (142) | (2,151) |
| Depreciation charge for the year | (756) | (193) | (265) | (59) | (51) | (1,324) |
| Disposals and write-offs | - | 127 | 204 | - | - | 331 |
| Exchange differences | 9 | 7 | - | 5 | - | 21 |
| At 31 December 2021 | (2,143) | (412) | (107) | (268) | (193) | (3,123) |
| Net book value: | | | | | | |
| At 31 December 2020 | 5,760 | 544 | 251 | 647 | 1,959 | 9,161 |
| At 31 December 2021 | 4,945 | 538 | 594 | 728 | 1,926 | 8,731 |
| Expense relating to short-term leases | 99 | 319 | - | 13 | - | 431 |
| Variable lease payments not included in the measurement of lease liabilities | 379 | - | - | - | - | 379 |

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14. RIGHT-OF-USE ASSETS (continued)

For both years, the Company and its subsidiaries lease 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 Company and its subsidiaries apply the definition of a contract and determines the period for which the contract is enforceable.

During the current period, the Company and its subsidiaries recognised right-of-use assets of approximately RMB3,014 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 2021 amounted to RMB1,058 million and RMB379 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.

15. INTANGIBLE ASSETS

| | Gas processing rights under NWS Project | Exploration rights | Marketing transportation and storage contracts | Software and others | Goodwill | Total |
|----------------------------------|---|--------------------|--|---------------------|----------|---------|
| Cost: | | | | | | |
| 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 |
| At 1 January 2021 | 1,197 | 531 | 1,432 | 3,528 | 13,871 | 20,559 |
| Additions | - | - | - | 574 | - | 574 |
| Disposal | - | - | - | (651) | - | (651) |
| Exchange differences | (27) | - | (33) | 166 | (314) | (208) |
| At 31 December 2021 | 1,170 | 531 | 1,399 | 3,617 | 13,557 | 20,274 |
| Accumulated amortisation: | | | | | | |
| 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) |
| At 1 January 2021 | (916) | (279) | (1,340) | (2,895) | - | (5,430) |
| Amortisation charge for the year | (74) | (30) | (56) | (330) | - | (490) |
| Disposal | - | - | - | 651 | - | 651 |
| Exchange differences | 22 | - | 31 | (194) | - | (141) |
| At 31 December 2021 | (968) | (309) | (1,365) | (2,768) | - | (5,410) |
| Net book value: | | | | | | |
| At 31 December 2020 | 281 | 252 | 92 | 633 | 13,871 | 15,129 |
| At 31 December 2021 | 202 | 222 | 34 | 849 | 13,557 | 14,864 |

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15. 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.

16. 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 Company and its subsidiaries | 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 |
| CNOOC International Trading Co., Ltd ⁽¹⁾ | Hainan, PRC | RMB400 million | 100% | Sales and trading of petroleum and natural gas |
| CNOOC International Limited | 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 ⁽²⁾ | Hong Kong, PRC | EUR1,299,384,361.05 | 100% | Investment holding |

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16. 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 Company and its subsidiaries | Principal activities |
|--|------------------------|---|---|---|
| Indirectly held subsidiaries⁽³⁾: | | | | |
| 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 Deepwater Development Limited ⁽¹⁾ | 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 |
| 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 |

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16. 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 Company and its subsidiaries | Principal activities |
|--|------------------------|---|---|--|
| 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 ⁽⁴⁾ | Brazil | R\$7,768,510,300 | 100% | Petroleum and natural gas exploration, development and production in Brazil |
| 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⁾ In May 2021, the registered capital of CEPR Limited increased to EUR 1,299,384,361.05.

⁽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 and China Offshore Oil (Singapore) International Pte Ltd., which is indirectly held through CNOOC International Trading Co., Ltd.

⁽⁴⁾ The registered capital of CNOOC PETROLEUM BRASIL LTDA increased to R\$7,768,510,300 on 27 December 2021.

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 Company and its subsidiaries. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

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17. 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 Company and its subsidiaries | 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 Company and its subsidiaries' investments in associates represent:

| | 2021 | 2020 |
|---------------------|--------|--------|
| Share of net assets | 23,456 | 23,544 |

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17. INVESTMENTS IN ASSOCIATES (continued)

None of the Company and its subsidiaries' associates are considered to be individually material. The following table illustrates the Company and its subsidiaries' share of the profits and other comprehensive income of its associates in the consolidated financial statements:

| | 2021 | 2020 |
|----------------------------|------|------|
| Profit for the year | 611 | 171 |
| Other comprehensive income | (1) | (85) |
| Total comprehensive income | 610 | 86 |

Dividend of RMB284 million was received from the associates in 2021 (2020: RMB329 million).

18. 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 Company and its subsidiaries | 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:

| | 2021 | 2020 |
|--|----------|----------|
| Current assets | 8,711 | 9,092 |
| Non-current assets | 46,967 | 47,737 |
| Current liabilities | (7,322) | (7,391) |
| Non-current liabilities | (12,188) | (11,794) |
| Revenue | 14,120 | 12,089 |
| Depreciation, depletion and amortisation | (2,969) | (3,321) |
| Interest income | 151 | 101 |
| Finance costs | (925) | (946) |
| Profit/(Loss) before tax | 1,416 | (1,641) |
| Income tax (expense)/credit | (1,946) | 35 |
| Loss after tax | (530) | (1,606) |
| Total comprehensive expense | (530) | (1,606) |

Dividend of US\$7 million (equivalent to RMB45 million) was received from the joint venture in 2021 and US\$6 million (equivalent to RMB42million) was received from the joint venture in 2020.

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19. EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS

(i) Equity investments

| | 2021 | 2020 |
|--|--------------|-------|
| Non-current: | | |
| Publicly traded investments | | |
| Equity investment in MEG Energy Corporation ("MEG") classified at FVTOCI ⁽¹⁾ | 1,681 | 653 |
| | 1,681 | 653 |
| Non-publicly traded investments | | |
| Private equity fund in Kerogen Energy Fund classified at FVTOCI ⁽²⁾ | 974 | 1,140 |
| Other equity investments designated at FVTOCI | 20 | 36 |
| | 994 | 1,176 |
| | 2,675 | 1,829 |

(1) MEG is principally engaged in the exploitation and production of oil sands. The investment in MEG is designated at FVTOCI. As at 31 December 2021, 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 at FVTOCI.

During the year, the fair value changes on the Company and its subsidiaries' equity investments recognised directly in other comprehensive income amounted to RMB1,172 million (2020: other comprehensive expense RMB1,040 million).

(ii) Other financial assets

| | 2021 | 2020 |
|--|---------------|--------|
| Current: | | |
| Non-publicly traded investments classified at FVTPL: | | |
| Corporate wealth management products ⁽¹⁾ | 82,440 | 61,662 |
| | 82,440 | 61,662 |

(1) The corporate wealth management products will mature from 12 January, 2022 to 5 December 2022 (2020: 6 January, 2021 to 13 October 2021).

The gains of the Company and its subsidiaries' other financial assets recognised in the profit or loss for the year was RMB2,850 million (2020: RMB2,978 million).

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20. 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 Company and its subsidiaries accrue 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 2021, the balance of the specified dismantlement fund accounts was RMB10,402 million (31 December 2020: RMB9,738 million).

21. INVENTORIES AND SUPPLIES

| | 2021 | 2020 |
|--|-------|-------|
| Materials and supplies | 4,561 | 5,064 |
| Oil in tanks | 1,808 | 1,377 |
| Less: Provision for inventory obsolescence | (666) | (797) |
| | 5,703 | 5,644 |

22. TRADE RECEIVABLES

The credit terms of the Company and its subsidiaries 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 2021 and 31 December 2020, the age of substantially all the trade receivables was within one year.

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

The Company and its subsidiaries' 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 Company and its subsidiaries' bank deposits was 1.86% per annum, for the year ended 31 December 2021 (2020: 2.56% per annum).

24. TRADE AND ACCRUED PAYABLES

As at 31 December 2021 and 2020, substantially all the trade and accrued payables were aged within six months. The trade and accrued payables are non-interest-bearing.

25. CONTRACT LIABILITIES

| | 2021 | 2020 |
|----------------------|-------|-------|
| Contract liabilities | 1,983 | 1,544 |
| – Current | 1,983 | 1,544 |

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25. CONTRACT LIABILITIES (continued)

Under the natural gas sale contracts, which contain take-or-pay clauses, the Company and its subsidiaries recorded the payments received from customers for natural gas not yet taken as contract liabilities.

The amount of RMB954 million contract liability at the beginning of the year has been recognized as revenue for the year ended 31 December 2021 (2020: RMB1,242 million).

26. OTHER PAYABLES AND ACCRUED LIABILITIES

| | 2021 | 2020 |
|---------------------------------------|--------------|--------|
| Accrued payroll and welfare payable | 2,040 | 1,765 |
| Accrued expenses | 224 | 589 |
| Provision for dismantlement (note 29) | 707 | 916 |
| Other payables | 6,932 | 8,869 |
| | 9,903 | 12,139 |

27. LOANS AND BORROWINGS

Current⁽¹⁾

| | Effective interest rate and final maturity | 2021 | | | 2020 | | |
|--|---|-------|--------|--------|-------|--------|--------|
| | | Loans | Notes | Total | Loans | Notes | Total |
| Short-term loans and borrowings | | | | | | | |
| General loans | 1.08% per annum | 4,303 | - | 4,303 | - | - | - |
| | | 4,303 | - | 4,303 | - | - | - |
| Loans and borrowings due within one year | | | | | | | |
| For Tangguh LNG Project ⁽³⁾ | LIBOR+0.19% to 0.335% per annum with maturity within one year | - | - | - | 78 | - | 78 |
| For Tangguh LNG III Project ⁽⁴⁾ | LIBOR+1.37% to 3.45% per annum with maturity within one year | 444 | - | 444 | 142 | - | 142 |
| For Arctic LNG 2 Project ⁽⁵⁾ | EURIBOR+1.2% per annum with maturity within one year | 21 | - | 21 | 18 | - | 18 |
| General loans | LPR-60BPS per annum with maturity within one year | 2 | - | 2 | 1 | - | 1 |
| Notes ⁽²⁾ | | - | 10,559 | 10,559 | - | 10,978 | 10,978 |
| | | 467 | 10,559 | 11,026 | 239 | 10,978 | 11,217 |
| | | 4,770 | 10,559 | 15,329 | 239 | 10,978 | 11,217 |

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27. LOANS AND BORROWINGS (continued)

Non-current⁽¹⁾

| | Effective interest rate and final maturity | 2021 | | | 2020 | | |
|--|---|---------------|----------------|----------------|--------|---------|---------|
| | | Loans | Notes | Total | Loans | Notes | Total |
| For Tangguh LNG III Project ⁽⁴⁾ | LIBOR+1.37% to 3.45% per annum from 2022 to 2029 | 2,883 | - | 2,883 | 3,233 | - | 3,233 |
| For Arctic LNG 2 Project ⁽⁵⁾ | EURIBOR+1.2% per annum with maturity in 2026 | 6,345 | - | 6,345 | 7,011 | - | 7,011 |
| General loans | LPR-60BPS per annum with maturity from 2024 to 2033 | 2,062 | - | 2,062 | 814 | - | 814 |
| Notes ⁽²⁾ | | - | 101,603 | 101,603 | - | 113,955 | 113,955 |
| | | 11,290 | 101,603 | 112,893 | 11,058 | 113,955 | 125,013 |

(1) The amount of loans and borrowings included interest payable.

(2) The details of notes are as follows:

| Issued by | Maturity | Coupon Rate | Outstanding Principal Amount | |
|--|-------------|-------------|---------------------------------|---------------------------------|
| | | | 31 December 2021 USD million | 31 December 2020 USD million |
| CNOOC Finance (2003) Limited | Due in 2033 | 5.500% | 300 | 300 |
| CNOOC Finance (2011) Limited | Due in 2021 | 4.25% | - | 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 | 4.250% | 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 | 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.

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27. LOANS AND BORROWINGS (continued)

Non-current⁽¹⁾ (continued)

- (3) 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 million.
- (4) 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.
- (5) As at 31 December 2021, EUR879 million of the bank loans for Arctic LNG 2 Project (2020: EUR874 million) were guaranteed by the Company.

The maturities of the long term loans are as follows:

| | 2021 | 2020 |
|--|---------------|--------|
| Repayable: | | |
| Within one year | 467 | 239 |
| After one year but within two years | 319 | 288 |
| After two years but within three years | 469 | 326 |
| After three years but within four years | 604 | 495 |
| After four years but within five years | 6,968 | 649 |
| After five years | 2,930 | 9,300 |
| | 11,757 | 11,297 |
| Amount due within one year shown under current liabilities | (467) | (239) |
| | 11,290 | 11,058 |

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⁾ |
|--------------------------------|---------------------|--|---|
| 2021 | 11,757 | 1.59% | 1.27% |
| 2020 | 11,297 | 0.95% | 1.83% |

(1) The weighted average interest rate is computed by averaging the interest rates as of 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.

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28. LEASE LIABILITIES

| | 2021 | 2020 |
|---|--------------|---------|
| Lease liabilities payable: | | |
| Within one year | 1,280 | 1,522 |
| Within a period of more than one year but not more than two years | 1,087 | 1,218 |
| Within a period of more than two years but not more than five years | 2,770 | 2,762 |
| Within a period of more than five years | 2,761 | 3,632 |
| | 7,898 | 9,134 |
| Less: Discount to present value | (978) | (1,815) |
| Total lease liabilities | 6,920 | 7,319 |

The incremental borrowing rates applied to lease liabilities range from 3.3% to 5.16% (2020: from 3.3% to 5.16%).

29. PROVISION FOR DISMANTLEMENT

| | 2021 | 2020 |
|---|---------------|---------|
| At 1 January | 70,360 | 65,602 |
| New projects ⁽¹⁾ | 4,328 | 3,765 |
| Revision ⁽¹⁾ | (522) | 35 |
| Utilisation | (247) | (444) |
| Deletion | (62) | (115) |
| Unwinding of discount ⁽²⁾ (note 7) | 2,820 | 2,636 |
| Exchange differences | (488) | (1,119) |
| At 31 December | 76,189 | 70,360 |
| Current portion of provision for dismantlement included in other payables and accrued liabilities (note 26) | (707) | (916) |
| At 31 December | 75,482 | 69,444 |

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

(2) The discount rates used for calculating the provision for dismantlement is 3.75% (2020: 3.25%-4.25%).

30. 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 2020, as at 31 December 2020 and as at 31 December 2021 | 44,647,455,984 | 43,081 |

31. 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 IFRSs/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 2021, the general reserve fund amounted to RMB57,504 million (2020: 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 Company and its subsidiaries are 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 2021, the Company and its subsidiaries' safety fund reserve under the PRC regulations amounted to nil (2020: nil).

32. 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 Company and its subsidiaries are 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 Company and its subsidiaries to the CNOOC Group and (2) by the CNOOC Group to the Company and its subsidiaries, 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:

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32. RELATED PARTY TRANSACTIONS (continued)

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

- (1) Provision of exploration, oil and gas development, oil and gas production as well as marketing, management and ancillary services by the CNOOC Group to the Company and its subsidiaries:
 - 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 Company and its subsidiaries to the CNOOC Group; and
- (3) Sales of petroleum and natural gas products by the Company and its subsidiaries to the CNOOC Group:
 - a) Sales of petroleum and natural gas products (other than long-term sales of natural gas and liquefied natural gas)
 - b) Long-term sales of natural gas and liquefied natural gas

Pricing principles

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

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

- (a) government-prescribed 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 Company and its subsidiaries and (3)a)-(3)b) above provided by the Company and its subsidiaries 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).

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32. RELATED PARTY TRANSACTIONS (continued)

Pricing principles (continued)

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

The continuing connected transactions referred to in paragraph (1)e) on the basis of the above pricing principle, are unanimously determined with 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 Company and its subsidiaries 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.

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

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

| | 2021 | 2020 |
|--|--------|--------|
| Provision of exploration and support services | 10,982 | 8,536 |
| – Inclusive of amounts capitalised under property, plant and equipment | 6,466 | 5,962 |
| Provision of oil and gas development and support services | 39,696 | 36,776 |
| Provision of oil and gas production and support services (note (a)) | 11,836 | 9,726 |
| Provision of sales, management and ancillary services (note (b)) | 2,335 | 1,940 |
| FPSO vessel leases (note (c))* | 1,011 | 1,249 |
| | 65,860 | 58,227 |

* For the right-of-use assets recognised during this period from the lease agreements with CNOOC Group please refer to note 14.

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

The Company and its subsidiaries did not enter into any transactions in the above category for the years ended 31 December 2021 and 2020.

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

| | 2021 | 2020 |
|--|---------|---------|
| Sales of petroleum and natural gas products (other than long-term sales of natural gas and liquefied natural gas) (note (d)) | 136,524 | 88,843 |
| Long term sales of natural gas and liquefied natural gas (note (e)) | 16,194 | 14,613 |
| | 152,718 | 103,456 |

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32. RELATED PARTY TRANSACTIONS (continued)

(iv) Transactions and balances with CNOOC Finance Corporation Limited (“CNOOC Finance”) (note (f))

(a) Interest income received by the Company and its subsidiaries

| | 2021 | 2020 |
|--|------|------|
| Interest income from deposits in CNOOC Finance | 318 | 303 |

(b) Deposits balances made by the Company and its subsidiaries

| | 2021 | 2020 |
|---------------------------|--------|--------|
| Deposits in CNOOC Finance | 23,436 | 23,370 |

(v) Balances with the CNOOC Group

| | 2021 | 2020 |
|--|--------|--------|
| Amount due to CNOOC | | |
| – included in other payables and accrued liabilities | 51 | 2 |
| Amounts due to other related parties | | |
| – included in trade and accrued payables | 27,395 | 23,097 |
| – included in lease liabilities | 4,105 | 4,767 |
| | 31,551 | 27,866 |
| Borrowings from CNOOC Group (note (g)) | 4,970 | 271 |
| Amounts due from other related parties | | |
| – included in trade receivables | 14,151 | 9,508 |
| – included in other current assets | 1,079 | 741 |
| | 15,230 | 10,249 |

(vi) Balance with a joint venture

| | 2021 | 2020 |
|------------------------------------|------|------|
| Amount due from a joint venture | | |
| – included in other current assets | 161 | 82 |

(vii) Transactions and balances with other state-owned enterprises

The Company and its subsidiaries enter 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 37. In addition, the Company and its subsidiaries have certain of its cash in bank and time deposits with certain state-owned banks in the PRC as at 31 December 2021, as summarised below:

| | 2021 | 2020 |
|---|--------|--------|
| Cash and cash equivalents | 1,672 | 14,071 |
| Time deposits with maturity over three months | 24,473 | 21,844 |
| Specified dismantlement fund accounts (note 20) | 10,402 | 9,738 |
| | 36,547 | 45,653 |

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

32. RELATED PARTY TRANSACTIONS (continued)

(viii) Key management personnel's remuneration

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

Note:

- (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 Company and its subsidiaries. In addition, the CNOOC Group leased certain premises to certain subsidiaries of the Company 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 Company and its subsidiaries 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 certain subsidiaries of the Company 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 Company and its subsidiaries 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 Company and its subsidiaries 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 Company and its subsidiaries with CNOOC Finance for the period from 1 January 2020 to 31 December 2022 with the amount of RMB23,500 million. The Company and its subsidiaries' 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 2021 did not exceed RMB23,500 million (2020: RMB23,500 million).
- (g) Borrowings from CNOOC Group mainly represent a three-year uncommitted revolving loan facility provided from CNOOC to the Company for general purposes, with the principal amount of RMB4,300 million of 1.08% per annum. As at 31 December 2021, the loan has been drawn in full.

33. RETIREMENT BENEFITS

All the Company and its subsidiaries' 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 Company and its subsidiaries are required to make annual contributions to the state-managed retirement benefit plan at rates ranging from 14% to 20% 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 Company and its subsidiaries provide 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 Company and its subsidiaries' pension costs charged to the consolidated statement of profit or loss and other comprehensive income amounted to RMB945 million (2020: RMB900 million).

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34. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of profit before tax to cash generated from operations

| | 2021 | 2020 |
|--|----------------|---------|
| Profit before tax | 95,821 | 34,907 |
| Adjustments for: | | |
| Interest income | (1,341) | (1,473) |
| Finance costs | 6,019 | 6,190 |
| Exchange gains, net | (742) | (445) |
| Share of profits of associates | (611) | (171) |
| Loss attributable to a joint venture | 265 | 803 |
| Investment income | (2,850) | (2,978) |
| Impairment and provision | 7,957 | 5,199 |
| Depreciation, depletion and amortisation | 57,236 | 52,306 |
| Loss on disposal and write-off of property, plant and equipment | 5,071 | 941 |
| Subtotal | 166,825 | 95,279 |
| (Increase)/Decrease in trade receivables and other current assets | (9,803) | 5,621 |
| (Increase)/Decrease in inventories and supplies | (99) | 2,248 |
| Increase/(Decrease) in trade and accrued payables, contract liabilities and other payables and accrued liabilities | 7,440 | (3,335) |
| Cash generated from operations | 164,363 | 99,813 |

Reconciliation of liabilities arising from financing activities

The table below details changes in the Company and its subsidiaries' 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 Company and its subsidiaries' consolidated statement of cash flows as cash flows from financing activities.

| | Loans and borrowings (Note 27) | Lease liabilities (Note 28) | Dividend payable | Total |
|------------------------------|--------------------------------------|--------------------------------|---------------------|-----------------|
| 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 7) | 5,638 | 399 | - | 6,037 |
| Dividends declared | - | - | 26,199 | 26,199 |
| At 31 December 2020 | 136,230 | 7,319 | - | 143,549 |
| At 1 January 2021 | 136,230 | 7,319 | - | 143,549 |
| Financing cash flows | (11,812) | (1,903) | (20,473) | (34,188) |
| New lease entered | - | 1,061 | - | 1,061 |
| Foreign exchange translation | (1,117) | 79 | 26 | (1,012) |
| Finance costs (note 7) | 4,921 | 364 | - | 5,285 |
| Dividends declared | - | - | 20,447 | 20,447 |
| At 31 December 2021 | 128,222 | 6,920 | - | 135,142 |

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35. COMMITMENTS AND CONTINGENCIES

(i) Capital commitments

As at 31 December 2021, the Company and its subsidiaries had the following capital commitments, principally for the construction of property, plant and equipment:

| | 2021 | 2020 |
|---|--------|--------|
| Contracted, but not provided for ⁽¹⁾ | 41,249 | 30,856 |

(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 Company and its subsidiaries' exploration and production licenses.

The above table includes a commitment of approximately RMB11,467 million (2020: RMB8,854 million) contracted with the CNOOC Group.

Capital commitments of a joint venture:

| | 2021 | 2020 |
|----------------------------------|------|------|
| Contracted, but not provided for | 247 | 800 |

As at 31 December 2021, the Company and its subsidiaries had unutilised banking facilities amounting to approximately RMB67,011 million (2020: RMB55,080 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 Company and its subsidiaries are 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 Company and its subsidiaries' 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 Company or its subsidiaries are 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.

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36. FINANCIAL INSTRUMENTS

Fair value of financial instruments

The carrying values of the Company and its subsidiaries' 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 Company and its subsidiaries' long term bank loans with floating interest rates approximated to the carrying amount as at 31 December 2021 and 2020.

The estimated fair value of the Company and its subsidiaries' long term guaranteed notes was approximately RMB120,087 million as at 31 December 2021 (2020: RMB136,996 million), which was determined by reference to the market price as at 31 December 2021.

Fair value hierarchy

The Company and its subsidiaries use 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 Company and its subsidiaries obtain 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 2021 and 31 December 2020, the Company and its subsidiaries held the following financial instruments measured at fair value for each hierarchy respectively:

| | 31 December 2021 | Level 1 | Level 2 | Level 3 |
|---|-----------------------------|----------------|----------------|----------------|
| Assets measured at fair value | | | | |
| Other financial assets – current | | | | |
| Corporate wealth management products | 82,440 | – | 82,440 | – |
| Equity investments | | | | |
| Non-publicly traded investments – non current | 994 | – | – | 994 |
| Publicly traded investments – non current* | 1,681 | 1,681 | – | – |
| | 85,115 | 1,681 | 82,440 | 994 |

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36. FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

| | 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 | – |
| 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 gains and losses included in other comprehensive income related to financial assets at FVTOCI held at the end of the reporting period are reported as fair value change on equity investments designated as at FVTOCI.

Financial assets classified within Level 3 are made up of Kerogen Energy Fund invested by a wholly-owned subsidiary of the Company. 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 in puts 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.

37. CONCENTRATION OF CUSTOMERS

A substantial portion of the Company and its subsidiaries' 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:

| | 2021 | 2020 |
|--|--------|-------|
| PetroChina Company Limited* | 10,531 | 2,373 |
| China Petroleum & Chemical Corporation* | 8,761 | 7,585 |
| Zhonghai (Dongying) Petrochemical Co. Ltd. | 8,754 | 4,946 |
| Shandong Haihua Group Co. Ltd. | 5,412 | 2,180 |
| BP p.l.c. | 4,888 | 2,832 |

* These transactions are with other state-owned enterprises.

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38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The Company and its subsidiaries are exposed to credit risk, oil and gas price risk, currency risk, interest rate risk and liquidity risk.

The Company's senior management oversees the management of these risks. The Company's senior management is supported by various departments that advise on financial risks and the appropriate financial risks governance framework for the Company and its subsidiaries. Those departments provide assurance to the Company's senior management that the Company and its subsidiaries' 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 2021, the carrying amounts of the Company and its subsidiaries' cash and cash equivalents, time deposits with maturity more than three months, trade receivables, other receivables (approximately RMB6,012 million included in other current assets) and debt investment represent the Company and its subsidiaries' maximum exposure to credit risk in relation to its financial assets. The Company and its subsidiaries do 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 Company and its subsidiaries have delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new counterparties, the Company and its subsidiaries use an internal credit scoring system to assess the potential counterparty's credit quality and define credit limits by counterparty. Limits and scoring attributed to counterparties are reviewed annually. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Company and its subsidiaries perform 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 Company and its subsidiaries' credit risk is significantly reduced.

Concentrations of credit risk are managed by counterparty and by geographical region. At 31 December 2021, the Company and its subsidiaries have certain concentrations of credit risk as 1.90% (2020: 6.62%) and 3.21% (2020: 10.27%) of the Company and its subsidiaries' trade receivables were due from the Company and its subsidiaries' largest third-party customer and the five largest third-party customers, respectively.

(ii) Oil and gas price risk

Since the Company and its subsidiaries make reference to international oil prices to determine its realised oil price, fluctuations in international oil price would have a significant impact on the Company and its subsidiaries' sales revenue, profit, assets value and cash-flow. In addition, certain of the Company and its subsidiaries' 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 Company and its subsidiaries' profitability.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(iii) Currency risk

Substantially all of the Company and its subsidiaries' 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 2021 to 31 December 2021, RMB has appreciated by approximately 2.34% (2020: appreciated by approximately 6.92%) against the US dollars. At 31 December 2021, approximately 54% (2020: 42%) of the Company and its subsidiaries' 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 Company and its subsidiaries also have 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 Company and its subsidiaries' exposure to foreign currency risk by using a sensitivity analysis on the change in foreign exchange rate of the US dollars, to which the Company and its subsidiaries are mainly exposed to as at 31 December 2021 and 2020. Based on management's assessment at 31 December 2021, a 5% strengthening/weakening of RMB against US dollars would have increased/decreased the profit for the year of the Company and its subsidiaries by 0.07% (2020: 0.35%) and the equity of the Company and its subsidiaries by 0.30% (2020: 0.51%). 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 Company and its subsidiaries have significant exposure with all other variables held constant. The analysis is performed on the same basis for 2020.

Senior management is closely monitoring the Company and its subsidiaries' net exposure to foreign currency risk. The appreciation of RMB against the US dollars may have the following impact on the Company and its subsidiaries. On one hand, since the benchmark oil and gas prices are usually in US dollars against RMB, the Company and its subsidiaries' oil and gas sales may decrease due to the appreciation of RMB against the US dollars. On the other hand, the appreciation of RMB against the US dollars will also decrease the Company and its subsidiaries' 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 Company and its subsidiaries' senior management. As at the end of 2021, the interest rates for 90.46% of the Company and its subsidiaries' debts were fixed. The weighted average term of the Company and its subsidiaries' debt balance outstanding was approximately 8.03 years. The fixed interest rates can reduce the volatility of finance costs under uncertain environments and the Company and its subsidiaries' exposure to changes in interest rates is not expected to be material.

(v) Liquidity risk

The Company and its subsidiaries manage 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 Company and its subsidiaries' trade and accrued payables, other payables and accrued liabilities are all due for settlement within six months after the reporting date.

Notes to Consolidated Financial Statements

31 December 2021

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

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(v) Liquidity risk (continued)

The financial liabilities held by the Company and its subsidiaries are analyzed according to the maturity period of the undiscounted remaining contractual obligations as follows:

31 December 2021

| | Within 1 year | 1 to 2 years | 2 to 5 years | Above 5 years | Total |
|----------------------------|---------------|---------------|---------------|---------------|----------------|
| Short-term borrowings | 4,350 | - | - | - | 4,350 |
| Long-term borrowings | 684 | 530 | 8,583 | 3,115 | 12,912 |
| Trade and accrued payables | 48,990 | - | - | - | 48,990 |
| Other payable | 7,863 | - | - | - | 7,863 |
| Notes | 15,103 | 19,720 | 36,526 | 83,030 | 154,379 |
| Long-term payable | - | 930 | 2,682 | 2,845 | 6,457 |
| Lease liabilities | 1,279 | 1,087 | 2,771 | 2,761 | 7,898 |
| Total | 78,269 | 22,267 | 50,562 | 91,751 | 242,849 |

31 December 2020

| | Within 1 year | 1 to 2 years | 2 to 5 years | Above 5 years | Total |
|----------------------------|---------------|---------------|---------------|----------------|----------------|
| Long-term borrowings | 452 | 462 | 1,600 | 10,031 | 12,545 |
| Trade and accrued payables | 41,203 | - | - | - | 41,203 |
| Other payable | 7,142 | - | - | - | 7,142 |
| Notes | 15,911 | 14,436 | 54,622 | 88,050 | 173,019 |
| Long-term payable | 6 | 103 | 3,603 | 3,183 | 6,895 |
| Lease liabilities | 1,522 | 1,219 | 2,762 | 3,632 | 9,135 |
| Total | 66,236 | 16,220 | 62,587 | 104,896 | 249,939 |

(vi) Capital management

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

The Company and its subsidiaries manage its capital structure and make adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company and its subsidiaries 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 2021 and 2020.

The Company and its subsidiaries monitor 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).

| | 2021 | 2020 |
|----------------------|----------------|----------------|
| Loans and borrowings | 128,222 | 136,230 |
| Lease liability | 6,920 | 7,319 |
| Total Equity | 481,976 | 433,930 |
| Total capital | 617,118 | 577,479 |
| Gearing ratio | 21.9% | 24.9% |

Notes to Consolidated Financial Statements

31 December 2021

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

39. CHARGES ON ASSETS

CNOOC NWS Private Limited, a wholly-owned subsidiary of the Company, 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.

40. SUBSEQUENT EVENTS

The Company and its subsidiaries have no significant subsequent events needed to be disclosed in the consolidated financial statements.

41. 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:

| | 2021 | 2020 |
|---|----------------|---------|
| NON-CURRENT ASSETS | | |
| Investments in subsidiaries | 165,164 | 168,721 |
| Right-of-use assets | 12 | 19 |
| Total non-current assets | 165,176 | 168,740 |
| CURRENT ASSETS | | |
| Amounts due from subsidiaries | 3,856 | 2,935 |
| Loans to a subsidiary | 30,651 | 24,639 |
| Time deposits with maturity over three months | 15,838 | 18,605 |
| Cash and cash equivalents | 22,066 | 16,670 |
| Total current assets | 72,411 | 62,849 |
| CURRENT LIABILITIES | | |
| Loans and borrowings | 4,303 | – |
| Lease liabilities | 12 | 19 |
| Other payables and accrued liabilities | 66 | 66 |
| Total current liabilities | 4,381 | 85 |
| NET CURRENT ASSETS | 68,030 | 62,764 |
| NET ASSETS | 233,206 | 231,504 |
| EQUITY | | |
| Equity attributable to owners of the parent | | |
| Issued capital | 43,081 | 43,081 |
| Reserves | 190,125 | 188,423 |
| TOTAL EQUITY | 233,206 | 231,504 |

XU Keqiang

Director

XIA Qinglong

Director

Notes to Consolidated Financial Statements

31 December 2021

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

41. 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 reserves |
|---|--------------------------------------|----------------|----------------------|-----------------|
| 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 |
| Balance at 1 January 2021 | (16,323) | 5,558 | 199,188 | 188,423 |
| Profit for the year | – | – | 28,719 | 28,719 |
| Other comprehensive expense, net of tax | (6,570) | – | – | (6,570) |
| Total comprehensive (expense)/income | (6,570) | – | 28,719 | 22,149 |
| 2020 final dividend | – | – | (9,288) | (9,288) |
| 2021 interim dividend | – | – | (11,159) | (11,159) |
| Balance at 31 December 2021 | (22,893) | 5,558 | 207,460* | 190,125 |

* As at 31 December 2021, the distributable retained earnings of the Company amounted to approximately RMB207,460 million (2020: RMB199,188 million).

42. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 30 March 2022.

Supplementary Information on Oil and Gas Producing Activities (Unaudited)

31 December 2021

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

To fully reflect the Company's oil and gas producing activities, the Company makes the following disclosures in accordance with the FASB Accounting Standard Codification 932 "Extractive Activities-Oil and Gas" (the "ASC 932") for the assessment and disclosure of oil and gas reserves in order to provide standardized measures and variations of the estimated proven reserves of oil and gas and the discounted projected future net cash flows of the Company and its equity investors.

(1) 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 Company referred to the SEC's final rules on "Modernization of Oil and Gas Reporting", which became effective as of 1 January 2010 to evaluate reserves. We implemented rigorous internal control system that monitors the entire reserves estimation process and certain key metrics.

For the years 2021, 2020 and 2019, approximately 74%, 62% and 66%, respectively, of our total proved reserves were evaluated by us, and the remaining were evaluated by independent third parties.

We established the Reserve Management Committee (the "RMC"), which comprises the general managers of the relevant departments and is led by the Company's management in charge of reserves as the director. 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 or us.

The RMC delegates its daily operation to our Reserves Office. The Reserves Office is mainly responsible for supervising reserves estimates and auditing. It reports to the RMC periodically and is independent from operating divisions such as the exploration, development and production departments. Our Chief Reserve Supervisor has more than 25 years' experience in oil and gas industry.

The Company'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 Company's share of royalties payable by the Company to the PRC government and the Company'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 Company'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.

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

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

Supplementary Information on Oil and Gas Producing Activities (Unaudited)

31 December 2021

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

(1) Reserve quantity information (continued)

Proved developed and undeveloped reserves:

| | PRC | | Oversea | | | | Total | | | |
|--|-------------|-------------------|-------------|-------------------|-----------------------|-----------------|-------------|-------------------|-----------------------|-----------------|
| | Oil (mmbls) | Natural gas (bcf) | Oil (mmbls) | Natural gas (bcf) | Synthetic oil (mmbls) | Bitumen (mmbls) | Oil (mmbls) | Natural gas (bcf) | Synthetic oil (mmbls) | Bitumen (mmbls) |
| Consolidated entities | | | | | | | | | | |
| 31 December 2019 | 1,900 | 6,358 | 650 | 1,469 | 780 | 154 | 2,550 | 7,827 | 780 | 154 |
| Purchase/(Disposal) of reserves | - | - | 126 | - | - | - | 126 | - | - | - |
| Discoveries and extensions | 189 | 807 | 46 | 11 | 21 | 1 | 235 | 818 | 21 | 1 |
| Improved recovery | 3 | 16 | 89 | - | - | - | 93 | 16 | - | - |
| Production | (284) | (422) | (105) | (156) | (7) | (13) | (388) | (578) | (7) | (13) |
| Revisions of prior estimates | 144 | 104 | (1) | (231) | 3 | (48) | 143 | (127) | 3 | (48) |
| 31 December 2020 | 1,953 | 6,863 | 806 | 1,093 | 797 | 94 | 2,758 | 7,956 | 797 | 94 |
| Purchase/(Disposal) of reserves | - | - | 72 | 87 | - | - | 72 | 87 | - | - |
| Discoveries and extensions | 165 | 777 | 110 | 59 | 15 | 3 | 276 | 837 | 15 | 3 |
| Improved recovery | 62 | 2 | 9 | - | - | - | 71 | 2 | - | - |
| Production | (311) | (474) | (108) | (173) | (7) | (16) | (419) | (648) | (7) | (16) |
| Revisions of prior estimates | 225 | (149) | 57 | 265 | (65) | 63 | 282 | 116 | (65) | 63 |
| 31 December 2021 | 2,095 | 7,020 | 945 | 1,331 | 740 | 144 | 3,040 | 8,351 | 740 | 144 |
| Enterprise's share of equity method investees | | | | | | | | | | |
| 31 December 2020 | 1 | 5 | 270 | 578 | - | - | 271 | 584 | - | - |
| 31 December 2021 | 1 | 5 | 275 | 559 | - | - | 275 | 564 | - | - |
| Total consolidated and equity interests in reserves | | | | | | | | | | |
| 31 December 2020 | 1,953 | 6,868 | 1,076 | 1,671 | 797 | 94 | 3,029 | 8,540 | 797 | 94 |
| 31 December 2021 | 2,095 | 7,025 | 1,220 | 1,890 | 740 | 144 | 3,315 | 8,915 | 740 | 144 |

Proved developed reserves:

| | PRC | | Oversea | | | | Total | | | |
|--|-------------|-------------------|-------------|-------------------|-----------------------|-----------------|-------------|-------------------|-----------------------|-----------------|
| | Oil (mmbls) | Natural gas (bcf) | Oil (mmbls) | Natural gas (bcf) | Synthetic Oil (mmbls) | Bitumen (mmbls) | Oil (mmbls) | Natural gas (bcf) | Synthetic Oil (mmbls) | Bitumen (mmbls) |
| Consolidated entities | | | | | | | | | | |
| 31 December 2020 | 1,047 | 2,514 | 484 | 768 | 120 | 91 | 1,531 | 3,282 | 120 | 91 |
| 31 December 2021 | 1,206 | 4,073 | 499 | 906 | 108 | 83 | 1,705 | 4,979 | 108 | 83 |
| Enterprise's share of equity method investees | | | | | | | | | | |
| 31 December 2020 | 1 | 5 | 141 | 385 | - | - | 142 | 390 | - | - |
| 31 December 2021 | 1 | 5 | 143 | 351 | - | - | 144 | 355 | - | - |

Supplementary Information on Oil and Gas Producing Activities (Unaudited)

31 December 2021

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

(1) Reserve quantity information (continued)

Proved undeveloped reserves:

| | PRC | | Oversea | | | | Total | | | |
|--|--------------|-------------------|--------------|-------------------|------------------------|------------------|--------------|-------------------|------------------------|------------------|
| | Oil (mmbbls) | Natural gas (bcf) | Oil (mmbbls) | Natural gas (bcf) | Synthetic Oil (mmbbls) | Bitumen (mmbbls) | Oil (mmbbls) | Natural gas (bcf) | Synthetic Oil (mmbbls) | Bitumen (mmbbls) |
| Consolidated entities | | | | | | | | | | |
| 31 December 2020 | 906 | 4,349 | 322 | 325 | 677 | 3 | 1,228 | 4,675 | 677 | 3 |
| 31 December 2021 | 888 | 2,947 | 446 | 425 | 633 | 61 | 1,335 | 3,372 | 633 | 61 |
| Enterprise's share of equity method investees | | | | | | | | | | |
| 31 December 2020 | - | - | 129 | 193 | - | - | 129 | 193 | - | - |
| 31 December 2021 | - | - | 131 | 208 | - | - | 131 | 208 | - | - |

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

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 future 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:

| Consolidated entities | Notes | 2021 | | | 2020 | | |
|--|-------|-----------|-----------|-----------|-----------|-----------|-----------|
| | | PRC | Oversea | Total | PRC | Oversea | Total |
| Future cash inflows | (1) | 1,411,226 | 801,376 | 2,212,602 | 964,397 | 440,876 | 1,405,273 |
| Future production costs | | (491,797) | (363,975) | (855,772) | (319,368) | (269,291) | (588,659) |
| Future development costs | (2) | (202,328) | (104,706) | (307,034) | (204,411) | (82,441) | (286,852) |
| Future income taxes | | (133,700) | (48,955) | (182,655) | (70,878) | (13,338) | (84,216) |
| Future cash flows | (3) | 583,401 | 283,740 | 867,141 | 369,740 | 75,806 | 445,546 |
| 10% discount factor | | (208,492) | (139,035) | (347,527) | (142,949) | (27,617) | (170,566) |
| Standardised measure of discounted future net cash flows | | 374,909 | 144,705 | 519,614 | 226,791 | 48,189 | 274,980 |

(1) Future cash flows consist of the Company's 100% interest in the independent oil and gas properties and the Company's participating interest in the properties under the production sharing contracts in the PRC, less (i) an adjustment for the royalties payable to the PRC government and the Company'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 Company's participating interest, and plus the participating interest in the properties covered under the production sharing contracts in overseas 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.

Supplementary Information on Oil and Gas Producing Activities (Unaudited)

31 December 2021

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

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

Present value of estimated future net cash flows:

| Standardised measure of consolidated entities (RMB million) | 2021 | 2020 |
|---|-----------|-----------|
| Standardised measure, at the beginning of year | 274,982 | 442,529 |
| Sales of production, net of royalties and production costs | (197,222) | (108,161) |
| Net change in prices, net of royalties and production costs | 303,227 | (207,451) |
| Extensions, discoveries and improved recovery, net of future production and development costs | 89,601 | 53,325 |
| Change in estimated future development costs | (52,957) | (31,412) |
| Development costs incurred during the year | 64,225 | 63,274 |
| Revisions in quantity estimates | 49,099 | 19,800 |
| Accretion of discount | 32,311 | 49,640 |
| Net change in income taxes | (64,604) | 30,843 |
| Purchase of oil and gas properties | 13,979 | 9,360 |
| Changes in timing and other | 6,975 | (46,765) |
| Standardised measure, at the end of year | 519,614 | 274,982 |

GLOSSARY

Exploration well

Including wildcat and appraisal well

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 parameters

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 data, 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, Africa, Madura and Tangguh projects in Indonesia in Asia, and Dongfang 13-2, Shenhai-1, 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*)
Xia Qinglong (*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*)
Yang Yun (*Executive Vice President*)
Xie Weizhi (*Chief Financial Officer*)
Deng Yunhua (*Deputy Chief Exploration Engineer*)
Sun Fujie (*Vice President*)
Xu Yugao (*General Counsel, Compliance Officer*)
Ke Lvxiang (*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:

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Stock codes:

HKSE: 00883

Investor Relations:

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Media/Public Relations:

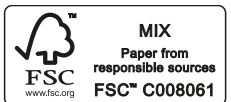
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