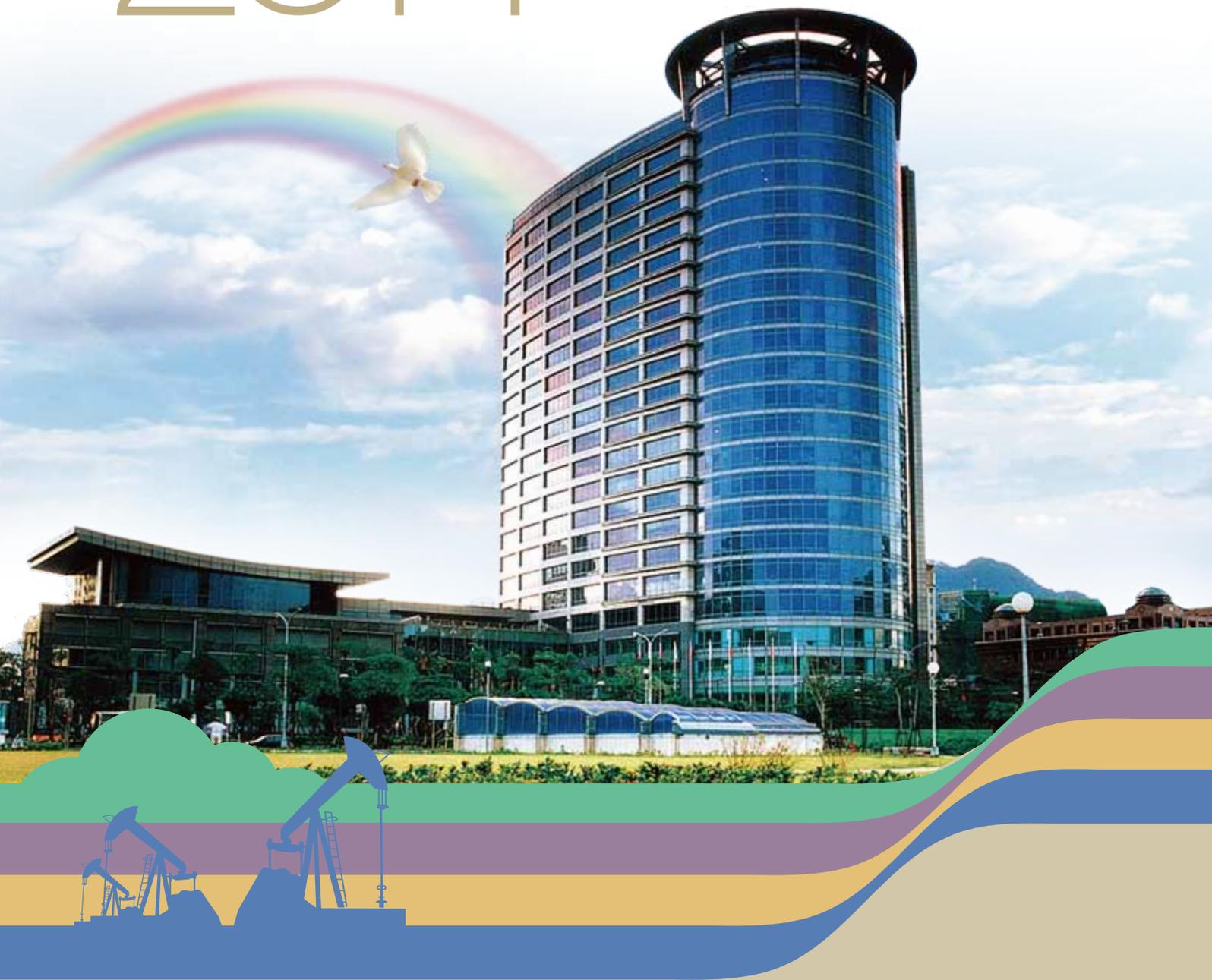


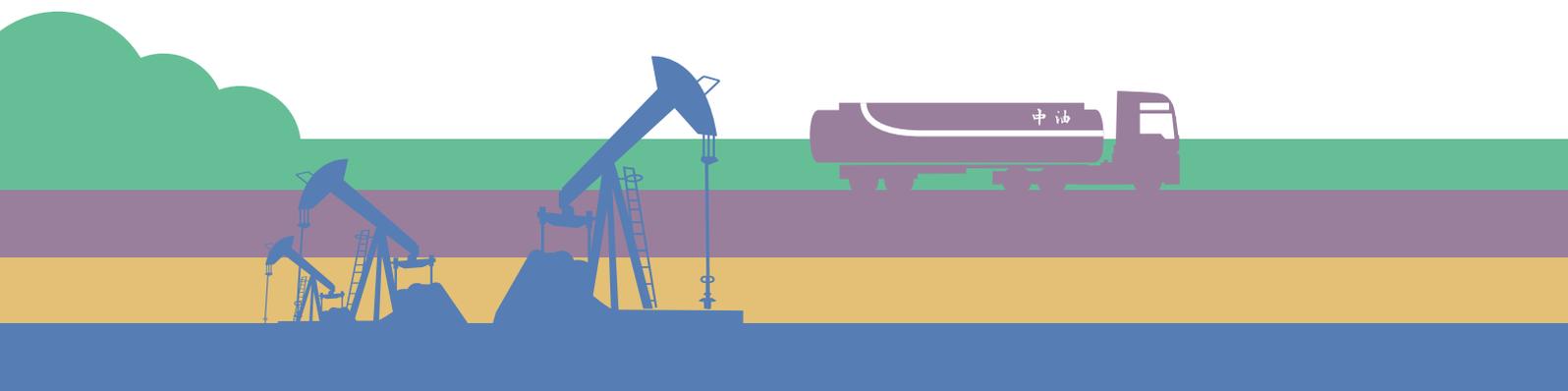
CPC 2014



CPC Corporation, Taiwan

Supreme Quality • Superb Service • Selfless Contribution

CPC 2014



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In pursuit of excellence... and reaching for ever greater heights

Global changes gave cause for concern; crafting a responsive energy strategy

2013 was a strange and fickle year : global economic conditions continued uncertain and the international energy and petrochemical industry environment underwent many shifts. A major increase in Asian refining capacity, as well as China's vigorous development of coal chemical technology, had an impact on petrochemical raw material supplies and prices. Furthermore, breakthroughs in North American natural gas fracking technology initiated an ongoing transformation of conventional natural gas markets. According to the Intergovernmental Panel on Climate Change (IPCC), global greenhouse gas emissions are now increasing by an average of 2.2% annually, far higher than the average of 1.3% annually for the previous 30 years. Reducing carbon dioxide emissions has consequently become a matter of great concern for the entire world, and the use of clean energy – specifically, natural gas - is a growing trend. It is especially noteworthy that Singapore is aiming to become a major Asia-Pacific transshipment center for natural gas.

Corporate strengthening is the response to internal and external change

Apart from the rapid changes sweeping through the international business environment, CPC also faces stiff challenges on the domestic front. The relocation of our Kaohsiung refinery at the end of 2015 is fast approaching and this will entail closure of the Fifth Naphtha Cracker - which in turn will inevitably lead to some shortfalls in the local supply of petrochemical raw materials. In addition, the mid-to-downstream petrochemical industry has long been under stress and unsure of how to proceed in the future; the fact that many firms have moved facilities overseas will have a negative impact on CPC's new Third Naphtha Cracker, which has much larger capacity than the earlier plants. Moreover, CPC is a wholly



Our goal is to be a first-rate energy group and among the world's 150 largest corporations: so we are moving to minimize cumulative losses and planning our response to the challenges of escaping restraints, achieving excellence, strengthening our operating constitution and boosting both efficiency and competitiveness.

state-owned enterprise and the fact that it has been run as a government agency subject to the restraints of public service laws and regulations means not only that it has missed opportunities to act quickly on business opportunities, but also has faced – and still does – an uphill struggle in implementing internal reforms. But in spite of this situation, CPC has vigorously pursued reform of its structure for many years and has managed to implement many operational improvements and plans for market expansion. Coming in response to both internal and external challenges and competition, those moves are laying a solid foundation for the company's sustainable development.

Vigorous exploration for oil and gas; pursuit of diversification

The area of oil and gas exploration and production is crucial to CPC because it involves both Taiwan's energy security and the company's sources of revenue. CPC has had to overcome various restrictions in order to both accelerate the development of its exploration undertakings and acquisition of reliable and stable supplies of fossil fuels and to maintain a budget for an active program of domestic and foreign exploration and the acquisition of development rights over deposits.

In the field of refining, with the impending closure of the Kaohsiung Refinery we are expanding capacity at the Dalin Refinery and also planning to invest in Phase 2 of the Kaohsiung Harbor intercontinental container wharf project – a trade, storage, transport and petrochemical operations center. Furthermore, as profit margins on refined products are thin, we intend to both aim for better performance and engage with downstream firms in cooperative investments in the area of high-value petrochemicals

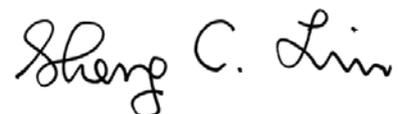
As for natural gas, beyond active steps to secure widely-dispersed sources we plan to build a third receiving station that will maintain CPC's leading status in the domestic market. We further seek to build more flagship filling stations, in which our multi-service business model will offer consumer more refined service and a wide range of choices. We are also assessing the feasibility of establishing green filling stations, in order to make a greater contribution to the Earth's wellbeing.

Maintaining stable supplies of energy and becoming an international industry leader

For well over half a century, CPC has provided an ample and stable supply of petroleum products for the domestic market – and in so doing has helped the government to stabilize domestic commodity prices – and has supported the development of Taiwan's petrochemical industry. CPC's high standards have won public accolades and it has assumed the role of pioneer and exemplar in the areas of environmental protection and workplace safety. Our goal is to be a first-rate energy group and among the world's 150 largest corporations: so we are moving to minimize cumulative losses and planning our responses to the challenges of escaping restraints, achieving excellence, strengthening our operating constitution and boosting both efficiency and competitiveness.

We would like to express our most sincere gratitude to all of our customers for supporting us for so long, and to all of the business partners who have helped us grow. We earnestly hope that our customers and partners will continue to give us their patronage and encouragement, which are vital in smoothing the path of our corporate development, achieving even higher levels of performance and doing more to pay back to society. To them we therefore extend our respect and most heartfelt thanks!

Chairperson



Sustainable Development

Meeting domestic demand in full and building an international energy group

The Chinese Petroleum Corporation (CPC) was founded in Shanghai on June 1, 1946. It was wholly funded by the government of the Republic of China and accordingly was placed under the direction of its Resources Committee - the forerunner of the State-Owned Enterprise Commission, Ministry of Economic Affairs. CPC relocated to Taiwan in 1949 along with the government and set up its headquarters in Taipei, still under the direction of the Ministry of Economic Affairs. Its operations today include the import, exploration, development, refining, transport, marketing and sale of petroleum and natural gas, as well as the production and supply of petrochemicals, and its service facilities are located throughout Taiwan.

At its 550th meeting in February 2007, the Board of Directors approved a change in the name of this company from the Chinese Petroleum Corporation to the CPC Corporation, Taiwan, retaining its "Chinese Petroleum" name in Chinese, its logo and its "CPC" abbreviation in English. The objectives of this change were to expand the firm's international business, reinforce the principle of keeping its roots in Taiwan and build on the priceless goodwill that the company has acquired over the decades since its founding. CPC's total capital now stands at NT\$130.1 billion and its revenues in 2013 amounted to a record NT\$1.2 trillion.

Driving Taiwan's economy while fulfilling corporate social responsibilities

Over the years, CPC has comprehensively fulfilled its mission to provide a stable supply of petroleum products and stimulate development in the petrochemical industry and in doing so has helped enable Taiwan to sustain vigorous economic growth and its people to enjoy prosperity. For these accomplishments, CPC has won praise from all sectors of society.

Faced with the full-scale deregulation of Taiwan's market for petroleum products in recent years, CPC has moved to consolidate its operating advantages and enhance its competitive strengths not only by engaging in organizational re-engineering and streamlining, but also by carrying out



Honors and Awards in 2013

- Ranked 305 in the Fortune 500 List by *Fortune Magazine*
- Platinum Award (13th consecutive year), *Reader's Digest Magazine's Trusted Brands*
- Gas Service Station of the Year for the 8th consecutive year
- Gold Medal for Enterprise Services from *Next Magazine*
- First Place Gas Service Station Brand, Consumer Ideal Brand Awards by *Management Magazine*

production-cost reductions and pursuing maximum profitability – while it moves toward corporatized operations. At the same time, it has energetically sought opportunities to cooperate with major international oil companies in upstream exploration and production, petrochemicals development and marketing channel ventures – all with the aim of enlarging its business scope, expanding its presence in international markets and increasing corporate sustainability. CPC aims, in this way, to become an integrated international energy group encompassing oil and gas exploration and production, petrochemicals and high-tech operations; while continuing to provide the people of Taiwan with high-efficiency, high-quality energy products and services.

As a state-owned enterprise, CPC will pursue profitability but in doing so will not neglect its social responsibilities as a corporate citizen. In addition to continuously enhancing the quality of its petroleum products, promoting the use of liquefied natural gas (LNG) as a source of clean energy, and working hard for environmental protection over the years, the company has - without regard to cost - also fulfilled its mission of public service by supplying the petroleum products needed by the military and other people located in Taiwan's remote areas and offshore islands. At the same time the company has consistently carried out social-care activities, promoted public understanding of the petroleum industry, educated people concerning the safe use of gasoline and natural gas, held health and safety workshops and been a leader to other businesses in strengthening industrial safety culture. Further, CPC has supported disadvantaged groups, participated in social-welfare activities, funded arts and cultural activities and sponsored elite athletes. Its public service role also includes assisting neighborhood development around its plants and oil exploration areas, encouraging ecological conservation, fostering local culture, promoting environmental education and stimulating local progress. These activities are all in keeping with the 21st-century trend toward corporate sustainability and express CPC's balanced emphasis on economic growth, environmental protection and social welfare.

CPC initiated the following sustainability policies at the end of 2003 in keeping with the global drive towards more effective environmental protection:-

-
- Conformity with government regulations and international protocols
 - Full-scale clean production
 - Efficient utilization of resources to conserve water and energy
 - Emphasis on social responsibility and expansion of beneficial social services
 - Tracking of key environmental indicators and promotion of information transparency
 - Active commitment to R&D for the creation of new environmentally-friendly business models and technologies.
-

CPC joined the World Business Council for Sustainable Development (WBCSD) in 2006 and is pursuing sustainability objectives in the four areas of : environment and conservation; social consciousness policy; R&D; and environmental accounting and information. CPC also published "Sustainable Development Reports" in 2007, 2009, 2011 and 2013 in fulfillment of its responsibility to disclose corporate information relating to sustainability.

In these times when global warming and climate change are becoming increasingly evident, we will carry out in good faith our role as the principal domestic producer and supplier of clean energy and in doing so will strive to create a win-win-win outcome among the three aspects of environmental protection, economic development, and social responsibility.

Board and Corporate Officers

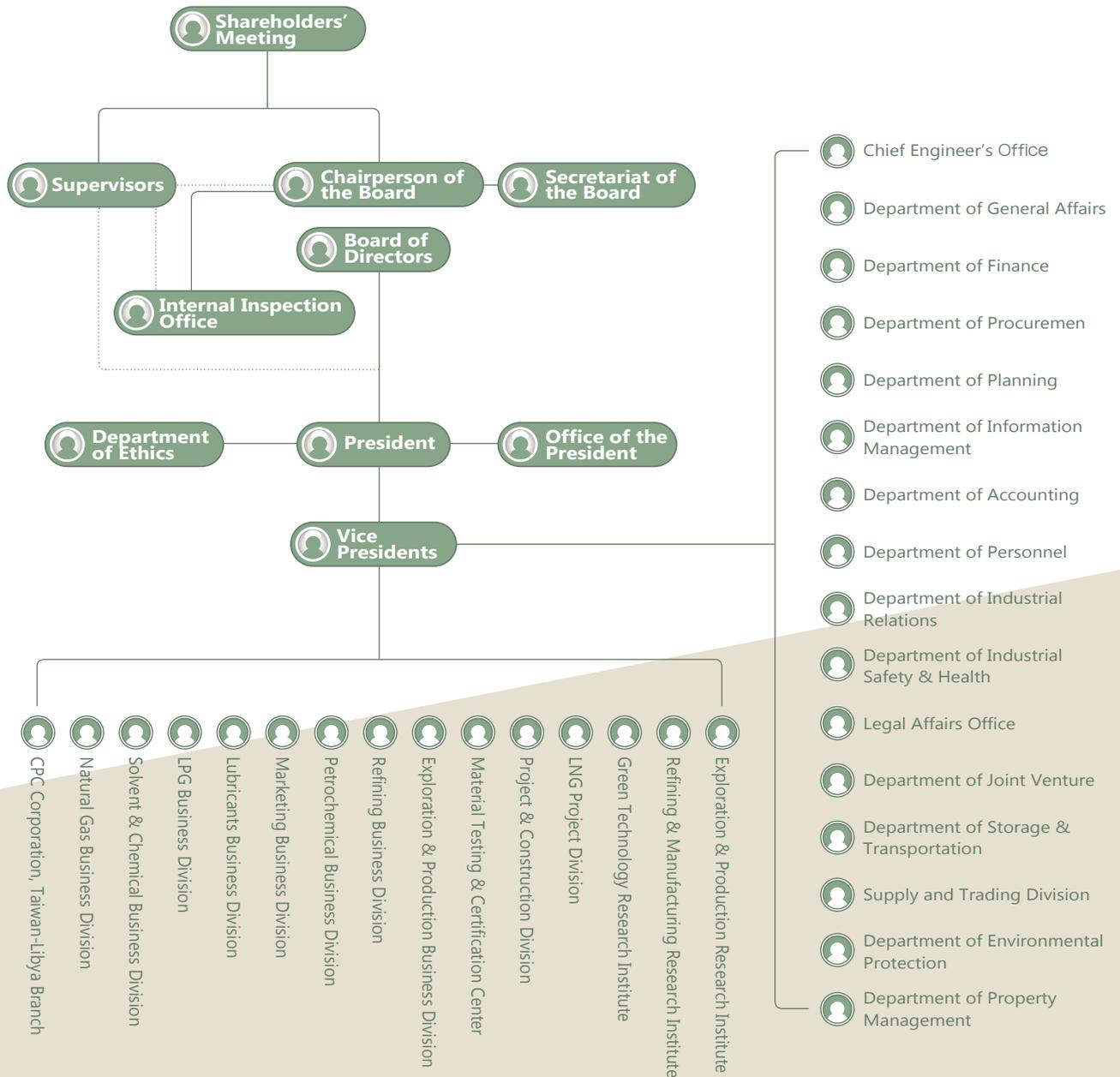
Board of Directors

Chairperson of the Board (Standing Directors)	Sheng-Chung Lin
Standing Directors	Lie-Way Chen
Standing Directors (Independent Director)	Chi-Yuan Liang
Directors (Independent Director)	Chuh-Yung Chen
Directors	Wang-Hsiang Hwang
	Shin-Cheng Yeh
	Tung-Yi Lee
	Mei-Ying Huang
	Chin-Lai Huang
	Jyh. Wei. Sun
	Kwung-Shing Wu
	Yaw-Chung Liao
	Yi Chou
	Supervisors
Chiao-Tao Hsu	
Chi-An Wu	

Corporate Officers

President	Lie-Way Chen
Vice Presidents	J. S. Yang
	Ray-Chung Chang
	Ming-Huei Chen
	Cheng-Hsie Liu
CEO, Exploration & Production Business Division	Jong-Chang Wu
CEO, Refining Business Division	Ching-Yang Wu
CEO, Petrochemical Business Division	Paul S. P. Chen
CEO, Marketing Business Division	Jung-Lieh Lin
CEO, Natural Gas Business Division	J.Y. Chen
CEO, Lubricants Business Division	Ting-Pang Chi
CEO, LPG Business Division	Paul C.S.Sung
CEO, Solvent & Chemical Business Division	Jimmy Chang
Director, Refining & Manufacturing Research Institute	Vincent Y.S.Ho
Director, Exploration & Development Research Institute	Shin-Tai Hu
Director, LNG Project Division	Marc W. H. Lin (Acting)
Director, Project & Construction Division	Marc W. H. Lin
Director, Green Technology Research Institute	Jung-Chung Wu
Director, Material Testing & Certification Center	Ta-Tsung Yen

Organization Chart



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Upstream Operations

Locking-in more sources of energy and cooperating on international exploration

CPC's response to the question of Taiwan's long-term energy needs has been to secure its supplies by taking ownership of overseas sources of oil and natural gas and thereby also reduce its import costs. CPC has been investing abroad for many years through its affiliate Overseas Petroleum and Investment Company (OPIC) with the twin goals, as mentioned above, of locking in stable supplies over the long-term through ownership or control of the resources. As of the end of 2013, CPC was engaged in cooperative exploration and production in 25 fields spread over 10 countries.

CPC's 13 currently-producing fields consist of Blocks 16 and 17 in Ecuador, Indonesia's Sanga Sanga, Niger's Agadem and, in the USA, the Hurricane Creek project (eight fields) and the Austin Chalk site. In all of 2013, CPC's output share was 5.45 million barrels of oil and 351 million cubic meters of natural gas.



CPC's overseas fields: location and development model – exclusive or cooperative

CPC plans to annually purchase 2.0 million tons of LNG from Shell's Prelude gas field for a period of 20 years from 2016. In addition to its 5% interest in this floating liquefied natural gas (FLNG) project, CPC plans to acquire other assets in the form of upstream oil and gas fields.

CPC has carried out exploration in its own right. Five exploratory wells have been drilled in the BCO III/BCS 11/BLT I blocks in Chad; oil and gas have been discovered in two of them and a confirmatory drilling is being planned. Two exploratory wells were drilled in Libya's Murzuq 162 Block and both turned out to be dry. The outbreak of civil war forced CPC's local subsidiary to suspend operations; continuing unrest means that operations have not yet been resumed and one obligatory well has not yet been completed.

CPC is currently conducting cooperative operations in seven widely-separated locations: the Patolon-1 exploratory well in Myanmar's D Block has been completed, but showed no signs of oil or gas. In Congo (Brazzaville), two exploratory wells were drilled in the Haute Mer A area - one was dry and the other is being tested for oil and gas. In Indonesia, CPC continues drilling further exploratory wells in the Sanga Sanga coal bed methane field, which currently produces approximately 10,000 m³ of methane daily for supplying local power plants. Current plans call for the drilling of one exploratory well each in Indonesia's Bulungan field and Australia's AC/P21 field by the end of 2014; and CPC is currently drilling in two fields in the USA.

In the case of two CPC-owned offshore fields in Venezuela - Gulf of Paria East and West - the government has implemented a nationalization policy and expropriated CPC's holdings. The case was submitted to international arbitration and it was ruled that Venezuela's national oil company must compensate CPC for its lost investment.





Focusing on High Growth Areas; Initiating New Strategies for Extraction

in 2013 CPC completed geological surveys of 48 square kilometers and three-dimensional seismic surveys covering 156.8 square kilometers in western Taiwan, repaired one well and drilled a new one. There are currently 41 producing oil and gas wells in the Tiezhenshan, Qingcaohu, Jinshui, Chuhuangkeng, and Guantian fields, yielding 500 million cubic meters of natural gas and 10,000 kiloliters of condensate annually.

CPC has decided, after careful study, to suspend development of the F Structure field offshore Kaohsiung – a decision approved by the Executive Yuan on January 13, 2014 - because changes in raw material prices indicate that the projected return on the investment will fall short of expectations.

In the area of cross-strait cooperation on offshore exploration CPC aims to dilute the exploration risk and acquire deep-water exploration technology by cooperating with Canada's Husky Energy on exploration of deep-water blocks in the Tainan Basin, for which two-dimensional seismic survey data covering 3,300 square kilometers has been obtained. Further, three-dimensional survey data has been acquired for 797 square kilometers in the Tainan-Chaoshan Petroleum Contract area.

Looking to the future, CPC will seek to leverage its situation in overseas exploration and production by optimising the value of its existing overseas oil and gas assets and establishing core areas with high rates of growth. To extend its reserves, it will be an active bidder for open blocks, will search out opportunities to take over fields from major oil companies and will pursue M&A opportunities with new oil and gas fields.



ⓐ US-Colorado

KC320(20%)
Operator: Medll

ⓑ US-Louisiana

Austin(20%)
Operator: Yuma

ⓒ US- Louisiana/Texas boundary

Big Horn (11.2%)
Shoats Creek (5%)
S.Bancroft (10%)
Danube (10%)
Yellowstone (10%)
NW Bearhead Creek (10%)
East Skinner Lake (10%)
Operator: EP Energy
Skinner Lake (6.32%)
Operator: Halcom

ⓓ US-Texas

Maresh (30%)
Operator: TT Energy

● Under development/producing fields

● Fields under exploration

Stable sources of petroleum throughout the world

10 countries 25 fields



e Venezuela

Paria West (10%)
Operator: PPSA
(6.5% of Corocoro oil field)
Paria East (7.5%)
Operator: PPSA

Note: The Venezuelan government has implemented a nationalization policy and expropriated CPC's holdings. The case was submitted for arbitration and it was ruled that the Venezuelan government must compensate CPC for its lost investment.

f Ecuador

Block-16 (31%)
Operator: Repsol-YPF
Block-17 (30%)
Operator: PetroOriental

g Libya

Murzqu 162 (100%)
Operator: CPC

h Niger

Agadam area
Exploration (ERA): 23.53%
Development (EEA): 20%
Operator: CNPCNP

i Chad

BCO III, BCS II, BLT I (70%)
Development (EEA): 20%
Operator: OPIC

j Congo

Haute Mer A: 20%
Operator: CNOOC Congo SA

k Myanmar

Area D (30%)
Operator: SIPC

l Indonesia

Bulungan (20%)
Operator: ENI

m Indonesia

Sanga Sanga (16.67%)
Operator: VICO

n Indonesia

Sanga Sanga coal bed methane (20%)
Operator: VICO

o Australia

AC/P21 (30%)
Operator: ENI

p Australia

Prelude gas field (5%)
Operator: Shell

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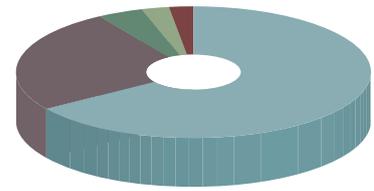
Downstream Operations

Producing the finest petroleum products for both home and export markets

Importing and Refining

Almost all of the crude oil that is refined by CPC has to be imported, as only an extremely small amount is produced in Taiwan. The company therefore purchases oil through long-term contracts, and diversifies its sources, to ensure stability in its supplies. Imports of crude oil reached 139.9 million barrels in 2013, with 65.57% coming from the Middle East, 25.68% from Africa, 2.60% from Australia, 2.11% from Southeast Asia and 4.04% from Central Asia and other regions. In line with increasingly stringent domestic environmental protection standards, a set amount of imports consist of low-sulfur crude.

CPC has efficient oil importing facilities in the form of offshore mooring and unloading buoys for large tankers at the Shalun terminal in Taoyuan County and the Dalinpu terminal in Kaohsiung, as well as dedicated tanker wharves at Kaohsiung, Taichung and Shenao harbors.



139.9 million barrels

Total crude oil imports in 2013

- Middle East **65.57%**
- Africa **25.68%**
- Central Asia and other regions **4.04%**
- Australia **2.60%**
- South-east Asia **2.11%**



Integrated refining and production: a daily capacity of 720,000 barrels

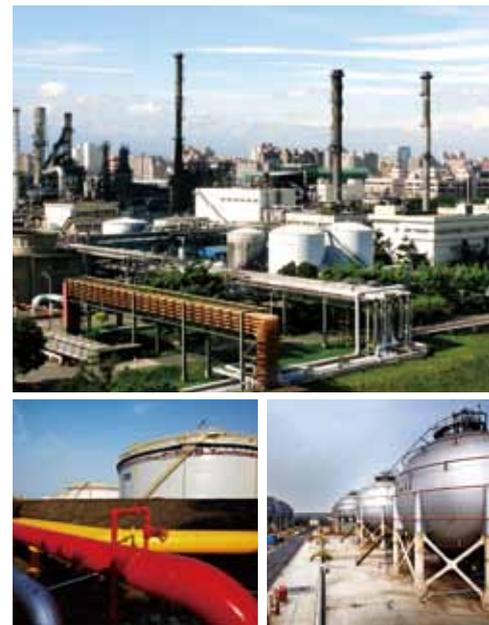
CPC's three existing refineries - in Kaohsiung, Taoyuan and Dalin - have a combined daily capacity of 720,000 barrels.

The Kaohsiung Refinery, which handles 220,00 barrels daily, has the longest history of the three and is a large integrated oil refining and petrochemical production facility featuring complex and comprehensively equipped production processes.

The Taoyuan Refinery came on stream in 1976, and following some renovations and the addition of a second distillation plant now has a daily capacity of 200,000 barrels.

The Dalin Refinery, which has a daily capacity of 300,000 barrels, became operationally independent of the Kaohsiung Refinery in 1996. It has four offshore mooring and unloading buoys as well as both large and small docks for the handling of imported crude and loading petroleum products for export.

CPC's total output of petroleum products in 2013 amounted to 10.15 million kiloliters of gasoline, 1.96 million kiloliters of aviation fuel, 6.554 million kiloliters of diesel fuel, 4.100 million kiloliters of fuel oil, and 493,000 metric tons of liquefied petroleum gas.



Upgrading the refining process to boost product quality and quantity

In response to Taiwan's increasingly demanding environmental and quality of life standards, coupled with demand for a wider range of petroleum products, CPC has in recent years moved to improve the quality of its products and enhance their production value. The refining and production facilities designed and built to both supply Taiwan's people with higher-grade petroleum products and to raise production efficiency include reforming, isomerization, TAME (tert-amyl methyl ether), diesel hydrodesulfurization, aviation fuel processing, N-paraffin processing, alkylation, heavy oil conversion and gasoline hydrodesulfurization.

Additionally, CPC has built new facilities to be in compliance with the Environmental Protection Administration's (EPA) directive that by 2011 the sulfur and aromatics content of gasoline and diesel fuel must be reduced to no more than 10 ppm and no more than 35 vol% and that the alkene content of gasoline must be reduced to no more than 18 vol%. These new plants are: a 30,000-barrel-per-day cracked gasoline hydrodesulfurization plant at the Taoyuan Refinery, completed in 2008; a 20,000-barrel-per-day cracked gasoline hydrodesulfurization plant at the Dalin

Refinery, completed in 2009; a 40,000-barrel-per-day diesel hydrodesulfurization plant at the Dalin Refinery, completed in 2010; and relocation of the 18,000-barrel-per-day cracked gasoline quality improvement plant from the Kaohsiung Refinery to the Dalin Refinery in 2011. All of those facilities duly completed pilot operation and entered mass production.

CPC's petroleum products are mostly intended to supply the domestic market, but some surplus is exported. Those shipments amounted to approximately 4.98 million kiloliters in 2013, and went to Vietnam, Singapore, Indonesia, Malaysia, the Philippines, the UAE and China. Further development of export markets is planned as part of the effort to boost the company's revenue and profitability.

Additional facilities constructed to supply CPC's markets include an 80,000-barrel-per-day residue fluid catalytic cracking (RFCC) facility at the Dalin Refinery begun in 2006, which started pilot operation in November 2012 and which completed performance testing and began mass production in 2013. The projected 70,000-barrel-per day residuum hydrotreating (RDS) heavy-oil desulfurization plant project at the Taoyuan Refinery, was again put on hold for two years in November 2012, with the agreement of the Executive Yuan, due to strong resistance by nearby residents. At the Dalin Refinery, implementation began in 2008 – and in conjunction with the completion of a heavy fuel oil conversion facility to make use of the plentiful supply of crude butane feedstock – of a 14,000-barrel per day alkylation plant intended to further improve the quality of gasoline and which began mass production in 2013. To boost the value of mixed C4 hydrocarbons produced by the heavy-oil conversion plant through use in the manufacture of high-value petrochemical products, CPC has planned the joint-investment construction of an 180,000-ton-per-year isononanol (INA) plant and a 144,000-ton-per-year methyl tert-butyl ether (MTBE) plant; construction is expected to begin in 2014, with mass production in 2017.

Petrochemical Production

CPC currently has an annual petrochemical capacity including 1.57 million tons of ethylene, 1.51 million tons of propylene, 275,000 tons of butadiene, 543,000 tons of benzene, 666,000 tons of p-xylene, and 190,000 tons of o-xylene.

The main production sites are the Kaohsiung Refinery and Linyuan Petrochemical Plant. The latter's equipment and facilities include naphtha cracking, butadiene, aromatics extraction, xylene separation, transalkylation and isomerization units.



A petrochemical industry leader: driving industrial development

CPC is the dominant force in Taiwan's petroleum and petrochemical industry. By investing in upstream operations for many years and thus stimulating the industry's development, it has helped bring about Taiwan's economic miracle.

Starting in 2005, CPC embarked on a campaign to upgrade its equipment and expand its capacity in an initiative to narrow the gap in the supply of petrochemical raw materials. In 2009 the company initiated the "Third Naphtha Cracker Renovation and Expansion Project" at the Linyuan Petrochemical Plant, budgeted over NT\$40 billion. The project was completed in 2013 after an arduous construction period and produces high-grade ethylene. The new Third Naphtha Cracker currently has an annual production capacity of 720,000 tons of ethylene, 430,000 tons of propylene and 132,000 tons of butadiene; it is expected that it will generate an annual economic benefit of NT\$60 billion, stimulate the willingness of other downstream companies to invest and bring a new level of prosperity to the petrochemical industry. Looking ahead, CPC plans to employ new processes, low-energy consumption technologies and superior economies of scale to provide the downstream petrochemical industry with sufficiency in such basic raw materials as ethylene and propylene.

Petrochemicals are essential industrial raw materials for manufacturing and are thus closely linked to almost every aspect of peoples' lives. In the context of a deregulated and increasingly competitive market, CPC is actively supporting government policy for petrochemicals - enhancing quality, expanding exports - by such tangible actions as creating an integrated up-, mid- and downstream petrochemical industry chain, boosting product innovation and developing high-value niche products,





Marketing

CPC's domestic marketing chiefly focuses on automotive gasoline, aviation fuel, diesel and fuel oil. In 2013 CPC sold a total of 192.5 kiloliters of petroleum products in Taiwan, which generated total sales revenue of approximately NT\$518.5 billion - a slight increase over 2012. Automotive gasoline accounted for the largest share at approximately 46.6%, followed by diesel at about 25.9%, fuel oil at about 19.2% and aviation fuel at around 8.3%.

Taiwan's market for petroleum products is chiefly divided between CPC and Formosa Petrochemical and competition between the two has grown increasingly intense. CPC has worked hard to leverage the advantage of its marketing network and protect its market share by consolidating its filling-station network: of the 2,518 filling stations operating in Taiwan as of the end of 2013, 625 were operated by CPC directly, 11 were operated cooperatively by CPC and other parties and 1,356 were privately-operated franchises - a total of 1,992. This network gives CPC control of more than 70% of the market and its share of overall gasoline, aviation fuel, diesel and fuel oil sales were 79.0%, 60.2%, 84.5% and 92.4% respectively.



Fueling air, sea and land transportation; high-grade gas station service

CPC operates aviation fueling stations at the Sungshan, Taoyuan, Taichung, Hualien, Taitung, Kaohsiung, Kinmen and Magong airports and international marine bunkering stations at Keelung, Su-ao, Taichung, Kaohsiung and Hualien harbors as well as 35 fishing-boat filling stations around Taiwan's coastline.

As of the end of 2013, CPC had 14 petroleum supply centers - located at Keelung, Shimen, Hsinchu, Taichung, Taichung Harbor, Wangtian, Minxiong, Tainan, Fengde, Qiaotou, Suao, Hualien, Huxi, and Kinmen and Matsu (part of the oil supply center), to supply the petroleum products needed by filling stations in the surrounding areas. A total of 19,649 kiloliters of oil was delivered from these centers throughout the year. CPC also has three chemical analysis centers, in Keelung, Taichung, and Kaohsiung, plus seven testing laboratories charged with testing petroleum products and maintaining quality control. Altogether, they tested 51,721 samples during the year.

In the area of customer service, we established our 080-003-6188 customer service hotline in 2000 and added the "1912" CPC service line in 2011 to expand the scope of our services and respond to customers' problems on a unified basis



Natural Gas

CPC's promotion of natural gas, in keeping with Taiwan's policy goal of energy diversification, is based on its inherent advantages of high thermal efficiency, lack of pollutants and its relative safety and convenience in handling. CPC's completion of Taiwan's first liquefied natural gas (LNG) receiving terminal in Kaohsiung's Yongan District in 1990 inaugurated a new era in the use of clean energy in Taiwan. A subsequent expansion project, completed in December 1996, boosted its annual handling capacity to 4.5 million tons and there has been a third-stage expansion project to satisfy the growing demand for natural gas from independent power plants and other end-users in northern Taiwan. In addition to expansion of the terminal itself, we also set a precedent in Taiwan by laying a 36-inch diameter, 238km-long gas undersea pipeline from Yongan to Tongxiao. Completion of the pipeline in December 2002 expanded CPC's annual LNG handling capacity to 7.44 million tons.

Building a figure-8 shaped network to stabilize gas supply to power plants.

CPC built a new, 3 million tons annual capacity LNG receiving terminal at Taichung Harbor to meet the gas needs of, and to supply gas for power generation - such as at Taiwan Power Company's Datan Power Station - industry and household users in northern and central Taiwan and the harbor hinterland. This project included three 160,000-kiloliter LNG storage tanks, gasification and gas supply facilities and a 135-kilometer, 36-inch sea/land long-distance transportation pipeline from Taichung Harbor through the Tongxiao distribution station to the Datan measuring station. The facility began formal operation on July 13, 2009 and the current "Taichung Terminal Phase II Investment Project" calls for the construction of a further three 160,000-kiloliter above-ground storage tanks and a gasification facility at the Taichung terminal, a 26-inch terrestrial gas pipeline between the Taichung plant and the Wuxi Separation Station with a length of approximately 21.8 km and one switching station and a link with the existing 26-inch terrestrial trunk gas pipeline at the Wuxi Separation Station. When completed, the project will boost the annual capacity of the Taichung terminal to 5 million tons, ensure a stable, dependable supply of gas during the winter monsoon period and increase both LNG storage tank capacity and the number of days supply on hand.



CPC has built up a natural gas transmission and distribution system in western Taiwan that includes approximately 1,520 kilometers of trunk pipeline, extends from Pingtung to Keelung and takes in eight supply centers and 42 distribution stations. CPC's gas pipeline plans have as their goal the construction of ring-shaped networks: by laying down a 238-kilometer undersea pipeline from Yongan to Tongxiao and a 500-kilometer terrestrial pipeline from Yongan to Taoyuan, it will create a circular gas pipeline network in central and southern Taiwan. In addition, after the 36-inch undersea gas pipeline from Taichung to Datan has commenced operation, it will be linked with terrestrial pipelines in central and northern Taiwan to form another circular gas transport network – thus giving CPC an integrated "figure 8" gas transmission network.

Long-term purchasing contracts to diversify overseas sources of natural gas

CPC has worked to diversify its natural gas sources to ensure a stable supply for Taiwan. There are long-term LNG purchasing contracts with Indonesia, Malaysia and Qatar and great progress has been made in planning and negotiating other long-term agreements with, for example, Papua New Guinea, Australia and the USA.

In 2013, CPC imported its LNG mainly from Indonesia, Malaysia and Qatar under long-term purchasing contracts. Additional supplies were obtained through master sales agreements with the Republic of Trinidad and Tobago, Egypt, Nigeria and other sources in the context of stability and diversity. CPC sold 16.5 billion cubic meters of natural gas throughout the year.



Other Products

LPG—consolidating the domestic market and trading internationally

After the government permitted the free import of LPG in 1999, ending CPC's monopoly and opening up the market to competition, Formosa Petrochemical Corp. joined the ranks of producers and independent traders. CPC responded to competition by leveraging the advantage of its superior product quality, extensive storage and transport system throughout southern and northern Taiwan, far-reaching distribution network and constant monitoring of international price trends to minimize its supply costs and consolidate its hold on the domestic market. In the area of industrial gas, CPC has both maintained existing customers and developed new accounts through its constantly-improving customer service, and has also been making an effort to expand exports.

CPC has increased its LPG storage tank turnover rate in compliance with the government's safety reserve policy. We have been simultaneously improving work safety, environmental protection and the level of operating performance at LPG facilities.



Lubricants—a dual brand strategy; gaining a foothold in South-east Asia

CPC's "Kuo-Kuang" brand of lubricants leads the domestic market leader with a share of over 30%. This is based on a dual-brand marketing strategy featuring both the "Kuo-Kuang" and "Mirage" brands in vigorous promotion of product quality, reinforcing marketing channels, expanding auto and motorcycle repair and garage channels and using differentiated products and timely services to satisfy customers' needs. Close to 30 contract distributors carry "Kuo-Kuang" brand lubricants, which are also retailed at more than 600 directly-operated filling stations and many well-known stores. "Mirage" lubricants are carried by six contract distributors and are also available at garages and motorcycle repair shops.

CPC's main strategies for overseas markets include long-term cultivation of distribution channels, direct exports and multilateral trade operations and promotion of its lubricating and base oil brands. Marketing channels for the "Kuo-Kuang" brand have been established by taking advantage of the network of Taiwanese enterprises in the Asia-Pacific region, and the products have thus far entered the markets of China, Vietnam, Indonesia, the Philippines and other South-east Asian countries. At the same time, we are working at establishing a foothold for CPC lubricants in the South-east Asian vehicle service and repair market and also at capturing the market comprising Taiwanese and other foreign firms – all with the objective of eventually gaining a beachhead in the wider Asia-Pacific lubricants market.

Solvents—developing biotech products and expanding export channels

In the field of solvents and chemicals, CPC holds 70%-80% of the market for domestically-produced solvents, 20%-30% of the market for toluene, 35%-45% of the market for xylene, 50%-60% of the market for methanol, roughly 70% of market for asphalt and around 56% of the market for sulfur. We have actively promoted quality products and services and cultivated sales channels to reach our operating goals; and at the same time are enhancing product quality and image, continuing process improvement and cost reduction and working on the development of new products and new business models. Further, we are expanding exports and developing new markets in Vietnam, China and other key economies. Products developed by CPCBio are seen as having great potential and are being actively marketed.



Industrial Safety and Health

Implementing risk management and ensuring a safe workplace

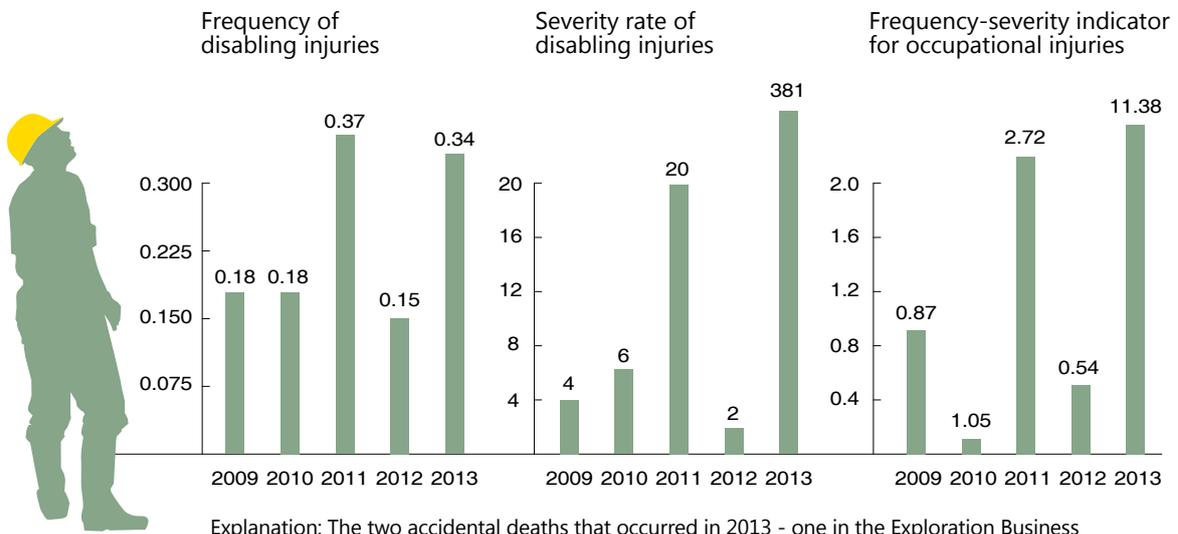
Since both petroleum products and natural gas are highly flammable, CPC has always placed extreme emphasis on industrial safety, healthcare and fire prevention in order to maintain continuity of operations, protect its employees from harm and safeguard lives and property in communities neighboring the company's plants. As well as upholding Taiwan's relevant laws and regulations, CPC has also drafted – and strictly enforces throughout its operations – safety and accident-prevention protocols modeled on those of advanced countries in Europe and also the USA and Japan and suitably adapted to reflect actual conditions in Taiwan and the character of CPC's operations.

Establishing safety regulations and accident-prevention standards

Industrial safety is the foundation of corporate development. To achieve its goal of "100% industrial safety and 0 accidents" CPC is constantly strengthening its safety culture and upholds a policy whose main elements are: safety disciplines and thorough inspection; promotion of health and responsible care; risk management; systematic operations; continuous improvement; and sustainability in operations. CPC's industrial safety performance is recognized not only at home but also internationally, as shown by the medal awarded by the World Safety Organization in 2005.



CPC's occupational accident statistics for the most recent five years



Explanation: The two accidental deaths that occurred in 2013 - one in the Exploration Business Division in the course of horizontal drilling; one due to hydrogen sulfide poisoning at the Kaohsiung Refinery - are the chief reasons for rise in that year's accident indicator.

CPC's current industrial safety and healthcare policy: focal points

- CPC has implemented the Taiwan Occupational Safety and Health Management System (TOSHMS) and works at continuous improvement of its operations environment.
- Reinforcement of contractors' safety management practices and establishment of contractor self-discipline in order to reduce occupational accidents among contractors' employees.
- Regular review of industrial safety and health regulations and continuous review and revision of standard operating procedures.
- Strengthening of industrial health management, scheduling employee health checks, analysis and tracking of health check-up information, promotion of a healthy lifestyle and emphasis on the mental health of employees.
- Implementation of risk management and process safety management, establishment of equipment safety management processes, thorough implementation of oil tank and pipeline inspections and installation of long-distance oil and gas pipeline monitoring and leak detection systems.
- Strengthening of fire-prevention drills, organization of a professional fire-fighting team and guidance to work units on carrying out fire-appliance performance testing. Five technical manuals on fire-control equipment have been published.
- Implementation of graded on-site safety inspections; continuous improvement through safety observations at the systemic, management and implementation levels.
- Strengthening of industrial safety inspections including "management by walking around" by senior managers, professional industrial safety inspections and pre-startup inspections of new and renovated factories. All deficiencies that are discovered are tracked through the information system and dealt with.
- Planning and implementation of safety and environmental training and awareness programs, development and provision of online study courses, establishment of an industrial safety test-question database and compilation and publication of instructional accident case studies.
- Reinforcement of the functions of the Safety Information Center, lending of study materials and availability of an online data query service system.



Pollution Prevention and Environmental Protection

Fulfilling a CSR commitment; maintaining environmental sustainability

CPC is engaged in a long-term effort to improve its handling of issues arising from pollution involving waste-water, air, noise, solid waste and groundwater in the course of fulfilling its CSR commitment and upholding the spirit of sustainable development. In recent years, the company has also worked on carbon dioxide emission inventory and reduction and has adopted the best available technology and equipment for all new investment projects consistent with minimizing the pollution caused by production, transportation and storage processes. CPC is also aiming at environmental protection through enhancing the quality of its petroleum products.

Establishing an ISO environmental management system; embarking on a CO₂ reduction plan

CPC consistently adheres to an environmental protection policy in which the chief elements are: legal and regulatory compliance, adherence to international norms, pollution prevention, energy conservation, waste reduction, continuous improvement, employee participation, social responsibility and sustainable development. Since 1989 it has invested more than NT\$50 billion in environmental protection; the ISO 14001 environmental management system has been implemented in all units since 1995 and 22 units had passed certification by the end of 2013. In keeping with global trends, a company-wide environmental accounting system was set up in 2004 to help improve performance in environmental matters.

Although Taiwan is not a signatory to the 1997 Kyoto Protocol, CPC works in line with international environmental protection practice to reduce greenhouse gas emissions. We have established carbon dioxide reduction targets and timetables for existing plants, and practice emissions-reduction measures by using low-carbon fuel, conserving energy, improving equipment efficiency and reducing waste. A company-wide inventory of greenhouse gases was completed in 2005, and there is an ongoing CO₂ reduction plan: a target for CO₂ emission reduction of 1 million tons by 2009 was set and was surpassed by achieving an actual reduction of 1.22 million tons. The goal of the second stage of the reduction plan is to cut CO₂ emissions by a cumulative total of 2.3 million tons by 2015; a reduction of 2.2 million tons had been achieved as of the end of 2013 and work on further reducing emissions continues.



Comparison of CPC Refineries' Environmental Quality and National Standards

Effluent

	Quality in 2013	Current national standards
Chemical oxygen demand (COD) COD (ppm)	< 60	100
Oil (ppm)	< 5	10
Suspended solids (SS) (ppm)	< 15	30

*Monthly average values

Stack gas

		2013 quality	Current national
Sulfur oxides (SOx) (ppm)	Particulate matter (TSP) (mg/Nm ³)	< 50	100
	Liquid fuel	< 250	300
Nitrogen oxides (NOx) (ppm)	Gaseous fuel	< 100	150
	Liquid fuel	< 200	250
Particulate matter (TSP) (mg/Nm ³)	According to emissions volume	5-100	< 25-500

Noise

	2013 quality	Current national
Nighttime (dB)	< 50	55

Resources used by and pollutants generated by CPC

Feed (crude oil)	22,684,022	Kiloliters	Employees: 14,819 Land 2,876 ha Capital NT\$130.1 billion	Gasoline	10,205,699	Kiloliters
MTBE	674,077	Kiloliters		Diesel	7,300,359	Kiloliters
Fuel Oil	400,599	Kiloliters		Fuel oil	5,254,633	Kiloliters
Fuel Gas	1,312,934	1,000 m ³		Ethylene	1,014,577	Tons
Natural Gas	612,317	1,000 m ³		Propylene	786,170	Tons
Power purchased externally	1,368,861,460	KWh		NOx	6,103	Tons
			SOx	3,727	Tons	
			TSP	506	Tons	
			VOC	3,485	Tons	
			COD	587	Tons	
			Wastewater	18,179,270	m ³	
			Waste	55,632	Tons	

Using the latest pollution prevention technology; concern for local ecological Issues

CPC stopped supplying leaded gasoline to the market in January 2000 to conform to the gasoline quality standards of the developed world and thereby improve Taiwan's air quality. Further, the sulfur content of its diesel was reduced from 375 ppmw to 50 ppmw in June 2004 and to 10 ppmw in July 2011. High-quality gasoline with a sulfur content of 50 ppmw came on to the market on January 1, 2007, and in 2012 the sulfur level was reduced to 20 ppmw. In 2007, the company introduced biodiesel on July 27 and gasoline containing ethanol on September 29. CPC has supplied B1 biodiesel on a large scale since September 15, 2008 and has supplied B2 biodiesel since June 15, 2010. In addition, vapor recovery hoses have been installed at all CPC filling stations and storage tanks have been fitted with vapor recovery systems, resulting in the recovery of more than 3,200 kiloliters of gasoline per year - equivalent to a reduction in emissions of a similar amount of volatile organic compounds.

Through years of constant effort, the quality of Taiwan's petroleum products has been improved until today it compares with that of Japan, the United States and other advanced countries. Not content to rest its laurels, however, in the future CPC will use the up-to-date environmental standards for petroleum products of advanced countries as the benchmark in the ongoing pursuit of ever-better quality. For the good of its homeland and the health and prosperity of its people, CPC will employ the latest in pollution prevention technology, consistently seek better performance in environmental protection and pursue sustainable development.

We are also promoting environmental education and related activities, hoping to provide people with ecological know-how. We help to spread awareness of the need to protect the environment and cherish natural resources, and we call on everyone to care about local ecological issues, adopt parks, wetlands and woodlands, help with environmental cleanup, and work to eliminate pollution of the sea. If everyone takes action, we can pass on a clean environment to our children and grandchildren.



R&D and Information Management

Engaging in energy technology R&D; establishing a mobile e-commerce environment

CPC is vigorously engaged in R&D as part of its pursuit of sustainable development. Its Exploration Research Institute in Miaoli is responsible for domestic and foreign geological assessment and research in drilling technology. The Refining and Manufacturing Research Institute in Chiayi develops petrochemical products and lubricants and formulates resolutions for production bottlenecks. The CPC Green Energy Technology Research Institute in Kaohsiung develops biofuels and renewable energy technologies, while the New Materials Trial Production and Certification Center supports the MOEA's policy of adding value to petrochemical products by helping firms engaging in technology R&D to perform mass production trials.

CPC's R&D spending totaled roughly NT\$1.57 billion in 2013 and yielded the following results:

Exploration

- CPC received NT\$56.45 million in funding from the MOEA Petroleum Fund for eight research projects focused on developing petroleum technologies.
- CPC performed five commissioned technical service projects for external units, earning technical service income of approximately NT\$27 million.
- CPC completed 30 technology acquisition and innovation cases and issued 74 domestic and foreign periodical and conference papers.
- CPC carried out seismic structural analysis of the uppermost of the E1 and E2 Eocene sand strata and the upper Cretaceous strata near the Agadem oil field in Niger, and mapped the time structure contours and the fault structure closure distribution of the top of the E1 stratum.
- Established simulated three-dimensional geology models of oil fields, which were then used to assess their oil and gas reserves.
- Discovered residual oil and gas reserves through the use of a rift valley basin model simulating Chad's Doba basin and the Dampier subbasin offshore north-west Australia.
- Completed analysis of final extractable reserves in Chad's oil fields.
- Established oil-well anti-collision design and analysis technology; the well design and anti-collision analysis methods were used in 10 cluster-type development wells in the F structure.
- Completed drilling pressure differential and permeability correlation charts which can be used as a basis for drilling mud research by drilling, production, and prospecting units.
- Established an ICP-MS analytical method for transition metals in crude oil, performed analysis of types and amounts of transition metals in petroleum from different deposition environments and integrated the results with the findings of organic geochemistry.
- Completed pilot operation of experimental carbon dioxide geological sequestration equipment and found that all atmospheric, soil gas, and down-well monitoring systems operated normally and there were no signs of leakage.
- Research on secondary pore space in reservoir rock in the F structure using well logging and petrological analysis discovered that the axial surface of the Cretaceous anticline system has the greatest reservoir fracture potential.
- Completed basic stratigraphic and geological investigation of basins in the South China Sea.
- Investigated the geological structure, deposition systems and current production data for the Eagle Ford Shale in Texas. Incorporated down-well geochemical data for the purchased petroleum zone and moisture/condensate zone to assess shale oil and gas reserves.
- Investigation of surface features indicated that a hot fluid reservoir layer exists below the Datun volcano field. It was also found that the area to the north-east of Mt. Kuangzui near the outer limit of Yangmingshan National Park contains highly fractured rock and also possesses considerable geothermal potential.



Refining and petrochemicals

- Obtained 17 domestic and foreign patents in 2013.
- Developed a new method employing *Chitinibacter tainanensis* S1 to produce N-acetylglucosamine (NAG). This technology has been patented and transferred to Yungshin Pharmaceutical for joint development.
- Jointly developed oil film bearing oil NTM-100 with China Steel; completed use testing.
- Helped the Dalin Refinery to complete research on catalytic cracking catalyst standards, including revision and drafting of performance assessment.
- Developed high-purity dicyclopentadiene (DCPD) preparation technology, a process for producing biodiesel from fatty acid residue, amorphous carbon material and polymethyl methacrylate particles and applications.
- CPC's extractive distillation process received six US patents, one EU patent and three Chinese patents; five US, ROC, and World Patent Cooperation Agreements Organization patents are pending.
- Completed 63 refining technology acquisition and innovation cases; issued 110 domestic and foreign journal and conference papers.
- Performed 235 commissioned technical service cases for units within the company and 35 technical service cases for external organizations, the latter generating revenue of approximately NT\$7.29 million.
- Developed 12 new biotech and lubricant products.
- Completed extractive distillation technology and process R&D; the resulting technology was formally adopted by Korea's LG Chemical Company. Performance testing was completed successfully in May 2013; results showed that the technology can reduce energy consumption by approximately 35% (with at least 20% guaranteed) and increase refining output by 10%, enabling the investment to be recovered in only one year. The result of this work was published in the September 2013 issue of *Chemical Engineering*, and the company received US\$25,000 in licensing income.
- Redesign of the Fourth Naphtha Cracker quench oil heat recovery heat exchanger increased the efficiency of quench oil heat recovery. By recovering heat from 6 tons of high-pressure steam each hour, the new system can reduce the load on the quench tower and is expected to save the company NT\$90 million each year.
- Completed calibration of 17 ultrasonic flow meters, which reduced the average error between devices to approximately 0.18% and enhanced transaction fairness by roughly NT\$360 million.

Green energy R&D

- Applied for domestic patents in 2013.
- Completed four technology innovation and new product development cases; issued 38 domestic and foreign journal and conference papers.
- Accepted eight commissions for technical service from within the company and earned approximately NT\$15.1 million in revenue.
- Successfully developed a solid alkaline catalyst transesterification process that can maintain a sustained biodiesel yield rate of 96-99%. This process can be used with feedstocks having high acidity and high water content and can reduce production costs; a patent application has been lodged.
- Researchers have developed a hydrogen storage material consisting of a mixture of MgH_2 and Nb_2O_5 ; this material can hold up to 4 wt% hydrogen. Research on the material's stability is currently under way.
- Developed a microalgae carbon reduction and oil production laboratory culture platform and an outdoor photobioreactor (PBR). The researchers used wall breaking, oil production and transesterification technology developed in-house to determine the oil yield of the resulting microalgae; patent application procedures are currently in hand.
- In conjunction with the Industrial Technology Research Institute, CPC researchers developed a real-time combustion efficiency monitoring system employing the chemiluminescence method. This system was used to show that a bio-emulsifier can enhance the combustion efficiency of fuel oil by 5-8%. Further research will test the effect of transesterification of raw glycerol and water on combustion efficiency and it is expected that by lessening fuel oil consumption by 5-8%, the method can save energy and reduce carbon emissions
- A newly-developed environmentally-friendly no-solvent paint can reduce VOC emissions by 30%, meeting environmental protection requirements.
- A high-reflectivity paint developed using core shell nanoparticles and hollow ceramic powder can achieve a reflectivity in the near infrared of 75%, and reduce surface temperature by 4-6°C. Researchers are continuing to improve the formulation and hope to conserve energy and reduce carbon emissions by reducing surface temperature by 8-10°C.
- Researchers have developed a high-heat conductivity plastic for LEDs and high refractive index optical silicone packaging material. The laboratory has obtained preliminary results, and is currently negotiating cooperative molding and testing by LED lamp and packaging firms.
- Research on microalgae genetic improvement technology has used the UV radiation mutation method to develop a mutant microalgae strain able to increase oil yield by 20%. The researchers have performed culture testing in a 50 L outdoor photobioreactor, and expect that the high oil yield can reduce microalgae biodiesel production costs by 50%. It is hoped that this breakthrough will accelerate the commercialization of microalgae biodiesel. CPC plans to patent the genetically-modified algae strain.
- Using brick particles as a carrier for butyl alcohol-producing bacteria, researchers conducted continuous fermentation of butyl alcohol and completed continuous butyl alcohol fermentation process testing involving bacteria fixed in a column reactor. A patent application is planned.
- An experimental ton-grade cellulosic alcohol fermentation plant has been constructed. Feed consisting of napier grass fibers has been used in hydrolytic saccharification testing. Enzymes developed in-house will be used in the future to cut costs and boost capacity; two patent applications have been made for the enzymes.

New material trial production technology development

- Two commissioned technical service cases were undertaken for R&D units within the company; these two projects respectively helped develop amorphous carbon development technology and conducted trial production of pure dicyclopentadiene (DCPD).

Diversified information services; multi-pronged operations and marketing

In the area of information services, CPC's current strategy is to continue integration of the company's information systems, provide real-time management and decision-making information, integrate virtual and physical channels, expand industry value chains, deploy customer relations management, expand the scope of high-quality services, promote knowledge management and support the company's market competitiveness.



Following the installation of mainframe and peripheral equipment, establishment of a remote back-up communications channel and deployment of open-system server facilities in 2005, and in coordination with the development of core businesses, CPC corporate headquarters and the Refining Business Division integrated their server systems in April 2007 to allow mutual backup. The server system version upgrading project completed in 2010 has facilitated the deployment of new server application systems by establishing data interchange standards. Responding to continued service growth and the need to access application systems via the Internet, CPC carried out replacement of servers and disk drives in 2013, with plans to complete implementation in 2015. In order to integrate hardware and software resources, CPC uses a broadband network providing digital services at any place or time. Adoption of cloud computing technology continued in 2013, along with the step-by-step virtualization of servers. Furthermore, in conjunction with the Executive Yuan's Internet Protocol Upgrading Promotion Program, CPC completed its upgrade to Ipv6 in 2013 in accordance with the prescribed timetable.

Human Resources

Ongoing implementation of organizational re-engineering; strengthening employee skills

CPC currently has a total of 14,819 employees. The company aims to fully develop its employees' potential through long-term training and career assistance, while at the same time strengthening both incentive and welfare measures. Managerial talent is pinpointed with the aim of having corporate development led by people of outstanding talent.

Establishing a corporate university; helping employees develop second skills

CPC has carried out continuous organizational and process re-engineering in recent years and has established employee rotation rules in order to use its manpower effectively. It has also steadily recruited young professionals to inject new blood and bring about an overall upgrading of manpower competitiveness. As well as considering qualifications and character in the selection of executives, CPC uses management and leadership development training to help them achieve their full potential and to achieve its corporate growth targets. At the same time the company is strengthening on-the-job training at all levels, integrating existing training systems in the establishment of a CPC Corporate University, enhancing professional skills and developing multi-skilled employees so as to optimize manpower utilization. CPC encourages its employees to participate in national skills qualification examinations and helps them to obtain the required certification in industrial safety, environmental protection and other disciplines; and, in line with the needs of corporate transformation, it strengthens second-skill training. In addition, employees are chosen on a regular basis to go abroad for advanced education, research, or internships, or to participate in seminars of various types in line with the needs of the business.

Boosting employee morale; enhancing corporate performance

In the area of work incentives and benefits, CPC awards bonuses of various kinds based on the company's overall performance as well as on the contributions and job performance of individual employees. In addition, staff welfare committees organize a variety 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. Various business divisions 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. The company contributes to the support of the activities of interest groups such as baseball, bridge tournaments, mountain climbing, swimming, painting and film appreciation, in order to help provide physical and mental relaxation for employees and so boost their working morale.



Affiliates

Targeting Asia-Pacific markets with a view to global expansion

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

● **CPC-Shell Lubricant Co. Ltd. (CSLC)**

The CPC-Shell Lubricant Co., established in 1963, is located at CPC's Kaohsiung Refinery and produces mainly base oils, lubricants, and their byproducts. CPC holds 49% of the equity.

● **China American Petrochemical Co. Ltd. (CAPCO)**

Established in 1976, the China American Petrochemical Co. is a joint-venture with BP and is the major supplier of purified terephthalic acid (PTA) to the polyester industry in Taiwan. Its plants are located in Taichung and in the Linyuan petrochemical area in Kaohsiung. CPC holds 38.57% of the equity, including preferred stock.

● **Dai Hai Petrol Corp. (DHP)**

Established in 1994, the Dai Hai Petrol Corp. is headquartered in Haiphong, Vietnam and owns docks, receiving equipment and LPG storage and distribution facilities with a capacity of 1,050 tons. It also operates an LPG filling station in Ha Tay. The company engages primarily in the storage, transport, and supply of LPG and other petroleum products in northern Vietnam. CPC holds 35% of its equity.

● **Qatar Fuel Additives Company Limited (QAFAC)**

The Qatar Fuel Additives Company Limited (QAFAC) was established in 1996 in Qatar's Mesaieed Industrial Zone and chiefly produces methanol and methyl tert-butyl ether (MTBE). CPC holds 20% of the company's equity.

● **Faraway Maritimes Shipping Co. (FMSC)**

The Faraway Maritimes Shipping Co. was jointly established in 1997 by CPC and foreign partner Osprey, and built the Matsu-class LNG carrier Golar Mazo. The ship carries LNG purchased from Badak VI in Indonesia; CPC holds 40% of the equity.

● **Chun Pin Enterprise Co., Ltd. (CPEC)**

The Chun Pin Enterprise Co. was established in 1998 and established a storage and transport center as part of Phase II development of Taipei Harbor. It engages in the storage and transshipment of petroleum and petrochemical products. CPC holds 49% of the equity.

● **KuoKuang Power Co. Ltd. (KKPC)**

The KuoKuang Power Co. was established in 2000 for the construction and operation of a gas-fired power plant with an installed capacity of 480MW at Guishan Township in Taoyuan County. This was in line with government policy of opening power generation to private operators (Independent Power Producers or IPPs) in order to alleviate the power supply shortfall in northern Taiwan. CPC holds 45% of the equity.



● **Kuokuang Petrochemical Technology Co. (KPTC)**

CPC and other domestic companies established the KPTC as a joint-venture in 2006 to facilitate the vertical upstream, midstream, and downstream integration of oil refining and petrochemical production and in the hope that it would encourage the petrochemical industry to remain in Taiwan and help promote overall economic development. In view of environmental considerations, the company wrote to the EPA in 2011 cancelling the "Changhua Southwest Corner (Dacheng) Reclaimed Land Industrial Area Plan Environmental Impact Assessment." In response to the government's policy for petrochemicals of "enhancing quality in Taiwan, expanding quantity overseas," KPTC is currently assessing alternative domestic and foreign investment plans. CPC holds 43% of the equity.

● **NiMiC Ship Holding Co., Ltd. (NSHC)**

This joint-venture has four ship-owning companies under its umbrella and has built four LNG tankers to carry LNG purchased by CPC from Qatar's RasGas II. CPC holds 45% of the equity.

● **NiMiC Ship Management Co., Ltd. (NSMC)**

Established in 2006, NSMC is responsible for operation and management of the four LNG tankers built with investment from NSHC. CPC holds 45% of the equity.

● **Ras Laffan Liquefied Natural Gas Company Limited II (RasGas II)**

CPC invested in RasGas II in 2008 and owns 5% of the B shares in the company's fifth LNG production train. The company's operations include natural gas production, liquefaction and marketing.

● **Global Energy Maritime Co. (GEMCO)**

Established in 2011, GEMCO plans to build a crude oil tanker and finished product oil tanker. CPC holds 48% of the equity.

● **Taiwan Advanced Materials Co., Ltd. (TAMC)**

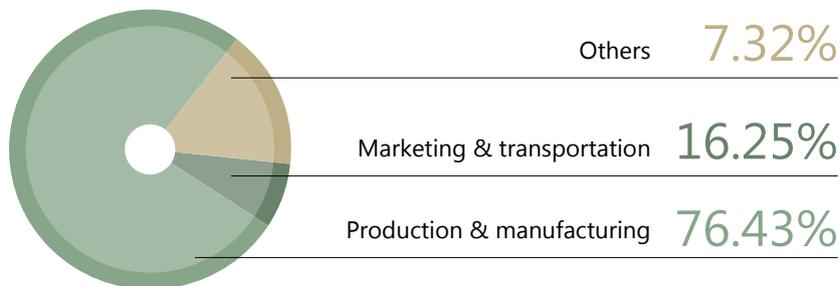
Established in 2012, TAMC plans to produce high added-value petrochemical derivatives such as styrene-isoprene-styrene (SIS) block copolymer, dicyclopentadiene (DCPD), and C₅ petroleum resins. CPC holds 49% of the equity.

CPC Corporation, Taiwan

Financial Statements

Due to price adjustments of the petroleum products returned to follow market prices, increase in liquefied natural gas prices as authorized by the Ministry of Economic Affairs. For the 2013, the Corporation was able to generate profit, CPC's profit before income tax in 2013 was NT\$3,809 million. The difference between profit before income tax in 2013 and loss before income tax in 2012 was grow up to 111.3%.

The capital expenditure incurred in 2013 was NT\$19,020 million, a 25% decrease from 2012. The breakdown of the expenditure was as follows:



The exchange rate between the NT dollar and the US dollar was 29.861:1 on December 31, 2013.

STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

(In Thousands of New Taiwan Dollars)

	2013	2012
Operating Revenues		
Sales	\$1,173,543,933	\$1,132,366,573
Other operating revenues	14,157,035	14,840,407
Total operating revenues	<u>1,187,700,968</u>	<u>1,147,206,980</u>
Operating Costs and Expenses		
Cost of goods sold	1,138,774,738	1,139,630,937
Exploration expenses	5,246,458	2,890,621
Oil and gas transmission and storage expenses	12,488,499	13,174,950
Other operating costs	6,971,556	6,625,387
Total operating costs	<u>1,163,481,251</u>	<u>1,162,321,895</u>
Gross Profit(Loss)	<u>24,219,717</u>	<u>(15,114,915)</u>
Operating Expenses	<u>17,697,859</u>	<u>18,247,640</u>
Non-Operating Income and Gains	<u>6,579,085</u>	<u>8,166,595</u>
Non-Operating Expenses and Losses	<u>9,291,529</u>	<u>8,532,219</u>
INCOME (LOSS) BEFORE INCOME TAX	<u>3,809,414</u>	<u>(33,728,179)</u>
Income Tax Expense <Benefit>	<u>517,170</u>	<u>4</u>
NET PROFIT(LOSS) FOR THE YEAR	<u>\$3,292,244</u>	<u>\$(33,728,183)</u>

BALANCE SHEETS

DECEMBER 31, 2013 AND 2012

(In Thousands of New Taiwan Dollars)

Assets	2013	2012
Current Assets		
Cash and cash equivalents	\$ 9,004,218	\$ 2,365,248
Financial assets at fair value through profit or loss-current	2,277	1,612
Derivative financial assets for hedging - current	65,338	1,486
Trade receivable, net	68,037,392	70,470,484
Trade receivables from related parties	927,922	1,800,286
Other receivables	7,108,567	5,072,500
Inventories	199,089,461	210,311,199
Prepayments	17,865,215	14,124,002
Other current assets	<u>8,791,182</u>	<u>5,396,848</u>
Total Current Assets	<u>310,891,572</u>	<u>309,543,665</u>
Noncurrent Assets		
Available-for-sale financial assets - noncurrent	902,989	839,498
Financial assets measured at cost - noncurrent	2,583,996	2,583,996
Investments accounted for using equity method	11,611,277	441,107,753
Property, plant and equipment	444,802,139	441,107,753
Investment properties	17,156,065	18,738,866
Other intangible assets	103,214	142,627
Deferred tax assets	31,790,415	32,243,746
Oil and gas interest	53,650,594	39,282,023
Refundable deposits	291,032	338,299
Other long-term receivables	3,009,322	2,221,799
Long-term prepayments	1,987,710	2,221,799
Other noncurrent assets	<u>150,391</u>	<u>144,302</u>
Total Noncurrent Assets	<u>568,039,144</u>	<u>552,542,384</u>
Total Assets	<u>\$878,930,716</u>	<u>\$862,086,049</u>

BALANCE SHEETS

DECEMBER 31, 2013 AND 2012

(In Thousands of New Taiwan Dollars)

Liabilities and Equity	2013	2012
Current Liabilities		
Short-term borrowings	\$27,915,155	\$45,167,240
Short-term bills payable	170,231,209	146,315,432
Derivative financial liabilities for hedging - current	7,112	421
Trade payables	63,934,138	56,509,223
Payable to constructors	5,977,442	6,321,865
Other payables	20,012,249	47,731,027
Receipts in advance	11,497,607	9,990,423
Current portion of long-term borrowings and bonds payable	25,290,000	21,450,000
Other current liabilities	<u>14,827,467</u>	<u>13,020,648</u>
Total Current Liabilities	<u>339,692,379</u>	<u>346,506,279</u>
Noncurrent Liabilities		
Bonds payable	114,200,000	94,620,000
Long-term borrowings	80,620,000	81,840,000
Provisions - noncurrent	27,250,617	26,648,984
Deferred tax liabilities	84,044,871	84,039,045
Post-employment benefits payable	646,672	2,672,495
Guarantee deposits received	1,894,597	1,651,192
Other noncurrent liabilities	<u>3,478,732</u>	<u>2,034,509</u>
Total Noncurrent Liabilities	<u>312,135,489</u>	<u>293,506,225</u>
Total Liabilities	<u>651,827,868</u>	<u>640,012,504</u>
Equity		
Share capital		
Common shares	130,100,000	130,100,000
Retained earnings		
Special reserve	128,022,334	-
Unappropriated earnings (accumulated deficits)	<u>(29,921,938)</u>	<u>94,268,440</u>
Total retained earnings	<u>98,100,396</u>	<u>94,268,440</u>
Other equity	<u>(1,097,548)</u>	<u>(2,294,895)</u>
Total Equity	<u>227,102,848</u>	<u>222,073,545</u>
Total Liabilities and Equity	<u>\$878,930,716</u>	<u>\$862,086,049</u>

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

(In Thousands of New Taiwan Dollars)

	2013	2012
Cash Flows From Operating Activities		
Income (loss) before income tax	\$3,809,414	\$(33,728,179)
Adjustments for:		
Depreciation expenses	16,697,910	13,622,222
Amortization expenses	2,461,778	2,126,517
Impairment loss (reversal of impairment loss) on trade receivables	(22,484)	83,695
Net (gain) loss on fair value changes of financial assets and liabilities at fair value through profit or loss	(345,309)	328,157
Interest expenses	4,595,541	3,523,661
Interest income	(85,997)	(42,138)
Dividend income	(1,483,566)	(1,676,902)
Share of loss of associates and joint ventures	298,551	359,628
Gain on disposal of property, plant and equipment	(124,571)	(541,594)
Net (gain) loss on unrealized foreign currency exchange	(45,458)	3,813
Reversal of write-down of inventories	(21,463)	(6,880,728)
Reversal of provision for impairment loss recognized on property, plant and equipment	(28,812)	-
Reversal of deferred revenue	(123,465)	(40,818)
Others	(2,070,186)	(2,450,479)
Net changes in operating assets and liabilities	13,398,606	(31,915,204)
Interest received	85,997	42,138
Interest paid	(4,114,550)	(2,870,484)
Income tax paid	(4,600)	(109)
Net cash generated from (used in) operating activities	<u>32,877,336</u>	<u>(60,056,804)</u>

Cash Flows From Investing Activities

Acquisition of associates and joint ventures	-	(1,023,000)
Payments for property, plant and equipment	(19,238,503)	(23,611,777)
Proceeds of the disposal of property, plant and equipment	270,531	970,091
Payments for intangible assets	(746,289)	(939,506)
Increase in refundable deposits	(25,242)	(120,196)
Decrease in refundable deposits	72,509	98,036
Increase (decrease) in deferred revenue	1,460,014	(3,226)
Increase in oil and gas interests	(41,769,475)	(1,637,288)
Dividends received from associates and others	4,012,236	4,869,842
Decrease (increase) in other noncurrent assets	<u>395,707</u>	<u>(1,412,488)</u>
Net cash used in investing activities	<u>(55,568,512)</u>	<u>(22,809,512)</u>

Cash Flows From Financing Activities

Proceeds of short-term borrowings	110,438,458	194,861,424
Repayments of short-term borrowings	(123,084,379)	(261,828,031)
Proceeds of short-term bills payable	535,388,147	529,092,791
Repayments of short-term bills payable	(511,472,370)	(438,381,398)
Proceeds of issue of bonds payable	27,650,000	35,900,000
Repayments of bonds payable	(9,250,000)	(1,550,000)
Proceeds of long-term borrowings	16,000,000	34,700,000
Repayments of long-term borrowings	(12,200,000)	(11,400,000)
Proceeds of guarantee deposits received	1,892,943	1,678,636
Refund of guarantee deposits received	(1,501,032)	(1,609,751)
Increase in other noncurrent liabilities	107,675	32,552
Decrease in bank overdraft	<u>(4,639,296)</u>	<u>(505,200)</u>
Net cash generated from financing activities	<u>29,330,146</u>	<u>80,991,023</u>
Net Increase (Decrease) in Cash	6,638,970	(1,875,293)
Cash, Beginning of Year	<u>2,365,248</u>	<u>4,240,541</u>
Cash, End of Year	<u>\$ 9,004,218</u>	<u>\$ 2,365,248</u>

Notes to Financial Statements

1. GENERAL INFORMATION

CPC Corporation, Taiwan (the "Corporation" or CPC) was established on June 1, 1946 and engages mainly in oil and gas exploration, refining, procurement, transport, storage and marketing.

The functional currency of the Corporation is the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors and authorized for issue on April 11, 2014.

3. APPLICATION OF NEW AND REVISED STANDARDS, AMENDMENTS AND INTERPRETATIONS

a. New, amended and revised standards and interpretations (the "New IFRSs") in issue but not yet effective

The Corporation have not applied the following International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) issued by the IASB. On January 28, 2014, the Financial Supervisory Commission (FSC) announced the framework for the adoption of updated IFRSs version in the ROC. Under this framework, starting January 1, 2015, the previous version of IFRSs endorsed by the FSC (the 2010 IFRSs version) currently applied by companies with shares listed on the Taiwan Stock Exchange or traded on the Taiwan GreTai Securities Market or Emerging Stock Market will be replaced by the updated IFRSs without IFRS 9 (the 2013 IFRSs version). However, as of the date that the financial statements were authorized for issue, the FSC has not endorsed the following new, amended and revised standards and interpretations issued by the IASB (the "New IFRSs") included in the 2013 IFRSs version. Furthermore, the FSC has not announced the effective date for the following New IFRSs that are not included in the 2013 IFRSs version.

The New IFRSs Included in the 2013 IFRSs Version Not Yet Endorsed by the FSC	Effective Date Announced by IASB (Note 1)
Improvements to IFRSs (2009) - amendment to IAS 39	January 1, 2009 and January 1, 2010, as appropriate
Amendment to IAS 39 "Embedded Derivatives"	Effective for annual periods ending on or after June 30, 2009
Improvements to IFRSs (2010)	July 1, 2010 and January 1, 2011, as appropriate
Annual Improvements to IFRSs 2009-2011 Cycle	January 1, 2013
Amendment to IFRS 1 "Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters"	July 1, 2010

(Continued)

The New IFRSs Included in the 2013 IFRSs Version Not Yet Endorsed by the FSC

**Effective Date
Announced
by IASB (Note 1)**

Amendment to IFRS 1 "Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters"	July 1, 2011
Amendment to IFRS 1 "Government Loans"	January 1, 2013
Amendment to IFRS 7 "Disclosure - Offsetting Financial Assets and Financial Liabilities"	January 1, 2013
Amendment to IFRS 7 "Disclosure - Transfer of Financial Assets"	July 1, 2011
IFRS 10 "Consolidated Financial Statements"	January 1, 2013
IFRS 11 "Joint Arrangements"	January 1, 2013
IFRS 12 "Disclosure of Interests in Other Entities"	January 1, 2013
Amendments to IFRS 10, IFRS 11 and IFRS 12 "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance"	January 1, 2013
Amendments to IFRS 10 and IFRS 12 and IAS 27 "Investment Entities"	January 1, 2014
IFRS 13 "Fair Value Measurement"	January 1, 2013
Amendment to IAS 1 "Presentation of Other Comprehensive Income"	July 1, 2012
Amendment to IAS 12 "Deferred Tax: Recovery of Underlying Assets"	January 1, 2012
IAS 19 (Revised 2011) "Employee Benefits"	January 1, 2013
IAS 27 (Revised 2011) "Separate Financial Statements"	January 1, 2013
IAS 28 (Revised 2011) "Investments in Associates and Joint Ventures"	January 1, 2013
Amendment to IAS 32 "Offsetting Financial Assets and Financial Liabilities"	January 1, 2014
IFRIC 20 "Stripping Costs in Production Phase of a Surface Mine"	January 1, 2013

(Concluded)

The New IFRSs Not Included in the 2013 IFRSs Version

**Effective Date
Announced
by IASB (Note 1)**

Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
IFRS 9 "Financial Instruments"	Note 3
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	Note 3
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 36 "Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets"	January 1, 2014
Amendment to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
IFRIC 21 "Levies"	January 1, 2014

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after the respective effective dates.

Note 2: The amendment to IFRS 2 applies to share-based payment transactions for which the grant date is on or after July 1, 2014; the amendment to IFRS 3 applies to business combinations for which the acquisition date is on or after July 1, 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.

Note 3: The IASB tentatively decided to require an entity to apply IFRS 9 for annual periods beginning on or after 1 January 2018.

b. Significant impending changes in accounting policy resulted from New IFRSs in issue but not yet effective

Except for the following, the initial application of the above New IFRSs has not had any material impact on the Corporation's accounting policies:

1) IFRS 9 "Financial Instruments"

Recognition and measurement of financial assets

With regards to financial assets, all recognized financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at amortized cost or fair value. Specifically, financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other financial assets are measured at their fair values at the end of reporting period. However, the Corporation may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

Recognition and measurement of financial liabilities

As for financial liabilities, the main changes in the classification and measurement relate to the subsequent measurement of financial liabilities designated as at fair value through profit or loss. The amount of change in the fair value of such financial liability attributable to changes in the credit risk of that liability is presented in other comprehensive income and the remaining amount of change in the fair value of that liability is presented in profit or loss, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. If the above accounting treatment would create or enlarge an accounting mismatch in profit or loss, the Corporation presents all gains or losses on that liability in profit or loss.

2) IFRS 13 "Fair Value Measurement"

IFRS 13 establishes a single source of guidance for fair value measurements. It defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only will be extended by IFRS 13 to cover all assets and liabilities within its scope.

3) Amendment to IAS 1 "Presentation of Items of Other Comprehensive Income"

The amendment to IAS 1 requires items of other comprehensive income to be grouped into those that (1) will not be reclassified subsequently to profit or loss; and (2) will be reclassified subsequently to profit or loss when specific conditions are met. Income taxes on related items of other comprehensive income are grouped on the same basis. Under current IAS 1, there were no such requirements.

4) Revision to IAS 19 “Employee Benefits”

Revision in 2011

Revised IAS 19 requires the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the “corridor approach” permitted under current IAS 19 and accelerate the recognition of past service costs. The revision requires all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in current IAS 19 are replaced with a “net interest” amount, which is calculated by applying the discount rate to the net defined benefit liability or asset.

In addition, revised IAS 19 changes the definition of short-term employee benefits. The revised definition is “employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service”. The Corporation’s unused annual leave, which can be carried forward within 24 months after the end of the annual period in which the employee renders service and which is currently classified as short-term employee benefits, will be classified as other long-term employee benefits under revised IAS 19. Related defined benefit obligation of such other long-term benefit is calculated using the Projected Unit Credit Method. However, this change does not affect unused annual leave to be presented as a current liability in the balance sheet.

Amendment in 2013

Amended IAS 19 states that contributions from employees or third parties affect remeasurements of the net defined benefit liability (asset) if they are not linked to service. If the contributions are linked to service, those contributions could be recognized as a reduction of service cost in which they are payable when they are linked solely to the employees’ service rendered in that period. If the contribution is dependent on the number of years of service, an entity is required to attribute those contributions to periods of service.

5) Amendment to IAS 36 “Recoverable Amount Disclosures for Non-financial Assets”

In issuing IFRS 13 “Fair Value Measurement”, the IASB made consequential amendment to the disclosure requirements in IAS 36 “Impairment of Assets”, introducing a requirement to disclose in every reporting period the recoverable amount of an asset or each cash-generating unit. The amendment clarifies that such disclosure of recoverable amounts is required only when an impairment loss has been recognized or reversed during the period. Furthermore, the Corporation is required to disclose the discount rate used in measurements of the recoverable amount based on fair value less costs of disposal measured using a present value technique.

6) Annual Improvements to IFRSs: 2010-2012 Cycle

Several standards including IFRS 24 “Disclosure related party” was amended in this annual improvement.

IAS 24 was amended to clarify that a management entity providing key management personnel services to the Corporation is a related party of the Corporation. Consequently, the Corporation is required to disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

c. The impact of the application of New IFRSs and the Regulations Governing the Preparation of Financial Reports by Securities Issuers (the "Regulations") in issue but not yet effective on the Corporation's financial statements is as follows:

The impact of the application of the above New IFRSs and the Regulations on the Corporation's financial position and operating results is as follows:

As of the date the financial statements were authorized for issue, the Corporation is continually assessing the possible impact that the application of the above New IFRSs will have on the Corporation's financial position and operating result, and will disclose the relevant impact when the assessment is complete.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

CPC is operated and managed by the Government of the Republic of China (ROC). CPC's accounts are maintained generally in accordance with the accounting laws and regulations governing state-owned enterprises. The Corporation's significant accounting policies conform to the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting, and accounting principles generally accepted in the ROC.

The Corporation's annual financial statements are required to be examined by the Executive Yuan and the Ministry of Audit of the Control Yuan. The examinations are primarily aimed at determining the extent to which the Corporation meets its budget as approved by the Legislative Yuan. The Corporation's financial statements are finalized on the basis of the results of these examinations. The Ministry of Audit's adjustments should be reflected in the financial statements audited by independent certified public accountants. The opening balance of the following year of the Corporation's books of accounts is based on the balance after the adjustments made by the Ministry of Audit. The examination of the Corporation's financial statements as of and for the year ended December 31, 2012 had already been completed.

The examinations of the Corporation's financial statements as of and for the year ended December 31, 2013 by these government agencies had not yet been completed as of the audit report date. The financial statements were compiled in conformity with Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting and accounting principles generally accepted in the ROC.

On May 14, 2009, the Financial Supervisory Commission (FSC) announced the "Framework for the Adoption of IFRSs by the Companies in the ROC." Under this framework, starting from 2013, companies listed on the Taiwan Stock Exchange or traded on the Taiwan GreTai Securities Market or Emerging Stock Market should prepare their financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC and SIC (the "IFRSs") endorsed by the FSC. On the other hand, public traded companies that are not listed on the Taiwan Stock Exchange or the Taiwan GreTai Securities Market, credit cooperatives, and credit card companies should adopt IFRSs in 2015.

Under the original IFRS adoption timetable announced by the FSC, CPC should adopt IFRSs in 2015. However, the Directorate-General of Budget, Accounting, and Statistics (DGBAS) soon became concerned that the differences in the timing of the application of IFRSs and budgeting basis by the numerous state-owned companies could result in inconsistencies in these companies' presentation of financial position and financial performance in the Consolidated Table of State-Owned Subordinate Unit Businesses. Thus in 2010, DGBAS announced the "IFRSs Adoption Plan for State-Owned Entities," stipulating that all state-owned entities should adopt IFRSs in 2013.

The Corporation's financial statements for the year ended December 31, 2013 is its first annual IFRS financial statements. The date of transition to IFRSs was January 1, 2012. Refer to Note 36 for the impact of IFRS conversion on the Corporation's financial statements.

For readers' convenience, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the ROC. If inconsistencies arise between the English version and the Chinese version or if differences arise in the interpretations between the two versions, the Chinese version of the financial statements shall prevail.

Statement of Compliance

The financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, related regulations and IFRSs as endorsed by the FSC.

Basis of Preparation

The financial statements have been prepared on the historical cost basis, except for financial instruments that are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

When preparing its financial statements, the Corporation uses equity method to account for its investment in associates and controlled entities.

Classification of Current and Noncurrent Assets and Liabilities

Current assets include:

- a.Assets held primarily for the purpose of trading;
- b.Assets expected to be realized within twelve months after the reporting period; and
- c.Cash and cash equivalents, unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

- a.Liabilities held primarily for the purpose of trading;
- b.Liabilities due to be settled within 12 months after the reporting period, even if an agreement to refinance or to reschedule payments on a long-term basis is completed after the reporting period and before the financial statements are authorized for issue; and
- c.Liabilities of which the Corporation does not have an unconditional right to defer settlement for at least 12 months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other assets and liabilities that are not classified as current are classified as noncurrent.

Foreign Currencies

In preparing its financial statements, the Corporation recognizes transactions in currencies other than its functional currency (foreign currencies) at the rates of exchange prevailing on the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Nonmonetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value is determined. Exchange differences arising on the retranslation of nonmonetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of nonmonetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Nonmonetary items that are measured at historical cost in a foreign currency are not retranslated.

The assets and liabilities of the Corporation's foreign operations (including the operations of the associates and joint ventures in other countries as well as the currencies used that are different from those of the Corporation) are translated into New Taiwan dollars, using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences are recognized in other comprehensive income.

Inventories

Inventories include raw materials, finished goods, work in process, semifinished goods, merchandise, construction in progress, and merchandise in transit - fuel oil. Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average cost on the balance sheet date.

Investment in Associates and Jointly Controlled Entities

The Corporation accounted for its investments in associates and joint controlled entities by the equity method.

An associate is an entity over which the Corporation has significant influence and that is neither a subsidiary nor an interest in a joint venture. Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of associates and jointly controlled entities are incorporated in these financial statements using the equity method of accounting. Under the equity method, an investment in an associate and jointly controlled entity is initially recognized at cost and adjusted thereafter to recognize the Corporation's share of the profit or loss and other comprehensive income of the associate and jointly controlled entity. The Corporation also recognizes the changes in the Corporation's share of equity of associates and jointly controlled entity.

Any acquisition cost in excess of the Corporation's share of the net fair value of the identifiable assets and liabilities of an associate and jointly controlled entity recognized at the date of acquisition is recognized as goodwill, which is included in the carrying amount of the investment and is not amortized. Any Corporation share of the net fair value of the identifiable assets and liabilities in excess of the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

When the Corporation transacts with its associate and jointly controlled entity, profits and losses resulting from the transactions with the associate are recognized in the Corporation's financial statements only to the extent of interests in the associate and the jointly controlled entity that are not related to the Corporation.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, less subsequent accumulated depreciation and subsequent accumulated impairment loss.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. When the property, plant and equipment are completed and ready for intended use, they are depreciated and placed in the appropriate category.

Depreciation of the equipment in oil and gas production mine is computed using the unit-of-output method. Depreciation of property, plant and equipment is computed using the fixed-percentage-on-declining-balance method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimates accounted for prospectively.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Investment Properties

Investment properties are properties held for earning rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties also include land held for a currently undetermined future use.

Investment properties are measured initially at cost, including transaction costs. After initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized using the fixed-percentage-on-declining-balance method.

Any gain or loss on the derecognition of the property is calculated as the difference between the net disposal proceeds and the carrying amount of the asset and is included in profit or loss in the period in which the property is derecognized.

Intangible Assets

Intangible assets that have finite useful lives and are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for prospectively. The residual value of an intangible asset with a finite useful life should be assumed to be zero unless the Corporation expects to dispose of the intangible asset before the end of its economic life.

Oil and Gas Interests and Exploration Expenses

All geological and geophysical exploration costs are charged to current income.

The costs of drilling exploratory wells ("exploration well expenses") in sites that have not yet proven to contain reserves of commercial quantities ("unproven sites") are initially charged to current income. Exploration well expenses are subsequently capitalized as part of "oil and gas interests" accounts when (i) sites are proven to contain mineral reserves of commercial quantities and (ii) the construction of the wellhead equipment or offshore production platforms and flow lines is complete. The exploration expenses incurred in the current year are reclassified from "exploration expenses" to assets. Costs already charged to income in prior years are recognized as assets and as "nonoperating income."

The costs of drilling commercial wells, which are constructed after the sites are proven to contain mineral reserves of commercial quantities, are capitalized as assets. However, if the commercial wells turn out to be dry, such costs are charged to current income.

For oil site acquisitions, the Corporation's payments for this purchase or investments in foreign joint ventures involving interest in oil sites - including the Corporation's share in the costs of drilling commercial wells, production, transport and storage equipment but excluding the Corporation's share in the costs of drilling exploratory wells and other exploration expenses - are capitalized as oil and gas interests. The Corporation's share in joint ventures' net earnings (or net losses) is recognized as other operating revenues (or other operating costs). The Corporation recognizes earnings remitted by joint ventures as a reduction of oil and gas interests. These costs are amortized at the ratio of the actual quantity of minerals extracted from the wells for the year to the estimated mineral reserve. The amortized costs and operating expenses paid to joint ventures are regarded as the cost of the Corporation's share of the oil and gas extracted. The accompanying financial statements included the related sales and cost of goods sold attributable to the Corporation's share of the oil and gas sold by the joint ventures.

For domestic sites and sites of product-sharing contracts, the Corporation amortizes the amount recognized in oil and gas interests by the ratio of actual quantity produced in the period over total estimated production quantity of the site. The Corporation accounts for the cost of these mineral production in amortized cost plus the site operation expenses paid, and recognize crude oil inventory and natural gas inventory by the output value method. The Corporation recognizes sales and cost of good sold on sale of the inventory.

For sites of Provision of Services Contract, the Corporation amortized the amount recognized in oil and gas interests in the same method of that of domestic sites and sites of product-sharing contract. The Corporation accounts for the amortized amount and the site operation expenses paid as other operating costs. On the other hand the Corporation recognized other operating income by multiplying produced quantity to a revenue rate contracted with local oil site governments.

The Corporation recognizes earnings from OPIC-Houston ("Huffco") and translation adjustments based on the financial statements of Huffco for the same reporting period as that of the Corporation.

Profit and loss generated from the derecognition of oil and gas interest is measured as the difference between the net disposal proceeds and the carrying amount of the asset and recognized in statement of consolidated income in the period of derecognition.

Impairment of Tangible and Intangible Assets Other Than Goodwill

At the end of each reporting period, the Corporation reviews the carrying amounts of its tangible and intangible assets for any indication of impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount.

When an impairment loss reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

Financial Instruments

Financial assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions of financial instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

a. Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

1) Measurement category

Financial assets are classified into the following categories: Financial assets at fair value through profit or loss, available-for-sale financial assets, and loans and receivables.

a) Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset either is held for trading or is designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any dividend or interest earned on the financial asset.

b) Available-for-sale financial assets

Available-for-sale financial assets are nonderivatives that either are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amount of available-for-sale monetary financial assets relating to changes in exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Corporation's right to receive the dividends is established.

Available-for-sale equity investments with no quoted market prices in an active market and with fair values that cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and are presented in a separate line item as financial assets carried at cost. If the fair value of the financial assets can later be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in profit or loss or other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

c) Loans and receivables

Loans and receivables (including trade receivables, cash and cash equivalents) are measured at amortized cost using the effective interest method, less any impairment. However, short-term receivables and payables with no stated interest rate may be measured at invoice amounts if the effect of discounting is immaterial.

2) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, such as trade receivables, assets are assessed for impairment collectively even if they are assessed as not impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Corporation's past experience of collecting payments and impairment as well as observable changes in national or local economic conditions that correlate with default on receivables.

Impairment loss recognized on financial assets carried at amortized cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. If the impairment loss decreases and the decrease can be related objectively to an event occurring after the recognition of impairment, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment on the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered an objective evidence of impairment.

When a decline in the fair value of an available-for-sale financial asset has been recognized directly in other comprehensive income (OCI) and there is objective evidence of asset impairment, the cumulative loss recognized directly in OCI is transferred to profit or loss.

On available-for-sale equity securities, impairment loss previously recognized in profit or loss is not reversed through profit or loss. Any increase in fair value after an impairment loss is recognized in other comprehensive income. On available-for-sale debt securities, the impairment loss is reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. This impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, except trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss, except for uncollectible trade receivables that are written off against the allowance account.

3) Derecognition of financial assets

The Corporation derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On the full derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

b. Financial liabilities

1) Subsequent measurement

Except in the following situations, all the financial liabilities are measured at amortized cost using the effective interest method:

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest or dividend paid on the financial liability. Fair value is determined in the manner described in Note 31.

2) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any noncash assets transferred or liabilities assumed, is recognized in profit or loss.

c. Derivative financial instruments

The Corporation uses a variety of derivative financial instruments to manage its exposure to price changes and foreign exchange rate risks, including foreign exchange forward contracts and petroleum swap contracts.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately. When the fair value of a derivative financial instrument is positive, the derivative is recognized as a financial asset; otherwise, the derivative is recognized as a financial liability.

Hedge Accounting

a. Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedge-related risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedge-related risk are recognized in profit or loss in the line item relating to the hedged item.

Hedge accounting is discontinued prospectively when the Corporation revokes the designated hedging relationship; when the hedging instrument expires or is sold, terminated, or exercised; or when it no longer meets the criteria for hedge accounting.

b.Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

The associated gains or losses recognized in other comprehensive income are transferred from equity to profit or loss as a reclassification adjustment in the line item relating to the hedged item in the same period when the hedged item affects profit or loss. If a hedge of a forecast transaction results in the recognition of a nonfinancial asset or a liability, the associated gains and losses recognized in other comprehensive income are removed from equity and are included in the initial cost of the nonfinancial asset or liability.

Hedge accounting is discontinued prospectively when the Corporation revokes the designated hedging relationship; when the hedging instrument expires or is sold, terminated, or exercised; or when it no longer meets the criteria for hedge accounting. The cumulative gain or loss on the hedging instrument that has been previously recognized in other comprehensive income from the time when the hedge became effective remains separately in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

Provisions

Provisions, including those arising from the contractual obligation specified in a service concession arrangement to maintain or restore the infrastructure before it is handed over to the grantor, are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and similar allowances. Sales returns are recognized at the time of sale if the seller can reliably estimate future returns and recognizes a liability for returns based on previous experience and relevant factors.

a.Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- 1)The Corporation has transferred to the buyer the significant risks and rewards of ownership of the goods;
- 2)The Corporation retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- 3)The amount of revenue can be measured reliably;
- 4)It is probable that the economic benefits associated with the transaction will flow to the Corporation; and
- 5)The transaction costs incurred or to be incurred can be measured reliably.

Under the Corporation's customer loyalty program, sales of goods that result in reward credits for customers, are accounted for as multiple-element revenue transactions, and the fair value of the consideration received or receivable is allocated both to the goods supplied and the reward credits granted. The portion of the consideration allocated to the reward credits should be measured at fair value and recognized as income when the customer receives the award.

b.Dividend and interest income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established and if it is probable that the economic benefits will flow to the Corporation and the income can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Corporation and the income can be measured reliably. Interest income is accrued on a time basis by reference to the principal outstanding and the effective interest rate applicable.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of these assets until the time the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Retirement Benefit Costs

Payments to defined contribution retirement plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit credit method. All actuarial gains and losses on the defined benefit obligation are recognized immediately in other comprehensive income. Past service cost is either recognized immediately to the extent that the benefits are already vested or amortized on a straight-line basis over an average period calculated at the start of service periods until the time the benefits become vested divided by the number of employees covered by the defined benefit plan.

The retirement benefit obligation recognized in the consolidated balance sheets represents the present value of the defined benefit obligation as adjusted for unrecognized past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the unrecognized past service cost, plus the present value of available refunds and reductions of future contributions to the plan.

Taxation

Income tax expense is the sum of the tax currently payable and deferred tax.

a. Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

b. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences and unused loss carryforwards to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be used. These deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in associates, except where the Corporation can control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to use the benefits of the temporary differences and that these deferred tax assets are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured in accordance with tax rates and tax laws that are expected to apply to the reporting period in which the liability is settled or the asset realized if these tax rates and laws have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences of how the Corporation expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred taxes for the year

Current and deferred taxes are recognized in profit or loss, but when these taxes relate to items that are recognized in other comprehensive income or directly in equity, the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively.

3. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

December 31, 2013 and 2012

(In Thousands of New Taiwan Dollars)

	2013	2012
Investments in associates		
Unlisted companies		
China American Petrochemical Co., Ltd. -CPC owned 38.64% equity	\$ 3,373,853	\$ 4,149,395
Kuo Kuang Power Company Ltd. -CPC owned 45% equity	2,687,632	2,704,115
Faraway Maritime Shipping Corp. -CPC owned 40% equity	2,072,879	2,047,259
NiMiC Ship Holding Co., Ltd. -CPC owned 45% equity	1,516,000	677,863
Taiwan Advanced Material Corporation -CPC owned 49% equity	720,011	731,580
Chun Pin Enterprise Co., Ltd. -CPC owned 49% equity	369,521	389,957
Global Energy Maritime Co., Ltd. -CPC owned 48% equity	358,533	370,258
CPC Shell Lubricants Company Ltd. -CPC owned 49% equity	356,706	664,338
Daihai Petrol Corporation. -CPC owned 35% equity	112,061	112,130
NiMiC Ship Management Co., Ltd. -CPC owned 45% equity	24,239	18,326
Kuokuang Petrochemical Technology Co., Ltd. -CPC owned 43% equity	19,842	19,910
	<u>\$11,611,277</u>	<u>\$11,885,131</u>

4. PROPERTY, PLANT AND EQUIPMENT

December 31, 2013 and 2012

(In Thousands of New Taiwan Dollars)

	2013	2012
Land and Land Improvements	\$308,887,520	\$303,458,776
Less: Accumulated depreciation and impairment on land and Land Improvements	19,237,667	18,917,914
Buildings	44,639,406	37,452,353
Less: Accumulated depreciation and impairment on buildings	25,482,547	24,472,386
Machinery and equipment	487,314,943	421,455,618
Less: Accumulated depreciation and impairment on machinery and equipment	377,166,194	366,257,817
Transportation equipment	21,676,008	21,250,158
Less: Accumulated depreciation and impairment on transportation equipment	16,260,855	15,640,995
Miscellaneous equipment	4,989,583	4,849,955
Less: Accumulated depreciation and impairment on miscellaneous equipment	4,232,587	4,206,216
Leasehold improvements	422	422
Less: Accumulated depreciation and impairment on leasehold improvements	392	383
Construction in progress	<u>19,674,499</u>	<u>82,136,182</u>
Net Properties	<u>\$444,802,139</u>	<u>\$441,107,753</u>

5. RETIREMENT BENEFIT PLANS

a. Defined contribution plan

The Corporation adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plan

The Corporation also has defined benefit plans under the Labor Standards Law (LSL). Benefits under the plans are based on employee's length of service and average base salary in the last six months before retirement (for the length of service before the LSL was enacted) or three months before retirement (for the length of service after the LSL was enacted).

Personnel employed by the Corporation are referred to as either appointees or employees. The appointees' retirement fund (ARF), established under the guidelines of the Ministry of Economic Affairs, requires monthly contributions of amounts equal to 15% of monthly salaries and is administered by a pension plan committee. The ARF is deposited in the committee's name in a bank. Based on an actuarial report, since the contribution surplus in plan assets exceeded the defined benefit obligation, the Corporation need not continue to contribute to the plan assets starting from July 2012. The employees' retirement fund (ERF) entails monthly contributions by the Corporation to a fund at amounts equal to a fixed percentage of 15% of salaries and wages. The ERF is administered by a monitoring committee and is deposited in the committee's name in the Bank of Taiwan. Based on an actuarial report, the Corporation should contribute to the ERF amounts equal to a fixed percentage of 2% of taxable payroll starting from July, 2013. The plan assets are invested in domestic (foreign) equity and debt securities, bank deposits, etc. The investment is made at the discretion of the Bureau of Labor Funds, Ministry of Labor or other agencies authorized by the government to make the investment. However, based on the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, the return on the ERF investment should not be below the interest rate for a two-year time deposit in local banks.

The Corporation awarded specific retired employees consolation benefits in accordance to corporate policies.

Under government regulations, the Corporation may recognize additional pension cost to meet the additional pension obligation arising from the planned privatization, but the additional pension cost should not affect the budgeted dividends to be distributed to the government.

The additional pension cost recorded is summarized as follows:

Period	Amount
July 1, 1998 to December 31, 1999	\$ 8,493,903
January 1 to December 31, 2001	5,513,297
January 1 to December 31, 2002	4,370,123
January 1 to December 31, 2003	2,417,711
January 1 to December 31, 2004	<u>5,527,940</u>
	<u>\$ 26,322,974</u>

The amount included in the balance sheet arising from the Corporation's obligation in respect of its defined benefit plans was as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Present value of funded defined benefit obligation	\$(44,930,718)	\$(46,188,324)	\$(47,178,269)
Fair value of plan assets	<u>44,854,046</u>	<u>44,141,207</u>	<u>42,258,850</u>
Accrued pension liabilities payables	<u>\$ (76,672)</u>	<u>\$ (2,047,117)</u>	<u>\$ (4,919,419)</u>
Other long-term care payables	<u>\$ (570,000)</u>	<u>\$ (625,378)</u>	<u>\$ (542,056)</u>

A Five-year Financial Summary

(In Thousands of New Taiwan Dollars)

	2013	2012	2011	2010	2009
Sales and other operating revenues	1,187,700,968	1,147,206,980	1,028,291,279	934,202,259	735,000,475
Profit (loss) before income tax	3,809,414	(33,728,179)	(38,693,926)	24,102,004	28,922,608
per dollar of sales and other operating revenues (NT\$)	0.00	(0.03)	(0.04)	0.03	0.04
Cash dividends	-	-	-	-	-
per dollar of capita l(NT\$)	-	-	-	-	-
Owner's equity	227,102,848	222,073,545	273,602,851	267,989,508	253,209,847
per dollar of capital (NT\$)	1.75	1.71	2.10	2.06	1.95
General taxes and import duties	56,728,545	57,077,960	52,271,166	55,437,560	38,801,757
Commodity tax	69,049,020	67,953,164	67,071,667	66,106,757	65,295,400
Total taxes	125,777,565	125,031,124	119,342,833	121,544,317	104,097,157
Working capital (current assets less current liabilities)	(28,800,807)	(36,962,614)	(9,837,853)	26,123,750	16,379,420
Ratio of current assets to current liabilities	0.92	0.89	0.95	1.13	1.08
Long-term Liabilities	278,864,871	260,499,045	211,063,539	175,879,811	171,863,196
Properties, plant, and equipment-gross	887,182,381	870,603,464	841,187,653	766,639,519	743,756,832
Properties, plant, and equipment-net	444,802,139	441,107,753	429,722,047	361,408,567	346,392,870
Exploration expenses (including all dry holes)	5,246,458	2,890,621	3,615,283	3,465,271	2,411,914
Total assets	878,930,716	862,086,049	777,734,801	658,272,961	646,672,019
Employed capital (Equity, long-term debt)	505,967,719	482,572,590	484,666,390	443,869,319	425,073,043
Employees on December 31	14,819	14,977	15,219	14,871	14,931
Sales and other operating revenues per employee	80,147	76,598	67,566	62,820	49,226

A Five-year Operation Summary

	2013	2012	2011	2010	2009
Crude oil produced-total KL	84,437	7,408	88,264	575,648	564,059
daily average KL	231	20	242	1,577	1,545
Natural gas produced-total MCM	387,487	454,696	336,735	293,403	356,744
MCM per day	1,062	1,246	923	804	977
Wells drilled during the year	2	2	3	4	4
Crude oil processed-total KL	22,648,022	26,741,560	24,549,203	25,358,686	27,395,603
daily average KL	62,049	73,265	67,258	69,476	75,056
Natural gas sold-total MCM	16,565,221	16,009,345	15,276,357	14,056,431	11,139,358
MCM per day	45,384	43,861	41,853	38,511	30,519
Refined products sold-total KL	33,151,248	33,594,429	33,261,506	36,161,661	34,174,102
daily average KL	90,825	92,040	91,127	99,073	93,628
Petrochemicals sold-MT	3,867,980	4,309,056	4,509,329	4,636,198	4,160,566
daily average MT	10,597	11,806	12,354	12,702	11,399



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