

2008

CPC

Corporation, Taiwan

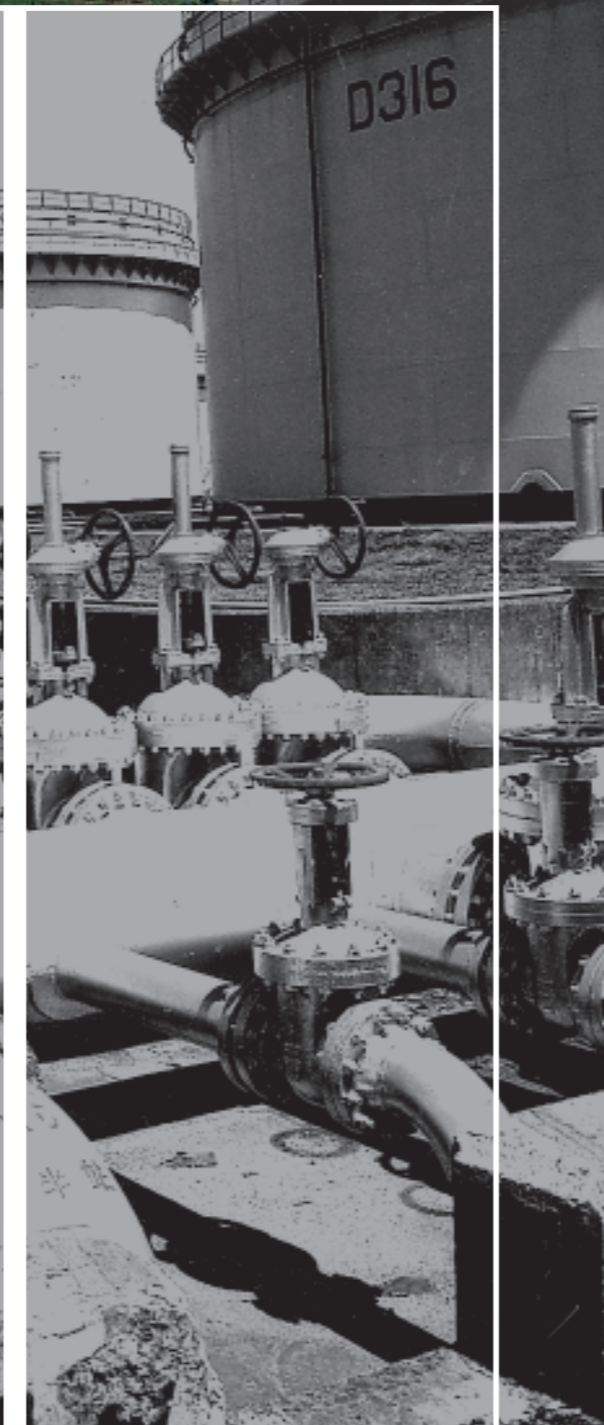




2008

ANNUAL REPORT

CPC
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Message from the Chairperson and President

In 2007 the international price of crude oil climbed to a record high of almost US\$100 per barrel, causing the CPC's oil-procurement costs to exceed expectations by a large margin. Fortunately, the government supported the CPC's partial reflection of the rising cost of crude oil by implementing a floating-price mechanism for petroleum products in January 2007 under the "user pays" principle of fairness, and promoted the concept of energy conservation among the public. However, under the need to maintain the low gasoline, diesel, and fuel oil prices of neighboring Asian countries and the government's policy of stabilizing commodity prices and taking care of the public, domestic oil prices were frozen in December 2007 and the CPC lost NT\$6.1 billion in that month alone. With the strenuous efforts of the company's entire staff to open up new sources of revenue and conserve costs, the company was nevertheless able to earn a before-tax profit of NT\$15.4 billion on operating revenues of NT\$882.1 billion in 2007—the highest record since its establishment.

The CPC implemented the renovation of the third naphtha cracker plant in order to help the company's downstream petrochemical firms continue operating. In the face of opposition from Linyuan Township residents and environmental groups, the CPC carried out active communication and publicity work, altered the scale of land needed for plant use, and reduced the plant's design capacity; the project made major progress in 2007 as a result, and was approved by the authorities. In the future, the CPC will continue strengthening communication with the public and implementing measures to pay back to local areas with the aim of obtaining a friendly response from the local people and completing this major project at an early date. The CPC has also engaged in ongoing communication with local residents with the aim of carrying out on-site renewal of the Kaohsiung plant. In addition to acquiring land for a new plant in another area and pursuing the continued operation of the existing Kaohsiung plant facilities until the end of their life span, the company will also look for a suitable site for the construction of a new plant to replace the existing one so as to assure the achievement of future operating targets, and will exert maximum efforts toward the sustained operation of the domestic petrochemical industry.

In this age of high-priced oil, in view of Taiwan's almost complete dependence on imported energy the CPC will strive to assure its own petroleum sources by increasing its annual exploration budget year

by year until it reaches NT\$10 billion and will vigorously cultivate exploration, legal, and negotiating personnel and by strengthening its procurement of overseas oil fields so as to increase its natural gas reserves. In addition to a steady supply from cooperative Ecuadorian oil fields in 2007, in April the CPC signed a contract with Libya for production and distribution in the Murzuq162 field, thereby establishing a bridgehead for cooperative exploration in North Africa. As the sole supplier of natural gas to Taiwan's domestic market, the CPC also moved to stabilize gas supplies by signing a liquefied natural gas (LNG) procurement contract with RasGas II of Qatar. Later on, in November, the CPC reached agreement with Australia on major conditions for the long-term supply of LNG under which Australia's Woodside company will supply two to three million tons of LNG annually for 15-20 years beginning in 2015 at the latest. This will greatly enhance the CPC's capacity to provide a stable supply of LNG.


In years to come, the CPC will develop its core businesses and expand its operating scale by securing stable sources of energy and providing users with convenience of supply. The company will continuously strengthen cooperation in international gas exploration so as to secure overseas gas resources; reduce unplanned stoppages and lower refining costs; reinforce the operational safety of the Taichung Harbor LNG Receiving Terminal; vigorously implement refining structural improvement, renewal of the Third Naphtha Cracking Plant, the Kuokuang Petrochemical Technology Co., and other major investment projects; and reinforce market information and customer service management systems, maintain the floating oil price mechanism, promote high-quality



Wenent P. Pan
Chairperson

S. H. Chu
President





services, and strengthen control over oil products at franchise filling stations. At the same time, the company will continuously engage in R&D and innovation, provide high-quality products, and carry through with energy conservation measures so as to enhance its competitiveness and consolidate its position of leadership in the energy market.

In response to changes in market competition and the operating environment, in February 2007 the CPC set up an Organizational Renewal Committee to carry out organizational re-engineering under the principles of sharable organization and organizational rationalization. For the future development of a forward-looking company, the CPC recruited 748 outstanding new personnel in 2007, trained professionals and technical personnel in various fields, and encouraged executives at all levels to take EMBA and related professional courses. The CPC also promoted the principle of accountability beginning in March 2007 with the aim of instilling the working attitude of accountability in the company's employees so that they will take responsibility on their shoulders and build up a corporate organization with the ability to get things done.

In line with the government's policy of reinforcing corporate governance, the CPC observes the relevant laws and regulations and vigorously implements a corporate governance system. At the same time, it makes use of the expertise of its directors and supervisors to carry out the major principles of corporate governance--reinforcement of the functions of the board of directors, realization of the functions of supervisors, strengthening of internal auditing, and disclosure

of important information, among other things—with the aim of enhancing the company's competitiveness and risk control capabilities and reinforcing its operations.

For a corporation, the cornerstones of sustainable development are occupational safety, environmental protection, and corporate social responsibility. The CPC has pursued sustainable development in recent years by striving to establish a culture of occupational safety and realize "100% worker safety" and "zero occupational hazards," and in 2007 the company's frequency-severity indicator (FSI) dropped to an all-time low of 0.77. The company works to meet the growing demand for clean energy by expanding import sources for natural gas while speeding up the promotion of greenhouse-gas reduction. Throughout the company, 28 carbon-dioxide reduction projects were carried out in 2007 with the results of cutting carbon dioxide by 259,000 tons. In line with the government's policy of expanding renewable energy, the CPC introduced bio-diesel on July 27 and gasohol on September 29, 2007, and engaged vigorously in research on substitute energies such as solar energy, ethanol, and hydrogen power. To fulfill its corporate social responsibility the company constantly shows care for local development and works to protect the ecology and the environment and adopts parks, mangrove forests, rivers and streams, and reforestation projects. It assists in such practical activities as environmental and garbage clean-ups, and the rectification of ocean pollution. It donates second-hand computers to schools and township offices in remote areas, helping to shorten the urban-rural digital divide. In addition, the CPC sponsors performances and other cultural activities on an irregular basis in order to contribute to the creation of a cultural environment that emphasizes the arts.

The CPC's growth and continuous development over the past 60 years has depended upon the assistance and support of its customers and cooperating companies, both at home and abroad. We hope that on our progress toward the vision of becoming an international energy group that encompasses petroleum products, petrochemicals, and high technology, we will continue to enjoy the utmost of this support; and, for this, we extend our most heartfelt respects and appreciation.



Sustainable Development

Established in Shanghai on June 1st, 1946, the Chinese Petroleum Corp. (CPC) was funded and operated by the government under the direction of the Resources Committee (the forerunner of the State-Owned Enterprise Commission, Ministry of Economic Affairs). In 1949, the CPC followed the government in relocating to Taiwan, setting up headquarters in Taipei under the direction of the Ministry of Economic Affairs. With service facilities all over the island, its operations include the active exploration, development, refining, transportation, marketing and sale of petroleum and natural gas, as well as the production and supply of petrochemicals.

The CPC's total capital stands at NT\$130.1 billion, and its total revenues reached NT\$882.1 billion in 2007. At its 550th meeting in February 2007 the Board of Directors approved a change in the name of the company from the Chinese Petroleum Corporation to CPC Corporation, Taiwan, retaining its "Chinese Petroleum" name in Chinese, its logo, and its "CPC" name in English. The objective of this change is to expand the firm's International business, reinforce the principle of keeping roots in Taiwan, and extending the precious reputation that the company has built up over the decades.

During the more than 60 years since its establishment, the CPC has been fully able to fulfill its mission of providing a stable supply of oil products and stimulating the development of petrochemical industries, enabling Taiwan's economy to achieve soaring growth and the island's people to enjoy prosperity, and for this accomplishment the company has won the approbation of all sectors of society. Faced with the impact of the general opening of Taiwan's market for petroleum products in recent years, the CPC has moved to consolidate its operating advantages and deeply implant its competitive capabilities not only by engaging in organizational re-engineering and personnel downsizing but also by carrying out production-cost reductions in its advancement toward corporatized operations. At the same time it has vigorously sought out strategic investors to serve as cooperative partners in the hope of incorporating the advantages of large international oil companies for the development of upstream exploration, petrochemical development, and marketing channels. The CPC hopes, in this way, to transform itself smoothly into a private corporation and become a safe, clean, and competitive international energy company that advances toward sustainable operation and continues to provide the people of Taiwan with high-efficiency, high-quality energy products.

As a government company, even as it pursues profit the CPC does not forget to fulfill its corporate social responsibility. In addition to continuously enhancing the quality of petroleum products, bringing in and promoting the use of liquefied natural gas (LNG) as a source of clean energy, striving for environmental protection, and carrying out responsible care by the petrochemical industry over the years, the company has, without regard to cost, also provided the oil needed by the military and the people of remote areas and offshore islands. At the same time it has continuously carried out social-care activities, promoting understanding of the petrochemical industry among the public, educating the people in the safe use of oil and gas, holding safety and health seminars, and guiding enterprises in strengthening the culture of safety. The company also supports disadvantaged groups, participates in social-benefit activities, sponsors cultural activities, and provides incentives for elite persons; in addition, it assists with construction around plants and oil exploration areas, works for ecological conservation, practices care for local cultures, promotes environmental education, and stimulates local advancement. These activities conform to the general 21st-century trend toward sustainable operation and the movement of corporate operations toward an emphasis on economic

Sustainable Development



growth, environmental protection, and social benefit as well. Even as the company pursues commercial benefit, it also strives for social justice, human rights, safety and health, community development, and environmental protection.

To flow with global tides and follow the international trend toward environmental protection, the CPC initiated sustainable development policies at the end of 2003 to promote the spirit of sustainable development in its energy industry operations:

- Following government regulations and complying with international agreements
- Full-scale clean production and environmental protection
- The efficient usage of resources and consistent water and energy conservation
- Emphasizing social responsibility and expanding the scope of services
- Creating environmental policies and making information transparent
- An active commitment to research and development for the creation of new realms of operation

The CPC has set up a Committee for the Promotion of Sustainable Development and formulated a sustainable operation action plan designed to bring the ideal of sustainable corporate operations and international trends together in the setting of operating directions. Plans that are currently being implemented include the establishment of an environmental accounting system, a plan for the measurement and reduction of greenhouse gases, and analysis of product life-cycles. The company also completed a "Sustainable Development Report" in 2007 to fulfill its corporate social responsibility to disclose information.



Board & Corporate Officers



From left
 VP Maw-Wen Lin
 VP C. S. Lin
 President S. H. Chu
 Chairperson Wenent P. Pan
 VP Arthur H. Kung
 VP M. Tsao
 VP J. S. Yang

Board of Directors

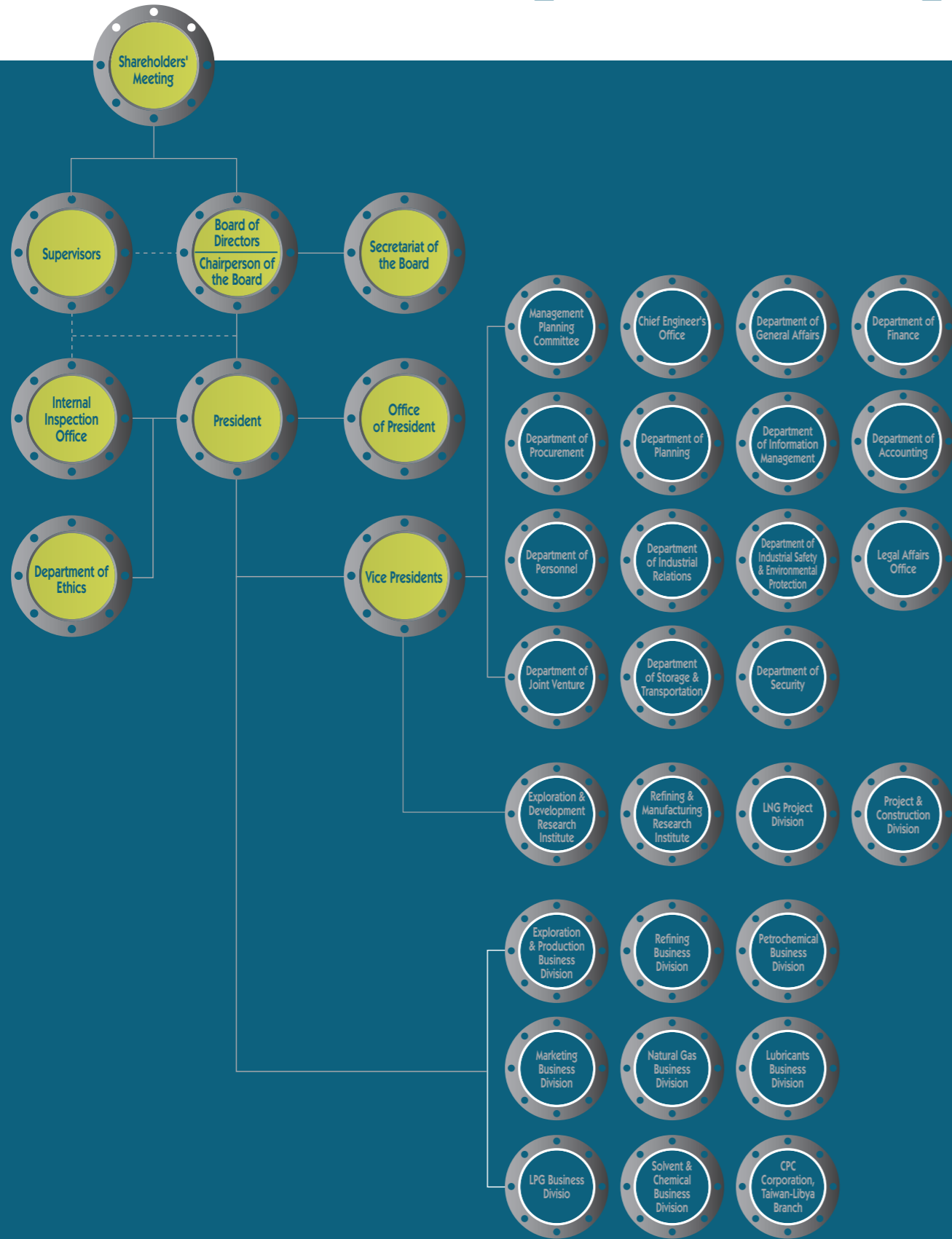
Chairperson of the Board	Wenent P. Pan
Standing Directors	Huei-Chu Liao Hua-Hsun Ho
Directors	Chia-Shen Chen Ssu-Li Chang Cheng-Liang Chen S. H. Chu Neng-Chuan Chou A. H. Cheng J. W. Sun D. C. Tsao
Supervisors	Guor-Teng Deng Chiun-Lin Hwang

Corporate Officers

President	S. H. Chu
Vice Presidents	Arthur H. Kung C. S. Lin M. Tsao Maw-Wen Lin J. S. Yang
CEO, Exploration & Production Business Division CEO, Refining Business Division CEO, Petrochemical Business Division CEO, Marketing Business Division CEO, Natural Gas Business Division CEO, Lubricants Business Division CEO, LPG Business Division CEO, Solvent & Chemical Business Division Director, Refining & Manufacturing Research Institute Director, Exploration & Development Research Institute Director, LNG Project Division Director, Project & Construction Division	Ming-Tar Lu W. T. Wu Deng-Hsiang Hwang Chung-Chen Chiang C. S. Lin (concurrently VP) C. Yen J. Y. Chen Bor-Sung Hsu H. C. Shen K. A. Lin S. T. Ho Hsu-Ching Wu



Organization Chart



With our commitments

*to Supreme Quality,
Superb Service &
Selfless Contribution*



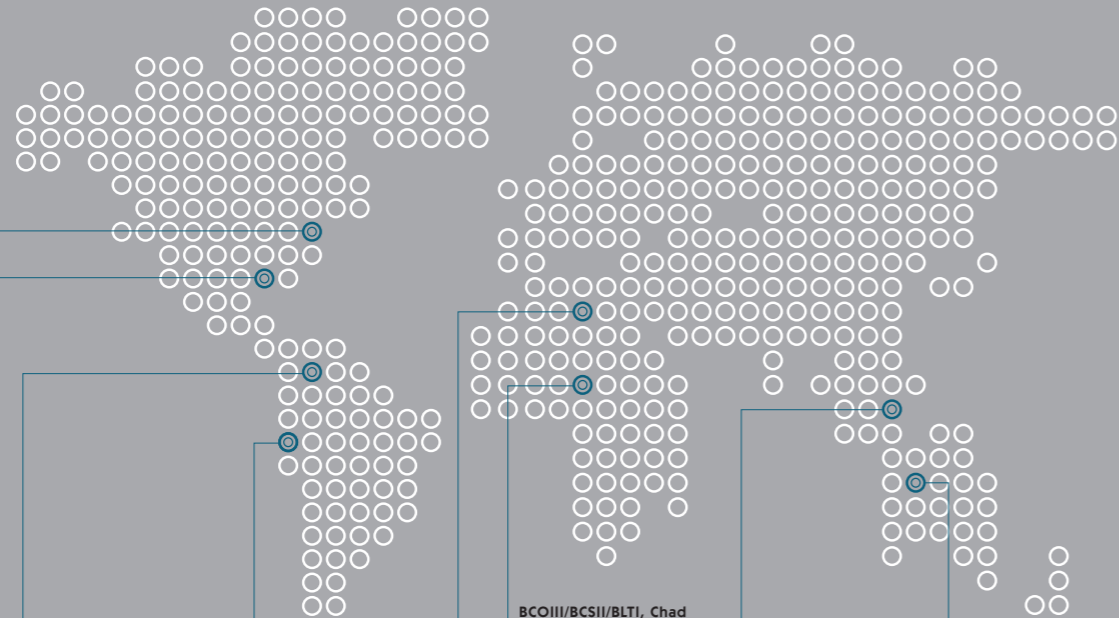
Upstream Operations

Exploration and Production

For many years the CPC has engaged in cooperative exploration with governments, government-owned petroleum companies, and large international oil companies under the name of the Overseas Petroleum and Investment Corp. (OPIC), spreading its operations throughout the Americas, the Asia-Pacific region, and Africa. With the rising trend in international oil prices in recent years, the CPC has exerted strenuous efforts in the development of upstream exploration in order to secure its own oil sources and enhance its overall performance; and, in line with the government's policy of "deepening the energy supply safety mechanism and promoting international energy cooperation," has constantly engaged in international cooperation in exploration and development in the hope of discovering new reserves of natural gas. In 2007 the CPC engaged in cooperative exploration in 12 fields in seven countries together with international oil companies, including Block 16 and 17, Ecuador; Sanga Sanga, Indonesia; Gulf of Paria East and Gulf of Paria West, Venezuela; Block AC/P21, Australia; the Jaguar, Caviar, Channelview, and West Avondale Blocks, the United States; the Murzuq 162 Block, Libya; and the BCO III/BCS 11/BLT I Blocks, Chad.

Operations in 2007 included 166 producing wells and 134 drilled, workover, completed, and recompleted wells in Block 16 and 10 producing wells and four drilled wells in Block 17 in Ecuador, and 450 producing wells and 38 development and workover wells in Indonesia's Sanga Sanga field; together, these Ecuadorian and Indonesian wells produced 6.76 million barrels of crude oil and 515.7 million cubic meters of natural gas. Faced with the nationalization of oil by the oil producers, such as Ecuador's revision of its oil law to increase its excessive profits tax and Venezuela's promulgation of a law allowing the government to take back oil fields, the CPC is negotiating actively with those governments to maintain its rights in cooperative fields there. The CPC also drilled an exploratory well in Australia's AC/P21 Block and undertook exploratory-period work in the U.S. Jaguar, Caviar, Channelview, and West Avondale fields in 2007, discovering 6.8 BCF of gas reserves. First exploration-period work was also undertaken in Chad and Libya.

CPC's Overseas Cooperative Exploration Fields



Jaguar, United States
OPIC Interest: 25%
Operator: IPR

Caviar, United States
OPIC Interest: 15%
Operator: YUMA

Channelview, United States
OPIC Interest: 30%
Operator: Geopetra

West Avondale, United States
OPIC Interest: 15%
Operator: NRI

Gulf of Paria West, Venezuela
OPIC Interest: 10%
Operator: ConocoPhillips

Gulf of Paria East, Venezuela
OPIC Interest: 7.5%
Operator: ConocoPhillips

Block 16, Ecuador
OPIC Interest: 31%
Operator: Repsol-YPF

Block 16, Ecuador
OPIC Interest: 30%
Operator: PetroOriental

BCOIII/BCSII/BLTI, Chad
OPIC Interest: 70%
Operator: OPIC

Murzuq162, Libya
OPIC Interest: 100%
Operator: OPIC

Sanga Sanga, Indonesia
OPIC Interest: 16.67%
Operator: Virginia INDO

AC/P21, Australia
OPIC Interest: 30%
Operator: Eni



Upstream



On land in Taiwan, in 2007 the CPC completed 152 kilometers of seismic testing and 60 square kilometers of geological surveys, drilled two wells, and completed production recovery at two more. There are currently 44 natural gas wells in the Tiejhanshan, Cingcaohu, Jinshuei, Chukuangkeng, and Sinying fields, producing a total of 417 million cubic meters of natural gas and 17,800 kiloliters of condensate. In offshore operations, an application was submitted to the Executive Yuan to delay the natural gas well development project in the F Structure off Kaohsiung for one year because of the huge increase in investment cost resulting from the soaring international price of crude oil and the continuous increase in the price of offshore development equipment.

In the future, in its strategic deployment the CPC will seek to create a more promising situation in overseas exploration and production by heightening the asset value of its existing overseas oil and gas fields and establishing core areas with high rates of growth, participating actively in bidding for open blocks and seeking opportunities to take over fields from large oil companies, and finding opportunities for M&As in new oil and gas fields so as to add more to the company's reserves.



Downstream Operations

Importation and Refining

As domestic production of crude oil is insufficient, almost all of the crude that is refined by the CPC has to be imported. To assure the stability of crude oil supplies, the company purchases oil through long-term contracts and also works vigorously to diversify its sources. Imports of crude oil in 2007 totaled 184.63 million barrels; 69% of the total came from the Middle East and the rest from Southeast Asia, Africa, Australia, and Central Asia. In recent years, the volume of low-sulfur crude oil has been increasing steadily in line with the growing stringency of domestic environmental protection standards.

To handle the oil it imports, the CPC has built mooring buoys for large tankers in the sea off Shalun in Taoyuan County and Talinpu in Kaohsiung County, and has constructed tanker docks at Kaohsiung, Taichung, and Shenao harbors. The company has also build up a considerable tanker fleet in order to control the tonnage of oil shipped and stabilize shipping costs; the fleet consists of one 260,000-ton tanker, four 150,000-ton tankers, two 100,000-ton tankers, and four 40,000-ton tankers. In total, oil shipments in 2007 amounted to 7.34 million tons.

The CPC's three existing refineries, one each in Kaohsiung, Taoyuan, and Talin, have a combined daily capacity of 720,000 barrels. The Kaohsiung Refinery, which has the longest history of the three, is a large integrated oil refining and petrochemical production facility featuring a complex production process and a complete range of equipment. It has a capacity of 220,000 barrels of crude oil per day. The Talin Refinery, which split off from its Kaohsiung parent to become independent in 1996, has four offshore mooring buoys as well as both large and small docks for the unloading of imported crude oil and the loading of exported petroleum products. It has a topping capacity of 300,000 barrels per day. The Taoyuan Refinery was established in 1976 and, following some de-bottlenecking renovations and the addition of a second distillation plant, currently has a daily capacity of 200,000 barrels. The CPC's total output of petroleum products in 2007 amounted to 9,509,000 kiloliters of gasoline, 6,817,000 kiloliters of diesel fuel, 8,840,000 kiloliters of fuel oil, and 609,000 metric tons of liquefied petroleum gas.

In response to the increasingly stringent demands in regard to the environment and the quality of life by the people of Taiwan, and their continuously diversifying needs for petroleum products, the CPC has moved to improve the quality of its petroleum products and enhance its production value in recent years by building





a large number of refining and production facilities such as units for reforming, isomerization, TAME, diesel fuel hydrodesulfurization, aviation fuel processing, N-paraffin facilities, alkylation, and heavy oil conversion. These facilities are designed to supply Taiwan's people with better petroleum products as well as to enhance production efficiency. Additional investment plans currently under implementation include the replacement of a water pipeline at the Taoyuan refinery and the northern coastal pipeline project.

The CPC is responding to the Environmental Protection Administration's announcement of medium- and long-term domestic environmental protection standards for petroleum products—a reduction of the sulfur content of gasoline and diesel fuel to under 10ppm and of the aromatics content to under 35vol% and a lowering of the olefins content of gasoline to under 18vol% by 2011—by working to achieve the goal of supplying of gasoline and diesel fuel with a sulfur content below 10ppm in 2011. To this end, it is beginning since 2005 the construction of a 30,000-barrel-per-day cracked gasoline hydrodesulfurization plant at the Taoyuan Refinery and a 40,000-barrell-per-day diesel hydrodesulfurization plant and a 20,000-barrell-per-day gasoline hydrodesulfurization plant at the Talin Refinery. At the same time, the company plans to enhance its heavy-oil conversion ratio by planning the construction of an 80,000-barrell-per-day heavy-oil conversion plant at the Talin Refinery and a 70,000-barrell-per-day heavy-oil desulfurization plant and related hudrogen/sulfur recovery unit at the Taoyuan Refinery, with construction began in 2006.

In view of the excessive production capacity for gasoline and diesel fuel while the production capacity for fuel oil has remained insufficient following the opening up of the domestic market to competition, in addition to readjusting and improving its refining structure in accordance with market needs and trends and heightening its ratio of heavy oil conversion in order to increase its concentration on naphtha and diesel fuel production, the CPC is also working constantly to lower its refining costs. The international prices of oil products rose to a high level in 2007, widening their gap with crude oil prices. The CPC made full use of its refining facilities to heighten its refining of crude oil and increase its exports of oil products, greatly improving refining performance. Export markets were expanded in a planned manner in 2007; overseas sales of major petroleum products reached approximately 4.82 million hectoliters, with markets covering not only the original Japan, Hong Kong, the Philippines, Malaysia, Singapore, New Zealand, Australia, South Korea, mainland China, the United States, and the Middle East, but also such newly developed markets as Guatemala and Panama in Central America. In the future, the company will continue developing export markets to optimize its overall performance.



Importation & Refining



Petrochemical Production

Petrochemical Production

The main bases for the CPC's petrochemical production are the Kaohsiung Refinery and Linyuan Petrochemical Plant. The latter operates under the Petrochemical Business Division, which was established on Sept. 1, 2000, and operates a full set of facilities including catalytic reforming, hydrodesulfurization, naphtha cracking, butadiene and aromatics extraction, xylene separation, transalkylation, and isomerization plants. The CPC's current annual production of ethylene has reached 1.08 million tons. Annual production capacity for other feedstocks is 725,000 tons of propylene, 173,000 tons of butadiene, 492,000 tons of benzene, 560,000 tons of p-xylene, and 130,000 tons of o-xylene.

In response to the opening of the market to competition, the CPC's Petrochemical Business Division is planning for the establishment of a petrochemical products logistics center with the aim of carrying out vertical integration with downstream petrochemical operators while using flexible competition strategies to develop trade in petroleum products and strengthen market competitiveness. To narrow the gap in the supply of petrochemical raw materials and to enhance the quality of industrial safety and environmental protection as well as to expand the scale of production through the renewal of production processes, the CPC has initiated a "Third Naphtha Cracker Renovation and Expansion Project" at the Linyuan petrochemical complex. This project will cost an estimated NT\$37.9 billion and will give the naphtha cracker an annual capacity of 600,000 tons of ethylene, 360,000 tons of propylene, 100,000 tons of butadiene, and 90,000 tons of benzene. The project will also expand the existing Fourth Aromatics Plant and auxiliary facilities. When the project is completed in 2013 it will create an annual production value of NT\$60 billion, stimulate the willingness of other downstream companies to invest, and bring new prosperity to the petrochemical industry.

The CPC is currently planning a Yunlin Petrochemical Technology Park with the aim of maintaining the scale of its domestic market for petroleum products, enhancing its competitiveness through vertical integration, and heightening its profitability through expanded exports of petrochemical products. Investment in the project is estimated at NT\$400.5 billion; includes a refinery with a daily capacity of 300,000 barrels as well as a naphtha cracker with an annual capacity of 1.2 million metric tons of ethylene, a xylene aromatics center with an annual production of 800,000 tons, 23 downstream petrochemical derivatives plants, 14 co-generation power plants, and an industrial harbor with 13 docks. The Kuokuang Petrochemical Technology Co., established as a joint investment by the CPC with the participation of petrochemical enterprises, began implementing related projects in 2006. This led the domestic petrochemical industry to leave its roots in Taiwan and promote the overall development of the economy.





Marketing

The CPC's Marketing and Transportation Business Division is responsible for domestic sales of oil products, mainly automotive gasoline, aviation fuel, diesel fuel, and fuel oil. Most domestic sales consist of automotive gasoline, aviation fuel, diesel fuel, and fuel oil. Total sales of oil products in 2007 amounted to 22,980 kiloliters, down 7.1% from the year before, and total revenue from oil sales was approximately NT\$438.4 billion, an increase of 4.7%. Filling station sales accounted for the largest portion of total sales, with about 43%, followed by fuel oil sales with 26%, diesel fuel sales with 23%, and aviation fuel sales with 9%.

In the area of marketing channels, Taiwan's market for oil products is divided between the CPC and the Formosa Petroleum Co., and competition between the two is increasingly intense. The CPC has worked hard to express the advantage of its marketing network and assure its market share by consolidating its filling-station network; of the 2,602 filling stations operating in Taiwan at the end of 2007, 650 were operated by the CPC directly, 19 were operated cooperatively by the CPC with other parties, and 1,340 were privately operated franchise stations (for a total of 2,009 CPC stations). This network gave the CPC control of more than 70% of the market. The company's shares of the gasoline, aviation fuel, diesel fuel, and fuel oil markets were 77.3%, 66.2%, 82.9%, and 87.4%, respectively.



Marketing

In the area of storage and transportation, in addition to its network of gasoline stations the CPC fills the need for fuel in different areas by operating aviation fueling stations at the Songshan, Taoyuan, Taichung, Hualien, Taitung, Kaohsiung, and Kinmen airports and by maintaining 35 fishing-harbor filling stations around the island. At the end of 2007 the CPC had 15 petroleum supply centers, at Keelung, Shihmen, Wugu, Hsinchu, Taichung, Taichung Harbor, Wangtian, Minsyong, Tainan, Fongde, Ciaotou, Suao, Hualien, Husi, and Kinmen, to supply the oil products needed by filling stations in the different areas. A total of 28,088 kiloliters of oil was delivered from these centers in 2007. There are also three chemical analysis centers, in Keelung, Taichung, and Kaohsiung, along with seven laboratories, charged with the testing of oil products and the control of quality. Together, they tested 53,436 samples during the year.

In the operation of filling stations, the CPC seeks to upgrade customer satisfaction and lead the market through "differentiation of services" and "the service advantage." The Marketing and Transportation Business Division asks the company's self-operated filling stations throughout Taiwan to provide high-quality services, create a clean-toilet culture, implement customer experience management, vigorously promote the CPC VIP card, and carry out customer relationship management. To reduce operating costs and resolve the problem of insufficient filling-station manpower, the company took the lead in introducing self-service credit-card gas-tank filling. At the same time, all filling stations under the CPC banner are asked to promote complex operations, offer diversified services, and strengthen cross-industry strategic alliances to create non-core income.



Natural Gas

Based on the advantages offered by natural gas—high efficiency, lack of pollution, safety, and convenience—the CPC has moved in line with the policy goal of energy diversification and is following up on the completion in 1990 of Taiwan's first liquefied natural gas (LNG) receiving terminal, in Yongan Township, Kaohsiung County, which turned over a new leaf in the supply of clean energy in Taiwan. And after that, along with the rapid growth of the domestic economy, the steady increase in energy demand, and the rise of environmental consciousness, the CPC carried out an expansion project at the receiving terminal, completed in December 1996, that boosted its annual handling capacity to 4.5 million metric tons. To meet the future need for natural gas by power stations and towns in northern Taiwan, in July 1996 the CPC initiated its third-stage expansion project; in addition to expansion work in the area of the terminal, the company established a Taiwan precedent by laying a 36-inch long-distance undersea pipeline from Yong-an to Tongsiao. This pipeline was completed in December 2002, expanding the CPC's handling capacity for LNG to 7.44 million tons per year.

To accommodate the Taiwan Power Co.'s natural-gas-fired Datan Power Station project, the CPC used its years of experience in natural gas operations to achieve the signing of a natural gas supply agreement with Qatar, which offers the most competitive prices. Correctly projecting the possible performance and investment strategies of rival companies, and flexibly making use of the advantages provided by its existing distribution system and other factors, the CPC won the procurement bid for Datan's natural gas supply in July 2003. Under this deal the CPC will supply 1.68 million tons of LNG to Datan annually for 25 years, consolidating the company's position as the sole medium- and long-term supplier of natural gas in the domestic market. On Sep. 13, 2005 the CPC signed an LNG supply agreement with RasGas II of Qatar; the agreement runs for 25 years, from 2008 to 2032, and calls for the supply of 3 million tons annually, mainly to supply the Datan Power Station and the growing domestic demand for gas use. The CPC has worked to secure a stable supply of gas for Taiwan by diversifying sources and its own deployment. On Feb. 29, 2008 the CPC signed a key term agreement with the Woodside company of Australia for the procurement of LNG, under which the Australian firm will supply 2-3 million tons annually for a period of 15-20 years.

To meet the first-stage goal of supplying gas for use by Taipower's Datan Power Station beginning from 2007, and the second-stage goal of completing storage tanks and related gasification and gas-supply facilities by the end of 2009 in order to supply the gas needed by power stations, industrial customers, and general users in central and northern Taiwan, the CPC will carry out the construction

Natural Gas

of an LNG receiving terminal with 3 million tons capacity in Taichung. This project will cost a projected NT\$24.8 billion and will be carried out at west docks No. 13, 14, and 15 in Taichung Harbor, as well as inland; it will include three 160,000-kiloliter LNG tanks, gasification and gas supply facilities, and the laying of a 135-kilometer, 36-inch sea/land long-distance transportation pipeline from Taichung Harbor, Tongsiao distribution station to the Datan measuring station, along with related governing facilities.

To make flexible use of its facilities to achieve stability of gas supply and demand in the market, the CPC has constructed a transmission and distribution system in western Taiwan that includes 1,757 kilometers of trunk pipelines, 36 distribution stations, and 1,471 kilometers of regional loop transmission networks belonging to eight supply centers. The CPC's planning of gas pipelines is oriented toward the construction of loop networks. It has already completed the laying of approximately 500 kilometers of trunk pipeline on land as well as approximately 238 kilometers of undersea pipeline from Yong-an to Tongsiao, forming a comprehensive loop pipeline network for central and southern Taiwan. In addition, after the 36-inch undersea pipeline from Taichung Harbor through Tongsiao to Datan in Taoyuan County enters service it will form a loop transmission network together with on-land pipelines in central and northern Taiwan, completing a "figure 8" gas transmission network.

The CPC's sales of natural gas totaled 19.720 billion cubic meters in 2007, an increase of 8.88% over the year before. Most of this gas went to supply domestic power generation (79.27% of the total), co-generation (0.21%), industry (8.06%), and household use (12.46%). The company's imports of LNG in 2007 amounted to 8.28 million tons, of which 3.37 million tons was supplied by Indonesia, 2.77 million tons by Malaysia, and the remaining 2.14 million tons by other suppliers under master agreements.



Other Business

In the field of lubricants, Taiwan's domestic market has long been open to free competition and international oil companies have been busily carrying out mergers and acquisitions, integrating marketing channels, and reducing costs in a vigorous assault on the domestic market, resulting in increasingly intense competition. The rapid growth of Asia-Pacific economies in recent years has stimulated the demand for lubricants there; and mainland China and Southeast Asia, especially, have become targets of development by competing oil companies. The CPC's Kuo Kuang brand lubricating oil occupies about a 30% share of the domestic market, putting it in the leading position. The Lubricants Business Division pursues a strategy of "consolidating the domestic market and development overseas markets" in carrying out a twin-brand (Kuo Kuang and Mirage) strategy in Taiwan, providing high-quality services, reinforcing domestic marketing channels, and developing auto and motor scooter maintenance station channels while using differentiated products and timely services to satisfy the needs of marketing outlets and consumers. In overseas markets the main marketing strategy is to use the long-term operation of brands and marketing channels along with the development of overseas contract blending and the multi-angle trading business, along with direct management of the overseas markets. The company also makes use of the system of business that Taiwanese enterprises have successfully established in the Asia-Pacific region to set up self-owned marketing channels and reinforce its brand image; already, the Mirage brand has been successfully introduced into the Chinese market. At the same time, the CPC is vigorously promoting the Southeast Asian market for vehicular repair and maintenance oils, and is pursuing the market for industrial oils used by Taiwanese and foreign enterprises. A quality product image, reasonable pricing, and stable supplies are being used to develop overseas markets and establish a foothold in the Asia-Pacific market for lubricating oils.



In the field of liquefied petroleum gas, after the government opened the free import of LPG in 1999 the Formosa Petrochemical Corp. entered the ranks of production and independent traders began importing supplies, breaking the CPC's monopoly and exposing the market to free competition. As a government enterprise and the main supplier to the domestic LPG market, the CPC is charged with the mission of enhancing operating performance while providing sufficient supplies of LPG needed by the people of Taiwan. In the field of household gas, the LPG Business Division makes full use of its quality advantage and fully utilizes the company's north-south transport and storage system as well as its comprehensive marketing network to consolidate the market. In the area of industrial gas, the company strengthens customer service so as to retain existing customers and develop new ones. It also maintains a full understanding of price movements in the international LPG market and chooses the best times to import and export so as to lower the cost of procurement and expand exports, thereby creating maximum profit, coordinate with the government's safety reserve policy, and heightening the rate of turnover in storage tanks. The company assists operators in promoting the conversion of automobiles into LPG vehicles and in installing more LPG filling stations so as to reduce CO₂ emissions and improve air quality in urban areas. The CPC also strives to strengthen occupational safety and environmental protection and engages constantly in good-neighbor work so as to fulfill, under the precondition of safe operation, its mission of providing abundant supplies of LPG to the domestic market while creating a good operating performance.

In the field of solvents and chemicals, the CPC holds more than 72% of the market, 29%-45% of the market for toluene, and 35%-42% of the market for xylene. Of the total annual domestic production of 1.13 million tons of asphalt, the CPC accounts for 830,000 tons; of total sulfur production of 390,000 tons, the CPC turns out 250,000 tons; and of total petroleum coke production of 420,000 tons, the CPC makes up 220,000 tons (This is mostly for export, since domestic demand is very small). The methanol retail market totals approximately 60,000 tons a year; the CPC's rivals in this market are importers; and the CPC targets its own annual sales at 30,000 tons. To reach its operating goals, the Solvents and Chemical Business Division is actively promoting quality services and nurturing sales channels; expanding planned exports and developing markets in Vietnam, mainland China, and other areas; enhancing product quality and image; continuing the improvement of processes and the reduction of costs; and striving for the development of new products and new businesses.



Industrial Safety & Health

Since both petroleum and natural gas are easily combustible, the CPC has always placed extreme emphasis on industrial safety, health, and fire control in order to ensure the smooth execution of production operations as well as to assure the safety of the lives and property of employees as well as of residents of communities around plants and wells. In addition to operating in accordance with domestic laws and regulations, the CPC also establishes safety and fire rules, in reference to regulations in the advanced countries of Europe, America, and Japan, that conform to conditions in the Taiwan area and the characteristics of the CPC's own business.

Industrial safety is the foundation of company development. To achieve the goal of "100% industrial safety and zero accidents," the CPC holds to a policy of "safety discipline and thorough inspection, health promotion and responsible care, risk management in system operation, and continuous improvement and sustainable operation" in the constant upgrading of the safety culture. The company's industrial safety performance is recognized not only at home but internationally as well, as manifested in its receiving a plaque from the World Safety Organization in 2005.

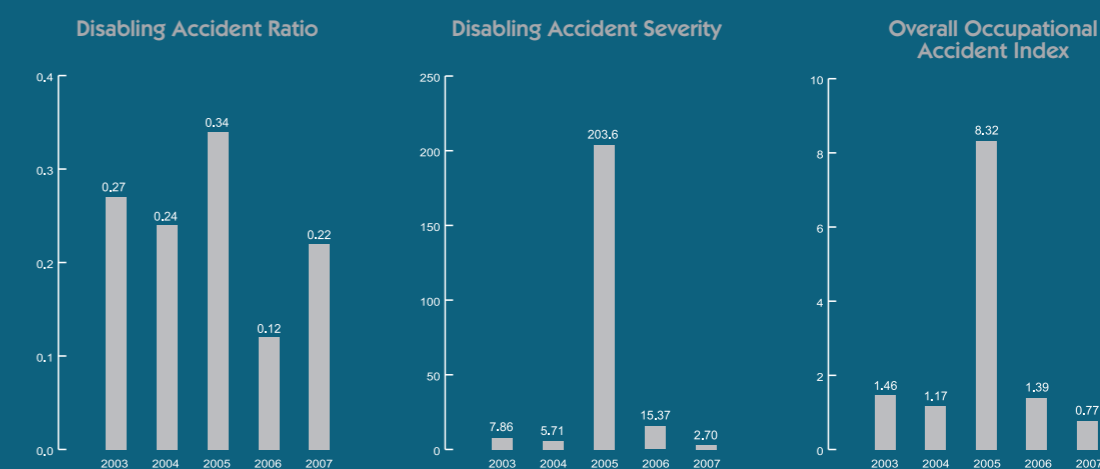
The key points of the CPC's industrial safety and health operations at the present time are as follows:

- Establishment and verification of an occupational safety and health management system, and continuous improvement of the operating environment; by the end of 2007 eight units had passed OHSAS occupational safety and health management system verification, and this system will be upgraded continuously until it becomes an occupational safety and health system for all Taiwan.
- Strengthening of the safety management of contractors and establishment of contractor autonomy so as to reduce contractors' occupational hazards.
- Scheduled review of industrial safety and health regulations, and continuous review and amendment of standard operating procedures.
- Strengthening of industrial safety management, holding of scheduled employee health examinations, analysis and follow-up of physical examination information, promotion of health improvement, and emphasis on the mental health of employees.



Industrial Safety & Health

CPC Occupational Accidents over the Past Five Years



- Implementation of risk management and equipment integrity operations, establishment of equipment safety management processes, thorough implementation of the oil tank and pipeline inspection function, and establishment of a long-distance petroleum gas pipeline monitoring and leak-detection system.
- Strengthening of fire-fighting management, organization of a professional team, and guidance for the different units in carrying out fire-pump function testing. Four manuals on fire safety have been published.
- Outsourcing of oil storage tank inspections, and supervision of inspections.
- Implementation of graded on-site safety inspections and continuous improvement, through safety observation, on the systemic, management, and execution levels.
- Strengthening of industrial safety inspections, to include "management by walking around" by ranking officials, professional industrial safety inspections, and pre-startup inspections of new and renovated factories. All deficiencies that are discovered are to be followed up through the information system and improved.
- Planning and implementation of various kinds of safe-environment training and education, production and provision of online study courses and industrial safety test-question databank, and compilation and publication of accident case studies.
- Outsourcing of oil tank inspections and supervision of execution.
- Reinforcement of the functions of the Safety Information Center, and provision of lending and Internet data recovery service systems.





Pollution Prevention & Environmental Protection

To fulfill its corporate social responsibility and uphold the spirit of sustainable development, the CPC is engaged in a long-term effort to improve wastewater, air, noise, solid waste, and groundwater pollution issues. In recent years the company has also carried out carbon dioxide emission inventory and reduction work, and has adopted best available control technology (BACT) and equipment for all new investment projects so as to lessen the pollution caused in production, transportation, and storage processes. The CPC also works actively to enhance the quality of petroleum products and achieve the goal of protecting the overall environment.

The CPC thoroughly carries out an environmental policy of "pollution prevention, employee participation, and persistent improvement," and has invested more than NT\$50 billion in environmental protection since 1989. Since 1995 the company has promoted the establishment of ISO 14001 environmental management systems in all units, and 20 units had passed certification by the end of 2007. A company-wide environmental accounting system was set up in 2004 and 2005 so as to enhance the performance of environmental improvement.

Although Taiwan is not a signatory of the agreement on greenhouse reduction signed in 1997 (the Kyoto Protocol), in line with future international environmental trends the CPC strives to reduce greenhouse gas emissions throughout the company. It has set carbon dioxide reduction targets and timetables for existing plants and carries out emissions-reduction measures by using low-carbon fuel, conserving energy, improving equipment efficiency, and reducing waste. Carbon dioxide emissions were cut by a total of 4,105,553 tons up to the end of 2004; the reduction in 2005 amounted to 165,718 tons, and the accumulated reduction for 2006-2009 will be 1 million tons.



Comparison of CPC Refinery Environmental Quality with National Standards

1. Effluent

Year/Item	Performance in 1991 (Prior to improvements)	Performance in 2007	National Standards 1998
COD (ppm)	150-300	62*-100	100
Oil (ppm)	5-10	<5	10
SS (ppm)	30-70	<30	30

* monthly average

2. Emissions

Year/Item	Performance in 1991 (Prior to improvements)	Performance in 2007	National Standards 1998
SOx (ppm)	Gas fuel	< 20	100
	Liquid fuel	< 250	300
Nox (ppm)	Gas fuel	< 100	150
	Liquid fuel	< 200	250
TSP (mg/Nm ³)	By emission rate	20-100	<25-500

3. Noise

Year/Item	Performance in 1991 (Prior to improvements)	Performance in 2007	National Standards 1998
Night limit (decibels)	55-70	<55	55

CPC Utilization of Resources, Production of Pollutants, and Production Value

Input (crude oil)	184.6 million bbl/yr	Employees	14,768	Income	NT\$ 882.1 billion/yr
Fuel Oil	1,027,849tons/yr	Land	2,886 hectares	Gasoline	9,509,000kiloliters/yr
Fuel Gas	1,122,665tons/yr	Capital	NT\$130.1 billion	Diesel Fuel	6,817,000kiloliters/yr
Natural Gas	10,720million M ³ /yr			Fuel Oil	8,840,000 kiloliters/yr
Purchased Water	25,236,698tons/yr			Ethylene	1.08million tons/yr
Purchased Electricity	1,092,142,000KWH/yr			CO ₂	11,212,131 tons/yr
Recovered External Waste	282tons/yr			NOx	9,799 tons/yr

0.5210 tons CO₂/tons product

518.52 tons CO₂/US\$ million revenue

● Equivalent energy consumption per unit for refineries:
125kcal/kl crude

● Average equivalent energy consumption per unit for
petrochemical plants: 8,091kcal/MT ethylene

SOx	8,990 tons/yr
TSP	919 tons/yr
COD	764 tons/yr
Waste Water	15,755,196 tons/yr
Waste Gases	167,166 tons/yr
Garbage	51,650 tons/yr
Paybacks	NT\$226.82 million/yr
Safety Incidents	2/yr



R&D and Information Management

CPC Greenhouse Gas Ecology Indexes

Index	2003	2004	2005	2006	2007
Annual Income/(whole-year FOE) (NT\$/ton)	121,167	147,355	180,598	183,196	219,708
Annual Income/(whole-year CO ₂ emissions) (NT\$/ton)	37,328	44,809	56,819	62,648	72,920
Income/(whole-year COD) (NT\$/ton)	388,313,955	619,659,466	751,667,823	1,261,839,820	1,261,936,837
Income/(SO _x +NO _x +TSP) (NT\$/ton)	20,311,165	25,207,277	29,586,780	31,188,266	38,520,029
Income/(emissions + waste water + solid waste) (NT\$/ton)	26,466	33,588	42,819	46,363	52,023
Income/(purchased electricity) (NT\$/KWH)	524	786	849	882	958

The CPC has worked to improve the quality of its oil products since 1981 by continuously reducing the lead and benzene content of auto gas and the sulfur content of diesel fuel and fuel oil. It has also promoted the use of lead-free gasoline. In the field of gasoline, since January 2000 the CPC has coordinated with the government's environmental protection policy by halting the supply of leaded gasoline and making all gasoline lead free. At the present time, all gasoline produced by the CPC conforms to the environmental gasoline quality standards of the advanced countries. In regard to diesel fuel, the supply of ordinary diesel to all of Taiwan as well as the offshore islands of Penghu, Kinmen, and Matsu has been halted and the sulfur content of the premium diesel now supplied has been cut to 50ppm since October 2004. In the area of fuel oil, the CPC began providing low-sulfur fuel (less than 0.5wt%) to the three large metropolitan areas of Taipei, Taichung, and Kaohsiung in July 1999, thereafter extending supplies to all of Taiwan as well as Matsu. The extension low-sulfur supply to the entire country was completed in July 2005. To coordinate with the government's policy of promoting renewable energy and to reduce greenhouse-gas emissions, the CPC introduced bio-diesel on July 27 and gasohol on Sep. 29, 2007. In addition, all filling stations belonging to the CPC have installed vacuum-assist vapor recovery hoses and storage tanks have also installed vapor-recovery systems. These facilities help to improve air quality by recovering approximately 6,500 tons of gasoline vapor per year.

Through years of constant effort the quality of Taiwan's petroleum products has been upgraded until today it compares with that of Japan, the United States and other advanced countries. However, the CPC is not satisfied with all these achievements. In the future the CPC will use the "new environmental standards for petroleum products" of the advanced countries for its benchmark in the ongoing pursuit of ever-better quality. With a love for home and environment in mind, the CPC will continue to employ the newest pollution prevention technology, constantly enhance environmental protection performance, pursue sustainable development, and share in the health and prosperity of the people of Taiwan.

Research and development has always been the driving force behind the CPC's technological innovation, business development, and sustainable growth. In general, the Planning Division is responsible for the overall planning and implementation of R&D work, while the Exploration and Production Research Institute in Miaoli and the Refining and Manufacturing Research Institute in Chiayi are responsible for research in their respective fields. In addition, other production and business divisions have technology units that carry out on-site improvements and resolve production bottlenecks. The CPC has devoted strenuous efforts to R&D over the years, and as a result has effectively reduced operating costs and increased revenues.

Faced with the intense competition of the completely open market for petroleum products, the CPC will continue using R&D to break through technological bottlenecks in refining and exploration and will coordinate actively with the company's operational plans in carrying out forward-looking research, developing new products, and opening up new businesses with the aim of strengthening its overall competitiveness.

The company's R&D spending in 2007 totaled approximately NT\$1.44 billion, yielding the following major results:

1. Exploration and Production

- Attributes assessment of the petroleum system in the Murzuq basin of Libya, and analysis showing petroleum gas potential in Block 162.
- Discovery that drillable structures still exist in the Baoshan Structure of Hsinchu and the eastern flank of Yongheshan in Miaoli, and proposal of the high elevations of the Dalu sand reservoir as the target of exploratory drilling.
- Analysis of signs of gas in the northern part of the Jhutouci structure in eastern Guanzihling, showing that it contains natural gas and condensate.
- Establishment of new position specific isotope analysis (PSIA) technology for propane molecules, for use as a tool for gas-to-gas comparison.
- Completion of data processing process improvement for three-component vertical seismic profiling (VSP), which can help with the distinguishing of stone type by establishing the viscoelastic characteristics of reservoirs.
- Installation of a wellhead compressor at Yongheshan Well No. 6 and commencement of low-pressure production there, bringing that well back into production.
- Assistance for on-site units in the placement of fine-grained cement at the bottom of wells to block water, allowing two withdrawal/injection wells to resume production.
- Application of surface shock wave, high-resolution resistivity image profiling, and 3-D resistivity modeling techniques to help with underground environmental scanning and surveying of the Kaohsiung refinery's P-37 oil tank area.
- Extension of the results of research in persulfate oxidation remediation technology, and trial application at the Linyuan petrochemical plant. Preliminary results are positive.
- Receipt of an N\$53.56 million grant from the Petroleum Fund of the Ministry of Economic Affairs for petroleum development technology research projects.



2. Refining and Petrochemical Production

- Improvement of materials feeding methods for xylene separators.
- Testing of an experimental plant using extractive distillation to produce absolute alcohol.
- Development of a new production process for nitrogen removal from benzene.
- Research on improvement of the acrylonitrile rectification system at the Third Naphtha Cracking Plant.
- Screening of outstanding RDS/RFCC plant catalysts so as to improve production rate and reduce costs.
- Assistance provided to the Bureau of Energy, Ministry of Economic Affairs in setting national quality standards for gasohol and bio-diesel.
- Completed certification of the large-flow measurement laboratory to a pressure measurement resolution of 0.0001 bar with an uncertainty of under 0.4%.
- Development of a new high-efficiency NG1/NG2 dual-use water heater that boosts heating efficiency and reduces CO₂ emissions.
- Development and production of a polymerization inhibitor, desalting agent, additives, cooling water treatment agent, and micro-organism preparation for use in plants to increase operating efficiency.



- Research for the enhancement of fuel quality and control of environmental pollutants. The fuel testing laboratory won TAF certification.
- Research in biomass energy carried out along with feasibility evaluation of alcohol fermentation, fiber-digesting enzymes, and molasses alcohol, as well as development of a bio-diesel production process.
- Development of the biotechnology material N acetyl D glucosamine (NAG), liver-aid, vision health care (dunaliella salina compound capsules), and the functional product soybean germ tablets.
- Development of biotech products for environmental protection, such as micro-biological additives, micro-biological activators, and oil dispersants, and their application by on-site units.
- Expanded application of CPC-developed groundwater pollution remediation technology to remediation work at refineries, fuel supply centers, and filling stations.
- Continued design and planning of refinery wastewater treatment plants and oil supply center wastewater treatment systems, and improvement and wastewater recovery at filling station car washes.
- Application of the CPC-developed gasoline vapor condensation recovery system in the loading of petroleum products and when opening oil storage tanks for cleaning.
- Heating furnace bottleneck elimination and operating improvement, thereby enhancing performances and reducing energy consumption.
- Planning of risk-based inspection (RBI) systems for different plants, to help with overhaul inspections.
- Use of online non-destructive inspection technology such as infra-red thermal imaging and pipeline/storage tank leak-detection technology.
- Planning and design of anti-corrosion pipeline and storage tank inspection and cathodic protection technology to maintain pipeline safety.

3. Management and Energy Economics

- Completion of financial and economic benefit feasibility study for the CPC's RasGas II upstream 5% equity investment.
- Study of competition strategies in the Asia-Pacific petroleum-products market.
- Expansion and application of the petroleum gas price forecasting system.
- Completion of land redevelopment evaluation for the Chiayi area.
- Offshore wharf for the Taichung Harbor LNG Receiving Terminal, and feasibility study and environmental impact assessment for construction of the second gas pipeline.
- Participation in the global aromatic hydrocarbon plant benchmark rating project.



In the area of information management, the CPC's current strategy is to use the latest information technology, carry out process re-engineering, implement integrated corporate resource planning, and establish an e-enterprise with the aim of grasping core technology, establishing a digital knowledge bank, reducing information costs, and developing innovative information services. The final objective is to take top-rank international energy companies as a benchmark and use information technology to strengthen the company's competitive advantage.

In line with the development of core businesses, the CPC's information unit followed up the 2005 installation of a large mainframe and peripheral hardware as well as remote backup channel extension equipment, and the opening up of operational servers, by carrying out a no-warning real-working-environment switch from headquarters to the mainframe of the Refining Business Division in Kaohsiung in 2006 to verify the feasibility and effectiveness of the investment in the equipment. Backup recovery required only 20 minutes and the users needed to change no equipment at all; the operation was a great success, setting a precedent for Taiwan. Integration of the headquarters and Refining Business Division mainframes was completed in April 2007 so that they can act as mutual backup, with the actual operating environment being switchable between the headquarters and Refining Business Division mainframes. In November 2007 there was a remote mainframe system switch with the real working environment being switched to headquarters; this was the first time in Taiwan that two mainframe systems had been integrated to achieve mutual remote backup and recovery. To establish the effectiveness and continuing normal operation of the open operating environment, the CPC completed a remote server backup plan in 2006 to strengthen the backup center's performance by effectively enhancing its long-term operation and the system's load capacity. Also in 2006, the company moved to heighten network quality and service reliability by introducing the Next Generation Synchronous Digital Hierarchy (NG-SDH); completed in early 2007, this provides a second route for backup trunk network transmission from Neihu to Nanzih as well as Multi-service Transport Platform (MSTP) services.

In recent years information personnel have continuously kept a tight grasp of key mission information systems, including the use of information technology to help improve information operating processes, the completing of invoice settlement on the first day of each month, development and promotion of an integrated e-commerce system for petroleum products, the strengthening of the filling station POS and diversified marketing network,

establishment of a petrochemical refining information system to integrate the production scheduling system and oil accounts, and installation of an exploration information system to integrate exploration and geographic information systems.

With the high-speed development of information, digitization, and globalization in the new century, in the future the construction of the CPC's information systems will be based on corporate resource planning systems, customer relationship management, corporate intelligence, knowledge management, e-commerce, corporate application integration, management reform, and the information and communications infrastructure. In respect to systems, integrated operating processes will shorten the time needed for invoice settlement, specialized information technology will be used to enhance production performance, and the 2011 information system response plan will be carried out. In the area of service, the company will deepen customer relationships and provide quality services, and will integrate virtual and real channels to expand the industrial value chain. In the field of corporate intelligence, knowledge management will be used to deeply implant corporate intellectual capital and decision-making systems will be promoted to stimulate the popularization of information applications. In information and communications, network services will be integrated to strengthen construction of the basic environment and integrated mobile commerce information services. In the area of management, the information organization will be reinforced to enhance management performance, with the operation of all processes built on an integrated IT resource operating platform having an open environment together with the synchronous integration of internal IT resources, processes, and basic structures aimed at fulfilling the objective of providing full support for market competition.

In response to the development of the Internet and the advent of the age of the knowledge economy, the CPC will inaugurate e-commerce in the pursuit of profit, market consolidation, and continuous growth. It will establish a sales, storage, and transportation information platform, promote ePOS multi-purpose filling stations, develop high-level control and application software systems, and set up robust service and management systems so as to provide optimized services.





Human Resources



The CPC currently has a total of 14,768 employees. The company strives to develop the potential its employees fully through long-term efforts at training and assistance, while at the same time strengthening incentive and welfare measures and pinpointing managerial talent with the aim of having its corporate development led by outstanding human resources.

In the area of manpower utilization, in recent years the CPC has constantly carried out organizational and process re-engineering, and has set job-rotation rules so as to make efficient use of its work force; it has also continuously recruited young professionals to bring in new blood and enhance overall manpower competitiveness. To achieve the goal of corporate growth, in addition to considering the necessary professional conditions and character traits in the appointment of executives the company has established skills standards for executives at different levels and used foreign-language, operational, and leadership development training to make full use of talent and provide a basis for job evaluation. Additionally, the company places special emphasis on on-the-job training at all levels, the integration of existing training systems into the establishment of a Petroleum University, the enhancement of professional skills, and the development of multi-skilled employees so as to facilitate manpower utilization. The company encourages its employees to participate in national skills qualification examinations and helps them to obtain needed industrial safety, environmental protection, and other certifications; and, in line with the needs of the company's transformation, strengthens second-skill training. In addition, employees are chosen on a regular basis to go abroad for advanced education, research, or internship, or to participation in seminars of various types in line with business needs.

In the area of work incentives and welfare, the CPC gives out bonuses of various kinds based on the company's overall performance as well on the contributions and job performance of individual employees. In addition, the welfare committees to which employees belong organize all sorts of welfare and entertainment activities. All employees participate in national health insurance, civil service insurance, labor insurance, group life insurance, and accident insurance; in addition, consolation payments are made in cases of job-related injury, disability, or death. The different business units also run clinics, company restaurants, libraries, company stores, and other welfare facilities, along with swimming pools, ball fields, gymnasiums, and the like at their place of operation. In addition, there are scholarships for employees' children; educational loans for children in college and university; medical subsidies for employees and their dependents; wedding, funeral, and retirement subsidies; and interest-free emergency loans. Contributions are made to support the activities of civic groups, such as ball games, bridge tournaments, mountain climbing, swimming, painting, and film appreciation, in order to provide physical and mental relaxation for employees and to boost their working morale.



Affiliates

The CPC holds equity in numerous companies, both at home and overseas. The most representative of these are introduced below:

■ Kuo Kuang Power Co. Ltd. (KKPC)

In line with the government policy of opening power plants to private operation in order to alleviate northern Taiwan's insufficiency of power supply, the CPC and private investors have jointly established the Kuo Kuang Power Co. (with the CPC holding 45% of the equity) and constructed a gas-fired power plant with an installed capacity of 480MW at Gueishan Township in Taoyuan County. The plant began commercial operation on Nov. 3, 2003.

■ China American Petrochemical Co. Ltd. (CAPCO)

Established in 1976, the China American Petrochemical Co. is the major supplier of purified terephthalic acid (PTA) to the polyester industry in Taiwan. The company is capitalized at NT\$6.88 billion, and its plants in Taichung and the Linyuan Petrochemical Complex in Kaohsiung have a combined annual capacity of 1.9 million tons. The CPC owns 38.5% of the company's equity.

■ CPC-Shell Lubricant Co. Ltd. (CSLC)

The CPC-Shell Lubricant Co., established in 1965, is located at the CPC's Kaohsiung Refinery and produces mainly base oils, lubricants, and byproducts. The CPC holds 49% of the company's equity.



Affiliates

■ Dai Hai Petrol Corp. (DHP)

Established in 1994, the Dai Hai Petrol Corp. is headquartered in Haiphong, Vietnam and owns docks, receiving equipment, and liquefied petroleum gas (LPG) storage and distribution facilities with a capacity of 1,050 tons. It also operates two LPG filling stations in Ho Chi Minh City. The company engages primarily in the storage, transport, and supply of LPG, asphalt, and other petroleum products in northern Vietnam. The CPC owns 35% of its equity.



■ Qatar Fuel Additives Corp. (QAFAC)

The Qatar Fuel Additives Corp. (QAFAC) was established in 1996 as a joint venture between the CPC, Qatar Petroleum, Lee Chang Yung Chemical Industry Corp., and International Octane Ltd. of Canada, with the CPC holding 20% of the equity. QAFAC's plant is located in the Mesaieed Industrial Zone; it went on line on June 20, 2000, producing mainly methanol and methyl tert-butyl ether (MTBE). The company is currently planning a second project, also in the Mesaieed Industrial Zone, including a methanol plant having a daily capacity of 6,750 tons and an ammonia plant with a daily output of 1,000 tons.

■ Faraway Maritimes Shipping Co. (FMSC)

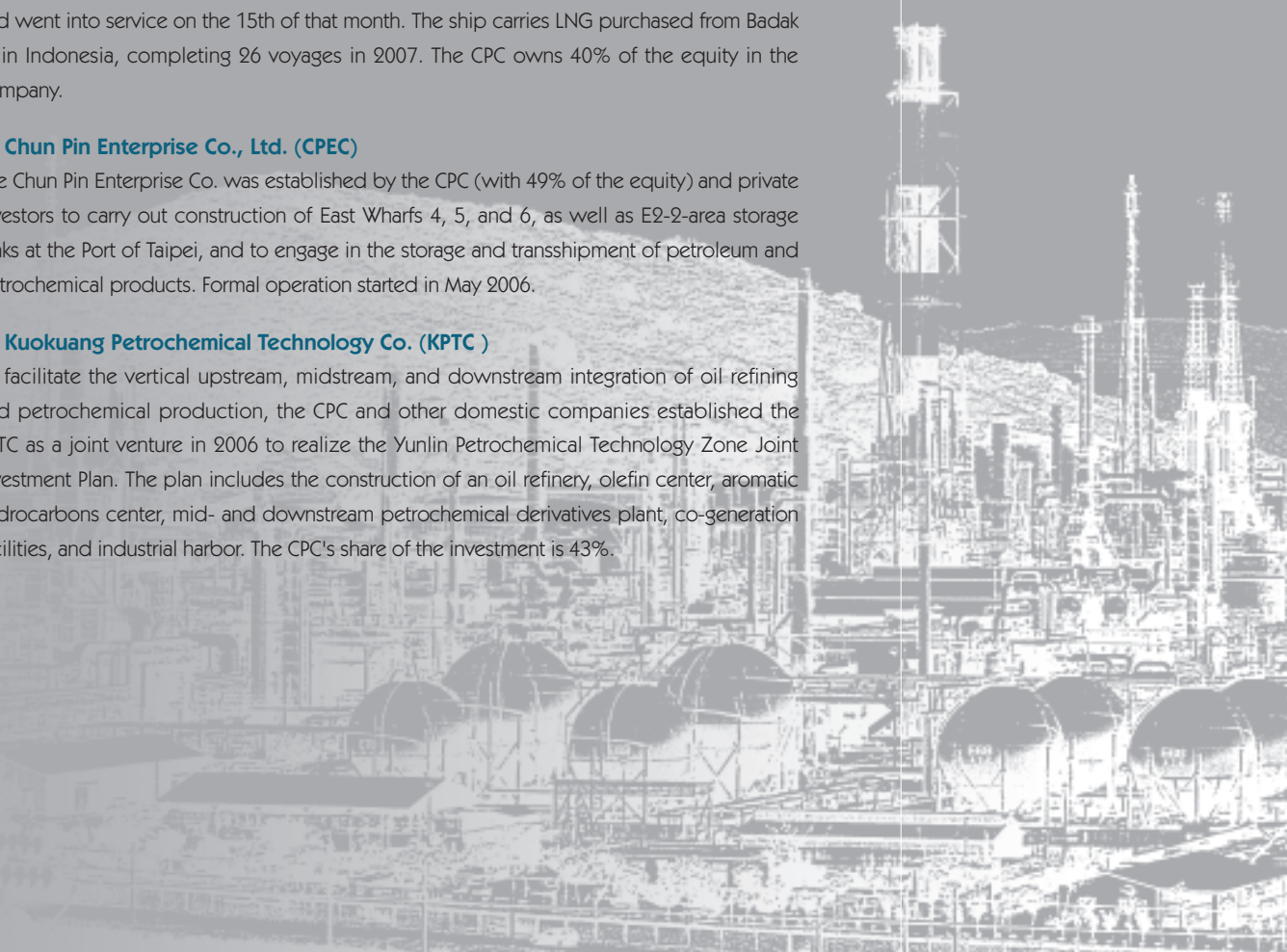
The Faraway Maritimes Shipping Co. was jointly established in 1997 by the CPC and foreign partner Osprey and built the LNG carrier Golar Mazo, which was delivered on Jan. 7, 2000 and went into service on the 15th of that month. The ship carries LNG purchased from Badak VI in Indonesia, completing 26 voyages in 2007. The CPC owns 40% of the equity in the company.

■ Chun Pin Enterprise Co., Ltd. (CPEC)

The Chun Pin Enterprise Co. was established by the CPC (with 49% of the equity) and private investors to carry out construction of East Wharfs 4, 5, and 6, as well as E2-2-area storage tanks at the Port of Taipei, and to engage in the storage and transshipment of petroleum and petrochemical products. Formal operation started in May 2006.

■ Kuokuang Petrochemical Technology Co. (KPTC)

To facilitate the vertical upstream, midstream, and downstream integration of oil refining and petrochemical production, the CPC and other domestic companies established the KPTC as a joint venture in 2006 to realize the Yunlin Petrochemical Technology Zone Joint Investment Plan. The plan includes the construction of an oil refinery, olefin center, aromatic hydrocarbons center, mid- and downstream petrochemical derivatives plant, co-generation facilities, and industrial harbor. The CPC's share of the investment is 43%.



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