



Unlocking Value in Procurement

June 2017



A New Energy

FORWARD-LOOKING STATEMENT



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These statements are based on assumptions and analyses made by Nexen Energy ULC (Nexen), a wholly owned subsidiary of CNOOC Limited (the “Company”, NYSE: CEO, SEHK: 00883, TSX: CNU) in light of its or their experience and perception of historical trends, current conditions and expected future developments, as well as other factors that Nexen or the Company believes reasonable under the circumstances. However, whether actual results and developments will meet Nexen’s or the Company’s expectations and predictions depends on a number of risks and uncertainties which could cause the actual results, performance and financial conditions to differ materially from the Company’s expectations, including those associated with fluctuations in crude oil and natural gas prices, the exploration or development activities, the capital expenditure requirements, the business strategy, whether the transactions entered into by Nexen or the Company can be completed on schedule pursuant to its timetable or at all, the highly competitive nature of the oil and natural gas industries, the foreign operations, environmental liabilities and compliance requirements, and economic and political conditions in the People’s Republic of China.

For a description of these and other risks and uncertainties, please see the documents the Company has filed from time to time with the United States Securities and Exchange Commission, including the 2015 Annual Report on Form 20-F filed on 21 April 2016.

Is procurement strategic?



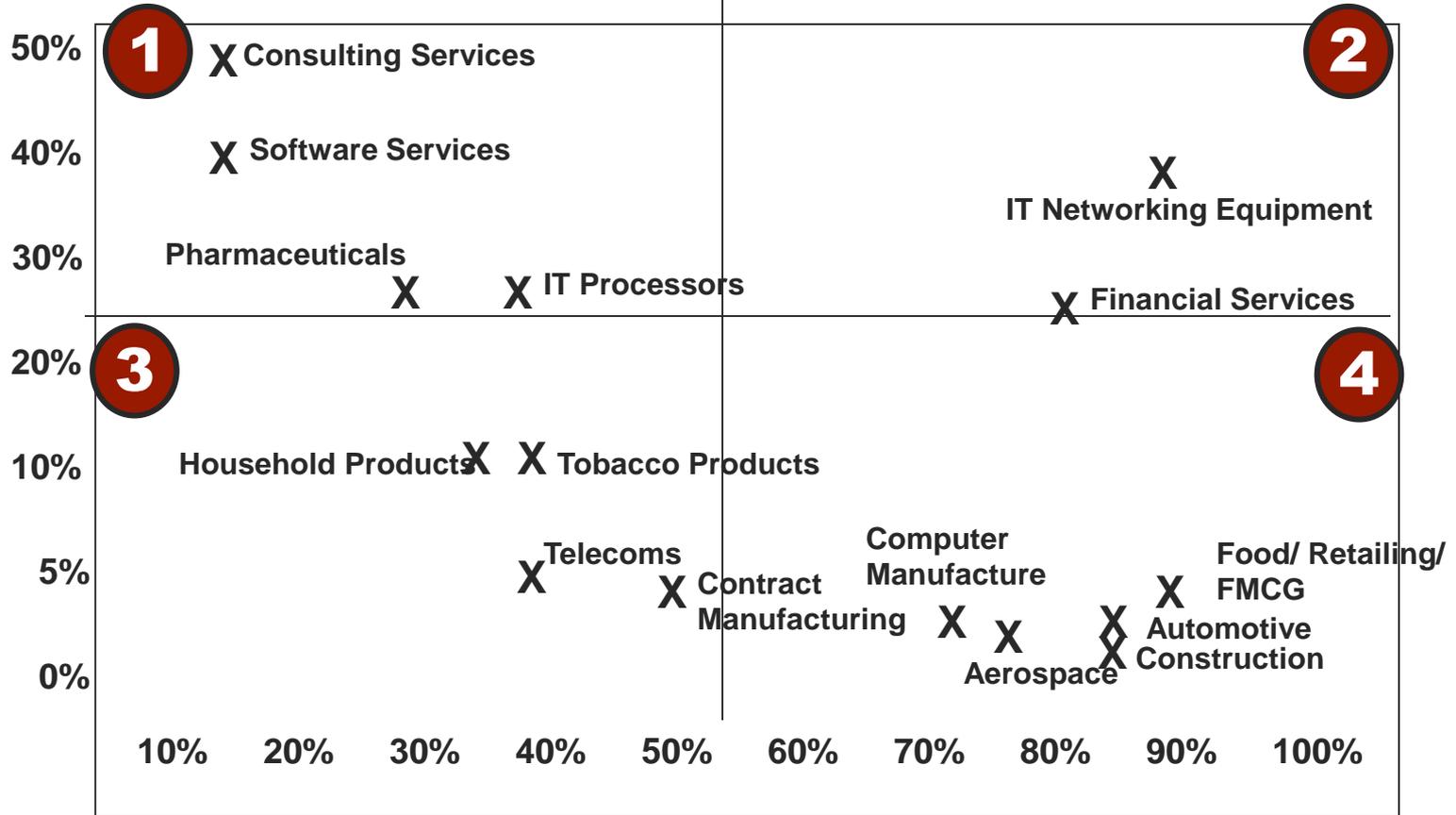
- Procurement = Contracting and Purchasing
- O&G Procurement is not uniformly regarded as strategic as in other industry sectors
- In Nexen, this is regarded as a strategic activity and has a seat at management table – 70/80/90 rule

Why are some industries world-class in terms of procurement?

The Newpoint View



PROFIT MARGINS



% OF OUTSOURCED 3RD PARTY SPEND

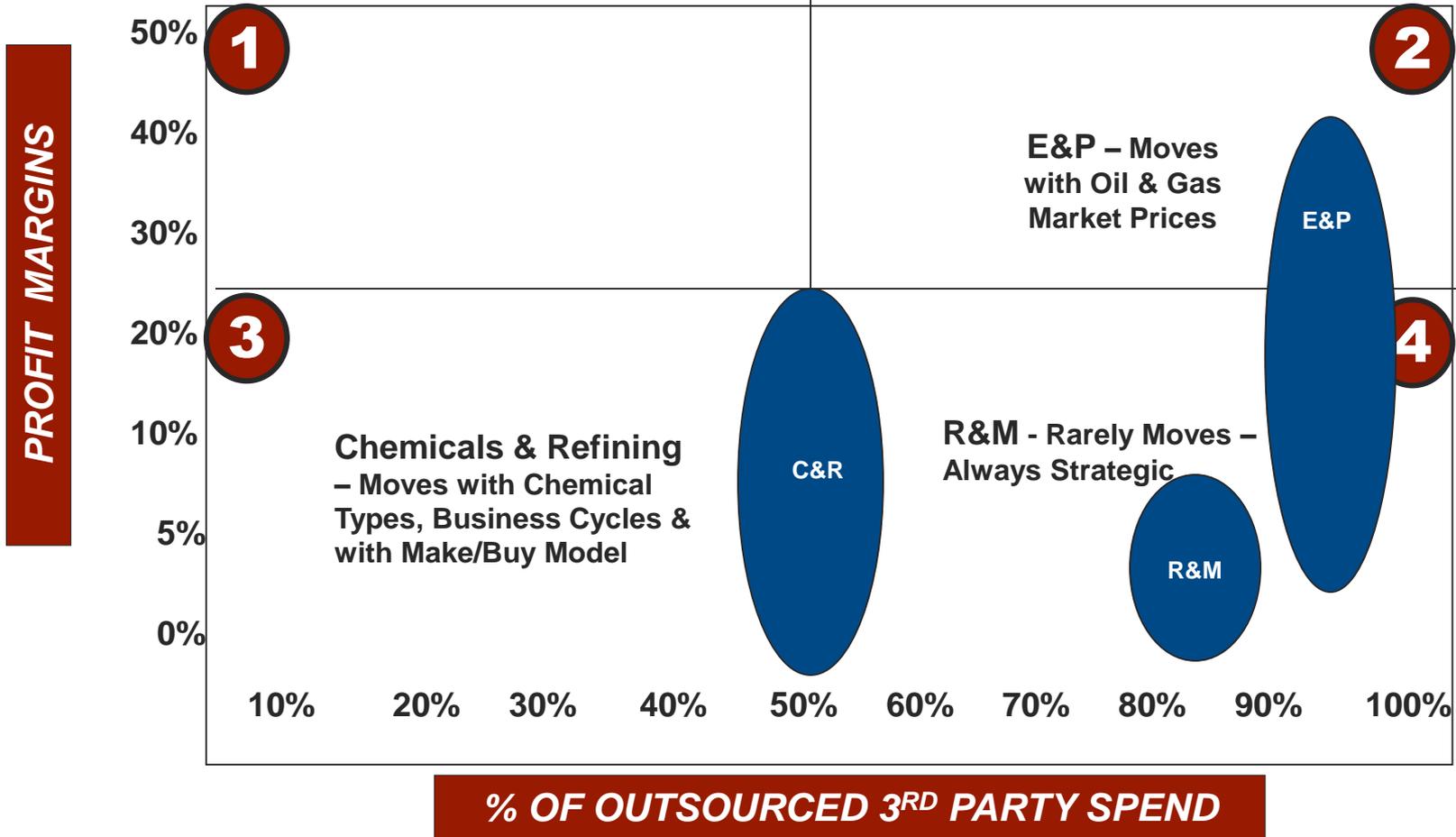
1 = Very low strategic significance

3 = Medium/High strategic significance

2 = Low/Medium strategic significance

4 = Very High strategic significance

Where does oil & gas sit? The Newpoint View



1 = Very low strategic significance

3 = Medium/High strategic significance

2 = Low/Medium strategic significance

4 = Very High strategic significance

Personnel
working on
behalf of
Nexen

Internal
30 %

**External
70%**

Breakdown
of Annual
Spend

Internal
20 %

**External
80%**

Breakdown
of HSSE
Incidents

Internal
10 %

**External
90%**

Are we clear on what value is?



- Value = Utility and Performance / Price
- Can address numerator or denominator or both
- Given all the efforts undertaken recently to address price - it's unlikely there is much more to do. New focus on Utility and Performance.
- The implications of poor performance in O&G operations is often profound so performance is most likely to trump price unless we are talking about pure commodities - not always the same in other industries
- Important for operators to recognise they don't have all the answers in terms of Utility and Performance particularly in terms of technology and innovation

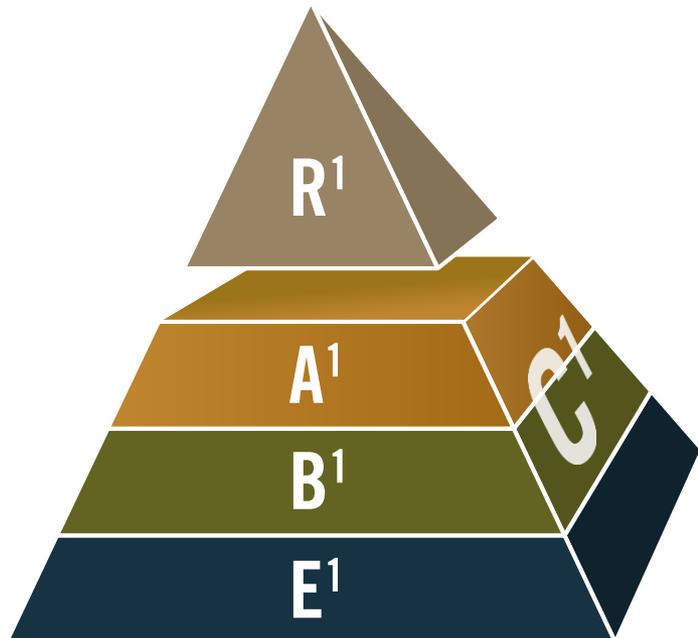
How can we improve utility and performance?



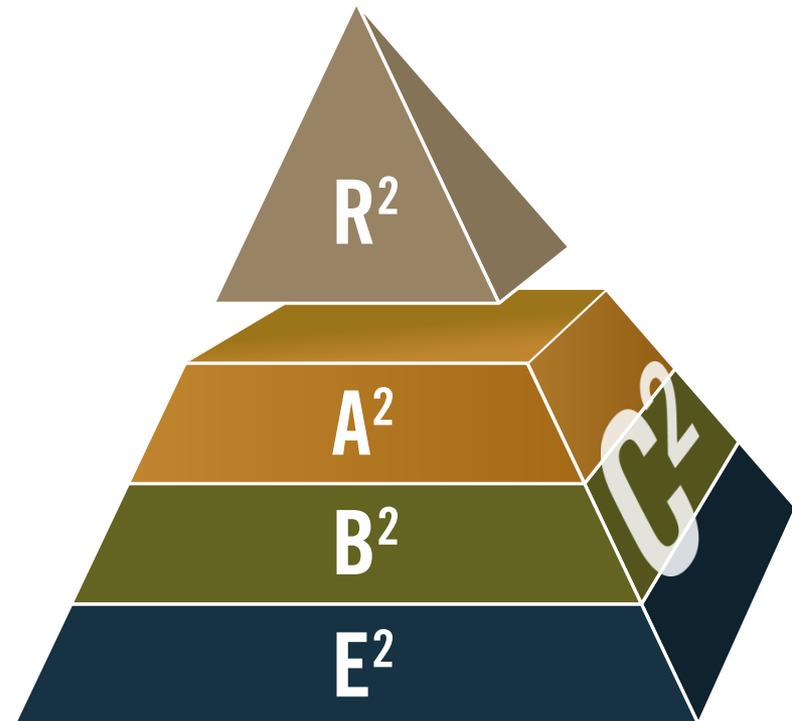
- Transparency – both in terms of performance and cost structures must move beyond information asymmetry
- Need for robust contract performance management processes to demonstrate transparency of performance through mutually agreed KPI's. Nexen is focussing heavily on this with contract owners' performance formally assessed
- Need for cost transparency to ensure performance excellence is appropriately rewarded. Suppliers and operators required to demonstrate appropriate behaviours to achieve this.

- O&G industry has not traditionally adopted the principle of standardisation in the same way as some other industries
- Some of this is appropriate but much is not
- The industry is working to address this in the current downturn but progress is slow and mixed
- OGUK Efficiency Task Force is aiming to address this through promoting initiatives as the Tender Efficiency Task Force, adoption of the Supply Chain Code of Practice, logistics efficiency, use of Logic contract standards, improved inventory utilisation.
- Nexen very much supports industry standardisation efforts

A Shift in Desired Results Drives the Need for a Shift in Culture



Current Culture



Desired/Needed Culture

- MD's Day initiative – three events, work groups formed and implementing new ideas - progressing slowly
- Alternative contracting strategies initiative – engaging with the Supply Chain differently to unlock greater value for some of our potential future projects. Prepared to consider different contracting models requiring heightened levels of collaboration
- 'Cherish The Margin' – building on learning from other industries who adopt this mentality 'day in, day out'

Organizational competencies required to unlock the value in procurement



- Ability to recognise the critical elements/resources in our Supply Chains and protect them *ie* do not outsource otherwise these become vulnerable to the marketplace
- Ability to understand the balance of power between buyers and sellers
- Having mechanisms in place to recognise changes in the balance of power between buyers and suppliers and thereafter to develop new marketplace tactics
- Aggregating demand to the highest appropriate level
- Ensuring sufficient transparency in terms of cost structures and performance
- Ensuring appropriate structural dependency between ourselves and our suppliers