CNOOC LTD
Form 20-F
April 23, 2010

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

FORM 20-F

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

OR

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2009

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _________________ to ________________

OR

¨ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report ________________

Commission File Number 1-14966

CNOOC LIMITED

(Exact name of Registrant as specified in its charter)

Hong Kong
(Jurisdiction of incorporation or organization)

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

Yongzhi Jiang
65th Floor, Bank of China Tower
One Garden Road, Central
Hong Kong
Tel +852 2213 2500
Fax +852 2525 9322
(Name, telephone, e-mail and/or facsimile number and address of company contact person)

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

Title of each class	Name of each exchange on which registered
American depositary shares, each representing 100 shares of par value HK$0.02 per share	New York Stock Exchange, Inc.
Shares of par value HK$0.02 per share	New York Stock Exchange, Inc.*

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

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

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

Shares, par value HK$0.02 per share 44,669,199,984

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

Yes ý No ¨

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

Yes ¨ No ý

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

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

Yes ý No ¨

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

Yes ¨ No ý

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

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

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

U.S. GAAP ¨

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

Other ¨

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

Item 17 ¨ Item 18 ¨

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

Yes ¨ No ý

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

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TERMS AND CONVENTIONS

Definitions

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

- "CNOOC" are to our controlling shareholder, China National Offshore Oil Corporation, a PRC state-owned enterprise, and its affiliates, excluding us and our subsidiaries;
- "CNOOC Limited" are to CNOOC Limited, a Hong Kong limited liability company and the registrant of this annual report;
- "Our company", "we", "our" or "us" are to CNOOC Limited and its subsidiaries;
- "China" or "PRC" are to the People's Republic of China, excluding for purposes of geographical reference in this annual report, the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan;
- "Hong Kong" are to the Hong Kong Special Administrative Region of the People's Republic of China.
- "Hong Kong Stock Exchange" or "HKSE" are to The Stock Exchange of Hong Kong Limited;
- "HK$" are to the Hong Kong dollar, the legal currency of the Hong Kong Special Administrative Region;
- "HKICPA" are to the Hong Kong Institute of Certified Public Accountants;
- "HKFRS" are to all Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards and Interpretations approved by the Council of the HKICPA;
- "IASB" are to the International Accounting Standards Board;
- "IFRS" are to all International Financial Reporting Standards, including International Accounting Standards and Interpretations, as issued by the International Accounting Standards Board;
- "Rmb" are to Renminbi, the legal currency of the PRC; and
- "US$" are to U.S. dollar, the legal currency of the United States of America.

Conventions

We have translated amounts from Renminbi into U.S. dollars solely for the convenience of the reader at the noon buying rate for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2009 of US$1.00=Rmb 6.8259. We have also translated amounts in Hong Kong dollars solely for the convenience of the reader at the noon buying rate for cable transfers in Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2009 of US$1.00=HK$7.7536. We make no representation that the Renminbi amounts or Hong Kong dollar amounts could have been, or could be, converted into U.S. dollars at those rates on December 31, 2009, or at all. For further information on exchange rates, see "Item 3—Key Information—Selected Financial Data."

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

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Except as otherwise noted, all information in this annual report relating to our oil and natural gas reserves is based upon estimates prepared by independent petroleum engineering consulting companies and reviewed by us. In calculating barrels-of-oil equivalent amounts, we have assumed that 6,000 cubic feet of natural gas equals one BOE, with the exception of natural gas from certain fields which is converted using the actual heating value of the natural gas.

Glossary of Technical Terms

Unless otherwise indicated in the context, references to:

- "API gravity" means the American Petroleum Institute's scale for specific gravity for liquid hydrocarbons, measured in degrees.

- "appraisal well" means an exploration well drilled after a successful wildcat well to gain more information on a newly discovered oil or gas reserve.

- "condensate" means a mixture of hydrocarbons that exists in the gaseous phase at original reservoir temperature and pressure and exists in the liquid phase at surface pressure and temperature when produced.

- "crude oil" means crude oil and liquids, including condensate, natural gas liquids and liquefied petroleum gas.

- "LNG" means liquefied natural gas.

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

- "natural gas liquids" means light hydrocarbons that can be extracted in liquid form from natural gas through special separation plants.

- "net wells" means a party's working interest in wells.

- "developed oil and gas reserves" means any category of reserves that can be expected to be recovered:

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

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

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

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

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

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

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

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

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

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

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

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

- “PSC” means production sharing contract.

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

For further definitions relating to reserves:

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- "reserve replacement ratio" means, for a given year, total additions to proved reserves, which consist of additions from purchases, discoveries and extensions and revisions of prior reserve estimates, divided by production during the year. Reserve additions used in this calculation are proved developed and proved undeveloped reserves; unproved reserve additions are not used. Data used in the calculation of reserve replacement ratio is derived directly from the reserve quantity reconciliation prepared in accordance with U.S. Accounting Standards Codification 932-235-50, which reconciliation is included in "Supplementary Information on Oil and Gas Producing Activities" beginning on page S-1 of this annual report. However, the reserve replacement ratio of 2007 also includes the reserve additions and production of an investee company accounted for by us using the equity method, which were not included in the reconciliation found in "Supplementary Information on Oil and Gas Producing Activities." In 2007, the inclusion of the reserve additions and production of this investee company did not have a material impact on our reserve replacement ratio.

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

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

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

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

- "wildcat well" means an exploration well drilled in an area or rock formation that has no known reserves or previous discoveries.

References to:

- bbls means barrels, which is equivalent to approximately 0.134 tons of oil (33 degrees API);
- mmbbls means million barrels;
- BOE means barrels-of-oil equivalent;
- mcf means thousand cubic feet;
- mmcf means million cubic feet;
- bcf means billion cubic feet, which is equivalent to approximately 283.2 million cubic meters; and
- BTU means British Thermal Unit, a universal measurement of energy.

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FORWARD-LOOKING STATEMENTS

This annual report includes "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. The words "believe", "intend", "expect", "anticipate", "project", "estimate", "plan", "predict" a similar expressions are also intended to identify such forward-looking statements.

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

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

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

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

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

Our consolidated financial statements for the years ended December 31, 2007, 2008 and 2009 included in this annual report on Form 20-F have been prepared in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board.

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

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

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

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

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

The following tables present selected historical financial data of our company as of and for the years ended December 31, 2007, 2008 and 2009. Except for amounts presented in U.S. dollars, the selected historical consolidated statement of financial position data and consolidated statement of comprehensive income data as of and for the years ended December 31, 2007, 2008 and 2009 set forth below are derived from, should be read in conjunction with, and are qualified in their entirety by reference to, our consolidated financial statements and their notes under "Item 18—Financial Statements" and "Item 5—Operating and Financial Review and Prospects" in this annual report. As disclosed above under Special Note on the Financial Information and Certain Statistical Information Presented in this annual report, our consolidated financial statements as of and for the years ended December 31, 2007, 2008 and 2009 have been prepared and presented in accordance with IFRS.

	Year ended December 31,			
	2007	2008	2009	2009
	Rmb	Rmb	Rmb	US$
	(in millions, except per share and per ADS data)			
Statement of Comprehensive Income Data:				
Operating revenues:				
Oil and gas sales	73,037	100,831	83,914	12,294
Marketing revenues	17,397	22,967	20,752	3,040
Other income	290	2,179	529	77
Total operating revenues	90,724	125,977	105,195	15,411
Expenses:				
Operating expenses	(8,040)	(9,990)	(12,490)	(1,830)
Production taxes	(3,497)	(4,889)	(3,647)	(534)
Exploration expenses	(3,432)	(3,410)	(3,234)	(474)
Depreciation, depletion and amortization	(7,936)	(10,058)	(15,943)	(2,336)
Special oil gain levy	(6,837)	(16,238)	(6,357)	(931)
Impairment and inventory provision	(614)	(1,541)	(7)	(1)
Crude oil and product purchases	(17,083)	(22,675)	(20,455)	(2,997)
Selling and administrative expenses	(1,741)	(1,743)	(2,264)	(332)
Others	(345)	(1,568)	(473)	(69)
	(49,525)	(72,112)	(64,870)	(9,504)
Interest income	673	1,091	638	94
Finance costs	(2,032)	(415)	(535)	(78)
Exchange gains/ (losses), net	1,856	2,551	54	8

Investment income	902	476	200	29
Share of profits of associates	719	374	173	25
Non-operating income/ (expenses), net	(7)	(62)	(34)	(5)
Profit before tax	43,310	57,880	40,821	5,980
Tax	(12,052)	(13,505)	(11,335)	(1,661)
Profit for the year	31,258	44,375	29,486	4,319
Earnings per share (basic)(a)	0.72	0.99	0.66	0.10
Earnings per share (diluted) (b)	0.72	0.99	0.66	0.10
Earnings per ADS (basic) (a)	71.68	99.44	66.01	9.67
Earnings per ADS (diluted) (b)	71.48	99.08	65.86	9.65
Dividend per share				
Interim	0.122	0.175	0.176	0.03
Proposed final	0.159	0.176	0.176	0.03

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	2007	2008	2009	2009
	As of December 31,			
	Rmb	Rmb	Rmb	US$
	(in millions)			
Statement of Financial Position Data:				
Cash and cash equivalents	23,357	19,762	22,615	3,313
Available-for sale financial assets/Short term investments	6,688	11,661	8,582	1,257
Current assets	55,732	63,770	70,871	10,383
Property, plant and equipment, net	118,880	138,358	165,320	24,219
Investments in associates	2,031	1,785	1,727	253
Intangible assets	1,331	1,206	1,230	180
Long term available-for-sale financial assets	1,819	1,550	3,120	457
Total assets	179,793	206,669	242,268	35,492
Current liabilities	21,402	18,799	31,042	4,547
Long term bank loans, net of current portion	2,720	7,115	11,817	1,731
Long term guaranteed notes	8,326	6,749	6,753	989
Total long term liabilities	24,077	27,632	37,291	5,463
Total liabilities	45,479	46,431	68,333	10,010
Capital stock	41,986	43,078	43,078	6,311
Shareholders’ equity	134,315	160,238	173,936	25,482

(a) Earnings per share (basic) and earnings per ADS (basic) for each year from 2007 to 2009 have been computed, without considering the dilutive effect of the shares underlying our share option schemes and, as applicable, convertible bonds, by dividing profit by the weighted average number of shares and the weighted average number of ADSs of 43,605,437,212 and 436,054,372, respectively, for 2007, 44,623,856,311 and 446,238,563, respectively, for 2008 and 44,669,199,984 and 446,692,000, respectively, for 2009, in each case based on a ratio of 100 shares to one ADS.

(b) Earnings per share (diluted) and earnings per ADS (diluted) for each year from 2007 to 2009 have been computed, after considering the dilutive effect of the shares underlying our share option schemes and, as applicable, convertible bonds, by using 43,731,936,869 shares and 437,319,369 ADSs for 2007, 44,786,097,516 shares and 447,860,975 ADSs for 2008 and 44,771,714,329 shares and 447,717,143 ADSs for 2009.

(c) For the purposes of this chart, the exchange rate used for the conversion of dividends from Renminbi into U.S. Dollars is the noon buying rate for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York on the last business day of the year for which the applicable dividend was issued.

	2007	2008	2009	2009
	Year ended December 31,			
	Rmb	Rmb	Rmb	US$
	(in millions, except percentages and ratios)			
Other Financial Data:				
Capital expenditures paid(1)	26,942	36,410	42,610	6,242
Cash provided by (used for):				
Operating activities	41,301	55,738	52,858	7,744
Investing activities	(21,374)	(48,984)	(40,541)	(5,939)
Financing activities	(10,799)	(10,129)	(9,403)	(1,378)

Ratio of total debt to total capitalization	7.9%	8.0%	9.7%	9.7%

(1)Capital expenditures paid excludes acquisition capital expenditures.

We publish our financial statements in Renminbi. Unless otherwise indicated, all translations from Renminbi to U.S. dollars have been made at a rate of Rmb 6.8259 to US$1.00, the noon buying rate for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2009. We do not represent that Renminbi or U.S. dollar amounts could be converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, the rate above or at all.

The following table sets forth the noon buying rates for U.S. dollars for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

	Noon Buying Rate			
Period	End	Average(1)	High	Low
	(Rmb per US$1.00)			
2005	8.0702	8.1998	8.2765	8.0702
2006	7.8041	7.9723	8.0702	7.8041
2007	7.2946	7.5806	7.8127	7.2946
2008	6.8225	6.9477	7.2946	6.7800
2009	6.8259	6.8307	6.8470	6.8176
October 2009	6.8264		6.8292	6.8248
November 2009	6.8271		6.8300	6.8255
December 2009	6.8259		6.8299	6.8244
January 2010	6.8268		6.8295	6.8258
February 2010	6.8258		6.8330	6.8258
March 2010	6.8258		6.8270	6.8254

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

As of March 31, 2010, the noon buying rate for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York was Rmb 6.8258 to US$1.00.

Unless otherwise indicated, all translations from Hong Kong dollars to U.S. dollars have been made at a rate of HK$7.7536 to US$1.00, the noon buying rate for cable transfers in Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2009. We do not represent that Hong Kong dollar or U.S. dollar amounts could be converted into U.S. dollars or Hong Kong dollars, as the case may be, at any particular rate, the rate above or at all.

The following table sets forth the noon buying rates for U.S. dollars for cable transfers in Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated.

	Noon Buying Rate			
Period	End	Average(1)	High	Low
	(HK$ per US$1.00)			
2005	7.7533	7.7755	7.7999	7.7514
2006	7.7771	7.7681	7.7928	7.7506
2007	7.7984	7.8008	7.8289	7.7497
2008	7.7499	7.7862	7.8159	7.7497
2009	7.7536	7.7514	7.7618	7.7495
October 2009	7.7497		7.7502	7.7495
November 2009	7.7500		7.7501	7.7495
December 2009	7.7536		7.7572	7.7495
January 2010	7.7665		7.7752	7.7539
February 2010	7.7619		7.7716	7.7619
March 2010	7.7647		7.7648	7.7574

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

As of March 31, 2010, the noon buying rate for cable transfers in Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York was HK$7.7647 to US$1.00.

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B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

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

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

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

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

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

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

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

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

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

Exploring for, developing and acquiring reserves is highly risky and capital intensive. Our exploration and development activities involve inherent risks, including the risk that we will not encounter commercially productive oil or gas reservoirs. In addition, approximately 51.7% of our proved reserves were undeveloped as of December 31, 2009. Our future success will depend on our ability to develop these reserves in a timely and cost-effective manner. There are various risks in developing reserves, including construction, operational, geophysical, geological and regulatory risks.

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

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

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

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

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

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

CNOOC indirectly owned 64.41% of our shares as of March 31, 2010. As a result, CNOOC is able to control the composition of the board of directors of our company, or our Board, determine the timing and amount of our dividend payments and otherwise control us. If CNOOC takes actions that favor its interests over ours, our results of operations and financial position may be adversely affected.

In addition, we regularly enter into transactions with CNOOC and its affiliates, such as China Oilfield Services Limited, or COSL, and Offshore Oil Engineering Co., Ltd., or CNOOC Engineering. Some of our transactions with CNOOC and its affiliates constitute connected transactions under the Hong Kong Stock Exchange Listing Rules. Furthermore, these connected transactions are subject to review by the Hong Kong Stock Exchange and may also be subject to the prior approval of our independent shareholders. If we do not obtain these approvals, we will not be allowed to effect these transactions and our business operations and financial condition could be adversely affected.

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

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

We sell a significant proportion of our production to CNOOC-affiliated companies, Sinopec, and PetroChina. However, we currently do not have long-term crude oil sales contracts with these customers. Our business, results of operations and financial condition could be adversely affected if any of them significantly reduced their crude oil purchases from us.

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

Many of our operations are conducted with partners or in joint ventures in which we have limited ability to influence or control their operation or future development. For instance, we acquired a 45% interest in the offshore oil mining lease, or the OML130, in Nigeria, in April 2006. Our limited ability to influence or control the operation or future development of such joint venture could materially and adversely affect the realization of our target returns on capital and lead to unexpected future costs.

The oil and natural gas industries are very competitive

We compete in the PRC and international markets with major integrated and other independent oil and gas companies for oil and gas properties or leases, customers, capital financing and business opportunities, including desirable oil and gas prospects. We also compete for the equipment and personnel required to explore, develop and operate oil and gas properties. The performance of our competitors may also affect the international market price for comparable crude oil, which in turn would likely affect the price of our crude oil.

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

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

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

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

We currently have operations and assets mainly in the PRC and also in various foreign countries and regions, including Indonesia, Australia, Nigeria, Myanmar and certain other countries, and may expand our operations into other countries to further enhance our reserve base and diversify our geographic risk profile. Our non-PRC interests may be adversely affected by changes in governmental policies or social instability or other political, economic or diplomatic developments in or affecting these foreign nations which are not within our control, including, among other things, a change in crude oil or natural gas pricing policy, the risks of war and terrorism, expropriation, nationalization, renegotiation or nullification of existing concessions and contracts, taxation policies, foreign exchange and repatriation restrictions, changing political conditions, foreign exchange rate fluctuations and currency controls.

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

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

The war and terrorism activities could materially and adversely affect us

We have operations and assets in certain countries and regions with a high degree of political risk, such as Nigeria and Myanmar. We face the risks of kidnapping, damage to property and business interruption caused by terrorism activities. The act of terrorism could materially and adversely affect our business, financial condition and results of operations.

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Our controlling shareholder, CNOOC, or its affiliates' activities in certain countries that are the subject of U.S. sanctions could result in negative media and investor attention to us

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

It is possible that, as a result of activities by CNOOC or its affiliates in these countries, we may be subject to negative media or investor attention, which may distract management, consume internal resources and affect investors' perception of our company. Nonetheless, if such events were to occur, we do not believe that enforcement of current U.S. sanctions (including the imposition of the maximum sanctions permissible under current law and regulations on CNOOC) would have a material adverse effect on our results of operations or financial condition. However, we are aware of pending draft legislation, now passed in somewhat different versions by both houses of the U.S. Congress, that would seek to have the property of companies that export certain levels of refined petroleum products to Iran, or provide certain levels of assistance to Iran in importing or producing refined petroleum products, blocked by the U.S. President. It is possible that CNOOC could engage in activities targeted by the draft legislation. If such draft legislation were enacted as now pending, and the U.S. President determined that CNOOC engaged in the prohibited activities, he could direct the blocking of CNOOC's property within U.S. jurisdiction. The U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC") administers current U.S. sanctions involving blocked property under laws with language very similar to that in both versions of the draft legislation. If OFAC were delegated responsibility to implement the current text of the draft legislation and applied its current interpretations that majority-owned subsidiaries of a blocked entity are also blocked, this could prohibit CNOOC Limited from engaging in business activities in the United States or with U.S. individuals or entities, and could also prohibit U.S. transactions in our securities and distributions to U.S. individuals and entities with respect to our securities.

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

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

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

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

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

Exchange.

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

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

We are a holding company. Our businesses are owned and conducted through various wholly owned subsidiaries, including CNOOC China Limited, our wholly foreign-owned enterprise in the PRC. Accordingly, our future cash flows will consist principally of dividends from our subsidiaries. Our PRC subsidiary's ability to pay dividends to us is subject to PRC laws and regulations. Therefore, there is a risk that we may not be able to maintain sufficient cash flows due to these restrictions on dividend distribution.

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT

Our legal and commercial name is CNOOC Limited. We were incorporated with limited liability on August 20, 1999 in Hong Kong under the Hong Kong Companies Ordinance. Our business registration number in Hong Kong is 685974. Under our memorandum of association, we may do anything which we are permitted to do by any enactment or rule of law. Our head office is located at 65th Floor, Bank of China Tower, One Garden Road, Central, Hong Kong, and our telephone number is 852-2213-2500.

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

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

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

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

CNOOC has undertaken to us that:

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

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

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

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- we will be able to participate jointly with CNOOC in negotiating new PSCs and to set out our views to CNOOC on the proposed terms of new PSCs;
- we will have unlimited and unrestricted access to all data, records, samples and other original data owned by CNOOC relating to oil and natural gas resources;
- we will have an option to invest in LNG projects in which CNOOC invested or proposed to invest, and CNOOC will at its own expense help us to procure all necessary government approvals needed for our participation in these projects; and
- we will have an option to participate in other businesses related to natural gas in which CNOOC invested or proposed to invest, and CNOOC will procure all necessary government approvals needed for our participation in such business.

The undertakings from CNOOC will cease to have any effect:

- if we become a wholly owned subsidiary of CNOOC;
- if our securities cease to be listed on any stock exchange or automated trading system; or
- 12 months after CNOOC or any other PRC government-controlled entity ceases to be our controlling shareholder.

For information on our capital expenditures, see “Item 5—Operating and Financial Review and Prospects—Liquidity and Capital Resources—Capital Expenditures and Investments.”

B. BUSINESS OVERVIEW

Overview

CNOOC Limited is an upstream company specialized in the exploration, development and production of oil and natural gas. It is a major oil and natural gas producer in offshore China and, in terms of reserves and production, it is also one of the largest independent oil and natural gas exploration and development companies in the world. As of the end of 2009, the Company had net proved reserves of 2.66 billion BOE, including approximately 1.67 billion barrels of crude oil and 5,944.0 bcf of natural gas. In 2009, the Company had an average daily production of approximately 509,696 barrels of crude oil and approximately 653.5 mmcf of natural gas, representing a total net oil and gas production of 623,896 BOE per day.

Competitive Strengths

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

- large proved reserve base with significant exploitation opportunities;
- sizable operating areas with demonstrated exploration potential;
- successful independent exploration and development record;
- competitive cost structure;

- reduced risks and access to capital and technology through PSCs; and
- experienced management team.

Large proved reserve base with significant exploitation opportunities

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We have a large net proved reserves base of approximately 2.66 billion BOE as of December 31, 2009. As of such date, approximately 51.7% of our net proved reserves were classified as net proved undeveloped. Our large proved reserve base gives us the opportunity to achieve substantial production growth.

Sizable operating area with demonstrated exploration potential

In 2009, we and our foreign partners have together drilled a total of 89 exploration wells in China's sizable offshore exploration area, including 49 wildcat wells with a success rate of approximately 34.7%. For the year ended December 31, 2009, we and our foreign partners made 15 discoveries and two discovery, respectively, offshore China.

Successful independent exploration and development record

In 2009, we achieved a success rate of approximately 36.6% on our 41 offshore China independent wildcat wells. As of December 31, 2009, independent properties accounted for 63.3% of our total net proved reserves. In 2009, we independently completed nine of our development projects in offshore China.

Competitive cost structure

For the year ended December 31, 2009, our total offshore China lifting costs, also known as production costs, were US$10.07 per BOE. Lifting costs consist of operating expenses and production taxes. We have minimized our offshore China lifting costs through various measures, including more efficient use of existing offshore facilities and adoption of new technologies in our operations. We believe that such a cost structure allows us to compete effectively even when crude oil prices are low.

Reduced risks and access to capital and technology through PSCs

PSCs help us minimize our offshore China finding costs, exploration risks and capital requirements because our foreign partners are responsible for all costs associated with exploration. Our foreign partners recover their exploration costs only if a commercially viable discovery is made.

Experienced management team

Our senior management team has extensive experience in the oil and gas industry, and most of our executives have been with the CNOOC group since its inception in 1982. We evolved from a company heavily reliant on production sharing contracts with foreign partners to a company with a balance of both independent and production sharing contract operations. Our management team and staff have had the opportunity to work closely with foreign partners both within and outside China. We have implemented international management practices, including incentive compensation arrangements such as share option schemes. See "Item 6—Directors, Senior Management and Employees—Share Ownership."

Business Strategy

We intend to continue expanding our oil and gas exploration and production activities and, where appropriate, to continue making strategic investments in natural gas businesses. The principal components of our strategy are as follows:

- focus on reserve and production growth;
- develop natural gas business; and

- maintain prudent financial policy.

Focus on reserve and production growth

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As an upstream company specialized in the exploration, development and production of oil and natural gas, we consider reserves and production growth as top priority. We plan to increase our reserves through drill bits and opportunistic acquisitions. We plan to concentrate our independent exploration efforts on existing operating areas, especially in our major areas offshore China. While maintaining and increasing our independent exploration efforts, we also plan to continue to enter into PSCs with foreign partners to lower capital requirements and exploration risks.

We plan to increase production primarily through the development of our net proved undeveloped reserves. As of December 31, 2009, approximately 51.7% of our proved reserves were classified as net proved undeveloped, which gives us the opportunity to achieve substantial production growth even without additional reserve discoveries, assuming that we will be able to develop these reserves more quickly than we deplete our currently producing reserves.

Develop natural gas business

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

Maintain prudent financial policy

We will continue to maintain our prudent financial policy, so as to preserve our low cost structure and operational efficiency. We plan to:

- apply up-to-date drilling, production and offshore engineering technology to our operations through our oilfield service providers;
- proactively manage service contracts and cooperate with our oilfield service providers to improve exploration efficiency and reduce exploration costs; and
- maintain high production volume levels for each well basis and increase the productivity of producing wells.

Currently, we have a strong financial profile with a low leverage ratio. We intend to maintain our financial strength by managing key measures such as capital expenditures, cash flows and fixed charge coverage. We intend to actively manage our trade receivable and inventory positions to enhance liquidity and improve profitability. We will continue to monitor our foreign currency denominated debt and to minimize our exposure to foreign exchange rate fluctuations.

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Selected Operating and Reserves Data

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

Our reserve data for 2009 was prepared in accordance with the SEC's final rules on "Modernization of Oil and Gas Reporting" , which became effective for accounting periods ended on or after December 31, 2009. The comparative information for 2007 and 2008 are not restated.

	Year ended December 31,		
	2007	2008	2009
Net Production:			
Oil (daily average bbls/day)	371,827	422,068	509,696
Gas (daily average mmcf/day)	559.6	621.1	653.5
Oil equivalent (BOE/day)	469,407	530,728	623,896
Net Proved Reserves (end of period):			
Oil (mmbbls)	1,564.1	1,578.2	1,667.8
Gas (bcf)	6,222.8	5,623.3	5,944.0
Total (million BOE)	2,601.2	2,515.4	2,658.4
Proved developed reserves (million BOE)	1,058.8	1,009.1	1,283.6
Annual reserve replacement ratio(1)	142%	60%	163
Estimated reserves life (years)	15.2	13.0	11.7
Standardized measure of discounted future net cash flow (million Rmb)	313,926	111,277	226,663

(1) For information on the calculation of this ratio, see "Terms and Conventions—Glossary of Technical Terms—reserve replacement ratio." For more information regarding our reserve replacement, see "Item 4—Information on the Company—Business Overview—Exploration, Development and Production."

At our request, Ryder Scott Company, an independent petroleum engineering consulting company, carried out an independent evaluation of the reserves of all our properties as of December 31, 2007, 2008 and 2009, except for reserves of the blocks in Trinidad and Tobago in 2009, which were evaluated by Gaffney, Cline & Associates, another independent petroleum engineering consulting company. For further information regarding our reserves, see "Item 3—Key Information—Risk Factors—The oil and gas reserve estimates in this annual report may require substantial revision as a result of future drilling, testing, production and oil and gas price changes" and "Item 4—Information on the Company—Business Overview—Exploration, Development and Production."

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Summary of Oil and Gas Reserves

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

	Net proved reserves at December 31,		Net proved reserves at December 31, 2009		
	2007 (mmboe)	2008 (mmboe)	Oil (mmbbls)	Natural Gas (bcf)	Total (mmboe)*
Developed					
Offshore China	880.8	850.9	761.2	1,516.1	1,013.9
Bohai Bay	479.9	452.8	505.1	330.6	560.2
Western South China Sea	274.0	258.6	136.4	1,029.1	307.9
Eastern South China Sea	124.1	137.8	119.7	145.2	143.9
East China Sea	2.8	1.7	0.11	11.3	2.0
Overseas					
Asia	82.3	97.2	50.7	486.4	131.8
Oceania	88.6	60.9	12.0	243.3	52.6
Africa	—	—	75.7	—	75.7
North America	—	—	2.0	46.0	9.7
Total Developed	1,051.8	1,009.1	901.6	2,291.8	1,283.6
Undeveloped					
Offshore China	1,261.5	1,251.3	734.3	2,650.4	1,176.1
Bohai Bay	598.3	612.3	523.1	454.9	598.9
Western South China Sea	358.2	355.8	122.5	1,169.4	317.4
Eastern South China Sea	232.3	210.1	71.3	698.4	187.7
East China Sea	72.7	73.1	17.4	327.7	72.0
Overseas					
Asia	141.1	100.9	3.1	596.1	102.4
Oceania	67.0	65.0	14.4	405.6	82.0
Africa	72.5	89.1	14.3	—	14.3
North America	—	—	—	—	—
Total Undeveloped	1,542.1	1,506.3	766.1	3,652.2	1,374.8
TOTAL PROVED	2,593.9	2,515.4	1,667.8	5,944.0	2,658.4

* In calculating barrels-of-oil equivalent amounts, we have assumed that 6,000 cubic feet of natural gas equals one BOE, with the exception of natural gas from certain fields which is converted using the actual heating value of the natural gas.

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

Total Net Proved Crude Oil Reserves
(mmbbls)

	As of December 31,		As of December 31, 2009		
	2007	2008	Developed	Undeveloped	Total
Offshore China					
Independent					
Bohai Bay	594.0	603.6	298.5	376.6	675.1
Western South China Sea	189.6	227.9	115.1	120.2	235.3
Eastern South China Sea	124.1	104.6	64.8	36.0	100.8
East China Sea	20.5	17.8	0.1	17.4	17.5
Subtotal	928.2	953.9	478.5	550.2	1,028.7
PSCs					
Bohai Bay	357.3	330.0	206.5	146.5	353.0
Western South China Sea	19.3	17.8	21.3	2.3	23.6
Eastern South China Sea	102.4	97.8	54.8	35.3	90.1
East China Sea	—	—	—	—	—
Subtotal	479.0	445.6	282.6	184.1	466.7
Combined					
Bohai Bay	951.3	933.6	505.1	523.1	1,028.2
Western South China Sea	208.9	245.8	136.4	122.5	258.9
Eastern South China Sea	226.6	202.4	119.6	71.3	190.9
East China Sea	20.5	17.8	0.1	17.4	17.5
Subtotal	1,407.3	1,399.5	761.2	734.3	1,495.5
Overseas					
Asia	55.2	64.8	50.7	3.1	53.8
Oceania	29.1	24.8	12.0	14.4	26.4
Africa	72.5	89.1	75.7	14.3	90.0
North America	—	—	2.0	—	2.0
Subtotal	156.7	178.7	140.4	31.8	172.2
Total	1,564.1	1,578.2	901.6	766.1	1,667.8

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Total Net Proved Natural Gas Reserves
(bcf)

	As of December 31,		As of December 31, 2009		
	2007	2008	Developed	Undeveloped	Total
Offshore China					
Independent					
Bohai Bay	761.5	789.2	330.5	454.9	785.4
Western South China Sea	2,210.5	1,957.4	812.0	1,141.4	1,953.4
Eastern South China Sea	754.7	848.8	140.2	698.4	838.6
East China Sea	373.8	342.2	11.3	327.7	339.0
Total	4,100.5	3,937.6	1,294.0	2,622.4	3,916.4
PSCs					
Bohai Bay	—	—	—	—	—
Western South China Sea	328.7	254.3	217.1	28.1	245.2
Eastern South China Sea	24.7	24.5	5.0	—	5.0
East China Sea	—	—	—	—	—
Total	353.4	278.8	222.1	28.1	250.2
Combined					
Bohai Bay	761.5	789.2	330.5	454.9	785.4
Western South China Sea	2,539.1	2,211.6	1,029.1	1,169.5	2,198.6
Eastern South China Sea	779.4	873.3	145.2	698.4	843.6
East China Sea	373.8	342.2	11.3	327.6	338.9
Total	4,453.8	4,216.4	1,516.1	2,650.4	4,166.5
Overseas					
Asia	1,009.3	799.8	486.4	596.1	1,082.5
Oceania	759.6	607.1	243.3	405.6	648.9
North America	—	—	46.0	—	46.0
Total	1,768.9	1,406.9	775.7	1,001.7	1,777.4
Total	6,222.8	5,623.3	2,291.8	3,652.2	5,944.0

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Total Net Proved Reserves
(million BOE)

	As of December 31,		As of December 31, 2009		
	2007	2008	Developed	Undeveloped	Total
Offshore China					
Independent					
Bohai Bay	720.9	735.1	353.6	452.4	806.0
Western South China Sea	558.0	554.2	250.4	310.4	560.8
Eastern South China Sea	249.9	246.1	88.2	152.4	240.6
East China Sea	82.8	74.8	2.0	72.0	74.0
Total	1,611.6	1,610.2	694.2	987.2	1,681.4
PSCs					
Bohai Bay	357.3	330.0	206.5	146.5	353.0
Western South China Sea	74.1	60.2	57.5	7.0	64.5
Eastern South China Sea	106.5	101.8	55.7	35.3	91.0
East China Sea	—	—	—	—	—
Total	537.9	492.0	319.7	188.8	508.5
Combined					
Bohai Bay	1,078.2	1,065.1	560.1	598.9	1,159.1
Western South China Sea	632.1	614.4	307.9	317.4	625.3
Eastern South China Sea	356.5	347.9	143.8	187.7	331.5
East China Sea	82.8	74.8	2.0	72.0	74.0
Total	2,149.6	2,102.2	1,013.9	1,176.1	2,190.0
Overseas					
Asia	223.5	198.1	131.8	102.4	234.2
Oceania	155.6	125.9	52.6	82.0	134.6
Africa	72.5	89.1	75.7	14.3	90.0
North America	—	—	9.7	—	9.7
Total	451.6	413.2	269.8	198.7	468.5
Total	2,601.2	2,515.4	1,283.6	1,374.8	2,658.4

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

Since 2001, we have engaged independent third party consulting firms to perform annual estimates for our proved oil and gas reserves. 99.6% and 0.4% of our proved reserves as of the end of 2009 were prepared by Ryder Scott Company, or RSC, and Gaffney, Cline & Associates, or GCA, respectively.

Year	2007	2008	2009
Proved reserves (in million BOE)	2,593.93	2,515.39	2,658.43
RSC's share of estimates (%)	100%	100%	99.6%

GCA's share of estimates (%)	0%	0%	0.4%

The reserves data that we disclosed were prepared by independent third parties whose reserves estimates were all based on the definitions and disclosure guidelines contained in the SEC Title 17: "Code of Federal Regulations–Modernization of Oil and Gas Reporting–Final Rule" in the Federal Register (SEC regulations) that was released on January 14, 2009 and related accounting standards.

Although we engage third parties to prepare our annual reserves estimates, we also strengthen the supervision over our organization and business procedures to ensure both the quality of our proved reserves and the management of our reserves.

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In order to improve the oversight of our reserves, we established the Reserves Management Group, or RMG, which is led by one of our Executive Vice Presidents and includes such key members as the general managers and the chief supervisors of the relevant departments.

The RMG's main responsibilities includes:

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

The RMG follows certain procedures to appoint our reserves estimator and reserves auditor, who are required to have an undergraduate degree and five years and ten years, respectively, or more of experience related to reserves estimation.

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

The RMG delegates its daily operation to our Reserves Office, which is led by our Chief Reserves Supervisor. The Reserves Office is mainly responsible for supervising reserves estimates and auditing reserves. It reports to the RMG periodically and is independent from other operating divisions such as the exploration, development and production departments. Our Chief Reserve Supervisor has 37 years of oil and gas industry experience, including the past 20 years in charge of our reserves management.

We follow the relevant SEC guidance and definitions in performing quarterly reserves estimates. We gather certain latest data on exploration, development, production and engineering costs, among others, and compare the quarterly reserves estimates with third parties' estimates in the previous year. Although our quarterly estimates are compared with third parties' annual estimates, our annual reserves estimates are based on third parties' estimates.

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

Proved Undeveloped Reserves

As of December 31, 2009, we had proved undeveloped reserves of 1,375 million BOE, including 766 million barrels of crude oil and 3,652 bcf of natural gas, as compared to proved undeveloped reserves of 1,506 million BOE as of December 31, 2008.

As of December 31, 2009, 1,176 million BOE, or 86%, of our total proved undeveloped reserves, including 734 million barrels of crude oil and 2,650 bcf of natural gas, were located in offshore China, including 599 million BOE in Bohai Bay, 317 million BOE in Western South China Sea, 188 million BOE in Eastern South China Sea and 72 million BOE in East China Sea.

As of December 31, 2009, 199 million BOE, or 14%, of our total proved undeveloped reserves, including 32 million barrels of crude oil and 1,002 bcf of natural gas, were located in overseas, mainly including 102 million BOE in Indonesia, 82 million BOE in Australia and 14 million BOE in Nigeria.

In 2009, we converted 333 million BOE, or 22%, of our total proved undeveloped reserves as of December 31, 2008 into proved developed reserves.

In 2009, we spent US$2.44 billion on developing proved undeveloped reserves, US$2.26 billion, or 93%, of which were spent on over ten major development projects in Bohai Bay, Western South China Sea and Eastern South China Sea in offshore China, the Tangguh LNG Project in Indonesia, and the AKPO oilfield in Nigeria. We spent the remaining 7% on our domestic infill drilling programs in Bohai Bay and Eastern South China Sea.

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As of December 31, 2009, 125 million BOE of our proved undeveloped reserves were first booked before 2005. These proved undeveloped reserves were mainly located in East China Sea, Eastern South China Sea and Western South China Sea, including (i) 72 million BOE in East China Sea, more than half of which is planned to be developed together with certain new discoveries; (ii) 31 million BOE in Eastern South China Sea, involving Panyu 34-1 oilfield that is associated with Panyu 30-1 oilfield located in the same area, which has commenced production; and (iii) 22 million BOE in Western South China Sea, involving Yacheng 13-4 gasfield that is associated with Yacheng 13-1 gasfield located in the same area, which has been supplying gas to Hong Kong for several years. The Yacheng 13-4 gasfield is expected to be developed this year and commence production in 2012.

Exploration, Development and Production

Summary

In offshore China, the Company engages in oil and natural gas exploration, development and production activities in Bohai Bay, Western South China Sea, Eastern South China Sea and East China Sea either independently or through production sharing contracts with foreign partners. In recent years, it has been adding reserves and production mainly through independent exploration and development. As of the end of 2009, approximately 63.3% of the Company’s net proved reserves were independent and approximately 51.9% of its production came from independent projects. China National Offshore Oil Corporation (“CNOOC”), the controlling shareholder of the Company, has the exclusive right to explore and develop oil and natural gas in offshore China with foreign partners through production sharing contracts. As of the end of 2009, 33 production sharing contracts with 27 partners were in force.

In overseas, the Company holds interests in oil and natural gas blocks in Indonesia, Australia, Nigeria and some other countries. As of 31 December 2009, the Company’s overseas net proved reserves and net production accounted for approximately 17.6% and 17.4% of its total net proved reserves and total net production, respectively.

Exploration

In 2009, the Company continued to carry out exploration activities focusing on: exploration for crude oil in core areas, natural gas exploration and deep water exploration. With the achievement of a number of exploration breakthroughs, the exploration results were remarkable.

In 2009, in offshore China, the Company’s independent explorations resulted in 15 new discoveries and 11 successful appraisals, while its PSC exploration efforts resulted in two new discoveries and one successful appraisal. In overseas, the Company made two discoveries and one successful appraisal.

The Company’s main exploration achievements in 2009 include: multiple discoveries made in Shijiutuo Uplift area, which has become a new area for reserves additions; the discovery of Jinzhou 20-2 North oilfield, representing another breakthrough at Liaodong Bay; the successful expansion of the Yellow River Mouth trough, increasing the size of its reserves; the successful expansion in progressive exploration at Weixi'nan; various breakthroughs in deepwater exploration, including a new gas discovery of Liuhua 34-2 and the successful appraisal of Liwan 3-1 gas field. Furthermore, Kenli 10-1 structure was appraised with remarkable progress, and numerous small oilfields were discovered around Wenchang oilfields, helping to advance the overall development.

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The following table sets out our major exploration activities in 2009:

	Exploration Wells				New Discoveries		Successful Appraisal Wells		Seismic Data		
	Independent		PSC		Independent	PSC	Independent	PSC	2D (km)		3D (k
	Wildcat	Appraisal	Wildcat	Appraisal					Independent	PSC	Independe
Offshore China											
Bohai Bay	19	20	2	-	8	-	6	-	-	-	5,476
Eastern South China Sea	6	4	5	4	2	2	2	1	12,236	-	1,575
Western South China Sea	15	12	1	-	4	-	3	-	8,873	173	1,783
East China Sea	1	-	-	-	1	-	-	-	8,803	-	-
Subtotal	41	36	8	4	15	2	11	1	29,912	173	8,834
Overseas											
Subtotal	-	-	13	1	-	2	-	1	-	4,065	-
Total	41	36	21	5	15	4	11	2	29,912	4,238	8,834

Development and Production

In 2009, the Company overcame multiple difficulties in development and production and, despite the significant operating challenges, succeeded in attaining the targets set forth at the beginning of the year and achieved remarkable results.

The Company had more than 20 projects underway in 2009, facing with a heavy workload for engineering construction and completion of well-drilling. Despite such heavy workload and tight resources, the Company completed its oilfield development and drilling activities with high quality, enabling the production commencement of most new oil and gas fields to be on schedule and three new projects to commence production ahead of schedule.

Due to those factors beyond control such as extreme weather, the Company's offshore operations were seriously affected. In 2009, the Company suffered production shutdown at Huizhou oilfields and Bozhong 25-1 oilfield due to typhoons and strong winds, respectively. Thanks to the Company's robust emergency response system, its well-trained staff and the management's correct response, the extreme weather conditions did not cause any casualties or environmental pollution, demonstrating the Company's capability in handling emergencies.

Despite various difficulties, the Company managed to accomplish its annual production targets through innovative operations and management. In 2009, its net oil and gas production was 227.7 million BOE, representing a growth of 17.2% over the previous year.

Several factors helped the Company to overcome difficulties and meet its annual production targets. First, streamlined management enabled the production time efficiency of most oilfields to reach as high as 96% to 97%. Secondly, a slower decrease in composite decline rate of producing oilfields was achieved by enhanced water flooding efficiency and successful infill drilling, resulting in production growth. Thirdly, a steady ramp-up was achieved in oil and gas fields commencing production in the last two years. Fourthly, certain oilfields commenced production ahead of schedule.

Principal Oil and Gas Regions Offshore China

Bohai Bay

Bohai Bay is the most important oil and gas production area for the Company. As at the end of 2009, approximately 43.6% of the reserves and 42.8% of the production of the Company were located in Bohai Bay. The operation area in Bohai Bay is mainly shallow waters with a depth of 10 to 30 meters.

Rich in oil and gas resources, Bohai Bay has been the Company's main area for exploration and development. In recent years, the Company has made a number of commercial discoveries there. It is expected to remain the primary area for the Company's exploration and development in the future. In 2009, the Company made eight successful discoveries in Bohai Bay, namely Qinhuangdao 35-4, Qinhuangdao 36-3, Qinhuangdao 29-2, Bozhong 2-1, Bozhong 29-1, Jinzhou 20-2 North, Suizhong 36-1 South and Qikou 17-3 (rolling exploration). Six wells were successfully appraised, including Qinhuangdao 35-4, Qinhuangdao 29-2, Qinhuangdao 36-3, Jinzhou 20-2 North, Kenli 10-1 and Bozhong 35-2.

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In 2009, the Company made four new discoveries and one successful appraisal in Shijiutuo Uplift area, which has become a new area for reserves additions in Bohai Bay. In particular, the recently discovered Qinhuangdao 29-2 was a breakthrough in the Company's Qinnan trough exploration in the area. At Bozhong Sag, the Company made two new discoveries, namely Bozhong 2-1 and Qinhuangdao 36-3. In addition, the appraisal of the Qinhuangdao 35-4 structure was highly successful and the scale of its reserve was expanded, helping to advance the exploration and development in this area.

Liaodong Bay is another important area for the Company's oil exploration. Following the discovery of the light oilfield Jinzhou 25-1 in 2008, the Company made another breakthrough in Liaodong Bay exploration in 2009 through the discovery of Jinzhou 20-2 North, corroborating the Company's estimation of the exploration potentials of this area.

As for Yellow River Mouth trough, the Company made a new discovery of Bozhong 29-1 in this area through progressive exploration. Moreover, Bozhong 35-2 was appraised as carrying more than midscale reserve. The successful exploration further increased the scale of reserve in this area.

Furthermore, the appraisal of Kenli 10-1 was remarkable. The Company expects to build it into another sizable oilfield in Bohai Bay.

In 2009, a number of new projects in Bohai Bay were brought into production, accelerating the Company's production growth. These included the commencement of production of Bozhong 28-2 South, Luda 27-2, Qinhuangdao 33-1, Bozhong 13-1 and Bozhong 34-1 North. Jinzhou 25-1 South and Caofeidian 18-2, which were planned to commence production in 2010, commenced production ahead of schedule due to effective project management.

Because of our streamlined management, the decline rates of existing oilfields in Bohai Bay have been slowed over time. Meanwhile, the infill drilling was also very successful, resulting in the production either reaching or exceeding the expectation.

The commencement of new projects, together with the solid performance of producing oilfields, was instrumental in offsetting the production loss of Bozhong 25-1, which was forced to shut down due to strong winds, and contributed to the production growth of the Company.

Western South China Sea

Western South China Sea is the most important natural gas production area for the Company. Typical water depth of the Company's operation area in this region ranges from 40 to 120 meters. The crude oil produced is of high-quality with light and medium gravity.

In 2009, the Company made four new discoveries in this area, namely Wushi 1-4, Weizhou 12-2, Dongfang 1-1 Middle Stratum and Wenchang 8-3 East. Among those discoveries, Wushi 1-4 and Weizhou 12-2 were achieved with the Company's progressive exploration in the Weixi'nan area. Wenchang 8-3 East is located near the Wenchang oilfields and is expected to be able to be developed economically. In addition, three successful appraisals were achieved, namely Wushi 1-4, Weizhou 12-2 and Wenchang 8-3 East.

In 2009, one of the Company's main natural gas projects in offshore China, Ledong 22-1/15-1, commenced production, supporting the Company's rapid growth in natural gas production.

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Eastern South China Sea

Eastern South China Sea is one of the Company’s most important crude oil producing areas. The typical water depth of the Company’s operation area in this region ranges from 100 to 300 meters. The crude oil produced is mostly of light to medium gravity.

In 2009, the Company’s independent exploration made two new discoveries in this area: Huizhou 25-8 and Panyu 10-4. The discovery of Huizhou 25-8 demonstrated the exploration potential of this area and helped to advance the development of several small oil and gas structures in the area. In addition, Panyu 35-1 and Panyu 35-2 gas fields were successfully appraised.

In 2009, the Company’s partner made breakthroughs in deepwater exploration in this area. The natural gas field Liuhua 34-2 was discovered, and Liwan 3-1 gas field was successfully appraised. Such discovery and successful appraisal have demonstrated again the significant exploration potential of deep water areas in South China Sea. The Company’s partner also made one discovery in this area, namely Lufeng 7-1.

The development and production of this area were affected by typhoons. Several typhoons, in particular Typhoon Koppu, caused production shutdown for the Huizhou oilfields and had considerable adverse impacts on production. Despite such unfavorable conditions, the Company offset such production loss by improving the workover plan of Xijiang and Panyu oilfields that reduced their downtime. The commencement of production of Panyu 30-1 gas field contributed to the Company’s production growth in natural gas.

East China Sea

East China Sea is the least explored area of the four principal producing areas of the Company. Typical water depth of the Company’s operation area in this region is approximately 90 meters, and the crude oil produced is mainly of light gravity.

The Company made progress in East China Sea exploration in 2009 with the discovery of new oil and gas structure.

Overseas

Asia

Asia is one of the Company’s main overseas oil and gas producing regions. The Company holds assets mainly in Indonesia and Myanmar.

Indonesia

In Indonesia, the Company mainly owns interests in the following production sharing contracts: the South East Sumatra Production Sharing Contract, the Offshore North West Java Production Sharing Contract, the West Madura Production Sharing Contract and the Poleng Technical Assistance Contract. Among these, the Company is the operator of the South East Sumatra block and owns approximately 65.54% of its interests.

The Company also owns approximately 13.90% of the interests in the Tangguh LNG Project in Indonesia. Located in West Papua and comprising three blocks of Berau, Muturi and Wiriagar, this project commenced production in 2009. As the Company's second overseas LNG project which commenced production after the North West Shelf Project in Australia, it provides strong support to the growth in the Company’s overseas production of natural gas.

In addition, the Company owns partial interests in the Malacca Strait, South East Palung Aru and Batanghari Production Sharing Contracts.

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In 2009, to cope with the fact that most producing oil and gas producing fields in Indonesia are mature, the Company adopted various measures to maintain and increase production, such as water flooding and infill drilling, in order to keep the decline rates of these mature oilfields at low levels.

Other Asian Regions

The Company owns interests in several blocks in Myanmar, Cambodia and Qatar. Currently, these blocks are still under exploration.

Oceania

Currently, the Company's oil and gas resources in Oceania are all located in Australia.

Australia

The Company owns 5.3% of the interests in Australia's North West Shelf Project. The project has commenced production and currently supplies gas to such customers as the Dapeng LNG Terminal in Guangdong, China.

In addition, the Company owns interests in one exploration block in Australia.

Africa

Africa is one of the areas with large reserve base. The Company's assets in Africa are primarily located in Nigeria.

Nigeria

The Company owns 45% interest in the OML 130 block in Nigeria. The OML 130 Project is a deepwater project and includes four oilfields, namely AKPO, EGINA, South EGINA and PREOWEI. AKPO commenced production in March 2009. As at the end of 2009, the AKPO oilfield had completed drilling of 24 wells. Since its commencement of production, this oilfield had been steadily increasing its production and became the main driver for the Company's overseas production growth in 2009.

Other Areas in Africa

Besides Nigeria, the Company also owns interests in several blocks in Kenya, Equatorial Guinea, the Republic of Congo and Liberia. These blocks are currently under exploration.

North America

The Company holds interests in oil and gas blocks in Trinidad and Tobago and the Gulf of Mexico in North America.

Trinidad and Tobago

In 2009, the Company, through a joint-venture company, acquired a 12.5% interest in the 2C block and a 12.75% interest in the 3A block in Trinidad and Tobago. The 2C block has commenced producing crude oil since 2005 and is expected to begin producing natural gas in 2011.

In 2009, the 2C block contributed to the Company's production.

Other Areas in North America

Besides Trinidad and Tobago, the Company also owns interests in several blocks in the Gulf of Mexico.

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Other Oil and Gas Data

Oil and Gas Production, Production Prices and Production Costs

The following table sets forth our net production, average sales prices and average lifting cost in the years of 2007, 2008 and 2009.

	Net Production			Average Sales Price		Average Lifting Cost
	Total (BOE/day)	Oil (Bbls/day)	Gas (Mmcf/day)	Oil (US$/bbl)	Gas (US$/Mmcf)	(US$/boe)
2009						
Offshore China						
Bohai Bay	267,079	253,884	79.2	—	—	—
Western South China Sea	120,745	72,605	275.4	—	—	—
Eastern South China Sea	126,765	118,395	50.2	—	—	—
East China Sea	1,057	63	6.0	—	—	—
Subtotal	515,646	444,947	410.8	59.88	4,440	10.07
Overseas						
Asia	45,555	22,163	140.3	55.57	3,350	17.10
Oceania	26,337	6,228	102.4	59.69	3,184	6.94
Africa	35,591	35,591	—	69.77	—	8.72
North America	767	767	—	69.45	—	13.66
Subtotal	108,250	64,749	242.7	65.60	3,280	11.85
Total	623,896	509,696	653.5	60.61	4,009	10.38
2008						
Offshore China						
Bohai Bay	230,896	218,478	74.5	—	—	—
Western South China Sea	106,764	56,761	284.7	—	—	—
Eastern South China Sea	127,490	122,813	28.1	—	—	—
East China Sea	1,225	85	6.8	—	—	—
Subtotal	466,375	398,137	394.1	89.16	4,206	10.37
Overseas						
Asia	42,632	19,262	140.2	93.74	3,199	17.81
Oceania	21,721	4,669	86.8	90.64	3,168	7.86
Subtotal	64,353	23,931	227.0	93.13	3,187	14.71
Total	530,728	422,068	621.1	89.39	3,833	11.23
2007						
Offshore China						
Bohai Bay	218,447	206,748	70.2	—	—	—
Western South China Sea	75,573	34,163	237.3	—	—	—
Eastern South China Sea	108,279	103,715	27.4	—	—	—
East China Sea	5,462	1,467	24.0	—	—	—

Subtotal	407,761	346,093	358.9	65.73	3,442	8.60
Overseas						
Asia	40,687	20,756	119.6	72.48	2,962	17.69
Oceania	20,959	4,979	81.1	76.90	3,180	6.76
Subtotal	61,646	25,735	200.7	73.33	3,050	13.98
Total	469,407	371,827	559.6	66.26	3,297	9.31

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Drilling and Other Exploratory and Development Activities

The following table sets forth our net exploratory wells and development wells drilled in the years of 2007, 2008 and 2009.

	Net Exploratory Wells Drilled			Net Development Wells Drilled		
	Total	Successful	Dry	Total	Successful	Dry
2009						
Independent						
Offshore China						
Bohai Bay	39	25	14	162	162	—
Western South China Sea	27	8	19	17	17	—
Eastern South China Sea	10	4	6	11	11	—
East China Sea	1	1	—	—	—	—
Subtotal	77	38	39	190	190	—
PSCs						
Bohai Bay	—	—	—	67.9	67.9	—
Western South China Sea	—	—	—	1.2	1.2	—
Eastern South China Sea	—	—	—	6.7	6.7	—
East China Sea	—	—	—	0.3	0.3	—
Subtotal	—	—	—	76.1	76.1	—
Overseas						
Asia	8.5	1.3	7.2	11.9	11.9	—
Oceania	3.0	—	3.0	—	—	—
Africa	—	—	—	6.3	6.3	—
North America	—	—	—	—	—	—
Subtotal	11.5	1.3	10.2	18.2	18.2	—
2008						
Independent						
Offshore China						
Bohai Bay	37	22	15	49	49	—
Western South China Sea	27	14	3	13	13	—
Eastern South China Sea	10	3	7	15	15	—
East China Sea	—	—	—	—	—	—
Subtotal	74	39	25	77	77	—
PSCs						
Bohai Bay	—	—	—	27.2	27.2	—
Western South China Sea	—	—	—	—	—	—
Eastern South China Sea	—	—	—	1.5	1.5	—
East China Sea	—	—	—	—	—	—
Subtotal	—	—	—	28.7	28.7	—
Overseas						
Asia	6.0	1.1	4.9	4.9	4.9	—
Oceania	—	—	—	—	—	—
Africa	—	—	—	4.0	4.0	—
North America	—	—	—	—	—	—
Subtotal	6.0	1.1	4.9	8.9	8.9	—

2007						
Independent						
Offshore China						
Bohai Bay	36	18	18	46	45	1
Western South China Sea	14	10	4	42	41	1
Eastern South China Sea	8	3	5	—	—	—
East China Sea	—	—	—	—	—	—
Subtotal	58	31	27	88	86	2
PSCs						
Bohai Bay	2	2	—	29.5	29.5	—
Western South China Sea	—	—	—	—	—	—
Eastern South China Sea	—	—	—	1.0	1.0	—
East China Sea	—	—	—	0.3	0.3	—
Subtotal	2	2	—	30.8	30.8	—
Overseas						
Asia	4.4	0.5	3.9	3.3	3.3	—
Oceania	—	—	—	—	—	—
Africa	—	—	—	0.9	0.9	—
North America	—	—	—	—	—	—
Subtotal	4.4	0.5	3.9	4.2	4.2	—

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Present Activities

The following tables set forth our present activities as of December 31, 2009.

	Wells Being Drilled		Waterfloods Being Installed	
	Gross	Net	Gross	Net
Offshore China				
Bohai Bay	152.0	146.8	213.0	188.0
Western South China Sea	18.0	17.0	17.0	17.0
Eastern South China Sea	14.0	11.1	—	—
East China Sea	—	—	—	—
Subtotal	184.0	174.9	230.0	205.0
Overseas				
Asia	1.0	0.7	55.0	36.0
Oceania	—	—	—	—
Africa	—	—	18.0	8.0
North America	—	—	—	—
Subtotal	1.0	0.7	73.0	44.0

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Oil and Gas Properties, Wells, Operations, and Acreage

The following table sets forth our productive wells, developed acreage and undeveloped acreage as of December 31, 2009.

	Productive Wells				Developed Acreage (km2)		Undeveloped Acreage (km2)	
	Crude Oil		Natural Gas					
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Offshore China								
Bohai Bay	1,112.0	945.1	29.0	29.0	2,006	1,784	42,271	36,694
Western South China Sea	159.0	146.2	54.0	48.6	1,663	1,513	37,844	37,819
Eastern South China Sea	245.0	157.1	10.0	6.6	3,541	2,235	28,532	28,353
East China Sea	12.0	3.6	18.0	6.6	322	161	1,938	969
Subtotal	1,528.0	1,252.0	111.0	90.8	7,532	5,693	110,585	103,835
Overseas								
Asia	1,477.0	679.6	145.0	53.0	28,591	10,903	304	42
Oceania	34.0	1.8	—	—	3,950	209	4,200	4,200
Africa	13.0	5.9	—	—	1,295	583	58,860	37,876
North America	19.0	2.4	—	—	135	17	408	53
Subtotal	1,543.0	689.7	145.0	53.0	33,971	11,712	63,772	42,171

Delivery Commitment

As of the end of 2009, we did not have any material delivery commitment.

Segment Information

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

	Year ended December 31,					
	2007		2008		2009	
	Rmb in thousands	%	Rmb in thousands	%	Rmb in thousands	%
Independent operations	34,586,214	38.1	54,682,326	43.4	44,656,654	42.5
PSCs	45,815,712	50.5	56,019,745	44.5	48,598,484	46.2
Trading businesses	17,397,338	19.2	22,966,752	18.2	20,751,961	19.7
Unallocated and elimination	(7,075,433)	(7.8)	(7,691,441)	(6.1)	(8,812,022)	(8.4)
	90,723,831	100.0	125,977,382	100.0	105,195,077	100.0

Total operating revenues	

We are mainly engaged in the exploration, development and production of crude oil and natural gas primarily offshore China. For the year ended December 31, 2009, approximately 76.2% of our total revenue was sourced in the PRC. Our overseas activities are mainly conducted in Indonesia, Australia and Nigeria.

Sales and Marketing

Sales of Crude Oil

The Company sells its crude oil produced offshore China to the PRC market through CNOOC China Limited, its wholly owned PRC subsidiary. The Company sells its crude oil produced overseas to the international and the domestic markets through China Offshore Oil (Singapore) International Pte Ltd, also its wholly owned subsidiary.

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The Company's sale prices are mainly determined based on the prices of international benchmark crude oil of similar quality, with certain premium or discounts due to the supply and demand. Although prices are quoted in U.S. dollars, customers in China pay Renminbi. The Company currently sells three types of crude oil in China, namely light crude, medium crude and heavy crude. Refineries and chemical factories of CNOOC, Sinopec and PetroChina are the Company's major customers in China.

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

	Year ended December 31,		
	2007	2008	2009
Sales and Marketing Volumes (benchmark) (mmbbls)(1)			
Light Crude (APPI(2) Tapis(3))	17.6	19.4	12.6
Medium Grade (Daqing OSP(4))	74.4	81.1	94.9
Heavy Crude (ICP Duri(5))	89.4	94.3	109.3

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

Affected by the recent global financial crisis, international oil prices remained subdued in the first half of 2009, causing a significant decrease in the Company's realized oil prices. In the second half of 2009, as major economies showed signs of recovery and the Chinese economy particularly maintained a steady rapid growth, the international oil prices gradually rebounded.

To cope with the sharp volatility of international oil prices, the Company strengthened its sales management and effectively reduced the sales risks. Capitalizing on the robust demand for crude oil in the domestic market and the higher Far East Oil Benchmark, the Company effectively managed the sales of its crude oil. In 2009, the Company achieved an average realized oil price of US$60.61 per barrel, representing a 32.2% decrease over the previous year.

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

	Year ended December 31,		
	2007	2008	2009
Average Realized Prices			
Crude Oil (US$/bbl)	66.26	89.39	60.61
Natural Gas (US$/mcf)	3.30	3.83	4.01
West Texas Intermediate (US$/bbl)	72.23	100.10	61.99

The international benchmark crude oil price, West Texas Intermediate, was US$79.36 per barrel as of December 31, 2009 and US$83.76 per barrel as of March 31, 2010.

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

	Year ended December 31,		
	2007	2008	2009
	(Rmb in millions, except percentages)		
Revenues sourced in the PRC	78,468	91,040	80,198
Revenues sourced outside the PRC	12,256	34,937	24,997
Total revenues	90,724	125,977	105,195
% of revenues sourced outside the PRC	13.5%	27.7%	23.8%

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Sales of Natural Gas

Currently, the Company's natural gas sales prices are determined by the negotiations between the Company and its customers. Generally, the natural gas sales agreements are long-term contracts. The Company's major natural gas customers are mainly located in Guangdong, Hainan, Shandong and Hong Kong, including Castle Peak Power Company Limited, CNOOC Kingboard Chemical Limited and China BlueChemical Ltd.

In 2009, based on the condition of the domestic gas market, the Company raised its gas sales prices for certain customers through negotiations, and our average realized gas price gradually increased to US$4.01 per thousand cubic feet, representing a 4.7% increase over the previous year.

Procurement of Services

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

In addition, we build single point mooring, or SPM, or employ, on a contract basis, independent third parties for SPM services. Besides building floating production storage and offloading, or FPSO, with our partners, we employ independent third parties or CNOOC and/or its affiliates for FPSO services and other services. We conduct a bidding process to determine who we employ to construct platforms, terminals and pipelines, to drill production wells and to install offshore production facilities. Both independent third parties and CNOOC affiliates participate in the bidding process. We are closely involved in the design and management of services by contractors and exercise extensive control over their performance, including their costs, schedule, quality and health, safety, and environment, or HSE, measures.

Competition

Domestic Competition

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

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

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

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

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Foreign Competition

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

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

Fiscal Regimes

Offshore China

We conduct exploration and production operations either independently or jointly with foreign partners under our production sharing contracts. The PRC government has established different fiscal regimes for crude oil and natural gas production from our independent operations and from the operations under our PSCs.

Fiscal regimes for independent operations

Royalties paid to the PRC government are based on our gross production from both independent operations and oil and gas fields under PSCs. The amount of the royalties varies up to 12.5% based on the annual production of the relevant property. The PRC government has provided companies such as us with a royalty exemption for up to one million tons, or approximately seven million BOE, per year for our crude oil production and for up to 70.6 billion cubic feet, or approximately 11.8 million BOE, per year for our natural gas production. The limits in these exemptions apply to our total production from both independent properties and properties under PSCs. In addition, we pay production taxes to the PRC government equal to 5% of our crude oil and gas produced independently and under PSCs.

Fiscal regimes for PSC operations

Under our PSCs, production of crude oil and gas is allocated among us, the foreign partners and the PRC government according to a formula contained in the contracts. Under this formula, a percentage of production under our PSCs is allocated to the PRC government as its share oil. For more information about the allocation of production under the PSCs, see "Item 4—Information on the Company—Business Overview—Fiscal Regimes—Offshore China—Fiscal regimes fo PSC operations—Production Sharing Formula."

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

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

Bidding Process

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

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Terms of PSCs

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

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

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

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

Percentage of annual gross production	Allocation
5.0%	Production tax payable to the PRC government(1)
0.0% — 12.5%(2)	Royalty oil payable to the PRC government
50.0% — 62.5%(2)	Cost recovery oil allocated according to the following priority: 1. recovery of current year operating costs by us and foreign partner(s); 2. recovery of earlier exploration costs by foreign partner(s); 3. recovery of development costs and deemed interest by us and foreign partner(s) based on participating interests; and 4. any excess, allocated to the remainder oil.
32.5%(3)	Remainder oil allocated according to the following formula: 1. (1-X) multiplied by 32.5% represents share oil payable to the PRC government; and 2. X multiplied by 32.5% represents remainder oil distributed according to each partner's participating interest.(4)

(1) In this annual report and in our consolidated financial statements included elsewhere in this annual report, references to production tax on oil and gas produced offshore China are the value-added tax set out in our PSCs offshore China.

(2) Assumes annual gross production of more than four million metric tons, approximately 30 million BOE. For lower amounts of production, the royalty rate will be lower and the cost recovery will be greater than 50.0% by the amount that the royalty rate is less than 12.5%.

(3) The ratio "X" is agreed in each PSC based on commercial considerations and ranges from 8% to 100%.

(4) See "Item 4—Information on the Company—Business Overview—Principal Oil and Gas Regions Offshore China for our participating interest percentage in our PSCs.

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The first 5.0% of the annual gross production is paid to the PRC government as production tax. The PRC government is also entitled to a royalty payment equal to the next 0% to 12.5% of the annual gross production as follows:

Annual gross production of oil(1)	Royalty rate
Less than 1 million tons	0.0%
1–1.5 million tons	4.0%
1.5–2.0 million tons	6.0%
2.0–3.0 million tons	8.0%
3.0–4.0 million tons	10.0%
Above 4 million tons	12.5%

(1) The royalties for natural gas reach a maximum at 3.0%.

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

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

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

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

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

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

Abandonment Costs. Any party to our PSCs shall pay its share of the abandonment cost when such party either abandons the production of an oil field or gas field during a production period or when the production period of the oil field or gas field expires.

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Overseas

In addition to our PSCs in the PRC, we are subject to other fiscal regimes in the foreign countries and regions where we conduct operations, including Indonesia, Australia, Nigeria and certain other countries. See "Item 4—Information on the Company—Business Overview—Overseas."

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

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

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

Operating Hazards and Uninsured Risks

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

As protection against operating hazards, we maintain insurance coverage against some, but not all, potential losses, including the loss of wells, blowouts, pipeline leakage or other damage, certain costs of pollution control and physical damages on certain assets. Our insurance coverage includes oil and gas field properties and construction insurance, marine hull insurance, protection and indemnity insurance, drilling equipment insurance, marine cargo insurance and third party and comprehensive general liability insurance. The operators of the projects in which we participate overseas are required by local law to purchase insurance policies customarily taken out by international petroleum companies. As of December 31, 2009, we paid an annual insurance premium of approximately US$55.7 million and US$15 million for operational insurance and all risk construction insurance, respectively, to maintain our insurance coverage. We believe that our level of insurance is adequate and customary for the PRC petroleum industry and international practices. However, we may not have sufficient coverage for some of the risks we face, either because insurance is not available or because of high premium costs. See "Item 3—Key Information—Risk Factors— Extreme weather conditions may have a material and adverse impact on us and could result in losses that are not covered by insurance."

Research and Development

In 2009, the Company continued to focus its scientific and technology research on exploration and development. Certain research findings have been applied to daily operations and yielded positive results.

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Major Projects

The Company has been strengthening its selection and planning of scientific research and technology development efforts. In some key areas such as offshore frontier exploration and technologies, enhancement of oil recovery, offshore marginal oilfields development, deepwater oilfield development, heavy oil development and overseas exploration and development, the Company established various special task forces working on major projects, with an aim to make the Company technologically prepared for a sustainable development in the mid-to-long term.

In addition, the Company has undertaken several China National Scientific Research Projects, such as that for "Key Technologies and Facilities for Deepwater Exploration and Development in South China Sea." The research for these projects made smooth progress in 2009.

Critical Technological Research

In 2009, the Company's operations benefited from a number of technological developments. Exploration activities guided by new theories and technologies facilitated the steady increase in the Company's oil and gas reserve. The full implementation of enhanced oil recovery at Penglai 19-3 oilfield significantly improved production performance. A large-scale offshore infill drilling was adopted for the first time in offshore China at Suizhong 36-1 oilfield and produced an improved oil extraction rate and a decrease in production decline rate. Recovery technologies of polymers injection in Bohai Bay further improved our production performance.

Regulatory Framework

Government Control

The PRC government owns all of China's petroleum resources and exercises regulatory control over oil exploration and production activities in China. We are required to obtain various governmental approvals, including those from the Ministry of Land and Resources, the State Oceanic Administration, the National Development and Reform Commission and the Ministry of Commerce before we are permitted to conduct production activities. Our sales are coordinated by the National Development and Reform Commission. For joint exploration and production with foreign enterprises, we are required to obtain various governmental approvals, through CNOOC, including permit for exploration blocks, approval of a reserve report, the PSCs between CNOOC and the foreign enterprises, environmental impact report submitted through CNOOC, overall development plan, and extraction permit.

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

Special Policies Applicable to the Offshore Petroleum Industry in China

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

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

In March 2006, the State Council issued the Decision to Impose a Special Oil Gain Levy and the Ministry of Finance promulgated the Management Rules on the Administration of Special Oil Gain Levy, effective March 26, 2006. According to the rules, the Ministry of Finance imposes a special oil gain levy at progressive rates from 20% to 40% on any income derived from sales by an oil exploration and production company of locally produced crude oil at a price which exceeds US$40 per barrel. The special oil gain levy is collected on a quarterly basis. For the years ended December 31, 2007, 2008 and 2009 we incurred approximately Rmb 6.8 billion, Rmb 16.2 billion and Rmb 6.4 billion (US$0.9 billion) in connection with the Special Oil Gain Levy. As international oil prices, the exchange rate of Renminbi and our crude oil production fluctuate, we cannot ascertain the full impact of the Special Oil Gain Levy going forward.

In addition, the PRC government imposed an export tariff of 5% on crude oil in November 2006.

Policies Applicable to International Oil and Gas Companies Operating Offshore China

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

Environmental Regulation

Our operations are required to comply with various applicable environmental laws and regulations, including PRC laws and regulations administered by the national and local government environmental protection bureaus for our operations in China. We are also subject to the environmental rules introduced by governments in whose jurisdictions our logistical support facilities are located.

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

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

The PRC environmental laws require offshore petroleum developers to pay abandonment costs. Our financial statements include provisions for costs associated with the dismantlement of oil and gas fields as of December 31, 2007, 2008 and 2009 of approximately Rmb 6,737.3 million, Rmb 8,340.0 million and Rmb 11,281.1 million (US$ 1,652.7 million), respectively.

According to the interpretation made by the Legal Affairs Office of the State Council, investors of the offshore oil and gas fields shall take responsibility for abandonment of the offshore oil and gas production facilities and perform the obligation in relation to environmental protection and ecological restoration, and shall provide and allocate special fund for the aforesaid purpose in accordance with the relevant laws and regulations. The investors include us and the foreign parties to our PSCs.

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

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

Patents and Trademarks

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

Real Properties

Our corporate headquarters is located in Hong Kong. We lease several other properties from CNOOC in China and Singapore. The rental payments under these lease agreements are determined with reference to market rates. See "Item 7—Major Shareholders and Related Party Transactions—Related Party Transactions."

We own the following main property interests in the PRC:

- 51% interest in land, various buildings and structures at Yacheng 13-1 Processing Plants, Hainan Province and Hong Kong;
- land, various buildings and structures at Xingcheng JZ 20-2 Natural Gas Separating Plant, Liaoning Province;
- land, various buildings and structures located at Boxi Processing Plant, Tianjin;
- land, various buildings and structures at Weizhou Terminal Processing Plant, Guangxi Zhuang Autonomous Region;
- land, various buildings and structures at Suizhong 36-1 Base, Liaoning Province;
- land, various buildings and structures located at Bonan Processing Plant, Shandong Province;
- land, various buildings and structures located at Dongfang 1-1 Processing Plant, Hainan Province;
- land, various buildings and structures located at Panyu Huizhou Gas Processing Plant, Guangdong Province; and
- land, various buildings and structures located at a Gas Processing Plant, Ningbo, Zhejiang Province.

Employees and Employee Benefits

During the years ended December 31, 2007, 2008 and 2009, we employed 3,288 persons, 3,584 persons and 4,019 persons, respectively. Of the 4,019 employees we employed as of December 31, 2009, approximately 71.9% were involved in oil exploration, development and production activities, approximately 5.5% were involved in accounts and finance work and the remainder were senior management, coordinators of PSCs and safety and environmental supervisors. Workers for the operation of the oil and gas fields, maintenance personnel and ancillary service workers are hired on a contract basis.

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

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

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

We have implemented an occupational health and safety program similar to that employed by other international oil and gas companies. Under this program, we closely monitor and record health and safety incidents and promptly report them to government agencies and organizations. On March 15, 2000, we finalized and implemented our occupational health and safety program. We believe this program is broadly in line with the United States government's Occupational Safety & Health Administration guidelines.

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

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

As of December 31, 2009, our Indonesian subsidiaries employed 811 employees, including 41 expatriates. We provide benefits to expatriates that we believe to be in line with customary international practices. Our local staff in Indonesia enjoy welfare benefits mandated by Indonesian labor laws.

For further details regarding retirement benefits, see note 30 to our consolidated financial statements included elsewhere in this annual report.

As an oil and gas exploration and production company operating in highly competitive markets, we depend in large part on our employees for effective and efficient operations. We devote significant resources to train our employees. During 2009, we held 4,453 training workshops, which were attended by 60,190 participants. To ensure smooth implementation of our overseas strategy, we have established an international human resources system to attract and retain talent in the international market. In order to enhance the planning and budget control of our labor costs, we have installed target benchmarks in performance appraisals to guide various business units to cut their labor costs and to increase the accuracy of their budgets.

Health, Safety and Environmental Policy, or HSE

The Company promotes the philosophy and culture of HSE among its staff. The Company has established a comprehensive management system to facilitate its fulfillment of social obligations, improve staff's awareness of HSE protection during operations, and strengthen their risk identification and management skills. The Company has also adopted HSE management standards for its contractors.

In 2009, the Company emphasized risk identification and control in areas of production safety, environmental protection and occupational health, and achieved satisfactory results in managing key potential risks. The primary measures adopted by the Company included elimination of single-hull oil tankers, thorough examination of the integrity of pipelines and storage tanks, and implementation of publication and supervision system for significant safety and environmental risks. Effective execution of these measures enabled the Company to achieve its HSE targets, and the robust HSE performance facilitated the smooth operations.

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In 2009, there were no critical casualty accidents, and neither were there any liability claims for losses of over Rmb 1 million. The Company's Occupational Safety and Health Administration ("OSHA") statistics remained at a satisfactory level, and our performance demonstrated continuous improvement.

In 2009, the Company implemented an HSE publication and supervision system to address major potential risks. All risks identified have been addressed by the end of 2009.

In 2009, the Company conducted a special examination of the HSE systems of its subsidiaries as scheduled. The examination facilitated continuous improvement in the HSE systems of the operational sites and helped to ensure the safety of onsite production.

In order to improve the emergency response, the Company prompted all of its business units to establish and enhance the emergency information system. In 2009, the Company launched those systems to track vessel movements and the personnel offshore.

In 2009, the Company engaged professional assessors to conduct management audits and safety checks on helicopter contractors. The contractors were required to rectify all problems identified. With respect to diving safety, the Company held a seminar to reinforce its management in 2009. Furthermore, the Company identified and screened out those unqualified contractors of diving operations.

C. ORGANIZATIONAL STRUCTURE

CNOOC indirectly owned or controlled an aggregate of approximately 64.41% of our shares as of March 31, 2010. Accordingly, CNOOC continues to be able to exercise all the rights of a controlling shareholder, including electing our directors and voting to amend our articles of association. Although CNOOC has retained a controlling interest in us, the management of our business will be our directors' responsibility.

The following chart sets forth our controlling entities and our directly-held subsidiaries as of March 31, 2010 and notes our significant indirectly-held subsidiaries.

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(1) Overseas Oil & Gas Corporation, Ltd also directly owns five shares of our company.
(2) Owner of our overseas interests in oil exploration and production businesses and operations, including our indirect wholly-owned subsidiaries CNOOC Southeast Asia Limited (Bermuda), CNOOC Exploration & Production Nigeria Limited (Nigeria), CNOOC Africa Holding Ltd. (British Virgin Islands) and CNOOC Africa Ltd. (British Virgin Islands).
(3) Owner of substantially all of our PRC oil exploration and production businesses, operations and properties.
(4) Business vehicle through which we engage in sales and marketing activities in the international markets.
(5) Includes CNOOC Finance (2002) Limited, the financing vehicle through which we issued our US$500 million 6.375% guaranteed notes due 2012, and CNOOC Finance (2003) Limited, the financing vehicle through which we issued our US$200 million 4.125% guaranteed notes due 2013 and US$300 million 5.5% guaranteed notes due 2033. These finance companies are our wholly owned subsidiaries with our company as their sole corporate director.

D. PROPERTY, PLANTS AND EQUIPMENT

See "Item 4—Information on the Company—Business Overview."

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. OPERATING RESULTS

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

Overview

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

The following table sets forth our net production and profit for the periods indicated.

	Year ended December 31,		
	2007	2008	2009
Net production of crude oil, condensate and natural gas liquids (BOE/day)	371,827	422,068	509,696
Net production of natural gas (mmcf/day)	559.6	621.1	653.5
	31,258.3	44,375.3	29,485.6

Profit for the year (Rmb in millions)	

For a description of certain factors affecting our financial performance, see “Item 3—Key Information—Risk Factors.”

Production from Independent Operations Offshore China Versus Production from PSCs Offshore China

Historically we have cooperated with foreign partners under PSCs, which have provided us with the expertise to undertake our independent operations more effectively. The percentage of our net production arising from independent operations offshore China was 53.5%, 59.0% and 62.8%, for the years ended December 31, 2007, 2008 and 2009, respectively. Although we will continue to focus on independent operations, we plan to continue seeking appropriate opportunities to cooperate with foreign partners under PSCs.

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Provision for Dismantlement

We estimate future dismantlement costs for oil and gas properties with reference to the estimates provided from either internal and external engineers after taking into consideration the anticipated method of dismantlement required in accordance with then current legislation and industry practice. Provisions are made for present obligations, either legal or constructive. The associated cost is capitalized and the liability is discounted and accretion expense is recognized using the credit adjusted risk-free rate in effect when the liability is initially recognized. The dismantlement costs for the years ended December 31, 2007, 2008 and 2009 were Rmb 561.7 million, Rmb 667.2 million and Rmb 929.1 million (US$136.1 million), respectively. The accrued liability is reflected in our consolidated balance sheet under "provision for dismantlement." See note 26 to our consolidated financial statements included elsewhere in this annual report.

Production Imbalance

We account for oil overlifts and underlifts using the entitlement method, under which we record overlifts as liabilities and underlifts as assets. An overlift occurs when we sell more than our percentage interest of oil from a property subject to a PSC. An underlift occurs when we sell less than our participating interest of oil from a property under a PSC.

Allowances for Doubtful Accounts

We evaluate our trade receivables by considering the financial condition of our customers, their past payment history and credit standing and other specific factors, including whether the trade receivables in question are under dispute. We make provisions for trade receivables when we are concerned about our ability to collect them. For the years ended December 31, 2007, 2008 and 2009, allowances for doubtful accounts were not material in the context of total operating expenses and did not have a material effect on our results of operations or financial condition.

Critical Accounting Policies

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

Oil and Gas Properties

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

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

We recognized the amount of the estimated cost of dismantlement and discounted the amount 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 cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. We included the unwinding of the discount on the dismantlement provision as a finance cost.

Reserves Estimation

Pursuant to the amendments to the oil and gas reserve estimation requirements under the SEC's final rules on "Modernization of Oil and Gas Reporting", which became effective for accounting periods ended on or after December 31, 2009, we use the average, first-day-of-the-month oil prices during the 12-month period before the ending date of the period covered by the consolidated financial statements to estimate our proved oil and gas reserves. Year-end prices were used for the estimation in the past accounting periods. However, it is neither practical nor cost-effective for our management to estimate the effect of such change in accounting precisely.

Impairment of Assets

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

Provisions

We recognize a provision when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation provided that a reliable estimate can be made of the amount of the obligation. When the effect of discounting is material, the amount recognized for a provision is the present value at the reporting date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated statement of comprehensive income. We make provisions for dismantlement based on the present value of our future costs expected to be incurred, on a property-by-property basis, in respect of our expected dismantlement and abandonment costs at the end of the related oil exploration and recovery activities.

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Deferred Tax

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

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

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

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

A typical example of transactions that are not business combinations and, at the time of the transaction, affect neither accounting profit or loss nor taxable profit or loss is the acquisition of an asset, such as an exploration license or concession, where no previous activity has taken place, whereby the consideration paid is higher than its tax base. The facts and circumstances of each transaction need to be considered in order to determine whether the definition of "business" under the relevant accounting standard has been met.

Recognition of Revenue from Oil and Gas Sales and Marketing

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

Our marketing revenues principally represent sales of oil purchased from the foreign partners under our PSCs and revenues from the trading of oil through our subsidiaries. The title, together with the risks and rewards of the ownership of such oil purchased from the foreign partners, are transferred to us from the foreign partners and other unrelated oil and gas companies before we sell such oil to our customers. The cost of the oil sold is included in crude oil and product purchases.

Results of Operations

Overview

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

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	Year ended December 31,					
	2007		2008		2009	
	(Rmb in millions, except percentages, production data and prices)					
Revenues:						
Oil and gas sales:						
Crude oil	68,039	75.0%	94,779	75.2%	77,383	73.6%
Natural gas	4,998	5.5%	6,052	4.8%	6,531	6.2%
Total oil and gas sales	73,037	80.5%	100,831	80.0%	83,914	79.8%
Marketing revenues	17,397	19.2%	22,967	18.2%	20,752	19.7%
Other income	290	0.3%	2,179	1.7%	529	0.5%
Total revenues	90,724	100.0%	125,977	100.0%	105,195	100.0%
Net production (million BOE):						
Crude oil	135.7	79.2%	154.4	79.5%	186.0	81.7%
Natural gas	35.6	20.8%	39.8	20.5%	41.7	18.3%
Total net production	171.3	100.0%	194.2	100.0%	227.7	100.0%
Average net realized prices:						
Crude oil (US$ per bbl)	66.26		89.39		60.61	
Natural Gas (US$ per mcf)	3.30		3.83		4.01	

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

	Year ended December 31,		
	2007	2008	2009
Operating Revenues:			
Oil and gas sales	80.5%	80.0%	79.8%
Marketing revenues	19.2%	18.2%	19.7%
Other income	0.3%	1.7%	0.5%
Total revenues	100.0%	100.0%	100.0%
Expenses:			
Operating expenses	(8.9)%	(7.9)%	(11.9)%
Production taxes	(3.9)%	(3.9)%	(3.5)%
Exploration costs	(3.8)%	(2.7)%	(3.1)%
Depreciation, depletion and amortization	(8.7)%	(7.9)%	(15.2)%
Special oil gain levy	(7.5)%	(12.9)%	(6.0)%
Impairment losses related to property, plant and equipment	(0.7)%	(1.2)%	(0.0)%
Crude oil and product purchases	(18.8)%	(18.0)%	(19.4)%
Selling and administrative expenses	(1.9)%	(1.4)%	(2.2)%
Other	(0.4)%	(1.2)%	(0.4)%
	(54.6)%	(57.2)%	(61.7)%
Interest income	0.7%	0.9%	0.6%
Finance costs	(2.2)%	(0.3)%	(0.5)%
Exchange gain, net	2.0%	2.0%	0.1%
Investment income	1.0%	0.4%	0.2%

Share of profits of associates	0.8%	0.3%	0.2%
Non-operating income (expenses), net	0.0%	0.0%	0.0%
Profit before tax	47.7%	45.9%	38.8%
Tax	(13.3)%	(10.7)%	(10.8)%
Profit for the year	34.4%	35.2%	28.0%

Calculation of Revenues

China

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

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

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

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

Our share of the oil and gas sales of an unconsolidated investee is not included in our revenues, but our share of the profit or loss of this company is included in our consolidated statements of comprehensive income under "share of profit of associates."

Indonesia

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

Australia

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

Africa

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

North America

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

2009 versus 2008

Consolidated net profit

Our consolidated net profit decreased 33.6% to Rmb 29,485.6 million (US$4,319.7 million) in 2009 from Rmb 44,375.3 million in 2008.

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Revenue

Our oil and gas sales decreased 16.8% to Rmb 83,914.4 million (US$12,293.5 million) in 2009 from Rmb 100,831.3 million in 2008, primarily as a result of significantly lower average realized oil prices in 2009. The average realized price for our crude oil decreased by US$28.78 per barrel, or 32.2%, to US$60.61 per barrel in 2009 from US$89.39 per barrel in 2008. We sold 186.9 million barrels of crude oil in 2009, representing a 22.4% increase from 152.7 million barrels in 2008. The average realized price for our natural gas increased US$0.18 per thousand cubic feet, or 4.7%, to US$4.01 per thousand cubic feet in 2009 from US$3.83 per thousand cubic feet in 2008. Sales volume of our natural gas increased 4.8% to 41.7 million BOE in 2009 from 39.8 million BOE in 2008.

Our net marketing profit, which is marketing revenue less purchase costs, increased 1.7% to Rmb 296.7 million (US$43.5 million) in 2009 from Rmb 291.7 million in 2008. Our realized marketing profit margin, which is our net marketing profit as a percentage of marketing revenues, was 1.4% in 2009, generally the same as that of 1.3% in 2008.

Operating expenses

Our operating expenses increased 25.0% to Rmb 12,490.4 million (US$1,829.9 million) in 2009 from Rmb 9,990.4 million in 2008. Operating expenses per BOE increased 6.6% to Rmb 54.8 (US$8.03) per BOE in 2009 from Rmb 51.4 per BOE in 2008. Such increase is attributable to the commencement of production of oil and gas fields in 2009, the upgrade of operational equipment to improve the safety and reliability of production facilities, and the heavier operation workload at producing oil and gas fields.

Operating expenses per BOE offshore China increased 10.5% to Rmb 49.4 (US$7.24) per BOE in 2009 from Rmb 44.7 per BOE in 2008, the increase is attributable to the upgrade of operational equipment to improve the safety and reliability of production facilities and the heavier operation workload. Operating expenses per BOE overseas decreased 19.4% to Rmb 80.9 (US$11.85) per BOE in 2009 from Rmb 100.3 per BOE in 2008, primarily as a result of the lower average operating costs of overseas oil and gas fields commencing production in 2009.

Production taxes

Our production taxes decreased 25.4% to Rmb 3,647.2 million (US$534.3 million) in 2009 from Rmb 4,889.3 million in 2008, primarily as a result of lower crude oil sales due to significantly lower average realized oil prices in 2009.

Exploration expenses

Our exploration expenses decreased 5.2% to Rmb 3,233.7 million (US$473.7 million) in 2009 from Rmb 3,409.5 million in 2008. In 2009, we continued to enhance our exploration activities and due to higher drilling success rate, our exploration expenses in 2009 decreased slightly from that in 2008.

Depreciation, depletion and amortization

Our depreciation, depletion and amortization other than dismantlement expenditures increased 60.1% to Rmb 15,013.8 million (US$2,199.5 million) in 2009 from Rmb 9,380.5 million in 2008. Our average depreciation, depletion and amortization per barrel increased 36.5% to Rmb 65.9 (US$9.65) per BOE in 2009 from Rmb 48.3 per BOE in 2008, primarily as a result of the commencement of production in 2008 and 2009 of such oil and gas fields which were successively developed in recent years under an environment of the rising costs in both service fees and raw materials.

The depreciation, depletion and amortization related to our dismantlement provisions increased 37.2% to Rmb 929.1 million (US$136.1 million) in 2009 from Rmb 677.2 million in 2008. Our average dismantling costs increased 16.9% to Rmb 4.08 (US$0.60) per BOE in 2009 from Rmb 3.49 per BOE in 2008. Apart from the commencement of production of oil and gas fields, the increase is also attributable to higher estimated future dismantlement obligations arising from upward reevaluation of expected work commitments and higher projected service fees and raw material prices.

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Special Oil Gain Levy

Our Special Oil Gain Levy decreased 60.8% to Rmb 6,357.3 million (US$931.3 million) in 2009 from Rmb 16,238.2 million in 2008, primarily as a result of our lower realized oil price, and correspondingly, the lower applicable progressive rates imposed by the levy.

Impairment and inventory provision

Our impairment and inventory provision decreased 99.6% to Rmb 6.9 million (US$1.0 million) in 2009 from Rmb 1,541.5 million in 2008. The current year expense primarily included the provisions for inventory obsolescence in 2009.

Selling and administrative expenses

As compared to 2008, there was higher marketing costs in line with rising sales volume; higher wages and social security costs due to increasing staff headcounts; and higher leasing and outsourcing fees corresponding to market condition. In 2009, in light of these factors, our selling and administrative expenses increased 29.9% to Rmb 2,264.0 million (US$331.7 million) in 2009 from Rmb 1,742.6 million in 2008. Our selling and administrative expenses increased 10.8% to Rmb 9.94 (US$1.46) per BOE in 2009 from Rmb 8.97 per BOE in 2008.

Finance costs / interest income

Our finance costs increased 28.7% to Rmb 534.5 million (US$78.3 million) in 2009 from Rmb 415.3 million in 2008, primarily as a result of the increase in unwinding the discount on the provisions for dismantlement in 2009. Our interest income decreased 41.5% to Rmb 638.3 million (US$93.5 million) in 2009 from Rmb 1,091.0 million in 2008, primarily as a result of the lower banking deposit interest rates due to the liquidity excesses in both the domestic and overseas financial markets.

Exchange gains, net

Our net exchange gains decreased 97.9% to Rmb 53.8 million (US$7.9 million) in 2009 from Rmb 2,551.3 million in 2008 primarily as a result of the relatively stable exchange rate between Renminbi and U.S. dollars in 2009 compared to 2008.

Investment income

Our investment income decreased 58.0% to Rmb 199.9 million (US$29.3 million) in 2009 from Rmb 475.9 million in 2008, primarily as a result of lower realized gains due to market conditions and redemptions to avoid the potential losses due to the volatile financial markets.

Share of profits of associates

Our share of profits of associates decreased 53.6% to Rmb 173.5 million (US$25.4 million) in 2009 from Rmb 374.1 million in 2008, primarily as a result of significantly lower average realized oil price in an associated company in 2009.

Income tax expense

Our income tax expense decreased 16.1% to Rmb 11,335.5 million (US$1,660.7 million) in 2009 from Rmb 13,505.0 million in 2008, primarily as a result of lower revenue and profit due to lower average realized oil price. Our effective tax rate increased to 27.7% in 2009 from 23.3% in 2008. In 2008, the Company had a lower effective tax rate primarily because of the tax exemption on the income from the sale of working interests in certain assets. In addition, the larger profit contribution from our overseas business units and the increased tax rate in Indonesia have attributed to the higher effective tax rate in 2009.

2008 versus 2007

Consolidated net profit

Our consolidated net profit increased 42.0% to Rmb 44,375.3 million in 2008 from Rmb 31,258.3 million in 2007.

Revenue

Our oil and gas sales increased 38.1% to Rmb 100,831.3 million in 2008 from Rmb 73,036.9 million in 2007, primarily as a result of both higher average realized oil prices and increases in volume produced and sold in 2008. The average realized price for our crude oil increased US$23.13 per barrel, or 34.9%, to US$89.39 per barrel in 2008 from US$66.26 per barrel in 2007. We sold 152.7 million barrels of crude oil in 2008, representing an increase of 13.4% from 134.6 million barrels in 2007. The average realized price for our natural gas increased US$0.53 per thousand cubic feet, or 16.1%, to US$3.83 per thousand cubic feet in 2008 from US$3.30 per thousand cubic feet in 2007. Sales volume of our natural gas increased 14.7% to 39.8 million BOE in 2008 from 34.7 million BOE in 2007.

Our net marketing profit, which is marketing revenue less purchase costs, decreased 7.3% to Rmb 291.7 million from Rmb 314.7 million in 2007. Our realized marketing profit margin, which is our net marketing profit as a percentage of marketing revenues, decreased from 1.8% in 2007 to 1.3% in 2008, due to fast increasing crude oil purchase costs and relatively constant level of trading profit per barrel.

Operating expenses

Our operating expenses increased 24.3% to Rmb 9,990.4 million in 2008 from Rmb 8,039.6 million in 2007. Operating expenses per BOE increased 8.7% to Rmb 51.4 per BOE in 2008 from Rmb 47.3 per BOE in 2007. Operating expenses per BOE offshore China increased 15.8% to Rmb 44.7 per BOE in 2008 from Rmb 38.6 per BOE in 2007, primarily as a result of more maintenance, higher service fees and higher raw material prices. Operating expenses per BOE overseas decreased 4.2% to Rmb 100.3 per BOE in 2008 from Rmb 104.7 per BOE in 2007, primarily as a result of the appreciation of Renminbi against the U.S. dollar.

Production taxes

Our production taxes increased 39.8% to Rmb 4,889.3 million in 2008 from Rmb 3,497.4 million in 2007, primarily as a result of both higher average realized oil prices and increases in volume produced and sold in 2008.

Exploration costs

Our exploration costs decreased 0.7% to Rmb 3,409.5 million in 2008 from Rmb 3,432.4 million in 2007. In 2008, we continued to enhance our exploration activities and due to improved drilling efficiencies, our exploration expenditure in 2008 did not change significantly from 2007.

Depreciation, depletion and amortization

Our depreciation, depletion and amortization other than dismantlement expenditures increased 27.2% to Rmb 9,380.5 million in 2008 from Rmb 7,374.5 million in 2007. Our average depreciation, depletion and amortization per barrel increased 11.3% to Rmb 48.3 per BOE in 2008 from Rmb 43.4 per BOE in 2007, primarily as a result of the commencement of production in certain oil and gas fields in 2007 and 2008.

The depreciation, depletion and amortization related to our dismantlement provisions increased 20.6% to Rmb 677.2 million in 2008 from Rmb 561.7 million in 2007. Apart from the commencement of production in the relevant oil and gas fields, the increase is also attributable to higher estimated future dismantlement obligations arising from re-evaluation of expected work commitments together with higher projected service fees and raw material prices. Our average dismantling costs increased to Rmb 3.49 per BOE in 2008 from Rmb 3.30 per BOE in 2007.

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Special Oil Gain Levy

Our Special Oil Gain Levy increased 137.5% to Rmb 16,238.2 million in 2008 from Rmb 6,837.2 million in 2007, primarily as a result of our higher realized oil price, the corresponding progressive rates imposed by the levy and increase in volume sold in 2008.

Impairment losses related to property, plant and equipment

Our impairment losses increased 150.4% to Rmb 1,536.0 million in 2008 from Rmb 613.5 million in 2007. The impairment loss was primarily due to the adverse changes of crude oil prices at the end of 2008, which in turn, adversely changed expected future crude oil prices and reduced the estimates of the quantities of oil and gas commercially recoverable from certain oilfields in Indonesia.

Selling and administrative expenses

Our selling and administrative expenses increased only 0.1% to Rmb 1,742.6 million in 2008 from Rmb 1,741.2 million in 2007, primarily due to our strict control of expenses in 2008.

Finance costs, net

Our net finance costs decreased 79.6% to Rmb 415.3 million in 2008 from Rmb 2,031.8 million in 2007, as we renounced a cash settlement option relating to our convertible bonds in 2007, there were no further fair value changes in derivative component to be realized in finance costs in 2008. Our interest income increased 62.1% to Rmb 1,091.0 million in 2008 from Rmb 673.0 million in 2007, primarily as a result of transferring our financial investments into cash and deposits in banks to avoid exposure to both capital market risks and exchange-rate risks.

Exchange gains/losses, net

Our net exchange gains increased 37.5% to Rmb 2,551.3 million in 2008 from Rmb 1,856.0 million in 2007, primarily as a result of revaluation of dividends receivable from a subsidiary and active changes in currency structure of our assets portfolio in response to the appreciation of Renminbi in 2008.

Investment income

Our investment income decreased 47.3% to Rmb 475.9 million in 2008 from Rmb 902.4 million in 2007, primarily as a result of lower gains realized and redemptions to curb further losses resulting from the unstable financial markets. Nonetheless, the decrease was partially offset by the management’s profitable investments in money market and bond market funds.

Share of profits of associates

Our share of profits of associates decreased 48.0% to Rmb 374.1 million in 2008 from Rmb 719.0 million in 2007, primarily as a result of the adverse impact of the deteriorating economic environment on the associates.

Income tax expense

Our income tax expense increased 12.1% to Rmb 13,505.0 million in 2008 from Rmb 12,052.3 million in 2007, primarily as a result of the higher revenue and profit from the higher average realized oil price. Our effective tax rate decreased to 23.3% in 2008 from 27.8% in 2007, primarily as a result of the decrease in the income tax rate applicable to our major subsidiary in China from 30% in 2007 to 25% in 2008 under the prevailing tax rules and regulations.

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B. LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of cash during 2009 were cash flow from operating activities. We used cash primarily to fund our capital spending program and dividends. The following table summarizes our cash flows for the periods presented:

	Year ended December 31,		
	2007	2008	2009
	(Rmb in millions)		
Cash generated from (used for):			
Operating activities	41,301	55,738	52,858
Investing activities	(21,374)	(48,984)	(40,541)
Financing activities	(10,799)	(10,129)	(9,403)
Net increase/(decrease) in cash and cash equivalents	9,128	(3,375)	2,914

Cash Generated from Operating Activities

In 2009, our cash flow from operating activities was Rmb 52,857.9 million (US$7,743.7 million) as compared to Rmb 55,738.4 million in 2008, representing a decrease of 5.2% from 2008. The decrease in cash from operating activities was mainly due to lower crude oil prices and increases in costs, expenditures and working capital, partially offset by the sales volume increase in 2009. The cash outflows included special oil gain levy payments of Rmb 4,255.1 million (US$623.4 million) and income tax payments of Rmb 8,760.6 million (US$1,283.4 million).

Capital Expenditures and Investments

Net cash outflow from investing activities in 2009 was Rmb 40,540.7 million (US$5,939.2 million), representing a decrease of Rmb 8,443.6 million, or 17.2%, from Rmb 48,984.3 million in 2008.

Our capital expenditures and investments primarily include all exploration and development expenditures and purchases of oil and gas properties. Our capital expenditures increased 16.6% to Rmb 43,626.8 million (US$6,391.4 million) in 2009 from Rmb 37,414.1 million in 2008, primarily as a result of increase in exploration activities and continuing development of projects under construction. Our development expenditures in 2009 primarily relate to the development of Akpo field the OML130 project, Penglai 19-3 Phase II, Suizhong 36-1, Jinzhou 25-1S, Jinzhou 25-1, Ledong22-1/15-1 and Bozhong 19-4 and recovery improvement of certain producing oil and gas fields.

In addition, our cash used in investing activities was also attributable to purchases of available-for-sale financial assets of Rmb 7,652.4 million (US$1,121.1 million) and held-to-maturity financial assets of Rmb 3,000.0 million (US$439.5 million). Our cash generated from investing activities were mainly from the proceeds from the sales of available-for-sale financial assets and held-to-maturity financial assets in the amount of Rmb 9,257.1 million (US$1,356.2 million) and Rmb 3,000.0 million (US$439.5 million), respectively.

For 2010, we have budgeted approximately US$7.78 billion for capital expenditures. The following table sets forth actual or budgeted capital expenditures on an accrual basis for our key operating areas for the periods indicated.

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	Year ended December 31,				
	2007(1)	2008(1)	2009(1)	2009(1)	2010(2)
	(Rmb million)			(US$ million)	
Operating Area:					
Bohai Bay					
Development	9,044.2	13,701.1	23,425.2	3,431.8	2,467.8
Exploration	1,771.5	2,049.1	2,919.7	427.7	493.1
Western South China Sea					
Development	4,970.9	3,570.8	4,675.4	684.9	531.4
Exploration	1,162.5	2,063.3	1,388.1	203.4	289.2
Eastern South China Sea					
Development	2,817.7	3,476.3	2,874.6	421.1	1,609.8
Exploration	689.4	1,064.3	1,146.1	167.9	225.4
East China Sea					
Development	61.1	117.2	81.5	11.9	104.9
Exploration	85.0	102.7	264.0	38.8	58.6
Other Offshore China					
Development	—	—	—	—	1,124.6
Exploration	112.5	179.7	130.4	19.1	33.0
Subtotal	20,714.8	26,324.5	36,905.0	5,406.6	6,937.8
Overseas					
Development	8,662.2	8,616.6	4,373.5	640.7	466.9
Exploration	1,625.6	917.3	1,435.8	210.4	372.3
Subtotal	10,287.8	9,533.9	5,809.3	851.1	839.2
Total	31,002.6	35,858.4	42,714.3	6,257.7	7,777.0

(1) Figures for 2007, 2008, and 2009 represent our actual spending for capital expenditure purposes, including expensed exploration costs.
(2) Figures for 2010 represent our budgeted capital expenditures.

In addition to the budgeted development and exploration expenditures relating to the oil and gas properties described above, we may make additional capital expenditures and investments consistent with our business strategy. See "Item 4—Information on the Company—Business Overview—Business Strategy." We expect to fund our capital expenditures with our cash flows from operations and our borrowings.

Our ability to maintain and grow our revenues, profit and cash flows depends upon continued capital spending. Generally, we adjust our capital expenditure and investment budget on an annual basis. Our capital expenditure plans are subject to a number of risks, contingencies and other factors, some of which are beyond our control. Therefore, our actual future capital expenditures and investments will likely be different from our current planned amounts, and such differences may be significant. See "Item 3—Key Information—Risk Factors—Our future prospects largely depend on our capital expenditure plans, which are subject to various risks."

Financing Activities

Net cash outflow from financing activities in 2009 was Rmb 9,403.3 million (US$1,377.6 million), representing a decrease of Rmb 725.7 million, or 7.2%, from Rmb 10,129.0 million in 2008. In 2009, the net cash outflow was mainly due to the distribution of dividends in the amount of Rmb 14,175.3 million (US$2,076.7 million). Partially offset by the cash inflow, which was mainly due to bank borrowings of Rmb 5,307.0 million (US$777.5 million).

At the end of 2009, our total debt was Rmb 18,692.2 million (US$2,738.4 million), as compared to Rmb 13,880.6 million at the end of 2008. The increase in debt in 2009 was primarily due to borrowings associated with the OML130 project and the Tangguh project. Our gearing ratio, which is defined as interest bearing debt divided by the sum of interest bearing debt and equity, was 9.7%.

We have debt service obligations consisting of principal and interest payments on our outstanding indebtedness. The following table summarizes the maturities of our long-term debt outstanding as of December 31, 2009. As of the date this annual report is filed, we have not incurred any new material long-term debt since December 31, 2009.

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Due by December 31,	Debt maturities (principal only) Original currency US$	Total Rmb equivalents	Total US$ equivalents
	(in millions, except percentages)		
2010	17.9	122.1	17.9
2011-2013	786.4	5,370.0	786.4
2014-2015	1,368.1	9,341.9	1,368.1
2016 and beyond	576.1	3,933.2	576.1
Total	2,748.5	18,767.2	2,748.5
Percentage of total debt	100.0%	100.0%	100.0%

As of March 31, 2010, we had total foreign currency debt of US$2,807.0 million, all of which is in U.S. dollars.

As of December 31, 2009, we had unutilized banking facilities amounting to approximately Rmb 174,843.1 million (US$25,614.7 million) as compared to Rmb 39,262.9 million as of December 31, 2008.

In 2007, 2008 and 2009, we paid dividends totaling Rmb 11,523.7 million, Rmb 14,651.8 million and Rmb 15,747.1 million (US$2,307.0 million) (before PRC withholding tax deducted), respectively. The payment and the amount of any dividends in the future will depend on our results of operations, cash flows, financial condition, the payment by our subsidiaries of cash dividends to us, future prospects and other factors which our directors may consider relevant. The amount of dividends we paid historically is not indicative of the dividends that we will pay in the future.

We believe our future cash flows from operations, borrowing capacity and funds raised from our debt offerings will be sufficient to fund planned capital expenditures and investments, debt maturities and working capital requirements through at least 2010. However, our ability to obtain adequate financing to satisfy our capital expenditures and debt service requirements may be limited by our financial condition and results of operations and the liquidity of international and domestic financial markets. See “Item 3—Key Information—Risk Factors—Our future prospects largely depend on our capital expenditure plans, which are subject to various risks.”

Employee Benefits

Our pension-related costs are expensed as incurred. The expenses attributable to mandatory contributions under the current government pension plan are included in our historical consolidated income statements under either operating expenses for our production staff or selling and administrative expenses for our administrative staff. We expect that, under the current PRC laws and regulations regarding employee retirement benefits, the future costs of the current government pension plan will be comparable to our historical costs, subject to customary increases largely in line with salary increases of our employees.

Our contributions to the mandatory provident fund for full-time employees in Hong Kong are also expensed as incurred.

For further details regarding employee benefits, see “Item 4—Information on the Company—Business Overview—Employees and Employee Benefits”.

Holding Company Structure

We are a holding company. Our entire oil exploration, development, production and sales business in the PRC is owned and conducted by CNOOC China Limited, our wholly foreign-owned enterprise in the PRC. Our entire oil exploration, development and production business outside the PRC is owned and conducted by CNOOC International Limited, our wholly owned subsidiary incorporated in the British Virgin Islands. International sales of crude oil are conducted by China Offshore Oil (Singapore) International Pte Ltd, our wholly owned subsidiary incorporated in Singapore. Accordingly, our future cash flows will consist principally of dividends from our subsidiaries. The subsidiaries' ability to pay dividends to us

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is subject to various restrictions, including legal restrictions in their jurisdictions of incorporation. For example, legal restrictions in the PRC permit payment of dividends only out of profit determined in accordance with PRC accounting standards and regulations. In addition, under PRC law, CNOOC China Limited is required to set aside a portion of its profit each year to fund certain reserve funds. These reserves are not distributable as cash dividends.

Inflation/Deflation

According to the China Statistical Bureau, as represented by the general consumer price index, China experienced an overall inflation rate of 4.8% in 2007, an overall inflation rate of 5.9% in 2008 and an overall inflation rate of -0.7% in 2009. Neither deflation nor inflation has had a significant impact on our results of operations in the respective years.

Taxation

We are subject to income taxes on an entity basis on income arising in or derived from the tax jurisdictions in which we and each of our subsidiaries are domiciled and operate. Our profits arising in or derived from Hong Kong are subject to tax rate of 17.5% for the period from January to March in 2008 and of 16.5% effective from the fiscal year beginning on April 1, 2008.

Pursuant to the "Notice regarding Matters on Determination of Tax Residence Status of Chinese-controlled Offshore Incorporated Enterprises under Rules of Effective Management" issued by the State Administration of Taxation of the PRC (the "SAT") on April 22, 2009 (the "Notice"), "Enterprise Income Tax Law of the People's Republic of China" (the "Enterprise Income Tax Law") and the "Detailed Rules for the Implementation of the Enterprise Income Tax Law of the People's Republic of China" (the "Implementation Rules"), which took effect from January 1, 2008, our management believes that we are likely to be considered as a Chinese Resident Enterprise ("CRE") based on the criteria as set out in the Notice. We have applied to the relevant tax authority to determine whether we are a CRE and are awaiting the final determination. If we are determined to be a CRE, we will be subject to the PRC corporate income tax rate of 25%. See "Item 10—Additional Information—Taxation—The PRC" regarding potential PRC taxes on dividends.

Our PRC subsidiary, as a wholly foreign owned enterprise, is subject to an enterprise income tax rate of 25% under the prevailing tax rules and regulations. In addition, dividends declared by CNOOC China Limited out of its post-January 1, 2008 earnings to us is subject to a withholding tax of 5% based on the Double Taxation Arrangement between the Mainland China and Hong Kong if we are determined not to be a CRE.

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

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

- production taxes of 5% on independent production and production under PSCs;
- export tariffs of 5% on petroleum oil beginning on November 1, 2006; and
- business tax of 3% to 5% on other income.

Our subsidiaries domiciled outside of the PRC are subject to income tax rates ranging from 10% to 51.875%.

Some of the Group's oil and gas interests in Indonesia are held through Labuan-incorporated companies. According to an amendment to the tax rules enacted by the Indonesian government in December 2009, Labuan-incorporated companies would no longer enjoy the tax rates under the previous tax treaty between Indonesia and Malaysia and the applicable tax rates would increase from the range between 43.125% and 51.875% to the range between 44% and 56%. The amendment became effective on January 1, 2010.

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We calculate our deferred tax to account for the temporary differences between our tax bases, which is used for income tax reporting and prepared in accordance with applicable tax guidelines, and our accounting bases, which is prepared in accordance with applicable financial reporting requirements. The temporary differences include accelerated amortization allowances for oil and gas properties, which are partially offset by provisions for dismantlement and for impairment of property, plant and equipment and write-off of unsuccessful exploratory drilling. As of December 31, 2007, 2008 and 2009, we had Rmb 6,293.6 million, Rmb 5,428.3 million and Rmb 7,439.6 million (US$1,089.9 million), respectively, in net deferred tax liabilities. See note 11 to our consolidated financial statements included elsewhere in this annual report.

Impact of Recently Issued Accounting Standards

IFRS and HKFRS

We have adopted the IFRS as issued by the IASB since January 1, 2008. Therefore, our consolidated financial statements for 2009 have been prepared in due compliance with both IFRS and HKFRS.

Both the IASB and the HKICPA have issued a number of new and revised IFRS and HKFRS, some of which were mandatory for financial statements for fiscal years beginning on or after January 1, 2009. Except IFRS 7/HKFRS 7 (Amended) – Financial Instruments: Disclosures IFRS8/HKFRS8–Operating Segments, for which we have made additional disclosures, and IAS 1/HKAS 1 (Revised) – Presentation of Financial Statements, which we have adopted when presenting the financial statements, the adoption of the other new and revised IFRS, HKFRS, and the amendments have no impact on our results of operations or financial position for the year ended December 31, 2009.

A number of the new and revised IFRS and HKFRS become effective for fiscal years beginning on or after January 1, 2010. We have not early applied these IFRS and HKFRS to our consolidated financials statements included elsewhere in this annual report. We are in the process of making an assessment of the impact of these new and revised IFRS and HKFRS upon application. We conclude that, while certain new or revised IFRS and HKFRS may result in future changes of our financial results or disclosures, other new and revised IFRS and HKFRS are unlikely to have a significant impact on our results of operations and financial position.

For details, please refer to note 2.1 and 2.2 to our consolidated financial statements included elsewhere in this annual report.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.

See "Item 4—Information on the Company—Business Overview—Research and Development", "Item 4—Information on the Company—Business Overview—Patents and Trademarks" and "Item 7—Major Shareholders and Related Party Transactions—Related Party Transactions."

D. TREND INFORMATION

Crude oil prices are a major driver of our results of operations. We price our crude oil with reference to the international crude oil prices, which have fluctuated considerably over the years. For more information about crude oil prices, see "Item 3—Key Information—Risk Factors—Our business, revenues and profits fluctuate with changes in oil and gas prices," "Item 4—Information on the Company—Business Overview—Sales and Marketing—Sales of Crude Oil," and "Item 5—Operating and Financial Review and Prospects—Operating Results—Results of Operations—2009 versus 2008."

In addition to crude oil, natural gas is becoming an increasingly important part of our business. The Chinese government promotes the use of natural gas as a clean and efficient fuel. Demand for natural gas in the PRC is likely to increase significantly. We have expanded and will continue to expand our natural gas business and intend to exploit our natural gas reserves to meet growing demand for natural gas. For more information about our natural gas business, see "Item 3—Key Information—Risk Factors—Any failure to implement our natural gas business strategy may adversely affect our business and financial position."

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E. OFF-BALANCE SHEET ARRANGEMENTS

None.

F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table sets forth information regarding our contractual obligations for the periods indicated.

	Payments due by period				
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Long-term debt obligations	18,767,200	122,092	3,776,124	1,853,585	13,015,399
Operating lease obligations	2,975,806	662,684	1,197,550	672,010	443,562
Provision for dismantlement(1)	11,758,980	477,891			11,281,089
Total	33,501,986	1,262,667	4,973,674	2,525,595	24,740,050

(1) Provision for dismantlement represents the discounted present value of retirement obligations in connection with upstream assets, which primarily relate to asset removal costs at the completion date of the relevant project.

As of December 31, 2007, 2008 and 2009 we had the following capital commitments, principally for the construction and purchase of property, plant and equipment:

Capital Commitments	2007	2008	2009
	Rmb'000	Rmb'000	Rmb'000
Contracted, but not provided for	8,655,830	12,293,984	5,650,199
Authorized, but not contracted for	24,498,130	30,093,605	48,907,804

G. SAFE HARBOR

The safe harbor provided in Section 27A of the Securities Act and Section 21E of the Exchange Act, or the statutory safe harbors, shall apply to forward-looking information provided pursuant to Item 5.F above. For our cautionary statement on the forward looking statement in this annual report, see the section "Forward-Looking Statements" on page 8 of this annual report.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

In accordance with Hong Kong law and our Articles of Association, our affairs are managed by our Board, which has 11 members, including three executive directors, three non-executive directors and five independent non-executive directors.

The table below sets forth information about our directors and senior officers:

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Name	Year of Birth	Position
Chengyu Fu	1951	Chairman of our Board, Executive Director and Chief Executive Officer
Hua Yang	1961	Executive Director, President and Chief Financial Officer
Guangqi Wu	1957	Executive Director and Compliance Officer
Han Luo	1953	Non-executive Director (retired, effective March 31, 2009)
Shouwei Zhou	1950	Non-executive Director (re-designated from Executive Director to Non-executive Director, effective March 31, 2009)
Xinghe Cao	1949	Non-executive Director
Zhenfang Wu	1952	Non-executive Director
Edgar W. K. Cheng	1943	Independent Non-executive Director
Sung Hong Chiu	1947	Independent Non-executive Director
Lawrence J. Lau	1944	Independent Non-executive Director
Aloysius Hau Yin Tse	1948	Independent Non-executive Director
Tao Wang	1931	Independent Non-executive Director
Guangyu Yuan	1959	Executive Vice President
Weilin Zhu	1956	Executive Vice President
Liguo Zhao	1953	General Counsel
Bi Chen	1961	Executive Vice President and General Manager of CNOOC China Limited, Tianjin Branch
Wei Chen	1958	Senior Vice President and General Director of CNOOC Research Institute
Guohua Zhang	1960	Senior Vice President and General Manager of CNOOC China Limited, Shanghai Branch
Zhi Fang	1962	Vice President and President of CNOOC International Limited
Yongzhi Jiang	1973	Joint Company Secretary (since January 29, 2010)
Zongwei Xiao	1965	Joint Company Secretary (resigned, effective January 29, 2010)
May Sik Yu Tsue	1973	Joint Company Secretary

We have a management team with extensive experience in the oil and gas industry. As a result of our cooperation with international oil and gas companies, the management team and staff have had the opportunity to work closely with foreign partners both within and outside China. Such opportunities, in conjunction with management exchange programs with foreign partners, have provided valuable training to our personnel in international management practices. A description of the business experience and present position of each director and executive officer is provided below. Our principal executive offices are located at 65th Floor, Bank of China Tower, One Garden Road, Central, Hong Kong.

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Executive Directors

Chengyu Fu received a B.S. degree in geology from the Northeast Petroleum Institute in China and a master degree in petroleum engineering from the University of Southern California in the United States. He has over 30 years of experience in the oil industry in the PRC. He previously worked in China's Daqing, Liaohe and Huabei oil fields. He joined China National Offshore Oil Corporation ("CNOOC"), the controlling shareholder of the Company in 1982 and served as the Chinese Deputy Chief Representative, the Chief Representative, Secretary to the Management Committees and the Chairman of the Management Committees formed through joint ventures between CNOOC and Amoco, Chevron, Texaco, Phillips Petroleum, Shell and Agip, and later as the Deputy General Manager of CNOOC Nanhai East Corporation, a subsidiary of CNOOC, the Vice President of Phillips China Inc., the General Manager of the Xijiang Development Project, the General Manager of CNOOC Nanhai East Corporation and the Vice President of CNOOC. Subsequently, he became the Executive Vice President, President and Chief Operating Officer of the Company in 2001. Mr. Fu became the President of CNOOC in October 2003 and the Chairman of the Board of Directors and Chief Executive Officer of the Company, effective October 16, 2003. He also serves as the Chairman of China Oilfield Services Limited, a company listed on The Stock Exchange of Hong Kong Limited and Shanghai Stock Exchange, CNOOC Finance Corporation Limited and Zhonghai Trust Co. Ltd., subsidiaries of CNOOC and the Chairman of the Board of Directors of CNOOC China Limited and CNOOC International Limited, both being subsidiaries of the Company. He is also a Chairman of the Presidium of China Federation of Industrial Economics and the Vice-chairman of China Chamber of International Commerce. Mr. Fu was appointed as an Executive Director of the Company, effective August 23, 1999.

Hua Yang is a senior engineer and graduated from China University of Petroleum with a B.S. degree in Petroleum Engineering. He also received an MBA degree from the Sloan School of Management at MIT as a Sloan Fellow. Mr. Yang joined CNOOC in 1982 and has over 27 years of experience in petroleum exploration and production. From 1982 to 1992, Mr. Yang served in a number of positions in CNOOC Research Center including the Director of Field Development Department, the Manager of Reservoir Engineering Department and the Project Manager. Mr. Yang then mainly was involved in international business, corporate finance and capital market in the Company and its subsidiaries. From 1993 to 1999, he served as the Deputy Chief Geologist, the Deputy Director and the Acting Director for Overseas Development Department of the Company and the Vice President of CNOOC International Limited, a subsidiary of the Company. In 1999, he became a Senior Vice President of the Company. From 2002 to 2003, he was Director and President of CNOOC Southeast Asia Limited, a subsidiary of the Company. Mr. Yang was appointed as the Chief Financial Officer of the Company, effective January 1, 2005 as well as the Executive Vice President of the Company from December 2005 to March 2009. Mr. Yang was appointed as General Manager of CNOOC China Limited, a subsidiary of the Company, President of the Company, and Chairman of CNOOC Southeast Asia Limited, a subsidiary of the Company, effective February 10, 2009, March 31, 2009 and July 31, 2009, respectively. He also serves as Assistant President of CNOOC and Director of CNOOC Finance Corporation Limited, and Director of CNOOC China Limited and CNOOC International Limited, both being subsidiaries of the Company, and Chairman and Director of CNOOC Deepwater Development Limited, a subsidiary of the Company. Mr. Yang was appointed as an Executive Director of the Company, effective August 31, 2005.

Guangqi Wu is a geologist, senior economist and Certified Senior Enterprise Risk Manager and graduated with a B.S. degree from the Ocean University of China, majoring in Marine Geology. He also holds a master degree in Management from the China University of Petroleum. Mr. Wu joined CNOOC in 1982. From 1994 to 2001, he served as the Deputy General Manager of CNOOC Oil Technical Services Company, a subsidiary of CNOOC, the Director of the Administration Department of CNOOC and the Director of the Ideology Affairs Department of CNOOC successively. Mr. Wu was appointed as Assistant President in 2003, and has been the Vice President of CNOOC since 2004. Mr. Wu has also served as an Independent Non-executive Director of China Yangtze Power Limited, a company listed on the Shanghai Stock Exchange, since May 2003, and the Compliance Officer of the Company since June 1, 2005. Mr. Wu also serves as the Director of CNOOC China Limited, CNOOC International Limited and CNOOC

Deepwater Development Limited, all being the subsidiaries of the Company. Mr. Wu was appointed as an Executive Director of the Company, effective June 1, 2005.

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Non-executive Directors

Han Luo received a doctorate degree from the China University of Petroleum in China. He has over 30 years of experience in the oil industry in the PRC. He joined CNOOC in 1982. From 1993 to 1999, Mr. Luo served as the Vice President of CNOOC Nanhai East Corporation, a subsidiary of CNOOC, and concurrently as the Chairman of the CACT (CNOOC-AGIP-Chevron-Texaco) operators group, and the Executive Vice President of CNOOC Nanhai East Corporation. In 1999, he served as the General Manager of CNOOC China Limited, Shanghai Branch. From 2000 to 2009, Mr. Luo served as a Vice President of CNOOC. He also served as Chairman of the board of directors of CNOOC and Shell Petrochemical Co., Ltd., the Chairman of the board of directors of Zhonghai Trust Co., Ltd. and CNOOC Finance Corporation Limited, both being subsidiaries of CNOOC, and the Director of CNOOC China Limited, a subsidiary of the Company. Mr. Luo was appointed as an Executive Director, effective December 20, 2000 and was re-designated from Executive Director to Non-executive Director, effective September 1, 2006. Mr. Luo left the Company on March 31, 2009 and is no longer a director of the Company.

Shouwei Zhou is a member of Chinese Academy of Engineering, received a doctorate degree from the Southwest Petroleum Institute in China majoring in petroleum and natural gas engineering. He joined CNOOC in 1982. Mr. Zhou served as the Deputy General Manager of CNOOC Bohai Corporation, a subsidiary of CNOOC and the General Manager of CNOOC China Limited Tianjin Branch. He was appointed as the Executive Vice President of the Company in September 1999 and served as the President of the Company from July 2002 to March 2009. Since 2000, Mr. Zhou has been the Vice President of CNOOC. He also served as the Director and the General Manager of CNOOC China Limited. From October 2004 to July 2009, Mr. Zhou served as the Director of CNOOC International Limited. From April 2003 to July 2009, Mr. Zhou also served as the Chairman of CNOOC Southeast Asia Limited, a subsidiary of the Company. Mr. Zhou became the Chairman of Offshore Oil Engineering Co., Ltd., a listed company on the Shanghai Stock Exchange and a subsidiary of CNOOC, on December 6, 2003. Mr. Zhou was appointed as an Executive Director of the Company, effective August 23, 1999 and was re-designated from Executive Director to Non-executive Director, effective March 31, 2009.

Xinghe Cao graduated from Tianjin Politics and Law Management College majoring in Economic Laws and later studied MBA in Capital University of Economics and Business. Mr. Cao has over 40 years of experience in the petroleum industry since he started work in 1965. He worked for Shengli oilfield and Dagang oilfield before he joined CNOOC in 1982. From 1985 to 2003, Mr. Cao worked as the Manager of Bohai Oil Commercial Company, later as the Manager of Bohai Oil Transportation Company, both being subsidiaries of CNOOC, and Deputy General Manager and General Manager of CNOOC Bohai Corporation, a subsidiary of CNOOC, successively. From April 2003 to July 2004, Mr. Cao worked as Assistant President of CNOOC and became Vice President of CNOOC in August 2004. Mr. Cao also serves as the Chairman of the Board of Directors of CNOOC Energy Technology & Services Limited (CNOOC Base Group Limited was restructured as CNOOC Energy Technology & Services Limited in 2008) and the Chairman of the Board of Directors of China Ocean Oilfields Services (Hong Kong) Limited, both being subsidiaries of CNOOC. Mr. Cao was appointed as an Executive Director of the Company, effective August 31, 2005 and was re-designated from Executive Director to Non-executive Director, effective September 1, 2006.

Zhenfang Wu is a senior engineer and graduated with a bachelor degree from Dalian University of Technology, majoring in Offshore Petroleum Engineering and Construction. He later studied EMBA in Shanghai Jiao Tong University. Mr. Wu joined the petroleum industry in 1971. He joined CNOOC in 1980 when it was still in the pre-establishment stage. From 1993 to 2000, he was Deputy General Manager of CNOOC Nanhai West Corporation, a subsidiary of CNOOC and the President of CNOOC Chemical Limited, a subsidiary of CNOOC. He was also the Chairman of the Board of Directors of Fudao Fertilizer Limited and CNOOC Chemical Limited, both being subsidiaries of CNOOC, from 2001 to 2003 and from 2003 to 2005 respectively. From 2003 to 2004, Mr. Wu was Assistant President of CNOOC and then Vice President of CNOOC. Mr. Wu also served as the Chairman and President of CNOOC Gas and Power Group (formerly known as CNOOC Gas and Power Limited), as the Chairman and General Manager of CNOOC Oil & Petrochemicals Co., Ltd., both being subsidiaries of CNOOC, as well as the Chairman of a number of subsidiaries of CNOOC. Mr. Wu also serves as Chairman of CNOOC and Shell Petrochemical Co. Ltd and a number of subsidiaries of CNOOC. Mr. Wu was appointed as an Executive Director of the Company, effective August 31, 2005 and was re-designated from Executive Director to Non-executive Director, effective September 1, 2006.

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Independent Non-executive Directors

Edgar W. K. Cheng was a graduate from the University of Notre Dame and the Medical College of Wisconsin, USA. He was Clinical Associate Professor of Medicine at Cornell University Medical College and practiced medicine and conducted clinical research at the Memorial Sloan- Kettering Cancer Centre in New York. Dr. Cheng was a former Chairman of the University Grants Commission in Hong Kong, a former member of the Education Commission and the former Chairman of the Council of The Chinese University of Hong Kong. In addition to his academic experience, Dr. Cheng is currently the Chairman of the World-Wide Investment Co. Ltd. and had been in many other financial market positions such as Chairman of the Stock Exchange of Hong Kong, Vice-Chairman and non-executive director of the Hang Seng Bank Ltd., Vice President of the International Federation of Stock Exchange, Founding Chairman of the Hong Kong Securities Institute, Chairman of the Steering Committee on the Feasibility Study on the Financial Services Institute, Member of the Board of Directors of the Hong Kong Futures Exchange Ltd., Member of the Conference Board's Global Advisory Council, an independent non-executive director of the Standard Chartered Bank (Hong Kong) Ltd., a member of the Board of Directors of the Hong Kong Institute for Monetary Research and an independent non-executive director of American International Assurance Co. Ltd. He is currently an independent non-executive director of Shui On Land Limited. In his other public service capacity, Dr. Cheng served as the Head of the Central Policy Unit of the Government of Hong Kong Special Administrative Region from 1999 to 2001. He was a member of the Greater Pearl River Delta Business Council, a member of the Commission on Strategic Development and Chairman of the Council for Sustainable Development. He is currently a member of the Judicial Officers Recommendation Commission. Dr. Cheng also plays an active role in Hong Kong-China affairs. He was appointed by the Chinese Government as a Hong Kong Affairs Advisor (1991 to 1997). He became a Member of the Preparatory Committee and also the Selection Committee for the Hong Kong Special Administrative Region of the National People's Congress (1996 to 1997). At present, he is a member of the 11th Chinese People's Political Consultative Conference National Committee. Dr. Cheng was appointed as an Independent Non-executive Director of the Company, effective May 24, 2006.

Sung Hong 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 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 Yunnan Enterprises Holdings Limited since April 2008, a company listed on The Stock Exchange of Hong Kong Limited. Mr. Chiu was appointed as an Independent Non-executive Director of the Company, effective September 7, 1999.

Lawrence J. Lau is currently Vice-Chancellor (President) of The Chinese University of Hong Kong. Professor Lau graduated with a B.S. (with Great Distinction) in Physics and Economics 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. He is concurrently Ralph and Claire Landau Professor of Economics at The Chinese University of Hong Kong. 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 five books and published more than 160 articles and notes in professional journals. A member of the 11th National Committee of the Chinese People's Political Consultative Conference, Professor Lau also serves as a non-official member of the HKSAR Government's Executive Council, and as a member of the Commission on Strategic Development, the Exchange Fund Advisory Committee and its Governance Sub-Committee and Currency Board Sub-Committee, and the Honours Committee. He was appointed a Justice of the Peace in Hong Kong in July 2007. He also serves as an Independent Non-executive Director of the Far EasTone Telecommunications Company Limited, Shin Kong Life Insurance Company Limited, and Citic Capital Holdings Limited, and as a member of the

Board of Directors of Precoad, Inc. in the USA. Professor Lau was appointed as an Independent Non-executive Director of the Company, effective August 31, 2005.

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Aloysius Hau Yin 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 the current Chairman 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 Construction Bank Corporation, China Telecom Corporation Limited, Wing Hang Bank Limited, Linmark Group Limited, SJM Holdings Limited and Sinofert Holdings Limited, companies listed on The Stock Exchange of Hong Kong Limited. Mr. Tse is also a member of the International Advisory Council of the People’s Municipal Government of Wuhan. Mr. Tse was appointed as an Independent Non-executive Director of the Company, effective June 8, 2005.

Tao Wang studied at the Moscow Institute of Oil in the former Soviet Union from 1954 to 1963, where he obtained his deputy doctoral degree in Geological Mineralogy. Mr. Wang is the Chairman of the Chinese National Committee for World Petroleum Council and the Chairman of Chinese-Saudi Arabia Friendship Association. He also serves as adjunct professor and/or doctoral advisor in several institutions, including China University of Petroleum. Mr. Wang has been working in the oil and gas sector for more than 50 years, and served as the Chief Geologist in Beijing Research Institute of Petroleum Science, the Deputy Commander and Chief Geologist of the North China Oil Exploration Command Office, the Deputy Director-General and Chief Geologist of Liao River Petroleum Exploration Bureau and the Principal of the Preparation and Construction Office for the Pearl River Mouth Project in the Command Office of South China Sea Oil Exploration. He became the General Manager of CNOOC Nanhai East Corporation in June 1983, the Minister and Secretary of the Party Leadership Group of the Ministry of Petroleum Industry in June 1985 and the General Manager and Secretary of the Party Leadership Group of China National Petroleum Corporation in May 1988 successively. He was also a Member of the 12th, 13th and 14th Central Committees of the Communist Party of China, a Member of the Standing Committee of the 9th National People’s Congress and the Vice-chairman of the Environmental Protection and Resources Conservation Committee of the National People’s Congress. He also served successively as the Vice Chairman and Senior Vice Chairman of the World Petroleum Council from 1994 to 2005. Mr. Wang is the Honorary Chairman and an Executive Director of Sino Union Petroleum & Chemical International Limited, a company listed on The Stock Exchange of Hong Kong Limited. Mr. Wang was appointed as Independent Non-executive Director of the Company, effective May 29, 2008.

Other Members of Senior Management

Guangyu Yuan is an Executive Vice President of the Company, responsible for the operation safety, engineering and construction, and drilling and completion. Mr. Yuan is a senior engineer. He graduated from China University of Petroleum with a bachelor degree in drilling engineering. He obtained a master degree from the Capital University of Economics and Business in 2001. He graduated from the CEO Class and the EMBA program of China Europe International Business School in 2004 and 2007, respectively. With over 27 years of experience in the oil and gas industry, Mr. Yuan joined CNOOC in 1982, having served as Deputy Manager of CNOOC Bohai Drilling Company, Deputy General Manager of CNOOC China Offshore Oil Northern Drilling Company, Deputy General Manager of China National Offshore Oil Corporation Operational Department, General Manager of CNOOC China Offshore Oil Northern Drilling Company, Chairman of the Board of Directors and General Manager of CNOOC China Oilfield Services Limited, and Vice Chairman of the Board of Directors, Executive Director, Chief Executive Officer and President of China Oilfield Services Limited. Mr. Yuan also serves as the Director of CNOOC China Limited, CNOOC International Limited, CNOOC Southeast Asia Ltd. and CNOOC Deepwater Development Limited, all being the subsidiaries of the Company. In November 2006, Mr. Yuan was appointed as the Assistant President of CNOOC. In March 2009, Mr. Yuan was appointed as the Executive Vice President of the Company.

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Weilin Zhu is the Chief Geologist of China National Offshore Oil Corporation, Executive Vice President of the Company and General Manager of Exploration Department of the Company. Mr. Zhu graduated from Shanghai Tongji University with a Ph.D. degree and joined CNOOC in 1982. Prior to 1999, he conducted researches in CNOOC Research Institute and served as the Deputy Director and Director of the Research Department and Deputy Chief Geologist and Chief Geologist of the Research Center. From 1999 to 2007, Mr. Zhu served as the Deputy Manager of Exploration Department of China National Offshore Oil Corporation, Deputy General Manager and General Manager of Exploration Department of the Company, General Manager of CNOOC China Limited Zhanjiang Branch and Vice President of the Company. Mr. Zhu also serves as the Director of CNOOC China Limited and CNOOC Deepwater Development Limited, both being the subsidiaries of the Company. Mr. Zhu has spent a significant amount of time in exploration research and management of oil and natural gas in offshore China. He was granted the Special Stipend from the government, nominated as candidate for the "National Hundred, Thousand, and Ten Thousand Talent Project", named as an Excellent Science and Technology Worker of the Nation and awarded the Li Siguang Award for Geosciences, the highest level of tribute in geoscience awards. In August 2007, Mr. Zhu was appointed as the Chief Geologist of CNOOC and Executive Vice President of the Company, responsible for the Company's oil and gas exploration operations.

Liguo Zhao is the General Counsel of the Company. He graduated from the Faculty of Law, Peking University with a bachelor of law. In 1988, he studied at the Law School of Niigata University in Japan for a year. Mr. Zhao joined CNOOC in 1983. He served as Head of Contract Negotiation Division, Deputy General Manager and General Manager of Legal Department of CNOOC. At present, he serves as the General Counsel of CNOOC and the Company. Mr. Zhao was granted PRC lawyer qualification in 1985 and corporate counsel qualification in 1998. He is an arbitrator of China International Economic and Trade Arbitration Commission and a member of the China Maritime Arbitration Commission. Mr. Zhao was appointed as the General Counsel of the Company, effective November 2, 2009.

Bi Chen is an Executive Vice President of the Company and General Manager of CNOOC China Limited Tianjin Branch, responsible for development, production and sales of the Company. Mr. Chen graduated from the Southwest Petroleum University and received a bachelor degree in oil production. He received a master degree of petroleum engineering from Edinburgh Heriot-Watt University in 1988 and an MBA degree from Tsinghua University in 2000. Mr. Chen joined CNOOC in 1982 and has over 27 years of experience in the oil and natural gas industry. He served as the Deputy Manager of CNOOC Nanhai West Corporation Oil Production Company, Director of Production Section, Deputy Manager and General Manager of Development & Production Department of CNOOC Limited, and General Manager of CNOOC China Limited Tianjin Branch. Mr. Chen also serves as the Director of CNOOC China Limited, CNOOC International Limited and CNOOC Deepwater Development Limited, all being the subsidiaries of the Company. In December 2005, Mr. Chen was appointed as Vice President of the Company and General Manager of CNOOC China Limited Tianjin Branch. In March 2009, Mr. Chen was appointed as the Executive Vice President of the Company.

Wei Chen is a Senior Vice President of the Company and the General Director of CNOOC Research Institute (formerly CNOOC Research Center). He received his B.S. degree from China University of Petroleum and holds an MBA degree from Tsinghua University. He has over 27 years of experience in the oil and gas industry. Mr. Chen joined CNOOC in 1984 and previously served as the Deputy Manager for the Exploration and Development Department, the Deputy Manager of the Overseas Research Department, the Manager of the Information Department, and the Deputy Director of CNOOC Research Center. He has also served as General Manager of Human Resources Department of CNOOC, and the Senior Deputy General Manager and General Manager of Administration Department of the Company. In July 2003, Mr. Chen was appointed as the Director of CNOOC Research Center.

Guohua Zhang is a Senior Vice President of the Company and the General Manager of CNOOC China Limited Shanghai Branch. He graduated from Qingdao Oceanographic Institute with a bachelor degree. He studied in the

Business Institute of University of Alberta in Canada in 2001. He joined CNOOC in 1982 and served as Manager of Exploration Department of CNOOC Naihai West Corporation, a subsidiary of CNOOC, Chief Geologist of CNOOC Research Center, Assistant to General Manager of CNOOC China Limited and the General Manager of Exploration Department of the Company. In December 2005, Mr. Zhang was appointed as General Manager of CNOOC China Limited Shanghai Branch.

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Zhi Fang is a Vice President of the Company and the President of CNOOC International Limited and is responsible for the Company's international affairs. He graduated from Zhejiang University with a bachelor degree in science and received an MBA degree from University of Birmingham in 1995. Mr. Fang joined CNOOC in 1982. He served as Deputy Director of the Research Center of CNOOC Nanhai East Corporation, Deputy General Manager of CNOOC-AMOCO Liuhua Joint Operating Group, Deputy General Manager of Exploration and Development Department of CNOOC Nanhai East Corporation, the Deputy General Manager and General Manager of CNOOC China Limited Shenzhen Branch, and the President of CNOOC Southeast Asia Ltd. Mr. Fang also serves as the Director of CNOOC International Limited and CNOOC Southeast Asia Ltd., both being the subsidiaries of the Company. In October 2005, Mr. Fang was appointed as the Vice President of the Company. In April 2009, Mr. Fang was appointed as President of CNOOC International Limited.

Joint Company Secretaries

Yongzhi Jiang is the Joint Company Secretary of the Company. He is a Chartered Financial Analyst and qualified PRC lawyer. In 1995, Mr. Jiang graduated from China University of Political Science and Law with a bachelor of law degree majoring in International Economic Law. In 1997, he completed his study in Mattei School ("La Scuola Superiore della' Mattei") in Milan, Italy with a Master degree in Energy and Environmental Management and Economics, majoring in Management of Energy Company. In 2003, he obtained his MBA degree from Kelley School of Business, Indiana University in the United States of America, majoring in Finance and Accounting. From 1995 to 2001, Mr. Jiang worked in China National Petroleum Corporation and then in PetroChina Company Limited as a legal counsel for the international business. Mr. Jiang joined the Company in 2003. He firstly served as the Senior Supervisor of Mergers & Acquisitions in the Controllers Department, then as the Commercial Manager in CNOOC International Limited, a subsidiary of the Company, and as the Assistant Chief Financial Officer of the Company from 2007 to 2009. Mr. Jiang serves as the General Manager of the Investor Relations Department and Director of the Office for the Board of Directors of the Company since December 14, 2009. Mr. Jiang was appointed as the Joint Company Secretary of the Company effective January 29, 2010.

Zongwei Xiao is a senior engineer graduated from Daqing Petroleum Institute with a bachelor of science degree in petroleum engineering. Mr. Xiao also studied petroleum engineering in Imperial College in the UK from 1987 to 1988. Joined CNOOC in 1984, Mr. Xiao has over 24 years of experience in petroleum exploration, development and production. In the first 10 years of his career, he worked in CNOOC Research Center as an engineer, senior engineer and head of Reservoir Engineering division in Field Development Department. Mr. Xiao then worked mainly in the international business of CNOOC, serving as a production manager of CNOOC Jakarta from 1994 to 1998. After coming back to China, he served as a senior engineer and head of West Asia/North Africa division of the Overseas Development Department of CNOOC successively before he started to work in the field of capital market in 2001. He accumulated experience in financial market from our initial public offering in 2001 as the head of Investor Relations Group. He became the Deputy General Manager of Investor Relations Department in 2001 and the General Manager of the Investor Relations Department in 2003. Mr. Xiao was appointed as our Joint Company Secretary, effective November 25, 2008. He resigned as the Joint Secretary of the Company, effective January 29, 2010, and has taken on other duties within the Company pursuant to an internal reallocation of roles and tasks.

May Sik Yu Tsue 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. She is an associate member of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries since 2007. Furthermore, 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. 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 was appointed as Joint Company Secretary of the Company, effective November 25, 2008.

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B. COMPENSATION

The aggregate amount of fees, salaries, housing allowances, other allowances and benefits in kind paid to our directors for the year ended December 31, 2009 was approximately Rmb 15 million (US$2.2 million), while the amount paid to our other senior management for the same period was approximately Rmb 6.8 million (US$1 million). In addition, under our pension plan for 2009, we set aside an aggregate amount of Rmb 709,647 (US$103,964) for pension and similar benefits for our directors (other than independent non-executive directors) and senior management. Our directors (other than independent non-executive directors) and senior management contributed an additional Rmb 421,946 (US$61,815) to the pension plan for 2009. Each director's annual compensation, including fees, salaries, allowances, benefits in kind, pension benefits and share option benefits, is disclosed in note 9 to our consolidated financial statements included elsewhere in this annual report. Note 10 to our consolidated financial statements included elsewhere in this annual report discloses our five highest paid employees or directors during 2009. For further details regarding share options granted to our directors, officers and employees, see "Item 6—Directors, Senior Management and Employees—Share Ownership". For further details regarding our employee compensation, see "Item 4—Information on the Company—Business Overview—Employees and Employee Benefits."

C. BOARD PRACTICE

Committees

We have established an audit committee, a remuneration committee and a nomination committee. Our audit committee meets at least twice a year and is responsible for reviewing the completeness, accuracy and fairness of our accounts, evaluating our auditing scope and procedures, as well as its internal control systems. Our audit committee is also responsible for overseeing the operation of the internal monitoring systems, so as to ensure our Board is able to monitor our overall financial position, to protect our assets, and to prevent major errors or losses resulting from financial reporting. Our Board is responsible for these systems and appropriate delegations and guidance have been made. Our audit committee regularly reports to our Board. Our audit committee consists of Mr. Aloysius Hau Yin Tse as the audit committee financial expert for the purposes of U.S. securities laws and chairman of the audit committee, Mr. Sung Hong Chiu and Professor Lawrence J. Lau.

The primary responsibilities of our remuneration committee are to review and approve all our executive directors' salaries, bonuses, share option packages, performance appraisal systems and retirement plans. In 2009, our remuneration committee consisted of two independent non-executive directors (Mr. Sung Hong Chiu as chairman and Mr. Aloysius Hau Yin Tse) and one non-executive director (Mr. Xinghe Cao).

The primary responsibilities of our nomination committee include nominating candidates for directors subject to our Board's approval, conducting routine examination of the structure, scale and composition of our Board, and review the leadership capabilities of our directors in order to ensure that we remain competitive. In 2009, our nomination committee consisted of Mr. Han Luo, Mr. Zhou Shouwei, Dr. Edgar W. K. Cheng, Professor Lawrence J. Lau and Mr. Tao Wang. Mr. Luo retired from our Board on March 31, 2009 and is no longer a member of our nomination committee. Mr. Zhou Shouwei was appointed as chairman of our nomination committee on the same day.

For information on our audit committee financial expert and our code of ethics, see "Item 16A—Audit Committee Financial Expert," and "Item 16B—Code of Ethics."

International Advisory Board

On October 29, 2001, we announced the establishment of an International Advisory Board with globally well-respected political figures and corporate leaders as members. The purpose of the International Advisory Board was to provide the management with strategic advice on world events and macro issues that might impact our development. Chengyu Fu, Chairman of our Board, was the Chairman of the International Advisory Board.

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In 2009, the International Advisory Board was dissolved after its annual meeting.

Directors Service Contracts

Our executive directors and non-executive directors have entered into directors service contracts with us and under such contracts, there is no severance pay arrangements for our directors.

Summary of Significant Differences in Corporate Governance Practices for Purposes of Section 303A.11 of the New York Stock Exchange Listed Company Manual

We are incorporated under the laws of Hong Kong. The principal trading market for our shares is the Hong Kong Stock Exchange. In addition, because our shares are registered with the United States Securities and Exchange Commission and are listed on the New York Stock Exchange, or the NYSE, we are subject to certain corporate governance requirements. However, many of the corporate governance rules in the NYSE Listed Company Manual, or the NYSE Standards, do not apply to us as a "foreign private issuer" and we are permitted to follow the corporate governance practices in Hong Kong in lieu of most corporate governance standards contained in the NYSE Standards. Section 303A.11 of the NYSE Standards requires NYSE-listed foreign private issuers to describe the significant differences between their corporate governance practices and the corporate governance standards applicable to U.S. domestic companies listed on the NYSE, or U.S. domestic issuers. We set forth below a brief summary of such significant differences.

1. Board and Committee Independence

While NYSE Standards require U.S. domestic issuers to have a majority of independent directors, we are not subject to this requirement. Five of our eleven directors are independent non-executive directors.

NYSE Standards require U.S. domestic issuers to schedule an executive session at least once a year to be attended by only independent directors. We are not subject to such requirement and our independent directors attend all board meetings where possible. We also schedule meetings between our chairman and our independent non-executive directors.

NYSE Standards require U.S. domestic issuers to disclose a method for interested parties to communicate directly with the presiding director or with non-management directors as a group. We are not subject to such requirement and we have not adopted such a method yet.

2. Audit Committee

If an audit committee member simultaneously serves on the audit committees of more than three public companies, and the listed company does not limit the number of audit committees on which its audit committee members serve to three or less, then in each case, the boards of directors of U.S. domestic issuers are required to determine that such simultaneous service would not impair the ability of such member to effectively serve on its audit committee and disclose such determination in its annual proxy statement or annual report. We are not subject to such requirement and we have not addressed this in our audit committee charter.

NYSE Standards require audit committees of U.S. domestic issuers to discuss guidelines and policies that govern the process by which risk assessment and risk management are handled and include such responsibilities in their audit committee charters. We are not subject to such requirement and our audit committee charter does not have such provision. Our audit committee charter only provides that our audit committee shall review with our auditors and the Director of Internal Audit the scope, adequacy and effectiveness of our corporate accounting and financial controls, internal control and risk management systems, and any related significant findings regarding risks or exposures and consider recommendations for improvement of such controls according to the Hong Kong Stock Exchange Listing Rules.

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NYSE Standards require audit committees of U.S. domestic issuers to produce an audit committee report annually and include such report in their annual proxy statements. We are not subject to such requirement and we have not addressed this in our audit committee charter.

3. Remuneration Committee

NYSE Standards require U.S. domestic issuers to have a compensation committee composed entirely of independent directors. We are not subject to such requirement and have a remuneration committee that consists of two independent non-executive directors and one non-executive director.

NYSE Standards require U.S. domestic issuers to address in their remuneration committee charters matters regarding committee member removal and committee structure and operations (including authority to delegate to subcommittees). We are not subject to such requirement and we have not addressed this in our remuneration committee charter.

NYSE Standards require remuneration committees of U.S. domestic issuers to produce a remuneration committee report annually and include such report in their annual proxy statements or annual reports on Form 10-K. We are not subject to such requirement and we have not addressed this in our remuneration committee charter. We disclose the amounts of compensation of our directors on a named basis and the five highest paid employees in our annual reports according to the requirements of Hong Kong Stock Exchange Listing Rules.

4. Nomination Committee

While NYSE Standards require U.S. domestic issuers to have only independent directors on their nomination committee, we are not subject to such requirement and our nomination committee consists of three independent non-executive directors and one non-executive director.

NYSE Standards require U.S. domestic issuers to address in their nomination committee charters matters regarding committee member removal and committee structure and operations (including authority to delegate to subcommittees). We are not subject to such requirement and we have not addressed this in our nomination committee charter.

NYSE Standards require U.S. domestic issuers to adopt and disclose corporate governance guidelines. They must state in their annual proxy statements or annual reports that such corporate governance guidelines are available on their website and in print form to any shareholder who requests it. We are not subject to such requirement. We have adopted a set of corporate governance guidelines in accordance with the Hong Kong Stock Exchange Listing Rules, including the CNOOC Limited Code of Ethics for Directors and Senior Officers (the "Code of Ethics"), to govern various aspects of our corporate governance. We have posted the Code of Ethics on our website. See "Item 16B—Code of Ethics."

D. EMPLOYEES

See "Item 4—Information on the Company—Business Overview—Employees and Employee Benefits."

E. SHARE OWNERSHIP

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As of March 31, 2010, our directors and employees had the following personal interests in options to subscribe for shares granted under our share option schemes:

Name of Grantee	Number of shares involved in the options outstanding as of January 1, 2009	Number of shares involved in the options outstanding as of March 31, 2010	Date of Grant	Date of Expiration*	Closing price per share immediately before the date of grant (HK$)	Exercise Price (HK$)
Executive Directors:						
Chengyu Fu	1,750,000	1,750,000	March 12, 2001	March 12, 2011**	1.23	1.19
	1,750,000	1,750,000	August 27, 2001	August 27, 2011	1.46	1.232
	1,150,000	1,150,000	February 24, 2003	February 24, 2013	2.09	2.108
	2,500,000	2,500,000	February 5, 2004	February 5, 2014	3.13	3.152
	3,500,000	3,500,000	August 31, 2005	August 31, 2015	5.75	5.62
	3,850,000	3,850,000	June 14, 2006	June 14, 2016	5.30	5.56
	4,041,000	4,041,000	May 25, 2007	May 25, 2017	7.43	7.29
	4,041,000	4,041,000	May 29, 2008	May 29, 2018	14.20	14.828
	—	4,041,000	May 27, 2009	May 27, 2019	9.33	9.93
Hua Yang	1,150,000	1,150,000	March 12, 2001	March 12, 2011**	1.23	1.19
	1,150,000	1,150,000	August 27, 2001	August 27, 2011	1.46	1.232
	1,150,000	1,150,000	February 24, 2003	February 24, 2013	2.09	2.108
	1,150,000	1,150,000	February 5, 2004	February 5, 2014	3.13	3.152
	1,610,000	1,610,000	August 31, 2005	August 31, 2015	5.75	5.62
	1,770,000	1,770,000	June 14, 2006	June 14, 2016	5.30	5.56
	1,857,000	1,857,000	May 25, 2007	May 25, 2017	7.43	7.29
	1,857,000	1,857,000	May 29, 2008	May 29, 2018	14.20	14.828
	—	2,835,000	May 27, 2009	May 27, 2019	9.33	9.93
Guangqi Wu	1,610,000	1,610,000	August 31, 2005	August 31, 2015	5.75	5.62
	1,770,000	1,770,000	June 14, 2006	June 14, 2016	5.30	5.56
	1,857,000	1,857,000	May 25, 2007	May 25, 2017	7.43	7.29
	1,857,000	1,857,000	May 29, 2008	May 29, 2018	14.20	14.828
	—	1,857,000	May 27, 2009	May 27, 2019	9.33	9.93
Non-executive Directors:						
Han Luo***	1,400,000	1,400,000	March 12, 2001	March 12, 2011**	1.23	1.19
	1,150,000	1,150,000	August 27, 2001	August 27, 2011	1.46	1.232
	1,150,000	1,150,000	February 24, 2003	February 24, 2013	2.09	2.108
	1,150,000	1,150,000	February 5, 2004	February 5, 2014	3.13	3.152
	1,610,000	1,610,000	August 31, 2005	August 31, 2015	5.75	5.62
	1,770,000	1,180,000	June 14, 2006	June 14, 2016	5.30	5.56
	1,857,000	619,000	May 25, 2007	May 25, 2017	7.43	7.29
	1,857,000	—	May 29, 2008	May 29, 2018	14.20	14.828
Shouwei Zhou	1,400,000	1,400,000	March 12, 2001	March 12, 2011**	1.23	1.19
	1,750,000	1,750,000	August 27, 2001	August 27, 2011	1.46	1.232

	1,750,000	1,750,000	February 24, 2003	February 24, 2013	2.09	2.108
	1,750,000	1,750,000	February 5, 2004	February 5, 2014	3.13	3.152
	2,450,000	2,450,000	August 31, 2005	August 31, 2015	5.75	5.62
	2,700,000	2,700,000	June 14, 2006	June 14, 2016	5.30	5.56
	2,835,000	2,835,000	May 25, 2007	May 25, 2017	7.43	7.29
	2,835,000	2,835,000	May 29, 2008	May 29, 2018	14.20	14.828
	—	1,800,000	May 27, 2009	May 27, 2019	9.33	9.93
Xinghe Cao	800,000	800,000	August 31, 2005	August 31, 2015	5.75	5.62
	1,770,000	1,770,000	June 14, 2006	June 14, 2016	5.30	5.56
	1,857,000	1,857,000	May 25, 2007	May 25, 2017	7.43	7.29
	1,857,000	1,857,000	May 29, 2008	May 29, 2018	14.20	14.828
	—	1,800,000	May 27, 2009	May 27, 2019	9.33	9.93
Zhenfang Wu	800,000	800,000	August 31, 2005	August 31, 2015	5.75	5.62
	1,770,000	1,770,000	June 14, 2006	June 14, 2016	5.30	5.56
	1,857,000	1,857,000	May 25, 2007	May 25, 2017	7.43	7.29
	1,857,000	1,857,000	May 29, 2008	May 29, 2018	14.20	14.828
	—	1,800,000	May 27, 2009	May 27, 2019	9.33	9.93
Independent Non-executive Directors:						
Sung Hong Chiu	1,150,000	1,150,000	February 5, 2004	February 5, 2014	3.13	3.152
Other Employees In Aggregate:						
	4, 850,000	1,850,000	March 12, 2001	March 12, 2011**	1.23	1.19
	12,500,000	8,800,000	August 27, 2001	August 27, 2011	1.46	1.232
	16,699,966	11,299,966	February 24, 2003	February 24, 2013	2.09	2.108
	25,583,267	19,599,935	February 5, 2004	February 5, 2014	3.13	3.152
	40,260,000	34,146,667	August 31, 2005	August 31, 2015	5.75	5.62
	54,920,000	47,403,333	June 14, 2006	June 14, 2016	5.30	5.56
	65,837,000	58,300,000	May 25, 2007	May 25, 2017	7.43	7.29
	70,932,000	63,514,000	May 29, 2008	May 29, 2018	14.20	14.828
	—	80,400,000	May 27, 2009	May 27, 2019	9.33	9.93
Total	376,084,233	420,263,901				

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

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

*** Mr. Luo Han retired as a Non-executive Director of the Company effective March 31, 2009.

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For the year ended December 31, 2009, no share options granted under our share option schemes were exercised. For the period from January 1, 2010 to March 31, 2010, no share options were exercised.

As of December 31, 2009, we had 420,263,901 share options outstanding under our share option schemes, which represented approximately 0.94% of our shares in issue as of that date.

For further details about our share option schemes, see notes 9 and 27 to our consolidated financial statements included elsewhere in this annual report.

As of March 31, 2010, none of our directors or employees owned 1% or more of our shares including the shares underlying the share options granted as of that date.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

The following table sets forth information regarding the ownership of our outstanding shares by major shareholders as of March 31, 2010.

Shareholder	Number of Shares Owned	Percentage
CNOOC(1)	28,772,727,273	64.41%

(1) CNOOC owns our shares indirectly through its wholly owned subsidiaries, CNOOC (BVI) Limited and Overseas Oil & Gas Corporation, Ltd.

Our major shareholder listed above does not have voting rights different from our other shareholders. Except as set forth in the above table, we are not aware of any shareholders that hold more than 5% of our shares. Except as disclosed above, we are not aware of any significant changes in the percentage ownership of our major shareholder over the course of the past three years. To our knowledge, no arrangements are currently in place that could lead to a change of control of our company.

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As of March 31, 2010, 10,781,476 American depositary shares were outstanding in the United States, representing approximately 2.4% of our then outstanding shares. At such date, the number of registered American depositary share holders in the United States was 38.

B. RELATED PARTY TRANSACTIONS

Overview

We regularly enter into transactions with related parties, including CNOOC and its associates, as defined under the Hong Kong Stock Exchange Listing Rules. Since CNOOC indirectly owns an aggregate of approximately 64.41% of our issued share capital, some of these transactions constitute connected transactions under the Hong Kong Stock Exchange Listing Rules, and are regulated by the Hong Kong Stock Exchange.

Categories of Continuing Connected Transactions

We entered into four comprehensive framework agreements with each of CNOOC, COSL, CNOOC Engineering and China BlueChemical Ltd., or China BlueChem, on November 8, 2007, for the provision 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 each of the comprehensive framework agreements is for a period of three years from January 1, 2008. The continuing connected transactions and relevant annual caps were approved by our independent shareholders on December 6, 2007. The approved continuing connected transactions are set out below:

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

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

3. Sales of petroleum and natural gas products by us to CNOOC and/or its associates
   a) Sales of petroleum and natural gas products (other than long term sales of natural gas and LNG)
   b) Long term sales of natural gas and LNG

Pricing principles

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

If, for any reason, the above pricing principle for a particular service ceases to be applicable or there is no open market for services, whether due to a change in circumstances or otherwise, such services must then be provided in accordance with the following general pricing principles:

(i) state-prescribed prices; or

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

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

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

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

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

A detailed discussion of significant connected transactions entered into in the ordinary course of business between us and our related parties during 2009 and the balances arising from connected transactions at the end of 2009 is included in note 31 to our consolidated financial statements included elsewhere in this annual report.

Disclosure and/or Independent Shareholders' approval requirements

Under the Hong Kong Stock Exchange Listing Rules, the following categories of continuing connected transactions are exempted from the independent shareholders' approval requirement but are subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Hong Kong Stock Exchange Listing Rules, because the percentage ratios for these categories under the Hong Kong Stock Exchange Listing Rules (other than the profits ratio) are expected to be less than 2.5% on an annual basis:

- Provision of marketing, management and ancillary services by CNOOC and/or its associates to us; and
- Provision of management, technical, facilities and ancillary services, including the supply of materials from us to CNOOC and/or its associates.

Under the Hong Kong Stock Exchange Listing Rules, the following categories of continuing connected transactions, or the non-exempt continuing connected transactions, are subject to the reporting, announcement and independent shareholders' approval requirements:

- Provision of exploration, oil and gas development, oil and gas production as well as marketing, management and ancillary services by CNOOC and/or its associates to us

(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; and
(d) FPSO vessel leases.

- Sales of petroleum and natural gas products by us to CNOOC and/or its associates

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(a) Sales of petroleum and natural gas products (other than long-term sales of natural gas and LNG); and
(b) Long term sales of natural gas and LNG.

We obtained independent shareholders' approval at the extraordinary general meetings held on December 31, 2005 and on December 6, 2007 for our continuing connected transactions and the annual caps with CNOOC and/or its associates for the period from January 1, 2006 to December 31, 2007 and for the period from January 1, 2008 to December 31, 2010, respectively. The annual caps and the conditions are specified as follows:

Category of continuing connected transactions	Relevant Annual Caps
Provision of exploration, oil and gas development, oil and gas production as well as marketing, management and ancillary services by CNOOC and/or its associates to us	
(a) Provision of exploration and support services	For the three years ending December 31, 2010, Rmb 6,296 million, Rmb 7,555 million and Rmb 9,066 million, respectively
(b) Provision of oil and gas development and support services	For the three years ending December 31, 2010, Rmb 18,608 million, Rmb 22,879 million and Rmb 26,759 million, respectively
(c) Provision of oil and gas production and support services	For the three years ending December 31, 2010, Rmb 5,124 million, Rmb 6,147 million and Rmb 7,253 million, respectively
(d) Provision of marketing, management and ancillary services	For the three years ending December 31, 2010, Rmb 789 million, Rmb 854 million and Rmb 967 million, respectively
(e) FPSO vessel leases	For the three years ending December 31, 2010, Rmb 1,908 million, Rmb 3,182 million and Rmb 3,250 million, respectively
Provision of management, technical, facilities and ancillary services, including the supply of materials from us to CNOOC and/or its associates	
Provision of management, technical, facilities and ancillary services, including the supply of materials to CNOOC and/or its	For the three years ending December 31, 2010, Rmb 100 million,

associates	Rmb 100 million and Rmb 100 million, respectively

Sales of petroleum and natural gas products by us 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 ending December 31, 2010, Rmb 94,440 million, ** Rmb 156,692 million and Rmb 181,782 million, respectively
(b) Long-term sales of natural gas and liquefied natural gas	For the three years ending December 31, 2010, Rmb 4,844 million, Rmb 7,118 million and Rmb 8,763 million, respectively

* At the extraordinary general meeting held on December 31, 2005, our independent shareholders approved an annual cap of Rmb 2,293 million for 2007. Our independent shareholders subsequently approved the above revised annual cap at the extraordinary general meeting held on December 6, 2007.

** At the extraordinary general meeting held on December 31, 2005, our independent shareholders approved annual caps of Rmb 33,469 million and Rmb 44,199 million for 2006 and 2007, respectively. Our independent shareholders subsequently approved the above revised annual caps at the extraordinary general meeting held on September 29, 2006.

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The non-exempt continuing connected transactions for the year ended December 31, 2009 to which any member of us was a party were entered into by us:

(i) in the ordinary and usual course of our business;

(ii) either (a) on normal commercial terms, or (b) if there is no available comparison, on terms no less favorable to us than terms available from independent third parties; and

(iii) in accordance with the relevant agreements governing them on terms that were fair and reasonable so far as our shareholders were concerned and in the interests of our company and shareholders as a whole.

We confirmed that the annual amount of each category of the non-exempt continuing connected transactions for the year ended December 31, 2009 did not exceed the applicable annual caps; and we have complied with other relevant provisions of the Hong Kong Stock Exchange Listing Rules in relation to each category of the non-exempt continuing connected transactions.

Transactions with CNOOC Finance Corporation Limited

On October 14, 2008, we entered into a financial services framework agreement with CNOOC Finance Corporation Limited, or CNOOC Finance, our 31.8% owned associate and a subsidiary of CNOOC, pursuant to which CNOOC Finance provides us with settlement, depository, discounting, loans and entrustment loans services. The depository services were exempt from independent shareholders' approval requirements and the settlement, discounting, loans and entrustment loans services were exempt from the reporting, announcement and independent shareholders' approval requirements under the Hong Kong Stock Exchange Listing Rules.

For the years ended December 31, 2007, 2008 and 2009, the maximum daily outstanding balance of deposits (including accrued interest) placed with CNOOC Finance amounted to approximately Rmb 6,501.8 million, Rmb 4,412.0 million and Rmb 4,480.0 million (US$656.3 million), respectively.

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

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

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Legal Proceedings

We are not a defendant in any material litigation or arbitration, and we know of no pending or threatened proceeding which would have a material adverse effect on our financial condition.

Dividend Distribution Policy

The payment of any future dividends will be determined by our Board, subject to shareholders' approval for all dividends other than interim dividends, based upon, among other things, our future earnings, capital requirements, financial conditions, future prospects and other factors which our Board may consider relevant. Our ability to pay dividends will also depend on the cash flows determined by the dividends, if any, received by us from our subsidiaries and associates. Holders of our shares will be entitled to receive such dividends declared by our Board pro rata according to the amounts paid up or credited as paid up on the shares. Subject to the factors described above, we currently intend to pursue a dividend policy consistent with other international oil and gas exploration and production companies.

Dividends may be paid only out of our distributable profits as permitted under Hong Kong law, which does not restrict the payment of dividends to nonresident holders of our securities. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations.

Holders of our ADSs will be entitled to receive dividends, subject to the terms of the deposit agreement, to the same extent as holders of our shares, less the fees and expenses payable under the deposit agreement. Cash dividends will be paid to the depositary in Hong Kong dollars and will be converted by the depositary into U.S. dollars and paid to holders of ADSs. Stock dividends, if any, will be distributed to the depositary and will be distributed by the depositary, in the form of additional ADSs, to holders of the ADSs.

In 2007, we declared and paid dividends totaling Rmb 11,523.7 million. In 2008, we declared and paid dividends totaling Rmb 14,651.8 million. In 2009, we declared and paid dividends totaling Rmb 15,747.1 million (US$2,307.0 million). The amount of dividends we paid historically is not indicative of the dividends that we will pay in the future.

Substantially all our dividend payments result from dividends paid to us by CNOOC China Limited. CNOOC China Limited must follow the laws and regulations of the PRC and its articles of association in determining its dividends. As a wholly foreign owned enterprise in China, CNOOC China has to provide for a reserve fund and staff and workers' bonus and welfare fund, each of which is appropriated from net profit after taxation but before dividend distribution according to the prevailing accounting rules and regulations in the PRC. CNOOC China Limited is required to allocate at least 10% of its net profit to the reserve fund until the balance of this fund has reached 50% of its registered capital, which amount was reached in 2009. Appropriations to the staff and workers' bonus and welfare fund, which are determined at the discretion of the directors of CNOOC China Limited, are charged to expense as incurred in our consolidated financial statements, which were prepared under IFRS. In accordance with the "Temporary Regulation for Safety Expense Financial Management of High Risk Industry" and the implementation guidance issued by the Ministry of Finance of the PRC, a safety fund has been accrued for our oil and gas exploration and production activities within the PRC. The accrued safety fund will be utilized for improving the safety conditions of our production. Included in other reserves was a provision for safety fund under the PRC regulation amounting to Rmb 25.1 million (US$3.7 million), which was Rmb 34 million in 2008. None of the contributions of CNOOC China Limited to these statutory funds may be used for dividend purposes.

For the years ended December 31, 2007, 2008 and 2009, CNOOC China Limited made the following appropriations to the statutory reserves:

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	For the year ended December 31, 2007		For the year ended December 31, 2008		For the year ended December 31, 2009	
	Percentage of Net Profits	Rmb (in millions)	Percentage of Net Profits	Rmb (in millions)	Percentage of Net Profits	Rmb (in millions)
Reserve fund	2%	539.4	0.0%	—	0.0%	—
Staff and workers' bonus and welfare fund	—	—	0.0%	—	0.0%	—

Contingent Liabilities

On April 20, 2006, the Company acquired from South Atlantic Petroleum Limited ("SAPETRO") a 45% working interest in the Offshore Oil Mining Lease 130 ("OML130") in Nigeria (the "OML130 Transaction").

In 2007, a Nigeria local tax office conducted a tax audit on SAPETRO and raised a disagreement with the tax filings made for OML130 Transaction based on its preliminary tax audit assessment. The Company has contested such tax audit assessment in accordance with Nigerian laws and relevant agreements with SAPETRO. After seeking legal and tax advice, the Company's management believes that the Company has reasonable grounds with legal merits in contesting such tax audit assessment. Consequently, no provision has been made for any expenses which might arise as a result of the dispute.

B. SIGNIFICANT CHANGES

Changes of Senior Management

On January 29, 2010, Mr. Zongwei Xiao has resigned as the Joint Company Secretary of the Company, and Mr. Yongzhi Jiang was appointed as the Joint Company Secretary of the Company effective the same day.

Formation of Significant Joint Venture

On March 13, 2010, CNOOC International Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Bridas Energy Holdings Ltd. ("BEH") to obtain a 50% equity interest in Bridas Corporation, a wholly-owned subsidiary of BEH, for an initial cash consideration of US$3.1 billion, which is subject to price adjustments on changes in the net debt of Bridas Corporation during the second half of 2009. The transaction is expected to complete in the first half of 2010, subject to obtaining all governmental and regulatory approvals, permissions and consents required in the PRC and other terms and conditions. Upon completion, each of BEH and CNOOC International Limited will own a 50% equity interest in Bridas Corporation and jointly manage it.

ITEM 9. THE OFFER AND LISTING

Not applicable, except for Item 9.A.4 and Item 9.C.

We listed our shares on the Hong Kong Stock Exchange and our ADSs on the New York Stock Exchange in February 2001. Our shares are listed on the Hong Kong Stock Exchange under the stock code "883" and our ADSs are listed on the New York Stock Exchange under the symbol "CEO." On March 17, 2004, our shareholders approved a five-for-one stock split of our shares. The stock split was effected by dividing each of our issued and unissued shares of HK$0.10

each into five shares of HK$0.02 each. The ratio of our American depositary shares listed on the New York Stock Exchange also changed such that each ADS now represents 100 subdivided shares of HK$0.02 each, as opposed to 20 shares of HK$0.10 each prior to the stock split. The following table sets forth, for the periods indicated, the high and low closing prices per share, as reported on the Hong Kong Stock Exchange and adjusted retroactively to reflect the stock split, and per ADS, as reported on the New York Stock Exchange.

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Period	Hong Kong Stock Exchange		New York Stock Exchange	
	High	Low	High	Low
	(HK$ per share)		(US$ per ADS)	
2005	6.05	3.80	76.73	48.16
2006	7.39	5.25	94.63	67.19
2007	16.92	6.16	216.49	78.18
2008	15.90	4.24	203.00	56.04
2009	12.90	6.08	166.63	76.63
2008 Financial Quarter				
1st Quarter	14.12	9.65	183.36	134.75
2nd Quarter	15.90	11.50	203.00	152.78
3rd Quarter	14.06	8.16	174.91	104.91
4th Quarter	8.85	4.24	112.90	56.04
2009 Financial Quarter				
1st Quarter	8.39	6.08	108.50	76.63
2nd Quarter	11.14	7.85	143.93	103.19
3rd Quarter	11.02	8.82	142.30	113.27
4th Quarter	12.90	10.24	166.63	131.15
2010 Financial Quarter				
1st Quarter	13.24	11.02	169.73	139.83
Last Six Months				
October 2009	12.90	10.24	162.83	131.15
November 2009	12.88	11.54	166.63	151.79
December 2009	12.34	11.72	157.84	151.84
January 2010	13.24	11.02	169.73	139.83
February 2010	12.42	11.14	160.31	145.30
March 2010	12.96	12.16	167.25	156.92

ITEM 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not applicable.

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

We were incorporated with limited liability on August 20, 1999 in Hong Kong under the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), or the Hong Kong Companies Ordinance. Our company registration number in Hong Kong is 685974. Under section three of our memorandum of association, we have the capacity and the rights, powers and privileges of a natural person and we may also do anything which we are permitted or required to do by any enactment or rule of law. The following are summaries of provisions of our memorandum and articles of association and the Hong Kong Companies Ordinance. For further details, you should read our memorandum of association, which was filed as an exhibit to our registration statement on Form F-1 (Registration No.333-10862) and our articles of association, as amended, which was filed as an exhibit to our annual report on Form 20-F for the fiscal year of 2005.

Issue of Shares

Under the Hong Kong Companies Ordinance our directors may, without obtaining the prior approval of our shareholders, offer to allot new shares in our company to existing shareholders on a pro rata basis. Our directors may not allot new shares of our company in any other manner without the prior approval of our shareholders at a general meeting. Any approval given at a general meeting granting our directors power to allot shares or securities convertible into shares generally shall continue in force from the date of the passing of the resolution until the earliest of:

- the conclusion of the next annual general meeting;

- the expiration of the period within which the next annual general meeting is required by any applicable laws or our articles of association to be held; or
- the revocation or variation of the authority given under an ordinary resolution of the shareholders, in a general meeting of our company.

If such an approval for a general mandate to issue shares is given, the unissued shares of our company shall be at the disposal of our Board. Our directors may offer, allot, grant options over or otherwise dispose of the unissued shares to persons at such times and for such consideration and upon such terms and conditions as our directors may determine, subject to the restrictions under the Hong Kong Stock Exchange Listing Rules.

In accordance with Hong Kong Stock Exchange Listing Rules, any such approval of the shareholders must be limited to shares not exceeding 20% of our share capital in issue as of the date of granting such approval plus the share capital repurchased by us since the granting of such approval.

Dividends

Subject to the Hong Kong Companies Ordinance, the shareholders at a general meeting may declare dividends to be paid to shareholders. However, under our articles of association, dividends cannot be declared in excess of the amount recommended by our Board.

In addition to dividends declared at a general meeting, our Board may declare and pay to the shareholders interim dividends as our Board deems justified by our financial position. Our Board may also pay any fixed dividend on any shares of our company semi-annually or at other suitable intervals, whenever our financial position, in their opinion, justifies such payment.

Winding Up

If we are wound up, the surplus assets remaining after payment to all creditors are to be divided among our shareholders in proportion to the capital paid up on the shares held by them respectively, and if such surplus assets are insufficient to repay the whole of the paid-up capital, they are to be distributed so that the losses are borne by our shareholders in proportion to the capital paid up on the shares held by them respectively. The liquidator may, with the sanction of a special resolution, divide among our shareholders in specie or in kind the whole or any part of our assets or vest any part of our assets in trustees upon such trusts for the benefit of our shareholders or any of them as the resolution shall provide.

Voting Rights

Under the Hong Kong Companies Ordinance, any action to be taken by the shareholders at a general meeting requires the affirmative vote of either an ordinary or a special resolution passed at such meeting.

- An ordinary resolution is a resolution passed by the majority of shareholders that are entitled to, and do, vote in person or by proxy at a general meeting;
- A special resolution is a resolution passed by not less than 75% of shareholders that are entitled to, and do, vote in person or by proxy at a general meeting.

Generally, resolutions of shareholders are passed by ordinary resolution. However, the Hong Kong Companies Ordinance provides that certain specified matters may only approved by shareholders by way of special resolutions. These matters include, for example:

- alteration of the object clause;
- alteration of the articles;

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- change of a company's name;
- reduction of share capital; and
- voluntary winding up.

Subject to the requirement of the Hong Kong Stock Exchange Listing Rules, voting at any general meeting is by a show of hands unless a poll is demanded. If voting is by a show of hands, every shareholder who is present at the meeting in person or by proxy has one vote. On a poll, every shareholder who is present in person or by proxy has one vote for every share held or represented by him. A poll may be demanded by:

- the chairman of the meeting;
- at least three members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote at the meeting;
- any member or members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and representing in the aggregate not less than 10% of the total voting rights of all members having the right to attend and vote at the meeting; or
- any member or members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than 10% of the total sum paid up on all shares conferring that right.

Any action to be taken by the shareholders requires the affirmative vote of the requisite majority of the shares at a general meeting. There are no cumulative voting rights. Accordingly, the holders of a majority of the shares voting for the election of directors can elect all the directors if they choose to do so.

Under Hong Kong law and our memorandum and articles of association, shareholders who are not residents of Hong Kong may hold, vote and transfer their shares in our company in the same manner as our shareholders who are Hong Kong residents.

General Meetings

We are required to hold an annual general meeting each year within fifteen months from the date of our last annual general meeting. We may also hold extraordinary general meetings from time to time. Our Board may convene an extraordinary general meeting at will, and shall on requisition in accordance with the Hong Kong Companies Ordinance, proceed to convene an extraordinary general meeting. Our annual general meeting and a meeting called for the purpose of passing a special resolution require at least twenty-one days' prior notice, and any other general meeting requires at least fourteen days' prior notice. The notice must specify the place, day and time of the meeting and, in the case of special business, the general nature of that business. The quorum for a general meeting is two shareholders present in person or by proxy. If within thirty minutes from the time appointed for the meeting a quorum is not present, the meeting, if convened upon requisition in accordance with the Hong Kong Companies Ordinance, must be dissolved; but in any other case it must stand adjourned to the same day in the next week at the same time and place, or to such other day, time and place as the chairman of the meeting may determine. If at such adjourned meeting a quorum is not present within thirty minutes from the time appointed for the meeting, the member or members present in person or by proxy shall be a quorum and may transact the business for which the meeting is called.

At each annual general meeting one third of our directors are to retire from office by rotation, save any director holding office as chairman or chief executive officer. The directors to retire every year are to be those who have been longest in office since their last election and the retiring directors will be eligible for re-election.

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Modification of Rights

Subject to the Hong Kong Companies Ordinance, any of the rights attaching to any class of shares, unless otherwise provided for by the terms of issue of the shares of that class, may be varied or abrogated with the written consent of the holders of not less than 75% of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of shares of that class.

Borrowing Powers

Our Board may exercise all the powers of our company to borrow money and to mortgage or charge all or any part of our undertaking, property and assets, whether present or future, and uncalled capital. Our Board may issue debentures, debenture stock, bonds or other securities of our company, whether outright or as collateral security for any debt, liability or obligation of our company or of any third party. These borrowing powers are subject to variation by a special resolution of our company.

Interested Transactions

Subject to the exceptions described below, none of our directors may vote on any contract, arrangement or proposal in which the director or any of his or her associates is materially interested. For this purpose, existence of material interest is presumed if a company, in which the director and/or his or her associates beneficially own 5% or more of any class of its shares or voting rights, is materially interested in the transaction. Our directors may, however, vote on the following matters:

- any contract or arrangement to give security or indemnity to the director or his or her associates for money lent or obligations undertaken by such director or his or her associates at the request of or for the benefit of our company or subsidiaries;

- any contract or arrangement to give security or indemnity to a third party for our debts or debts of our subsidiaries for which such director or his or her associates assumed responsibility by giving guarantee or security;

- any contract or arrangement concerning offering of securities by us (or any company which we may promote or be interested in purchasing) for which the director or his or her associates participate in the underwriting or sub-underwriting;

- any contract or arrangement in which the director or his or her associates are interested only by virtue of their interest in our securities;

- any contract or arrangement concerning any other company in which the director or his or her associates are interested as an officer or executive or a shareholder in which the director or his or her associates are beneficially interested in shares of that company other than a company in which they in aggregate beneficially own more than 5% of the issued shares of any class or voting rights;

- any proposal or arrangement concerning employee benefits that do not provide privileges to our directors or their associates not generally accorded to the class of persons to whom such scheme or fund relates, including pension fund or retirement, death or disability benefits schemes; and

-

any proposal or arrangement concerning the adoption, modification or operation of any employees' share scheme involving the issue or grant of options over shares or other securities by us to, or for the benefit of, our employees or employees of our subsidiaries under which the director or his or her associates may benefit.

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C. MATERIAL CONTRACTS

We have not entered into any material contracts in the last two years other than in the ordinary course of business and other than those described in "Item 7 Major Shareholders and Related Party Transactions Related Party Transactions" and "Item 8 Financial Information Significant Changes Formation of Significant Joint Venture."

D. EXCHANGE CONTROLS

For information on foreign exchange controls in the PRC, foreign exchange rates, hedging activities and related foreign exchange risks, see "Item 3—Key Information—Selected Financial Data," "Item 3—Key Information—Risk Factors—Government control of currency conversion and future movements in exchange rates may adversely affect our operations and financial condition" and "Item 11—Qualitative and Quantitative Disclosure about Market Risk."

E. TAXATION

The taxation of income and capital gains of holders of our shares or ADSs is subject to the laws and practices of the PRC, Hong Kong and of jurisdictions in which holders of our shares or ADSs are resident or otherwise subject to tax. The following is a summary of taxation provisions that are anticipated to be material based on current law and practice. This summary is subject to change and does not constitute legal or tax advice. The discussion does not deal with all possible tax consequences relating to an investment in our shares or ADSs. In particular, the discussion does not address the tax consequences under state, local or other laws, such as non-PRC, non-Hong Kong or non-U.S. federal laws. Accordingly, we urge you to consult your tax adviser regarding the tax consequences of an investment in our shares and ADSs. The discussion is based upon laws and relevant interpretations in effect as of the date of this annual report, all of which are subject to changes. There is no reciprocal tax treaty in effect between Hong Kong and the United States.

The PRC

In 2007, the PRC National People's Congress passed the Enterprise Income Tax Law, and the PRC State Council subsequently issued the Implementation Regulations of the Enterprise Income Tax Law. The Enterprise Income Tax Law and its Implementation Regulations, or the new EIT Law, provides that enterprises established outside of China whose "de facto management bodies" are located in China are considered "Chinese Resident Enterprises." Pursuant to the "Notice regarding Matters on Determination of Tax Residence Status of Chinese-controlled Offshore Incorporated Enterprises under Rules of Effective Management" issued by the State Administration of Taxation of the PRC on April 22, 2009 (the "Notice"), our management believes that we are likely to be considered as a Chinese Resident Enterprise based on the criteria as set out in the Notice. We have applied to the relevant tax authority to determine whether we are a CRE and are waiting for the final determination.

Under the new EIT Law, if we are considered as a Chinese Resident Enterprise, dividends we pay to non-resident enterprise holders of our ADSs or ordinary shares may be considered as income derived from sources within the PRC and be subject to a 10% PRC withholding tax. Dividends we pay to non-resident non-enterprise holders, including individuals, of our ADSs or ordinary shares who hold our ADSs or ordinary shares in the names of non-resident enterprises in the registers of members of our Depositary or share registrar may also be subject to a 10% PRC withholding tax. The 10% dividend withholding tax rate would not be reduced under the 1984 Agreement between the United States and the People's Republic of China for the Avoidance of Double Taxation (the "PRC Treaty").

Hong Kong

Tax on Dividends

Under the current practices of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in connection with dividends paid by us.

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Profits Tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of property, such as the shares and ADSs. Trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax which is currently imposed at the rate of 16.5% on corporations and at a maximum rate of 15% on individuals. Gains from sales of the shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of shares realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong stamp duty, currently charged at the rate of HK$1.00 per HK$1,000 or part thereof on the higher of the consideration for, or the value of, the shares, will be payable by the purchaser on every purchase and by the seller on every sale of shares. A total of HK$2.00 per HK$1,000 or part thereof is currently payable on a typical sale and purchase transaction involving shares. In addition, a fixed duty of HK$5.00 is currently payable on any instrument of transfer of shares. The withdrawal of shares upon the surrender of ADRs, and the issuance of ADRs upon the deposit of shares, will also attract stamp duty at the rate described above for sale and purchase transactions unless the withdrawal or deposit does not result in a change in the beneficial ownership of the shares under Hong Kong law. The issuance of the ADRs upon the deposit of shares issued directly to the depositary or for the account of the depositary does not incur stamp duty if it does not involve a change of beneficial ownership in the shares. No Hong Kong stamp duty is payable upon the transfer of ADSs outside Hong Kong.

United States

U.S. Federal Income Tax Considerations

The following is a discussion of the material U.S. federal income tax consequences of owning and disposing of ADSs or shares by U.S. Holders (as defined below), but it does not purport to be a comprehensive description of all the tax considerations that may be relevant to a particular person's decision to hold such ADSs or shares. This discussion does not address U.S. state, local and non-U.S. tax consequences. The discussion applies only to U.S. Holders who hold ADSs or shares as capital assets for U.S. federal income tax purposes and it does not address special classes of holders, such as:

- certain financial institutions;
- dealers or traders in securities who use a mark-to-market method of tax accounting;
- persons holding ADSs or shares as part of a hedge, straddle, conversion, integrated transaction or similar transaction;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes;
- persons liable for the alternative minimum tax;
- tax-exempt entities, including an "individual retirement account" or "Roth IRA";
- persons that own or are deemed to own 10% or more of our voting stock;
- persons who acquired our ADSs or shares pursuant to the exercise of an employee stock option or otherwise as compensation; or
- persons holding shares in connection with a trade or business conducted outside of the United States.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds ADSs or shares, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships holding ADSs or shares and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of holding and disposing of the ADSs or shares.

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This discussion is based on the Internal Revenue Code of 1986, as amended, administrative pronouncements, judicial decisions, final, temporary and proposed U.S. Treasury regulations and the PRC Treaty, all as of the date hereof. These laws are subject to change, possibly on a retroactive basis. It is also based in part on representations by the Depositary and assumes that each obligation under the Deposit Agreement and any related agreement will be performed in accordance with its terms. U.S. Holders should consult their tax advisers concerning the U.S. federal, state, local and non-U.S. tax consequences of holding and disposing of ADSs or shares in their particular circumstances.

As used herein, a ''U.S. Holder'' is a beneficial owner of ADSs or shares that is, for U.S. federal income tax purposes: (i) a citizen or resident of the United States; (ii) a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States or any political subdivision thereof; or (iii) an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

In general, a U.S. Holder who owns ADSs should be treated as the owner of the underlying shares represented by those ADSs for U.S. federal income tax purposes. Accordingly, no gain or loss should be recognized if a U.S. Holder exchanges ADSs for the underlying shares represented by those ADSs.

The U.S. Treasury has expressed concerns that parties to whom American depositary shares are released before delivery of shares to the depositary ("pre-release"), or intermediaries in the chain of ownership between holders and the issuer of the securities underlying the American depositary shares, may be taking actions that are inconsistent with the claiming of foreign tax credits by holders of American depositary shares. Such actions would also be inconsistent with the claiming of the reduced rate of tax, described below, applicable to dividends received by certain non-corporate holders. Accordingly, the availability of the reduced tax rate for dividends received by certain non-corporate holders, described below, could be affected by actions taken by such parties or intermediaries.

This discussion assumes that we were not, and will not become, a passive foreign investment company, or PFIC, as described below.

Taxation of Distributions

Distributions received by a U.S. Holder on ADSs or shares, other than certain pro rata distributions of common shares to all shareholders, will constitute foreign-source dividend income to the extent paid out of our current or accumulated earnings and profits (as determined for U.S. federal income tax purposes). Because we do not maintain calculations of our earnings and profits under U.S. federal income tax principles, it is expected that distributions generally will be reported to U.S. Holders as dividends. The amount of the dividend a U.S. Holder will be required to include in income will equal the U.S. dollar value of the Hong Kong dollar distribution, calculated by reference to the exchange rate in effect on the date the payment is received by the depositary (or, in the case of shares, received by the holder), regardless of whether the payment is converted into U.S. dollars on the date of receipt. If the dividend is converted into U.S. dollars on the date of receipt, a U.S. Holder should not be required to recognize foreign currency gain or loss in respect of the dividend income. A U.S. Holder may have foreign currency gain or loss if the dividend is converted into U.S. dollars after the date of receipt. Corporate U.S. Holders will not be entitled to claim the dividends-received deduction with respect to dividends paid by us.

Subject to applicable limitations and the discussion above regarding concerns expressed by the U.S. Treasury, dividends paid by "qualified foreign corporations" to certain non-corporate U.S. Holders in taxable years beginning before January 1, 2011, are taxable at a maximum rate of 15%. A foreign corporation is treated as a qualified foreign corporation with respect to dividends paid on stock that is readily tradable on an established securities market in the United States, such as the New York Stock Exchange where our ADSs are traded. Non-corporate U.S. Holders should consult their own tax advisers to determine whether these favorable rates may apply to dividends they receive from us and whether they are subject to any special rules that limit their ability to be taxed at this favorable rate.

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As described in "—Taxation—The PRC," if we are a CRE under PRC tax law, dividends paid with respect to our ordinary shares or ADSs may be subject to PRC withholding taxes. For U.S. federal income tax purposes, the amount of a dividend would include any amounts withheld by us in respect of PRC taxes. Subject to applicable limitations, and in the case of ADSs subject to the discussion above regarding concerns expressed by the U.S. Treasury, any PRC income taxes withheld from dividends on ADSs or shares at a rate not exceeding the rate provided by the PRC Treaty may be creditable against the U.S. Holder's U.S. federal income tax liability. PRC taxes withheld in excess of the rate applicable under the PRC Treaty will not be eligible for credit against a U.S. Holder's federal income tax liability. The rules governing foreign tax credits are complex, and U.S. Holders should consult their tax advisers regarding the creditability of foreign taxes in their particular circumstances. Instead of claiming a credit, a U.S. Holder may, at the U.S. Holder's election, deduct such PRC taxes, if any, in computing taxable income. An election to deduct foreign taxes instead of claiming foreign tax credits must apply to all taxes paid or accrued in the taxable year to foreign countries and possessions of the United States.

Sale or Other Disposition of ADSs or Shares

A U.S. Holder will generally recognize capital gain or loss on the sale or other disposition of ADSs or shares, which will be long-term capital gain or loss if the holder has held such ADSs or shares for more than one year. The amount of the U.S. Holder's gain or loss will be equal to the difference between the amount realized on the sale or other disposition (as determined in U.S. dollars) and such holder's tax basis in the ADSs or shares (as determined in U.S. dollars). Any gain or loss will generally be U.S.-source gain or loss for foreign tax credit purposes.

Passive Foreign Investment Company Considerations

We believe that we were not a PFIC for U.S. federal income tax purposes for our taxable year ended December 31, 2009. In general, a non-U.S. company will be considered a PFIC for U.S. federal income tax purposes for any taxable year in which (i) 75% or more of its gross income consists of passive income (such as dividends, interest, rents and royalties) or (ii) 50% or more of the average quarterly value of its assets consists of assets that produce, or are held for the production of, passive income. As PFIC status depends upon the composition of our income and assets and the market value of our assets (including, among other things, any equity investments in less than 25%-owned entities) from time to time, and since there are uncertainties in the manner of application of the PFIC rules, there can be no assurance that we will not be considered a PFIC for any taxable year.

If we were to be treated as a PFIC for any taxable year during which a U.S. Holder held ADSs or shares, certain adverse U.S. federal income tax rules would apply on a disposition (including a pledge) of ADSs or shares by the U.S. Holder. In general, under those rules, gain recognized by the U.S. Holder on a sale or other disposition of ADSs or shares would be allocated ratably over the U.S. Holder's holding period for the ADSs or shares. The amounts allocated to the taxable year of the sale or other disposition and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for such taxable year, and an interest charge would be imposed on the amount allocated to each such taxable year. Further, any distribution in respect of ADSs or shares in excess of 125% of the average of the annual distributions on ADSs or shares received by the U.S. Holder during the preceding three years or the U.S. Holder's holding period, whichever is shorter, would be subject to taxation in the same manner as gain, described immediately above. Certain elections may be available (including a mark-to-market election) to U.S. Holders that may mitigate the adverse tax consequences resulting from PFIC status.

In addition, if we were to be treated as a PFIC in a taxable year in which we pay a dividend or the prior taxable year, the 15% dividend rate discussed above with respect to dividends received by certain non-corporate U.S. Holders would not apply.

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Information Reporting and Backup Withholding

Payment of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting, and may be subject to backup withholding, unless the U.S. Holder is a corporation or other exempt recipient or, in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the holder's U.S. federal income tax liability and may entitle such holder to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

F. DIVIDENDS AND PAYING AGENTS

Not applicable.

G. STATEMENT BY EXPERTS

Not applicable.

H. DOCUMENTS ON DISPLAY

We are subject to the informational requirements of the Exchange Act and accordingly file reports and other information with the Securities and Exchange Commission. You may inspect and copy our reports and other information we file with the Securities and Exchange Commission at the public reference facilities maintained by the Securities and Exchange Commission. Copies of such material may also be obtained at prescribed rates by writing to the Public Reference Section of the Securities and Exchange Commission at 100 F Street, NE, Washington, D.C. 20549. Please call 1-800-SEC-0330 for information on the location and operation of the Securities and Exchange Commission's public reference facilities. Our filings with the Securities and Exchange Commission are also available to the public over the internet at its website at http://www.sec.gov.

I. SUBSIDIARY INFORMATION

Not applicable.

ITEM 11. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Our market risk exposures primarily consist of fluctuations in oil and gas prices, exchange rates and interest rates.

Commodity Price Risks

We are exposed to fluctuations in prices of crude oil. International oil prices are volatile and this volatility has a significant effect on our net sales and profit. We do not hedge market risk resulting from fluctuations in oil prices. See "Item 4—Information on the Company—Business Overview—Overview" and "Item 3—Key Information—Risk Factors—Our business, revenues and profits fluctuate with changes in oil and gas prices."

Currency Risk

Our foreign exchange exposure gives rise to market risk associated with exchange rate movements.

Substantially all of our oil and gas sales are denominated in Renminbi and U.S. dollars. During the ten years prior to 2005, the PRC government's policy of maintaining a stable exchange rate and China's ample foreign reserves had contributed to the stability of Renminbi. On July 21, 2005, China reformed its exchange rate regime by adopting a managed floating exchange rate approach that is based on market supply and demand and with reference to a basket of currencies. Renminbi is no longer pegged to U.S. dollars. From January 1, 2009 to March 31, 2010, Renminbi appreciated approximately 0.12% against U.S. dollar. However, the Chinese government has not yet determined if or when the exchange rate will be deregulated.

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Our management has assessed our exposure to foreign currency risk using a sensitivity analysis. Based on a five percent change in the value of the U.S. dollar occurring on December 31, 2009, the exposure of our results of operations, monetary assets and liabilities and investments in foreign subsidiaries would each be less than 1.27% of our profit for the year.

The appreciation of Renminbi against U.S. dollar may have the following impact on us:

- Our oil and gas sales may decrease, because the benchmark oil and gas prices are usually in U.S. dollars;
- Our cost for imported equipment and materials will decrease, because most of these costs are denominated in U.S. dollars; and
- Our debt repayment burden will decrease, since all of our debt is denominated in U.S. dollars.

For further information on our currency risk, see "Item 3—Key Information—Risk Factors—Government control of currency conversion and future movements in exchange rates may adversely affect our operations and financial condition."

Interest Rate Risk

We are exposed to interest rate risk arising from our loans. An upward fluctuation in interest rates increases the cost of new debt and the cost of servicing our floating rate debt. We may use interest rate swap transactions, from time to time, to hedge our interest rate exposure when considered appropriate, based on existing and anticipated market conditions.

As of December 31, 2009, the interest rates for 36% of our outstanding debts were fixed. The term of the weighted average balance was approximately 6.9 years. A fixed interest rate can reduce the volatility of finance costs in uncertain markets. We do not currently engage in any interest rate hedging activities.

The following table sets forth additional information about the expected maturity dates of our outstanding debt as of December 31, 2009.

	2010	2011	2012	2013	2014	2015 and after	Total	Fair value as of December 31, 2009
	(Rmb in millions, except percentages)							
Long-term debt, including current portion								
Floating rate	122.1	165.3	196.8	228.2	259.7	10,966.9	11,939.0	12,491.8
Interest rate	LIBOR+ 0.23% ~4%	LIBOR+ 0.23% ~4%	LIBOR+ 0.23% ~4%	LIBOR+ 0.23% ~4%	LIBOR+ 0.23% ~4%	LIBOR+ 0.23% ~4%		
Long-term guaranteed notes								
Fixed rate	—	—	3,414.1	1,365.6	—	2,048.5	6,828.2	7,113.5
Average interest rate	5.663%	5.663%	5.154%	5.215%	5.500%	5.500%		

For additional discussions of our market risks, see “Item 3—Key Information—Risk Factors.”

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ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

D. AMERICAN DEPOSITARY SHARES

JPMorgan Chase Bank, N.A. is our Depositary. The depositary's office is located at 4 New York Plaza, New York, NY 10004. Each of our ADRs represents 100 shares of par value HK$0.02 per share.

ADR Fees Payable by Investors

The Depositary may charge each person to whom ADRs are issued against deposits of shares, including deposits in respect of share distributions, rights and other distributions, and each person surrendering ADRs for withdrawal of deposited securities (including, without limitation, on the termination of the deposit agreement), US$5.00 for each 100 ADSs (or portion thereof) evidenced by the ADRs delivered or surrendered.

The charges of the Depositary payable by investors are as follows:

Category (as defined by SEC)	Depositary Actions	Associated Fee
(a) Depositing or substituting the underlying shares	Each person to whom ADRs are issued against deposits of Shares, including deposits and issuances in respect of: · Share distributions, stock split, rights, merger · Exchange of securities or any other transaction or event or other distribution affecting the ADSs or the Deposited Securities	US$5.00 for each 100 ADSs (or portion thereof) evidenced by the new ADRs delivered
(b) Withdrawing an underlying security	Acceptance of ADRs surrendered for withdrawal of deposited securities	US$5.00 for each 100 ADSs (or portion thereof) evidenced by the ADRs surrendered

Payments Received by Foreign Private Issuer

The Depositary has agreed to reimburse certain company expenses related to our ADS program and incurred by us in connection with the program. The Depositary reimbursed us, or paid amounts on our behalf to third parties, or waived its fees and expenses, of US$572,548.65 for the year ended December 31, 2009.

Direct Payments

The table below sets forth the types of expenses that the Depositary has agreed to reimburse, and the invoices relating to the year ended December 31, 2009 that were reimbursed:

Category of Expenses	Amount Reimbursed for Fiscal Year Ended December 31, 2009 (US$)
NYSE Listing fees	38,000.00
Investor relations1	65,969.01

Broker reimbursements2	318,579.64
Total	422,548.65

1 Includes United States depositary receipt training and investor relations expenses for road show in 2008.
2 Broker reimbursements are fees payable to Broadridge and other service providers for the distribution of hard copy material to beneficial ADR holders in the Depositary Trust Company. Corporate material includes information related to shareholders' meetings and related voting instruction cards. These fees are SEC approved.

Indirect Payments

The Depositary has also agreed to waive fees for standard costs associated with the administration of the ADS program and has paid certain expenses directly to third parties on our behalf. The table below sets forth those expenses that the Depositary waived or paid directly to third parties relating to the year ended December 31, 2009:

Category of Expenses	Amount Reimbursed for Fiscal Year Ended December 31, 2009 (US$)
Fees waived	150,000.00

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PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

A. MATERIAL MODIFICATIONS TO THE INSTRUMENTS DEFINING THE RIGHTS OF SECURITY HOLDERS

None.

B. MATERIAL MODIFICATIONS TO THE RIGHTS OF REGISTERED SECURITIES BY ISSUING OR MODIFYING ANY OTHER CLASS OF SECURITIES

None.

C. WITHDRAWAL OR SUBSTITUTION OF A MATERIAL AMOUNT OF THE ASSETS SECURING ANY REGISTERED SECURITIES

Not applicable.

D. CHANGE OF TRUSTEES OR PAYING AGENTS FOR ANY REGISTERED SECURITIES

Not applicable.

E. USE OF PROCEEDS

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

An evaluation was carried out under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness, as of December 31, 2009, of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act).

Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2009, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported as and when required by the SEC’s rules and forms and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Management’s annual report on internal control over financial reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act.

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

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2009 using the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, our management has concluded that our internal control over financial reporting as of December 31, 2009 was effective.

(c) Attestation Report of the Registered Public Accounting Firm

Our independent auditors have issued an audit report on the effectiveness of our internal control over financial reporting. This report appears on page F-4.

(d) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2009 that have materially affected, or that were reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Mr. Aloysius Hau Yin Tse has been designated by our Board as an audit committee financial expert. Mr. Tse is independent as defined in the listing standards of the New York Stock Exchange.

ITEM 16B. CODE OF ETHICS

Our Board adopted a code of ethics on August 28, 2003 to provide guidelines to our senior management and directors in legal and ethical matters as well as the sensitivities involved in reporting illegal and unethical matters. Such code of ethics covers such areas as supervisory rules, insider dealing, market malpractices, conflict of interests, company opportunities, protection and proper use of our assets as well as reporting requirements. We used to review our code of ethics and adopted a revised code of ethics in 2005. Pursuant to new provisions of the Hong Kong Stock Exchange Listing Rules effective January 1, 2009, we reviewed our code of ethics and adopted the revised code of ethics, or the New Code of Ethics, in August 2009, as part of our continuing efforts to improve our corporate governance standard.

We have provided all our directors and senior officers with a copy of the New Code of Ethics and require them to comply with it in order to ensure our operations are proper and lawful. We will take disciplinary actions against any act which is in breach of the New Code of Ethics. Any change or waiver, explicit or implicit, with respect to our New Code of Ethics, must be disclosed to our shareholders either in our annual report or on our internet website, www.cnoocltd.com.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees

The aggregate fees billed for professional services rendered by our principal accountants for the audit of our annual financial statements or services that are normally provided by the accountants in connection with statutory and regulatory filings or engagements were Rmb 23.4 million for 2008 and Rmb 15.4 million (US$2.3 million) for 2009.

Audit-Related Fees

The aggregate fees billed for assurance and related services by our principal accountants that are reasonably related to the performance of the audit or review of financial statements and are not reported under "Audit Fees" were nil for 2008 and Rmb 1.1 million (approximately US$0.2 million) for 2009.

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Tax Fees

The aggregate fees billed for professional service rendered by the principal accountant for tax compliance, tax advice and tax planning were Rmb 1.2 million for 2008 and approximately Rmb 45.0 thousand (approximately US$6.6 thousand) for 2009.

All Other Fees

The aggregate fees billed for professional services rendered by our principle accountant for risk management advisory services and information systems reviews were Rmb 0.5 million for 2008 and Rmb 1.5 million (US$0.2 million) for 2009.

The aggregate fees billed for products and services provided by our principal accountant, other than the services reported above, were nil for fiscal years 2008 and 2009.

Audit Committee's pre-approval policies and procedures

Our audit committee under our Board is responsible for the appointment, compensation and oversight of the work of our principal accountant. In 2003, our audit committee adopted a policy calling for the audit committee's pre-approval for the engagement of our principal accountant for audit and permitted non-audit services. Our Board has also ratified the policy and procedures. Under this audit committee policy, proposed services may be pre-approved by our audit committee either on an annual basis or on a case-by-case basis. Appendices to the audit committee policy set forth (1) the audit, audit-related, tax and other services that may be subject to the general annual pre-approval of the audit committee; (2) non-audit services of a routine and recurring nature that may be subject to specific pre-approval from the audit committee on a case-by-case basis; and (3) a list of prohibited non-audit services. Our audit committee will periodically review and revise these appendices based on its subsequent determinations. The audit committee policy also provides for procedures to establish annual fee levels or budgets for pre-approved services and ratios between different categories of pre-approved services. In addition, the audit committee policy contains provisions that deal with compliance, monitoring, reporting and other related matters.

During 2009, all fees for audit-related services, tax services and all other services paid to our principal accountant were approved by our audit committee.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

None.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

See "Item 6—Directors, Senior Management and Employees—Board Practice—Summary of Significant Differences in Corporate Governance Practices for Purposes of Section 303A.11 of the New York Stock Exchange Listed Company

Manual."

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PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

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

ITEM 19. EXHIBITS

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

Exhibit Number	Document
1.1	Articles of Association of the Registrant, as amended in 2005, incorporated by reference to Exhibit 1.1 to our Annual Report on Form 20-F for fiscal year 2005 filed with the Securities and Exchange Commission (File Number: 1-14966).
1.2	Memorandum of Association of the Registrant, incorporated by reference to Exhibit 3.2 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
2.1	Form of Indenture, incorporated by reference to Exhibit 2.1 to our annual report on Form 20-F for fiscal year 2002 filed with the Securities and Exchange Commission (File Number: 1-14966).
2.2	Trust Deed dated December 15, 2004 among CNOOC Limited, CNOOC Finance (2004) Limited and J.P. Morgan Corporate Trustee Services Limited, incorporated by reference to Exhibit 2.2 to our annual report on Form 20-F for fiscal year 2004 filed with the Securities and Exchange Commission (File Number: 1-14966).
4.1	The Asset Swap Agreement dated July 20, 1999 between CNOOC and Offshore Oil Company Limited, incorporated by reference to Exhibit 10.1 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
4.2	The Asset Allocation Agreement dated July 20, 1999 between CNOOC and Offshore Oil Company Limited, incorporated by reference to Exhibit 10.2 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
4.3	The Reorganization Agreement dated September 13, 1999 between CNOOC, Offshore Oil Company Limited and CNOOC Limited, incorporated by reference to Exhibit 10.3 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).
4.4	Form of the Equity Transfer Agreement between CNOOC and CNOOC Limited, incorporated by reference to Exhibit 10.4 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).

4.5	Form of the Transfer Agreement dated October 1, 1999 between CNOOC and Offshore Oil Company Limited regarding the transfer of the rights and obligations of CNOOC under the 37 PSCs and one geophysical exploration agreement, incorporated by reference to Exhibit 10.5 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).

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

Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).

4.16 Property Leasing Agreement dated September 9, 1999 between China Offshore Oil Western South China Sea Corporation and Offshore Oil Company Limited in respect of the office premises at 1st to 9th Floors, Nantiao Road, Potou District Zhangjiang, Guangdong, incorporated by reference to Exhibit 10.19 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).

4.17 Property Leasing Agreement dated September 9, 1999 between China Offshore Oil Bohai Corporation and Offshore Oil Company Limited in respect of the office premises at 1st to 7th Floors and 9th Floor, 2-37 He Kou Jie, Tanggu District, Tianjin, incorporated by reference to Exhibit 10.20 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).

4.18 Property Leasing Agreement dated September 9, 1999 between China Offshore Oil East China Sea Corporation and Offshore Oil Company Limited in respect of the office premises at 20th, 22nd and 23rd Floors, 583 Ling Ling Road, Shanghai, the PRC, incorporated by reference to Exhibit 10.21 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).

4.19 Property Leasing Agreement dated September 9, 1999 between China Offshore Oil Eastern South China Sea Corporation and Offshore Oil Company Limited in respect of the office premises at 3rd Floor and 6th to 11th Floors, 1 Second Industrial Road, Shekou, Shenzhen, the PRC, incorporated by reference to Exhibit 10.22 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).

4.20 Property Leasing Agreement dated September 9, 1999 between China Offshore Oil Bohai Corporation and Offshore Oil Company Limited in respect of the Chengbei Warehouse, Chengbei Road, Tanggu District, Tianjin City, the PRC, incorporated by reference to Exhibit 10.23 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).

4.21 Property Leasing Agreement dated September 9, 1999 between Overseas Oil & Gas Corporation Ltd. and China Offshore Oil (Singapore) International Pte Ltd in respect of the residential premises at 10-01 and 17-002 Aquamarine Tower, 50 Bayshore Road, 13-05 Jade Tower, 60 Bayshore Road, Singapore, incorporated by reference to Exhibit 10.24 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).

4.22 Suizhong Pier Agreement dated September 9, 1999 between Offshore Oil Company Limited and China Offshore Bohai Corporation, incorporated by reference to Exhibit 10.25 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).

4.23 Form of Novation Agreement among CNOOC, CNOOC China Limited, the Banks and other financial institution and the Fuji Bank Limited Hong Kong Branch, as agent, in respect of the transfer of the US$110 million syndicated loan, incorporated by reference to Exhibit 10.26 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).

4.24 Form of the Undertaking Agreement between CNOOC and CNOOC Limited, incorporated by reference to Exhibit 10.27 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).

4.25 Form of Pre-Global Offering Share Option Scheme for the Senior Management of CNOOC Limited, incorporated by reference to Exhibit 10.31 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).

4.26 Form of Share Option Scheme for the Senior Management of CNOOC Limited, incorporated by reference to Exhibit 10.32 to our Registration Statement on Form F-1 filed with the Securities and Exchange Commission (File Number: 333-10862).

4.27	CNOOC Limited Share Option Scheme adopted on December 31, 2005, incorporated by reference to Exhibit 4.37 to our Annual Report on Form 20-F for fiscal year 2005 filed with the Securities and Exchange Commission (File Number: 1-14966).

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

Exhibit 4.49 to our Annual Report on Form 20-F for fiscal year 2005 filed with the Securities and Exchange Commission (File number: 1-14966).

4.39 Framework Agreement dated November 8, 2007 with China BlueChemical Ltd. (Summary Translation), incorporated by reference to Exhibit 4.37 to our Annual Report on Form 20-F for fiscal year 2007 filed with the Securities and Exchange Commission (File number: 1-14966).

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4.40	Framework Agreement dated November 8, 2007 with CNOOC (Summary Translation), incorporated by reference to Exhibit 4.38 to our Annual Report on Form 20-F for fiscal year 2007 filed with the Securities and Exchange Commission (File number: 1-14966).
4.41	Framework Agreement dated November 8, 2007 with China Oilfield Services Limited (Summary Translation), incorporated by reference to Exhibit 4.39 to our Annual Report on Form 20-F for fiscal year 2007 filed with the Securities and Exchange Commission (File number: 1-14966).
4.42	Framework Agreement dated November 8, 2007 with Offshore Oil Engineering Co., Ltd. (Summary Translation), incorporated by reference to Exhibit 4.40 to our Annual Report on Form 20-F for fiscal year 2007 filed with the Securities and Exchange Commission (File number: 1-14966).
8.1	List of Subsidiaries.
10.1	Letter from CNOOC Limited dated May 23, 2002 regarding receipt of certain representations from Arthur Andersen & Co pursuant to the requirements of the Securities and Exchange Commission, incorporated by reference to Exhibit 10 to our annual report on Form 20-F for fiscal year 2001 filed with the Securities and Exchange Commission (File Number: 1-14966).
11.1	Code of Ethics for Directors and Senior Officers, as amended in 2009.
12.1	Certification by the Chief Executive Officer in accordance with Section 302 of the Sarbanes-Oxley Act of 2002.
12.2	Certification by the Chief Financial Officer in accordance with Section 302 of the Sarbanes-Oxley Act of 2002.
13.1	Sarbanes-Oxley Act of 2002 Section 906 Certification furnished to (not filed with) the Securities and Exchange Commission.
15.1	2009 Reserves Report of Ryder Scott Company, L.P.
15.2	2009 Reserves Report of Gaffney, Cline & Associates (Consultants) Pte Ltd.

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SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

CNOOC Limited

By: /s/ Yongzhi Jiang
Name: Yongzhi Jiang
Title: Joint Company Secretary

Date: April 23, 2010

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CNOOC LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007, 2008 AND 2009
TOGETHER WITH REPORT OF INDEPENDENT PUBLIC ACCOUNTING FIRM

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INDEX TO FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENTS

To the Board of Directors and Shareholders of CNOOC Limited
(Incorporated in Hong Kong with limited liability)

We have audited the accompanying consolidated statements of financial position of CNOOC Limited (the "Company") and its subsidiaries (the "Group") as of December 31, 2009 and 2008, and the related consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group at December 31, 2009 and 2008 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board and Hong Kong Financial Reporting Standards as issued by the Hong Kong Institute of Certified Public Accountants.

As discussed in note 3 to the consolidated financial statements, the Company has changed its reserve estimates and related disclosures as a result of adopting new oil and gas reserve estimation and disclosure requirements.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group's internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 31, 2010 expressed an unqualified opinion thereon.

/S/ Ernst & Young
Certified Public Accountants
Hong Kong
March 31, 2010

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Shareholders of CNOOC Limited
(Incorporated in Hong Kong with limited liability)

We have audited CNOOC Limited's internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). CNOOC Limited's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying "Management's annual report on internal control over financial reporting". Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, CNOOC Limited maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of CNOOC Limited as of December 31, 2009 and 2008, and the related consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2009 of CNOOC Limited and our report dated March 31, 2010 expressed an unqualified opinion thereon.

/S/ Ernst & Young
Certified Public Accountants
Hong Kong
March 31, 2010

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CNOOC LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2007, 2008 AND 2009

	Notes	2007 RMB'000	2008 RMB'000	2009 RMB'000	2009 US$'000
REVENUE					
Oil and gas sales	5	73,036,906	100,831,333	83,914,379	12,293,526
Marketing revenues		17,397,338	22,966,752	20,751,961	3,040,180
Other income		289,587	2,179,297	528,737	77,460
		90,723,831	125,977,382	105,195,077	15,411,166
EXPENSES					
Operating expenses		(8,039,603)	(9,990,368)	(12,490,363)	(1,829,849)
Production taxes	11	(3,497,440)	(4,889,272)	(3,647,153)	(534,311)
Exploration expenses		(3,432,419)	(3,409,546)	(3,233,683)	(473,737)
Depreciation, depletion and amortization	7	(7,936,170)	(10,057,665)	(15,942,902)	(2,335,648)
Special oil gain levy	6	(6,837,213)	(16,238,234)	(6,357,304)	(931,350)
Impairment and inventory provision	14,19	(613,505)	(1,541,458)	(6,903)	(1,011)
Crude oil and product purchases		(17,082,624)	(22,675,049)	(20,455,217)	(2,996,706)
Selling and administrative expenses		(1,741,161)	(1,742,597)	(2,263,957)	(331,672)
Others		(344,679)	(1,568,039)	(473,015)	(69,298)
		(49,524,814)	(72,112,228)	(64,870,497)	(9,503,582)
PROFIT FROM OPERATING ACTIVITIES		41,199,017	53,865,154	40,324,580	5,907,584
Interest income	7	672,987	1,091,024	638,252	93,504
Finance costs	8	(2,031,788)	(415,271)	(534,539)	(78,310)
Exchange gains, net	7	1,855,968	2,551,260	53,799	7,882
Investment income	7	902,378	475,925	199,925	29,289
Share of profits of associates		719,039	374,111	173,459	25,412
Non-operating expenses, net		(6,979)	(61,917)	(34,385)	(5,037)
PROFIT BEFORE TAX	7	43,310,622	57,880,286	40,821,091	5,980,324
Income tax expense	11	(12,052,323)	(13,505,032)	(11,335,516)	(1,660,663)
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT		31,258,299	44,375,254	29,485,575	4,319,661
OTHER COMPREHENSIVE LOSS					
Exchange differences on translation of foreign operations		(3,861,917)	(5,074,423)	(158,312)	(23,193)
Net (loss)/gain on available-for-sale financial assets, net of tax	18	3,416	10,310	(73,736)	(10,802)

Share of other comprehensive income of associates		-	4,316	6,979	1,022
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		(3,858,501)	(5,059,797)	(225,069)	(32,973)
TOTAL COMPREHENSIVE INCOME		27,399,798	39,315,457	29,260,506	4,286,688
EARNINGS PER SHARE FOR THE YEAR ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT					
Basic	13	RMB0.72	RMB0.99	RMB0.66	USD0.10
Diluted	13	RMB0.72	RMB0.99	RMB0.66	USD0.10

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

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CNOOC LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2008 AND 2009

	Notes	2008 RMB'000	2009 RMB'000	2009 US$'000
NON-CURRENT ASSETS				
Property, plant and equipment	14	138,358,136	165,319,871	24,219,498
Intangible assets	15	1,205,645	1,230,127	180,215
Investments in associates	16	1,785,155	1,726,806	252,979
Available-for-sale financial assets	18	1,549,797	3,119,955	457,075
Total non-current assets		142,898,733	171,396,759	25,109,767
CURRENT ASSETS				
Inventories and supplies	19	2,684,372	3,145,855	460,870
Trade receivables	20	3,387,910	6,397,601	937,254
Due from related companies		2,856,267	6,952,572	1,018,558
Available-for-sale financial assets	18	11,660,649	8,582,364	1,257,323
Other current assets		2,119,465	2,308,035	338,129
Time deposits with maturity over three months	21	21,300,000	20,870,000	3,057,472
Cash and cash equivalents	21	19,761,618	22,615,037	3,313,122
Total current assets		63,770,281	70,871,464	10,382,728
CURRENT LIABILITIES				
Trade and accrued payables	22	8,991,650	7,544,830	1,105,324
Due to the parent company		204,814	368,464	53,980
Due to related companies		2,921,713	8,062,810	1,181,208
Other payables and accrued liabilities	23	3,815,989	9,405,093	1,377,854
Current portion of long term bank loans	24	16,623	122,092	17,887
Taxes payable		2,848,454	5,538,661	811,418
Total current liabilities		18,799,243	31,041,950	4,547,671
NET CURRENT ASSETS		44,971,038	39,829,514	5,835,057
TOTAL ASSETS LESS CURRENT LIABILITIES		187,869,771	211,226,273	30,944,824
NON-CURRENT LIABILITIES				
Long term bank loans	24	7,115,408	11,816,908	1,731,187
Long term guaranteed notes	25	6,748,598	6,753,153	989,343
Provision for dismantlement	26	8,339,734	11,281,089	1,652,689
Deferred tax liabilities	11	5,428,323	7,439,620	1,089,910
Total non-current liabilities		27,632,063	37,290,770	5,463,129
Net assets		160,237,708	173,935,503	25,481,695

EQUITY				
Equity attributable to owners of the parent				
Issued capital	27	949,299	949,299	139,073
Reserves	28	159,288,409	172,986,204	25,342,622
Total equity		160,237,708	173,935,503	25,481,695

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

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CNOOC LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007, 2008 AND 2009

	Attributable to owners of the parent							
	Issued capital RMB'000	Share premium and capital redemption reserve RMB'000	Cumulative translation reserve RMB'000	Statutory and non-distributable reserves RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Proposed final dividend RMB'000	Tot RMB'0
At January 1, 2007	923,653	34,965,514	(1,770,537)	19,460,631	275,045	47,915,803	6,001,819	107,771,9
Total comprehensive income for the year	-	-	(3,861,917)	-	3,416	31,258,299	-	27,399,7
2006 final dividend	-	-	-	-	-	25,598	(6,001,819)	(5,976,2
2007 interim dividend	-	-	-	-	-	(5,547,488)	-	(5,547,4
Proposed 2007 final dividend	-	-	-	-	-	(7,052,445)	7,052,445	
Conversion from bonds	18,888	6,078,272	-	-	4,471,324	-	-	10,568,4
Appropriation to statutory and non-distributable reserves	-	-	-	539,369	-	(539,369)	-	
Equity-settled share option expense	-	-	-	-	98,237	-	-	98,2
Share of losses	-	-	-	-	-	-	-	
At December 31, 2007	942,541	41,043,786*	(5,632,454)*	20,000,000*	4,848,022*	66,060,398*	7,052,445*	134,314,7
At January 1, 2008	942,541	41,043,786	(5,632,454)	20,000,000	4,848,022	66,060,398	7,052,445	134,314,7
Total comprehensive income for the year	-	-	(5,074,423)	-	14,626	44,375,254	-	39,315,4
2007 final dividend	-	-	-	-	-	230,915	(7,052,445)	(6,821,5
2008 interim dividend	-	-	-	-	-	(7,830,243)	-	(7,830,2
Proposed 2008 final dividend	-	-	-	-	-	(7,878,753)	7,878,753	
Conversion from bonds**	6,732	1,080,461	-	-	-	-	-	1,087,1

Exercise of share options	26	4,848	-	-	-	-	-	4,87
Equity-settled share option expense	-	-	-	-	167,219	-	-	167,2
Appropriation of safety fund	-	-	-	-	33,831	(33,831)	-	
At December 31, 2008	949,299	42,129,095*	(10,706,877)*	20,000,000*				