CNOOC PETROLEUM EUROPE LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

A Company Registered in England and Wales, No. 01051137
Registered Office: Prospect House, 97 Oxford Road, Uxbridge, UB8 1LU

CNOOC PETROLEUM EUROPE LIMITED

Annual report and financial statements for the year ended 31 December 2022

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CNOOC PETROLEUM EUROPE LIMITED

Officers and professional advisors

DIRECTORS:	Q. Ma L.Tian Q. Jiang P.G. Gunn
COMPANY SECRETARY:	P.G. Gunn
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BANKER:	Bank of America 5 Canada Square London E14 5AQ
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AUDITOR:	Ernst & Young LLP 1 More London Place London SE1 2AF United Kingdom

CNOOC PETROLEUM EUROPE LIMITED

Strategic report

The Directors of CNOOC Petroleum Europe Limited (the "Company") present the strategic report for the year ended 31 December 2022.

Business review

The Company made a profit of US $274 million for the year ended 31 December 2022 (2021: US $362 million) and generated net sales of US $1,507 million (2021: US $1,141 million).

United Kingdom - North Sea

The Company is a significant regional player in the UK North Sea with assets, infrastructure, and exploration potential for future growth. Our primary assets, which we operate, include a 43.2% interest in the Buzzard field and facilities, a 36.5% interest in the Golden Eagle field and facilities, a 41.9% interest in the Scott field and production platform, an 80.4% interest in the Telford field, along with interests in several undeveloped discoveries and exploration acreage. The Ettrick and Blackbird fields (70.1% and 80.6% working interest, respectively) ceased production in Q2 2016. The Rochelle field (79.3% working interest) ceased production in Q1 2019.

Our UK strategy is to sustain and grow our existing North Sea production by identifying new sources of production and to continue to develop and optimise our existing assets. To do this, we identify exploration and evaluation opportunities near existing infrastructure that can be tied-in economically in a relatively short time period. We also seek to establish new core areas through exploration in relatively unexplored areas of the basin.

Buzzard

The Buzzard field is located about 60 miles north east of Aberdeen in the Outer Moray Firth, central North Sea, in 317 feet of water. It was discovered in 2001 and came on stream in early 2007. Oil from Buzzard is exported via the Forties pipeline to the Kinneil Terminal in Scotland. Gas is exported via the Frigg system to the St. Fergus Gas Terminal in north east Scotland. Our share of production in 2022 was 30,060 boe/d (2021: 27,019 boe/d). Buzzard Phase 2 (BPII), a new subsea development tied back to the main Buzzard Facilities, achieved First oil, as planned on the 21st November 2021.

Golden Eagle

In 2007, we made a discovery at Golden Eagle (Burns reservoir), followed by Peregrine (formerly Pink) in 2008 and Punt reservoir (formerly Hobby) in 2009. We refer to these three discoveries as the Golden Eagle area Development. Production commenced in 2014 with oil exported via the Flotta pipeline system and gas via Frigg. Our share of production in 2022 was 8,320 boe/d (2021: 13,659 boe/d). A four well infill campaign concluded in 2021.

Scott/Telford/Rochelle

The Scott field began producing in 1993, while Telford was tied back to the Scott platform and came on stream in 1996. Telford production is produced through subsea wells tied back to the Scott platform. Oil is exported via the Forties pipeline to the Kinneil Terminal in Scotland while gas is exported via the SAGE pipeline to the St. Fergus Gas Terminal in north east Scotland. The nearby Rochelle gas field was tied back to the Scott platform and brought on stream in 2013. The Rochelle field ceased production in 2019. Our net share of production from Scott/Telford in 2022 was 3,847 boe/d (2021 : 2,196 boe/d).

Ettrick/Blackbird

Ettrick was discovered in 1981, while Blackbird was discovered during 2008 and brought on stream in 2009. The fields ceased production in 2016 with an approved Oil and Gas Authority (OGA) decommissioning strategy in compliance with the legislative decommissioning process. The Floating Production Storage Offloading (FPSO) disconnect and sail away was executed in 2016 and all subsea scopes were completed in 2017. Well plug and abandonment was completed on Blackbird in 2018. We plan to commence plug and abandonment of the remaining Ettrick wells in 2022 and conclude the activity in 2025.

Exploration

The exploration expense of US $89 million (2021: US $101 million) mainly relates to the expensing of two unsuccessful discovery wells, and associated historical costs. The other expense items were for potential new prospect evaluation and cost associated with assessment of pre-licence exploration regions.

Key Performance Indicators (KPIs)

The following KPIs are used to assess the performance of the business:

	2022	2021
Production (boe/d)	42,227	43,171
Reserves - proved and probable (million boe)	92	115
Realised oil price (US$/bbl)	102.57	69.97
Realised gas price (US$/mcf)	22.30	12.39

Strategic report (continued)

Principal risks and uncertainties

The exploration and production activities in the oil and gas industry involve a high degree of risk. The Directors monitor and manage risks relating to the operations of the Company in conjunction with those of the group of which it is part and steps are taken where necessary to ensure these risks are appropriately managed.

Macro economy risk: The industry in which the Company operates is closely linked to the macro economy. The low growth of the global economy is likely to continue. Global trade growth and economic growth are expected to further slow down, and the recovery of the world economy is expected to be sluggish. The combination of geopolitics and trade frictions has negatively impacted the global flow of goods, people and capital, sustained inflationary pressure and unprecedented challenges to the global supply chain. Macro economy changes are expected to affect the supply and downstream demand for oil and gas, which could have an adverse impact on the Company's performance.

Risk of changing international, political and economic Factors: The international political and economic situation is complex and changeable. The conflict between Russia and Ukraine has accelerated the profound changes in the world landscape and triggered violent shocks in the international energy market.
As a result, our financial condition and operating results could be adversely affected by associated international actions, general strikes, political instability and war. Political, economic or diplomatic changes, or changes in policies, laws, fiscal and tax regimes are not within our control, Our operations, existing assets or future investments may be materially and adversely affected by these changes as well as trade and economic sanctions due to deteriorated relations among different countries.

Health, Safety and Environment (HSE): The Company is exposed to blowout, fire and spillage risks arising from exploration, development and production operations. Any accident which may lead to casualties, property damage and environmental pollution may have an impact on the Company's operational and financial conditions.

Production replacement: Our current production is generated from productive wells or central production facilities, such as Buzzard, Golden Eagle and Scott. Production volumes from these wells and facilities are starting to decline and could impact our future production profile.

Fluctuations in oil and gas prices: Prices for crude oil, natural gas and oil products may fluctuate widely in response to relative changes in the supply and demand for crude oil and natural gas, market uncertainty and various other factors beyond our control, including but not limited to overall macroeconomic conditions, oil prices of OPEC and major exporting countries, geopolitics, economic conditions and actions of major oil-producing countries, the prices and accessibility of other energy sources, domestic government regulations, natural disasters, weather conditions and major public health emergencies. Volatility in oil and gas prices could have a material effect on our business, cash flows and earnings. Oil and gas prices are volatile. Extended periods of lower commodity prices may reduce our level of spending for oil and gas exploration and development, and may have a material adverse effect on our results. Lower realised commodity prices could also have a material adverse effect on our estimates of proved reserves, the carrying value of our oil and gas properties, the level of planned drilling activities and future growth.

Joint Venture: Operations in the oil and gas industry are conducted in a joint venture environment. There is a risk that co-venturers either do not have the financial capacity or are not aligned in their objectives and this may lead to additional costs, inefficiencies and delays.

Credit risk: The carrying amount of the Company's cash and cash equivalents, trade and other receivables, and other current assets except for prepayments represents the Company's maximum exposure to credit risk in relation to its financial assets. The Company performs ongoing credit evaluations of its customers' financial condition. Concentration of credit risk is managed by customer/counterparty. With respect to credit risk from joint venture receivables, the Company performs an ongoing assessment of the credit rating and financial position of the joint venture partners.

Currency risk: Our operations are sensitive to fluctuations in foreign currency exchange rates, particularly between the US dollar and the British Pound. A portion of our activities are transacted in, or referenced to, British Pounds, including capital spending and operating expense.

Liquidity risk: The Company manages its liquidity risk by regularly monitoring its liquidity requirements to ensure that it maintains sufficient cash and cash equivalents to meet its liquidity requirements in the short and long term.

Risk of climate change and environmental policy changes: We have baselined our CO_2 and other greenhouse gas (GHG) emissions and identified main areas to reduce these emissions. The main risk is achieving the emission reduction target milestones as

Strategic report (continued)

set out by the UK Government. We have developed a strategy and plans to address this. With the coming into force of the Paris Agreement and the continuing growth of the public's awareness of climate change problems, the carbon emission policies of different countries have been enacted one after another. The goal of "Carbon peak and Carbon neutrality" proposed by various countries will greatly accelerate the process of energy transition, posing challenges to the oil and gas industry CO2 emissions arising from the burning of fossil fuels in oil and gas fields will continue without a mature and reliable CO2 reduction technologies in place. The Company expects to be supervised by relevant agencies and organisations in the future. If we are unable to find economically viable and publicly acceptable solutions that could reduce our CO2 emissions from our new and existing projects, we may experience additional costs, and our reputation may be adversely affected.

At present, some countries have accelerated the global transition to low-carbon clean energy by setting emission reduction standards, strictly implementing the renewable energy proportion plan, levying high carbon taxes, and enacting strict regulatory bills and other relevant measures. Green and low-carbon transformation may lead to intensified competition in the energy supply market, resulting in an increase in our operating costs.

Section 172 (1) statement

Section 172 (1) of the Companies Act 2006 requires a Director of a Company to act in the way he or she considers, in good faith, would most likely promote the success of the Company for the benefit of its members as a whole. In so doing, a Director is to have regard, amongst other matters, to the:

- likely consequences of any decisions in the long-term;
- interests of the Company's employees;
- need to foster the Company's business relationships with suppliers, customers and others;
- impact of the Company's operations on the community and environment;
- desirability of the Company maintaining a reputation for high standards of business conduct, and
- need to act fairly as between members of the Company.

As the Board of Directors of the Company ("the Board"), we have regard to the Section 172(1) matters set out above as well as other factors which we consider relevant to the decisions being made. These factors include the interests and views of our shareholder and employees; the relationships with our suppliers, joint ventures, government regulators and the local communities in which we operate; and ensuring the safety of all activities which we undertake while working towards limiting the emissions generated by our operations. We acknowledge that every decision we make will not necessarily result in a positive outcome for all of our stakeholders, however, by considering the Company's purpose, vision and values, together with its strategic priorities and having a process in place for decision-making, we aim to make sure that our decisions are consistent and predictable.

As is normal for large companies, the Board delegates authority for day-to-day management of the Company to the Executive Team and then engages the Executive Team in setting, approving and overseeing execution of the business strategy and related standards and procedures.

At every Board meeting, the Board reviews the Company's health and safety record, financial and operational performance and legal and regulatory compliance. Over the course of the financial year, the Board also reviews, amongst other things, the Company's five year strategic plan; key risks and challenges to the business; the diversity of our workforce and the gender pay gap; our tax strategy; and governance and compliance related matters. This is done through the consideration and discussion of reports which are sent in advance of each Board meeting and are delivered to the Board as presentations. As a result, we understand the nature of our stakeholders' concerns and are able to comply with our section 172 duty to promote the success of the Company.

Stakeholder Engagement

The Board is committed to understanding the views of all stakeholders in order to inform the decisions that we make. The Board recognises its responsibility to take into consideration the views and impact of the decisions on employees and broader stakeholders as part of its decision-making process and remains committed to open channels of communication with all of our key stakeholders. The Board also recognises that not all engagement takes place directly with the Board or that all information is reported directly to the Board. However, the output of our engagement informs business level decisions with an overview of developments being reported back to the Board.

The Company's key stakeholders are our: shareholder; workforce; suppliers; joint ventures and government regulators as well as the local communities in which we operate. Set out below are examples of how we, the Board, have had regard to the matters set out in section 172(1) when discharging our section 172 duty.

Engagement with our Shareholder

As the Company is a wholly owned subsidiary, the ultimate parent, CNOOC Limited, plays an important role in monitoring the performance of the Company. We recognise the importance of the activities and outcomes of stewardships and regularly engage with our shareholder/ultimate parent with respect to our financial performance, strategy, business model, approach to governance and Board leadership.

Engagement with our Workforce

The Company is committed to employee involvement throughout the business. Employees are kept well informed of the performance and strategy of the Company through weekly cascades of operational highlights and performance against key performance indicators, email and intranet updates by the UK Leadership Team (UKLT) at key points in the year at adhoc Departmental Meetings. We have two employee forums (established under the Information and Consultation Employees Regulations 2004) which meet 4 times each year. The forums are made up of constituent elected employee representatives and each meeting is chaired by a locally based Vice President. These forums provide a space for our people to engage, communicate and discuss issues of concern or clarification directly with the UKLT.

The Company has an onboarding programme which introduces new employees to our business principles and Cultural Beliefs. Our eight Cultural Beliefs are "Safety First", "Be the Best", "Results Matters", "Do it Right", "Be Bold", "Step Up", "Value Feedback" and "Win Together". Our employees are expected to adopt and demonstrate our Cultural Beliefs in the work they do, in recognition that it delivers results. This training has been refreshed for 2023.

We have successful mechanisms in place to recognise those actively demonstrating the Cultural Beliefs. We deliver an extensive range of training and development programmes. Of critical importance are the U.K. specific mandatory training courses and formal competency assessments covering Health Safety and the Environment ("HSE") and key competencies for the oil and gas sector. Most but not all of these are targeted at our offshore workers. The mandatory courses are subject to audit by regulators including the Health and Safety Executive. Functional technical, managerial, competency and skills training are widely available through an extensive, CNOOC library of online learning free to all. In addition, we hold 'Lunch and Learns', '101s' and 'Techno Teas' sessions covering technical, non-technical, soft-skills and health and well-being topics. Employee personal development is actively encouraged and planned as part of the Annual Performance Management and Objective Setting Process.

The Company recognises the fundamental role that good health and well-being contributes towards workplace culture, increased productivity, and the delivery of results. The Company provides a range of employee well-being benefits and general guidance in the Pulse UK Well Being Hub. The benefits offering include private healthcare; annual health check; annual physical wellness subsidy as well as subsidised Sports and Social Clubs in both Uxbridge and Aberdeen. Our HSE focal points group in each office are volunteer groups, who consider a range of matters from mental health to office-based safety improvements.

Engagement with our Suppliers

We are committed to doing business with integrity - it is how we work. As contractors and suppliers are partners in our business success, it is important that they have the same commitment to ethics, integrity, and sustainable business practices as we do. To ensure alignment, we are committed to providing our current and prospective contractors and suppliers with the appropriate resources and tools, enabling them to work ethically, responsibly, and safely.

To give suppliers a better idea about what working with integrity means to the Company, a number of our standards and procedures are available to be reviewed on our "Supplier Documents website page".

https://cnoocinternational.com/integrity-and-compliance/supplier-documents.

These documents reinforce our values and policies with respect to health and safety, improper payments, human rights practices, trade compliance, fair competition, and stress the importance of legal and regulatory compliance. We believe that working together in this way, can delivers the best results.

Our Modern Slavery Statement, which is reviewed and approved by the Board on an annual basis and published on our website, covers the activities of the Company and its subsidiaries, and details the policies, processes, and actions we have taken to help ensure that slavery and human trafficking is not taking place in our supply chains or any part of our business.

We are also committed to an open and transparent bidding process for procurement related to our UK operations. Our processes are based on our corporate

Strategic report (continued)

management system which complies with all domestic and international legislative requirements and addresses the Supply Chain Principles of Offshore Energies UK ("OEUK").

Engagement with Joint Ventures, Government, Regulators, and Industry Groups

We have an open and transparent dialogue with all regulatory and industry bodies that we work with. On the regulatory side we maintain strong relationships with national and local government bodies such as North Sea Transition Authority ("NSTA"), Department for Energy Security and New Zero ("DESNZ"), the Scottish Government and the UK Government. We closely support these in progressing the legislative requirement of Maximising the Economic Recovery of the UK's oil and gas resources ("MER UK") and in doing so taking steps to reduce greenhouse gas emissions in line with the Scottish and UK legislative net zero targets ("Net Zero"). This includes participation in the NSTA's annual Stewardship Review process which brings together the NSTA with our senior management and industry counterparts to monitor regulatory compliance, technical performance, and initiatives to facilitate delivery of MER UK and Net Zero.

Alongside this we work to build public trust through raising standards in the oil and gas industry and publish our Tax Strategy on a yearly basis: https://cnoocinternational.com/operations/europe/uk/uk-tax-information.

The Company engages with the wider industry via its Board membership in Offshore Energies UK ("OEUK"), a leading trade association for the UK oil and gas industry, and via its active involvement in the various OEUK working groups. Regular planning and review meetings with suppliers, our joint venture partners and the government bodies are an important part of this. For each joint venture group, we carry out a detailed performance survey every two years covering how we work with all stakeholders (" Collaborative Behaviour Review"). The product is a detailed report, which we share with the NSTA and coventurers, identifying how to build on company strengths and develop areas to foster the Company's business relationships.

Engagement with the Community

We are committed to making a positive contribution to the communities within which we operate by partnering with community members and established third sector organisations in the areas around our offices in Uxbridge and Aberdeen. We build long-term trust by sharing information, consulting with these organisations, and working collaboratively to understand their needs and expectations.

We have a dedicated Community Investment Committee ("CIC") which oversees and manages our annual Community Investment budget. Our Community Investment programme is guided by and adheres to our standard and procedures to ensure proper compliance and due diligence in this area.

Our CIC has responsibility for supporting causes and helping address issues that affect colleagues and the public around where we work. It also has responsibility for making and proposing decisions on community investments from our annual Community Investment budget.

As part of our Corporate Social Responsibility ("CSR") programme, we offer employees two paid volunteering days per year. In addition, both employees and contractors are encouraged to participate in teambuilding activities that have a social benefit.

We believe our approach to responsible development provides us with a competitive advantage by allowing us to maintain our social license to operate.

Safety

"Safety First" is one of our key Cultural Beliefs and the success of every activity we undertake is measured on our ability to execute our work safely every day. Our employees and contractors strive to ensure our oil and gas production occurs without incident or harm to our people, communities, and the environment every day. Safety is just simply a part of the way we work.

COVID-19:

In response to the Covid-19 outbreak in the UK, and globally in March of 2020, we took several operational steps to help ensure the safety and wellbeing of our onshore and offshore staff. These were carried out in response to scientific and government advice which was monitored updated as circumstances changed over the course of 2022. In line with government guidance , in the latter half of 2022 we removed a number of our specific Covid 19 barriers and are returning to standard working practices.

Strategic report (continued)

Approved by the Board of Directors and signed on behalf of the Board:

Q. Jiang	Q. Ma
Director	Director
21 June 2023	21 June 2023

Directors report

The Directors of the Company present their annual report together with the audited financial statements for the year ended 31 December 2022.

Prospects

Looking forward into 2023, the Company intends to continue to explore for and produce hydrocarbons on the UK Continental Shelf (UKCS).

In addition, the Company will actively assess opportunities including the acquisition of additional exploration and production acreage in the UKCS through acquisition and possible participation in future UK Licensing Rounds, to support exploration and production activity in ensuing years.

Dividends

The Directors approved final dividends totalling US $4.0813 per ordinary share, or US $400 million, for 2022 (2021: US $3.5711 per ordinary share or US $350 million).

Going concern

The Company had cash and cash equivalent deposits of US$ 623 million at 31 December 2022, which had risen to US$661 million at 31 May 2023. Cash and cash equivalents include short term deposit facility with CNOOC UK Limited (parent company). In addition, the Company has a loan facility with its parent company under which it is contractually entitled to draw up to an additional $300 million, as described in note 24.

At 31 December 2022, the Company had current liabilities of US$ 431 million principally due to accruals and other liabilities as described in note 20 and Income tax payable, the Company does not have any material probable contingent liabilities.

As at the date of this report, the Company has performed a review of the Company's cash flow forecast in comparison with committed facilities. Based on these forecasts and considering the level of cash and cash equivalents held and committed loan facilities available to the company, The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period to 30 September 2024. The directors' assessment included forecasting cash flows under a base-case scenario and an extreme-worst case scenario. Under the base case, which assumes commodity prices and operating conditions similar to the current environment through the going concern assessment period, the Company generates sufficient cash flows to cover their operating and capital costs and pay dividends to the Parent. Under an extreme worst-case scenario, the directors assume no revenue is generated. Under this scenario the Company is able to cover its financial obligations through its existing cash balance and parent loan facility which is currently undrawn. The company consider this worst-case scenario to reflect an extreme, hypothetical assumption, given the profitability and cash flow generation of the Company particularly in the current price environment and based on external projections of commodity prices and demand for hydrocarbons.

Accordingly, the Company continues to adopt the going concern basis in preparing the annual report and financial statements. In making their going concern assessment, the Directors have considered the risks and uncertainties described in the Strategic Report on page 2 to 7.

Directors

The Directors of the Company during the year and at the date of signing the annual report were as listed below:

Directors	Date of Appointment	Date of Resignation
L. Tian	10 Aug 2020	-
L. Kuang	27 Nov 2019	06 Apr 2022
Q. Jiang	04 Jun 2020	-
P.G. Gunn	07 Dec 2021	-
Q. Ma	06 Apr 2022	-

Political donations

No political donations were made during the year ended 31 December 2022 (2021: Nil).

Directors' indemnities

The Directors have the benefit of the indemnity provision contained in the Company's Articles of Association. This provision, which is a qualifying third-party indemnity provision as defined by Section 236 of the Companies Act 2006, was in force throughout the financial year and is currently in force.

Financial risk management objectives and policies

For details of the Company's financial risk management objectives and policies see strategic report.

Foreign Branches

In 2020, the Company's branch office in Ireland was closed and the branch was officially deregistered during 2022. The branch had carried out exploration activities on the ICS during 2019, as an extension of the Company's activities.

Employees with disabilities

It is the Company's policy that individuals with disabilities should have full and fair consideration for all vacancies within the organisation. Reasonable adjustments will be made for new hires and any individual becoming disabled during their employment. Career opportunities, promotions, development, and training are open to all equally, including those with a disability.

Employee and stakeholder involvement

The Company is committed to employee involvement throughout the business. Employees are kept well informed of the performance and strategy of the Company through personal briefings, regular meetings, email and broadcasts by the Managing Director and members of the Board at key points in the year. See the Strategic Report for more detail on employee engagement and engagement with suppliers, community, and other business relationships.

Greenhouse Gas Emissions and Energy Use

Climate change remains one of the greatest challenges of our time. We are committed to reducing our environmental impact and making a positive impact where we operate. The UK and Scottish Governments have legislated targets for Net Zero greenhouse gas emissions by 2050 and 2045 respectively. In response, in 2019 we began developing a Net Zero Business Plan which sets out our roadmap to becoming a Net Zero operator.

Our 2023 target is a continued reduction in greenhouse gas emissions towards a 2025 target reduction of 10%, set against a 2018 baseline.

Performance in 2022 recorded total emissions of 729,376 tonnes of carbon dioxide equivalent from Scope 1 (direct) and Scope 2 (purchased electricity) sources, an overall reduction of 12.5% against our 2018 baseline. The reduction is due to the implementation of operational efficiencies which have reduced gas flaring and planned production shutdowns at our offshore installations reducing fuel consumption. Scope 3 (indirect) sources are also monitored but we are not yet able to report on all categories that may be relevant and therefore have omitted them from this report to allow for clearer comparison year on year.

The accounting methodology used is detailed in the CNOOC UK Greenhouse Gas (GHG) Emissions Inventory Procedure ECN-HS-PRP-50362 and follows the standard approach detailed in the Greenhouse Gas Protocol, WBCSD, 2004 and is aligned with International Standard Organisation (ISO) 14064-1:2018. We have used the Operational Control approach and reported for periods of a calendar year.

Energy Management System integration continued in 2022 as part of the Net Zero Business Plan workscopes.

In 2022, Emissions reduction action plans (ERAPs) were published for each of the operated assets and the Buzzard Electrification project moved into the Select phase.

Emissions Inventory

	Year	Data	Unit
UK Energy Use	2022	820,141	Offshore Electricity MWh
		2,740	Purchased Electricity MWh
		11,946	GJ Natural gas consumption
		24	Solar PV MWh
		692,068	Heat generated offshore GJ
GHG Emissions (total scope 1 and 2)	2018	833,388	Tonnes CO2e
	2019	776,528	Tonnes CO2e
	2020	792,080	Tonnes CO2e
	2021	738,257	Tonnes CO2e
	2022	729,376	Tonnes CO2e
Intensity Ratio Carbon Intensity	2022	20	Kg CO2e / barrel of oil equivalent (BOE)

Energy reported is in the form of electricity and heat generation and electricity and fuel use. The offshore production platforms generate their own electricity through the use of produced gas, imported gas or they purchase diesel. Onshore offices utilise purchased electricity from the grid and a small amount from onsite solar generation. Natural gas is used in heating and cooking. Heat energy is generated on 2 of the offshore platforms via the use of waste heat recovery units on the exhaust of the power generation turbines. Third party energy use is not accounted for in this report.

CNOOC PETROLEUM EUROPE LIMITED

Directors report (continued)

Greenhouse Gas Emissions and Energy Use (continued)

As the accuracy of monitoring and measurement is continually improving, previously reported figures may be updated year on year where accuracy has improved post publishing.

Auditor

Each of the persons who is a director at the date of the approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that he ought to have taken as director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of the information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Ernst & Young LLP were re-appointed auditors of the Company for the year ended 31 December 2022 and has audited the accompanying financial statements.

Events after the Reporting period

Subsequent to 31 December 2022 the decommissioning work for Ettrick-Blackbird, has been delayed and recommencement will be rescheduled from Q3 2023 to Q1 2024, continuing until Q4 2024, as approved by the UK's Offshore Petroleum Regulator for Environment and Decommissioning (OPRED). As a result, the total decommissioning amount expected to be incurred in the 12 months from 31 December 2022 is expected to be US $16 million, compared to the current liability of US $32 million recorded at 31 December 2022.

Approved by the Board of Directors and signed on behalf of the Board:

Q. Jiang
Director
21 June 2023

Q. Ma
Director
21 June 2023

Directors' responsibilities statement

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the situation of the Company and of the profit and loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently.
- make judgements and accounting estimates that are reasonable and prudent.
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of CNOOC Petroleum Europe Limited

Opinion

We have audited the financial statements of CNOOC Petroleum Europe Limited (''the company'') for the year ended 31 December 2022 which comprise the statement of profit and loss and other comprehensive income, statement of financial position, statement of changes in equity and the related notes 1 to 26, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework'' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period to 30 September 2024.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves.

Independent auditor's report to the members of CNOOC Petroleum Europe Limited (continued)

Other information (continued)

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent auditor's report to the members of CNOOC Petroleum Europe Limited (continued)

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that related to the reporting framework (United Kingdom Generally Accepted Accounting Practice and Companies Act, 2006); North Sea Transition Authority; UK's Offshore Petroleum Regulator for Environment and Decommissioning; those laws and regulations relating to relating to operating license, health and safety, employee matters and environmental regulation and the UK tax compliance regulation.

- We understood how CNOOC Petroleum Europe Limited is complying with those frameworks by enquiries of management, internal audit, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of Board minutes, the CNOOC group's code of conduct setting out the key principals and requirements for all staff in relation to compliance with laws and regulation, any relevant correspondence with local tax authorities and regulatory bodies and noted that there was no contradictory evidence.

- We assessed that revenue and management override of control was a judgemental area of the audit which might be more susceptible to fraud. In addressing the risk of fraud through revenue recognition and management override of controls, we tested the appropriateness of journal entries and other adjustments; we gained an understanding of the processes and controls by performing walkthroughs to evaluate the design and implementation of controls; tested revenue account by reviewing invoices and subsequent cash receipts; tested in particulars the existence of the revenue recorded in the financial statements an any manual adjustment to the revenue; assessed whether the judgements made in making accounting estimates are indicative of potential bias; and evaluate the business rationale of any significant transactions that are unusual or outside the normal course of business.

- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by gaining an understanding of the entity level controls and policies that the Company applies being part of the CNOOC group.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved journal entry testing, with a focus on journals meeting our defined risk criteria based on our understanding of business; enquiries of legal counsel, management, internal audit; review of the volume and nature of complaints received by the whistleblowing.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent auditor's report to the members of CNOOC Petroleum Europe Limited (continued)

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:
Ernst & Young LLP
135F99A227E84F7...

Mark Woodward (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
21/06/2023

CNOOC PETROLEUM EUROPE LIMITED

Statement of profit and loss and other comprehensive income for the year ended 31 December 2022

	Notes	2022 US$' Million	2021 US$' Million
Revenues and other income			
Oil and gas sales	4	1,507	1,141
Dividend income	5	8	-
Other income	5	14	-
		1,529	1,141
Expenses			
Operating expenses		142	176
Depreciation, depletion, and amortisation	11,12,13	199	203
Impairment of investments	14	5	(4)
Selling, and administrative expenses	7,8,9	29	28
Exploration expenses	12	89	101
Finance costs	6	35	35
Other expenses		(4)	22
		495	561
Income from operations before provision for income taxes		1,034	580
Charge/(credit) of income taxes			
Current	10	622	247
Deferred	10	138	(29)
		760	218
Total comprehensive income for the year		274	362

Items dealt with in the above Profit and loss and other statement of comprehensive income relate to continuing operations. All gains and losses are recorded in the profit and loss statement. As such, there is no requirement to prepare a separate statement of comprehensive income.

See accompanying notes to the financial statements.

CNOOC PETROLEUM EUROPE LIMITED

Statement of financial position
as at 31 December 2022

	Note	2022	2021
		US$' Million	US$' Million
Assets			
Non-current assets			
Property, plant, and equipment	12	646	901
Intangible assets	11	8	1
Right-of-Use Asset	13	77	35
Investments	14	18	23
Deferred tax asset	10	-	97
Total non-current assets		749	1,057
Current assets			
Inventories	22	42	30
Trade and other receivables	15	186	269
Cash and cash equivalents	16	623	323
Total current assets		851	622
Total assets		1,600	1,679
Equity and liabilities			
Equity			
Issued capital	17	152	152
Retained earnings		74	200
Total equity		226	352
Non-current liabilities			
Decommissioning provision	19	852	874
Deferred tax liabilities	10	49	-
Lease liabilities	21	32	32
Other non-current liabilities		10	12
Total non-current liabilities		943	918
Current liabilities			
Accounts payable, accrued, and other liabilities	20	174	284
Lease liabilities	21	48	15
Income tax payable	10	209	110
Total current liabilities		431	409
Total liabilities		1,374	1,327
Total equity and liabilities		1,600	1,679

See accompanying notes which form an integral part of the financial statements.

The financial statements of CNOOC Petroleum Europe Limited, registration number 01051137, were approved on behalf of the Board of Directors and authorised for issue on 20 June 2023 and were signed dated 21 June 2023 on its behalf by:

Q. Jiang
Director

Q. Ma
Director

CNOOC PETROLEUM EUROPE LIMITED

Statement of changes in equity
for the year ended 31 December 2022

	Note	Issued capital	Retained earnings	Total equity
		US$' Million	US$' Million	US$' Million
At 1 January 2021		152	188	340
Total comprehensive income		-	362	362
Dividend	18	-	(350)	(350)
At 31 December 2021		152	200	352
Total comprehensive income		-	274	274
Dividend	18	-	(400)	(400)
At 31 December 2022		152	74	226

See accompanying notes which form an integral part of the financial statements.

CNOOC PETROLEUM EUROPE LIMITED

Notes to the financial statements for the year ended 31 December 2022

1. CORPORATE INFORMATION

The financial statements of CNOOC Petroleum Europe Limited (the "Company") for the year ended 31 December 2022 were authorised for issue in accordance with a resolution of the Board of Directors on 20 June 2023. The Company is a private company limited by shares incorporated in England and Wales and domiciled in the United Kingdom. The registered office is located at Prospect House, 97 Oxford Road, Uxbridge, UB8 1LU.

The principal activity of the Company is the exploration for and production of crude oil, natural gas, and natural gas liquids on the UK Continental Shelf (UKCS).

2. BASIS OF PREPARATION

The Company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the Financial Reporting Council (FRC). The Company is consolidated in the accounts of CNOOC Limited, whose consolidated financial statements that comply with International Financial Reporting Standards (IFRS) have been produced for public use and may be obtained from www.cnoocltd.com. The financial statements have therefore been prepared in accordance with FRS 101 "Reduced Disclosure Framework".

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to presentation of cash flow statement, standards not yet effective, presentation of comparative information in respect of certain assets, related party transactions, financial instruments, and capital management, where relevant, equivalent disclosures have been given in the group accounts of CNOOC Limited.

These financial statements for the year ended 31 December 2022 have been prepared under the historical cost convention, except as otherwise noted. The financial statements are presented in US dollars, and all values are rounded to the nearest million (US$' Million), except when otherwise indicated.

Going Concern

The Company had cash and cash equivalent deposits of US$ 623 million at 31 December 2022, which had risen to US$661 million at 31 May 2023. Cash and cash equivalents include short term deposit facility with CNOOC UK Limited (parent company). In addition, the Company has a loan facility with its parent company under which it is contractually entitled to draw up to an additional $300 million, as described in note 24.

At 31 December 2022, the Company had current liabilities of US$ 431 million principally due to accruals and other liabilities as described in note 20 and Income tax payable, the Company does not have any material probable contingent liabilities.

As at the date of this report, the Company has performed a review of the Company's cash flow forecast in comparison with committed facilities. Based on these forecasts and considering the level of cash and cash equivalents held and committed loan facilities available to the company, The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period to 30 September 2024. The directors' assessment included forecasting cash flows under a base-case scenario and an extreme-worst case scenario. Under the base case, which assumes commodity prices and operating conditions similar to the current environment through the going concern assessment period, the Company generates sufficient cash flows to cover their operating and capital costs and pay dividends to the Parent. Under an extreme worst-case scenario, the directors assume no revenue is generated. Under this scenario the Company is able to cover its financial obligations through its existing cash balance and parent loan facility which is currently undrawn. The company consider this worst-case scenario to reflect an extreme, hypothetical assumption, given the profitability and cash flow generation of the Company particularly in the current price environment and based on external projections of commodity prices and demand for hydrocarbons.

Accordingly, the Company continues to adopt the going concern basis in preparing the annual report and financial statements. In making their going concern assessment, the Directors have considered the risks and uncertainties described in the Strategic Report on page 2 to 7.

3. ACCOUNTING POLICIES

The accounting policies set out below are used to prepare the financial statements as of 31 December 2022 and have been applied consistently for all periods presented in these financial statements.

(A). CONSOLIDATION

No consolidated financial statements have been prepared in accordance with section 401 of the Companies Act 2006, as the Company is a wholly owned subsidiary of CNOOC Limited, whose consolidated financial statements that comply with IFRS have been produced for public use and may be obtained from www.cnoocltd.com. Accordingly, these financial statements present information about the Company as an individual undertaking.

(B). JOINT ARRANGEMENTS

Certain of the Company's activities are conducted through joint arrangements, which are arrangements where two or more parties have joint control. 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. We have assessed that all our joint arrangements are joint operations as parties to the contract are responsible for the assets and obligations in proportion to their respective interest. Joint operations are accounted for by recording the Company's relevant share of assets, liabilities, revenues, and expenses.

(C). CRITICAL ACCOUNTING JUDGEMENTS

The preparation of financial statements in accordance with FRS 101 requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and judgements are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. The Company assesses critical accounting judgements annually. The following are the critical judgements, apart from those involving estimation uncertainty which are dealt with in policy D, which the Directors have made in the process of applying the Company's accounting policies and which have the most significant effect on the amounts recognised in the financial statements.

Carrying value of exploration and evaluation assets

The process for determining whether there is an indicator for impairment or calculating the impairment requires management judgement. The key areas in which management apply judgement are as follows: the Company's intention to proceed with a future work program for a prospect or license; the likelihood of renewal or extension to license expiry dates, well results and the assessment of whether sufficient data exists to indicate that, although a development in a specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or sale. (Refer to Note 12)

Carrying value of oil and gas assets

The process for determining whether there is an indicator for impairment for the oil and gas assets requires management judgement. The key areas in which management apply judgement are as follows: assessment of whether there are any external indicators (including future oil price) of information that the asset's value has declined such as a long-term downturn in the oil price or regulatory changes; whether there is evidence available from internal sources (including reserve estimates) that the economic performance of the asset has deteriorated, whether there is any evidence of a reversal of a previous impairment of an asset.

Management concluded that there were no indicators of impairment or reversal of previous impairments.

(D). KEY SOURCES OF ESTIMATION UNCERTAINTY

Oil and Gas Reserve Estimate

Reserve estimates are determined using estimates of oil in place, recovery factors and oil prices. Pursuant to the oil and gas reserve estimation requirements under US Securities and Exchange Commission's rules, the Company uses the average, first-day-of-the-month oil price during the 12-month period before the ending date of the period covered by the financial statements to estimate its proved oil and gas reserves. The estimation of oil and gas reserves affects the calculation of depreciation, the recoverable amount of assets for the purpose of impairment testing and the anticipated date of decommissioning. Future changes in reserves estimates will be dealt with prospectively and will not adjust depreciation provided prior to 31 December 2022. The possible impact of future changes in reserves estimates on decommissioning and impairment as of 31 December 2022 are discussed below.

Decommissioning provision

Decommissioning costs will be incurred by the Company at the end of the operating life of certain of the Company's facilities and properties. The ultimate decommissioning costs are uncertain and cost

(D). KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results. See note 19.

The estimated decommissioning costs are reviewed annually by an internal expert and a third-party expert review is undertaken every three years and this occurred during 2022.

On the basis that all other assumptions in the calculation remain the same a 10% increase in the cost estimates used to assess the final decommissioning obligation would result in an increase to the decommissioning provision of approximately US $88 million. This change would principally offset by a change to the value of the associated asset. In the case where a field is in the process of being decommissioned, the change to the asset value would be immediately depreciated. A 1% reduction in the discount rate would result in an increase in decommissioning liability of US $112 million.

Deferred tax asset

The deferred tax asset relating to petroleum revenue tax (PRT) is based on management's estimates of future profits and decommissioning expenditure. If future profits are higher than management estimates the company may not recover historic PRT paid. For futher details on deferred tax asset and liability see note (P). Income tax

(E). CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

(F). INVENTORIES AND SUPPLIES

Inventories are stated at the lower of cost and net realisable value. Material inventory includes items for repairs and maintenance of oil and gas properties, determined on a weighted average basis. Hydrocarbon Inventory includes expenditures and other costs, including depletion and depreciation, directly or indirectly incurred in bringing the inventory to its location and existing condition, determined on a first-in, first-out method.

(G). PROPERTY, PLANT AND EQUIPMENT

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

Oil and gas properties

For oil and gas properties, the successful efforts method of accounting is adopted. The Company 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 proved 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, initial estimate of decommissioning obligations 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 Company 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 Company 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.

Producing oil and gas properties are depreciated on a unit-of-production basis. Drilling related assets are depreciated based over the proved developed reserves. Common facilities that are built specifically to service production directly attributed to designated oil and gas properties are depreciated based over the total proved developed reserves of the respective oil and gas properties on a pro-rata basis. Costs associated with significant development projects are not depreciated until commercial production commences and the

(G). PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

reserves related to those costs are excluded from the calculation of depreciation.

Capitalised acquisition costs of proved properties are depreciated on a unit-of-production method over the total proved reserves of the relevant oil and gas properties.

Pre-license costs

Costs incurred prior to having obtained the legal rights to explore an area are expensed directly to the income statement as they are incurred.

Office equipment and others

Office equipment and others are stated at cost less accumulated depreciation and impairment losses. The straight-line method is adopted to depreciate the cost less any estimated residual value of these assets over their expected useful lives. The useful lives of office equipment and other assets are in line with their beneficial periods. These periods are currently either equivalent to the office lease period, or in terms of the hardware equipment, a useful life of five years is assumed.

Residual values, useful lives and the depreciation method are reviewed and, adjusted if appropriate, at each reporting date.

Any gains and losses on disposals of property, plant, and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) are recognised in profit and loss.

Intangible assets

The intangible assets of the Company comprise software. Intangible assets with finite lives are carried at cost, less accumulated amortisation, and accumulated impairment losses. Intangible assets with finite lives are amortised on the straight-line basis over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. The intangible assets have been amortised on the straight-line basis over their respective useful lives, assumed to be three years.

Major maintenance and repairs

Expenditures on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets and overhaul costs. Where an asset, or part of an asset that was separately depreciated, is replaced and it is probable that future economic benefits associated with the item will flow to the Company, the replacement expenditure is capitalised and the carrying amount of the replaced item is derecognised. Where part of the asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced assets which is immediately written off. All other maintenance costs are expensed as incurred.

Impairment

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated based on the asset's or cash-generating unit's value in use, 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 post-tax cash flows are discounted to their present value using a 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 and 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 and loss in the period in which it arises.

(H). INVESTMENTS

Non-current investments are shown at cost less provision for impairment.

(I). BORROWING COSTS

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs directly relating to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they are incurred.

(J). FINANCIAL INSTRUMENTS

All financial assets and liabilities are recognised on the statement of financial position initially at fair value when we become a party to the contractual provisions of the instrument. Subsequent measurement of the financial instruments is based on their classification. We classify each financial asset into one of the following categories: financial assets at fair value through profit and loss, financial assets at fair value through other comprehensive income or financial assets at amortised cost. The classification is based on the Company's business model for managing the asset and the asset's contractual cash flow characteristics. All financial liabilities are classified at amortised cost. The classification is only changed if the Company changes its business model for managing financial assets.

Financial instruments carried at cost or amortised cost include our trade receivables, accounts payable and accrued liabilities. The transaction costs are included with the initial fair value, and the instruments are carried at amortised cost using the effective interest rate method. Gains and losses on financial assets and liabilities carried at cost or amortised cost are recognised in net income when these assets and liabilities settle.

The Company performs impairment assessment under expected credit loss ("ECL") model on financial assets (including cash and cash equivalents trade receivables, other receivables, and long-term debt), which are subject to impairment under IFRS 9 Financial Instruments. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition. Assessment is done based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions, and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions. The Company always recognises lifetime ECL for trade receivables without significant financing component. For all other instruments, the Company measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Company recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(K). PROVISIONS

General

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event, and it is probable that a future outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the effect of discounting is material, the amount recognised for a provision is the present value at the reporting date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in "finance cost" in profit and loss.

A contingent liability is disclosed when the existence of an obligation will only be confirmed by future events or when the amount of the obligation cannot be measured reliably.

A contingent asset is not recognised in the financial statements but is disclosed when an inflow of economic benefits is probable.

Decommissioning provision

Decommissioning provision is recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that a future outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related property, plant, and equipment, refer to note (G). The amount recognised is the estimated cost of decommissioning, discounted to its present value using a current pre-tax rate that reflects where appropriate, the specific risk to the liability. Changes in the estimated timing of decommissioning or decommissioning costs are accounted for prospectively by recording an adjustment to the provision, and a corresponding adjustment to related property, plant, and equipment. The unwinding of the discount on the decommissioning provision is included as a finance cost.

(L). PENSIONS

The Company operates a defined contribution pension plan. The benefits to employees under the plan are based on plan contributions. Company contributions to the defined contribution plan are expensed as incurred.

(M). REVENUE RECOGNITION

Oil and gas sales

Oil and gas sales represent the value of sales of oil and gas attributable to the interests of the Company, net of other mineral interest owners. Revenue from the sale of oil and gas is measured on the basis of consideration specified in a contract with a customer and is recognized when the performance obligations of the contract are satisfied, which is when control transfers to the customer.

The company principally satisfies its performance obligations at a point in time. Revenue from the production of oil and gas in which the Company has a joint interest with other producers is recognised based on the Company's working interest.

Oil and gas lifted and sold by the Company above or below the Company's participating interest of production results in overlifts and underlifts. We record overlifts as liabilities at cost and underlifts as inventories at the lower of cost or net realisable value (NRV). We settle these over time as liftings are equalized or in cash when production ends.

Dividend income

Dividend income is recognised when the Company's right to receive payment is established.

Interest income

Interest income is recognised as it accrues using the effective interest rate method.

(N). FOREIGN CURRENCY TRANSLATION

The Company's financial statements are presented in US dollars, which is also the Company's functional currency.

Monetary statement of financial position amounts denominated in a currency other than a functional currency are translated into the functional currency using exchange rates at the statement of financial position dates. Gains and losses arising from this translation are included in net income. Non–monetary statement of financial position amounts denominated in a currency other than a functional currency are translated using historical exchange rates at the time of the transaction.

(O). LEASES

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contracts will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Company as a lessee

Allocation of consideration to components of a contract.

For a contract that contains a lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. Non-lease components are separated from lease components on the basis of their relative stand-alone prices.

Short-term leases

The Company applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use assets include the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, any initial direct costs incurred by the Company for restoration obligations. Right-of-use assets typically are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. The Company presents right-of-use assets as a separate line item on the consolidated statement of financial position.

(O). LEASES (CONTINUED)

Lease liabilities
At the commencement date of a lease, the Company recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable.
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date.
- amounts expected to be payable by the Company under residual value guarantees.
- the exercise price of a purchase option if the Company is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Company exercising an option to terminate the lease.

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets and are recognised as expense in the period in which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Company remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review or expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Company presents lease liabilities as a separate line item on the statement of financial position.

Lease modifications
The Company accounts for a lease modification as a separate lease if the modification increases the scope of the lease by adding the right to use one or more underlying assets at an amount commensurate with the stand-alone price for the increase in scope.

For a lease modification that is not accounted for as a separate lease, the Company remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Company accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

(P). INCOME TAXES

Income tax comprises current and deferred tax. Income tax is recognised in the statement of profit and loss and other comprehensive income, either as an expense as it relates to operating activities or as a component of the applicable categories of other comprehensive income or loss.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantially enacted, by the reporting date.

Deferred tax is provided, using the statement of financial position liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

(P). INCOME TAXES (CONTINUED)

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit and loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit and taxable temporary differences will be available against which the deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax assets relating to the deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit and loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable

- profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it is probable that sufficient taxable profit and taxable temporary differences will be available to allow all or part of the deferred tax asset to be utilised.
Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Petroleum revenue taxes

In addition to corporate income tax, the Company's financial statements also include petroleum revenue tax which is recognised for prior tax payments where it is probable, they will be recovered in the future, based on the forecast cashflows.

(K). CHANGES IN ACCOUNTING POLICIES

The company's financial statements are prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework and with the requirements of the Companies Act 2006 applicable to companies reporting under those standards.
The accounting policies adopted are consistent with those of the year ended 2021, except for the first-time adoption of the amendments to standards effective for the Company's financial year beginning on 1 January 2022. The application of the amendments to standards in the current year has had no material impact on the company's financial statements.The company is assessing the impact of 'Interest Rate Benchmark Reform – Phase II' Amendments to IFRS9, IAS39, IFRS7, IFRS4 and IFRS16 on contracts and arrangements for example, group intercompany loans, short term deposit facilities (Note 24), that are linked to interest rate benchmarks such as the London Interbank Offered Rate (LIBOR), with a view to transition them to SONIA or SOFR, as appropriate. The amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change.

The Company will apply this practical expedient upon the modification of these borrowings when the "economically equivalent" criterion is met and expects that no significant modification gain or loss will arise as a result of applying the amendments to these changes.

4. OIL AND GAS SALES

Revenue from contracts with customers comprises sales of hydrocarbons from production in the United Kingdom. The exploration for and production of hydrocarbons is the only class of business.

	2022	2021
	US$' Million	US$' Million
Revenue from sale of – oil	1,447	1,120
– gas	52	19
– others	8	2
	1,507	1,141

5. OTHER INCOME AND DIVIDENDS

	2022	2021
	US$' Million	US$' Million
Interest income from Parent company (note 24)	10	-
Dividend income	8	-
Other income	4	-
	22	-

6. FINANCE COSTS

	2022	2021
	US$' Million	US$' Million
Unwinding of discount related to lease liabilities	1	2
Unwinding of discount related to decommissioning provisions (note 19)	34	33
	35	35

7. STAFF COSTS

	2022	2021
	US$' Million	US$' Million
Staff costs (excluding contractors):		
Wages and salaries	78	83
Social security costs	11	14
Pension costs for Defined Contribution scheme	8	9
Staff costs before time-writing allocations	97	106

Notes to the financial statements (continued)
for the year ended 31 December 2022

7. STAFF COSTS (CONTINUED)

Staff costs represent gross costs before any recharge to joint venture partners and capitalised costs. The average monthly number of staff employed by the Company (excluding contractors) during the year was:

	2022	2021
	No.	No.
Offshore	188	190
Administration	365	381
	553	571

The average monthly number of contractors working for the Company was 166 (2021: 185).

8. DIRECTORS' REMUNERATION AND TRANSACTIONS

	2022	2021
	US$' Million	US$' Million
Aggregate emoluments – short term benefits	0.9	1.1
Amounts receivable under long-term incentive schemes	-	0.4
Compensation for loss of office	-	0.3
	0.9	1.8
Remuneration of the highest paid director:		
Aggregate emoluments	0.4	0.7

Directors who have a contract of service with the Company are regarded as employees. Costs associated with these individuals are recorded as staff costs and included in Directors' emoluments. The number of Directors to whom retirement benefits are accruing in respect of money purchase schemes is 1 at a total value of $23 thousand (2021: 2, $5 thousand). The number of directors receiving long-term incentives is 1 (2021: 1).

One of the five directors of the Company holding office during 2021 and 2022, was also a director of CNOOC International Limited (CIL), intermediate parent company, and was remunerated for their role as a director of CIL. No amounts were paid by the Company to the director and no amounts are recharged from CIL to the Company in this regard. The company does not believe it is practicable to apportion the total remuneration paid by CIL to the director between their services as a director of the Company; their services as a director of CIL and their services for management of the affairs of CIL and fellow subsidiary companies.

9. AUDITOR'S REMUNERATION

	2022	2021
	US$' Million	US$' Million
Fees payable to the Company's auditor and their associates for:		
Audit of Company's annual financial statements	0.3	0.3
Audit of other Group Company's financial statements	0.2	0.2
	0.5	0.5

Fees paid during the year to the Company's auditor for non-audit services was US $0.4 million (2021: $0.5 million).

10. INCOME TAX

(A) CHARGE OF INCOME TAXES

	2022 US$' Million	2021 US$' Million
Current tax		
Charge for the year at 55% (2021: 40%)	622	247
Deferred tax		
Temporary differences in the current year	138	(29)
Total income tax charge recognised in net income	760	218

There was no deferred tax relating to items directly charged or credited within equity.

(B) DEFERRED INCOME TAX

	Statement of profit and loss and other comprehensive income		Statement of financial position	
	2022 US$' Million	2021 US$' Million	2022 US$' Million	2021 US$' Million
Property, plant, and equipment	(71)	(23)	(148)	(77)
Petroleum revenue tax (PRT)	-	(1)	(38)	(46)
Other temporary differences	209	(5)	235	26
Net deferred income tax	138	(29)	49	(97)

	2022 US$' Million	2021 US$' Million
Net deferred income tax (asset)/liability		
Analysis of movements during the year		
Balance at beginning of the year	(97)	(69)
Annual charge to / (recovery) in net income	138	(29)
Foreign exchange movements	8	1
Balance at end of the year	49	(97)

During 2022, the UK government enacted an EPL Energy Profits Levy, to increase the combined 40% income tax rate on North Sea oil and gas activities, by a further 25%, to a combined total rate of 65%, effective 26 May 2022. The Autumn statement on 17th November 2022, applied a further 10% of EPL to be effective 1st January 2023. The tax rate increases gave rise to a one-time deferred tax booking which increased the Company's deferred tax liability in 2022."

10. INCOME TAX (CONTINUED)

(C) RECONCILIATION OF EFFECTIVE TAX RATE TO THE UK CORPORATION TAX RATE

	2022 US$' Million	2021 US$' Million
Income before provision for income taxes	1,034	580
Provision for income taxes computed at the UK Corporation tax rate on North Sea oil & gas activities of 55% (2021: 40%)	569	232
Add / (deduct) the tax effect of:		
Non- recognition of deferred tax on Irish branch losses	1	1
Impairment of investments	2	(2)
Dividends	(3)	-
Field allowances	(6)	(9)
Impact of EPL mid year introduction	8	-
Deferred tax impact of EPL introduction	202	-
Non taxable adjustments	(13)	(4)
	760	218

There are no income tax consequences as a result of the payment of dividends in either 2022 or 2021 by the Company to its shareholder.

11. INTANGIBLE ASSETS

	Other Intangibles US$' Million	Total US$' Million
Cost		
At 1 January 2022	2	2
Additions	8	8
Derecognition	(1)	(1)
At 31 December 2022	9	9
Depletion		
At 1 January 2022	1	1
Charge for the year	1	1
Derecognition	(1)	(1)
At 31 December 2022	1	1
Net book value		
At 31 December 2021	1	1
At 31 December 2022	8	8

Additions mainly related to new software.

12. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Other	Total
	US$' Million	US$' Million	US$' Million
Cost			
At 1 January 2022	5,478	53	5,531
Additions	115	2	117
Exploration expense	(88)	-	(88)
Disposals	(7)	-	(7)
Derecognition	(6)	-	(6)
Exchange differences	(78)	-	(78)
At 31 December 2022	5,414	55	5,469
Depletion and impairment			
At 1 January 2022	4,600	30	4,630
Charge for the year	195	5	200
Disposals	(1)	-	(1)
Derecognition	(6)	-	(6)
At 31 December 2022	4,788	35	4,823
Net book value			
At 31 December 2021	878	23	901
At 31 December 2022	626	20	646

Oil and gas properties

The exploration expense for the year includes initial assessment cost of some unproved properties and costs totalling $78mm, related to two unsuccessful exploration prospects.

There are no development assets under construction ("AUC") at 31 December 2022 (2021: Nil). The net book value at 31 December 2022 is US $36 million (2021: US $80 million) in respect of exploration and evaluation expenditure.

Cumulative borrowing costs capitalised included in the cost of property, plant and equipment amounted to US $212 million (2021: US $212 million). No borrowing cost were capitalised for the year (2021: Nil).

13. RIGHT-OF-USE ASSETS

	Buildings	Equipment	Total
	US$' Million	US$' Million	US$' Million
Cost			
At 1 January 2022	45	15	60
Additions	1	48	49
Revisions	-	1	1
Derecognition	-	(1)	(1)
At 31 December 2022	46	63	109
Depreciation and impairment			
At 1 January 2022	17	8	25
Charge for the year	5	1	6
Capitalised in Property, Plant & Equipment	-	2	2
Derecognitions	-	(1)	(1)
At 31 December 2022	22	10	32
Net book value			
At 31 December 2021	28	7	35
At 31 December 2022	24	53	77

The Company leases offices and equipment for its operations. Lease contracts are entered into for fixed term of 1 to 15 years but may have extension and termination options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Company applies the definition of a contract and determines the period for which the contract is enforceable.

The Company regularly enters short-term leases for vessels, drilling rigs and other operational equipment used for exploration and development drilling. Leases are accounted for in accordance with our policy for oil and gas properties in the exploration and development phase (note G). The total cash outflow for leases was US $10 million (2021: US $41 million).

The Company does not have any leases with variable lease payments.

The Company has extension and/or termination options in 5 (2021: 4) leases for the buildings, vessel, and other equipment leases. These are used to maximise operational flexibility in terms of managing the assets used in the Company's operations. The extension and termination options held are exercisable only by the Company and not by the respective lessors. The Company is reasonably certain as at 31 December 2022 that the extension and termination options will not be exercised.

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Details of the lease maturity analysis of lease liabilities are set out in note 21.

The US $48 million of equipment additions mainly relates to a rig lease which will support the various infill drilling operations for Golden Eagle and Buzzard and the reclamation and abandonment activities relating to Ettrick/Blackbird.

14. INVESTMENTS

	US$' Million
Cost	
At 1 January 2021 / 31 December 2021 / 2022	414
Impairment	
At 1 January 2021	395
Charge for the year	(4)
At 31 December 2021	391
Charge / (Reversal) for the year	5
At 31 December 2022	396
Net book value	
At 1 January 2021	19
At 31 December 2021	23
At 31 December 2022	18

During the year, the Company has received dividends from one of its subsidiaries, CNOOC Ettrick U.K. Limited ("CEUK") of US $8 million (2021: US $nil) but none from CNOOC Petroleum Farragon U.K. Limited ("CPFL") (2021: US $ nil).

The investment in CPFL had its previous impairments reversed by US$ 1.6 million (Impairment reversal in 2021: US $4 million). The 2022 impairment reversal was recorded, due to the value in use of the investment, exceeding its carrying value.

The investment in CEUK was impaired by $6.3 million due to net asset value being lower than carrying value in 2022 (2021: nil).

Details of the investments in subsidiary undertakings at 31 December 2022 were:

Name of Subsidiary	Country of incorporation	Holding type	% Shares held	Nature of business
CNOOC Ettrick U.K. Limited	England and Wales	Ordinary Shares	100%	Exploration and production
CNOOC Petroleum Farragon U.K. Limited	England and Wales	Ordinary Shares	100%	Exploration and production

The registered address of the subsidiaries above is: Prospect House, 97 Oxford Road, Uxbridge, UB8 1LU.

15. TRADE AND OTHER RECEIVABLES

	2022	2021
	US$' Million	US$' Million
Trade receivables	48	114
Joint venture receivables	42	69
Amounts owed by affiliated undertakings	21	16
Other taxes	3	2
Prepayments, accrued income, and others	11	6
Accrued receivables from joint venture partners	61	62
	186	269

At 31 December 2022, there was a US $0.6 million provision required for expected credit loss for Joint Venture and other receivables (2021: US $0.8 million), and substantially all receivables were aged within 40 days. The carrying value of trade and other receivables approximates their fair value.

16. CASH AND CASH EQUIVALENTS

	2022	2021
	US$' Million	US$' Million
Short-term deposit (Note 23)	623	323
	623	323

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates.

17. ISSUED CAPITAL

Ordinary shares of £1 each, issued and fully paid	Shares	US$' Million
At 31 December 2022 and 2021	98,009,131	152

18. DIVIDENDS

	2022	2021
	US$' Million	US$' Million
Dividends on ordinary share		
Declared and settled during the year		
Interim dividend [1]	400	350
	US$	US$
Dividend per ordinary share	4.0813	3.5711

[1] Dividends paid in the year totalling US $400 million (2021: US $350 million) were settled against the short-term deposit with the immediate parent company.

19. DECOMMISSIONING PROVISION

	2022	2021
	US$' Million	US$' Million
At 1 January	933	993
Change in estimates [1]	19	(83)
Utilised	(24)	(2)
Unwinding of discount [2] (note 6)	34	33
Exchange differences	(78)	(8)
At 31 December [3]	884	933
Current portion of decommissioning provision included in accounts payable, accrued, and other liabilities (note 20 and 26)	(32)	(59)
At 31 December	852	874

[1] The amount is included in the additions of oil and gas properties (note 12). The discount rate used for calculating the amount of Decommissioning Provision at year ended 31 December 2022 is a credit-adjusted weighted-average rate of 4% applied to the long term liabilities over 10 years, and 3% for short term liabilities, those under 10 years (2021: 3.75% was applied across all liabilities). The impact was a net increase of US $(19) million.

[2] The discount rate used for calculating the amount of unwinding of discount is a credit-adjusted weighted-average rate of 3.75% (2021: 3.25%).

[3] We expect approximately US$ 81 million (2021: US$187 million) included in our decommissioning provision will be settled over the next five years with the balance sitting beyond that.

20. ACCOUNTS PAYABLE, ACCRUED AND OTHER LIABILITIES

	2022 US$' Million	2021 US$' Million
Trade payables	21	17
Amounts due to affiliated undertakings	7	57
Amounts due to subsidiary undertakings	-	2
Amounts due to parent company	-	1
Accruals and other liabilities	114	148
Decommissioning provision (note 19)	32	59
	174	284

The carrying value of trade and other payables approximates their fair value. There are no amounts falling due after more than five years.

21. LEASE LIABILITIES

	2022 US$' Million	2021 US$' Million
Amounts due for settlement:		
Within one year	48	15
Within a period of more than one year but not more than two years	17	10
Within a period of more than two years but not more than five years	14	18
Within a period of more than five years	1	4
	80	47
Less: Amount due for settlement with 12 months shown under current liabilities	48	15
Amount due for settlement after 12 months shown under non-current liabilities	32	32

22. INVENTORIES

	2022 US$' Million	2021 US$' Million
Materials	35	32
Less: Provision for obsolescence	(13)	(12)
Hydrocarbons	20	12
Less: Provision for obsolescence	-	(2)
	42	30

Obsolescence provisions applied at the lower of cost and net realisable value. The amount of expensed material inventory during the year US$ 0.7 million (2021: US $1.7 million). The net amount of material inventory written off during the year was US $0.8 million (2021: US $1.4 million), mainly due to disposal transactions recorded within selling, and administration expenses.

23. CAPITAL COMMITMENTS AND OTHER CONTINGENCIES

As at 31 December 2022, the Company had the following capital commitments, principally for the construction of property, plant, and equipment.

	2022 US$' Million	2021 US$' Million
Contracted, but not provided for	40	24

24. RELATED PARTY TRANSACTIONS

Ultimate and immediate parent company

At 31 December 2022, the ultimate controlling party, and the largest group of undertakings for which group financial statements are drawn up, and of which the Company is a member was China National Offshore Oil Corporation (CNOOC), a company established in the People's Republic of China (PRC).

The smallest group of undertakings for which group financial statements are drawn up, and of which the Company is a member is CNOOC Limited (the "Group"), 65/F, Bank of China Tower, 1 Garden Road, Hong Kong. The consolidated financial statements of CNOOC Limited are available to the public and may be obtained from www.cnoocltd.com.

The immediate parent company for the Company is CNOOC UK Limited ("CNUK"), Prospect House, 97 Oxford Road, Uxbridge, UB8 1LU.

Year end balances with related parties

Amounts owed by and amounts due to affiliated undertakings are disclosed in notes 15 and 20 respectively.

Facilities with the Parent Company

The Company has a short-term deposit facility with CNUK, into which the Company can deposit surplus funds up to a limit of US $1,500 million (2021: US $1,500 million). The balance held by CNUK at 31 December 2022 was US $623 million (2021: US $323 million). This balance is repayable on demand and is considered a cash equivalent. The short-term deposit is interest bearing at 1-month deposit rate. 1-month deposit rate is a mutually agreed interest rate on the date of deposit, which is based on short-term LIBOR rates and short-term deposit rates offered by banks.

The Company also has a loan facility of US $300 million (2021: US $300 million) with an interest rate of 6-month US$ LIBOR plus 3.65% (2021: 6-month US$ LIBOR plus 3.65%) with CNUK. The balance drawn at 31 December 2022 and 2021 was Nil.

Compensation of key management personnel

The remuneration of Directors, who are the key management personnel of the Company, is set out in note 8.

Terms and conditions of transactions with related parties

Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2022, the Company has not recorded any impairment of receivables relating to amounts owed by related parties (2021: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

25. FINANCIAL INSTRUMENTS

Fair value of financial instruments

The carrying values of the Company's cash and cash equivalents, short-term deposits, trade receivables, other current assets, trade and accrued payables, other payables and accrued liabilities approximated to their fair values at the reporting date due to the short maturity of these instruments.

26. POST BALANCE SHEET EVENTS

Subsequent to 31 December 2022 the decommissioning work for Ettrick-Blackbird, has been delayed and recommencement will be rescheduled from Q3 2023 to Q1 2024, continuing until Q4 2024, as approved by the UK's Offshore Petroleum Regulator for Environment and Decommissioning (OPRED). As a result, the total decommissioning amount expected to be incurred in the 12 months from 31 December 2022 is expected to be US $16 million, compared to the current liability of US $32 million recorded at 31 December 2022.