



CNOOC Limited  
中国海洋石油有限公司

# 2018 Annual Results

March 21, 2019







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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.

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# Agenda

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

# Overview

## Breakthroughs achieved in exploration and reserve continued to increase

- 17 new discoveries were made and 17 oil and gas structures were successfully appraised
- Overseas exploration saw multiple world-class discoveries
- Reserve replacement ratio was 126% and reserve life extended to 10.5 years\*

## Smooth progress on new projects construction and production in line with the annual target

- More than 20 new projects under construction
- Net production reached 475.0 million boe\*

## Net profit increased significantly and financial status remained healthy

- All-in cost of US\$30.39/boe, down 6.6% YoY
- Net profit of RMB 52.69 billion, up 113.5% YoY
- Final dividend of HK\$0.40 per share (tax inclusive)

## Steady HSE performance

\*Including our interest in equity-accounted investees



# Results Summary

	2018	2017	Change %
Production (mm boe)	475.0	470.2	1.0%
- Crude and liquids (mm bbls)	383.5	388.7	-1.3%
- Natural gas (bcf)	530.2	474.7	12.0%
Realized oil price (US\$/bbl)	67.22	52.65	27.7%
Realized gas price (US\$/mcf)	6.41	5.84	9.8%
Oil & gas sales (RMB mm)	185,872	151,888	22.4%
Net profit (RMB mm)	52,688	24,677	113.5%
Basic EPS (RMB)	1.18	0.55	113.5%

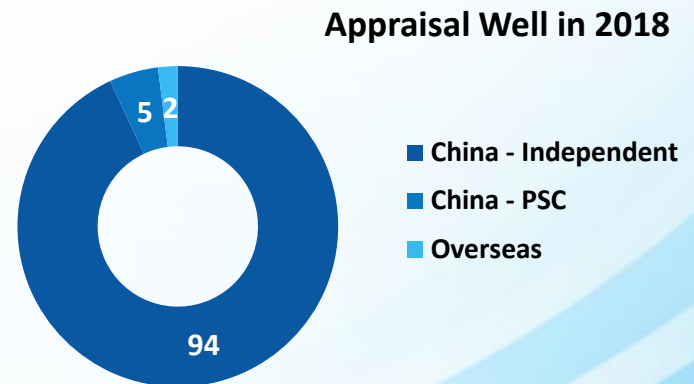
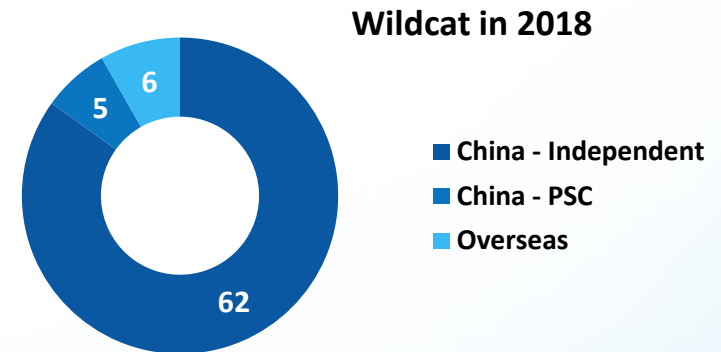
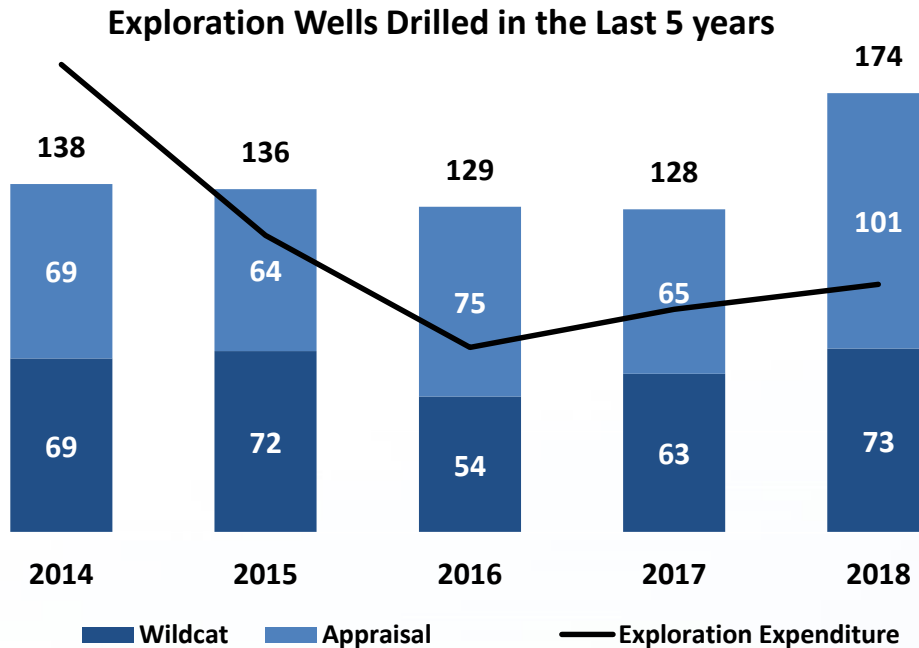




## **Operating Results and Highlights**

# Exploration Activities

- Increased exploration activities and enhanced exploration efficiency
- The exploration workload\* hit a five-year high, laying a solid base for reserves and production



\*Excluding onshore unconventional wells

# Exploration Achievements

## New Discoveries - China

### Bohai

- Kenli 5-1
- Longkou 19-1N
- Luda 4-3
- Luda 10-6
- Bozhong 13-2
- Luda 6-2S

### Western South China Sea

- Weizhou 10-3E
- Wushi 23-5N

### Eastern South China Sea

- Enping 10-2
- Enping 15-2
- Enping 20-4
- Lufeng 12-3

## New Discoveries - Overseas

### Stabroek block, Guyana

- Ranger
- Pacora
- Longtail
- Hammerhead
- Pluma

Success rate of independent exploration wells in offshore China reached 53-63%

A total of 12 new discoveries achieved in Stabroek block

In 2018, 17 new discoveries were made and 17 oil and gas structures were successfully appraised.



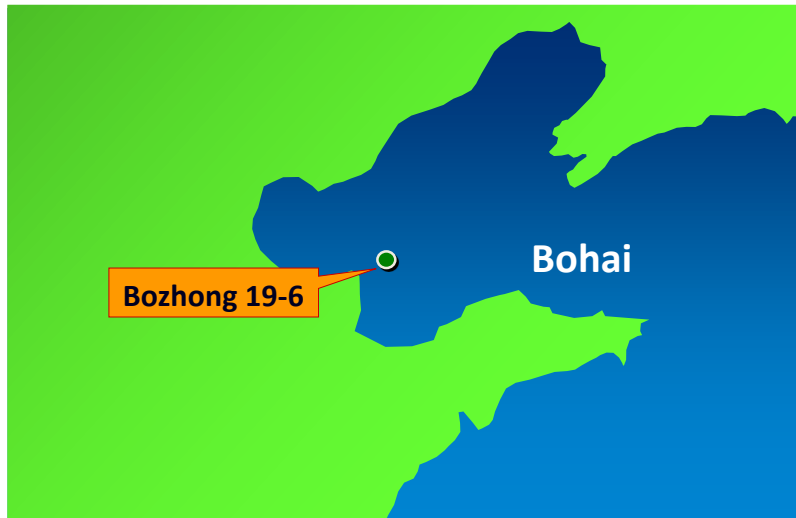
# Exploration Achievements – Offshore China






- 🌀 **Successfully appraisal of a number of high quality oil and gas fields:**
  - Large-size: Bozhong 19-6 and Bozhong 29-6
  - Mid-size: Bozhong 13-1S and Ledong 10-1 etc.
- 🌀 **Exploration breakthroughs in South China Sea**
  - Lufeng 12-3 is the largest commercial discovery under PSC in recent years
  - New discoveries of Enping 10-2 and Enping 15-2 are expected to be jointly developed with Enping 15-1 and become a mid-size oil field
- 🌀 **Sustainable achievement in rolling areas of Bohai and Beibu Gulf**

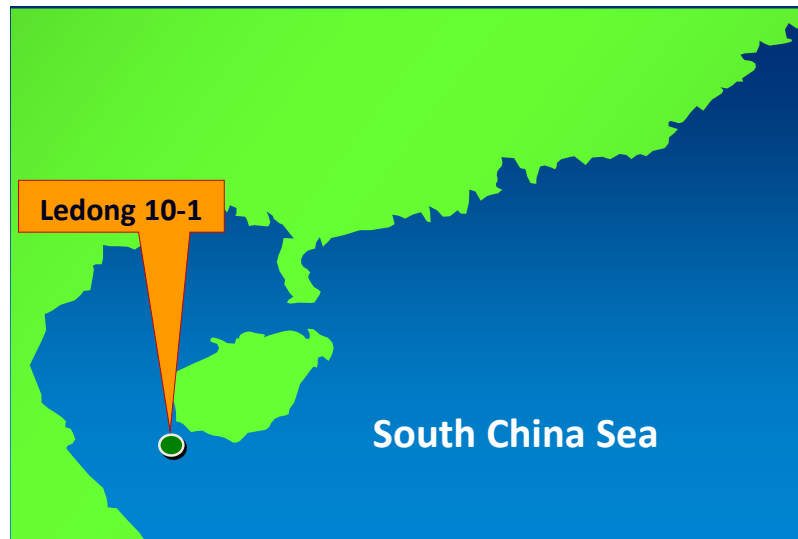
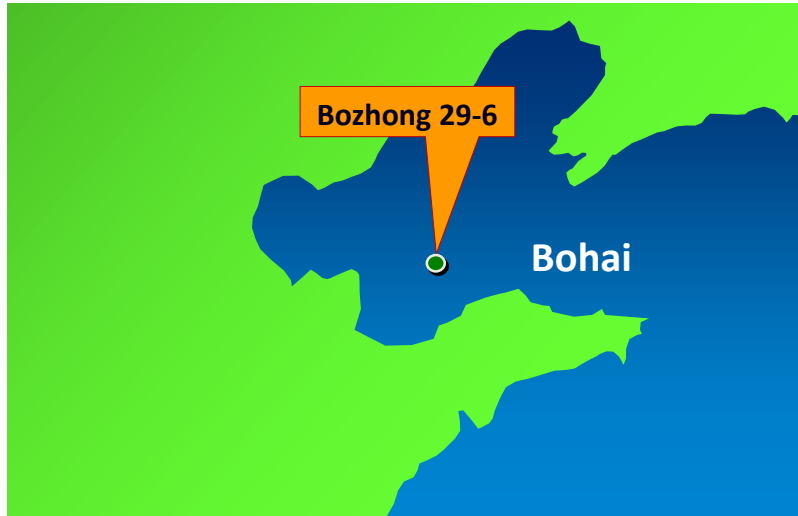
Note: According to the Regulation of Petroleum Reserves Estimation of China, a mid-size oil and gas structure is defined as a structure with recoverable oil resources of  $\geq 2,500 \sim < 25,000$  thousand cubic meters and a large-size oil and gas structure is defined as a structure with recoverable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

# Bozhong 19-6 Large-size Gas Field



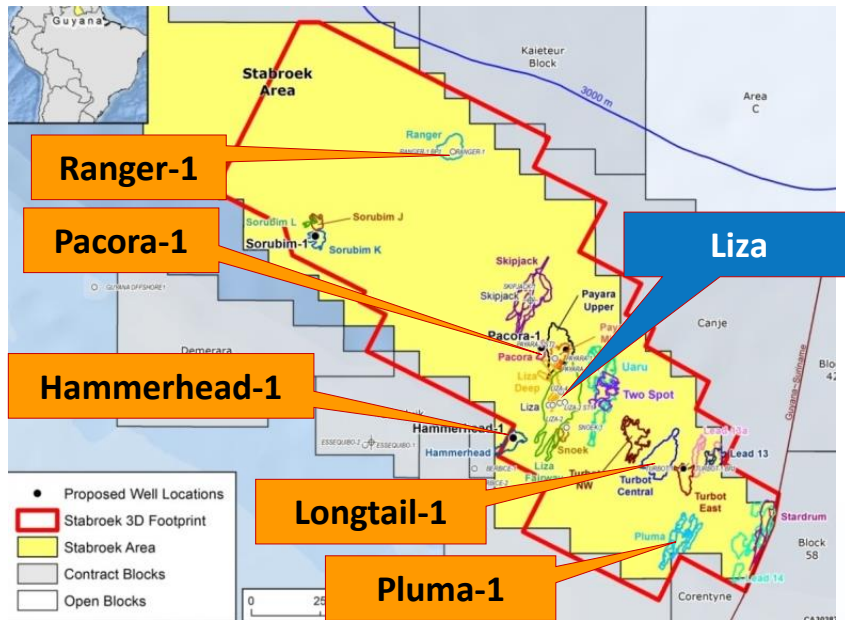
-  **The largest natural gas discovery in Bohai Basin**
  - Located in the Bozhong Sag in Bohai, with an average water depth of 24 meters
  - Drilled 11 appraisal wells in total, with 5 drilled in 2H 2018. Average thickness of the gas pay zones reached approximately 230 meters
  - Proved in-place volume of condensate is more than 100 million cubic meters and nature gas is more than 100 billion cubic meters
-  **Target to commence production in the pilot zone by the end of 2019**
  - Integration of exploration and development
  - Accelerate development of the pilot zone
  - Provide low-carbon and safe energy for Bohai Rim Region
-  **Integrate technology and management innovation**
  - Significantly decreased drilling costs and shortened drilling cycle

# Exploration Achievements – Offshore China



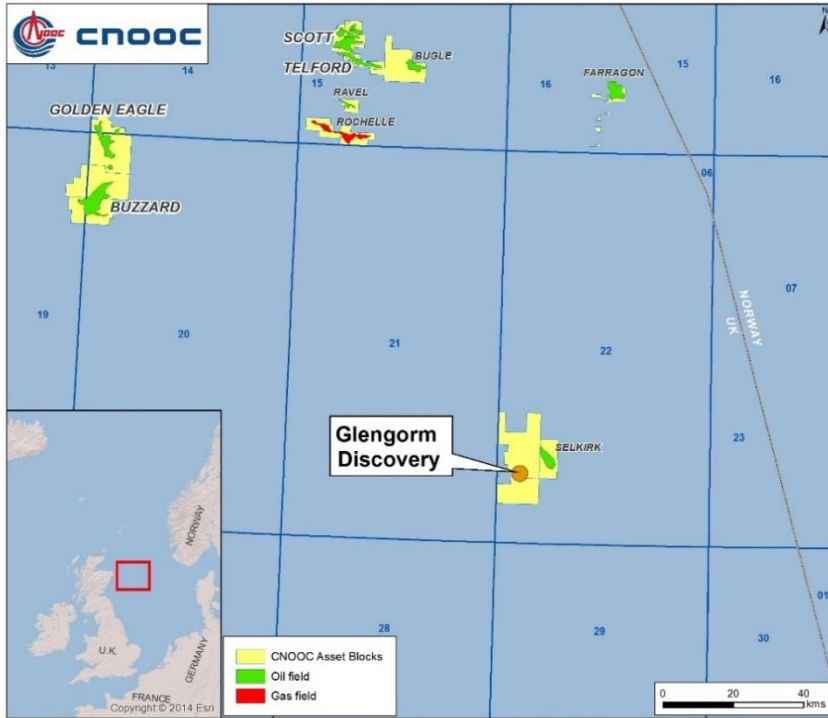
- 🚢 **Bozhong 29-6 to be a hundred-million-ton class oil field**
  - Located in the Yellow River Estuary Sag in Bohai, with an average water depth of 23 meters
  - 15 appraisal wells were drilled and encountered oil pay zones with average thickness of 32 meters
  - Drive the development of the southern Bohai region
- 🚢 **As a significant breakthrough achieved in high temperature and ultra-high pressure exploration, Ledong 10-1 is expected to be a mid-to-large size gas field**
  - Located in the Yinggehai Basin, with an average water depth of 89 meters
  - 9 exploration wells were drilled
  - Ledong 10-1-6 encountered gas pay zones with average thickness of 133 meters, with a record high single-well proved reserves in the region

# Exploration Achievements – Overseas



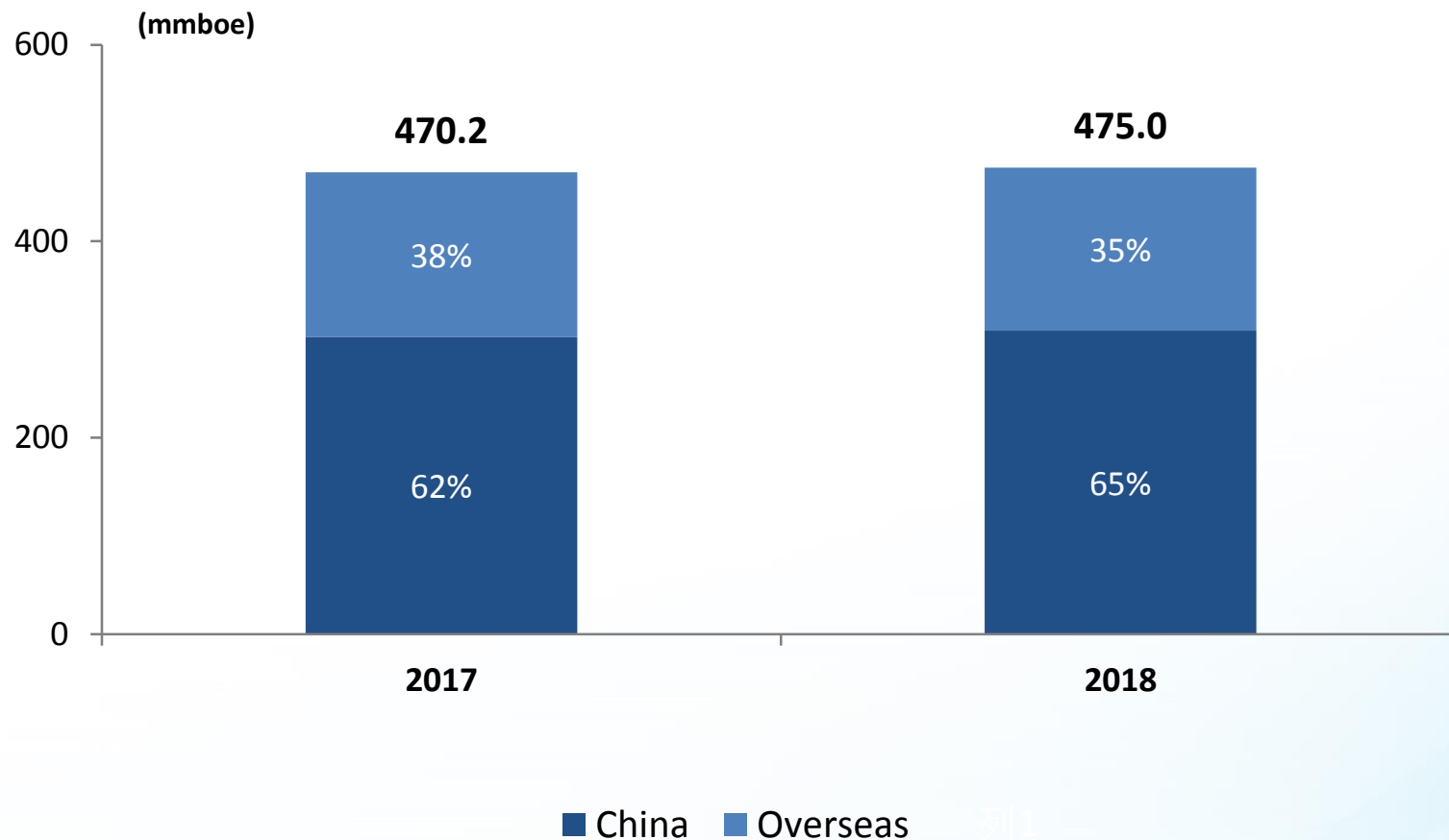
- A total of 12 new discoveries were made in Stabroek block in Guyana
- 5 new discoveries in 2018: Ranger, Pacora, Longtail, Hammerhead and Pluma, all ranked in the world's top 10 discoveries in 2018
- Total recoverable resources of the block reached 5.5 billion BOE\*
- 2 new discoveries of Tilapia and Haimara were made in early 2019
- Continued to maintain high success rate in exploration and see huge potential

# Exploration Achievements – Overseas



- 🚢 A new discovery was achieved on the Glengorm prospect in Central UK North Sea
- 🚢 Located in License P2215 with a water depth of approximately 86 meters
- 🚢 Glengorm well was drilled to 5,056 meters and encountered net gas and condensate gas pay zones with a total thickness of 37.6 meters, demonstrating the great exploration potential in the block
- 🚢 CNOOC Limited is the operator of License P2215, and holds 50% interest

# Production



**Net production reached 475.0 million boe in 2018, successfully meeting the annual production target.**



# Production Summary

	2018			2017		
	Crude and Liquids (mm bbls)	Natural Gas (bcf)	Total (mm boe)	Crude and Liquids (mm bbls)	Natural Gas (bcf)	Total (mm boe)
<b>China</b>						
Bohai	158.2	60.2	168.2	158.3	54.5	167.3
Western South China Sea	39.9	96.8	56.3	35.2	99.8	52.1
Eastern South China Sea	58.1	126.1	79.2	63.2	86.9	77.7
East China Sea	1.5	19.8	4.8	1.6	22.3	5.3
<b>Subtotal*</b>	<b>257.7</b>	<b>302.9</b>	<b>309.0</b>	<b>258.3</b>	<b>263.6</b>	<b>302.8</b>
<b>Overseas</b>						
Asia (Ex. China)	21.6	60.0	32.4	20.9	51.6	30.3
Oceania	1.6	40.6	9.5	1.3	35.2	8.2
Africa	21.8	-	21.8	26.9	-	26.9
North America (Ex. Canada)	19.4	46.1	27.1	17.1	47.6	25.0
Canada	23.4	12.6	25.5	21.1	14.1	23.4
South America	11.1	61.6	21.8	8.2	51.7	17.1
Europe	26.9	6.4	28.0	34.9	9.4	36.5
<b>Subtotal</b>	<b>125.8</b>	<b>227.3</b>	<b>166.0</b>	<b>130.4</b>	<b>209.6</b>	<b>167.4</b>
<b>Total**</b>	<b>383.5</b>	<b>530.2</b>	<b>475.0</b>	<b>388.7</b>	<b>473.2</b>	<b>470.2</b>

\* Including other production from onshore China, which is approximately 0.6 mm boe in 2018 and 0.3 mm boe in 2017.

\*\* Including our interests in equity-accounted investees, which is approximately 21.2 mm boe in 2018 and 17.3 mm boe in 2017.

In 2018, production percentage of China and overseas was 65% v.s. 35%; Crude and liquids and natural gas was 81% v.s. 19%.

# Bohai will Stabilize Production in the Next 10 Years

## To stabilize the volume of producing fields

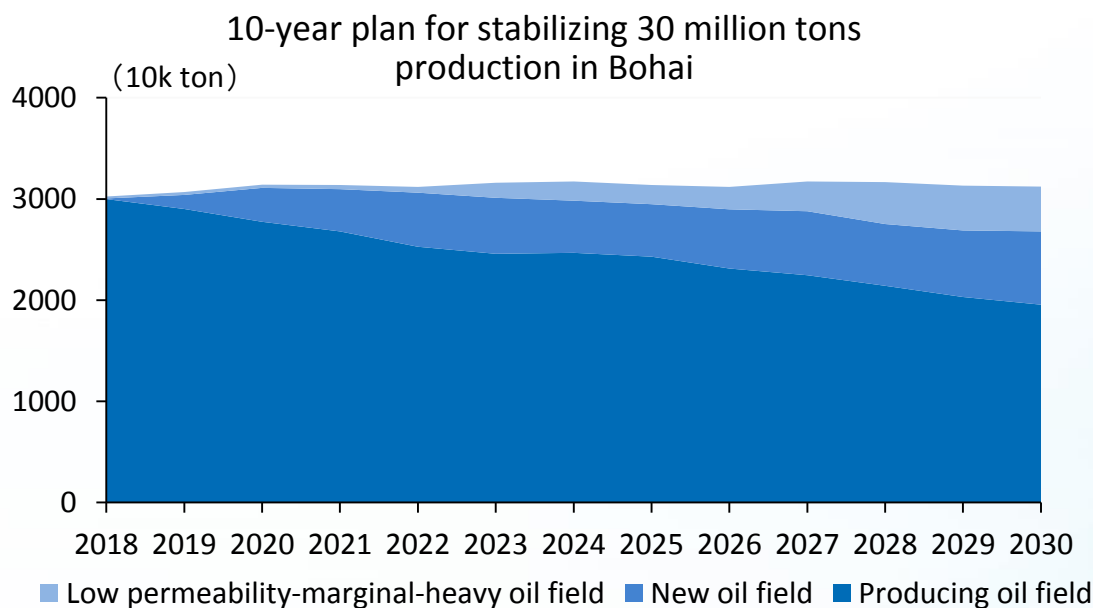
- Explored the potential of producing oil fields
- Enhanced technology of water injection
- Strengthened infill drilling program

## To accelerate development of new fields

- Accelerated development of new projects including Bozhong 19-6

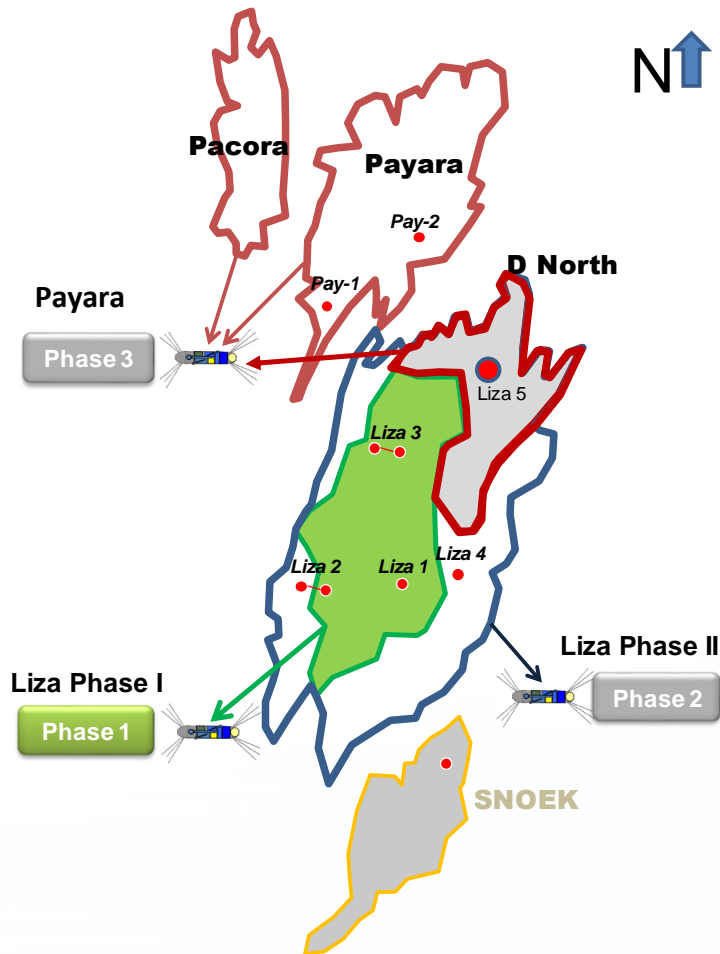
## To make progress on the development of low-permeability, marginal, and heavy oil reservoir

- Technological innovation to remove the bottleneck of development





# Stabroek Block in Guyana





Steady progress of the world-class project

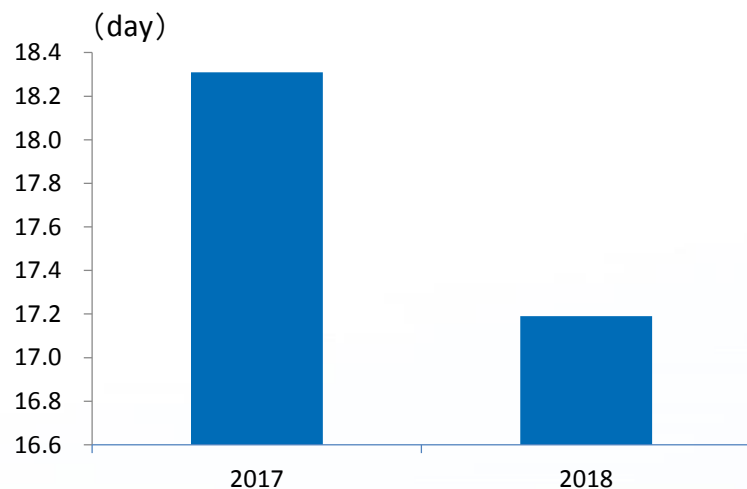
- Competitive development costs
- First oil of Liza Phase I planned in 2020, with peak production of 120,000 boe/day
- Final Investment Decision (FID) of Liza Phase II is expected to be approved in 1H 2019
- The collective discoveries to date have established the potential for producing over 750,000 boe/day
- CNOOC Limited holds 25% interest

2  
2

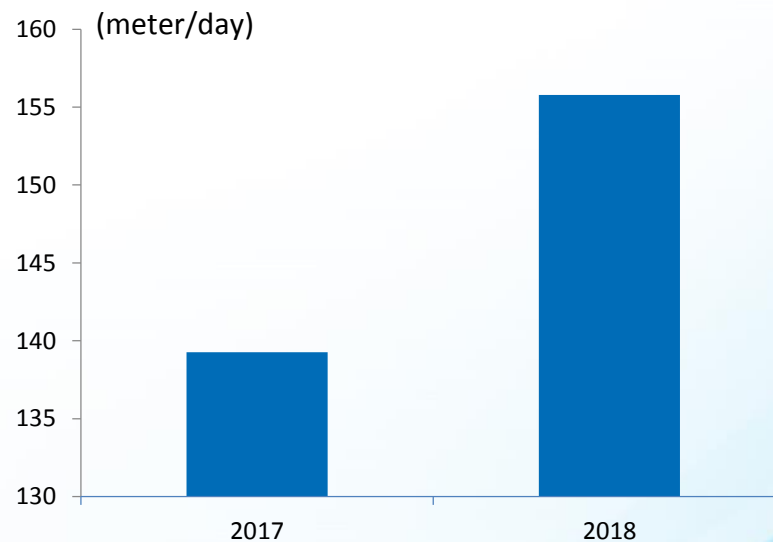
# Operational Efficiency Steadily Improved

-  Average drilling cycle shortened
-  Average daily drilling efficiency increased

### Average drilling cycle



### Average daily drilling efficiency



# 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 a good level in 2018

	2018	2017
Rate of Recordable Cases	0.08	0.08
Rate of Lost Workdays Cases (per 200,000 man hours)	0.04	0.03



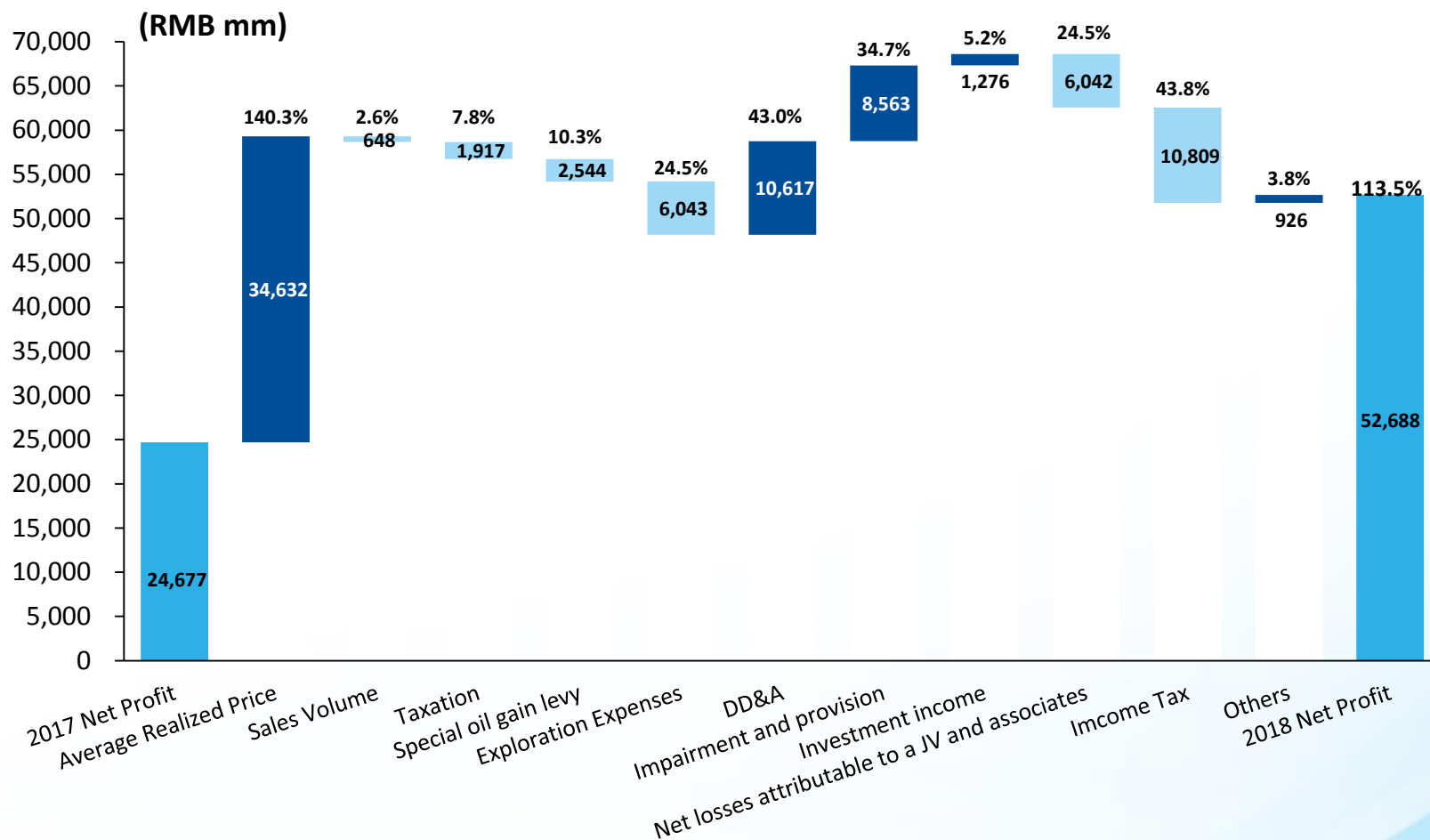
# Financial Performance and Analysis

# Key Financial Items - Consolidated

(RMB mm)	2018	2017	Change%
<b>Revenue</b>			
Revenue recognised from contracts with customers			
Oil and gas sales	185,872	151,888	22.4%
Marketing revenues	35,830	28,907	23.9%
Other revenue	5,261	5,595	-6.0%
<b>Revenue subtotal</b>	<b>226,963</b>	<b>186,390</b>	<b>21.8%</b>
<b>Expenses</b>			
Operating expenses	(24,251)	(24,282)	-0.1%
Taxes other than income tax	(9,127)	(7,210)	26.6%
Exploration expenses	(12,924)	(6,881)	87.8%
DD&A	(50,640)	(61,257)	-17.3%
Special oil gain levy	(2,599)	(55)	4,625.5%
Impairment and provision	(567)	(9,130)	-93.8%
Crude oil and product purchases	(33,558)	(27,643)	21.4%
SG&A	(7,286)	(6,861)	6.2%
Others	(5,772)	(6,021)	-4.1%
<b>Expenses subtotal</b>	<b>(146,724)</b>	<b>(149,340)</b>	<b>-1.8%</b>
<b>Profit from Operating Activities</b>	<b>80,239</b>	<b>37,050</b>	<b>116.6%</b>
Interest income	796	653	21.9%
Finance costs	(5,037)	(5,044)	-0.1%
Exchange (losses)/gains, net	(141)	356	-139.6%
Investment income	3,685	2,409	53.0%
Share of profits of associates	406	302	34.4%
(Loss)/profit attributable to a joint venture	(5,593)	553	-1,111.4%
Other income, net	822	78	953.8%
<b>Profit before tax</b>	<b>75,177</b>	<b>36,357</b>	<b>106.8%</b>
Income tax expense	(22,489)	(11,680)	92.5%
<b>Net profit</b>	<b>52,688</b>	<b>24,677</b>	<b>113.5%</b>



# Movement of Net Profit

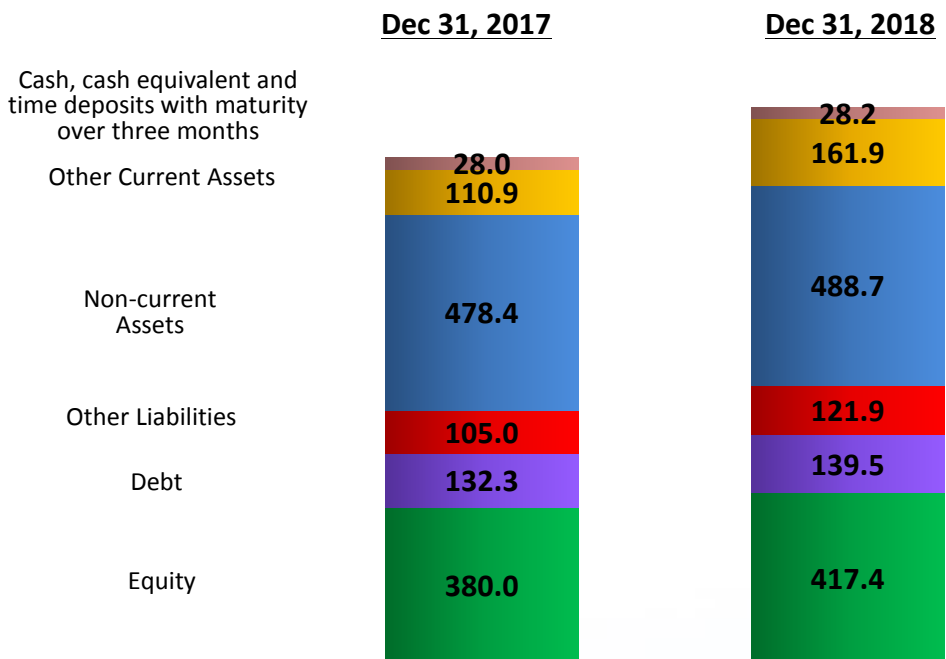


**The rise in net profit was mainly due to increased oil and gas revenue from higher realized price and decreased DD&A.**



# Movement of Financial Position

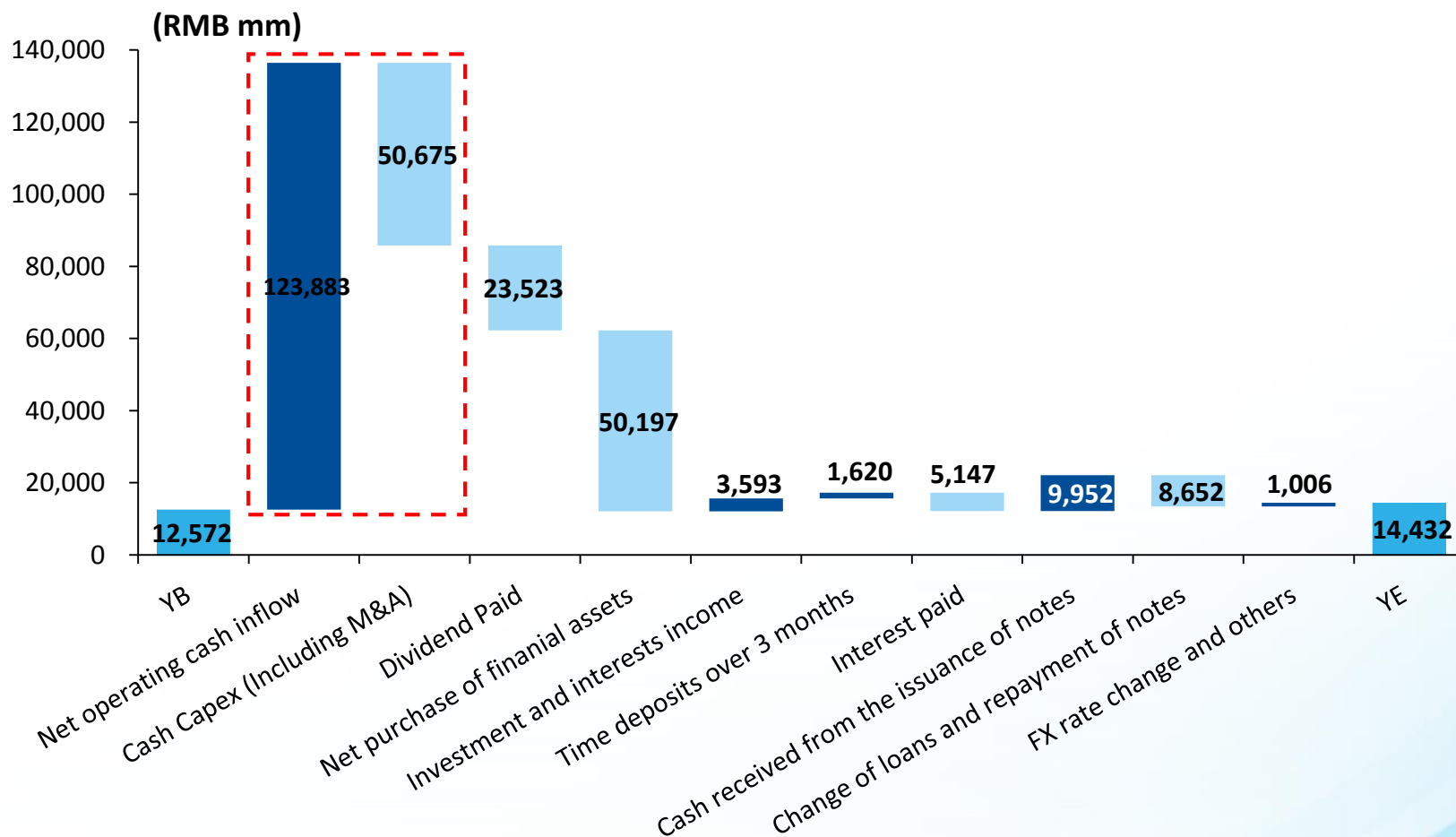
(RMB bn)



- Total assets mainly include:
  - RMB407.3 bn of PP&E
- Equity increased by RMB37.4 bn:
  - Net profit of RMB52.7 bn
  - Dividend paid of RMB23.1 bn
  - Currency translation differences, application of new standards, and other comprehensive income

	As at Dec 31, 2017	As at Dec 31, 2018
Total Assets (RMB bn):	617.2	678.8
Gearing Ratio*:	25.8%	25.1%

# Cash Flow Position

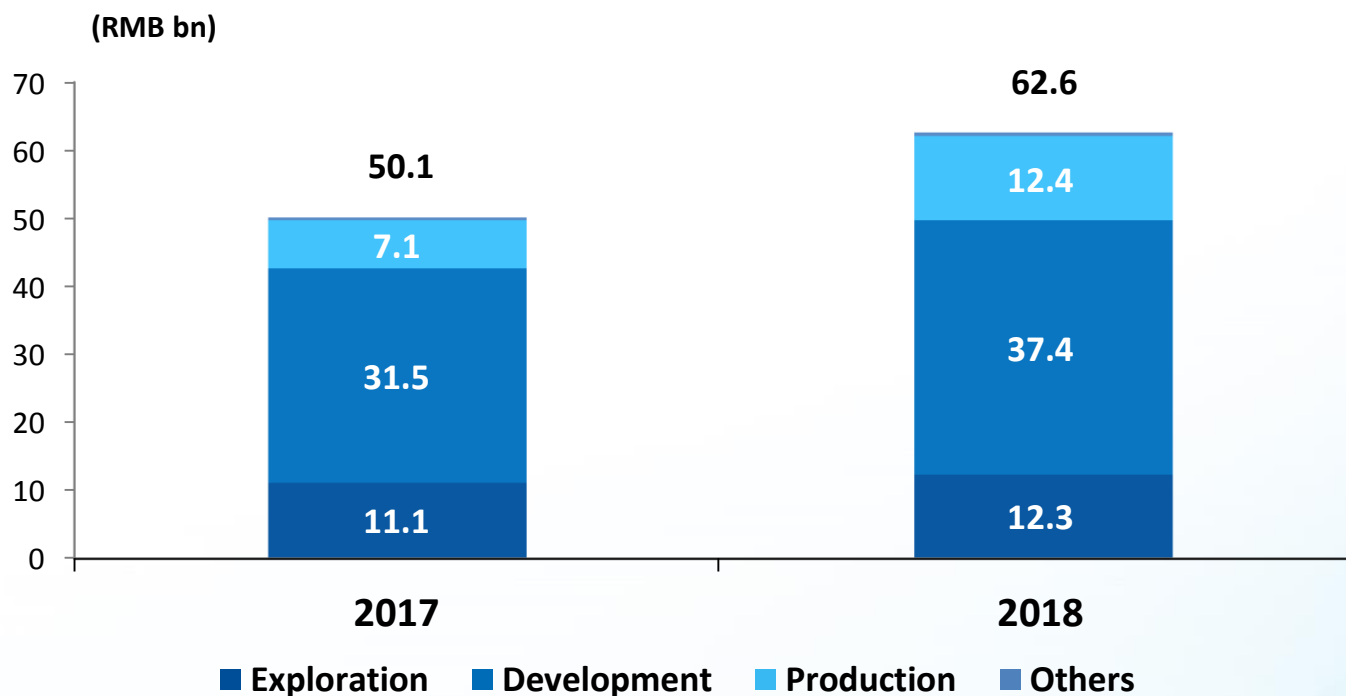


Free cash flow reached RMB73.2 billion by deducting Capex from operating cash flow.



# Capex

 Capex was RMB62.6 billion in 2018

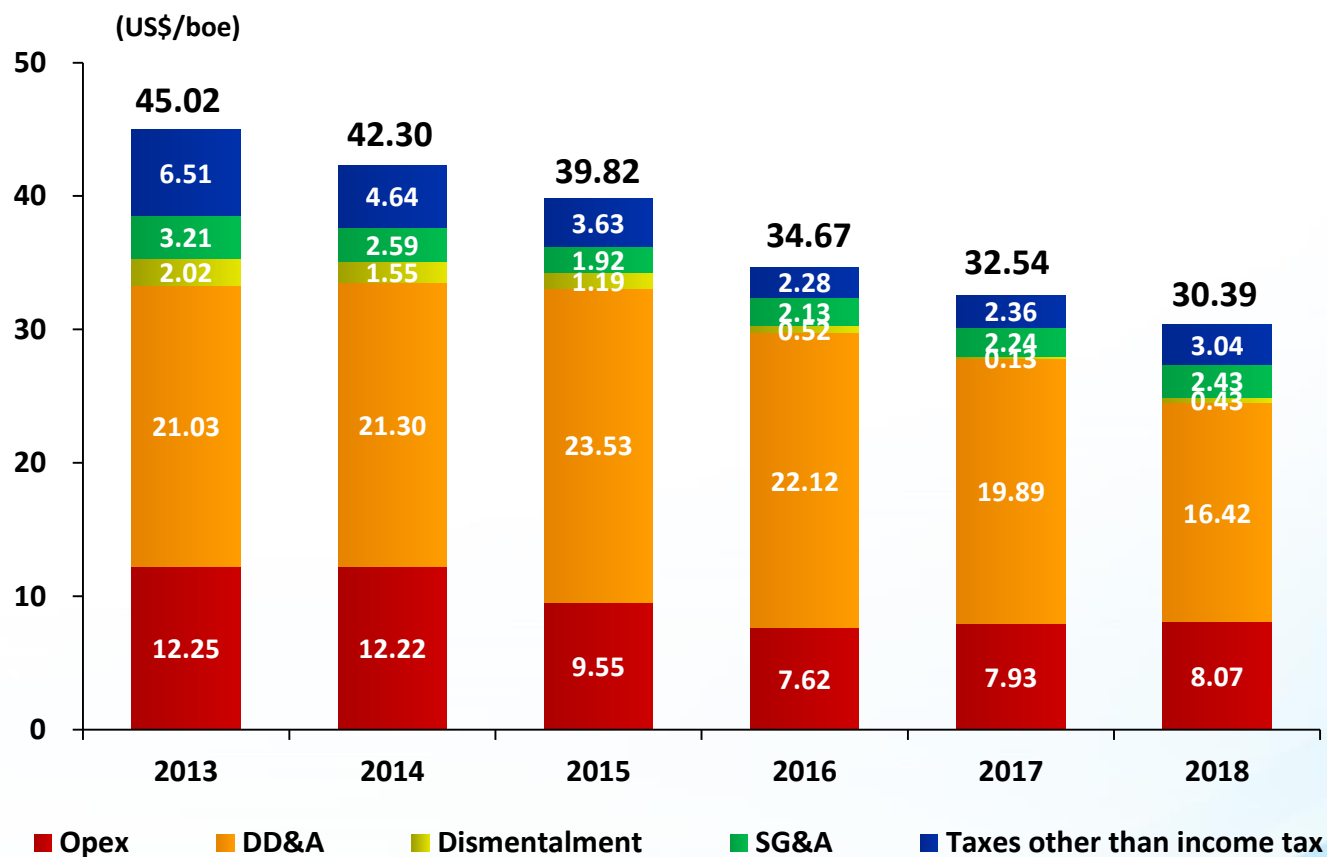


Note: Above amounts exclude capitalized interest of RMB2.49 bn and RMB2.84 bn in 2017 and 2018 respectively

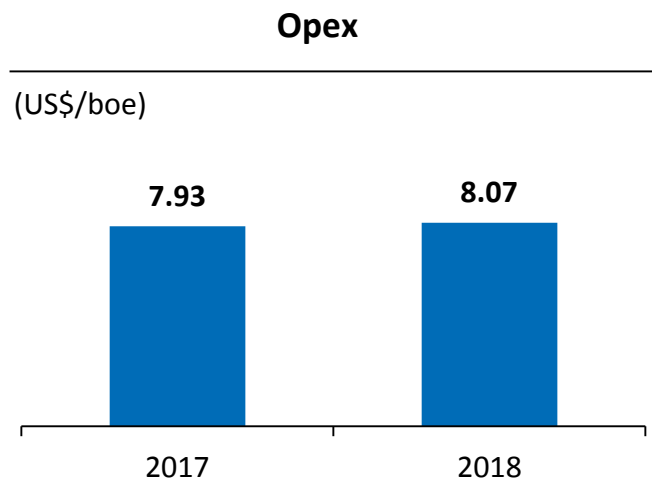
# All-in cost

 All-in cost decreased by 6.6% YoY

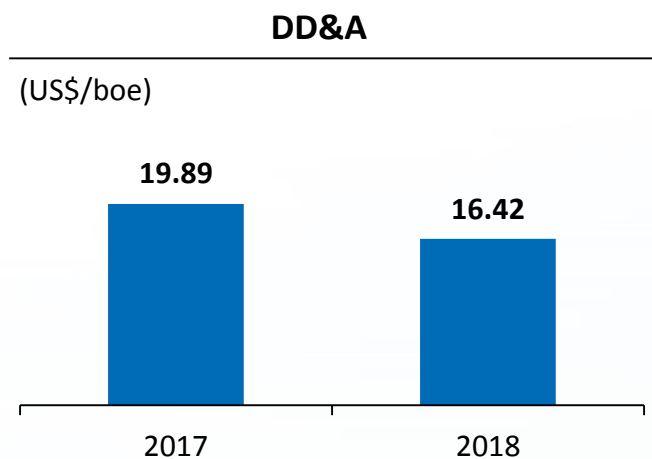
 Cost reduction for five consecutive years



# Cost Analysis



- Opex of US\$8.07/boe, up 1.8% YoY, mainly due to the appreciation of RMB against USD

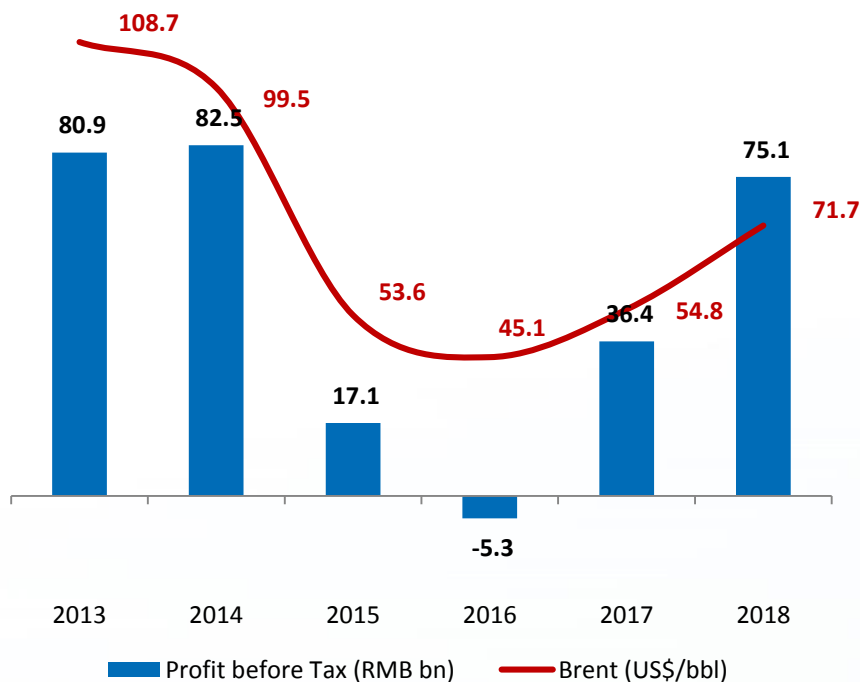


- DD&A of US\$16.42/boe, down 17.4% YoY, mainly due to change in production mix and increased reserve

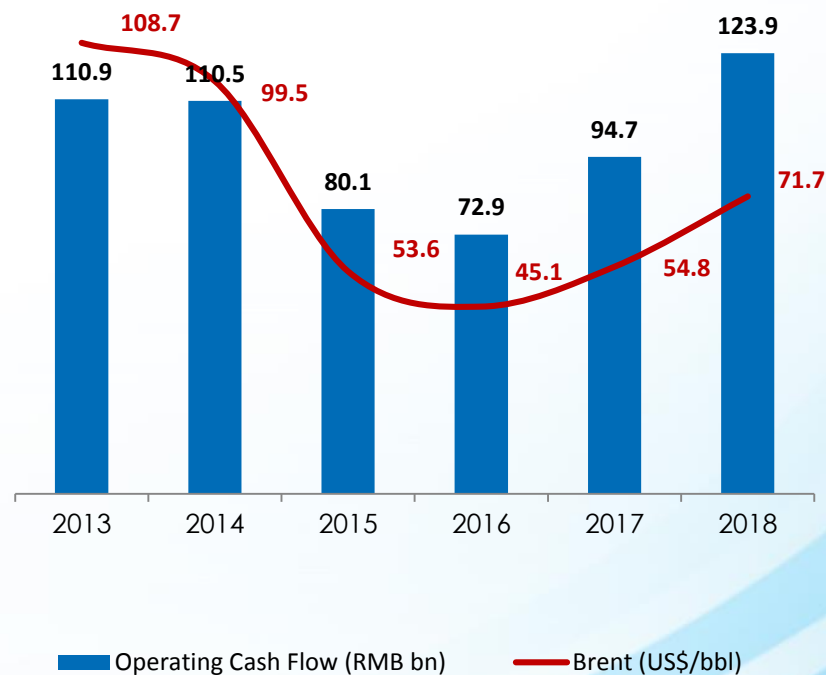
# Profitability

📌 Average Brent oil price in 2018 was only 66% of 2013 level, but the Company's profit before tax reached 93% of 2013 and operating cash flow exceeded 2013 level

### Profit before Tax v.s. Brent



### Operating Cash Flow v.s. Brent



# Dividend Recommendation

- **Proposed year-end dividend: HK\$0.40 per share (tax inclusive)**
  - **Payout ratio of 50.6%<sup>(1)</sup>**
  - **Dividend yield of 5.2%<sup>(2)</sup>**
  - **Final dividend payment will be approximately RMB15.22 billion<sup>(1)</sup>, representing about 10.2% of free cash at the end of February 2019**
  
- **Proposed time arrangement:**
  - **Book close period: June 10 - June 14**
  - **Payment date: July 10**

(1) Exchange rate quoted HK\$1= RMB0.85231 as of February 28, 2019

(2) Based on closing share price of HK\$13.54 as of February 28, 2019



## Outlook

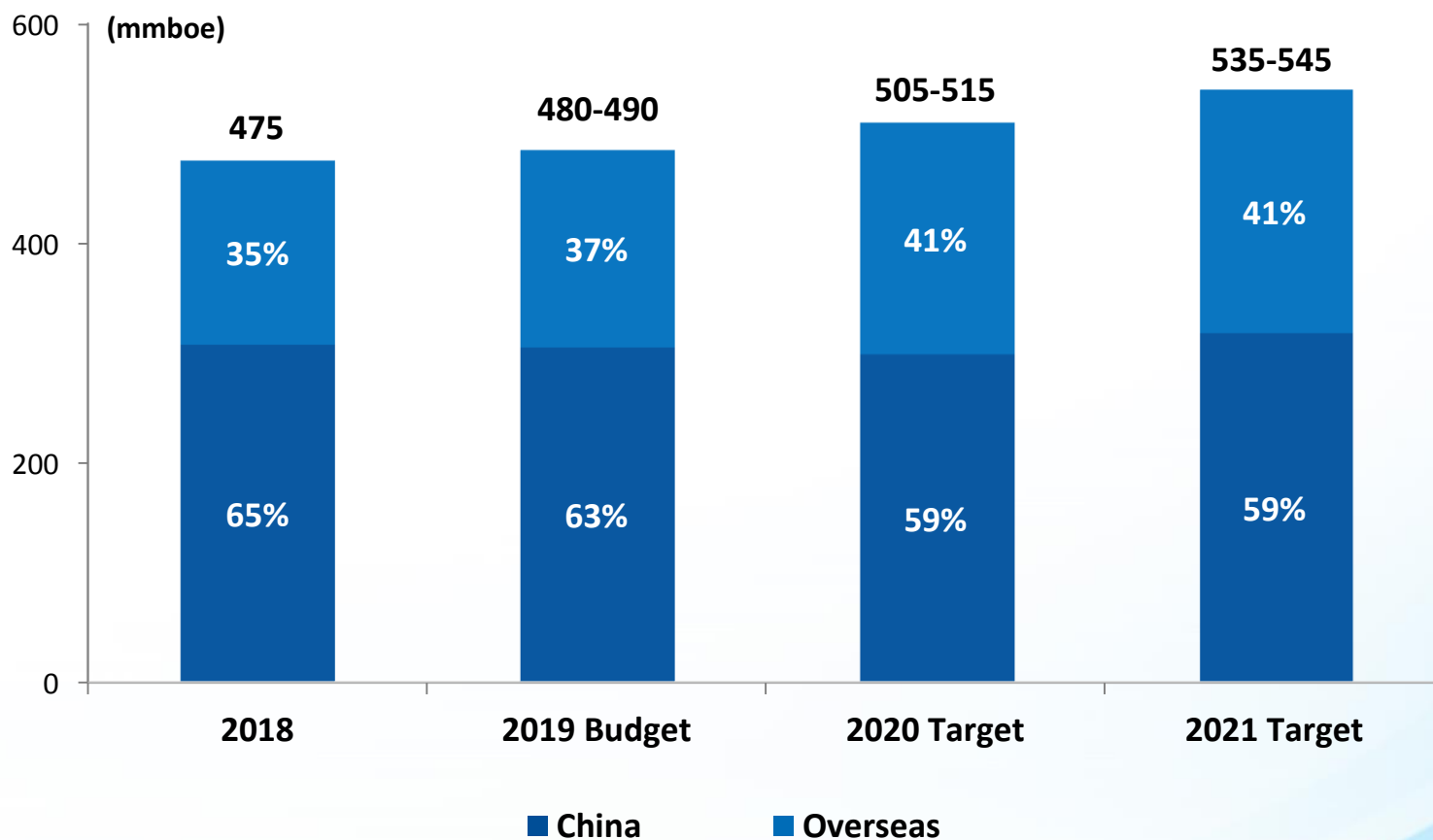
# 2019 Overview

- 🛢️ Capex budget of RMB70-80 billion
- 🛢️ Production target of 480-490 mmboe
- 🛢️ Six new projects to come on stream in 2019
- 🛢️ Reserve Replacement Ratio (RRR) of 120%
- 🛢️ Maintain high standards on HSE performance



# Sustainable Production Growth

 Increase oil and gas reserve and production levels to improve shareholder returns





# A Long Pipe of Projects Supports Production Growth

## Offshore China

- ✓ Qinhuangdao 33-1S oil field
- ✓ Bozhong 19-6 gas field pilot zone
- ✓ Nanbao 35-2 oil field S1 area
- ✓ Luda16-3 oil field
- ✓ Luda 21-2 oil field
- ✓ Caofeidian 6-4 oil field
- ✓ Luda 29-1 oil field
- ✓ Liuhua 29-1 gas field
- ✓ Liuhua 16-2/20-2 oil field joint development
- ✓ Luda 6-2 oil field
- ✓ Penglai 25-6 oil field 3 area
- ✓ Luda 5-2N oil field

- ✓ Lingshui 17-2 gas fields
- ✓ Jinzhou 25-1 oil field 6/11 area
- ✓ Bozhong 19-6 gas field phase I
- ✓ Lufeng oil fields
- ✓ Liuhua 21-2 oil field
- ✓ Wushi 17-2 oil fields
- ✓ Dongfang 1-1 gas field SE area/Ledong 22-1 gas field south area
- ✓ Wushi 23-5 oil fields
- ✓ Weizhou 12-8E oil field
- ✓ Liuhua 29-2 gas field
- .....

## Overseas

- ✓ Hokchi oil field
- ✓ Liza oil field Phase I
- ✓ LLSW project
- ✓ Tangguh Phase II project
- ✓ Buzzard oil field Phase II
- ✓ Mero oil field
- ✓ Preowei oil field
- ✓ Kingfisher oil field
- ✓ Tilenga oil field
- ✓ Liza oil field Phase II
- ✓ Meadow Creek project
- .....

**Project construction is progressing smoothly.  
More than 20 projects are under construction.**

# Promote High-quality Development of the Company



## Strategy leads development

- Effectively carry out strategies
- Continue to optimize strategic investment management through quality and efficiency enhancement



## Speed up transformation and upgrading

- Focus on cutting-edge technology and original innovation, further foster core technological breakthrough
- Adapt to the developing trend in the digital era and promote the digital transformation of the Company



## Adhere to the low-carbon development principle

- Conduct the oil field development based on low-carbon principle
- Actively expand natural gas business and explore offshore wind power business



## Focus more on risk management

- Pay high attention to potential risk in production
- Continue to strengthen the capacity of preventing fiscal and legal risk





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