



Operations Overview



- Production rose to historic levels, 89% of which was oil
- 42 exploration wells drilled, with 19 wildcats yielding seven new discoveries
- Bohai Bay, the Western South China Sea and the Eastern South China Sea areas continue to serve as our focus for development and production growth
- The Xihu trough acquisition laid the foundation for our long-term natural gas development strategy in the East China area

Operations Overview

CNOOC Limited was at a cross-road in its history in 2001. Production rose to historic levels, as the beginning of a string of major development projects began coming on-line. Exploration activities increased, with the drill bit yielding seven new discoveries and providing additional undeveloped reserves to sustain our growth base. Meanwhile, our historic acquisition of the East China Sea's Xihu Trough will cement the foundation of our long-term natural gas development strategy in the eastern China area.

This success is built around our four offshore China operating areas, each of which contributes uniquely to our diversified asset portfolio and our strong, balanced growth. Bohai Bay has become the anchor of our development-based production growth, and continues to offer strong oil exploration prospects. Our largest gas reserves and production base

is in the Western South China Sea area, offering several major gas exploration and development projects. The nearby Eastern South China Sea area is our second largest producing basin, with recent discoveries sustaining its strong oil focus. The East China Sea area offers both undeveloped gas reserves and further gas-focused exploration to support our longer-term coastal gas strategy.

While 89% of our 2001 net production was crude oil, we are focused on balancing our production by increasing and developing our natural gas reserve base. The East China Sea and the Western South China Sea regions are the key components of building our long-term gas plan, given their large prospective gas reserves and their strategic locations adjacent to Shanghai and the southern provinces' booming economies. In 2001, we started the acquisition of an operating interest in several undeveloped gas fields in the East China Sea, while continuing to make progress in developing our gas reserves in



the Western South China Sea. The year 2002 will see a significant increase in natural gas exploration activities for both of these regions.

In 2001, offshore China exploration activity increased, netting positive results. A total of 42 exploration wells were drilled in 2001 – 13 by us and 29 by our PSC partners (We bore 100% expenses for one of the wells as the consideration for a 85% participating interest of the block)– including a total of 23 appraisal wells and 19 wildcats. This resulted in seven hydrocarbon discoveries, two of which were independent (one gas discovery in the Eastern South China Sea, and one oil in the Western South China Sea) and the other five by our PSC partners (two in Bohai Bay and three in Eastern South China Sea). Five out of the seven discoveries are located in the South China Sea area, indicating an enormous potential for oil and gas exploration beyond Bohai Bay, and thus a diversified source of reserve accretion potential for the Company in its future development.

Bohai Bay

Bohai Bay holds our largest portfolio of net proved reserves, and in 2001, it became our largest production region after the completion of two key projects. As of December 31, 2001, approximately 60% of our total net proved reserves were located in this region, consisting of 1,066 million barrels-of-oil equivalent, 90% of which was crude oil. In 2001, this area accounted for



Major properties under production and development

Block/Property	Operator	Partner	the Company's interests	Actual production commencement year	2001 Net production (BOE/day)	Net Reserves as of December 31, 2001 (MMBOE)*
Bohai Bay						
Production						
Liaoxi						
Jinzhou 20-2	CNOOC Ltd.		100%	1992	8,402	49.79
Jinzhou 9-3	CNOOC Ltd.		100%	1999	15,949	43.42
Suizhong 36-1(I)	CNOOC Ltd.		100%	1993	25,231	72.88
Suizhong 36-1(II)	CNOOC Ltd.		100%	2000	33,735	188.39
Boxi						
Boxi fields	CNOOC Ltd.		100%	1997	15,587	36.49
Chengbei oil field	CNOOC Ltd.		100%	1985	4,329	9.40
Qinhuangdao						
Qinhuangdao 32-6	CNOOC Ltd.	BP, Texaco	51%	2001	2,366	98.18
Bonan						
Bozhong 34-2/4	CNOOC Ltd.		100%	1990	2,091	4.91
Development						
Liaoxi						
Jinzhou 21-1	CNOOC Ltd.		100%		–	13.04
Bozhong						
Nanbao 35-2	CNOOC Ltd.		100%		–	75.76
Bonan						
Bonan oil fields	CNOOC Ltd.		100%		–	195.62
Bozhong 25-1S	Texaco		51%		–	110.45
11/05						
Penglai 19-3	Phillips	Phillips Bohai	51%	2002	–	117.38
Penglai 25-6	Phillips	Phillips Bohai	51%		–	10.63
04/36						
Caofeidian	Kerr-McGee	Newfield, Energy	51%		–	39.83
Bohai Bay Total					107,690	1,066.17
Eastern South China Sea						
Production						
16/08						
Huizhou oil fields	CACT		51%	1990	38,003	37.45
15/11						
Xijiang 24-3	Phillips, CNOOC Ltd.	Shell	51%	1994	14,974	9.40
15/22						
Xijiang 30-2	Phillips, CNOOC Ltd.	Shell	40%	1995	14,590	16.19
29/04						
Lihua 11-1	BP, CNOOC Ltd.	Kerr-McGee	51%	1996	8,293	6.00
16/06						
Lufeng 13-1	JHN		25%	1993	3,451	5.00
17/22						
Lufeng 22-1	Statoil, CNOOC Ltd.		25%	1997	2,093	0.53
Development						
16/19						
Huizhou 25-1/19-2/3	CACT		51%		–	24.79
15/34						
Panyu oil fields	Devon	Burlington	51%		–	32.83
Eastern South China Sea Total					81,404	132.19
Western South China Sea						
Production						
Yulin 35						
Weizhou oil fields	CNOOC Ltd.		100%	1993	40,377	60.16
Yinggehai						
Yacheng 13-1	BP	Kufpec	51%	1995	24,063	106.56
Development						
Wenchang 13-1/2						
Wenchang 13-1/2	CNOOC Ltd.	Husky	60%	2002	–	55.36
Yangjiang 31						
Wenchang 8-3	CNOOC Ltd.		100%		–	11.58
Changjiang 25						
Dongfang 1-1	CNOOC Ltd.		100%		–	218.27
Ledong 01						
Ledong 15-1/22-1	CNOOC Ltd.		100%		–	83.26
Western South China Sea Total					64,440	535.19
East China Sea						
Production						
Pinghu						
Pinghu	CNOOC Ltd.		30%	1998	5,599	15.42
Development						
Xihu Trough						
Canxue	CNOOC Ltd.		50%		–	11.28
Duangjiao	CNOOC Ltd.		50%		–	18.50
East China Sea Total					5,599	45.20
Offshore China Total					259,131	1,778.75
Malacca oil field, Indonesia	Kondur	Novus	39.51%	1994	2,247	8.39
CNOOC Ltd. Total					261,379	1,787.14

* Estimated by Royder Scott Company L.P., Independent Petroleum Consultant

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approximately 41% of our total net daily production, consisting of a daily average of 107,690 barrels-of-oil equivalent per day, 93% which was crude oil. A number of additional projects are under development, several of which are scheduled to come on line in 2002, which will further ramp up our production in the region.

Our largest independent oil field – Suizhong 36-1 – more than doubled its production capacity in 2001 through the completion of its second development phase (Phase II). Phase II consisted of platforms E, F and D coming on-stream, at the end of 2000 and with platforms C, G and H entering production on 26 August, 18 September and 9 November 2001, respectively – all ahead of schedule. All six

platforms of Phase II have a daily production capacity of over 60,000 barrels. To utilize infrastructure synergies, we plan to drill four wildcats adjacent to Suizhong 36-1 and Jingzhou 20-2 in 2002.

Another major Bohai Bay oil field, Qinhuangdao 32-6, was brought on-line in 2001 jointly by the Company (51%), Texaco China (24.5%) and BP China Ltd. (24.5%). The field's A and B platforms and its floating production storage and offloading (FPSO) unit – *the Bohai Century* – were successfully launched into production ahead of schedule on 8 October 2001. Phase II of this project platforms C, D, E and F is expected to come on stream in 2002.

This successful momentum of adding major producing oil fields will be carried into 2002, with the partial completion of Penglai 19-3, which is being developed in two phases jointly with Phillips Petroleum (49%). The first phase of the project is expected to come on-line in 2002 and will include one well-head platform, a FPSO unit, 1.6 kilometers sub-sea pipeline/sub-sea wire and a single mooring system. The maximum production capacity by design is 40,000 barrels per day. In the same block, Phillips Petroleum completed a successful appraisal well in Penglai 25-6 at the beginning of 2001 (cross-year well), which will accelerate the development of this nearby field.



Characterized by shallow water and relatively shallow oil-prone structures, Bohai Bay has been a focal point of recent offshore China exploration, especially amongst our PSC partners, accounting for 57% of offshore China exploration drilling in 2001. A total of 24 exploration wells were drilled in 2001, including 4 appraisal wells by the Company as well as 4 wildcats and 16 appraisal wells by our PSC partners. Two discoveries were made in this area in 2001 and four in 2000, which will add to our pipeline of reserves for development. We plan to drill 11 exploration wells, and our PSC partners plan to drill 13 to 32 exploration wells in 2002.

A key area of recent successful exploration in Bohai has been the Caofeidian oil fields. In 2001, Kerr-McGee and its partners drilled 3 wildcat wells and discovered the CFD 11-2 (04/36 block) and CFD 12-1S (05/36 block) oil fields,

adjacent to the CFD 11-1 and CFD 12-1 oil fields.

In addition to these discoveries, 7 appraisal wells were successfully drilled at CFD 11-1 and CFD 11-2, which are planned to be developed jointly, with production start-up targeted for 2004. Four appraisal wells were also drilled at the CFD 12-1 field. In 2002, 3 to 14 exploration wells are planned for the blocks, half of which consisting of wildcat wells.

Chevron/Texaco has also found success in 2001 with its exploration efforts in the 11/19 block. Following the successful appraisal of Bozhong 25-1S in 2000, with 3 out of 4 appraisal wells drilled successfully, another wildcat well drilled in this block also successfully encountered oil. In 2002, Chevron/Texaco plans to drill 2 to 4 follow-on exploration wells in this block. We also found exploration success in the Nanbao 35-2 oil field in 2001, drilling 2 successful appraisal wells out of 3. Such results proved the production potential and the reservoir nature of the field, which will allow for the field's development plan to be finalized in 2002.

Western South China Sea

Western South China Sea is our most important gas production region, bolstered by the Yacheng 13-1 field, our largest gas producing property, which sells its gas to Hong Kong and Hainan-based buyers. The region has also become one of our most important natural gas exploration areas. Consisting of three major basins - Beibu Gulf, Yinggehai and Qiongdongnan - it remains the second least explored area offshore China. In 2001, the Company drilled 5 wildcats and 1 appraisal well while our PSC partner

drilled 1 wildcat in this area. Exploration activity is expected to increase in 2002, as we plan to drill 23 exploration wells focusing on gas prospects, and our partners plan to drill 2 wildcats.

Production development in this region is based on near-term oil and longer-term gas projects. The Wenchang 13-1/13-2 oil fields are being developed on schedule and are expected to be put into production in 2002. Dongfang 1-1, our largest natural gas field consisting of 1,309 billion net cubic feet, is currently under development with the first phase to come on-line in 2003, targeting the gas market of Hainan island. Longer-term development plans include Dongfang 1-1 Phase II and the Ledong gas fields.

Our 2001 drill bit success in the region has both expanded an existing field and opened an entirely new geological play. We successfully drilled an appraisal well in the northern part of the existing Weizhou 12-1 oil field, and plan to follow with 1 wildcat in 2002. Such adjacent drilling will lower development costs. Our successful wildcat well at Wenchang 15-1 yielded the first discovery in the Shenhu uplift structure in the last 20 years, and thus opened a new area for exploration and development in the Wenchang block. We plan to drill 1 wildcat and 1 appraisal well in this block in 2002.

Eastern South China Sea

The Eastern South China Sea has traditionally been our most important oil-production region, but has recently been overtaken by Bohai Bay. Despite the maturity of some of our fields in the region, the Pearl River Mouth Basin continues to offer new oil development prospects. We hold exploration licenses for 25 blocks and

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are currently applying for another one in the area. Our PSC partners hold exploration licenses for 10 blocks in this area. In 2001, our PSC partners found oil in 3 of their 6 wildcats while we drilled 1 successful wildcat gas well. In 2002, the Company plans to drill 4 wildcats, an appraisal well, and a wildcat jointly with another domestic company, while our partners plan to drill 6-8 wells in 2002.

The Company successfully drilled a wildcat in the Liuhua19-3 structure, encountering a gas-bearing structure for the first time in the Liuhua 07 block. We plan to follow-on with 2 wildcats and 1 appraisal well in 2002. The joint operating group consisting of Agip, Chevron/Texaco and the Company (CACT) successfully drilled 2 wildcats and 1 appraisal well in the 16/19 block, yielding two discoveries near the existing Huizhou 19-3 oil fields. All three fields will be developed jointly to benefit from economies of scale.

In the nearer-term, the Panyu oil fields, including the Panyu 4-2 and the Panyu 5-1, are being developed jointly with Devon and Baker Hughes, and will come on-stream some time in 2003.

East China Sea

The East China Sea is the least-explored area offshore China, and offers the potential to become a major component of our long-term natural gas growth plan given its strategic location near Shanghai. In 2001, we acquired a number of exploration licenses for new blocks in this region and now hold exploration licenses for 40 blocks while our PSC partners hold exploration licenses for 4 blocks. Recent exploration has been limited to 2 independent wells and 1 appraisal well



drilled by us in the PSC block of the southern East Sea, but in 2002 the Company plans to drill 3 exploration wells in the South Yellow Sea, and will jointly drill 5 or more exploration wells in the Xihu trough with Sinopec.

As the operator of the Pinghu gas field, we pioneered the development of the first oil and gas field in the East China Sea. While the first production came on-stream in 1998, the next phase of the project expansion is planned for completion in 2003.

In 2001, we started the acquisition of the Xihu trough and its undeveloped Chunxiao gas fields, which will be jointly owned with Sinopec and operated by us. The fields include Chunxiao, Tianwaitian, Duanqiao and Canxue gas fields, with the Tianwaitian gas field located 60 kilometers away from Pinghu.

New Contracts and Agreements Signed in 2001

Our parent company signed four production sharing contracts and agreement with foreign parties during 2001, which will result in the foreign parties undertaking to drill at least 4 exploration wells.

Overseas Business

We have a 39.51% combined interest in the Malacca oil fields in Indonesia through our wholly owned subsidiary, CNOOC International Limited. This field's remaining recoverable reserves were 8.39 million barrels of crude oil by the end of 2001, and it yielded 0.82 million barrels of net production in 2001.

Indonesia will become the genesis of our overseas expansion with our acquisition of Repsol-YPF's Indonesia assets in 2002.

New contracts and agreements signed in 2001

Basin	Block	Nature of Agreement	Foreign Partner	Interest (%)	Date of Signature	Contract Area (km ²)
Pearl River Mouth	27/10	PSC	Santa Fe	100	2001-5-10	6,546
Pearl River Mouth	39/05	PSC	Husky	100	2001-7-26	5,700
Bohai Bay	BZ26-2/28-1	Joint Study	Shell	100	2001-8-31	143
Bohai Bay	11/26	PSC	Shell	100	2001-12-11	3,190
Total						15,579

Major exploration blocks

Block	Contract Area (Km ²)	Partner	Exploration License Commencement – Expiration	2001 Total Exploration Drilling
Bohai Bay				
Middle of Bohai Bay	5,181		10/08/00 – 10/08/02	4
Southern Bohai Bay	3,763		10/08/00 – 10/08/02	–
Western Bohai Bay	1,913		03/29/01 – 03/29/03	–
Liaodong Bay	3,344		01/31/00 – 04/08/06	–
Eastern Liaodong Bay	2,829		07/02/01 – 07/02/06	–
Independent total	17,030			4
09/11 ⁽¹⁾	844	Agip	01/11/99 – 01/11/02	–
05/36 ⁽¹⁾	1,251	Kerr– McGee, Newfield, SAOEC	10/08/00 – 02/01/02	5
06/17	2,587	Chevron/Texaco, Carigali	02/01/01 – 02/01/03	–
Eastern 11/05 ⁽¹⁾	5,452	Phillips	02/01/00 – 02/01/02	1
Western 11/05 ⁽¹⁾	4,079	Phillips	02/01/00 – 02/01/02	–
11/19	3,186	Chevron/Texaco	03/28/01 – 03/28/03	5
09/18	2,266	Kerr– McGee	04/04/01 – 04/01/04	–
02/31	3,936	Chevron, Carigali	04/06/01 – 04/06/03	–
04/36	1,829	Kerr– McGee, SAOEC	03/28/01 – 12/31/01	9
PSC Total	25,430			20
Bohai Bay Total	42,460			24
East China Sea				
Xihu Huangyan 04 ⁽⁴⁾	2,848		08/28/01 – 08/28/08	–
Xihu Hangzhou 17	4,227		08/28/01 – 08/28/08	–
Xihu Zhenghai 01	1,536		08/28/01 – 08/28/08	–
Xihu Fuyang 27	2,526		08/28/01 – 08/28/08	–
Lishui– Jiaojiang Trough	6,767		03/31/00 – 11/28/05	–
Western Wunansha (South Yellow Sea)	242		03/31/00 – 12/16/05	1
South 2 trough (South Yellow Sea)	508		08/30/00 – 08/30/05	–
South 5 trough (South Yellow Sea)	481		08/30/00 – 08/30/05	1
North Trough (Northern South Yellow Sea)	912		08/30/00 – 08/30/05	–
West Trough (Northern South Yellow Sea)	2,179		08/30/00 – 08/30/05	–
Dalian 16 (North Yellow Sea)	6,471		05/11/01 – 05/11/06	–
Yantai 04 (North Yellow Sea)	6,109		05/11/01 – 05/11/06	–
Rushang 32 (South Yellow Sea)	4,413		05/11/01 – 05/11/06	–
Independent Total ⁽⁵⁾	39,219			2
32/32	4,593	Primeline	07/06/00 – 07/06/02	1
Western 04/20 ⁽²⁾	3,530	Primeline	04/06/01 – 04/06/03	–
Southern 04/20 ⁽²⁾	5,309	Primeline	12/31/00 – 12/31/02	–
Northern 04/20 ⁽²⁾	3,155	Primeline	05/25/01 – 05/25/04	–
PSC Total	16,587			1
East China Sea Total	55,806			3
Eastern South China Sea				
Huizhou 31	3,074		05/11/01 – 05/11/06	–
Enping 15	5,833		05/11/01 – 05/11/06	–
Enping 10	6,547		05/11/01 – 05/11/06	–
Panyu 33	4,830		05/11/01 – 05/11/06	–
Lihua 07	4,172		05/11/01 – 05/11/06	1
Lihua 21	4,496		05/11/01 – 05/11/06	–
Lihua 32	5,796		05/11/01 – 05/11/06	–
Chaotai ⁽³⁾⁽⁴⁾	15,430		Applying for License	–
Independent Total ⁽⁵⁾	50,178			1

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Major exploration blocks					
Block	Contract Area (Km ²)	Partner	Exploration License Commencement – Expiration		2001 Total Exploration Drilling
Eastern South China Sea					
16/19 ⁽¹⁾	471	Agip, Chevron/Texaco	10/08/00	– 03/31/02	3
16/08	541	Agip, Chevron/Texaco	04/29/01	– 04/29/03	–
15/34	5,124	Santa Fe	08/30/00	– 02/28/04	–
16/02	3,498	Santa Fe	03/31/00	– 03/31/07	1
16/05	3,009	Santa Fe	03/31/00	– 03/31/07	1
15/12	1,895	Shell	10/16/00	– 10/16/06	–
16/21 ⁽²⁾	2,241	Burlington	10/16/00	– 10/16/07	1
15/24 ⁽²⁾	133	Phillips, Shell	05/12/01	– 05/12/03	1
15/35	1,439	Santa Fe	08/10/01	– 01/31/03	–
27/10 ⁽⁶⁾	6,546	Santa Fe	10/09/01	– 10/09/03	–
PSC Total	24,897				7
Eastern South China Sea Total	75,075				8
Western South China Sea					
Yangjiang 31	6,072		12/03/01	– 12/03/03	–
Ledong 01	6,543		12/03/01	– 12/03/03	1
Changjiang 25	5,811		12/03/01	– 12/03/03	–
Weizhou 12	6,980		05/11/01	– 05/11/06	1
Yulin 35	6,050		05/11/01	– 05/11/06	–
Xuwen 05	3,846		05/11/01	– 05/11/06	–
Ledong 17	3,971		05/11/01	– 05/11/06	–
Qionghai 28	5,208		05/11/01	– 05/11/06	1
Songtao 22	4,063		05/11/01	– 05/11/06	1
Songtao 31	5,264		05/11/01	– 05/11/06	1
Wenchang 11	4,901		05/11/01	– 05/11/06	–
Wenchang 20	4,979		05/11/01	– 05/11/06	1
Weizou 26	4,100		05/11/01	– 05/11/06	–
Independent Total	67,788				6
Wanganbei A – D (4x)	25,418	Crestone	10/01/01	– 10/01/03	–
26/35 ⁽²⁾	1,529	Santa Fe	03/31/00	– 03/31/07	1
39/05 ⁽⁶⁾	5,700	Husky	12/03/01	– 12/03/03	–
22/12 ⁽⁶⁾	608	Blair	05/11/01	– 05/11/06	–
PSC Total	33,255				1
Western South China Sea Total	101,043				7
Total ⁽⁵⁾	274,384				42

(1) Application submitted for extension of exploration license.

(2) Contract completed in 2001, independent exploration license under application.

(3) Application submitted for exploration license.

(4) Joint exploration block with other oil company, planned work load equals joint operation work load.

(5) a. Drilling operation planned for 2002 includes joint operation wells. Net independent drilling plan for 2002 is: 3 wells for East China Sea, 5 wells for Eastern South China Sea, 11 wells for Bohai Bay, 23 wells for Western South China Sea, in total 42 wells.

b. Total area only represents the aggregate area of major exploration blocks.

(6) This contract area is located in an independent block, the valid period of which is dependent on that of the exploration license for the independent block. The PSC contract area has been excluded from the total area of the independent block.