



# Operations Review

The Company continued its stable and robust growth in 2006: Encouraging success was achieved in exploration; Development projects came on stream on schedule; Production and reserves continued to grow. All these progresses combined with our high degree of transparency in corporate governance and prudent financial policies, gave a further boost to the business development of the Company.

## EXPLORATION

In 2006, the Company's exploration achievements were remarkable. A total of 10 new oil and gas discoveries were made offshore China, including 7 independent discoveries, namely Bozhong 28-2S, Bozhong 29-4, Bozhong 34-1N, Qikou 18-2E, Luda 6-2 and Jinzhou 31-6 in Bohai Bay; and Weizhou 6-8 in Beibu Gulf Basin. There were 3 discoveries under Production Sharing Contracts (PSCs), namely Caofeidian 22-2 (Kerr-McGee's block 09/18), Weizhou 6-12S (ROC's block 22/12) and Liwan 3-1 (Husky's block 29/26).

In aggregate, 6 structures of offshore China were successfully appraised and all of which were independent, including Bozhong 28-2S, Bozhong 29-4, Bozhong 34-1N, Jinxian 1-1/Jinxian 1-1E, Weizhou 6-9 and Dongfang 29-1. In particular, Bozhong 28-2S, Bozhong 29-4 and Bozhong 34-1N were both discovered and appraised within the year. The successful appraisal of these structures provided a strong boost to the Company's oil and gas field development and construction.

The Company's reserves have been growing steadily over the years. In 2006, the Company's proved reserves increased to 2.53 billion BOE with a reserve replacement ratio of 199%.

In Bohai Bay, the Company's oil and gas exploration activities also continued with a strong momentum. In 2006, there were 7 new oil and gas discoveries and 4 structures successfully appraised in Bohai Bay, laying a solid foundation for future growth.

In 2006, the Company stepped up its research and exploration efforts in new areas, and made the following six major breakthroughs:

- Significant exploration activities in the northeastern part of the Yellow River Mouth Sag in Bohai Bay resulted in three quality discoveries, namely Bozhong 28-2S, Bozhong 29-4 and Bozhong 34-1N.
- Another progress was made in the exploration in the Liaodong structural Belt in Liaodong Bay. The Jinxian 1-1/Jinxian 1-1E oil

fields successfully appraised, a discovery in Luda 6-2 was made.

- Exploration activities in the lithologic traps in Bohai Bay, resulted in new discoveries of Jinzhou 31-6 and Caofeidian 22-2.
- Breakthrough in the deep water natural gas exploration in the Northern South China Sea. In 2006, the Company's business partner Husky Energy Inc. ("Husky") made a discovery in Liwan 3-1 at a water depth of 1,480 meters in Baiyun Trough of the Pearl River Mouth Basin. Based on the preliminary estimates published by Husky, the discovery may contain approximately four to six trillion cubic feet of natural gas, and could be the largest natural gas field offshore China.
- Ongoing achievements in the rolling exploration in Southwestern Weizhou as new discoveries kept turning up, including Weizhou 6-12S, Weizhou 6-8 and Weizhou 6-9. Besides, all three structures that were drilled in Southwestern Weizhou were successfully appraised during the year.
- New achievement was made again in the lithologic exploration in SES block. Lithologic oil Pay was discovered in two exploration wells, TASKIA-01 and DELIMA-01, resulting a new province in exploring a mature area.



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Table of major exploration blocks

	Blocks	Block Area (km <sup>2</sup> )	Exploration License	
			Commencement	Expiration
<b>Bohai</b>				
	Eastern Liaodong Bay	2,855	2006-7-2	2008-7-2
	Western Liaodong Bay	3,281	2006-4-8	2008-4-8
	Block 02/31	4,990	2005-5-29	2007-5-29
	Block 06/17	2,586	2005-2-20	2007-2-20
	Central Bohai	4,974	2006-4-26	2008-4-26
	Block 05/36	2,652	2006-9-15	2007-9-15
	Block 04/36	1,673	2006-9-15	2007-9-15
	Western Bohai	1,880	2006-6-8	2008-6-8
	Block 09/11	843	2006-4-5	2008-4-5
	Eastern Bozhong	2,023	2006-4-28	2008-4-28
	Eastern Block 11/05	3,547	2006-2-10	2008-2-10
	Western Block 11/05	2,788	2006-2-1	2008-2-1
	Block 11/19	3,068	2006-6-8	2008-6-8
	Block 09/18	2,234	2005-2-4	2007-2-4
<b>Bohai Total</b>		<b>39,394</b>		
<b>Eastern South China Sea</b>				
	Xijiang 04 (Pearl River Mouth Basin)	7,990	2006-5-11	2008-5-11
	Xijiang 04 (Pearl River Mouth Basin)	4,984	2005-12-5	2007-12-5
	16/05 Geophysical Survey(Pearl River Mouth Basin)	2,070	2006-9-15	2008-9-15
	Enping 10 (Pearl River Mouth Basin)	4,257	2006-5-11	2008-5-11
	Liuhoa 07 (Pearl River Mouth Basin)	5,605	2006-5-11	2008-5-11
	Kaiping 14 (Pearl River Mouth Basin)	4,961	2006-9-15	2008-9-15
	Dongsha 04 (Pearl River Mouth Basin)	5,310	2006-5-11	2008-5-11
	Dongsha 32 (Pearl River Mouth Basin)	7,350	2003-11-5	2010-11-5
	Lufeng 06 (Pearl River Mouth Basin)	4,470	2006-5-11	2008-5-11
<b>Eastern South China Sea Total</b>		<b>46,997</b>		

Table of major exploration blocks (continued)

	Blocks	Block Area (km <sup>2</sup> )	Exploration License	
			Commencement	Expiration
<b>Western South China Sea</b>				
	Qionghai 28 (Pearl River Mouth Basin)	5,223	2006-5-11	2008-5-11
	Yangjiang 31 (Pearl River Mouth Basin)	6,003	2005-12-3	2007-12-3
	Yulin 35 (Beibu Gulf)	6,042	2006-5-11	2008-5-11
	Weizhou 12 (Beibu Gulf)	7,001	2006-5-11	2008-5-11
	Weizhou 26 (Beibu Gulf)	4,358	2006-5-11	2008-5-11
	Lingao 11 (Yinggehai)	4,117	2006-5-11	2008-5-11
	Lingtou 20 (Yinggehai)	2,693	2005-8-30	2007-8-30
	Songtao 22 (Qiongdongnan)	4,076	2006-5-11	2008-5-11
	Songtao 31 (Yinggehai)	5,279	2006-5-11	2008-5-11
	Block 21A (Wananbei)	6,801	2005-9-30	2007-9-30
	Block 21B (Wananbei)	6,118	2005-9-30	2007-9-30
	Block 21C (Wananbei)	6,372	2005-9-30	2007-9-30
	Block 21D (Wananbei)	6,126	2005-9-30	2007-9-30
<b>Western South China Sea Total</b>		<b>70,209</b>		
<b>East China Sea</b>				
	Jinhua 12	6,947	2006-5-11	2008-5-11
	Block 25/34	7,017	2005-12-5	2007-12-5
	Wenzhou 21	1,437	2005-12-5	2007-12-5
	Lishui 33	2,999	2005-12-5	2009-7-1
<b>East China Sea Total</b>		<b>18,399</b>		
<b>Offshore China Total</b>		<b>174,999</b>		

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Table of major exploration blocks (continued)

	Blocks	Block Area (km <sup>2</sup> )	Exploration License	
			Commencement	Expiration
<b>Indonesia</b>				
	MALACCA STRAIT	9,492	2000-8-5	2020-8-5
	SES	6,123	1998-9-6	2018-9-6
	ONWJ	11,052	1997-1-18	2017-1-18
	WEST MADURA	1,615	1981-5-7	2011-5-7
	POLENG TAC	41	1993-12-22	2013-12-22
	BLORA	3,431	1996-10-7	2007-10-7
<b>Indonesia Total</b>		<b>31,754</b>		
<b>Myanmar</b>				
	M	7,786	2005-10-19	2007-4-18
	C1	16,988	2006-1-24	2008-1-23
	C2	26,506	2006-1-24	2008-1-2
	A4	8,493	2006-3-13	2008-3-12
	M10	13,379	2006-3-13	2008-3-12
<b>Myanmar Total</b>		<b>73,152</b>		
<b>Kenya</b>				
	L4	7,025	2006-7-28	2009-7-27
	L3	9,636	2006-7-28	2007-7-27
	L2	21,979	2006-7-28	2007-7-27
	9	27,778	2006-7-28	2007-7-27
	10A	15,289	2006-7-28	2007-7-27
	1	33,636	2006-7-28	2007-7-27
<b>Kenya Total</b>		<b>115,343</b>		
<b>Nigeria</b>	OML130	1,295	2005-4-25	2025-4-25
<b>Australia</b>	Outer Browse	21,000	2000-7-23	2008-1-24
<b>Equatorial</b>				
<b>Guinea</b>	Block S	2,287	2006-4-21	2009-4-20
<b>Philippines</b>	SC57	7,120	2005-9-15	2007-3-15
<b>Morocco</b>	RAS TAFELNEY*	14,000	2005-4-20	2007-1-20
<b>Overseas Total</b>		<b>265,951</b>		
<b>Total</b>		<b>440,950</b>		

\* The company exited from this block at the beginning of 2007.



In 2006, the Company acquired a total of 23,061 kilometers of 2D seismic data offshore China, including 18,068 kilometers acquired independently and 4,993 kilometers acquired by PSC partners. Besides, a total of 7,358 square kilometers of 3D seismic data was also acquired, including 4,498 square kilometers acquired independently and 2,860 square kilometers acquired by PSC partners. Meanwhile, the Company completed 45 exploration wells offshore China, including 39 independent wells and 6 wells under PSCs, with a total footage of 123,421 meters, including 101,321 meters drilled independently and 22,100 meters by PSC partners. As for overseas operations, the Company acquired 3,340 kilometers of 2D seismic data and 1,208 square kilometers of 3D seismic data, and drilled 4 exploration wells with a total footage of 9,400 meters.

The details are as follows:

Table of major exploration works in 2006

	Exploration Wells				New Discoveries		Successful Appraisals		Seismic Data			
	Independent		PSC		Independent	PSC	Independent	PSC	2D		3D	
	Wildcat	Appraisal	Wildcat	Appraisal					Independent	PSC	Independent	PSC
Bohai	16	11	4	—	6	1	4	—	—	—	2,030	365
Eastern South												
China Sea	1	—	1	—	—	1	—	—	6,788	—	1,323	1,945
Western South												
China Sea	8	3	1	—	1	1	2	—	8,138	1,716	1,145	—
East China Sea												
and Yellow Sea	—	—	—	—	—	—	—	—	3,142	3,277	—	550
Offshore												
China Total	25	14	6	—	7	3	6	—	18,068	4,993	4,498	2,860

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### DEVELOPMENT

For CNOOC Limited, 2006 was a year full of challenges. In spite of typhoon attacks, cost increases and shortage of service resources, we still achieved the production target through enhancing production efficiency and capacity.

It is particularly notable that our Liuhua 11-1 Oilfield has suspended production since it was damaged by typhoon “Chan chu” in May 2006. Liuhua 11-1 Oilfield produced approximately 22,000 barrels per day before the suspension. The rising oil prices also greatly affected the net entitlement of the Company’s PSC in Indonesia.

Despite of the influences, existing fields continued to perform and new oilfields commenced production on time to ensure the production target of the Company be met.



In those mature oilfields such as Suizhong 36-1 and Qihuangdao 32-6, the Company has adopted several effective measures to reduce the production decline. In addition, the Company has expanded scope of research and streamlined management procedures to secure the commencement of new projects.

Looking ahead, a number of projects are expected to come on stream in the coming years, including major projects offshore China such as Penglai 19-3 phase II, Wenchang oil fields, and overseas projects such as Tangguh LNG project in Indonesia and OML 130 in Nigeria. With our commitments, CNOOC Ltd. will step forward to a new stage of higher quality and fast-growing development.

## MAJOR PROPERTIES UNDER PRODUCTION AND DEVELOPMENT

Name of Block	Major Oil and Gas Field	Net Production in 2006		Net Reserves as of 31 December 2006	
		Total (BOE/day)	Oil (Bbbls/day)	Gas (Mmcf/day)	Total (MM BOE)
<b>Bohai Bay</b>					
• Production					
Liaoxi	Jinzhou20-2, Jinzhou9-3, Suizhong36-1, Luda4-2, Luda 5-2, Luda 10-1	112,060			314.9
		Oil 105,787			Oil 280.5
		Gas 38			Gas 206.7
09/18	Chengbei	Oil 4,074			Oil 8.2
Boxi	Qikou18-1, Qikou18-2, Qikou17-2, Qikou17-3	7,890			8.7
		Oil 7,110			Oil 7.9
		Gas 5			Gas 4.8
05/36	Nanbao35-2, Qinghuangdao32-6	Oil 25,136			Oil 92.7
11/05	Penglai19-3	Oil 7,675			Oil 131
Bonan	Bozhong 34-2, Bozhong34-4, Bozhong28-1, Bozhong26-2, Bozhong34-5, Bozhong25-1, Bozhong25-1S	33,828			174.5
		Oil 30,128			Oil 152.6
		Gas 22			Gas 131.4
04/36	Caofeidian11-1, Caofeidian11-2, Caofeidian11-3, Caofeidian11-5	Oil 20,023			Oil 22.8
05/36	Caofeidian11-6, Caofeidian12-1S	Oil 1,012			Oil 12.9
• Development					
Liaoxi	Jinzhou21-1, Jinzhou21-1 S				90.6
					Oil 38.9
					Gas 310.3
Bozhong	Qinhuangdao33-1, Bozhong3-1, Bozhong3-2				Oil 9.8
Boxi	Caofeidian18-1, Caofeidian18-2, QK18-9, Bozhong13-1				19.4
					Oil 8.7
					Gas 64.0
11/05	Penglai 25-6				Oil 10.5
Bonan	Bozhong34-1, Bozhong34-1S, Bozhong34-3				Oil 26.0
Liaodong	Luda27-2, Luda32-2, Jinxian 1-1E				Oil 59.7
11/19	Bozhong19-4, Bozhong26-2N, Bozhong29-4, Bozhong28-2S, Bozhong34-1N				79.2
					Oil 71.2
					Gas 47.8
Bohai Subtotal		211,697			1,060.9
		Oil 200,944			Oil 933.4
		Gas 65			Gas 765.0



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### MAJOR PROPERTIES UNDER PRODUCTION AND DEVELOPMENT (continued)

Name of Block	Major Oil and Gas Field	Net Production in 2006		Net Reserves as of 31 December 2006		
		Total (BOE/day)	Oil (Bbbls/day)	Gas (Mmcf/day)	Total (MM BOE)	Oil (MM Bbbls)
<b>Eastern South China Sea</b>						
• Production						
Huizhou14	Huizhou Oil Fields (including Huizhou 21-1)	20,387			21.8	
		Oil 16,545			Oil 15.6	
		Gas 23			Gas 37.3	
16/19	Huizhou19-3, Huizhou19-2, Huizhou19-1	Oil 4,581			Oil 4.6	
11/15	Xijiang24-3	Oil 14,626			Oil 15.1	
Xijiang24	Xijiang30-2	Oil 11,991			Oil 10.3	
Huizhou31	Liuhua11-1	Oil 6,939			Oil 30.4	
06/16	Lufeng13-1, Lufeng13-2	Oil 24,508			Oil 22.5	
Lufeng08	Lufeng22-1	Oil 1,625			Oil 0.5	
15/34	Panyu4-2, Panyu5-1	Oil 25,087			Oil 33	
• Development						
Liuhua07	Panyu30-1, Liuhua19-5				98.7	
					Oil 3.0	
					Gas 573.9	
Panyu33	Panyu34-1				30.7	
					Oil 0.6	
					Gas 180.8	
Xijiang04	Xijiang23-1				Oil 44.4	
15/34	Panyu11-6				Oil 2.6	
Huizhou 16	Huizhou25-1, Huizhou25-3, Huizhou25-4				Oil 13.4	
Huizhou 31	Liuhua 4-1				Oil 4.2	
Eastern South China Sea Subtotal		109,744			332.3	
		Oil 105,902			Oil 200.2	
		Gas 23			Gas 792.0	

## MAJOR PROPERTIES UNDER PRODUCTION AND DEVELOPMENT (continued)

Name of Block	Major Oil and Gas Field	Net Production in 2006		Net Reserves as of 31 December 2006		
		Total (BOE/day)	Oil (Bbls/day)	Gas (Mmcf/day)	Total (MM BOE)	Oil (MM Bbls)
<b>Western South China Sea</b>						
• Production						
Yulin35	Weizhou Oil Fields	22,815			44.5	
		Oil 21,709			Oil 42.8	
		Gas 7			Gas 10.1	
Yangjiang31	Wenchang13-1, Wenchang13-2	Oil 17,521			Oil 14.4	
Ledong01	Yacheng13-1	24,034			69.4	
		Oil 984			Oil 3.5	
		Gas 125			Gas 395.7	
Changjiang25	Dongfang1-1	20,256			227.0	
		Oil 223			Oil 2.8	
		Gas 120			Gas 1,345.3	
• Development						
Yangjiang31/32	Wenchang8-3, Wenchang14-3, Wenchang15-1, Wenchang19-1, Wenchang9-2, Wenchang9-3, Wenchang10-3				123.4	
					Oil 83.7	
					Gas 238.7	
Ledong01	Yacheng13-4, Ledong22-1, Ledong15-1				102.7	
					Oil 1.3	
					Gas 608.2	
Yulin35	Weizhou11-1, Weizhou11-1N, Weizhou11-4N, Weizhou6-10, Weizhou12-8, Weizhou6-8, Weizhou6-9				Oil 42.1	
Changjiang25	Dongfang29-1				8.3	
					Oil 0	
					Gas 50.0	
Western South China Sea Subtotal		84,625			631.9	
		Oil 40,437			Oil 190.5	
		Gas 252			Gas 2,648.1	

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### MAJOR PROPERTIES UNDER PRODUCTION AND DEVELOPMENT (continued)

Name of Block	Major Oil and Gas Field	Net Production in 2006 (BOE/day) Oil (Bbls/day) Gas (Mmcf/day)	Net Reserves as of 31 December, 2006 (MM BOE) Oil (MM Bbls) Gas (Bcf)
<b>East China Sea</b>			
• Production			
Tianwaitian		681 Oil 42 Gas 4	6.3 Oil 0.5 Gas 34.8
• Development			
Xihu Trough			
Canxue			9.3 Oil 5.0 Gas 25.4
Duanqiao			7.6 Oil 2.2 Gas 32.6
Chunxiao			31.9 Oil 3.8 Gas 168.6
Baoyunting			18.8 Oil 4.5 Gas 85.9
Wuyunting			4.7 Oil 1.9 Gas 16.6
<i>Interest held through associated company</i>			
Pinghu	Pinghu Oil and Gas Field (held as to 30% by the Group)	4,324 Oil 1,422 Gas 17	6.8 Oil 2.4 Gas 26.1
East China Sea Subtotal		5,004 Oil 1,464 Gas 21	85.4 Oil 20.4 Gas 390.0

## MAJOR PROPERTIES UNDER PRODUCTION AND DEVELOPMENT (continued)

Name of Block	Major Oil and Gas Field	Net Production	Net Reserves as of
		in 2006 (BOE/day) Oil (Bbls/day) Gas (Mmcf/day)	31 December, 2006 Total (MM BOE) Oil (MM Bbls) Gas (Bcf)
Offshore China Subtotal		411,070	2,110.5
		Oil 348,746	Oil 1,344.6
		Gas 361	Gas 4,595.1
<b>Overseas</b>			
Indonesia		40,236	243.9
		Oil 22,475	Oil 79.7
		Gas 107	Gas 985.1
Australia		6,174	133.1
		Oil 1,498	Oil 24.5
		Gas 24	Gas 651.4
Nigeria			Oil 41
Overseas Subtotal		46,411	418.0
		Oil 23,973	Oil 145.3
		Gas 130	Gas 1,636.5
Total		457,482	2,528.5
		Oil 372,720	Oil 1,489.9
		Gas 491	Gas 6,231.6

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### ENGINEERING

In 2006, the Company's engineering projects proceeded smoothly. During the year, there were 19 projects underway. Among these projects, seven projects have commenced production, including Bozhong 25-1/25-1S, Qikou 17-2E, the Caofeidian 11-6/12-1S, Huizhou 19-1, Huizhou 21-1, Dongfang 1-1 Phase II (gas) and Weizhou 6-1 in offshore China. Indonesia's SES Gas Phase I also came on stream in 2006.

#### New projects that commenced production in 2006

	Project Name	Commencement of Production
Bohai Bay	Bozhong 25-1/25-1S	23 May
	Qikou 17-2E	11 October
	Caofeidian 11-6/12-1S	26 October
Eastern South China Sea	Huizhou 19-1	10 February
	Huizhou 21-1 Gas	19 April
Western South China Sea	Dongfang 1-1 Phase II	3 May
	Weizhou 6-1	30 October
Indonesia	SES Gas Phase I	14 June

In 2006, the Company completed the construction of 22 jackets and 21 modules, installation of 15 jackets and 13 modules respectively. It also laid 335 kilometers of subsea pipelines.

It is expected that a number of construction projects will be launched in 2007. Hence, the Company's construction schedule will continue to be busy. It is estimated that the number of oil and gas projects underway will be maintained at above 16. Under the current planning, Penglai 19-3 Phase II Platform C, Weizhou 11-1, Jinzhou 21-1, Huizhou 25-4 and SES Gas Phase II will soon come on stream.

#### Major projects in 2006

	Jackets		Platform Modules		Subsea pipelines (km)
	Construction	Installation	Construction	Installation	
Bohai	11	6	11	7	34
Eastern South China Sea	3	2	2	1	264
Western South China Sea	7	7	7	5	23
East China Sea	1	—	1	—	14
Total	22	15	21	13	335

## OVERSEAS

In 2006, the Company continued to pursue opportunities through a multi-prong approach. The Company made substantial progress in its roadmap for international development. Its overseas development strategy for the year remained to be: adding reserve and production volume through acquisitions; seeking long-term sustainable growth through exploration activities; exploring overseas natural gas business opportunities through trading off market share for resources.

In 2006, the Company's major achievements in overseas development include:

- (i) On 8 January 2006, CNOOC Limited signed a definitive agreement with South Atlantic Petroleum Limited ("SAPETRO") to acquire a 45% working interest in the offshore Oil Mining License 130 ("OML130") in Nigeria for US\$2.268 billion in cash. On 20 April 2006, the Company completed its acquisition at a total consideration of US\$2.268 billion plus a working capital adjustment of US\$424 million for financial, operating and capital expenditures. OML130 has not started commercial production.
- (ii) On 27 January 2006, the Group signed an agreement to acquire a 92.1% equity interest in AERD Projects Nigeria Limited, which holds a 38% working interest in the Offshore Oil Prospecting License 229 ("OPL229") in Nigeria at a consideration of US\$60 million. The transaction was completed on 4 December 2006. After the transaction, the Group acquired a 35% working interest in OPL229, which was still in an exploration stage as at 31 December 2006.



## SCIENCE AND TECHNOLOGY DEVELOPMENT

2006 was a very fruitful year for the Company on the technology front. Many of its technology achievements yielded positive results in exploration and development, and were granted technology awards by the State. In particular, the Company's "Breakthrough in Exploration of Complex Reservoirs in Bohai Bay" was honored with the State Technological Progress Award in 2006.

### (1) Major Projects

The Company's exploration, development and production, and engineering departments work together with our research and development center and various branches to strengthen the selection and planning of technological research priorities. Together, they map out major projects to keep track of the state-of-the-art technology in respect of priority areas, covering new arenas and new technologies in offshore oil exploration, enhanced oil recovery offshore marginal field development, deep water oil field development. By doing so, they strive to build a forward looking technology portfolio to support the long-term sustainable growth of the Company.

In 2006, the Company's 4 projects were selected the scientific studies to be funded by the state under the "Eleventh Five-Year Plan" of the PRC.

### (2) Critical Technological Research Progress

In 2006, the Company launched 8 state technology projects. During the year, a number of technological research findings led to major breakthroughs in the deepwater area of the Baiyun Trough in the South China Sea.

Our efforts also continued on the introduction of new technologies and commercialization of research findings. Apart from many others, the technology innovation was applied to gas collection in Wenchang Oil Field to enable energy saving and reduction of environmental pollution, thereby generating economic and social benefits.

## INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

We recognize that, it is the duty and obligation of our management to formulate and execute corporate strategies which are in line with the Company's objectives and compatible to the internal control and risk management system of the Company.

The Company established an Investment and Risk Management Committee, which is responsible for matters on investment decisions and risk management. All material decisions should be approved by at least two-thirds of the members of the committee. The

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Company should not invest in proposals which are objected by the committee. In such event, even our CEO is not able to overrule the decision. As such, risk in making decisions could be minimized.

In particular, in 2002, in order to safeguard the interest of investors and enhance the accuracy and effectiveness of the financial reporting and financial information disclosure, the US Congress promulgated the “Sarbanes-Oxley Act”, and also in 2004, The Stock Exchange of Hong Kong Limited issued the “Code on Corporate Governance Practices”, which imposed a stricter regulatory requirement on corporate governance and internal control. Our management believed such requirements not only represent the regulatory requirement imposed by the market, but also assist our company to improve our management and enhance shareholder value. Therefore, we are able to focus on sectors with higher risks, and ensure that all critical risk in different sectors and entities can be addressed and resolved.

In 2006, the management adopted the internal control framework developed by the COSO to conduct an extensive review and evaluation of internal control of the company. Through such review, we made improvement to our internal system and reviewed the current system and the flow to ensure sufficient attention and controls are applied to the major risks we encountered, and thus ensuring the timeliness, accuracy and completeness of all the information reported.

Meanwhile, we all understand that internal control is an area which we should improve continuously in our daily operation. As a Hong Kong and US listed company, CNOOC Ltd. will strictly comply with all regulatory requirements, strengthen its internal control and maintain a high standard of corporate governance to ensure a healthier development.



## Health, Safety and Environmental Protection (HSE)

During the year, the Company continued to further reinforce its HSE system. Efforts were made to procure all branches to prioritize the pursuit of ongoing improvement in respect of, among other things, employee health promotion initiatives, environment protection management and safety training. The overall purpose was to reinforce the front line safety management. Besides, a new set of safety compliance standards was introduced to drive forward the enforcement of corporate social responsibilities, enhance the awareness of work safety, promote environmental protection during project implementation, and strengthen the crisis management skills and other qualities of our staff so as to secure smooth production.

As a result, the Company made substantial progress in its HSE management in 2006. There was no material injury or spillage incident. Indeed, we have never been subject to any safety-related liability claims for losses of over US\$120,000. Besides, the Company's OSHA Statistics results continued to be above average when compared with international peers. Given such sustained improvement in performance, the Company's HSE objectives for the year were successfully accomplished.

The Company made several major achievements in respect of HSE management during the year: special audits were implemented regarding the work safety measures of two branches in China. The management of subcontractors has been strengthened to ensure



their commitment to their HSE obligations. The development projects which came on stream during the year all underwent simultaneous reviews on aspects relating to HSE in accordance with the laws of the PRC. These projects have been endorsed by the competent government departments. Relevant government approvals have been obtained.

In December 2006, the Company organized a large-scale offshore emergency drill, with the Company's President acting as the commander in chief. There were over 300 participants, including our offshore service contractors and transportation service contractors. Several senior officials from the relevant government authorities also attended. This exercise was very successful in training the involved parties, including our offshore units, branches, contractors, on working together to tackle emergency situations. The Company continued to work with China Offshore Environmental Service Ltd. to set up Oil Spill Response Bases in Tangguh, Longkou, Weizhou and Zhuhai. Such initiatives strengthened our capability in handling oil spill emergencies.

In 2006, the Company also placed considerable emphasis on safety in helicopter, diving and vehicle operations. Professional auditors were hired to conduct management audits on those helicopter companies engaged by the Company and to conduct safety checks on the relevant helicopters. Besides, special audits were also conducted on diving operations. In 2006, our focus in HSE management was also placed on contractors. Through organizing case study seminars and issuing the HSE management standards for contractors, the Company further strengthened its HSE management contractors.

In 2006, we further enhanced our information exchange on HSE. Safety warnings, environmental protection information and health guidelines were released on a regular basis. We also published five booklets on "Good Practice Cases".

Promoting the culture and philosophy of HSE among the staff is our ongoing commitment. We encourage and demand all members to put these concepts into practice in production and work life. For this purpose, we organized HSE training sessions for all the staff from



## Operations Review

the management to the operational level. The topics cover HSE regulations, corporate values and policies, risk management and control, offshore rescue and special operations. The scope of our HSE training has been extended to the employees of our contractors. More than 30,000 people participated in such trainings during the year.

In 2006, we continued to roll out the system of occupation health profiles in all our branches in order to strengthen the health management of offshore operating staff. The health data is analyzed so that proactive and constructive advice can be made to the staff.

Scope	Gross Man-Hours	Number of Recordable Cases	Rate of Recordable Cases	Number of Lost Workdays cases	Rate of Lost Workdays Cases	Number of Days Away & Working Shifts	Rate of Lost Workdays& Restricted Days	Death Cases
Company Staff	8,704,730	3	0.07	3	0.07	21	0.48	0
Company Staff & direct contractors	37,824,351	48	0.25	20	0.11	320	1.69	1

## Corporate Citizen

Social responsibility is another top priority of our ongoing agenda. It is also considered as an important part of our core competitiveness. We believe that being socially responsible covers various facets of corporate life, including primarily:

1. Realizing fast and healthy growth to contribute more to the society;
2. Establishing a robust HSE system to create a satisfactory workplace for our staff and to maintain harmony with the surrounding environment;
3. Making active efforts to participate in poverty and disasters relief work, education charities, etc.



We believe that realizing business growth is our foremost social responsibility. This means not only an increasing, oil reserve and production, or higher returns to shareholders, but also more energy for the society.

Over the years, we have been consistently acting on our social responsibility and the above corporate philosophy. Towards the goal of reserve and production additions, we have been making active efforts in exploration and development to keep growth momentum.

In addition, we also take it as our mission to give back to society through helping the poor, disaster victims and needy students by active participating in all sorts of social causes. In 2006, our major charity activities were as follows:

In February, we donated US\$50,000 to the Philippines National Red Cross following the landslide in Southern Leyte, the Philippines, which left behind massive deaths, casualties and property damages.

In May, together with our seven partners in the North West Shelf Gas Project in Australia, we jointly sponsored the visit of the Western Australia Symphony Orchestra to China. A total of A\$100,000 was donated under this 3-year sponsorship campaign.

In October, following the HK\$1 million donation we made last year in support of the student exchange program of the Chinese University of Hong Kong, we made a further contribution of HK\$2.85 million to encourage the participation of mainland students in international student exchange programs.

In November, the modification was completed at the FPSO “Nanhai Endeavor” in Wenchang oil field, which can recover 100,000 cubic meters of LPG every year.

## Human Resources

### ENHANCED PLANNING AND BUDGETING WHILE MAXIMIZING THE RETURN ON HUMAN INVESTMENT

During the year, under the pressure brought by corporate growth and production costs, the Company took steps to enhance the planning and budget control of its labor costs. By installing target benchmarks in performance appraisals to guide various business units to cut their labor costs and to increase the accuracy of their budgets.

At the same time, in order to maximize our return on human investment, the Company paid particular attention to critical business units and key positions in formulating compensation budgets and resources allocation.

In addition, the Company made adjustments to the compensation and allowance policy for overseas staff based on the inflation rates and exchange rates of their homeland countries/regions.

### PERSONNEL MANAGEMENT AND AUTHORITY DELEGATION BASED ON EVALUATION

During the year, a new set of regulations was formulated for the personnel management of the Company and its branches under the principle of “centralized control and decentralized management”.

As a result, the overall control of personnel management remains with the headquarters, while the manpower recruited is able to meet the needs for specific business development. Meanwhile, a system study was also made on our personnel hierarchy, followed by the introduction of the concept of normal distribution. Offices in different departments and branches were evaluated from an overall perspective to rationalize the personnel structure.

### BUILDING CORPORATE STRENGTH MODEL-SOLID FOUNDATION FOR CORE COMPETITIVENESS

To further increase our competitiveness, we are systematically building our corporate strength model, including the core corporate competitiveness model, the leadership model, the professional strength model and the front-line strength model. The establishment of such models is beneficial to recruitment, selection and promotion of competent employees of different disciplines in different positions. Besides, it enables the target-oriented development of our training system to nurture and develop our staff systematically in a defined direction. Also, it facilitates the transition from the previous position-based human resources management system to a new model that focuses on the development potential of individuals, which is in line with our “human oriented” management philosophy. Furthermore, it supports the development of an international talent base through the provision of target-oriented training and development programs for our international employees to ensure the supply of highly-qualified people to support our overseas development.

During the year, our existing performance appraisal system was also further enhanced in a way to ensure the fulfillment of operating objectives and to stimulate the motivation of various business units.

