STERIS CORP
Form 4
October 22, 2015

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
OMB Number: 3235-0287
Expires: January 31, 2005
Estimated average burden hours per response... 0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
WILSON LOYAL W
(Last) (First) (Middle)
C/O 5960 HEISLEY ROAD
(Street)
MENTOR, OH 44060
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
STERIS CORP [STE]

3. Date of Earliest Transaction (Month/Day/Year)
10/21/2015

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
__X__ Director
_____ 10% Owner
_____ Officer (give title below)
_____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Shares, No Par Value	10/21/2015		G	V	4,981	D	$ 0	25,068	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
WILSON LOYAL W C/O 5960 HEISLEY ROAD MENTOR, OH 44060	X			

Signatures

/s/ Dennis P. Patton, Authorized Representative under Power of Attorney	10/22/2015
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number.

1,150,000

—

—

—

—

1,150,000

February 24, 2003

February 24, 2003 to February 24, 2013

2.108

2.09

—

—

1,150,000

—

—

—

—

1,150,000

February 5, 2004

February 5, 2004 to February 5, 2014

3.152

3.13

—

—

1,610,000

—

—

—

—

1,610,000

August 31, 2005

August 31, 2005 to August 31, 2015

5.62

Explanation of Responses:

5.75

—

—

—

1,770,000

—

—

—

1,770,000

June 14, 2006

June 14, 2006 to June 14, 2016

5.56

5.30

—

—

Xinghe Cao

800,000

—

—

—

—

800,000

August 31, 2005

August 31, 2005 to August 14, 2016

5.62

5.75

Explanation of Responses:

—

—

—

1,770,000

—

—

—

1,770,000

June 14, 2006

June 14, 2006 to June 14, 2016

5.56

5.30

—

—

Zhenfang Wu

800,000

—

—

—

—

800,000

August 31, 2005

August 31, 2005 to August 31, 2015

5,62

5.75

—

Explanation of Responses:

—

—

1,770,000

—

—

—

1,770,000

June 14, 2006

June 14, 2006 to June 14, 2016

5.56

5.30

—

—

Independent
Non-executive
Directors

Chiu Sung Hong

1,150,000

—

—

—

—

Explanation of Responses:

1,150,000

February 5, 2004

February 5, 2004 to February 5, 2014

3,152

3.13

—

—

Evert Henkes

1,150,000

—

—

—

—

1,150,000

February 5, 2004

February 5, 2004 to February 5, 2014

3,152

3.13

—

—

Kenneth S Courtis**

1,150,000

—

(1,150,000

)

—

—

Explanation of Responses:

—

February 5, 2004

February 5, 2004 to February 5, 2014

3,152

3.13

6.62

6.68

Other Employees***
In aggregate

6,250,000

—

—

—

—

6,250,000

March 12, 2001

March 12, 2001 to March 12, 2011

1.19

1.23

—

—

20,300,000

—

—

(650,000
)

—

19,650,000

August 27, 2001

August 27, 2001 to August 27, 2011

1.232

1.46

—

—

22,766,600

—

—

(433,300
)

—

22,333,300

February 24, 2003

February 24, 2003 to February 24, 2013

2.108

2.09

—

—

31,166,700

—

—

(1,433,433
)

—

29,733,267

February 5, 2004

February 5, 2004 to February 5, 2014

3.152

3.13

—

—

49,500,000

—

—

(4,316,667
)

—

45,183,333

August 31, 2005

August 31, 2005 to August 31, 2015

5.62

5.75

—

—

—

66,920,000

—

(1,000,000
)

—

65,920,000

June 14, 2006

June 14, 2006 to June 14, 2016

5.56

Explanation of Responses:

5.30

—

—

Total 169,063,300 82,320,000 (1,150,000) (7,833,400)

—

242,399,900

F-64

Table of Contents

CNOOC LIMITED AND ITS SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
(All amounts expressed in Renminbi unless otherwise stated)

29. SHARE CAPITAL (CONT'D)

Share option schemes (cont'd)

*The share options are only exercisable by the relevant grantees upon the vesting of such share options. The vesting of the Company's share options is by stage and the details are disclosed above.

**Dr. Kenneth S. Courtis, who retired as an independent non-executive director of the Company with effect from May 24, 2006, following conclusion of the Company's annual general meeting, exercised his right to subscribe for 1,150,000 shares of options granted under the 2002 Share Option Scheme of the Company and the allotment was completed on August 2, 2006. After that, Dr. Kenneth S. Courtis does not hold any share options of the Company.

***Mr. Jiang Longsheng retired as an executive director of the Company on June 1, 2005. The information on share options granted to Mr. Jiang was included in the category of "Other employees".

The Company adopted the provisions of Statement of Financial Accounting Standard No.123, Share-Basecd Payment (SFAS 123R),using the modified-prospective transition method.

Since January 1, 2005, the Company accounted for the share options in accordance with Hong Kong Financial Standard No.2, Share-based Payment(HKFRS2), and there is no significant difference between HKFRS2 and SFAS123R. Therefore, the adoption of SFAS 123R did not have any material impact on the Company's financial statements.

The fair value of the share options granted during the year was HK$126,795,127 and the Group recognised an equity-settled share option expenses of approximately RMB75,768,000 (2005: RMB29,123,000, 2004: RMB46,642,000) during the year.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted.

The following table lists the assumptions to the model used for the years ended December 31, 2004, 2005 and 2006:

	2004	2005	2006
Dividend yield	2%	2%	2%
Expected volatility	44%	31%	32.1%
Risk-free interest rate	5.25%	4.57%	5.53%
Expected life of option	5 years	5 years	5 years
Weighted average share price	HK$3.15	HK$5.62	HK$5.56
Grant-date fair value	HK$1.20	HK$1.58	HK$1.54

The expected life of the options is based on the historical data and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other feature of the options granted was incorporated into the measurement of fair value. Any changes to the above assumptions may affect the estimation of the fair value of the option.

F-65

Table of Contents

CNOOC LIMITED AND ITS SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
(All amounts expressed in Renminbi unless otherwise stated)

29. SHARE CAPITAL (CONT'D)

Share option schemes (cont'd)

Details of the share options outstanding during the year are as follows:

	No. of share options	Weighted average exercise price HK$	Weighted average remaining contractual term
Outstanding at beginning of the year	169,063,300	3.45	
Granted during the year	82,320,000	5.56	
Forfeited during the year	(7,833,400)	4.60	
Exercised during the year	(1,150,000)	3.15	
Outstanding at end of year	242,399,900	4.13	7.76
Vested or expected to vest at end of year	109,168,233	2.66	6.25
Exercisable at end of year	113,013,133	2.73	6.30

No share option had been cancelled during the year ended December 31, 2006.

Details of the unvested share options outstanding during the year are as follows:

	No. of share options	Weighted average fair value HK$
Unvested at beginning of the year	99,810,556	1.39
Granted during the year	82,320,000	1.54
Vested during the year	(42,365,555)	1.28
Forfeited during the year	(6,533,334)	1.50
Unvested at end of year	133,231,667	1.52

At the date of approval of these financial statements, the share options outstanding under these share option schemes which represented approximately 0.56% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 242,399,900 additional ordinary shares of the Company and additional share capital of RMB4,870,638 and share premium of RMB1,000,678,131.

Table of Contents

CNOOC LIMITED AND ITS SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
(All amounts expressed in Renminbi unless otherwise stated)

30. RESERVES

According to the laws and regulations of the PRC and the articles of association of CNOOC China Limited, CNOOC China Limited is required to provide for certain statutory funds, namely, the general reserve fund and staff and workers' bonus and welfare fund, which are appropriated from net profit (after making good losses from previous years), but before dividend distribution.

CNOOC China Limited is required to allocate at least 10% of its net profit as reported in accordance with the generally accepted accounting principles in the PRC ("PRC GAAP") to the general reserve fund until the balance of such fund has reached 50% of its registered capital. The general reserve fund can only be used, upon approval by the relevant authority, to offset against accumulated losses or to increase capital.

Appropriation to the staff and workers' bonus and welfare fund, which is determined at the discretion of the board of directors of CNOOC China Limited, is expensed as incurred under Hong Kong GAAP. The staff and workers' bonus and welfare fund can only be used for special bonuses or collective welfare of employees.

As at December 31, 2006, the general reserve fund amounted to approximately RMB9,460,631,000 (2005: RMB6,681,974,000), representing approximately 47.3% (2005: 44.5%) of the total registered capital of CNOOC China Limited.

Included in retained earnings is an amount of approximately RMB1,183,515,000 (2005: RMB1,146,530,000), being the retained earnings attributable to associates.

The Company's ability to distribute dividends will largely depend on the dividends it receives from its subsidiaries. The dividends distributable by the Company's subsidiaries to the Company are determined in accordance with the relevant accounting principles required by the local authorities. As of December 31, 2006, the aggregate amount of the Group's retained earnings available for distribution to the Company's shareholders amounted to approximately RMB40,013,439,000 (2005: RMB30,275,453,000).

Table of Contents

CNOOC LIMITED AND ITS SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
(All amounts expressed in Renminbi unless otherwise stated)

31. RETIREMENT AND TERMINATION BENEFITS

All the Group's full-time employees in the PRC are covered by a state-managed retirement benefit plan operated by the government of the PRC, and are entitled to an annual pension. The PRC government is responsible for the pension liabilities to these retired employees. The Group is required to make annual contributions to the state-managed retirement benefit plan at rates ranging from 9% to 22% of the employees' basic salaries.

The Company is required to make contributions to a defined contribution mandatory provident fund at a rate of 5% of the basic salaries of all full-time employees in Hong Kong. The related pension costs are expensed as incurred.

The Group provides retirement and termination benefits for all local employees in Indonesia in accordance with Indonesian labour law, and provides employee benefits to expatriate staff in accordance with the relevant employment contracts.

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit before tax to cash generated from operations

	2004 RMB'000	2005 RMB'000	2006 RMB'000
Profit before tax	23,069,962	36,300,934	44,123,256
Adjustments for:			
Interest income	(206,872)	(359,294)	(781,536)
Finance costs	441,825	1,100,532	1,799,370
Exchange gains , net	(29,269)	(287,027)	(308,382)
Share of profit of associates	(344,469)	(307,075)	(321,676)
Investments income	(72,438)	(247,893)	(613,028)
(Reversal) of/provision for inventory obsolescence	(2,710)	33,088	2,004
Depreciation, depletion and amortisation	5,455,062	5,964,740	6,933,214
Loss on disposals and write-off of property, plant and equipment	155,876	141,574	408
Dismantlement	201,637	252,857	472,269
Amortisation of discount of long term guaranteed notes	15,634	41,959	32,760
Impairment losses related to property, plant and equipment	—	90,190	252,357
Equity-settled share option expenses	46,642	29,123	75,768
	28,730,880	42,753,708	51,666,784
Increase in accounts receivable	(27,466)	(1,001,296)	(160,089)
Increase in inventories and supplies	(96,307)	(108,405)	(493,857)
Decrease / (increase) in other current assets	267,168	(342,087)	(1,629,248)
Increase in amounts due from related companies	(417,091)	(925,824)	(241,250)
(Decrease) /increase in an amount due to the parent company	205,407	118,422	(31,521)

Increase in accounts payable, other payables and accrued liabilities	1,318,415	677,522	1,552,855
Decrease in other taxes payable	(12,447)	(24,900)	(177,165)
(Decrease)/increase in amounts due to related companies	(262,798)	548,508	415,337
Cash generated from operations	29,705,761	41,695,648	50,901,846

F-68

Table of Contents

CNOOC LIMITED AND ITS SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
(All amounts expressed in Renminbi unless otherwise stated)

33. COMMITMENTS

(i) Capital commitments

As at December 31, 2006, the Group had the following capital commitments, principally for the construction and purchase of property, plant and equipment:

	2005 RMB'000	2006 RMB'000
Contracted, but not provided for	7,511,100	11,857,620
Authorised, but not contracted for	23,736,582	30,029,132

As at December 31, 2006, the Group had unutilised banking facilities amounting to approximately RMB47,040,884,000 (2005: RMB33,450,791,000).

(ii) Operating lease commitments

(a) Office properties

The Group leases certain of its office properties under operating lease arrangements, leases for properties are negotiated for terms ranging from 1 months to 5 years.

As at December 31, 2006, the Group had total minimum lease payments under non-cancelable operating leases falling due as follows:

Commitments due:	2005 RMB'000	2006 RMB'000
- Within one year	157,181	47,458
- In the first to second years, inclusive	22,351	37,712
- After the second but before the fifth years, inclusive	23,972	7,962
	203,504	93,132

(b) Plant and equipment

The Group leases certain of its plant and equipment under operating lease arrangements for a term from 6 years to 10 years.

As at December 31, 2006, the Group had total minimum lease payments under non-cancelable operating leases falling due as follows:

Commitments due:	2005 RMB'000	2006 RMB'000
- Within one year	183,137	299,619

- In the first to second years, inclusive	183,137	299,619
- After the second but before the fifth years, inclusive	1,006,289	882,329
	1,372,563	1,481,567

Table of Contents

CNOOC LIMITED AND ITS SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
(All amounts expressed in Renminbi unless otherwise stated)

33. COMMITMENTS (CONT'D)

(iii) Contingent liabilities

The Company and certain of its subsidiaries are the named defendants (the "Defendants") in a case brought by a partner of a joint operating agreement ("JOA") in Indonesia (the "Plaintiff"). The Plaintiff is claiming its right under the JOA to request the Defendants to assign part of their interests acquired in the Tangguh Liquefied Natural Gas Project ("Tangguh LNG Project") based on the costs expended by the Defendants. The case is scheduled to be tried in November 2007. The Tangguh LNG Project is still under development.

As the case is still in a preliminary stage, the management considers that the outcome of any judgment on the lawsuit as quite uncertain and any expenditure from the lawsuit is not estimable. Consequently, no provision has been made for any expenses that might arise from the case.

34. FINANCIAL INSTRUMENTS

(a) Currency swap contracts

As at December 31, 2006, the Group had a currency swap contract with a financial institution to sell United States dollars in exchange for Japanese Yen in order to hedge against future repayments of certain Japanese Yen denominated loans. The hedged Japanese Yen loans bore interest at a fixed rate of 4.5% per annum. The interest rate stipulated in the swap contract for the United States dollars was the floating LIBOR rate. The fair value loss of RMB4 million was recorded in the income statement.

The details are as follows:

	2005		2006	
Year	Notional contract amount (JPY'000)	Weighted average contractual exchange rate (JPY/US$)	Notional contract amount (JPY'000)	Weighted average contractual exchange rate (JPY/US$)
2006	271,470	95.00	—	—
2007	271,470	95.00	271,470	95.00

(b) Fair value of financial statements

The carrying value of the Group's cash and cash equivalents, time deposits, current available-for-sale investments, accounts receivables, other current assets, accounts payable, other payables and balance with related companies approximated to fair value at the balance sheet date due to the short maturity of these instruments.

The estimated fair value of the Group's long term bank loans based on current market interest rates was approximately RMB2,450,147,000 as at December 31, 2006 (2005: RMB868,886,000), which was the present value of the loans' future cash flows discounted by the interest rates as at December 31, 2006. The fair value of the floating interest rate loan equalled to the carrying amount as at December 31, 2006.

The estimated fair value of the Group's long term guaranteed notes based on current market interest rates was approximately RMB17,735,947,000 as at December 31, 2006 (2005: RMB16,592,412,000), which was calculated based on the market price as at December 31, 2006.

Table of Contents

CNOOC LIMITED AND ITS SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
(All amounts expressed in Renminbi unless otherwise stated)

35. CONCENTRATION OF RISKS

The Group's principal financial instruments, other than derivatives, comprise bank loans, convertible bonds, guaranteed notes, available-for-sale financial assets, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts receivable and accounts payable, which arise directly from its operations.

The Group also enters into a currency swap contract. The purpose is to manage the currency risk arising from the Group's operations and its sources of finance.

(a) Credit risk

The carrying amount of the Group's cash and cash equivalents, time deposits, liquidity funds and bond investments, accounts receivable and other receivables, and amounts due from related parties and other current assets except for prepayments represents the Group's maximum exposure to credit risk in relation to its financial assets.

The majority of the Group's accounts receivable is related to sales of oil and natural gas to third party customers. The Group performs ongoing credit evaluations of the customers' financial condition and generally do not require collateral on accounts receivable. The Group made impairment on doubtful receivables and actual losses have been within management's expectation.

No other financial assets carry a significant exposure to credit risk.

(b) Currency risk

Substantially all of the Group's oil and gas sales are denominated in Renminbi and US dollars. In the past decade, the PRC government's policies of maintaining a stable exchange rate and China's ample foreign reserves have contributed to the stability of the Renminbi. Starting from July 21, 2005, China reformed the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. Renminbi would no longer be pegged to the United States dollar ("US dollars"). From that day to December 31, 2006, Renminbi has appreciated by approximately 5.65% against US dollars.

The appreciation of Renminbi against US dollars may have the following impact on the Group. On one hand, since the benchmark oil and gas prices are usually in US dollars, the Group's oil and gas sales may decrease due to the depreciation of US dollars against Renminbi. On the other hand, the depreciation of US dollars against Remminbi will also decrease the Group's costs for imported equipment and materials, most of which are denominated in US dollars. In addition, the debt repayment by the Group will decrease since more than 97% of the Group's debts are also denominated in U.S. dollars.

As of the end of 2006, the balance of the yen-denominated loans was only RMB17.8 million. Since the Group has hedged the yen loans against foreign currency swaps, the Group does not expect any significant exchange risk relating to Japanese yen in the future.

(c) Interest rate risk

As of the end of 2006, the interest rates for 89% of the Group's debts were fixed. The term of the weighted average balance was approximately 7.3 years. The average interest rate payable by the Group is considered to be favourable under the environment of rising interest rate hike.

Table of Contents

CNOOC LIMITED AND ITS SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
(All amounts expressed in Renminbi unless otherwise stated)

35. CONCENTRATION OF RISKS (CONT'D)

(d) Business risk

The major operations of the Group are conducted in the PRC, Indonesia, Africa and Australia and accordingly are subject to special considerations and significant risks not typically associated with investments in equity securities of the United States of America and Western European companies. These include risks associated with, among others, the oil and gas industry, the political, economic and legal environments, influence of the national authorities over price setting and competition in the industry.

(e) Concentration of customers

A substantial portion of the oil and gas sales of the Group is made to a small number of customers on an open account basis. Details of the sales to these customers are as follows:

	2004 RMB'000	2005 RMB'000	2006 RMB'000
China Petroleum & Chemical Corporation	10,634,066	15,625,736	19,250,230
PetroChina Company Limited	1,944,709	1,776,199	4,411,512
Castle Peak Power Company Limited	1,070,436	1,107,314	1,137,371

36. CHARGE OF ASSETS

CNOOC NWS Private Limited is a wholly-owned subsidiary, and together with the other joint venture partners and the operator of the NWS Project, signed a Deed of Cross Charge and an Extended Deed of Cross Charge whereby certain liabilities incurred or to be incurred, if any, by the Company in respect of the NWS Project are secured by its interests in the NWS Project.

37. SUBSEQUENT EVENTS

(a) During the 5th Session of the 10th National People's Congress, which was concluded on March 16, 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on January 1, 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

(b) On June 26, 2006, the Company announced the partial deformation of the underwater structure of the jacket for the PY30-1 project, which was discovered during an examination. The cause of the deformation is still under investigation at the date of this report. In February 2007, the Company committed to provide advanced payments for the new jacket construction.

F-72

Table of Contents

CNOOC LIMITED AND ITS SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
(All amounts expressed in Renminbi unless otherwise stated)

38. SIGNIFICANT DIFFERENCES BETWEEN HONG KONG GAAP AND US GAAP

(a) Impairment of long-lived assets

Under Hong Kong GAAP, impairment charges are recognised when a long-lived asset's carrying amount exceeds the higher of an asset's fair value less costs to sell and value in use, which incorporates discounting the asset's estimated future cash flows.

Under US GAAP, long-lived assets are assessed for possible impairment in accordance with SFAS No.144, "Accounting for the impairment or disposal of long-lived assets". SFAS No. 144 requires the Group to (a) recognise an impairment loss only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and (b) measure an impairment loss as the difference between the carrying amount and fair value of the asset. SFAS No. 144 requires that a long-lived asset to be abandoned, exchanged for a similar productive asset, or distributed to owners in a spin-off be considered as held and used until it is disposed of.

SFAS No. 144 also requires the Group to assess the need for an impairment of capitalised costs of proved oil and gas properties and the costs of wells and related equipment and facilities on a property-by-property basis. If impairment is indicated based on undiscounted expected future cash flows, then impairment is recognised to the extent that net capitalised costs exceed the estimated fair value of the property. Fair value of the property is estimated by the Group using the present value of future cash flows. The impairment was determined based on the difference between the carrying value of the assets and the present value of future cash flows. It is reasonably possible that a change in reserve or price estimates could occur in the near term and adversely impact management's estimate of future cash flows and consequently the carrying value of properties.

In addition, under Hong Kong GAAP, a subsequent increase in the recoverable amount of an asset (other than goodwill and available-for-sale equity investments) is reversed to the income statement to the extent that an impairment loss on the same asset was previously recognised as an expense when the circumstances and events that led to the write-down or write-off cease to exist. The reversal is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred. Under US GAAP, an impairment loss establishes a new cost basis for the impaired asset and the new cost basis should not be adjusted subsequently other than for further impairment losses.

For the year ended December 31, 2006, an impairment of approximately RMB252,357,000 was recognised under Hong Kong GAAP and no impairment was recognised under US GAAP.

Table of Contents

CNOOC LIMITED AND ITS SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
(All amounts expressed in Renminbi unless otherwise stated)

38. SIGNIFICANT DIFFERENCES BETWEEN HONG KONG GAAP AND US GAAP (CONT'D)

(b) Accounting for convertible bonds

With effect from January 1, 2005, under HKAS 32 Financial Instruments: Disclosure and Presentation, financial instruments with cash settlement options and other derivative components will need to be bifurcated into a debt component and a derivative component. The derivative component is marked to market at each balance sheet date and the differences will be charged/credited to the income statement. The debt component is stated at amortised cost. The requirements of HKAS 32 have been applied retrospectively with comparative amounts restated.

Under US GAAP, convertible bonds are subject to different rules on the bifurcation of the debt and derivative components. However, there is no significant difference on the accounting treatment adopted under HK GAAP and US GAAP for the Group's convertible bonds.

The Company considered whether the convertible bonds contain embedded derivative features which warrant separate accounting under the guidance provided in SFAS No. 133. To the extent that the embedded derivatives are determined to exist, the embedded derivatives are bifurcated as a single, compound derivative and are accounted for in accordance with SFAS No. 133. The Company bifurcated its embedded derivatives at fair value and determined the initial carrying value assigned to the host contract as the difference between the basis of the hybrid instrument and the fair value of the embedded derivatives, resulting in a discount attributed to the host bond contract. The host bond contract is then accreted from the initial amount to the maturity amount over the period from the date of issuance to the maturity date using the effective interest method.

The embedded derivative features within the convertible bonds that would individually warrant separate accounting as a derivative instrument under SFAS No.133 are bundled together as a single, compound embedded derivative instrument that is bifurcated and accounted for separately from the host contract under SFAS No.133. The Company used the binominal tree valuation model to value the compound embedded derivative features both initially and at each reporting period to record the changes in fair value of the derivative instruments.

Instruments with potential embedded derivative features are evaluated at inception to determine whether such features meet the definition of a derivative. The embedded derivative feature would be separated from the host contract and accounted for as a derivative instrument only if all of the following conditions are met:

(i) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract;

(ii) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value; and

(iii) a separate instrument with the same terms as the embedded derivative instrument would meet the definition of a derivative as described in SFAS No.133.

The Group's convertible bonds include the following embedded derivative features that warrant separate accounting as a single, compound embedded derivative instrument under SFAS No.133:

(i) Holder's option to convert into CNOOC shares at a specified price. Upon the exercise of the conversion option by the holders of the convertible debts, the Company has the option to settle the exercise of the conversion option in cash; and

CNOOC LIMITED AND ITS SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
(All amounts expressed in Renminbi unless otherwise stated)

38. SIGNIFICANT DIFFERENCES BETWEEN HONG KONG GAAP AND US GAAP (CONT'D)

(b) Accounting for convertible bonds (cont'd)

(ii) The convertible bonds are denominated in US dollars and are convertible into the Company's shares denominated into Hong Kong dollars using a fixed exchange rate of US$1 to HK$7.77.

(c) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The most significant estimates pertain to proved oil and gas reserve volumes and the future development, provision for dismantlement as well as estimates relating to certain oil and gas revenues and expenses. Actual amounts could differ from those estimates and assumptions.

(d) Segment reporting

The Group's segment information is based on the segmental operating results regularly reviewed by the Group's chief operating decision maker. The accounting policies used are the same as those used in the preparation of the Group's consolidated Hong Kong GAAP financial statements.

(e) Income tax

The Group completed the acquisition of certain oil and gas interests in Nigeria in the current year. The oil and gas properties are still under exploration and development stage.

According to HKAS 12 Income Taxes, no deferred income tax liability is recognised for an asset acquisition. However, under US GAAP, a deferred income tax liability is recognised in accordance with EITF 98-11 "Accounting for acquired temporary differences in certain purchase transactions that are not accounted for as business combinations". Accordingly, both the property, plant and equipment and deferred tax liabilities related to OML130 are increased by approximately RMB16,014,569,000 under US GAAP. The difference in accounting treatment has had no impact on net equity reported under US GAAP.

(f) Provision for dismantlement

Hong Kong GAAP requires the provision for dismantlement to be recorded for a present obligation no matter whether the obligation is legal or constructive. The associated cost is capitalised and the liability is discounted and accretion expense is recognised using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. In cases of remeasuring the provision for dismantlement of oil and gas properties, the Group shall use such a discount rate as mentioned above no matter whether future cash flows would move upward or downward. HK(IFRIC)-Int1 requires that adjustments arising from changes in the estimated cash flows or the current discount rate should be added to or deducted from the cost of the related asset and liability.

F-75

CNOOC LIMITED AND ITS SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
(All amounts expressed in Renminbi unless otherwise stated)

38. SIGNIFICANT DIFFERENCES BETWEEN HONG KONG GAAP AND US GAAP (CONT'D)

(f) Provision for dismantlement (cont'd)

Under US GAAP, SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognised in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalised as part of the carrying amount of the long-lived assets. Further, under SFAS No. 143, the liability is discounted and accretion expense is recognised using the credit-adjusted risk-free interest rate in effect when the liability is initially recognised. If the Group remeasures the provision for dismantlement of oil and gas properties, upward revisions in the amount of undiscounted estimated cash flows shall be discounted using the current credit-adjusted risk-free rate; downward revisions in the amount of undiscounted estimated cash flows shall be discounted using the credit-adjusted risk-free rate that existed when the original liability was recognised. In cases that changes occur to the discount rate, the Group shall apply the original discount rate used to initially measure the dismantlement costs, rather than remeasure the liability for changes in the discount rate. There were no differences between the amounts recorded under Hong Kong GAAP and US GAAP for the periods presented.

(g) Income tax rates

Under Hong Kong GAAP, HKAS 12 requires the application of tax rates that have been enacted or substantively enacted by the balance sheet date.

Under US GAAP, SFAS No. 109 requires that a deferred tax liability or asset shall be measured using the enacted tax rates expected to apply to taxable income in the periods in which the deferred tax liability or asset is expected to be settled or realised.

There were no differences in the tax rates used for both Hong Kong GAAP and US GAAP for the years presented.

Table of Contents

CNOOC LIMITED AND ITS SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
(All amounts expressed in Renminbi unless otherwise stated)

38. SIGNIFICANT DIFFERENCES BETWEEN HONG KONG GAAP AND US GAAP (CONT'D)

(h) Effects on net profit and equity

The effects on net profit and equity of the above significant differences between Hong Kong GAAP and US GAAP are summarised below:

	Net Profit		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
As reported under Hong Kong GAAP	16,139,136	25,323,122	30,926,943
Impact of U.S GAAP adjustments:			
-Reversal of impairment losses related to property, plant and equipment	—	—	252,357
-Reversal of deferred tax related to impairment losses on property, plant and equipment	—	—	(75,708)
-Unrealised holding gains from available-for-sale investments in marketable securities	25,228	—	—
-Realised holding gains from available-for-sale marketable securities	2,972	—	—
-Unrealised gains transferred from equity to the income statement	9,156	20,036	—
Net profit under US GAAP	16,176,492	25,343,158	31,103,592
Net profit per share under US GAAP			
-Basic	RMB0.39	RMB0.62	RMB0.73
-Diluted	RMB0.39	RMB0.61	RMB0.73

	Net equity		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
As reported under Hong Kong GAAP	56,442,790	73,603,097	107,771,928
Impact of U.S GAAP adjustments:			
-Reversal of impairment losses related to property, plant and equipment	—	—	252,357
-Reversal of deferred tax related to impairment losses on	—	—	(75,708)

property, plant and equipment			
-Reversal of additional accumulated depreciation, depletion and amortisation arising from the revaluation surplus on land and buildings	44,207	44,207	44,207
Net equity under US GAAP	56,486,997	73,647,304	107,992,784

F-77

Table of Contents

CNOOC LIMITED AND ITS SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
(All amounts expressed in Renminbi unless otherwise stated)

38. SIGNIFICANT DIFFERENCES BETWEEN HONG KONG GAAP AND US GAAP (CONT'D)

(i) Comprehensive income

According to SFAS No. 130, "Reporting comprehensive income", the Group is required to include a statement of other comprehensive income for revenues and expenses, gains and losses which under US GAAP are included in comprehensive income and excluded from net income.

	2004 RMB'000	2005 RMB'000	2006 RMB'000
Net income under US GAAP	16,176,492	25,343,158	31,103,592
Other comprehensive income:			
Foreign currency translation adjustments	(42,301)	(493,289)	(1,257,594)
Unrealised gains /(losses) on available-for-sale investments	(25,228)	69,069	60,010
Less: Reclassification adjustment for gains included in net income	(2,972)	(20,036)	(69,069)
Comprehensive income under US GAAP	16,105,991	24,898,902	29,836,939

The movement of accumulated other comprehensive income components are as follows:

	Foreign currency translation adjustments RMB'000	Unrealised gains on available -for-sale investments RMB'000	Accumulated other comprehensive income RMB'000
Balance at December 31, 2003	22,647	48,236	70,883
Reversal of current year's realised gains	—	(2,972)	(2,972)
Current year's change	(42,301)	(25,228)	(67,529)
Balance at December 31, 2004	(19,654)	20,036	382
Reversal of current year's realised gains	—	(20,036)	(20,036)
Current year's change	(493,289)	69,069	(424,220)
Balance at December 31, 2005	(512,943)	69,069	(443,874)
Reversal of current year realised gains	—	(69,069)	(69,069)
Current year's change	(1,257,594)	60,010	(1,197,584)
Balance at December 31, 2006	(1,770,537)	60,010	(1,710,527)

Explanation of Responses:

Table of Contents

CNOOC LIMITED AND ITS SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
(All amounts expressed in Renminbi unless otherwise stated)

38. SIGNIFICANT DIFFERENCES BETWEEN HONG KONG GAAP AND US GAAP (CONT'D)

(j) Additional disclosure under FSP19-1

As of January 1, 2006, the Group adopted FASB Staff Position FAS19-1, "Accounting for Suspended Well Costs". Upon adoption of the FSP, the Group evaluated all existing capitalised exploratory well costs under the provisions of the FSP. The following table reflects the net changes in capitalised exploratory well costs during 2005 and 2006, and does not include amounts that were capitalised and subsequently expensed in the same period. Capitalised exploratory well costs for fiscal year ended December 31, 2005 and 2004 are presented based on the Group's previous accounting policy.

	2004 RMB'000	2005 RMB'000	2006 RMB'000
Beginning of year	702,959	429,461	281,573
Capitalised exploratory well costs charged to expense upon the adoption of FSP 19-1	—	—	—
Additions to capitalised exploratory well costs pending the determination of proved reserves	335,957	279,180	803,184
Reclassifications to oil and gas properties based on the determination of proved reserve	(475,420)	(328,475)	(182,582)
Capitalised exploratory well costs charged to expense	(134,035)	(98,242)	(7,976)
Exchange realignment	—	(351)	(15,010)
End of year	429,461	281,573	879,189

Aging of capitalised exploratory well costs and the number of projects for which exploratory well costs have been capitalised for a period greater than one year as follows:

	2004 RMB'000	2005 RMB'000	2006 RMB'000
Capitalised exploratory well costs that have been capitalised for a period for one year or less	366,533	281,573	834,333
Capitalised exploratory well costs that have been capitalised for a period greater than one year	62,928	—	44,856
End of year	429,461	281,573	879,189
Number of projects for which exploratory well costs have been capitalised for a period greater than one year	3	—	1*

* Well LD27-1-1 was completed in 2005. It was tested and confirmed to be an oil flowing well. It has been temporary capitalised according to the Company's criteria for the assessment of well status. The reservoir characteristics and geological condition of LD27-1 are relatively complex and a series of seismic, geological, reservoir and economic researches and appraisals have been conducted on it. Based on the latest research results, it has been included in the appraisal plan and the field development feasibility research is being conducted in 2007.

F-79

Table of Contents

CNOOC LIMITED AND ITS SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
(All amounts expressed in Renminbi unless otherwise stated)

38. SIGNIFICANT DIFFERENCES BETWEEN HONG KONG GAAP AND US GAAP (CONT'D)

(k) Impact of recently issued accounting standards

In February 2006, the FASB issued SFAS No. 155 "Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140" ("SFAS No.155"). SFAS No. 155 clarifies certain issues relating to embedded derivatives and beneficial interests in securitized financial assets, including permitting fair value remeasurement for any hybrid financial instrument that contains an embedded derivative, eliminating the prohibition on a qualifying special-purpose entity from holding certain derivative instruments, and providing clarification that concentrations of credit risk in the form of subordination are not embedded derivatives. The provisions of SFAS No. 155 are effective for all financial instruments acquired or issued after fiscal years beginning after September 15, 2006. The Company does not believe the adoption of SFAS No. 155 will have a material effect on its financial position cash flows or results of operations.

In September 2006, the FASB issued SFAS No. 157 "Fair Value Measurements" ("SFAS No. 155"),which is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The statement provides enhanced guidance for using fair value to measure assets and liabilities. The Company does not believe the adoption of SFAS No. 157 will have a material effect on its financial position cash flows or results of operations.

In July 2006, the FASB issued FIN No. 48 "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" ("FIN No. 48"), which is effective for fiscal years beginning after December 15, 2006. The statement clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. It provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. Under the SEC's rule, FIN No. 48 is effective for the Company's financial statements issued for fiscal years beginning on January 1, 2007. The Company will apply this new rule and assess its uncertainty in income taxes in 2007. The Company does not believe the adoption of FIN No. 48 will have a material effect on its financial position cash flows or results of operations.

In February 2007, the FASB issued SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115" ("SFAS No. 159"). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the Board's long-term measurement objectives for accounting for financial instruments. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Under the SEC's rule, SFAS No. 159 is effective for the Company's financial statements issued for fiscal years beginning on January 1, 2008. The Company does not believe the adoption of FAS No. 159 will have a material effect on its financial position cash flows or results of operations.

Table of Contents

CNOOC LIMITED AND ITS SUBSIDIARIES
SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITES
(UNAUDITED)
(All amounts expressed in Renminbi unless otherwise stated)

The following disclosures are included in accordance with the United States Statement of Financial Accounting Standards No. 69, "Disclosures about Oil and Gas Producing Activities". The disclosures are categorized by the geographical areas in which the Group conducts oil and gas activities. Except for PRC and Indonesia, the information on the other geographical areas, such as Australia, Myanmar, Morocco and Nigeria etc., are combined in the following disclosures as "Others", among which all the other projects are still in joint study, exploration or development stage except that the North West Shelf Project in Australia is in production stage.

(a) Reserve quantity information

Crude oil and natural gas reserve estimates are determined through analysis of geological and engineering data which appear, with reasonable certainty, to be recoverable at commercial rates in the future from known oil and natural gas reservoirs under existing economic and operating conditions.

Estimates of crude oil and natural gas reserves have been made by independent engineers, except for certain reserve of OML130 for 2006 which was estimated by internal engineers. The Group's net proved reserves consist of its percentage interest in reserves, comprised of a 100% interest in its independent oil and gas properties and its participating interest in the properties covered under the production sharing contracts in PRC, less (i) an adjustment for the Group's share of royalties payable by the Group to the PRC government and the Group's participating interest in share oil payable to the PRC government under the production sharing contracts, and less (ii) an adjustment for production allocable to foreign partners under the PRC production sharing contracts as reimbursement for exploration expenses attributable to the Group's participating interest, and plus (a) its participating interest in the properties in Australia and Nigeria; and (b) the participating interest in the properties covered under the production sharing contracts in Indonesia less an adjustment of share oil attributable to the Indonesian government and the domestic market obligation.

The Company determines its net entitlement oil and gas reserves under production sharing contracts using the economic interest method.

Proved developed and undeveloped reserves

	PRC		Indonesia		Others		Total	
	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)
December 31, 2003	1,328	3,905	103	200	—	—	1,431	4,105
Purchase of reserves	6	161	—	—	—	—	6	161
Discoveries and extensions	129	414	4	157	—	—	133	571
Production	(105)	(97)	(11)	(31)	—	—	(116)	(128)
Revisions of prior estimates	(8)	(101)	5	(5)	—	—	(3)	(106)
December 31, 2004	1,350	4,282	101	321	—	—	1,451	4,603

Purchase of reserves	—	—	—	—	25	603	25	603
Discoveries and extensions	133	314	—	17	—	—	133	331
Production	(121)	(101)	(9)	(34)	—	—	(130)	(135)
Revisions of prior estimates	(7)	—	(19)	(7)	—	—	(26)	(7)
December 31, 2005	1,355	4,495	73	297	25	603	1,453	5,395
Purchase of reserves	—	—	2*	694*	41	—	43	694
Discoveries and extensions	132	109	—	11	—	—	132	120
Production	(127)	(130)	(8)	(39)	(1)	(10)	(136)	(179)
Revisions of prior estimates	(18)	95	12	22	—	58	(6)	175
December 31, 2006	1,342	4,569	79	985	65	651	1,486	6,205

S-1

Table of Contents

CNOOC LIMITED AND ITS SUBSIDIARIES
SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITES
(UNAUDITED)
(All amounts expressed in Renminbi unless otherwise stated)

(a) Reserve quantity information (cont'd)

* The acquisition of the Tangguh LNG Project was completed in 2004. No proved reserves have been included until 2006 when the related sales contracts were signed and the necessary criteria of proved reserves were fulfilled.

Enterprise's proportional interest in reserves of investees accounted for by the equity method:

	PRC		Indonesia		Others		Total	
	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)
December 31, 2004	4	43	—	—	—	—	4	43
December 31, 2005	3	36	—	—	—	—	3	36
December 31, 2006	2	26	—	—	—	—	2	26

Proved developed reserves:

	PRC		Indonesia		Others		Total	
	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)	Oil (mmbls)	Natural gas (bcf)
December 31, 2004	614	2,101	85	138	—	—	699	2,239
December 31, 2005	642	2,072	63	155	14	378	719	2,605
December 31, 2006	632	1,901	67	174	15	421	714	2,496

(b) Results of operations

	2004				2005				
	PRC RMB'000	Indonesia RMB'000	Others RMB'000	Total RMB'000	PRC RMB'000	Indonesia RMB'000	Others RMB'000	Total RMB'000	I RMB
Net sales to customers	32,723,277	4,162,742	—	36,886,019	48,778,934	4,638,735	—	53,417,669	62,224
Operating expenses	(3,643,182)	(1,427,162)	—	(5,070,344)	(4,507,915)	(1,426,683)	—	(5,934,598)	(5,139

Production taxes	(1,725,674)	—	—	(1,725,674)	(2,596,543)	—	—	(2,596,543)	(3,315
Exploration	(1,202,203)	(113,957)	—	(1,316,160)	(1,169,067)	(77,842)	(46,779)	(1,293,688)	(1,304
Accretion expense	(119,707)	—	—	(119,707)	(198,945)	—	—	(198,945)	(250
Depreciation, depletion and amortisation (including dismantlement)	(4,670,988)	(985,711)	—	(5,656,699)	(5,360,745)	(856,775)	—	(6,217,520)	(6,345
	21,361,523	1,635,912	—	22,997,435	34,945,719	2,277,435	(46,779)	37,176,375	45,868
Income tax expenses	(6,408,457)	(705,487)	—	(7,113,944)	(10,483,716)	(995,885)	—	(11,479,601)	(13,760
Result of operations	14,953,066	930,425	—	15,883,491	24,462,003	1,281,550	(46,779)	25,696,774	32,107
Enterprise’s share of equity method investee’s results of operations for producing activities	309,987	—	—	309,987	260,496	—	—	260,496	247

S-2

Table of Contents

CNOOC LIMITED AND ITS SUBSIDIARIES
SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITES
(UNAUDITED)
(All amounts expressed in Renminbi unless otherwise stated)

(c) Capitalised costs

	2004				2005				
	PRC RMB'000	Indonesia RMB'000	Others RMB'000	Total RMB'000	PRC RMB'000	Indonesia RMB'000	Others RMB'000	Total RMB'000	RN
Proved oil and gas Properties	70,931,798	10,100,116	—	81,031,914	85,960,339	11,241,345	3,129,662	100,331,346	102,6
Unproved oil and gas Properties	437,513	4,696,237	—	5,133,750	267,432	5,529,450	—	5,796,882	2
Accumulated depreciation, depletion and amortization	(30,462,658)	(3,083,933)	—	(33,546,591)	(35,875,926)	(3,850,293)	—	(39,726,219)	(42,0
Net capitalised costs	40,906,653	11,712,420	—	52,619,073	50,351,845	12,920,502	3,129,662	66,402,009	60, 8
Enterprise's share of equity method investee's net capitalised costs	518,045	—	—	518,045	412,109	—	—	412,109	4

(d) Costs incurred

	2004				2005				
	PRC RMB'000	Indonesia RMB'000	Others RMB'000	Total RMB'000	PRC RMB'000	Indonesia RMB'000	Others RMB'000	Total RMB'000	RM
Acquisition costs									
- Proved	—	—	—	—	—	—	3,864,342	3,864,342	
- Unproved	—	3,531,046	—	3,531,046	—	—	681,943	681,943	
Exploration costs	1,806,556	137,361	—	1,943,917	1,878,931	111,219	46,779	2,036,929	2,21
Development costs*	11,693,183	645,501	—	12,338,684	14,423,266	2,328,200	—	16,751,466	15,76
Total costs incurred	13,499,739	4,313,908	—	17,813,647	16,302,197	2,439,419	4,593,064	23,334,680	17,97
Enterprise's share of equity method	44,513	—	—	44,513	20,854	—	—	20,854	23

investee's costs of
property acquisition,
exploration, and
development

* The development costs include estimated future dismantlement costs of dismantling offshore oil platforms and gas properties.

** The amounts include prepayments made in 2004 for the NWS Project of approximately RMB4,693,809,000 and a tax refund of approximately RMB152,993,000 related to the acquisition of the NWS Project received in 2005.

(e) Standardised measure of discounted future net cash flows and changes therein

In calculating the standardised measure of discounted future net cash flows, year-end constant price and cost assumptions were applied to the Group's estimated annual future production from proved reserves to determine future cash inflows. Year end average realised oil prices used in the estimation of proved reserves and calculation of the standardised measure were US$51 as at December 31, 2006 (2005: US$48; 2004: US$32). Future development costs are estimated based upon constant price assumptions and assume the continuation of existing economic, operating and regulatory conditions. Future income taxes are calculated by applying the year-end statutory rate to estimate future pre-tax cash flows after provision for the tax cost of the oil and natural gas properties based upon existing laws and regulations. The discount was computed by application of a 10% discount factor to the estimated future net cash flows.

S-3

Table of Contents

CNOOC LIMITED AND ITS SUBSIDIARIES
SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITES
(UNAUDITED)
(All amounts expressed in Renminbi unless otherwise stated)

(e) Standardised measure of discounted future net cash flows and changes therein (cont'd)

Management believes that this information does not represent the fair market value of the oil and natural gas reserves or the present value of estimated cash flows since no economic value is attributed to potential reserves, the use of a 10% discount rate is arbitrary, and prices change constantly from year-end levels.

Present value of estimated future net cash flows:

		2004				2005			
	Notes	PRC RMB'000	Indonesia RMB'000	Others RMB'000	Total RMB'000	PRC RMB'000	Indonesia RMB'000	Others RMB'000	T RMI
Future cash inflows	1	464,405,099	37,198,784	—	501,603,883	658,890,903	40,919,470	21,855,452	721,665
Future production Costs		(114,563,284)	(20,472,914)	—	(135,036,198)	(155,478,507)	(19,370,535)	(3,742,250)	(178,591
Future development Costs	2	(59,876,454)	(6,709,341)	—	(66,585,795)	(69,631,972)	(7,481,211)	(4,497,517)	(81,610
Future income taxes		(78,181,837)	(4,001,019)	—	(82,182,856)	(118,764,845)	(5,678,110)	(2,759,755)	(127,202
Future net cash flows	3	211,783,524	6,015,510	—	217,799,034	315,015,579	8,389,614	10,855,930	334,261
10% discount factor		(91,481,754)	(1,905,679)	—	(93,387,433)	(127,977,962)	(2,494,083)	(5,472,748)	(135,944
Standardised measure		120,301,770	4,109,831	—	124,411,601	187,037,617	5,895,531	5,383,182	198,316
Enterprise's share of equity method investee's Standardised Measure of discounted future net cash flows		1,052,755	—	—	1,052,755	1,605,386	—	—	1,605

(1) Future cash flows consist of the Group's 100% interest in the independent oil and gas properties and the Group's participating interest in the properties under production sharing contracts in PRC less (i) an adjustment for the royalties payable to the PRC government and share oil payable to the PRC government under production sharing contracts and (ii) an adjustment for production allocable to foreign partners under the PRC production sharing

contracts for exploration costs attributable to the Group's participating interest, plus (a) its participating interest in the properties in Australia and Nigeria, and (b) the participating interest in the properties covered under the production sharing contracts in Indonesia, less an adjustment of share oil attributable to Indonesian government and the domestic market obligation.

(2) Future development costs include the estimated costs of drilling future development wells and building the production platforms.

(3) Future net cash flows have been prepared taking into consideration estimated future dismantlement costs of dismantling offshore oil platforms and gas properties.

Table of Contents

CNOOC LIMITED AND ITS SUBSIDIARIES
SUPPLEMENTARY INFORMATION ON OIL AND GAS PRODUCING ACTIVITES
(UNAUDITED)
(All amounts expressed in Renminbi unless otherwise stated)

(e) Standardised measure of discounted future net cash flows and changes therein (cont'd)

Changes in the standardised measure of discounted future net cash flows:

	2004 RMB'000	2005 RMB'000	2006 RMB'000
Standardised measure, beginning of year	108,736,202	124,411,601	198,316,330
Sales of production, net of royalties and production costs	(30,090,001)	(44,886,528)	(57,513,108)
Net change in prices, net of royalties and production costs	17,891,394	99, 253,723	8,603,374
Extensions discoveries and improved recovery, Net of related future costs	20, 752,897	26,648,779	20,226,150
Change in estimated future development costs	(21,624,959)	(18,559,873)	(19,719,116)
Development costs incurred during the year	11,768,916	15,592,789	20,333,024
Revisions in quantity estimates	(1,956,069)	(3,061,393)	1,903,268
Accretion of discount	14, 079,125	16,996,168	26,111,261
Net change in income taxes	(5,138,318)	(29,168,139)	958,885
Purchase of properties	2,356,102	8,981,882	19,031,535
Changes in timing and other	7, 636,312	2,107,321	(21,637,278)
Standardised measure, end of year	124,411,601	198,316,330	196,614,325