



CNOOC Limited
中国海洋石油有限公司

2016 Annual Results

March 23, 2017







Disclaimer

This presentation includes “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, including statements regarding expected future events, business prospectus or financial results. The words “expect”, “anticipate”, “continue”, “estimate”, “objective”, “ongoing”, “may”, “will”, “project”, “should”, “believe”, “plans”, “intends” and similar expressions are intended to identify such forward-looking statements. These statements are based on assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors the Company believes are appropriate under the circumstances. However, whether actual results and developments will meet the expectations and predictions of the Company depends on a number of risks and uncertainties which could cause the actual results, performance and financial condition to differ materially from the Company’s expectations, including those associated with fluctuations in crude oil and natural gas prices, the exploration or development activities, the capital expenditure requirements, the business strategy, whether the transactions entered into by the Group can complete on schedule pursuant to the terms and timetable or at all, the highly competitive nature of the oil and natural gas industries, the foreign operations, environmental liabilities and compliance requirements, and economic and political conditions in the People’s Republic of China. For a description of these risks and uncertainties, please see the documents the Company files from time to time with the United States Securities and Exchange Commission, including the Annual Report on Form 20-F filed in April of the latest fiscal year.

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



Agenda

-  **Overview**
-  **Operating Results and Highlights**
-  **Financial Performance and Analysis**
-  **Outlook**

Overview

Overcoming difficulties and smooth progress made in all works

- Net production was 476.9 million boe*, down 3.8% YoY
- 14 new discoveries were made and 25 oil and gas structures were successfully appraised, with success rate of independent exploration wells in offshore China reached 52-69%
- Reserve replacement ratio excluding economic revisions was 145%
- Four new projects planned for 2016 already came on stream

Stable financial performance with significant achievements made in quality and efficiency enhancement

- Capex of RMB49.0 billion, down 26.3% YoY
- All-in cost of US\$34.67/boe, down 12.9% YoY
- Net profit of RMB637million

Final dividend of HK\$0.23 per share (tax inclusive)

Steady HSE performance



*Including our interest in equity-accounted investees

Results Summary

	2016	2015	Change %
Production (mm boe)	476.9	495.7	-3.8%
- Crude and liquids (mm bbls)	396.4	410.3	-3.4%
- Natural gas (bcf)	467.1	497.7	-6.1%
Realized oil price (US\$/bbl)	41.40	51.27	-19.3%
Realized gas price (US\$/mcf)	5.46	6.39	-14.6%
Oil & gas sales (RMB mm)	121,325	146,597	-17.2%
Net profit (RMB mm)	637	20,246	-96.9%
Basic EPS (RMB)	0.01	0.45	-96.9%

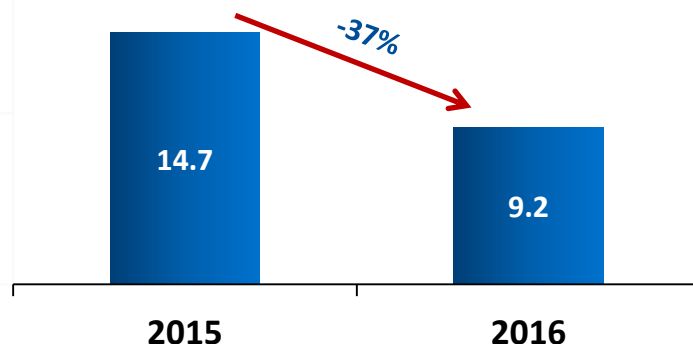




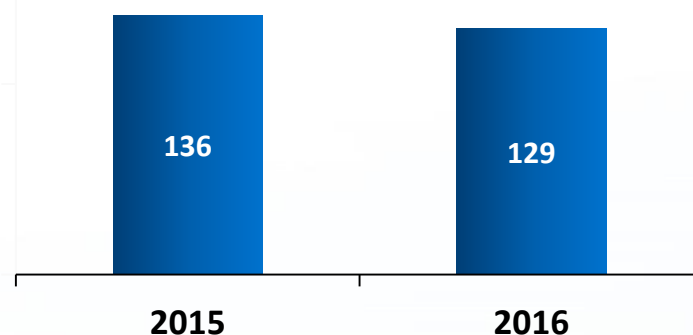
Operating Results and Highlights

Focus on Value-driven Exploration

Exploration Capex
(RMB bn)



Exploration Wells



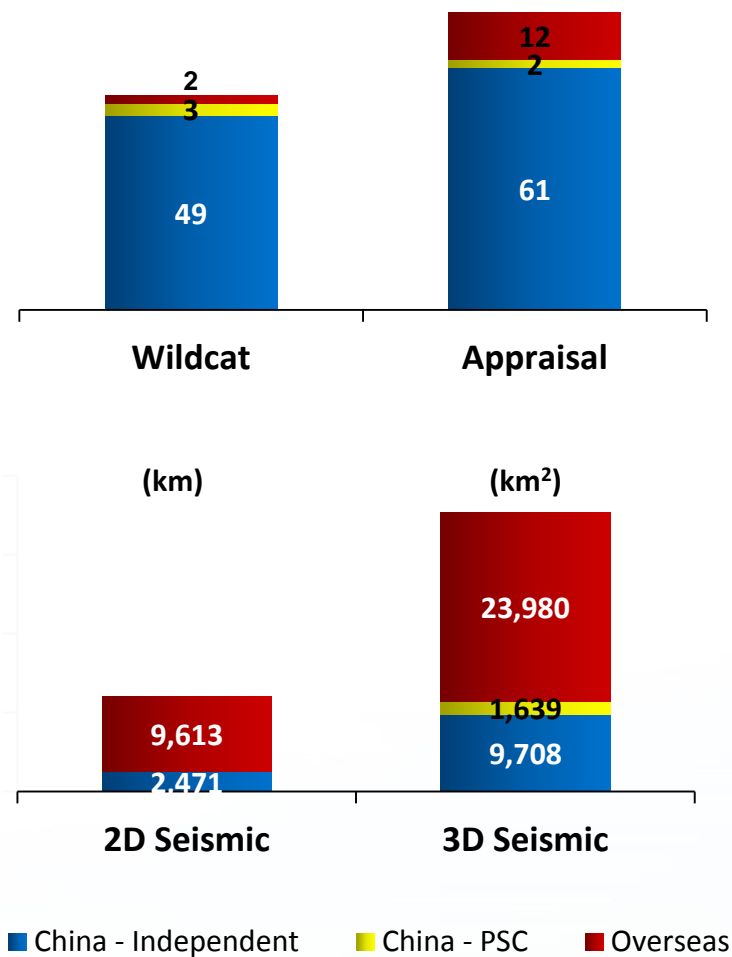
- Strengthen value-driven exploration philosophy, optimize exploration strategy and investment portfolio, and continue to target mid-to-large discoveries.
- Prioritize offshore China, and balance among mature areas, rolling areas and new areas.
- Focus on high-quality blocks and conventional oil and gas exploration overseas.
- Exploration activities remained stable despite exploration Capex significantly reduced by 37% in 2016.

*Excluding unconventional wells



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Exploration Activities

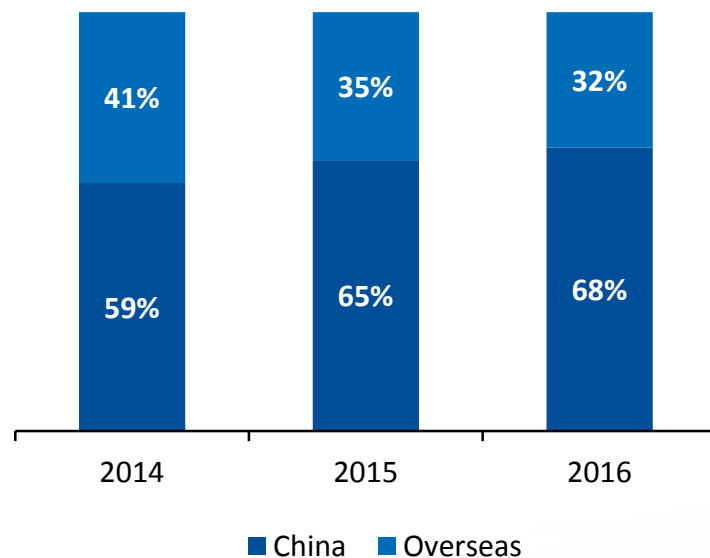


*Excluding unconventional wells

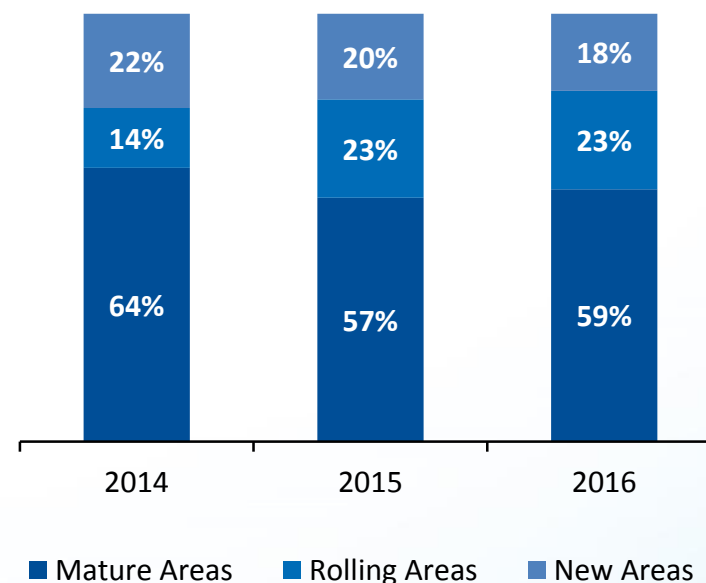


Exploration Strategy

Exploration Capex Portfolio



Independent Exploration Wells in Offshore China



- Higher exploration Capex has been allocated to our core area in offshore China to maximize the investment efficiency under a low oil price environment.
- To achieve reserves growth and production ramp-up in mature areas, integration of exploration and development in rolling areas, and balanced exploration in new areas to lay a solid resource foundation.

New Discoveries in 2016

China

Bohai

- Luda 29-1
- Jinzhou 25-1W
- Caofeidian 12-6
- Caofeidian 6-2
- Penglai 20-2
- Bozhong 34-8
- Qinhuangdao 31-4

Eastern South China Sea

- Huizhou 21-1S
- Panyu 4-1
- Huizhou 19-10
- Xijiang 30-1

Western South China Sea

- Weizhou 6-13N

**Success Rate of
Independent Exploration Wells
in Offshore China
Reached 52-69%**

Overseas

Guyana

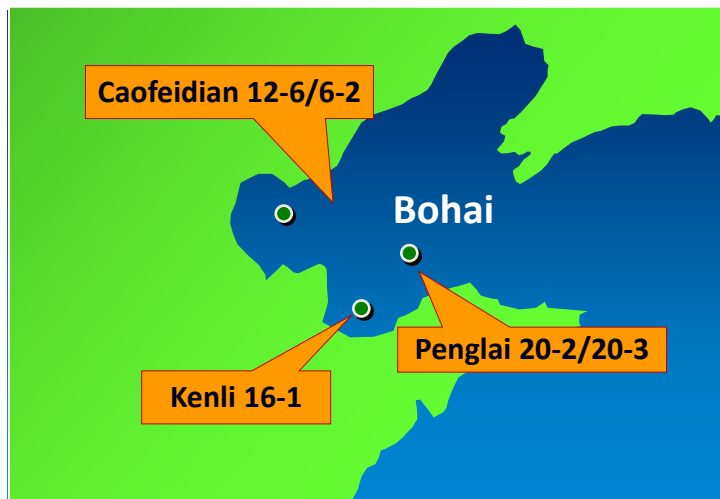
- Payara

Nigeria

- Owowo West

『In 2016, we achieved 14 discoveries and exploration breakthroughs in offshore China and overseas.』

Exploration Breakthroughs – Offshore China






- Effectively appraised 4 mid-to-large oil fields: Kenli 16-1, Caofeidian 12-6/6-2, Penglai 20-2/20-3 and Liuhua 21-2.
- Achieved breakthrough on deep-water gas exploration with the successful drilling of Lingshui 25-1-5 exploration well and further expanded the reserves scale.
- Multiple projects realized integration of exploration and development to improve the overall efficiency and reserve-to-production conversion.

Note: According to the Regulation of Petroleum Reserves Estimation of China, a mid-size oil and gas structure is defined as a structure with recoverable oil resources of $\geq 2,500 \sim < 25,000$ thousand cubic meters and a large-size oil and gas structure is defined as a structure with recoverable oil resources of $\geq 25,000 \sim < 250,000$ thousand cubic meters. 11



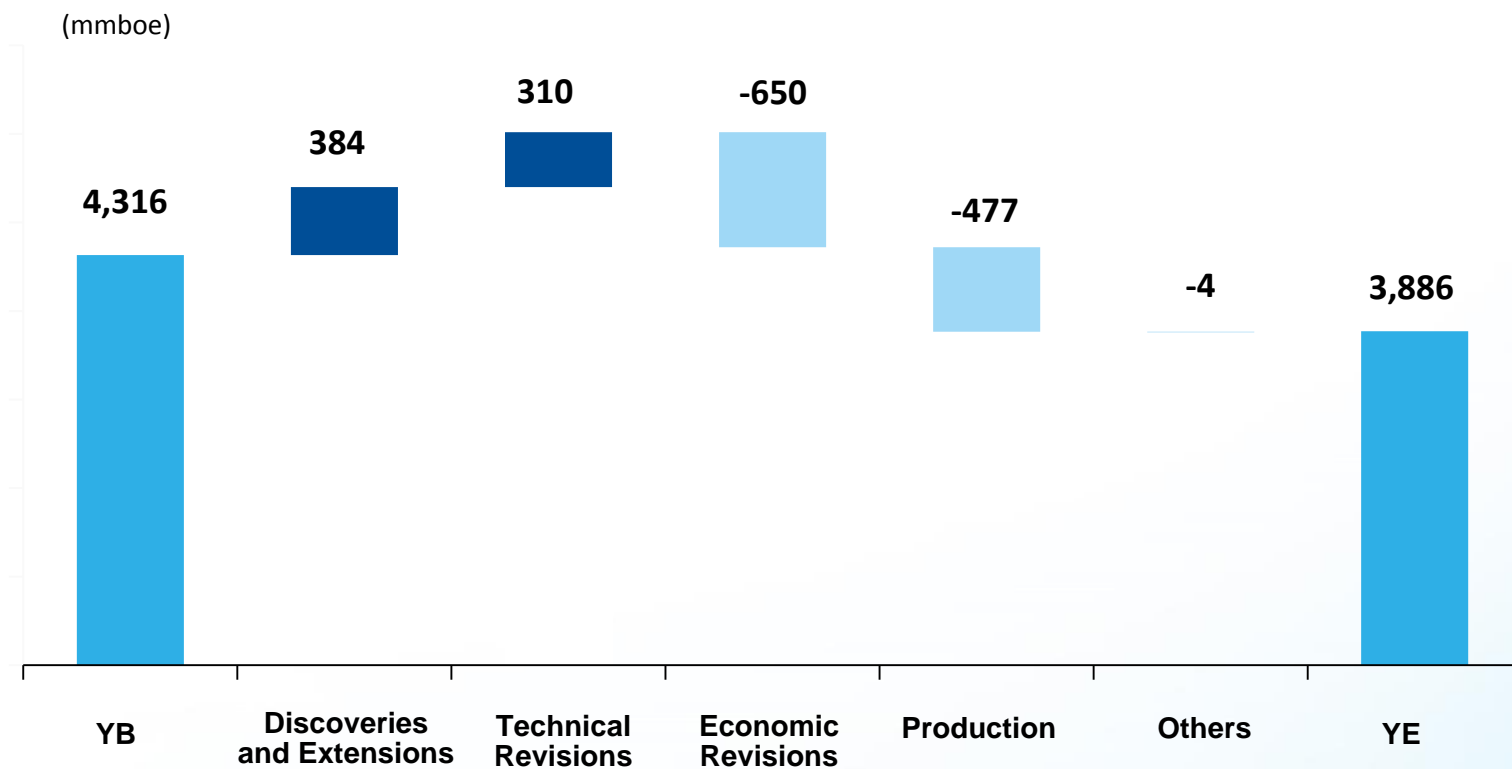
Exploration Breakthroughs - Overseas



-  Successfully drilled 5 appraisal wells of the Libra project in Brazil, further expanding the reserves scale.
-  Successfully appraisal achieved in the Liza oil field in Guyana, expanding to new oil-bearing layers and enhancing to the reserves scale, exploration achieved success in the Payara structure.
-  Successful exploration of the Owowo West structure in Nigeria has proved a large-size oil and gas reservoir, further enhancing the economic value of the block.



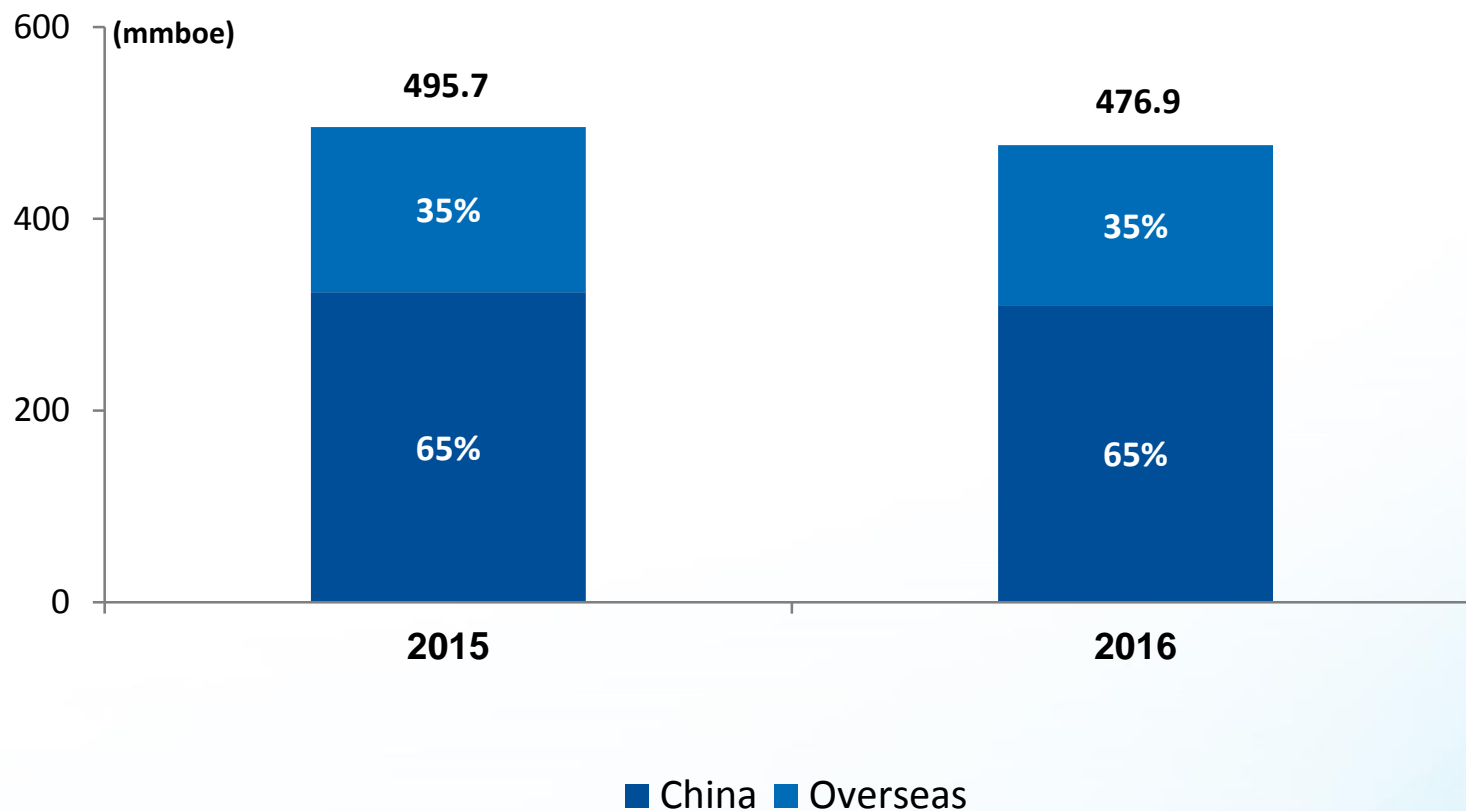
Reserves



 Reserve replacement ratio excluding economic revisions was 145%.



Production



『Production remained stable and reached the target set at the beginning of the year.』



Production Summary

	2016			2015		
	Crude and Liquids (mm bbls)	Natural Gas (bcf)	Total (mm boe)	Crude and Liquids (mm bbls)	Natural Gas (bcf)	Total (mm boe)
China						
Bohai	166.5	49.1	174.7	174.4	50.0	182.8
Western South China Sea	36.0	100.3	53.0	32.8	114.7	52.4
Eastern South China Sea	66.9	68.0	78.3	69.5	85.7	83.8
East China Sea	1.4	22.0	5.1	1.2	18.6	4.3
Subtotal	270.9	239.5	311.1	278.0	269.0	323.4
Overseas						
Asia (Ex. China)	17.8	55.0	27.7	16.7	51.1	25.9
Oceania	1.6	40.8	9.6	1.2	34.1	7.9
Africa	29.4	-	29.4	30.5	-	30.5
North America (Ex. Canada)	17.6	46.6	25.4	20.0	49.1	28.1
Canada	14.8	17.9	17.7	17.0	25.0	21.2
South America	8.3	54.7	17.8	9.1	52.8	18.2
Europe	36.1	12.7	32.8	37.7	16.6	40.5
Subtotal	125.5	227.6	165.8	132.2	228.7	172.3
Total	396.4	467.1	476.9	410.3	497.7	495.7

New Projects in 2016

Project	Location	Expected Startup	Peak Production (boe/d)	Working Interests
Kenli 10-4 oil field	Bohai	Q1	9,600	100%
Panyu 11-5 oil field	Eastern South China Sea	Q2	3,900	100%
Weizhou 6-9/6-10 oil fields comprehensive adjustment	Western South China Sea	Q3	3,800	100%
Enping 18-1 oil field	Eastern South China Sea	Q3	11,800	100%



「4 new projects commenced production in 2016. Currently over 20 projects are under construction.」

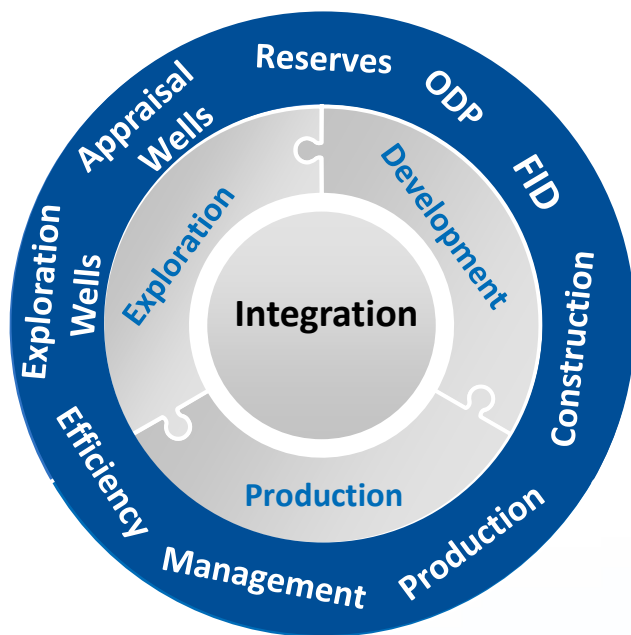


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Integration of Exploration and Development

Deep integration of exploration, development and production to allow mutual advancement in technologies and sharing in resources

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Contents

- 🚢 Integration of mindset and leadership
 - 🚢 Integration of plan and execution
 - 🚢 Integration of equipment and facilities
-

Results

- 🚢 Realized resources sharing and lowered costs
 - 🚢 Shortened development cycle and enhanced operation efficiency
 - 🚢 Lowered economic threshold for development
 - 🚢 Extended the life of mature oilfields for economic development
-

Integration of Exploration and Development

Integration of exploration and development of Weixinan oilfields

- 🚢 Located in the Beibu Gulf basin in Western South China Sea, with more than 20 producing fields.
- 🚢 Through integration of exploration and development, the threshold of development has been lowered.
- 🚢 Stabilized production of mature oilfields and developed new oilfields.
- 🚢 Developed regional power grid and pipeline network.

- Central processing platform with well slots extension
- Conventional tension-leg platform (Single)
- Power grid system
- Underwater pipelines
- Gas injection development technology
- safe and efficient drilling & completion technology
- Mutihole-in-monobore technology



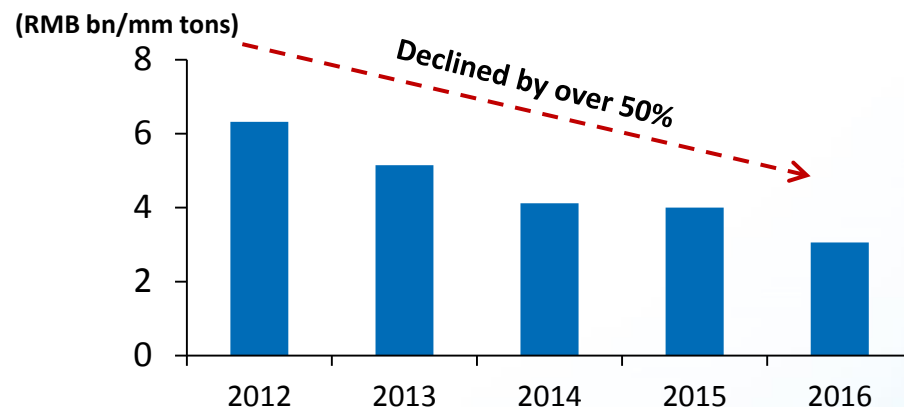
Technology
support



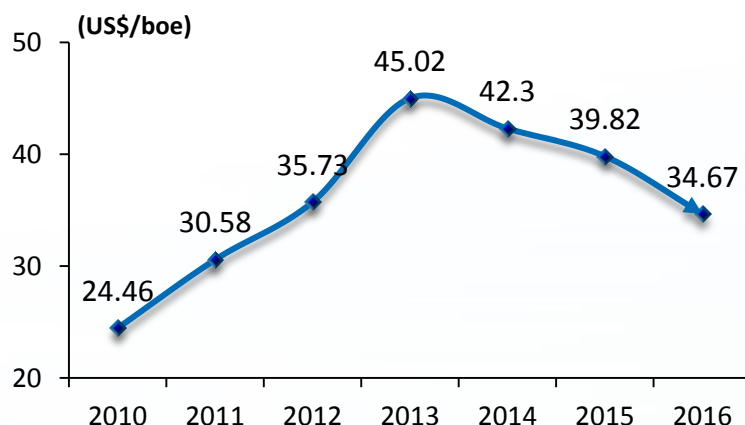
Remarkable Results on Cost Control

- Unit investment in production capacity construction continued to decline.
- Both all-in cost and Opex decreased for the third consecutive year.
- Operation efficiency of each business unit continued to improve.

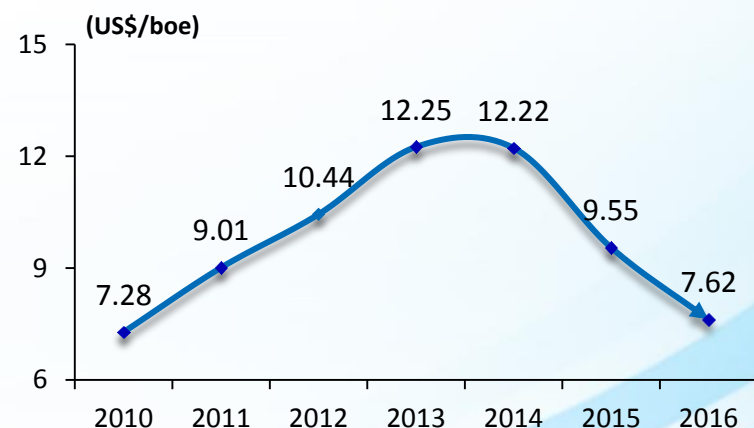
China's Production Capacity Investment (mm tons)



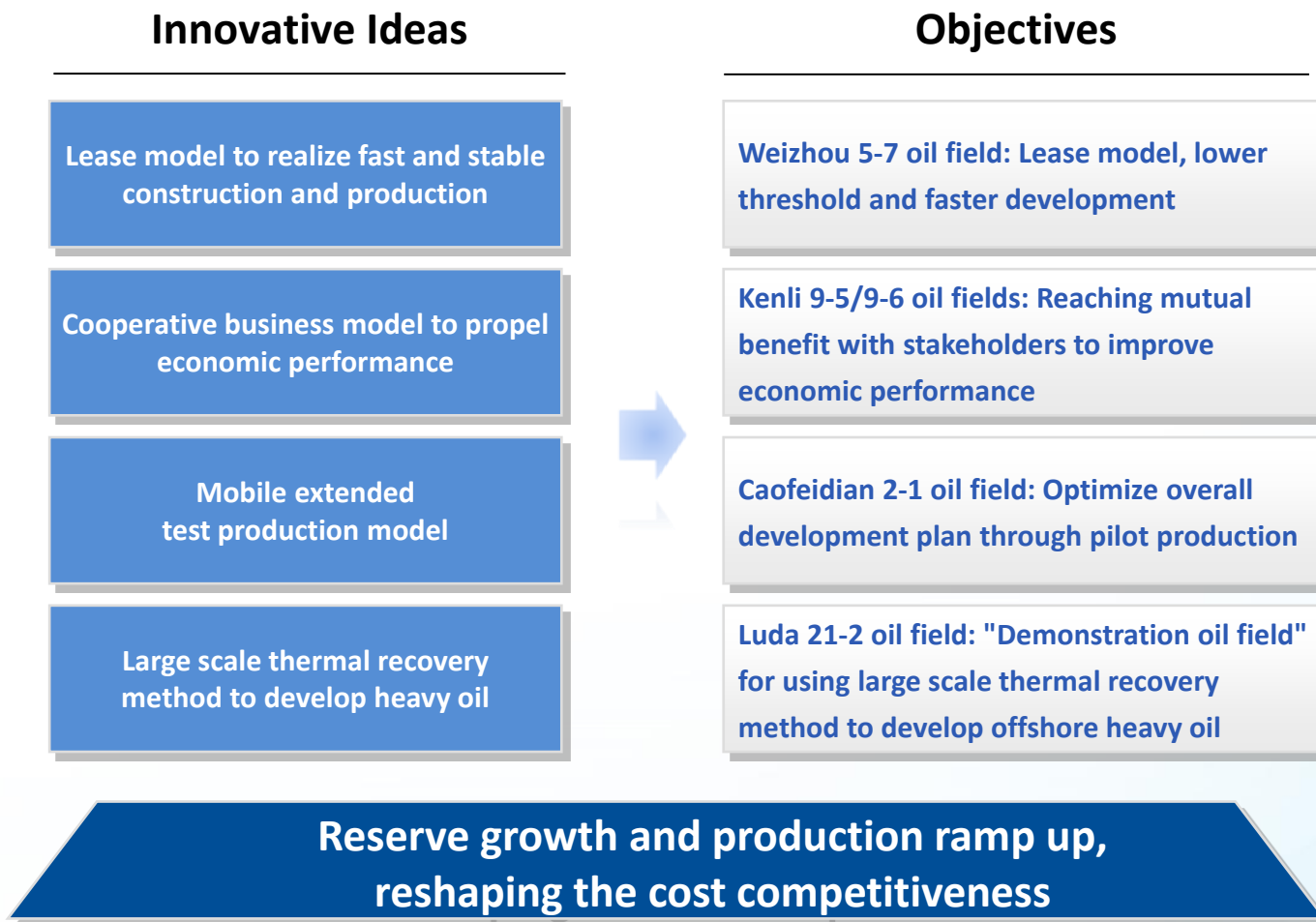
All-in cost



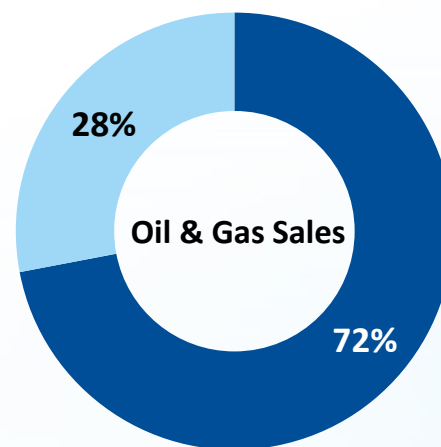
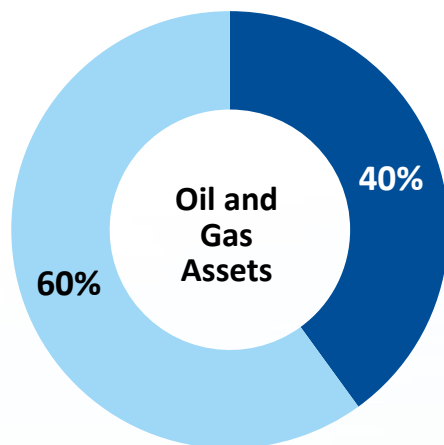
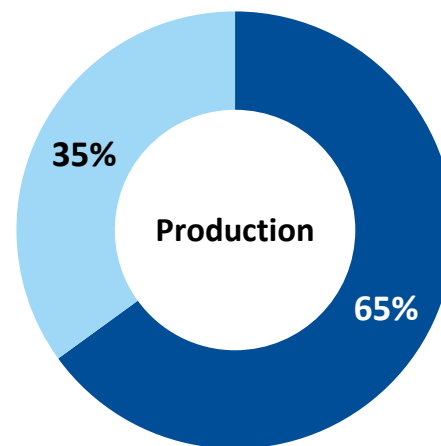
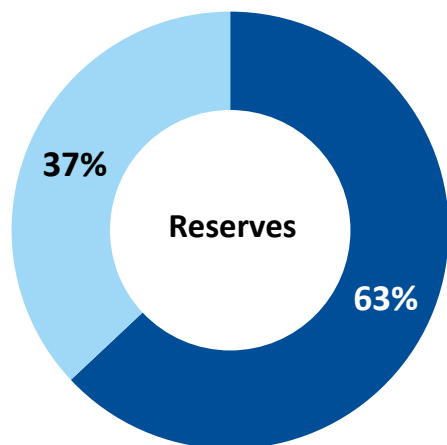
Opex



Technical, Management and Business Model Innovations

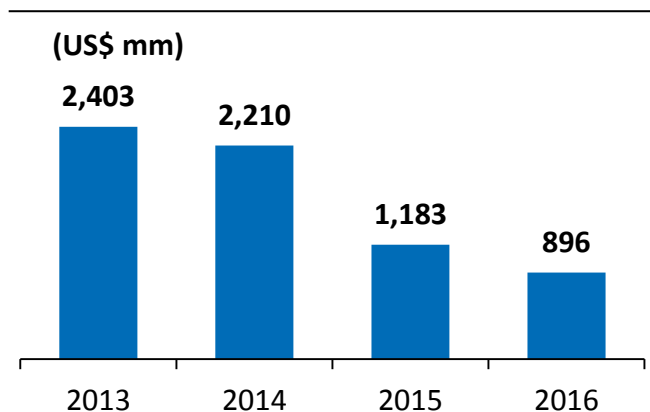


Our Assets Overseas



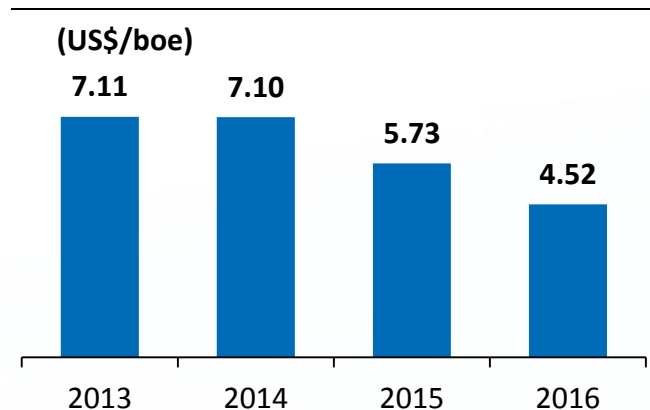
Key Project - Buzzard

Net Cash Flow

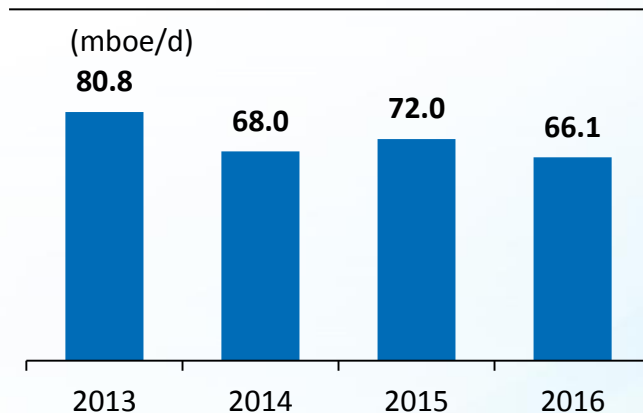


- Maintained positive net cash flow under the low oil price environment.
- Continuous lowering of Opex.
- Production remained stable with leading operation efficiency in UK North Sea area.

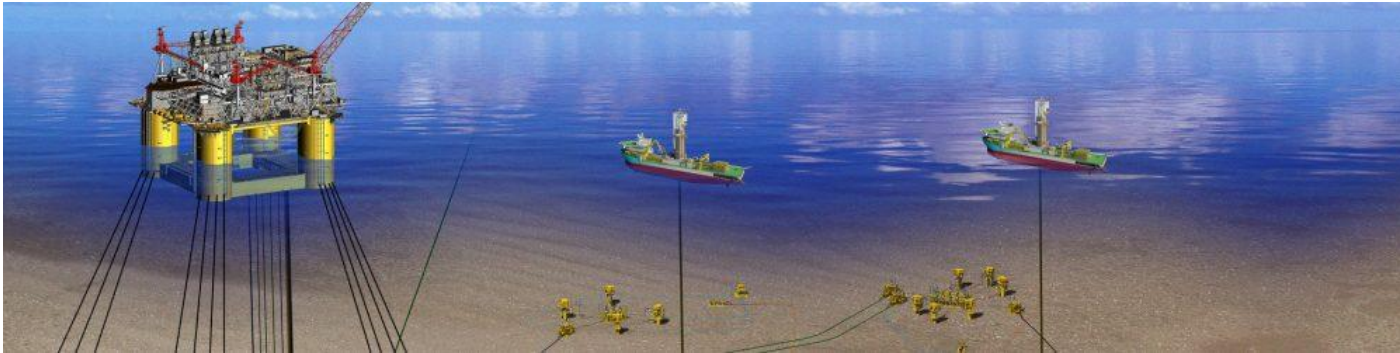
Opex



Production



Key Project – Appomattox



- 🚢 **CNOOC Limited owns 21% working interests, Shell (Operator) the rest 79%**
- 🚢 **Final investment decision was announced on 1 July 2015.**
- 🚢 **The project development will initially produce from the Appomattox and Vicksburg fields, with average peak production estimated to reach approximately 175,000 boe/d.**

Health, Safety and Environment (HSE)

- 🚢 Health, safety and environmental protection are always our top priority.
- 🚢 We promoted the awareness for safety, prompted the culture for safety and achieved safe and stable operations for production.
- 🚢 OSHA statistics maintained at good level in 2016.

	2016	2015
Rate of Recordable Cases	0.11	0.11
Rate of Lost Workdays Cases (per 200,000 man hours)	0.04	0.02



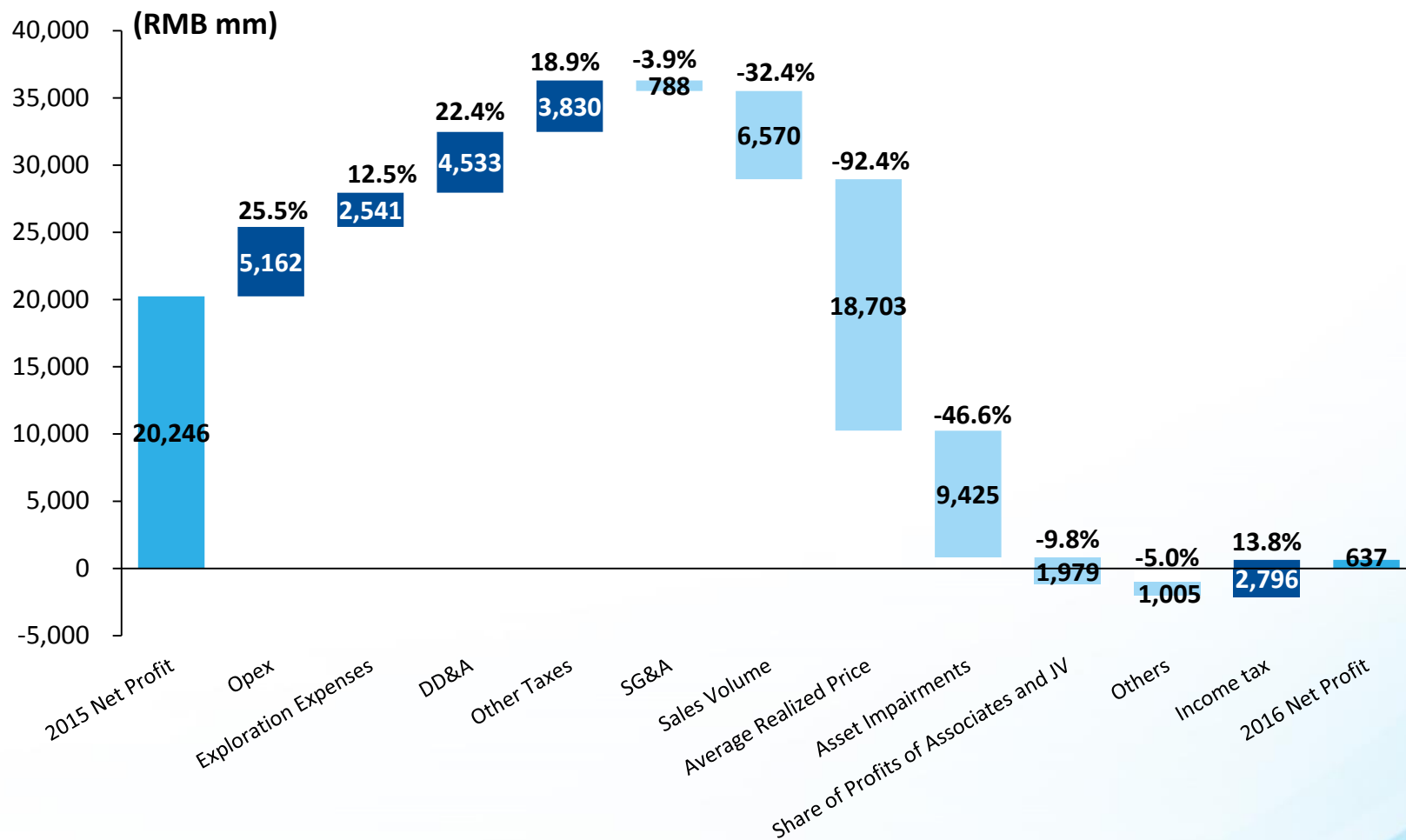
Financial Performance and Analysis

Key Financial Items - Consolidated

(RMB mm)	2016	2015	Change%
Revenue			
Oil and gas sales	121,325	146,597	-17.2%
Trading income	20,310	21,422	-5.2%
Other income	4,855	3,418	42.0%
Revenue subtotal	146,490	171,437	-14.6%
Expenses			
Operating expenses	(23,211)	(28,372)	-18.2%
Taxes other than income tax	(6,941)	(10,770)	-35.6%
Exploration expenses	(7,359)	(9,900)	-25.7%
DD&A	(68,907)	(73,439)	-6.2%
Special oil gain levy	-	(59)	-100.0%
Impairment and provision	(12,171)	(2,746)	343.2%
Crude oil and product purchases	(19,018)	(19,840)	-4.1%
SG&A	(6,493)	(5,705)	13.8%
Others	(4,802)	(3,150)	52.4%
Expenses subtotal	(148,902)	(153,981)	-3.3%
Profit from Operating Activities	(2,412)	17,456	-113.8%
Interest income	901	873	3.2%
Finance costs	(6,246)	(6,118)	2.1%
Exchange losses, net	(790)	(143)	452.4%
Investment income	2,774	2,398	15.7%
SShare of (losses)/profits of associates	(609)	256	-337.9%
Share of profit of a joint venture	533	1,647	-67.6%
Non-operating income, net	574	761	-24.6%
Profit before tax	(5,275)	17,130	-130.8%
Income tax	5,912	3,116	89.7%
Net profit	637	20,246	-96.9%



Movement of Net Profit

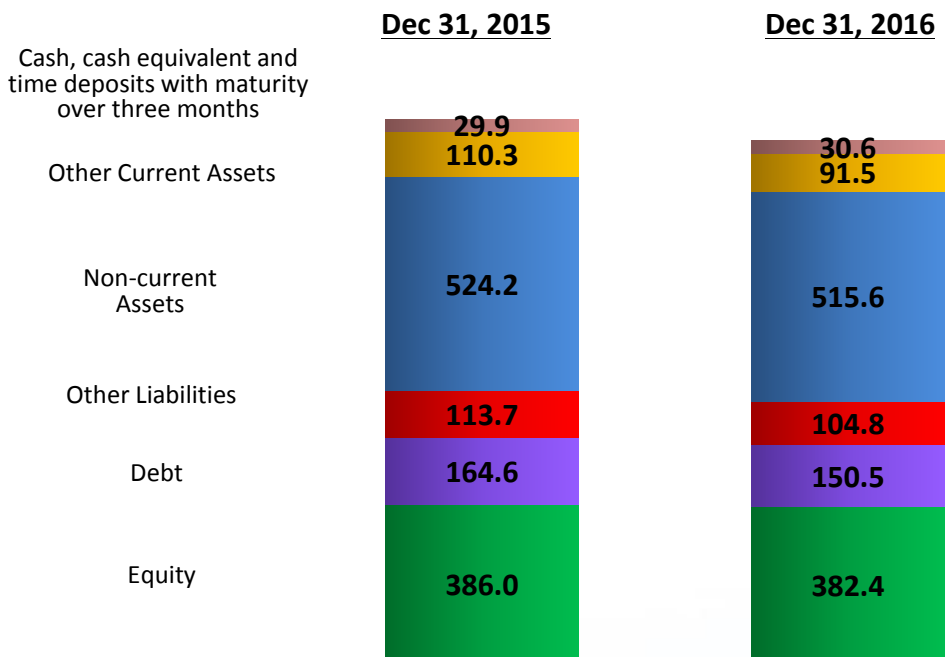


Net profit decreased YoY, mainly due to decline in oil prices and impairments.



Movement of Financial Position

(RMB bn)



■ Total assets mainly include:

■ RMB432.5 bn of PP&E

■ Equity decreased RMB3.7 bn:

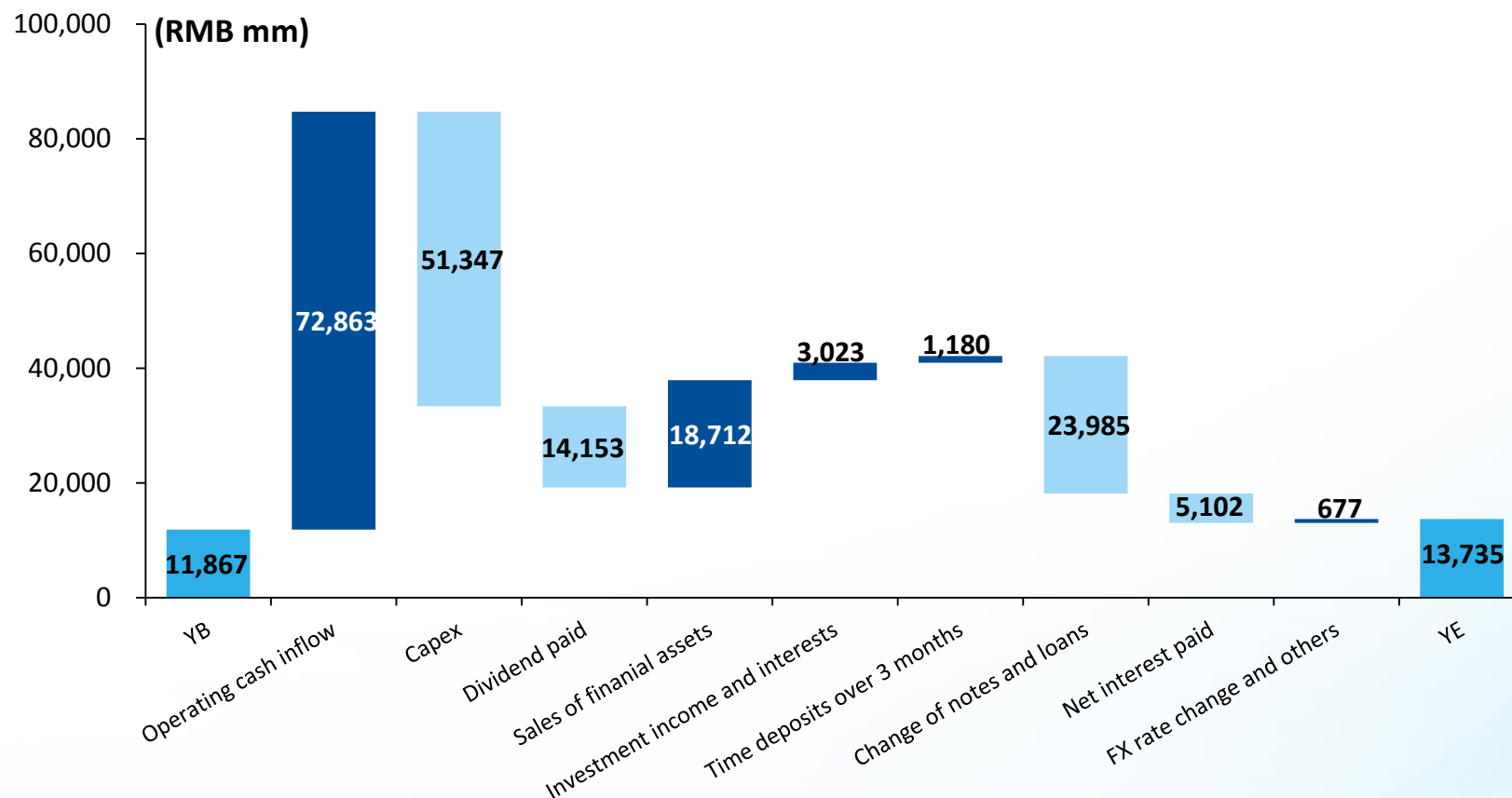
■ Net profit of RMB0.6 bn

■ Dividend paid RMB14.2 bn

■ Currency translation differences increased by RMB10.4 billion

	As at Dec 31, 2015	As at Dec 31, 2016
Total Assets (RMB bn):	664.4	637.7
Gearing Ratio*:	29.9%	28.2%

Movement of Cash and Cash Equivalents

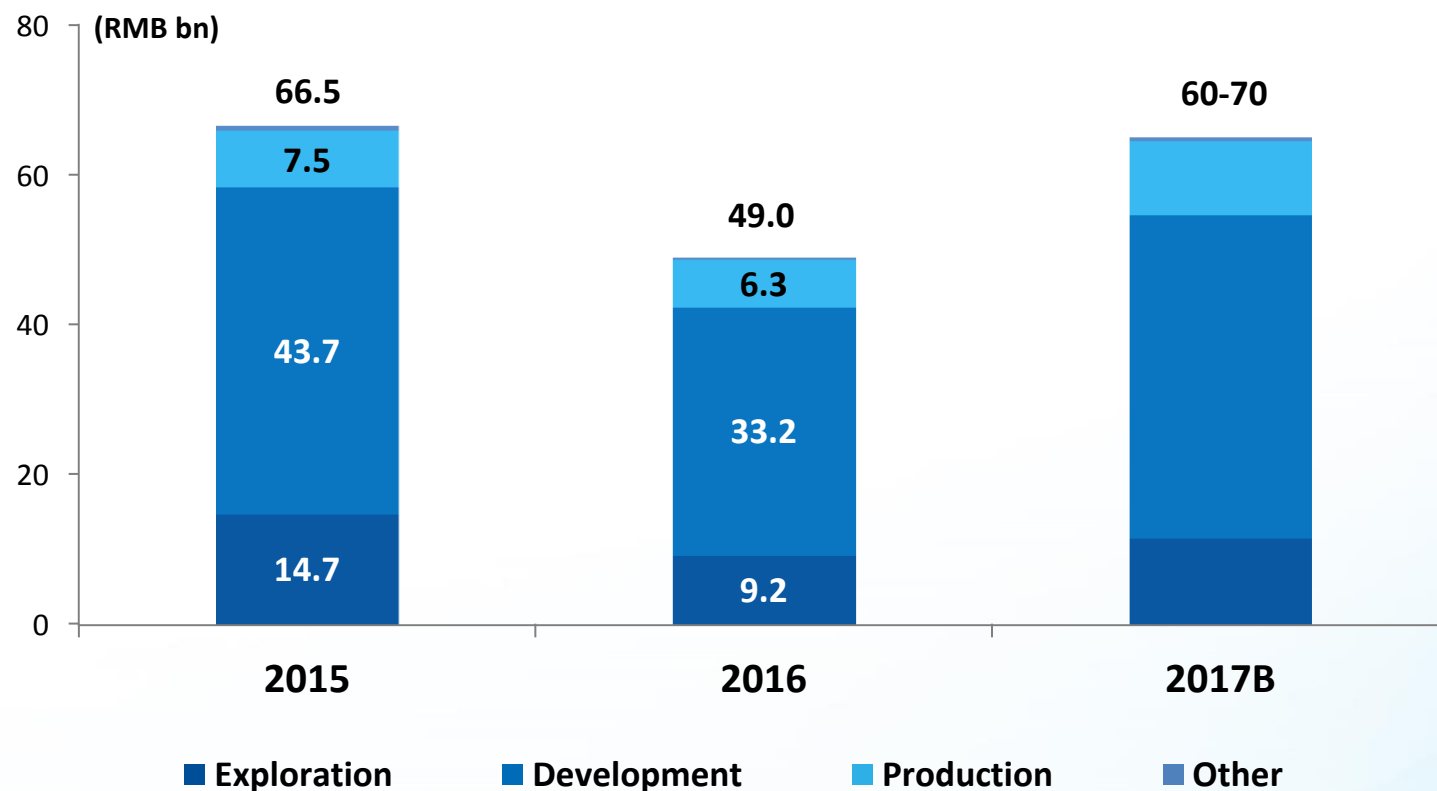


Primary source of cash was operating cash flow, and primary uses were Capex and dividend.



Capex

 In 2016, the Company maintained prudent financial policy, and Capex was RMB49.0 billion.

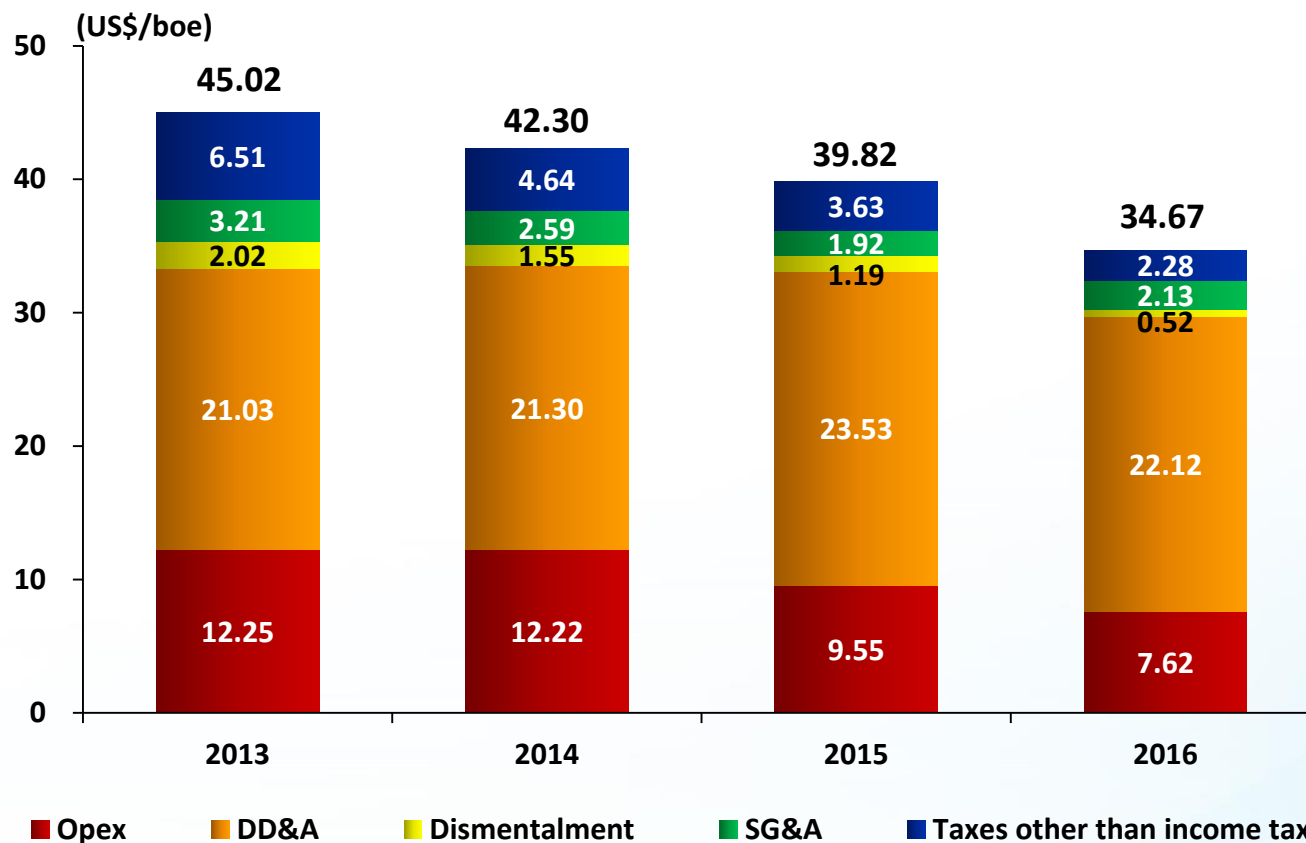


Note: Above amounts exclude capitalized interest of RMB1.39 bn and RMB1.43 bn in 2015 and 2016 respectively

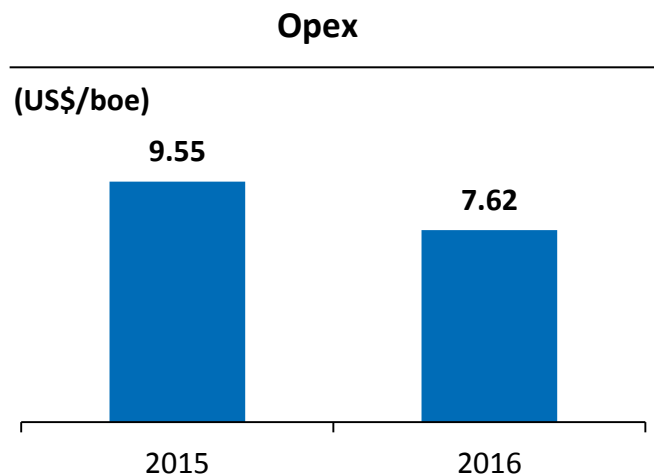


All-in cost

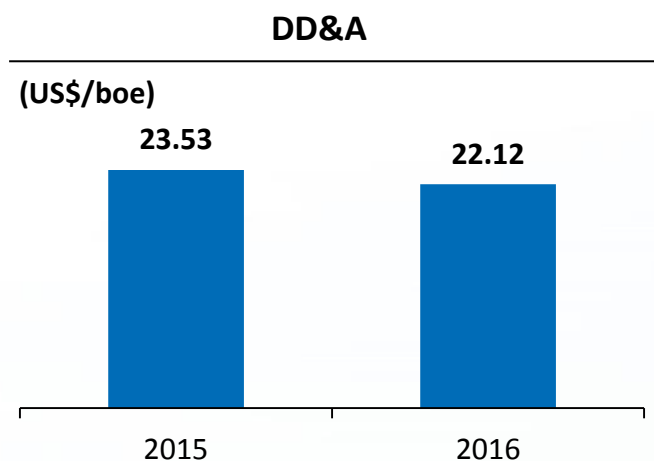
- Benefited from continuous quality and efficiency enhancement, as well as stringent cost control, all-in cost decreased by 12.9% YoY.



Cost Analysis



- Opex of US\$7.62/boe, down 20.2% YoY, due to effective cost control.



- DD&A of US\$22.12/boe, down 6.0% YoY, due to impacts of the exchange rate, reserves and investment.



Dividend Recommendation

- **Proposed year-end dividend: HK\$0.23 per share (tax inclusive)**
 - **Dividend yield of 4.0%⁽¹⁾.**
 - **Final dividend payment will be approximately RMB9.14 billion⁽²⁾, representing about 10.1% of free cash at the end of February 2017.**
- **Proposed time arrangement:**
 - **Book close period: June 12 - June 16**
 - **Payment date: July 18**

(1) Based on closing share price of HK\$8.83 as of March 10, 2017

(2) Exchange rate quoted as HK\$1 = RMB0.89011 as of March 10, 2017



Outlook

Operating Strategy

**Sustainable
development**

Balance short-term and mid-to-long term

**Capital
efficiency**

Maintain prudent financial policy and improve capital efficiency





**Asset
return**

Optimize asset portfolio and focus on asset return



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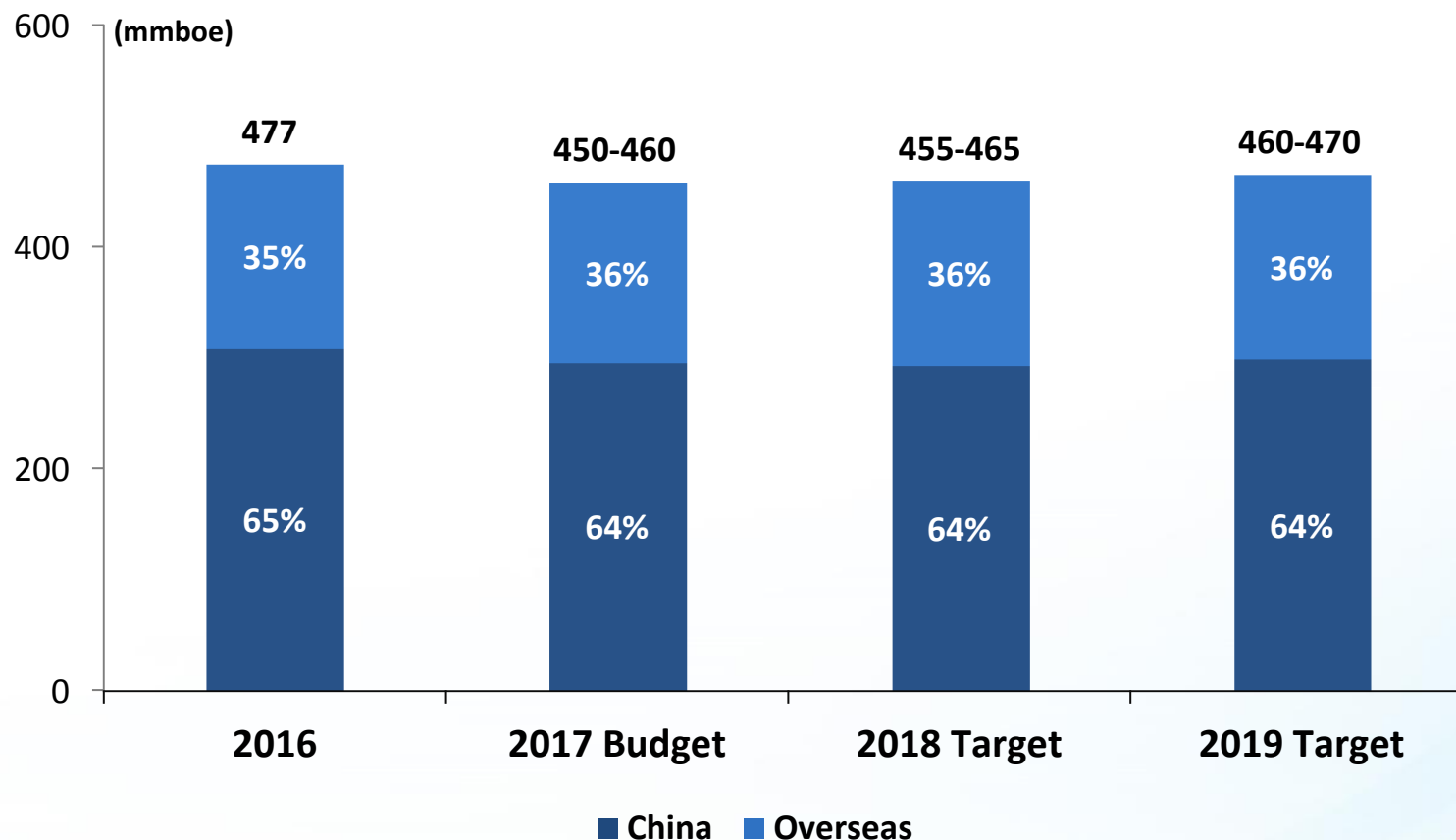
2017 Targets

-  **Capex of RMB60-70 billion**
-  **Prioritize profitability and improve investment return**
-  **Production target of 450-460 mmboe, five new projects to come on stream in 2017**
-  **Maintain high standards on HSE performance**



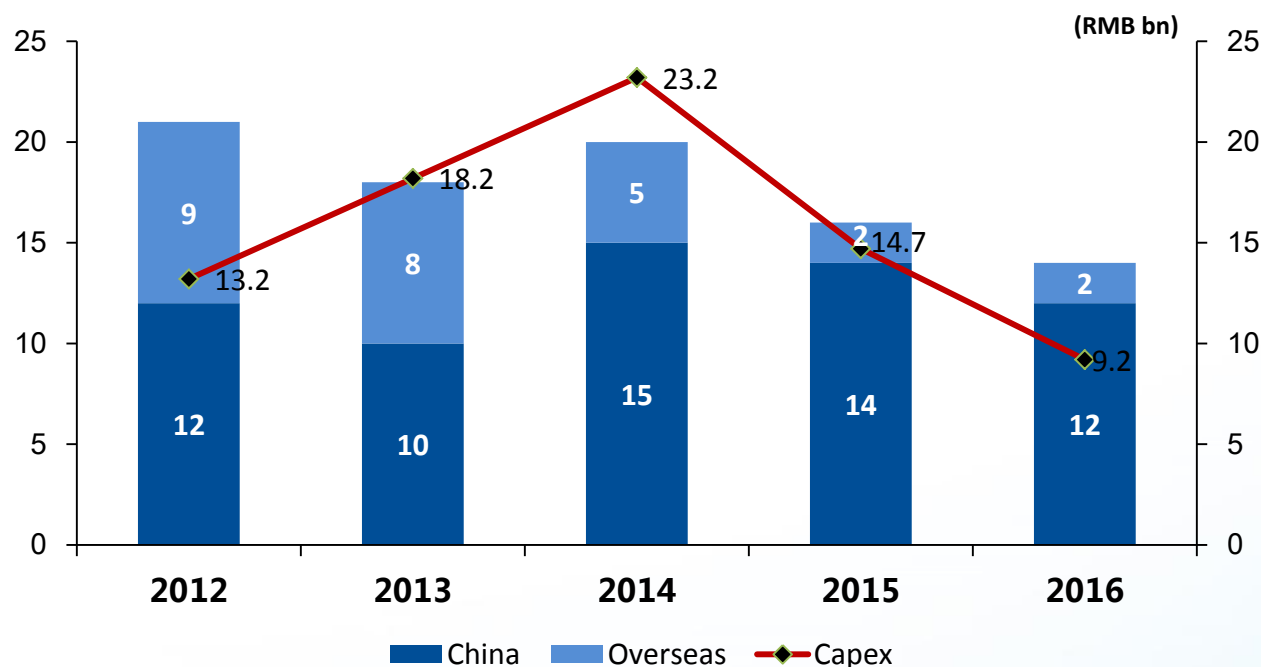
Three-year Rolling Target

 The Company will pursue quality growth, increase profitability-oriented production volume and bring better return for our investors.



Foothold for Future Developments - Strong Resource Base

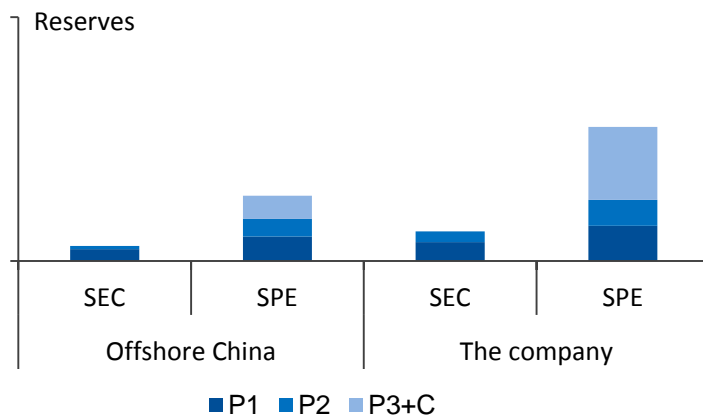
Numbers of New Exploration Discoveries and Capex in the last 5 years



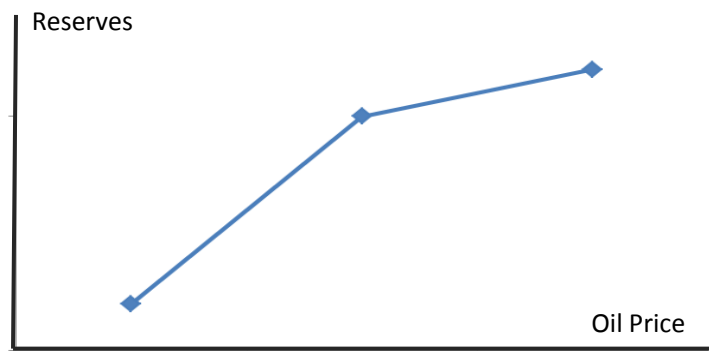
- ⚓ Maintained a higher exploration program while lowering exploration Capex in the last two years.
- ⚓ Numbers of new discoveries remained stable, laying a strong resource foundation for future reserves and productions.

Foothold for Future Development - Resource Potentials

Reserve Analysis in 2016



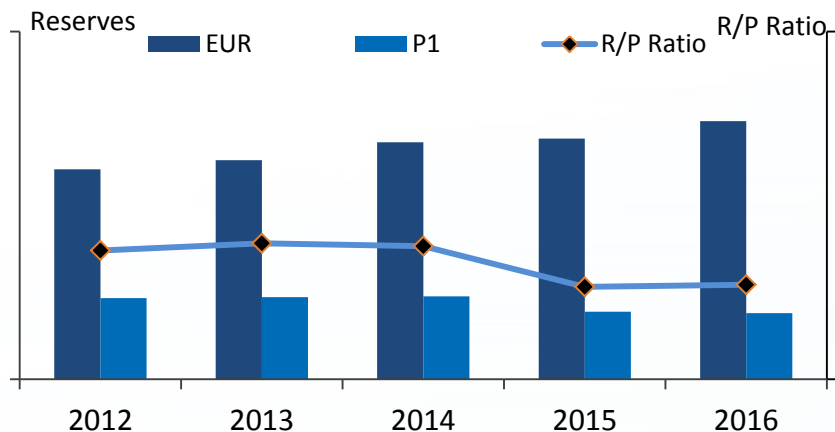
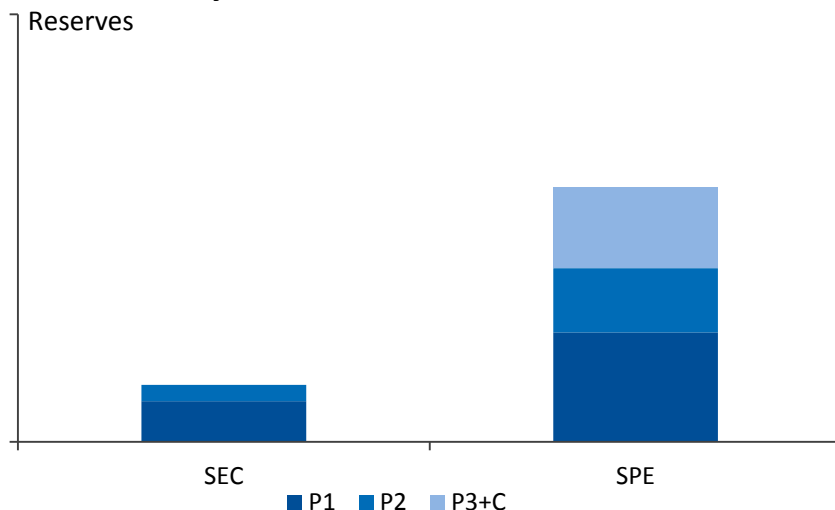
Sensitivity Analysis Between Reserve and Oil Price



- Compared with SEC reserves, SPE reserves focus more on the whole lifecycle of assets.
- In SPE reserves, besides P1, there are huge P2 resource potentials.
- The Company's proved reserves will vary at different oil prices.

Analysis of Reserves in Bohai

Analysis of Reserves in Bohai

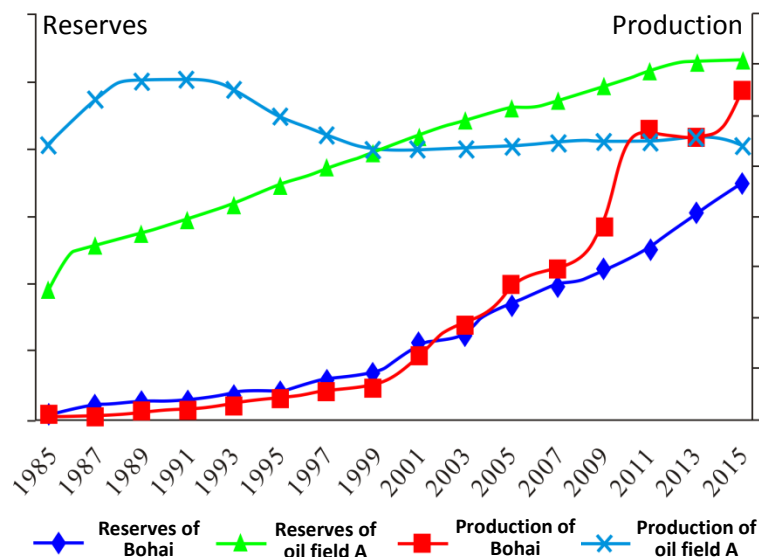


- Proved reserves in Bohai accounted for approximately a quarter of our total reserves.
- As oil price rebounds, the resource sets a solid foundation for our future reserves expansion.
- The decline in RRR and R/P ratio is mainly due to the increasing production volume and lower oil prices.
- In the past few years, the technical recoverable reserves in Bohai had been increasing stably.



Analysis of Reserves in Bohai

Bohai v.s. Oilfield A



- Compared with the adjacent oilfield A, which is located in the same basin, Bohai and oilfield A have similar scales of proved reserves.
- The proven rate and exploration degree of Bohai reserves are far lower than those of oilfield A.
- According to statistics, oilfield A has had stable production for 20 years; it is estimated that Bohai will have a long, stable and high production period.

Oil field	Field Area (10000 km ²)	Total Resources (billion tons)	Proved Reserves (billion tons of oil equivalent)	Proven Rate (%)	Total No. of Exploration Wells
Bohai	4.5	13.0	5.1	39	937
Oilfield A	3.3	10.2	5.3	52	6,421

Foothold for Future Developments - New Projects

New Projects in 2017

Project	Location	Expected Startup	Peak Production (boe/d)	Working Interests
Penglai 19-9 oil field comprehensive adjustment	Bohai	Commenced production	13,000	51%
Enping 23-1 oil fields	Eastern South China Sea	Commenced production	24,800	100%
Weizhou 12-2 oil field phase II	Western South China Sea	Second half	11,800	100%
BD gas field	Indonesia	First half	25,500	40%
Hangingstone project	Canada	Second half	18,100	25%

New Projects Ahead

- | | | |
|------------------------|--|------------------------------|
| ✓ Stampede oil field | ✓ Wenchang 9-2/9-3/10-3 gas fields | ✓ Weizhou 6-13 oil field |
| ✓ Egina oil field | ✓ Penglai 19-3 oil field 1/3/8/9 comprehensive adjustment | ✓ Enping 23-7 oil field |
| ✓ Appomattox oil field | ✓ Penglai 19-9 oil field phase II comprehensive adjustment | ✓ Luda 16-3 oil field |
| | ✓ Bozhong 34-9 oil field | ✓ Luda 21-2 oil field |
| | ✓ Dongfang 13-2 oil field | ✓ Caofeidian 6-4 oil field |
| | ✓ Huizhou 33-1 oil field | ✓ Liuhua 16-2/20-2 oil field |



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