

Chairman's Report

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Dear Shareholders,

When you get this annual report, we, CNOOC Limited, a company listed in New York and Hong Kong, have been in the capital market for five years.

We believe that we have achieved good financial and operational performance over the past five years. Thanks to the satisfactory growth in our assets, revenues and net profits, we have been able to show continuing progress in creating value and delivering good return to our shareholders.

First, let us look at the outstanding performance of CNOOC Limited in 2005. Our growth momentum was successfully maintained in 2005 as evidenced by our annual results. In addition to the detailed financial statements and other information set out hereafter, I am pleased to share with you a few highlights of our performance in 2005:

Our total revenue rose by 25.8% to RMB69,455.7 million, while net profit reached yet another record high of RMB25,323.1 million, the highest ever since our listing in 2001.

There was a steady growth in our oil and gas production. We produced a total of 130.3 million barrels of oil and 142.2 billion cubic feet of natural gas, achieving a total production of 154.8 million barrels of oil equivalent ("BOE"), representing a year-on-year increase of 10.6%.

Our production growth mainly came from the development projects offshore China coming on stream during the year. Seven new projects commenced production, which have contributed significantly to production growth during the year. Additionally, sixteen projects were under way.

The achievements of our exploration initiatives were just as remarkable. Altogether, we made fourteen new oil and gas discoveries and eight structures were successfully appraised offshore China. During the year, we realized a reserve replacement ratio of 186% and our net proved reserves increased by 288 million BOE.

During the year, our basic and diluted earnings per share were RMB0.62 and RMB0.61 respectively. To reward our shareholders for their support, the Board of Directors (the "Board") proposed a final dividend of HK\$0.10 per share. Together with the interim dividend of HK\$0.05 per share and the special interim dividend of HK\$0.05 per share, we will distribute a total of HK\$0.20 per share to our shareholders for the year 2005.

Looking back at the year 2005 as well as the previous four years of listing, we have been committed to deliver, and have delivered, the best return to our shareholders. As a responsible company, we will continue to strive to create and add value to our business to share the fruits of our success with our shareholders, to allow employees and the Company to grow together and to be responsible to the society, community and environment. We also believe that our shareholders will continue to be able to reap satisfactory return from our business growth, our dividend payouts and the excellent performance of our stock price.



In light of the above, we would like to show you our key initiatives.

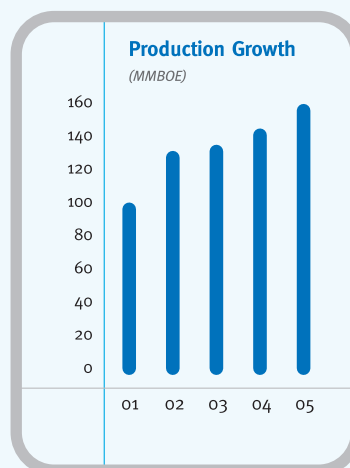
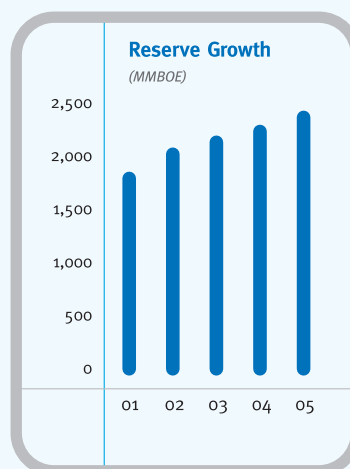
As a E&P corporation, our value depends on the scale of our reserve and production. Therefore we have always been seeking more areas for exploration, development and production and to extend our development potentials.

Within China, we intend to further step up our efforts in exploration in offshore China in 2006. We will initiate more exploration activities, acquire more seismic data and drill more exploration wells in various exploration areas. We will also extend the reach of our exploration initiatives to the deep-water areas for more reserves to support the sustainable rapid growth of our business. As far as production is concerned, we plan to bring 10 oil and gas fields on stream this year.

In respect of our overseas business efforts, we made a friendly offer to acquire the US-based Unocal Corporation in 2005. However, the desired outcome did not materialize due to a host of factors. During the process, from bidding to the final voluntary withdrawal, our overriding principles remain focused on the Company's future growth and our commitment to increasing shareholders' value.

As ever, our priority was on shareholders' interests and the Company's future growth, whether at the time of making the C\$150 million acquisition of a 16.69% stake in Canadian MEG Energy Corporation, or when we acquired a 45% stake in the license covering the OML 130 in Nigeria for a cash consideration of US\$2.268 billion in January 2006.

We are dedicated to develop a path to overseas expansion to sustain the long-term growth of the Company. Our management team has been working hard towards this objective.



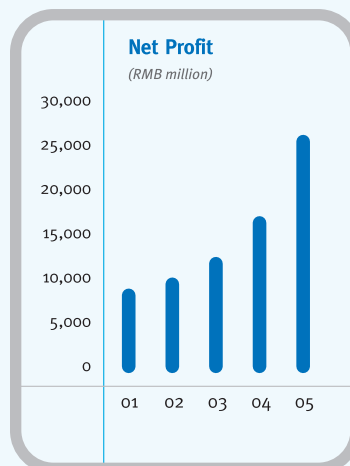
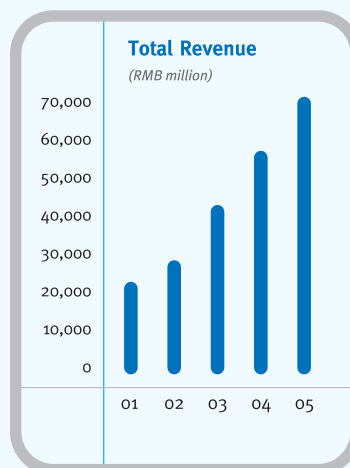
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Of course, we never forget our social responsibilities in the course of value creation. We are a socially responsible company well aware of the importance of our staff, the environment and our society as a whole. We grow healthily together with our staff. At the same time, we also made determined efforts to undertake responsibilities for the community, the environment and the society. "Win-Win for All" has been one of our essential approaches. Indeed, in pursuit of our corporate development, we constantly seek win-win situation for our staff, the community and the environment. We believe that our long-term viability and success, and our ability to continue to create and deliver value for our shareholders and the communities we serve, very much depend on conducting our business in a socially responsible manner.

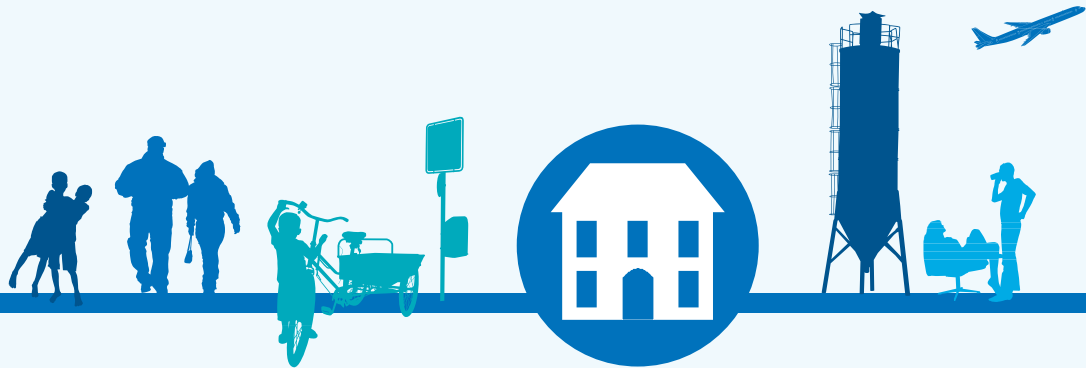
In 2005, we continued to enhance our health, safety and environment (HSE) protection system by strengthening the implementation of safety management policies. The safety management standards were also improved further with the development of the HSE system, employees' safety education program and the establishment of its accountability system. Throughout the year, the Company was neither involved in any material spillage or pollution incident, nor subject to any liability claim for loss of over RMB1 million.

Currently, all oil and gas fields of the Company are equipped with anti-pollution facilities and have achieved stable discharge standards. They all have in place environment monitoring system combining both manual and automatic monitors. Besides, contingency plan for safety protection have been established for every offshore oil and gas fields and safety drills are also conducted on regular basis.

As far as staff welfare is concerned, we not only provide a safe and healthy working environment, but also offer our staff reasonable packages and ample training opportunities in order to provide them with sufficient room for career development and added incentives. The section headed "Human Resources" in the annual report will explain more about the initiatives undertaken in fulfilling our responsibilities towards our staff.



OUR TREASURE, YOUR ENERGY OF LIFE.



We are happy to take up our social responsibility in different areas and contribute to the advancement of the community and the society. As a responsible corporate citizen, we actively participate in various charity events and have long been involved in poverty relief and education endowments. We also give our whole-hearted support and donations to victims of natural disasters. In 2005, the Company made donations to several Chinese regions affected by Typhoons Talim and Damrey. Besides, donations were also made to the regions wrecked by Hurricane Katrina in the US. These efforts clearly reflect our heightened awareness of our social responsibility as a corporate citizen.

Last but not least, I would like to take this opportunity to welcome on board Mr. Tse Hau Yin, Aloysius and Mr. Lawrence J. Lau joining us as our independent non-executive directors; and Mr. Cao Xinghe, Mr. Wu Zhenfang and Mr. Wu Guangqi and Mr. Yang Hua joining us as our executive directors. Given their extensive experience and valuable insights, I strongly believe that they will make great contributions for the benefit of the Company.

Our success today is the result of dedicated efforts and devotion of our management and staff. Therefore I would also like to express my sincere gratitude for their support and hard work.

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Fu Chengyu

Chairman and Chief Executive Officer

Hong Kong, 24 March 2006