



Chairman's Report

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Dear Shareholders,

Let me start with expressing our sincere thanks to your continuous support to CNOOC Limited.

Belief is the basis of support. Whether or not your belief in us is built on our solid results over the past years, or a positive vision for our future growth prospects, I would like to take this opportunity to share with you what and why I believe in CNOOC Limited.

Having spent some 30 years in the industry, I have firm belief in the competitive drive and growth potential of the Company.

RESOURCES

You may have noticed that in the prevailing global environment of the industry, resources acquisition is an increasingly tall order; the competition for resources has overtaken the race in technology as well as capital. Nevertheless, our major operating region, offshore China, remains a comparatively green field with a relatively low rate of exploration and development.

Offshore China is the primary scene where our growth story is taking place, where we have built up our experience in oil exploration and development. This is also where we made our 10 new oil and gas discoveries in 2006, 14 in 2005, 6 in 2004, 12 in 2003, 13 in 2002.

In the past few years, offshore China has not only fueled the steady growth of our reserve and production, but also demonstrated immense potential in resource discoveries. One of the happy surprises is Liwan 3-1, a deepwater discovery in 2006. I firmly believe that offshore China will continue to serve as a solid foundation that will foster sustainable and rapid growth of CNOOC Limited.

Apart from offshore China, we have also extended our exploration to overseas horizon. In 2006, through acquisition of 45% stake in Nigeria OML 130 block, we established our foothold in the Niger Delta, an exploration base much-coveted around the world. We expect that its contribution to our reserve and production will be progressively realised from 2008 onwards.

During the year, we also acquired various exploration blocks in Kenya and Equatorial Guinea. Up to date, we possess overseas exploration rights covering an area of over 200 thousand km². Constant expansion of exploration rights is an indispensable cornerstone for the business development of every independent oil and gas company, which by all means is the fundamental of CNOOC Limited for achieving long-term growth target.

MANAGEMENT

The high standard of our management system is a major reason behind my positive outlook for the future prospects of the Company. We recognize that, it is the duty and obligation of our management to formulate and execute corporate strategies which are in line with our objectives and compatible to the internal control and risk management system of the Company.

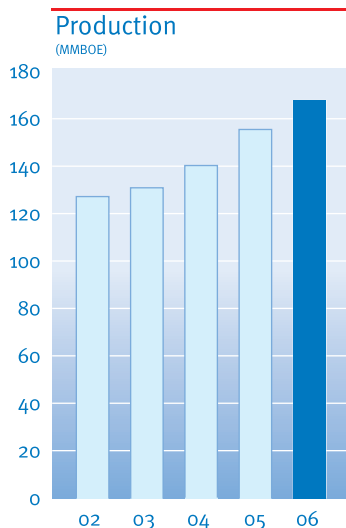
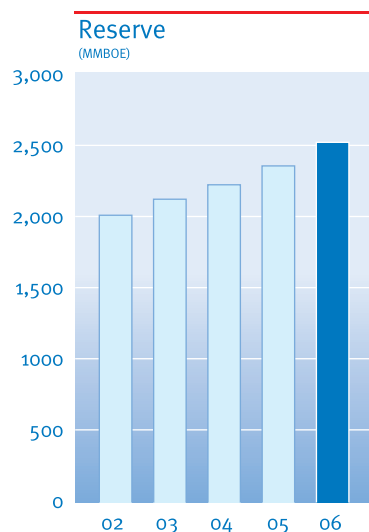
We formed the Investment and Risk Management Committee to cover investment decision and risk management. All material decisions should be approved by at least two-thirds of the members, and the Company cannot invest in projects vetoed by the Committee, hence reduce its risk in investment decisions.

Besides, we seized the opportunity from the compliance of Sarbanes-Oxley Act to thoroughly rationalise our internal control system. As a result, we reinforced our internal control system and further enhanced the risk management standard of the Company.

Transparent and robust corporate governance is another advantage of ours. In 2006, we were again named as the "Best Managed Company in China" by FinanceAsia and Asia Money. Indeed, we have been receiving these awards virtually year after year since the listing of CNOOC Limited. We see this as a great honour.

Our Independent Non-executive Directors Mr. Chiu Sung Hong, Mr. Evert Henkes, Mr. Tse Hau Yin, Aloysius, Professor Lawrence J. Lau and Dr. Edgar W.K. Cheng have been a major driving force behind these brilliant achievements. The same credit should also be given to Dr. Kenneth S. Courtis, who retired as our Independent Non-executive Director last year. Once again, I would like to take this opportunity to express our sincere gratitude to them.

Chairman's Report



OFFSHORE OIL HEROES

Apart from a rock-solid system, our team members, or may I say, our offshore oil heroes, are another reason for my utmost confidence in the ongoing success of CNOOC Limited.

Like other companies, our management executives are appointed for a specific term. They could be tempted to ignore long-term benefits and focus on projects that are short-term, low-cost and with quick-result. However, if you look at our history, you will find out that our management never narrowly look at growth in a single year, but focus on the long term development of the Company. Most of our initiatives are set out to fuel the long term growth of CNOOC Limited, even though it might take a couple of years or even half a decade before they take effect, and that they will not immediately give us flying colours in results announcements.

In 2007, we will work even harder to play out this unique strength. While our production growth for the year might be flat, we are actually building a mighty force and creating conditions to accelerate our growth for next phase. This will be apparent to you if you are aware of our strategic roadmap for 2007. I believe that this broad perspective will take our business development to a new horizon afterwards.

Members of our staff are the ones building the Company's success hands-on. During the typhoons and other challenges in 2006, they demonstrated remarkable discipline, aptitude and courage. I am really proud of their performance. Such high-calibre staff, being a key factor of the success of CNOOC Limited, only reaffirms my belief in the future of the Company.

Obviously, other than the above three factors, our unique business model and the fact that we are in the business that directly benefits from high oil prices, among other things, also play an essential role in the growth potential of the Company. The thing is, I only mean to share with you some of my thoughts about CNOOC Limited, I would rather not spare you with too many details.

My analysis of the various strengths of CNOOC Limited is not merely based on a strong passion. The Company's results in 2006 speak for themselves.

2006 was a year of challenges: ever increasing raw material costs added burden to our operation expenses; partial deformation of the underwater structure of the jacket for Panyu 30-1; and most importantly, our offshore production operations were seriously affected by a series of typhoons, particularly Typhoon "Chan Chu", which caused the suspension of the Liuhua Oil Field.

Nonetheless, our various businesses managed to make substantial progress:

Our net production for the year increased steadily by 7.9% to 167 million barrels-of-oil-equivalent; our proved reserve achieved 2.53 billion BOE, with a reserve replacement ratio of 199%; our average realised oil price was US\$58.9 per barrel, representing an increase of 24.5% year on year; our net profit was RMB30.9 billion, representing an increase of 22.1% year on year, making another record high; Our share price was on a stable rise, registering a gain of 41% over the year; there were no material health, safety and environmental incident.

Besides, in the first half of 2006, we witnessed the making of history, with the first shipment of imported LNG landing in Guangdong. This also marked the official start for the North West Shelf LNG project in Australia, which the Company has interests, in supplying gas to the coastal areas in China.

Given that our results in 2006 were as remarkable as ever, the Board of Directors proposed a final dividend of HK\$0.14 per share (or approximately RMB0.14 per share) to reward our shareholders for their support, on top of the steady appreciation of our share price.

As mentioned before, in the years to come, with a number of oil and gas projects up and running, CNOOC Limited will enter a new phase of growth in terms of both quantity and quality. Various major projects will soon come on stream, such as Penglai 19-3 Phase II, which is expected to become the largest offshore oil and gas project offshore China, the Wenchang oil fields in the Western South China Sea area, OML 130 in Nigeria and Indonesia's Tangguh LNG project. Lying ahead of us is yet another high growth, high efficiency new development phase. This is why we are full of confidence in our future.

However, we fully understand that such growth potential can be realised only through hard work. To this respect, our offshore oil heroes will continue to follow the formulated development strategies to drive CNOOC Limited ahead on an even faster growth track in an aggressive yet prudent manner.

So, let us get ready for an even more exciting future!

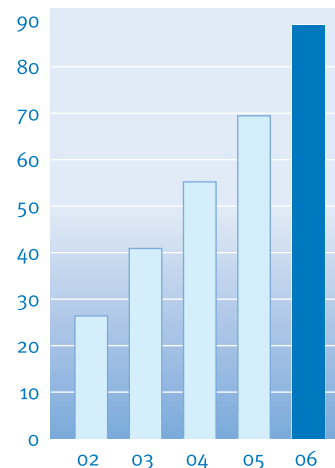
Fu Chengyu

Chairman and Chief Executive Officer

Hong Kong, 29 March 2007

Total Revenue

(RMB billion)



Net Profit

(RMB billion)

