Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2020
(All amounts expressed in millions of Renminbi, except per share data)

	Notes	2020	2019
REVENUE			
Revenue recognised from contracts with customers			
Oil and gas sales	5	**139,601**	197,173
Marketing revenues	5	**12,131**	30,867
Other revenue		**3,640**	5,159
		155,372	233,199
EXPENSES			
Operating expenses		**(24,240)**	(24,735)
Taxes other than income tax	11(ii)	**(7,200)**	(9,156)
Exploration expenses		**(5,601)**	(12,342)
Depreciation, depletion and amortisation	7	**(52,306)**	(57,699)
Special oil gain levy	11(iii)	**(79)**	(894)
Impairment and provision	7, 14	**(5,199)**	(2,094)
Crude oil and product purchases		**(11,671)**	(29,040)
Selling and administrative expenses		**(8,821)**	(8,062)
Others		**(3,866)**	(4,982)
		(118,983)	(149,004)
PROFIT FROM OPERATING ACTIVITIES		**36,389**	84,195
Interest income	7	**1,473**	1,067
Finance costs	8	**(6,190)**	(5,865)
Exchange gains/(losses), net		**445**	(213)
Investment income	7	**2,978**	4,632
Share of profits of associates	18	**171**	459
(Loss)/profit attributable to a joint venture	19	**(803)**	543
Other income, net		**444**	831
PROFIT BEFORE TAX	7	**34,907**	85,649
Income tax expense	11(i)	**(9,951)**	(24,604)
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT		**24,956**	61,045
OTHER COMPREHENSIVE (EXPENSE)/INCOME			
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translation of foreign operations		**(11,983)**	2,848
Share of other comprehensive (expense)/income of associates		**(85)**	25
Other items that will not be reclassified to profit or loss			
Fair value change on equity investments designated as at fair value through other comprehensive expense	20(i)	**(1,040)**	(1,167)
Others		**(128)**	(133)
OTHER COMPREHENSIVE (EXPENSE)/INCOME FOR THE YEAR, NET OF TAX		**(13,236)**	1,573
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT		**11,720**	62,618
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT			
Basic (RMB Yuan)	12	**0.56**	1.37
Diluted (RMB Yuan)	12	**0.56**	1.37

Details of the dividends proposed and paid for the year are disclosed in note 13 to the consolidated financial statements.

Consolidated Statement of Financial Position

31 December 2020
(All amounts expressed in millions of Renminbi)

	Notes	2020	2019
NON-CURRENT ASSETS			
Property, plant and equipment	14	**446,668**	440,554
Right-of-use assets	15	**9,161**	9,179
Intangible assets	16	**15,129**	16,306
Investments in associates	18	**23,544**	24,513
Investment in a joint venture	19	**18,822**	20,977
Debt investment		**3,620**	1,618
Equity investments	20(i), 37	**1,829**	2,936
Deferred tax assets	11(i)	**27,751**	25,992
Other non-current assets	21	**11,360**	9,721
Total non-current assets		**557,884**	551,796
CURRENT ASSETS			
Inventories and supplies	22	**5,644**	6,314
Trade receivables	23	**18,982**	24,794
Other financial assets	20(ii), 37	**61,662**	114,513
Other current assets		**11,272**	9,475
Time deposits with maturity over three months	24	**41,812**	17,160
Cash and cash equivalents	24	**24,019**	33,679
Total current assets		**163,391**	205,935
CURRENT LIABILITIES			
Loans and borrowings	28	**11,217**	13,908
Trade and accrued payables	25	**41,203**	40,146
Lease liabilities	29	**1,297**	1,425
Contract liabilities	26	**1,544**	2,231
Other payables and accrued liabilities	27	**12,139**	19,583
Taxes payable		**7,452**	13,956
Total current liabilities		**74,852**	91,249
NET CURRENT ASSETS		**88,539**	114,686
TOTAL ASSETS LESS CURRENT LIABILITIES		**646,423**	666,482
NON-CURRENT LIABILITIES			
Loans and borrowings	28	**125,013**	136,152
Lease liabilities	29	**6,022**	7,062
Provision for dismantlement	30	**69,444**	64,163
Deferred tax liabilities	11(i)	**5,119**	3,602
Other non-current liabilities		**6,895**	7,277
Total non-current liabilities		**212,493**	218,256
NET ASSETS		**433,930**	448,226
EQUITY			
Issued capital	31	**43,081**	43,081
Reserves	32	**390,627**	405,106
Equity attributable to owners of the parent		**433,708**	448,187
Non-controlling interests		**222**	39
TOTAL EQUITY		**433,930**	448,226

XU Keqiang
Director

HU Guangjie
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2020
(All amounts expressed in millions of Renminbi)

	Attributable to owners of the parent								
	Issued capital	Cumulative translation reserves	Statutory and non-distributable reserves	Other reserves	Retained earnings	Proposed final dividend	Total	Non-controlling interests	Total equity
Balance at 1 January 2019	43,081	(4,000)	70,000	7,131	288,467	15,221	419,900	10	419,910
Profit for the year	–	–	–	–	61,045	–	61,045	–	61,045
Other comprehensive income/ (expense), net of tax	–	2,848	–	(1,275)	–	–	1,573	–	1,573
Total comprehensive income/ (expense)	–	2,848	–	(1,275)	61,045	–	62,618	–	62,618
2018 final dividend	–	–	–	–	(489)	(15,221)	(15,710)	–	(15,710)
2019 interim dividend	–	–	–	–	(13,290)	–	(13,290)	–	(13,290)
Proposed 2019 final dividend	–	–	–	–	(18,055)	18,055	–	–	–
Acquisition of a subsidiary under common control	–	–	–	(5,331)	–	–	(5,331)	29	(5,302)
Balance at 31 December 2019	43,081	(1,152)*	70,000*	525*	317,678*	18,055*	448,187	39	448,226
Balance at 1 January 2020	**43,081**	**(1,152)**	**70,000**	**525**	**317,678**	**18,055**	**448,187**	**39**	**448,226**
Profit for the year	**–**	**–**	**–**	**–**	**24,956**	**–**	**24,956**	**–**	**24,956**
Other comprehensive expense, net of tax	**–**	**(11,983)**	**–**	**(1,253)**	**–**	**–**	**(13,236)**	**–**	**(13,236)**
Total comprehensive (expense)/ income	**–**	**(11,983)**	**–**	**(1,253)**	**24,956**	**–**	**11,720**	**–**	**11,720**
2019 final dividend	**–**	**–**	**–**	**–**	**(297)**	**(18,055)**	**(18,352)**	**–**	**(18,352)**
2020 interim dividend	**–**	**–**	**–**	**–**	**(7,847)**	**–**	**(7,847)**	**–**	**(7,847)**
Proposed 2020 final dividend	**–**	**–**	**–**	**–**	**(9,314)**	**9,314**	**–**	**–**	**–**
Others	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**183**	**183**
Balance at 31 December 2020	**43,081**	**(13,135)***	**70,000***	**(728)***	**325,176***	**9,314***	**433,708**	**222**	**433,930**

* These reserve accounts constitute the consolidated reserves of approximately RMB390,627 million (2019: RMB405,106 million) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2020
(All amounts expressed in millions of Renminbi)

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	35	**99,813**	145,979
Income taxes paid		**(17,475)**	(22,458)
Net cash flows from operating activities		**82,338**	123,521
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of oil and gas properties		**(4,418)**	(5,619)
Capital expenditure		**(71,000)**	(66,395)
Additions to investments in associates		**(6,401)**	(7,707)
Increase in time deposits with maturity over three months		**(24,236)**	(3,095)
Dividends received from associates		**329**	231
Dividends received from a joint venture		**42**	172
Interest received		**1,016**	923
Investment income received		**4,075**	3,822
Purchase of other financial assets		**(140,375)**	(187,805)
Purchase of equity investments		**(26)**	–
Proceeds from sale of other financial assets		**190,142**	197,952
Proceeds from disposal of property, plant and equipment		**2**	64
Net cash flows used in investing activities		**(50,850)**	(67,457)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of guaranteed notes		**–**	10,464
Repayment of guaranteed notes		**(10,642)**	(2,067)
Repayments of lease liabilities		**(1,619)**	(1,451)
Proceeds from bank loans		**7,417**	3,846
Repayment of bank loans		**(2,186)**	(8,206)
Dividends paid		**(25,851)**	(28,973)
Interest paid		**(6,000)**	(5,998)
Acquisition of a subsidiary under common control		**–**	(5,335)
Others		**183**	29
Net cash flows used in financing activities		**(38,698)**	(37,691)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(7,210)**	18,373
Cash and cash equivalents at beginning of year		**33,679**	14,995
Effect of foreign exchange rate changes, net		**(2,450)**	311
CASH AND CASH EQUIVALENTS AT END OF YEAR	24	**24,019**	33,679

Total cash outflow for leases amounted to RMB3,668 million.

1. CORPORATE INFORMATION

CNOOC Limited (the "Company") was incorporated in the Hong Kong Special Administrative Region ("Hong Kong") of the People's Republic of China (the "PRC") on 20 August 1999 to hold the interests in certain entities thereby creating a group comprising the Company and its subsidiaries (hereinafter collectively referred to as the "Group"). During the year, the Group was principally engaged in the exploration, development, production and sale of crude oil and natural gas.

The registered office address of the Company is 65/F, Bank of China Tower, 1 Garden Road, Hong Kong.

In the opinion of the directors of the Company (the "Directors"), the parent and the ultimate holding company of the Company is China National Offshore Oil Corporation ("CNOOC"), a company established in the PRC.

2.1 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"), Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Hong Kong Companies Ordinance (Cap. 622 of the Laws of Hong Kong). A summary of the significant accounting policies adopted by the Group is set out below.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The IASB has issued a number of new and amendments to IFRS standards that are first effective for the current accounting year commencing 1 January 2020 or later but available for early adoption. The equivalent new and amendments to HKFRSs consequently issued by the HKICPA have the same effective dates as those issued by the IASB and are in all material aspects identical to the pronouncements issued by the IASB.

The accounting policies adopted are consistent with those of the year ended 31 December 2019, except for the first time adoption of the new and amendments to IFRS standards/HKFRSs effective for the Group's financial year beginning on 1 January 2020. The application of the new and amendments to IFRS standards/HKFRSs in the current year has had no material impact on the accounting policies, the disclosures or the amounts recognised in the consolidated financial statements of the Group.

(All amounts expressed in millions of Renminbi unless otherwise stated)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

The Group has not applied the following new and amendments to IFRS standards/HKFRSs, which may be relevant to the Group and have been issued but are not yet effective, in these consolidated financial statements:

IFRS 17/HKFRS 17	Insurance Contracts and the related Amendments[1]
Amendments to IFRS 16/HKFRS 16	Covid-19-Related Rent Concessions[4]
Amendments to IFRS 3/HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to IFRS 9/HKFRS 9, IAS 39/HKAS 39, IFRS 7/HKFRS 7, IFRS 4/HKFRS 4 and IFRS 16/HKFRS 16	Interest Rate Benchmark Reform – Phase 2[5]
Amendments to IFRS 10/HKFRS 10 and IAS 28/HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1/HKAS 1	Classification of Liabilities as Current or Non-current And related amendments to Hong Kong Interpretation 5 (2020)[1]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to IAS 8	Definition of Accounting Estimates[1]
Amendments to IAS 16/HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use[2]
Amendments to IAS 37/HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to IFRS standards/HKFRSs	Annual Improvements to IFRS standards/HKFRSs 2018-2020[2]

1 Effective for annual periods beginning on or after 1 January 2023
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 June 2020
5 Effective for annual periods beginning on or after 1 January 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These consolidated financial statements have been prepared under the historical cost convention, except for as disclosed in the accounting policies notes hereafter. These consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest million except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2020.

The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

The results of subsidiaries are included in the Company's statement of profit or loss and other comprehensive income to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

All intra-group balances, income and expenses, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations or asset acquisitions

Optional concentration test

Effective from 1 January 2020, the Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

Asset acquisitions

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognizes the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Business combinations

Business combinations, other than business combinations under common control, are accounted for using the acquisition method. The consideration transferred is measured at fair value which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities assumed by the Group from the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are recongnised in profit or loss as incurred.

If the business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the purchase consideration, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the business acquired, the difference is recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations or asset acquisitions (continued)

Business combinations (continued)

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or group of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

Impairment is determined by assessing the recoverable amount of the exploration and production ("E&P") segment, using value in use, to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss on goodwill is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit (or group of cash-generating units) retained.

Subsidiaries

Subsidiaries are all those entities over which the Group has power over the investee such that the Group is able to direct the relevant activities, has exposure or rights to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect the amount of the investor's returns.

Associates

Based on the Group's ownership percentage (considering its direct ownership as well as potentially exercisable or convertible shares) and other contractual terms, the Group has significant influence over its associates, rather than the power to control.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Necessary adjustments are made to bring into line any dissimilar accounting policies that may exist. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment.

Joint arrangements

Certain of the Group's activities are conducted through joint arrangements. Joint arrangements are classified as either a joint operation or joint venture, based on the rights and obligations arising from the contractual obligations between the parties to the arrangement.

Joint control

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint arrangements (continued)

Joint operations

Some arrangements have been assessed by the Group as joint operations as both parties to the contract are responsible for the assets and obligations in proportion to their respective interest, whether or not the arrangement is structured through a separate vehicle. This evaluation applies to both the Group's interests in production sharing arrangements and certain joint operation.

The Group entered into numerous production sharing arrangements or similar agreements in China and overseas countries. The Group's participating interest may vary in each arrangement. The Group, as one of the title owners under certain exploration and/or production licenses or permits, is required to bear exploration (with some exceptions in China), development and operating costs together with other co-owners based on each owner's participating interest. Once production occurs, a certain percentage of the annual production or revenue is first distributed to the local government, which, in most cases, with the nature of royalty and other taxes or expenses, and the rest of the annual production or revenue is allocated among the co-owners.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRS standards/HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

Joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The Group's investments in joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Necessary adjustments are made to bring into line any dissimilar accounting policies that may exist. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. Where the profit sharing ratios are different to the Group's equity interest, the share of post-acquisition results of the joint ventures is determined based on the agreed profit sharing ratio. Unrealised gains and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Group's investments in the joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of joint ventures is included as part of the Group's investments in joint ventures and is not individually tested for impairment.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person:

- (i) has control or joint control of the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group.

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(b) the party is an entity where any of the following conditions applies: (continued)

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the parent of the Company.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Property, plant and equipment

Property, plant and equipment comprise oil and gas properties, and vehicles and office equipment and others.

(a) Oil and gas properties

For oil and gas properties, the successful efforts method of accounting is adopted. The Group capitalises the initial acquisition costs of oil and gas properties. Impairment of initial acquisition costs is recognised based on exploratory experience and management judgement and charged to profit and loss as exploration expenses. Upon discovery of commercial reserves, acquisition costs are transferred to prove properties. The costs of drilling and equipping successful exploratory wells, all development expenditures on construction, installation or completion of infrastructure facilities such as platforms, pipelines, processing plants and the drilling of development wells and the building of enhanced recovery facilities, including those renewals and betterments that extend the economic lives of the assets, and the related borrowing costs are capitalised. The costs of unsuccessful exploratory wells and all other exploration costs are expensed as incurred.

The Group carries exploratory well costs as an asset when the well has found a sufficient quantity of reserves to justify its completion as a producing well and where the Group is making sufficient progress assessing the reserves and the economic and operating viability of the project. Exploratory well costs not meeting these criteria are charged to expenses. Exploratory wells that discover potentially economic reserves in areas where major capital expenditure will be required before production would begin and when the major capital expenditure depends upon the successful completion of further exploratory work remain capitalised and are reviewed periodically for impairment.