SINOPEC SHANGHAI PETROCHEMICAL CO LTD
Form 20-F
April 30, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2013

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report

For the transition period from to

Commission file number 1-12158

(Exact name of Registrant as specified in its charter)

Sinopec Shanghai Petrochemical Company Limited

(Translation of Registrant s name into English)

The People s Republic of China

(Jurisdiction of incorporation or organization)

No. 48 Jinyi Road, Jinshan District, Shanghai, PRC 200540

(Address of principal executive offices)

Mr. Zhang Jingming

No. 48 Jinyi Road, Jinshan District, Shanghai, 200540

The People s Republic of China

Tel: +86 (21) 57943143

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(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

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Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing 100 H Shares, par value RMB1.00 per Share	**New York Stock Exchange**
H Shares, par value RMB1.00 per Share	**The Stock Exchange of Hong Kong Limited**

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

3,495,000,000 H Shares, par value RMB1.00 per Share

7,305,000,000 domestic shares, par value RMB1.00 per Share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or (15) (d) of the Securities Exchange Act of 1934. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232,405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer x Accelerated Filer ¨ Non-Accelerated Filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ¨ International Financial Reporting Standards as issued by the International Accounting Standards Board x Other ¨

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ¨ Item 18 ¨

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This annual report includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included in this annual report that address activities, events or developments which we expect or anticipate will or may occur in the future are hereby identified as forward-looking statements for the purpose of the safe harbor provided by Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The words such as believe , intend , expect , anticipate , project , estimate , predict , plan and similar expressions are also intended to identify forward-looking stateme forward-looking statements address, among others, such issues as:

- amount and nature of future development;
- future prices of and demand for our products;
- future earnings and cash flow;
- capital expansion programs;
- future plans and capital expenditures;
- expansion and other development trends of the petrochemical industry;
- expected production or processing capacities, including expected Rated Capacities and primary distillation capacities, of units or facilities not yet in operation;
- expansion and growth of our business and operations; and
- our prospective operational and financial information.

These statements are based on assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in particular circumstances. However, whether actual results and developments will meet our expectations and predictions depends on a number of risks and uncertainties which could cause actual results to differ materially from our expectations, including the risks set forth in Item 3. Key Information Risk Factors and the following:

- fluctuations in crude oil and natural gas prices;
- fluctuations in prices of our products;
- failures or delays in achieving production from development projects;

- potential acquisitions and other business opportunities;

- continued availability of capital and financing;

- general economic, market and business conditions, including volatility in interest rates, changes in foreign exchange rates and volatility in commodity markets; and

- other risks and factors beyond our control.

Consequently, all of the forward-looking statements made in this annual report are qualified by these cautionary statements and readers are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements should be considered in light of the various important factors set forth above and elsewhere in this annual report. In addition, we cannot assure you that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected effect on us or our business or operations.

EXCHANGE RATES

Unless otherwise specified, references in this annual report to U.S. Dollars or U.S.$ are to United States Dollars, references to HK dollars or HK$ are to Hong Kong dollars and references to Renminbi or RMB are to Renminbi yuan, the legal tender currency of the PRC.

We publish our financial statements in Renminbi. Unless otherwise indicated, all translations from Renminbi to U.S. Dollars have been made at a rate of RMB6.0537 to U.S.$1.00, the noon buying rate on December 31, 2013 as set forth in the H.10 statistical release of the U.S. Federal Reserve Board. We do not represent that Renminbi or US dollar amounts could be converted into U.S. Dollars or Renminbi, as the case may be, at any particular rate.

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CERTAIN TERMS AND CONVENTIONS

References to we or us or Company are references to Sinopec Shanghai Petrochemical Company Limited and our subsidiaries, unless the context requires otherwise. Before our formation, these references relate to the petrochemical businesses carried on by the Complex.

References to Sinopec Corp. are references to China Petroleum & Chemical Corporation, the controlling shareholder of the Company.

References to the Sinopec Group are references to China Petrochemical Corporation, the controlling company of Sinopec Corp.

References to the Complex are references to Shanghai Petrochemical Complex, our predecessor founded in 1972.

References to China or the PRC are references to The People s Republic of China which, for the purpose of this annual report and for geographical reference only, excludes Hong Kong, Macau and Taiwan.

References to ADSs are references to our American Depositary Shares, which are listed and traded on the New York Stock Exchange. Each ADS represents 100 H Shares.

References to our domestic shares are references to 7,305,000,000 domestic shares of the Company, par value RMB1.00 per share, which are ordinary shares held by Chinese investors.

References to our H Shares are references to our overseas-listed foreign ordinary shares, par value RMB1.00 per share, which are listed and traded on the Stock Exchange of Hong Kong Limited (HKSE) under the number 338 .

Rated Capacity is the output capacity of a given production plant or, where appropriate, the throughput capacity, calculated by estimating the number of days in a year that the production plant is expected to operate, including downtime for regular maintenance, and multiplying that number by an amount equal to the plant optimal daily output or throughput, as the case may be.

All references to tons are to metric tons.

Unless otherwise noted, references to sales volume are to sales to entities other than us or our divisions and subsidiaries.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS.

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE.

Not applicable.

ITEM 3. KEY INFORMATION.

A. Selected Financial Data.

Our selected consolidated statements of operations data (except for ADS data) and cash flows data for each of the years ended December 31, 2011, 2012 and 2013 and our selected consolidated balance sheets data as of December 31, 2012 and 2013 are derived from our consolidated financial statements included in Item 17. Financial Statements. Our selected consolidated statements of operations data and cash flows data for the years ended December 31, 2009 and 2010 and our consolidated balance sheets data as of December 31, 2009, 2010 and 2011 are derived from our consolidated financial statements not included in this annual report. Our selected consolidated financial data should be read in conjunction with our consolidated financial statements, and the notes thereto, and Item 5. Operating and Financial Review and Prospects. Our consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board.

Selected Consolidated Financial Data

(in thousands, except per share and per ADS data)

	Years Ended December 31,				
	2009 (RMB)	2010 (RMB)	2011 (RMB)	2012 (RMB)	2013 (RMB)
CONSOLIDATED STATEMENTS OF OPERATIONS DATA					
Net sales:					
Synthetic fibers	2,823,663	3,906,636	4,150,231	3,313,318	3,220,466
Resins and plastics	12,263,540	14,900,012	16,418,559	14,706,350	14,268,401
Intermediate petrochemicals	8,421,035	17,206,440	19,023,204	17,993,493	18,430,821
Petroleum products	18,917,890	28,733,890	37,350,244	38,301,388	57,419,833
Trading of petrochemical products	4,623,989	6,565,793	11,616,999	12,020,651	11,157,633
Others	295,147	783,111	950,416	882,074	1,006,024
(Loss)/profit from operations	2,019,978	2,963,594	1,059,824	(1,772,446)	2,192,266
(Loss)/earnings before income tax	2,163,011	3,529,878	1,296,706	(2,016,473)	2,444,653
Net (loss)/income attributable to owners of the Company	1,588,365	2,769,023	956,106	(1,528,397)	2,055,328
Net income attributable to non-controlling interests	64,471	25,358	30,416	23,255	10,174
Basic (loss)/earnings per share(a)	0.15	0.26	0.09	(0.14)	0.19
Basic (loss)/earnings per ADS(a)	14.71	25.64	8.85	(14.15)	19.03

(a) After the implementation of share capital increase from the capital reserve under the domestic share reform in December 2013, total shares increased from 7,200,000,000 shares to 10,800,000,000 shares. See Item 4. Information on the Company A. History and Development of the Company Domestic Share Reform. The calculation of earnings per share is retrospectively restated based on the weighted average number of shares outstanding of 10,800,000,000 in each of 2009, 2010, 2011, 2012 and 2013 as if these shares were in issue since 1 January 2009. Earnings per ADS are calculated on the basis that one ADS is equivalent to 100 H Shares.

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	Years Ended December 31,				
	2009 (RMB)	**2010 (RMB)**	**2011 (RMB)**	**2012 (RMB)**	**2013 (RMB)**
CONSOLIDATED STATEMENTS OF CASH FLOWS DATA					
Net cash (used in)/generated from operating activities	3,346,890	3,973,719	2,219,994	(2,066,385)	5,098,538
Capital expenditure	(2,120,292)	(1,356,845)	(3,481,235)	(4,259,859)	(1,323,137)
Net proceeds/(repayment) related to corporate bonds	1,000,000		(1,000,000)		
Proceeds from borrowings	29,211,434	39,355,780	35,106,127	53,365,372	55,037,612
Repayments of borrowings	(31,849,620)	(42,631,344)	(32,791,261)	(46,779,614)	(59,155,947)

	As of December 31,				
	2009 (RMB)	**2010 (RMB)**	**2011 (RMB)**	**2012 (RMB)**	**2013 (RMB)**
CONSOLIDATED BALANCE SHEETS DATA					
Current assets	9,061,425	8,531,841	9,665,814	12,891,424	14,486,028
Property, plant and equipment	14,977,205	13,570,559	12,501,980	17,468,748	16,669,479
Total assets	30,039,902	28,697,535	30,718,865	36,462,546	36,636,810
Short term borrowings (a)	7,774,673	4,395,438	5,512,074	11,023,877	7,094,026
Current liabilities	14,304,925	10,573,225	12,271,832	18,927,257	18,017,454
Long term borrowings (excluding current portion)	304,258	175,000	160,050	1,231,340	627,800
Total equity attributable to owners of the Company	15,136,434	17,689,457	17,925,563	16,037,166	17,732,494

(a) Including corporate bonds and current portion of long term borrowings.

Dividends

The following table sets forth certain information concerning the dividends of the Company since January 1, 1994:

Dividend Period	**Dividend per Share**
January 1, 1994-June 30, 1994	RMB0.04 (U.S.$0.0064)
July 1, 1994-December 31, 1994	RMB0.085 (U.S.$0.0136)
January 1, 1995-June 30, 1995	RMB0.04 (U.S.$0.0064)
July 1, 1995-December 31, 1995	RMB0.09 (U.S.$0.0144)
January 1, 1996-June 30, 1996	RMB0.04 (U.S.$0.0064)
July 1, 1996-December 31, 1996	RMB0.08 (U.S.$0.0128)
January 1, 1997-December 31, 1997	RMB0.06 (U.S.$0.0096)
January 1, 1998-December 31, 1998	RMB0.03 (U.S.$0.0048)
January 1, 1999-December 31, 1999	RMB0.05 (U.S.$0.0080)
January 1, 2000-December 31, 2000	RMB0.06 (U.S.$0.0096)
January 1, 2001-December 31, 2001	No dividend
January 1, 2002-December 31, 2002	RMB0.05 (U.S.$0.0080)
January 1, 2003-December 31, 2003	RMB0.08 (U.S.$0.0128)
January 1, 2004-December 31, 2004	RMB0.20 (U.S.$0.0321)
January 1, 2005-December 31, 2005	RMB0.10 (U.S.$0.0161)
January 1, 2006-December 31, 2006	RMB0.04 (U.S.$0.0064)
January 1, 2007-December 31, 2007	RMB0.09 (U.S.$0.0144)
January 1, 2008-December 31, 2008	No dividend
January 1, 2009-December 31, 2009	RMB0.03 (U.S.$0.0048)
January 1, 2010-December 31, 2010	RMB0.10 (U.S.$0.0161)
January 1, 2011-December 31, 2011	RMB0.05 (U.S.$0.0080)
January 1, 2012-December 31, 2012	No dividend

January 1, 2013-December 31, 2013	RMB0.05 (U.S.$0.0080)

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See also Item 8. Financial Information A. Consolidated Statements and Other Financial Information Dividend Policy.

Exchange Rates

The Chinese government controls its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade. See Item 10. Additional Information D. Exchange Controls.

The following table sets forth information concerning exchange rates between Renminbi and U.S. Dollars for the periods indicated:

	Noon Buying Rates (RMB/U.S.$)			
Period	**Period End**	**Average(1)**	**High**	**Low**
2009	6.8259	6.8307	6.8470	6.8176
2010	6.6000	6.7696	6.8330	6.6000
2011	6.2939	6.4630	6.6364	6.2939
2012	6.2301	6.3093	6.3879	6.2221
2013	6.0537	6.1478	6.2438	6.0537
October 2013	6.0943	6.1032	6.1209	6.0815
November 2013	6.0922	6.0929	6.0993	6.0903
December 2013	6.0537	6.0738	6.0927	6.0537
January 2014	6.0590	6.0509	6.0600	6.0402
February 2014	6.1448	6.0816	6.1448	6.0591
March 2014	6.2164	6.1729	6.2273	6.1183
April 2014 (through April 25)	6.2534	6.2196	6.2534	6.1966

Source: The sources of the exchange rates are the H.10 statistical release of the Federal Reserve Board.

Note: (1) Determined by averaging the rates on the last business day of each month during the respective period.

B. Capitalization and Indebtedness.

Not applicable.

C. Reasons for the Offer and Use of Proceeds.

Not applicable.

D. Risk Factors.

An investment in our ADSs involves significant risks. The risks and uncertainties described below are not the only ones we face. You should consider carefully all of the information in this annual report, including the risks and uncertainties described below and our consolidated financial statements and related notes, before making an investment in our ADSs. Any of the following risks could have a material adverse effect on our business, financial condition and results of operations. In any such case, the market price of our ADSs could decline, and you may lose all or part of your investment.

Our operations may be adversely affected by the cyclical nature of the petroleum and petrochemical market and by the volatility of prices of crude oil and petrochemical products.

Most of our revenues are attributable to the sale of refined oil and petrochemical products, which have historically been cyclical and sensitive to the availability and price of raw materials and general economic conditions. Markets for many of our products are sensitive to changes in industry capacity and output levels, changes in regional and global economic conditions, the price and availability of substitute products and changes in consumer demand, which from time to time have had a significant impact on our product prices in the regional and global markets. Due to the decrease in tariff charges, the removal of other restrictions on importation and the Chinese government gradual relaxation of its control of the allocation of products and pricing, many of our products have become increasingly vulnerable to the cyclical nature of regional and global petroleum and petrochemical markets, which may adversely affect our operations.

We consume large amounts of crude oil to manufacture our products of which more than 90% is typically imported. In 2013, crude oil costs accounted for RMB71.59 billion, or 69.36% of our annual cost of sales. As a result, changes in crude oil prices can affect our profitability. In recent years, due to various reasons, the price of crude oil has fluctuated significantly. We cannot rule out the possibility of the occurrence of certain global emergencies which might disrupt our crude oil supply. We expect that the volatility and uncertainty of the prices of crude oil and petrochemical products will continue, and that increasing crude oil prices and declines in prices of petrochemical products may adversely affect our business and results of operations and financial condition.

Some of our major products are subject to government price controls, and we are not able to pass on all cost increases from rising crude oil prices through higher product prices.

We consume large amounts of crude oil to manufacture our products of which more than 90% is typically imported. We attempt to mitigate the effect of increased costs due to rising crude oil prices. However, our ability to pass on these increased costs to our customers is dependent on market conditions and government regulations. Given that the increase of the sales prices of our products may lag behind the increase of crude oil costs, we may fail to completely cover the increased costs by increasing our sales prices, particularly where government regulations restrict the prices of certain of our fuel products. In particular, gasoline, diesel and jet fuel, and liquefied petroleum gas are subject to government price controls at present. In 2011, 2012 and 2013, approximately 36.70%, 40.09% and 49.11% of our net sales were from such products subject to price controls. Although the current price-setting mechanism for refined petroleum products in China allows the Chinese government to adjust price in the PRC market when the average international crude oil price fluctuates beyond certain levels within a certain time period (see Item 4. Information on the Company B. Business Overview Product Pricing), the Chinese government still retains discretion as to whether or when to adjust the prices of the refined oil products. The Chinese government generally exercises certain price control over refined oil products once international crude oil prices experience a sustained rise or become significantly volatile. For instance, some of our fuel products are required to be sold to designated distributors (such as the subsidiaries of Sinopec Corp.). Because we cannot freely sell our fuel products to take advantage of opportunities for higher prices, we may not be able to fully cover increases in crude oil prices by increasing the sale prices of our products, which has had and will possibly continue to have a material adverse effect on our financial condition, results of operations and cash flows.

Our development and operation plans have significant capital expenditure and financing requirements, which are subject to a number of risks and uncertainties.

The petrochemical business is a capital intensive business. Our ability to maintain and increase our revenues, net income and cash flows depends upon continued capital spending. Our current business strategy contemplates capital expenditure for 2014 of approximately RMB2 billion (U.S.$330 million), which will be provided through financing activities and use of our own capital. Our actual capital expenditures may vary significantly from these planned amounts, subject to our ability to generate sufficient cash flows from operations, investments and other factors that may be beyond our control. In addition, there can be no assurance as to whether, or at what cost, our capital projects will be completed or the success of these projects if completed.

As of March 31, 2014, we had an aggregate outstanding indebtedness of approximately RMB7.729 billion (U.S.$1.277 billion). Most of our borrowings are with state-controlled banks in China and structured as short term debt obligations with payment due in one year or less. These banks have generally been willing to provide new short term loans while we pay off existing loans. Sinopec Corp., our controlling shareholder, did not provide any guarantee or credit support for our debt for the year ended December 31, 2013 and for the three-month period ended March 31, 2014.

Our ability to obtain external financing in the future and our ability to make timely repayments of our debt obligations are subject to a variety of uncertainties, including: our future results of operations, financial condition and cash flows; the condition of the economy in China and the condition of markets for our products; the cost of financing and the condition of financial markets; the issuance of relevant government approvals and other project risks associated with the development of infrastructure in China; and the continuing willingness of banks to provide new loans as we pay down existing debt.

While we anticipate that we will rely less on borrowings to finance capital expenditures and operations as the global economic outlook continues to improve, our business, results of operations and financial condition could be adversely affected if we fail to obtain sufficient funding for our operations or development plans.

We could face increasing competition.

Our principal market, Eastern China, which is comprised of Shanghai, Shandong, Jiangsu, Anhui, Zhejiang, Jiangxi and Fujian, has enjoyed stronger economic growth and a higher demand for petrochemical products than other regions of China. As a result, we believe that our competitors will try to expand their sales and build up their distribution networks in our principal market. We believe this will have an adverse impact on the production and sale of our major products. Moreover, Chinese private enterprises have gradually overcome technological and funding barriers to extend their business from the downstream processing sector to the upstream petrochemical field. These enterprises have advantages in many areas such as flexibility in operation costs, preferential policy treatments and regional presence, and may use these advantages to compete with us in our target market.

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We are controlled by Sinopec Corp., whose interests may not be aligned with yours.

As of March 31, 2014, Sinopec Corp. owned 50.56% of our shares. Accordingly, it has voting and management control over us, and its interests may be different from the interests of our other shareholders. Subject to our Articles of Association and applicable laws and regulations, Sinopec Corp. will be in a position to cause us to declare dividends, determine the outcome of corporate actions requiring shareholder approval or effect corporate transactions without the approval of the holders of the H shares and ADSs. Any such increase in our dividend payout would reduce funds available for reinvestment in our business and any such actions or transactions could adversely affect us or our minority shareholders. Sinopec Corp. may also experience changes in its own business strategy and policies. Although we are not currently aware of any specific changes, they could, in turn, lead Sinopec Corp. to change its policies or practices toward us in ways that we cannot predict, with corresponding unpredictable consequences for our business. Additionally, Sinopec Corp. may leverage its controlling shareholder position to influence our decisions with regard to the manufacturing and operation, allocation of financial resources and appointment and removal of senior management members, which could adversely affect us or our minority shareholders.

We have also engaged from time to time and will continue to engage in a variety of transactions with Sinopec Corp., Sinopec Group, the controlling company of Sinopec Corp., and their various subsidiaries or affiliates which provide a number of services to us, including the supply of raw materials, product distribution and sales agency, project design and installment service, petrochemical industry related insurance and financial services. We also sell oil and petrochemical products to Sinopec Corp. and its affiliates. Our transactions with these companies are governed by a Mutual Product Supply and Sales Services Framework Agreement with Sinopec Corp. and a Comprehensive Services Framework Agreement with Sinopec Group, the terms of which were negotiated on an arm s length basis. See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions. Our business and results of operations could be adversely affected if Sinopec Corp. or Sinopec Group refuses to engage in such transactions or if it seeks to amend the contracts between the parties in a way adverse to us. In addition, Sinopec Corp. has interests in businesses which compete or are likely to compete, either directly or indirectly, with our businesses. Because Sinopec Corp. is our controlling shareholder and its interests may conflict with our own interests, Sinopec Corp. may take actions that favor itself over our interests.

Our business operations may be adversely affected by present or future environmental regulations.

We are subject to extensive environmental protection laws and regulations in China. These laws and regulations permit:

- the imposition of fees and penalties for the discharge of waste substances;
- the levy of payments and fines for damages for environmental offenses; and
- the government to close or suspend any facility which fails to comply with orders and require it to correct or stop operations causing environmental damage.

Our production operations produce substantial amounts of waste materials (*i.e.*, waste water, waste gas and waste residue). In addition, our production and operations require permits that are subject to renewal, modification and revocation. In February 2014, the Environmental Protection Bureau of Jinshan District imposed a fine of RMB80,000 on us because we commenced the operation of the environmental protection facility that supports the continuous polyester testing plant of the Polyester Fiber Research Institute under our Polyester Fiber Department without complying with the required inspection and acceptance procedures for the facility after we completed the upgrading of some of its equipment in 2006. See Item 4. Information of the Company B. Business Overview Environmental Protection. At present, we believe that our operations substantially comply with all applicable Chinese environmental laws and regulations as they have been previously interpreted and enforced. The Chinese government (including the local governments), however, has moved, and may move further, toward the adoption of more regulations and more stringent environmental standards. Chinese national or local authorities may also apply more rigorous enforcement of such regulations which would require us to incur additional expenditures on environmental matters.

Our operations are exposed to risks relating to operating hazards and production safety and we have limited insurance coverage for resulting losses.

Our operations involve the handling and storage of explosives and other hazardous articles. In addition, our operations involve the use of heavy machinery, which involves inherent risks that cannot be entirely eliminated through our preventive efforts. As a result, we may encounter fires, explosions and other unexpected incidents during our operations, which may cause personal injuries or death, property damage, environmental damage, interruption of operations and reputational damages to us. Each of such incidents could have a material adverse impact on our financial condition and results of operations.

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We maintain a package of insurance coverage plan through Sinopec Group on our property, facilities and inventory. In addition, we maintain insurance policies for such assets as the engineering construction projects and products in transit with third-party commercial insurance companies. We do not carry any third party liability insurance to cover claims in respect of personal injury, property or environmental damage arising from accidents on our property or relating to our operations other than on our transportation vehicles. Our insurance coverage may not be sufficient to cover all the financial losses caused by operating hazards. Resulting losses required to be compensated or otherwise paid for by us due to such operating hazards that are not fully insured against may have a material adverse effect on our financial condition and results of operations.

Our business may be limited or adversely affected by government regulations.

The Chinese central and local governments continue to exercise a certain degree of control over the petrochemical industry in China by, among other things:

- mandating distribution channels for our fuel products;
- setting the allocations and pricing of certain resources, products and services;
- assessing taxes and fees payable;
- setting import and export quotas and procedures; and
- setting safety, environmental and quality standards.

As a result, we may face significant constraints on our flexibility and ability to expand our business operations or to maximize our profitability. In the past, we have benefited from favorable regulatory policies that have, for example, reduced the competition we face from illegal imports of petroleum products. Existing policies that favor our industry may change in the future and our business could be adversely affected by any such changes.

Our development plans may require regulatory approval.

We are currently engaged in a number of construction and expansion projects. Most of our projects are subject to governmental review and approval. The timing and cost of completion of these projects will depend on numerous factors, including approvals from relevant government authorities and general economic conditions in China.

While in general we attempt to obtain governmental approval as far in advance as practicable, we are unable to predict the timing and outcome of these governmental reviews and approvals. If any of our important projects required for our future growth are not approved, or not approved on a timely basis, our results of operations and financial condition could be adversely affected.

We face increasing foreign competition in our lines of business.

China joined the WTO on December 11, 2001 and had committed to eliminate some tariff and non-tariff barriers to foreign competition in the domestic petrochemical industry that benefited us in the past. In particular, China:

- has reduced tariffs on imported petrochemicals products that compete with ours;

increased levels of permitted foreign investment in the domestic petrochemicals industry, allowing foreign investors to own 100% of a domestic petrochemicals company from December 11, 2004;

has gradually relaxed restrictions on the import of crude oil by non-state-owned companies;

has granted foreign-owned companies the right to import petrochemical products; and

has permitted foreign-owned companies to distribute and market fuel products in both retail and wholesale markets in China.

As a result of these measures, we face increasing competition from foreign companies and imports. In 2014, we expect the world economy to recover slowly and the growth in the petrochemical industry to remain sluggish. In addition, competition for our products has increased, as many overseas companies have switched their focus to sales in China. Furthermore, tariff reductions could reduce our profit margins or otherwise negatively impact our revenue from certain products, including a small number of significant products. The Chinese government may also reduce the tariffs imposed on production equipment that we may import in the future.

Political and economic policies in China could affect our business in unpredictable ways.

The economy of China differs from the economies of most countries belonging to the Organization for Economic Co-operation and Development in a number of respects, including:

structure;

level of government involvement;

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- level of development;
- level of capital reinvestment;
- control of foreign exchange; and
- allocation of resources.

Before its adoption of reform and open-door policies beginning in 1978, China was primarily a planned economy. Since that time, the Chinese government has been reforming the Chinese economic system, and has also begun reforming its government structure. These reforms have resulted in significant economic growth and social progress. Although the Chinese government still owns a significant portion of the productive assets in China, economic reform policies since the late 1980s have emphasized greater autonomy for state-owned or controlled enterprises, the development of private enterprises and the utilization of market mechanisms. We expect that the Chinese government will continue these reforms, further reduce government intervention and rely more heavily on market mechanisms to allocate resources. Although we believe these reforms will have a positive effect on our overall long term development, we cannot predict whether changes to China s political, economic and social conditions, laws, regulations and policies will have any adverse effect on our current or future business or results of operations.

If the Chinese government changes current regulations that allow us to make payments in foreign currencies, we may be unable to obtain the foreign currency necessary for our business.

The Renminbi currently is not a freely convertible currency. We receive most of our revenue in Renminbi. A portion of our Renminbi revenue must be converted into other currencies to meet our foreign currency obligations. We have substantial requirements for foreign currencies, including:

- debt service costs on foreign currency-denominated debt;
- purchases of imported equipment;
- payment of any cash dividends declared in respect of the H shares and the ADSs; and
- import of crude oil and other materials.

Under existing foreign exchange regulations in China, we may undertake current account foreign exchange transactions, including the payment of dividends, without prior approval from the State Administration of Foreign Exchange (SAFE) by producing commercial documents evidencing the foreign exchange transactions, provided that they are processed through Chinese banks licensed to engage in foreign exchange transactions. The Chinese government has stated publicly that it intends to eventually make the Renminbi freely convertible. However, uncertainty exists as to whether the Chinese government may restrict access to foreign currency for current account transactions if foreign currency becomes scarce in China.

Foreign exchange transactions under the capital account (international revenues and expenditures that increase or decrease debt or equity, including principal payments in respect of foreign currency-denominated obligations) continue to be subject to limitations and require the prior approval of the SAFE. These limitations could affect our ability to obtain foreign exchange through debt financing, or to make capital expenditures in foreign currency.

If the Chinese government restricts our ability to make payments in foreign currency, we may be unable to obtain the foreign currency necessary for our business. In that case, our business may be materially adversely affected, and we may default on our obligations.

The change of currency policy and the fluctuation of Renminbi might adversely affect our business and operating results.

The exchange rate between the Renminbi and the U.S. Dollar or other foreign currencies might fluctuate and be affected by the change in Chinese political and economic conditions. In July 2005, the Chinese government changed its policy of pegging the Renminbi to the U.S. Dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. Since the adoption of this new policy, the value of the Renminbi has fluctuated daily within a narrow band against the U.S. Dollar. Nevertheless, the Chinese government continues to receive significant international pressures to further liberalize its currency policy which could result in China adjusting its currency policy further.

A small portion of our cash and cash equivalents is denominated in foreign currencies (including the U.S. Dollar). The appreciation in the value of Renminbi against foreign currencies (including the U.S. Dollar) may cause a decrease in the Renminbi value of our cash and cash equivalents that are denominated in foreign currencies. In addition, the appreciation of Renminbi may harm the exports of our downstream manufacturers, thus adversely affecting the market demand for our products.

As most of our revenue is denominated in Renminbi, and most of our purchase of crude oil and some equipment and repayments of certain borrowings are made in foreign currencies, any depreciation of the Renminbi would increase our cost and adversely affect our capacity of making profits. In addition, any depreciation of the Renminbi could adversely affect the value of the dividends of our H shares and ADSs, which we declare in Renminbi and pay in foreign currencies.

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Interpretation and enforcement of Chinese laws and regulations is uncertain.

The Chinese legal system is based on statutory law. Under this system, prior court decisions may be cited as persuasive authority, but do not have the binding effect of precedents. Since 1979, the Chinese government has been developing a comprehensive system of commercial laws and considerable progress has been made in the promulgation of laws and regulations dealing with economic matters, such as corporate organization and governance, foreign investment, commerce, taxation and trade. Because these laws, regulations and legal requirements are relatively new or otherwise undeveloped and not all accessible to the public and because prior court decisions have little precedential value, the interpretation and enforcement of these laws, regulations and legal requirements involve greater uncertainty than in other jurisdictions.

You may not enjoy shareholders protections that you would be entitled to in other jurisdictions.

As most of our business is conducted in China, our operations are governed principally by the laws of China. Despite the continuing improvement of the PRC Company Law and Securities Law, Chinese legal provisions for the protection of shareholders rights and access to information are different from those applicable to companies formed in the United States, Hong Kong, the United Kingdom and other developed countries or regions. You may not enjoy shareholders protections under Chinese law that you would be entitled to in other jurisdictions.

Our Articles of Association require you to submit your disputes with us and other persons defined by our Articles of Association regarding the Company s affairs to arbitration. You will have no legal right to a court proceeding with respect to such disputes.

Our Articles of Association require holders of our H shares or ADSs having a claim against, or a dispute with, us, our directors, supervisors, executive officers or a holder of our domestic shares relating to any rights or obligations conferred or imposed by our Articles of Association, the Chinese Company Law or other relevant Chinese laws or regulations relating to our affairs, to submit such claim or dispute to arbitration with the China International Economic and Trade Arbitration Commission or to the Hong Kong International Arbitration Center. Our Articles of Association further provide that any arbitration decisions with respect to such disputes or claims shall be final and binding on all parties. As a result, you will have no legal right to a court proceeding with respect to such disputes.

Currently, United States financial regulatory and law enforcement agencies, including but not limited to the SEC, PCAOB, U.S. Department of Justice and NYSE, have limited or may have no ability to conduct investigations within the PRC concerning the Company, its officers, directors, auditors, market research services or other professional services or experts based in the PRC.

The Company s operations and assets are physically located in the PRC. The PRC has limited or no agreements in place to facilitate cooperation with the U.S. Securities and Exchange Commission (SEC) Division of Enforcement and other U.S. regulatory agencies charged with protecting investors for investigations within its jurisdiction. This may result in U.S. financial regulators, including but not limited to the SEC, the Public Company Accounting Oversight Board (PCAOB) and the U.S. Department of Justice, having limited access to the Company s books, records, testimony, on-site investigations of operations, subpoena power and other investigative actions, including those stemming from investor tips, complaints and referrals. Such limitations may result in the Company s investors receiving less protection from U.S. regulators than investors in companies operating in other jurisdictions because the Company and its service providers, particularly its auditors, are subject to less scrutiny than companies and service providers that are subject to regular investigations and inspections by U.S. regulators.

Our auditor, like other independent registered public accounting firms operating in China, is not permitted to be subject to inspection by the PCAOB and, as such, investors may be deprived of the benefits of such inspection.

Our independent registered public accounting firm that issued the audit reports included in this 20-F, as an auditor of companies that are traded publicly in the United States and a firm registered with the PCAOB, is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards. Our auditor is located in China, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of PRC authorities, and therefore, our auditor, like other independent registered public accounting firms operating in China, is currently not inspected by the PCAOB.

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Inspections of other firms located outside of China that the PCAOB has conducted inspection upon have identified deficiencies in those firms audit procedures and quality control procedures. The inability of the PCAOB to conduct inspections of independent registered public accounting firms operating in China makes it more difficult to evaluate the effectiveness of our auditor s audit procedures or quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections and lose confidence in our reported financial information and procedures and the quality of our financial statements.

Proceedings instituted recently by the SEC against five PRC-based accounting firms, including our independent registered public accounting firm, could result in our financial statements being determined to not be in compliance with the requirements of the Exchange Act.

In December 2012, the SEC brought administrative proceedings against five accounting firms, including our independent registered public accounting firm, in China, alleging that they had refused to produce audit work papers and other documents related to certain other China-based companies under investigation by the SEC for potential accounting fraud. On January 22, 2014, an initial administrative law decision was issued, censuring these accounting firms and suspending four of the five firms from practicing before the SEC for a period of six months. The decision is neither final nor legally effective unless and until reviewed and approved by the SEC. The accounting firms have the ability to appeal and the four firms which are subject to the six month suspension from practicing before the SEC have indicated that they will appeal. The sanction will not become effective until after a full appeal process is concluded and a final decision is issued by the SEC. The accounting firms can also further appeal the final decision of the SEC through the federal appellate courts. We are not involved in the proceedings brought by the SEC against the accounting firms. However, our independent registered public accounting firm is one of the four accounting firms subject to the six month suspension from practicing before the SEC in the initial administrative law decision. We may therefore be adversely affected by the outcome of the proceedings, along with other U.S.-listed companies audited by these accounting firms.

On May 24, 2013, the PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the China Securities Regulatory Commission, or the CSRC, and the Ministry of Finance which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations in the United States and China. However, it is not clear how these recent developments could affect the SEC s final decision in the case against the five accounting firms or any subsequent appeal to courts that the accounting firms may initiate. Therefore, it is difficult to determine the final outcome of the administrative proceedings and the potential consequences thereof.

If our independent registered public accounting firm were denied, temporarily, the ability to practice before the SEC and we were unable to find another registered public accounting firm in a timely manner to audit and issue an opinion on our financial statements, our financial statements could be determined to not be in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to delisting of our ADSs from the New York Stock Exchange or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

We may be or become a passive foreign investment company, which could result in adverse U.S. federal income tax consequences to U.S. investors.

Generally, if, for any taxable year, at least 75% of our gross income is passive income, or at least 50% of the value of our assets are attributable to assets that produce passive income or are held for the production of passive income, we would be characterized as a passive foreign investment company (PFIC) for U.S. federal income tax purposes. We do not expect to be a PFIC for our current taxable year. However, since PFIC status depends on the composition of our income and the composition and value of our assets from time to time, there can be no assurance that we will not be considered a PFIC for any taxable year. If we are characterized as a PFIC, U.S. investors may suffer adverse tax consequences, including increased U.S. tax liabilities and reporting requirements. For further discussion of the adverse U.S. federal income tax consequences of our possible classification as a PFIC, see Item 10. Additional Information E. Taxation U.S. Taxation.

We have in the past sourced a small portion of crude oil from Iran that may be targeted by economic sanctions under relevant U.S. laws, and if such activities are determined by the U.S. governmental authorities as sanctionable activities, we could be sanctioned or otherwise penalized.

The United States has adopted a number of measures since 1996 that provide for the possible imposition of sanctions against non-U.S. companies engaged in certain activities in and with Iran in the energy and other sectors, including the Executive Orders 13622 (effective July 31, 2012), 13628 (effective October 9, 2012), and 13645 (effective July 1, 2013), the Iran Threat Reduction and Syria Human Rights Act of 2012 (ITRSHRA) enacted August 10, 2012 and the Iran Freedom and Counter-Proliferation Act (IFCA) enacted January 2, 2013. The sanctionable activities include certain investments, the provision of goods, services, technology, or support that could contribute to the development of petroleum and petrochemical resources or the production of refined petroleum products in Iran, the exportation of refined petroleum products to Iran, the transportation of crude oil from Iran, or the engagement in a significant transaction for the purchase or acquisition of petroleum or petroleum products from Iran, and the engagement in transactions with certain Iranian specially designated nationals and blocked persons (SDNs) as identified and published by U.S. Department of the Treasury s Office of Foreign Assets Control, or OFAC, the agency primarily responsible for administering U.S. sanctions and embargoes.

We have sourced a small portion of our crude oil from Iran in the past through Sinopec Corp., our current controlling shareholder, and independent third parties, and we may continue to purchase crude oil from Iran. In addition, Sinopec Corp. and Sinopec Group, the controlling shareholder of Sinopec Corp., have engaged in operations in or purchasing crude oil sourced from Iran and may continue to do so in the future. We have no control over the activities of Sinopec Group or Sinopec Corp. in connection with any activities that they may conduct in Iran.

If our purchases of crude oil from Iran and transactions related thereto are determined to be sanctionable activities by the U.S. President and/or the relevant U.S. governmental authorities, we may be subject to five or more of the twelve sanctions options available under the Iran Sanctions Act of 1996 (as amended) (ISA) and the ITRSHRA, which include restrictions on bank financing, outright blocking of the Company s property within U.S. jurisdiction, under the control of U.S. persons anywhere in the world, and prohibition of U.S. persons from investing or purchasing a significant amount of equity or debt instruments of the Company. Similar sanctions may also be imposed under the Executive Orders cited above and the IFCA. In addition, many states in the United States have adopted legislation requiring state pension funds to divest themselves of securities in any company with active business operations in Iran. We cannot assure that we or any of our affiliates will not be sanctioned by the U.S. President and/or the relevant U.S. governmental authorities in light of the activities by us or our affiliates in Iran. The imposition of any such sanctions on us or our affiliates will have a negative impact on our business, reputation or stock price. In addition, purchase of crude oil by Sinopec Corp. subsidiaries that supply us with raw materials may from time to time be sourced from National Iranian Oil Company. This entity has been identified by the U.S. government as an SDN and sanctioned under various laws, including for assisting the government of Iran to avoid sanction and for engaging in activities related to nuclear proliferation. Under Executive Order 13645, the U.S. President can sanction non-U.S. companies that engage in transactions with SDNs such as the National Iranian Oil Company To the extent we indirectly (or directly) purchase raw materials from this entity, we risk potential U.S. government sanctions. Even absent any U.S. government sanctions, we risk adverse publicity in the world markets, which may impair our reputation and business.

Sinopec Group, the controlling shareholder of Sinopec Corp. which is our current controlling shareholder, or its affiliates current or future activities in certain countries are the subject of economic sanctions under relevant U.S. laws and could result in negative media and investor attention to us and possible imposition of sanctions on Sinopec Group, which could materially and adversely affect our shareholders.

Sinopec Group undertakes, from time to time and without our involvement, overseas investments and operations in the oil and gas industry, including the exploration and production of oil and gas, refining and Liquefied Natural Gas, or LNG, projects. Sinopec Group s overseas asset portfolio includes oil and gas development projects in Iran, Sudan and Syria, countries subject to U.S. sanctions and embargoes. We cannot predict the interpretation or implementation of government policy at the U.S. federal, state or local levels with respect to any current or future activities by Sinopec Group or its affiliates in countries or with individuals or entities that are the subject of U.S. sanctions. Similarly, we cannot predict whether U.S. sanctions will be further tightened, or the impact that such actions may have on Sinopec Group. It is possible that the United States could subject Sinopec Group to sanctions due to these activities. Certain U.S. state and local governments and colleges have restrictions on the investment of public funds or endowment funds, respectively, in companies that are members of corporate groups with activities in certain countries that are the subject of U.S. sanctions. These investors may not wish to invest, and may divest their investment, in us because of our relationship with Sinopec Group and its investments and activities in those U.S. government sanctioned countries. It is possible that, as a result of activities by Sinopec Group or its affiliates in countries that are the subject of U.S. sanctions, we may be subject to negative media or investor attention, which may distract management, consume internal resources and affect investors perception of our company.

Further, the ISA authorizes the imposition of sanctions on companies that engage in certain activities in and with Iran, especially in Iran s energy sector. It is possible that Sinopec Group or its affiliates engage in activities that are targeted for sanction purposes by the ISA. If the U.S. President determines that Sinopec Group or one of its affiliates in fact engaged in the targeted activities, he would be required to impose on Sinopec Group or its affiliates at least five sanctions from among twelve sanctions options available under the ISA, which range from restrictions on U.S. exports or bank financing to outright blocking of Sinopec Group or its affiliate s property within the U.S. or in the possession or control of U.S. persons anywhere in the world. In addition, the IFCA requires the U.S. President to block the property within U.S. jurisdiction or control of U.S. persons he determines, among other things, are engaged in certain transactions involving the energy, shipping or shipbuilding sectors of Iran or with certain SDNs. It also requires the U.S. President to impose five or more sanctions under the ISA on a person that he determines has knowingly, on or after July 1, 2013, sold, supplied or transferred to or from Iran precious metals or certain other materials (including graphite, aluminum, steel, coal and certain software) if used for specified purposes. If the U.S. President determines that Sinopec Group, or an entity it owns or controls, had engaged in any such activities and if the most extreme sanction under the ISA, blocking, were applied to Sinopec Group s property, including controlled subsidiaries, Sinopec Group could be prohibited from engaging in business activities in the United States or with U.S. individuals or entities, and U.S. transactions in our securities and distributions to U.S. individuals and entities with respect to our securities could also be prohibited.

In addition, pursuant to the IFCA, Executive Order 13645 and other U.S. laws, the U.S. government can sanction financial institutions anywhere in the world that engage in certain Iran related transactions. Such sanctions include prohibiting the financial institution from opening, or imposing strict conditions on maintaining, a correspondent or payable through account in the United States. The potential for financial institutions to be sanctioned for Iran related activities may impact our ability to engage in financial transactions related to our Iran transactions.

ITEM 4. INFORMATION ON THE COMPANY.

A. History and Development of the Company

General Information

We were established in the People s Republic of China as a joint stock limited company under the Chinese Company Law on June 29, 1993 as Shanghai Petrochemical Company Limited. On October 12, 2000, we changed our name to Sinopec Shanghai Petrochemical Company Limited. Our registered office is at No. 48 Jinyi Road, Jinshan District, Shanghai, China 200540. Our telephone number there is (86-21) 5794-1941.

Our Predecessor

Our predecessor, Shanghai Petrochemical Complex (the Complex), was founded in 1972 as one of the first large scale Chinese petrochemical enterprises using advanced imported technology and equipment. Prior to June 29, 1993, the Complex was wholly-owned by Sinopec Group, at the time a ministerial level enterprise (before its restructuring in 1998, Sinopec). The Complex s location was chosen because of accessibility by water and land transportation to Shanghai, a major industrial city of China, and the availability of reclaimable land. The Complex was initially under the administration of the Ministry of Textile Industry and in 1983 was placed under the administration of Sinopec.

Construction Projects

The Complex and we, as its successor, have completed six major stages of construction. The first stage of construction (1972-1976) included reclamation of land and the installation of 18 production units. The second stage of construction (1980-1986) increased the Complex s capacity for processing crude oil and doubled its capacity for synthetic fiber production. The third stage of construction (1987-1992) primarily consisted of the installation of a 300,000 ton Rated Capacity ethylene unit, an additional crude oil refining unit and other units for the production of petrochemical products. The third stage of construction completed our transition from a synthetic fiber producer to a highly integrated producer of a wide variety of petrochemical products. The fourth stage of construction (2000-2002) mainly included the 700,000 ton Ethylene Expansion Project and Coal-Fired Power Plant Expansion Project. The fifth stage of construction (2003-2009) was mainly designed to optimize our structure and realize sustainable development, and mainly included 3,300,000t/a diesel hydrogenation unit, 1,200,000t/a delayed coking unit and other projects implemented for removing bottlenecks in refinery, the building of new 600,000t/a PX hydrocarbon complex unit, 150,000t/a C5 segregation unit, 380,000t/a ethane unit, *etc.*

The Company commenced the sixth stage of construction in 2010 (the Phase 6 Project) and completed in December 2012. The key component of the Phase 6 Project was the refinery revamping and expansion project. The Phase 6 Project also included the technology development and fine chemicals projects. The purpose of the Phase 6 Project was to improve the Company s overall industrial structure, core competitiveness and the capability of maintaining sustainable developments. The Phase 6 Project was focused on the objective to achieve intensive utilization of natural resources and the build-up of a complete set of facilities, in accordance with the fundamental industrial model of integrating oil refining and petrochemical production. Through this project, the Company intended to further enhance its oil refining process and strengthen and expand the Company s core businesses while continuing to explore the development of fine chemicals and products with high value added. See Item 4. Information on the Company D. Property, Plant and Equipment Capital Expansion Program.

Over the past four decades, the Company has built up an infrastructure system to support its production needs. The Company has its own facilities to supply water, electricity, steam and other utilities and to treat waste water, as well as ocean and inland waterway wharfs and railroad and road transportation facilities.

Our Initial Public Offering and Listing

We were established as a subsidiary of Sinopec on June 29, 1993. In preparation for our initial public offering of ordinary shares, all assets and liabilities of the Complex were transferred either to us or to Sinopec Shanghai Jinshan Industrial Company (JI), a separate subsidiary of Sinopec. The Complex s non-core businesses and assets, such as housing, stores, schools, transportation and medical services, were transferred to JI. The Complex s core business and assets were transferred to us. The Complex then ceased to exist as a legal entity. In 1998, Sinopec was restructured into a limited liability company under the name of China Petrochemical Corporation. On February 25, 2000, Sinopec Group transferred its interest in us to its subsidiary, Sinopec Corp. In 1997, JI was restructured and its subsidiaries were either transferred to Sinopec or Shanghai Jinshan District. Sinopec Group now provides community services to us that were formerly provided by JI.

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Our H Shares were listed on the HKSE on July 26, 1993. Our ADSs, each representing 100 H Shares, are listed on the New York Stock Exchange (NYSE). Our domestic shares are listed on the Shanghai Stock Exchange. We were the first Chinese joint stock limited company to have securities concurrently traded in Hong Kong, the United States and China. On November 8, 1993, our domestic shares were included in the Shanghai Stock Exchange Stock Index.

Domestic Share Reform

Pursuant to regulations issued by the CSRC, we were required to obtain shareholder approval for and implement certain share reform. As a result of such share reform, all non-publicly tradable domestic shares of the Company would be converted into publicly tradable domestic shares and may be sold publicly on the Shanghai Stock Exchange subject to any applicable lock-up period.

In connection with the share reform, the Distribution Proposal regarding 2013 Interim Distribution of Cash Dividend and the Conversion of Capital Fund and Surplus Reserve into Shares of the Company (Proposal) was approved at the Company s 2013 First Extraordinary General Meeting, 2013 First A Shareholders Class Meeting and 2013 First H Shareholders Class Meeting held on October 22, 2013. According to the Proposal, based on the Company s total share capital of 7,200,000,000 shares as of June 30, 2013, RMB2,421 million of the capital surplus of the Company from its share premium account will be used to fund the issue of 3.36 new bonus shares with respect to every 10 issued and outstanding shares, and the surplus reserve will be used to fund the issue of 1.64 new bonus shares with respect to every 10 issued and outstanding shares, and an interim cash dividend of RMB0.50 (tax included) for every 10 issued and outstanding shares will be distributed to all shareholders.

In addition, Sinopec Corp. undertakes under the Proposal that it shall not, within 12 months from the date on which Sinopec Corp. becomes entitled to trade, deal in or transfer its non-publicly tradable shares of the Company in the market (meaning the first trading day after the implementation of the Proposal), trade such shares in the market. Also, after the expiration of the aforesaid 12-month term, the amount of existing non-publicly tradable shares to be disposed of by Sinopec Corp. through trading on the stock exchange shall not represent more than 5% of the total number of our shares held by Sinopec Corp. within the next 12 months, and not more than 10% within the next 24 months.

Immediately upon completion of the conversion of capital surplus and surplus reserve into new shares of the Company, the total number of domestic shares of the Company reaches 7,305,000,000, and the total amount of H Shares of the Company reaches 3,495,000,000. Therefore, the Company s total share capital consists of 10,800,000,000 shares. Sinopec Corp., being the controlling shareholders of the Company, holds 5,460,000,000 domestic shares, representing 50.56% of the total share capital of the Company.

The share certificates of new H Shares issued in connection with the share reform have been dispatched and the cash dividend has been paid to the holders of H Shares on December 4, 2013. The dealings in the new H Shares commenced on December 5, 2013.

Description of Principal Capital Expenditures and Divestitures

In the fourth quarter of 2001, we established Secco, together with BP Chemicals East China Investments Limited (BP) and Sinopec Corp. We own 20%, while BP and Sinopec Corp. own 50% and 30% of the equity interest of Secco, respectively. Secco was established to build and operate a 900,000 ton Rated Capacity ethylene petrochemical manufacturing facility in order to manufacture and market ethylene, polyethylene, styrene, polystyrene, propylene, acrylonitrile, polypropylene, butadiene, aromatics and by-products; provide related after-sales services and technical advice with respect to such petrochemical products and by-products; and engage in polymers application development. Secco completed construction in 2005. Secco s registered capital is U.S.$901,440,964 of which we were obligated to contribute an amount in Renminbi equivalent to U.S.$180,287,952 prior to the end of 2005. As of December 31, 2005, we had contributed such amount in full.

In 2009, Secco completed the reconstruction and capacity expansion of ethylene cracking and downstream derivatives facilities. The capacity of ethylene cracking facility has been expanded to 1,090,000 tons per year.

To fund Secco s new acrylonitrile plant project with a capacity of 260,000 tons/year, its new ethylene plant with a new supercharger, its new butadiene plant with a capacity of 90,000 tons/year, and its utility facilities upgrading project, the shareholders of Secco agree to increase the registered capital of Secco by U.S.$150,085,618 according to their respective shares in the equity interests in Secco, of which the Company is obligated to contribute an amount of U.S.$30,017,124. We will pay such amount in installments with the equivalent value in RMB by January 24, 2016.

For a description of capital expansion projects related to our facilities, see Item 4. Information on the Company D. Property, Plant and Equipment Capital Expansion Program.

B. Business Overview

We are one of the largest petrochemical companies in China based on 2013 net sales and ethylene production. Our highly integrated petrochemical complex processes crude oil into a broad range of products in four major product areas:

- synthetic fibers,
- resins and plastics,
- intermediate petrochemicals, and
- petroleum products.

Based on 2013 sales volumes, we are a leading Chinese producer of synthetic fibers and resins and plastic products. We believe that we are also a leading competitor in sales of petroleum products and intermediate petrochemicals in our regional markets.

Our net sales by business lines as a percentage of total net sales in each of 2011, 2012 and 2013 are summarized as follows:

Net Sales of RMB89,509.7 million in 2011

Synthetic fibers	4.64%
Resins and plastics	18.34%
Intermediate petrochemicals	21.25%
Petroleum products	41.73%
Trading of petrochemical products	12.98%
Others	1.06%
Total	100.00%

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Net Sales of RMB87,217.3 million in 2012

Synthetic fibers	3.80%
Resins and plastics	16.86%
Intermediate petrochemicals	20.63%
Petroleum products	43.92%
Trading of petrochemical products	13.78%
Others	1.01%
Total	100.00%

Net Sales of RMB105,503.2 million in 2013

Synthetic fibers	3.05%
Resins and plastics	13.52%
Intermediate petrochemicals	17.47%
Petroleum products	54.42%
Trading of petrochemical products	10.58%
Others	0.96%
Total	100.00%

We derive a substantial portion of our revenues from customers in Eastern China (principally Shanghai and its six neighboring provinces), an area that has experienced economic growth above the national average in recent years. We believe that we are well-positioned to take advantage of opportunities which may arise through the growth of economy of China generally and in this area in particular. Shown by geographic region and exports, our net sales by business lines as a percentage of total net sales for each of 2011, 2012 and 2013 are as follows:

2011 Net Sales by Region (%)

	Eastern China	Other parts of China	Exports
Synthetic fibers	83.27	16.20	0.53
Resins and plastics	87.77	12.22	0.01
Intermediate petrochemicals	85.68	12.44	1.88
Petroleum products	99.70	0.30	0
Trading of petrochemical products	89.43	0.79	9.78
Total net sales	93.25	6.32	0.43

2012 Net Sales by Region (%)

	Eastern China	Other parts of China	Exports
Synthetic fibers	84.61	14.83	0.56
Resins and plastics	86.50	13.50	0
Intermediate petrochemicals	89.32	9.31	1.37
Petroleum products	97.94	2.06	0
Trading of petrochemical products	92.54	0.58	6.88
Total net sales	94.18	4.68	1.14

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2013 Net Sales by Region (%)

	Eastern China	Other parts of China	Exports
Synthetic fibers	86.01	13.92	0.07
Resins and plastics	86.25	13.75	0.00
Intermediate petrochemicals	95.74	2.48	1.78
Petroleum products	98.69	1.31	0.00
Trading of petrochemical products	91.65	7.61	0.74
Total net sales	94.61	4.34	1.05

Business Strategy

In 2014, we expect that our business and operating conditions will remain challenging. We aim to fully exploit the potential of the refinery revamping and expansion project (completed as part of the Phase 6 Project) with the view to further improving the refining and chemical integration of our operations and continuing our efforts to ensure the high safety and environmental protection standards, the stable operation of our facilities and equipment so as to enhance the quality of our products and, the economic return of our development and achieve sustainable growth.

To achieve our business objectives in 2014, we will work diligently to fulfill the following tasks:

(a) Continue to focus on safety and environmental protection and promote energy conservation and emissions reduction

We will continue to implement a strict safety management system, improve our production safety responsibility system and implement the production safety responsibility system at all levels. We plan to launch the health, safety and environmental protection (HSE) information management system. In order to improve our HSE management skills, we will establish a highly-regulated and standardized operation management process, and use quantifiable criteria to evaluate performance and efficiency. We will increase our efforts to improve the environment and control odor. We will also carry out the implementation of our Green Water and Blue Sky project, which was initiated by the Sinopec Group in 2013 as the largest pollution control project ever launched in China s petrochemical industry. As part of this project, we will launch a denitrification project for furnaces No. 1 and 2, an optimization and renovation project for desulfurization facilities at furnaces No. 1 No. 4, as well as a project to improve the sewage treatment efficiency and sewage recycling. We will continue to undertake activities that are in line with and promote the concept of green and low carbon, saving energy and reducing emissions. Such activities include managing energy (*e.g.*, water and steam), continuing to compile statistics on carbon emissions, engaging in carbon trading, and keeping track of power consumption of our electrical equipment. Furthermore, we will accelerate the progress of our work on reducing flare gas emissions, constructing recycling projects and implementing energy-saving technologies.

(b) Continue to optimize our operations so as to enhance economic efficiency

We will continue to strengthen the management of our crude oil procurement, and increase the proportion of high-grade fuel oil products. We will further improve the refining and chemical integration of our operations, and the composition of our refined oil products. We will improve our profit and loss calculation models for major plants, monitor their contribution to our margins and arrange our production operations accordingly so as to achieve greater efficiency. We will optimize the use of raw materials for ethylene cracking and aromatics production, as well as the composition of plastics and synthetic fibers products. We will strive to strengthen and improve our quality control in sales and marketing. We will focus on improving the correlation between production and sales, in particular the correlation among the production, sales, and research and development of new products. In order to reduce the cost of sales, we will further optimize the scope of sales area of our products, our internal operations and the delivery models for our products. We will further improve our budgetary management and improve our asset management over the lifespan of our assets with a view to reducing our financing costs and optimizing our financing structure. Furthermore, we will strengthen our tax planning management on obtaining more preferential tax treatment, as well as other benefits. We will also continue to exercise stringent controls over costs and non-operational expenses.

(c) Strengthen the management of our production and operations to ensure the stable operation of our plants

We will strengthen the management of our production and operations in order to maintain the stable operation of our plants. We intend to achieve this objective by implementing a stricter plant overhaul management scheme. Our new scheme will arrange and coordinate plant productions, create a plant start-up and shut-down scheme, optimize materials mixing, and carry out regular on-site facilities maintenance. We will continue to improve the operational management of our public utilities and other systems in order to safeguard the stable operation of our production plants. In order to ensure the improvement of the major technical and economic indicators that we monitor and compare annual results of, we will enhance the management of our production procedure and technology and strengthen our efforts on work supervision and assessment. In addition, we will improve our on-site plant management, increase plant utilization and through this we will ensure the continued operation of our plants for a significantly extended period of time.

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(d) Pursue new development projects, technological advancement and the construction and upgrading of our information systems

We will strengthen the research on our development strategy, accelerate our efforts on the adjustment of our business structure, and devote more efforts to production safety, environmental management and technological advancement in order to gradually transform and phase out existing outdated production capacity. We will actively evaluate and implement a new round of development projects to further facilitate the integration of our refining and chemical facilities, produce more light products, establish a more cost-effective operating process, and develop a stronger capacity to address market risks. To develop new products, we will focus on the development and promotion of fine chemical technologies, technologies for the industrialized production of high-performance fiber, technologies for the production of new plastics and unconventional high value added polyester, energy saving and environmental protection technologies. This will also help us adjust the structure of our existing products based on market demand and for the purposes of achieving a higher profit margin. We will also continue to develop, and broaden the application of, our information systems, including commencing the construction of the advanced process control (APC) systems for our No. 3 atmosphere vacuum distillation facility and No. 1 Ethylene glycol facility; constructing and upgrading 15 sets of process simulation systems; constructing a radio frequency identification (RFLD) warehouse management system, completing the development of a comprehensive statistical information system and the expansion and application of a real-time database system.

(e) Improve corporate management to maintain the continuous improvement of our management standards

We will further enhance our focus on the corporate management of our business and adopt appropriate changes in our management procedures, formulate and implement a plan to further strengthen the specialized and centralized management of our electrical system, streamline our operations, secure certifications for our research and development capacities, promote the adoption and use of a more upgraded energy system, continue to improve our performance appraisal system, maintain our focus on performance evaluation for relevant units and other organizations within our Company, improve the correlation between individual performance evaluation and related organizational performance evaluation, conduct a comprehensive evaluation of all of our professional service units so as to improve our specialized management, and continue to improve our operations and management with a view to fostering our staff s enthusiasm for and creativity in work.

(f) Strengthen team building and create a stable and harmonious environment for us

We will continue to focus on the development of our human resources. We will increase our human resources pool, bring in new talent and improve the composition of our workforce. In order to improve our employees skills and performance, we will provide high-quality training to our employees, accelerate the implementation of set of training programs whereby our employees can learn job-related skills in an environment that simulates actual production and operation scenarios, and launch occupational training programs and competitions. In addition, we will broaden the channels for employee development, and focus on the development of talent exchange programs for our employees and the overall optimal deployment of our workforce. We strive to establish a corporate culture which emphasizes on the protection of the legal rights of our employees, and in turn contributes towards the improvement of employee performance. Furthermore, we will continue to promote our worker representatives system, increase the transparency of our governance and policies and engage in fair negotiations on the collective employment contracts with our employees. By doing so, we aim to promote a harmonious employment environment for our staff and maintain the stability of our business.

Principal Products

We produce four principal types of products with different specifications, including synthetic fibers, resins and plastics, intermediate petrochemicals and petroleum products. We use many of the important petroleum products and intermediate petrochemicals we produce in producing our own downstream products.

In 2013, with the completion and launching of the refinery revamping and expansion project as part of the Phase 6 Project, the volume of our physical production increased, with a total volume of products amounting to 15,604,300 tons, representing an increase of 31.75% over the previous year. We continue to produce premium products of a stable quality.

The Company processed 15,667,800 tons of crude oil (including 811,800 tons of crude oil processed on a sub-contract basis), representing an increase of 39.97%.

Total production output of refined oil, including gasoline, diesel and jet fuel was 9,072,600 tons, representing an increase of 54.33%, among which the Company produced 2,871,500 tons of gasoline, 4,931,200 tons of diesel and 1,269,900 tons of jet fuel, representing an increase of 181.44%, 22.43% and 52.89%, respectively.

The Company produced 953,300 tons of ethylene and 611,800 tons of propylene, representing an increase of 4.22% and 21.29%, respectively.

The Company produced 939,200 tons of paraxylene, representing an increase of 8.43%.

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The Company also produced 1,129,900 tons of plastic, resins and copolymers (excluding polyesters and polyvinyl alcohol), representing an increase of 3.90%; 877,100 tons of raw materials for synthetic fiber, representing a decrease of 13.64%; 523,500 tons of synthetic fiber polymers, representing a decrease of 17.70%; and 252,800 tons of synthetic fibers, representing an increase of 0.48%.

The following table shows our 2013 net sales by major products as a percentage of total net sales together with the typical uses of these products.

Product	**% of net sales**	**Typical Use**
SYNTHETIC FIBERS		
Polyester staple fiber	0.53%	Textiles and apparel
Acrylic staple fiber	2.32%	Woven into fabrics or blended with other material fabrics to make fabric or acrylic top
Others	0.20%	
Sub-total	3.05%	
RESINS AND PLASTICS		
Polyester chips	2.97%	Polyester fibers, films and containers
PE pellets	5.64%	Films, ground sheeting, wire and cable compound and other injection molding products such as housewares and toys
PP pellets	4.34%	Extruded films or sheets, injection molded products such as housewares, toys and household electric appliance and automobile parts
PVA	0.26%	PVA fibers, building coating materials and textile starch
Others	0.31%	
Sub-total	13.52%	
INTERMEDIATE PETROCHEMICALS		
Ethylene	1.20%	Feedstock for polyethylene, EG, polyvinyl chloride (PVC) and other intermediate petrochemicals which can be further processed into resins, plastics and synthetic fiber
Ethylene oxide	1.67%	Intermediate products for the chemical and pharmaceutical industry, including dyes, detergents and auxiliary agents
Benzene	3.16%	Intermediate petrochemical products, styrene, plastics, explosives, dyes, detergents, epoxies and nylon
Paraxylene	6.20%	Intermediate petrochemicals and polyester
Butadiene	1.06%	Synthetic rubber and plastics
Ethylene glycol	1.54%	Fine chemicals
Others	2.64%	
Sub-total	17.47%	
PETROLEUM PRODUCTS		
Gasoline	17.34%	Transportation fuels
Diesel	25.06%	Transportation fuels and agricultural fuels
Jet Fuel	4.53%	Transportation fuels
Others	7.49%	
Sub-total	54.42%	
Trading of petrochemical products	10.58%	
Others	0.96%	
Total	100.00%	

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Production Processes

The key sectors in our vertically integrated production plants are the ethylene units which produce ethylene and propylene, and our aromatics plants which principally produce paraxylene (PX) and benzene. Ethylene is the major raw material in the production of polyethylene (PE) and monoethylene glycol (MEG) which, together with pure terephthalic acid (PTA), is used to manufacture polyester. Propylene is the major raw material in the production of acrylonitrile and polypropylene (PP). These products are produced through the processing of a series of petrochemical units from crude oil. Our production processes are shown in the flow chart below.

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Our refinery units refine crude oil into five basic components: (1) naphtha, (2) kerosene, (3) atmospheric gas oil (AGO), (4) Vacuum Gas Oil (VGO), and (5) residual oil. Part of the Naphtha and part of the AGO is fed to the ethylene units primarily to produce ethylene and propylene. Part of the Naphtha is fed to the reforming prehydrogenation units to produce refined Naphtha which will be used for the production of Aromatics. The other part of the AGO is processed into diesel oil, and kerosene is fed to the jet fuel sweetening unit to produce jet fuel. Part of the VGO is further processed in a hydrocracking unit producing mainly light and heavy naphtha, liquefied petroleum gas (LPG), diesel oil, various aromatic hydrocarbon products and jet fuel. The other part of the VGO and residual oil can be further processed into gasoline, diesel oil, LPG, propylene and other products.

Intermediate Petrochemicals

Ethylene Ethylene is either directly processed into PE resins or processed into other intermediate petrochemicals. The most important of these is MEG. MEG is a key ingredient in polyester. It is produced by oxidizing ethylene in the ethylene oxide (EO)/ethylene glycol (EG) unit. Ethylene is also used to produce vinyl acetate which is processed into polyvinyl alcohol (PVA).

Propylene Propylene is either processed directly into PP resins or is further processed into other intermediate petrochemicals such as acrylonitrile, acetonitrile, hydroxyl acetonitrile and sodium cyanide. Acrylonitrile is used in producing acrylics.

Vacuum gas oil VGO is passed through the hydrocracker, and the resulting heavy naphtha is fed into the aromatics plants to produce PX and benzene. PX is processed into PTA, one of the principal raw materials in producing polyester.

Resins and Plastics and Synthetic Fibers

We process our intermediate petrochemical products into five kinds of synthetic fiber raw materials: (1) polyester, (2) acrylonitrile, (3) PP, (4) PE and (5) PVA. Each of these five products has its own production line or lines. We further process polyester and acrylonitrile into various types of synthetic fibers.

Polyester MEG and PTA are fed into a polymerization unit which produces polyester chips and polyester melt. Both chips and melt are used as raw materials in the production of polyester staple and filaments. Some chips are also sold to third parties.

Polyester staple fiber is a multi-strand fiber cut into short lengths which can be spun into fabric on its own or blended with cotton, wool or flax to produce textiles. Polyester filaments are a class of more highly processed polyester materials which have been drawn and oriented to produce a long thread-like fiber.

Acrylonitrile We produce polyacrylonitrile by feeding acrylonitrile into a polymerization unit. By passing the polyacrylonitrile through the fiber unit, acrylic fiber and acrylic staple fiber are produced, including cotton and wool type staple fibers. Wool acrylic staple fiber can be processed into acrylic wool strips.

Polypropylene We produce PP resins by feeding propylene into a polymerization unit. Our fiber grade PP resin is the main ingredient for PP fiber production.

Polyethylene We have three sets of units producing PE, two of which produce low-density polyethylene (LDPE) using the kettle type process, and the other unit produces all density PE products using the Borstar bimodal process.

Polyvinyl acetate PVA granules are produced from vinyl acetate (VAC), derived from ethylene.

Raw Materials

In 2013, we fully exploited the advantage and potential of the refinery revamping and expansion project that was completed as part of the Phase 6 Project. As the newly established refinery facilities enjoyed more adaptability and were built with upgraded materials, we could increase the degree of concentration for crude oil procurement and focus on more ideal sources of crude oil so as to reduce our procurement cost. The shutdown of No.1 delayed coker and the optimization of residual oil processing systems resulted in the optimal efficiency of oil residue processing. By optimizing the composition of refined oil and increasing the proportion of high-grade refined oil products, the ratio of diesel to gasoline decreased from 3.95:1 in 2012 to 1.72:1 in 2013. Production output of No. 95 gasoline or above increased by 109.44% year-on-year, and jet fuel production increased by 52.88%. We fully utilized the SPYRO software, which is Technip s proprietary model for steam-cracking yield prediction and complete furnace simulation of either gas or liquid feedstock, to optimize the structure of ethylene cracking and aromatics feedstock. The fuel structure was also improved by the replacement of natural gas with by-product plant dry gas. We also continued to optimize the operation of our flare gas recovery system. By properly calculating the economic efficiency of the production facilities, our cost-effective facilities were operated at full capacity while those loss-making facilities were operated with minimal load.

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Crude Oil

Crude oil is our primary raw material and the most significant raw material we purchase from outside sources. In 2013, crude oil accounted for approximately 69.36% of our total cost of sales. Accordingly, the supply and price of crude oil are key factors in determining our profitability.

Supply and Transportation All crude oil required by us, whether from domestic or foreign sources, is purchased through the channels of Sinopec Corp. as an agent. During 2013, we did not experience any significant problems in obtaining sufficient crude oil to meet our production needs.

Sinopec Group is responsible for preparing an annual plan on demand and supply for crude oil and petroleum products that forms the basis of the Chinese government s annual balancing plan which effectively dictates our planned volume of crude oil processing in each year. Likewise, under the balancing plan , some of our petroleum products are designated for sale to the subsidiaries of Sinopec Group or other designated customers at market prices and we must consult Sinopec Group to sell elsewhere.

We have received confirmation from Sinopec Corp. that it will purchase on our behalf 14.5 million tons of domestic offshore crude oil and 0.1 million tons of imported crude oil in 2014. Sinopec Corp. has further confirmed that, subject to China s national crude oil policy and our actual production needs, it will continue to purchase on our behalf sufficient quantities and appropriate kinds of crude oil, including domestic offshore and imported crude oil, to satisfy our anticipated annual needs. We anticipate that we will fully utilize our 2014 supply of crude oil. We believe that the mix of crude oil feedstock currently available is satisfactory for our 2014 production capacity and targets. Additionally, as part of China s commitment at its accession into WTO, certain non-state-owned enterprises have been granted an increasing amount of quota to import crude oil. Although we do not expect to obtain crude oil through this channel in the foreseeable future due to the current crude oil supply system, this may provide us with an alternative source of crude oil supply.

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Crude Oil Mix Our refining equipment is designed to process certain grades of crude oil. Therefore, the origin and quality of the crude oil available can be important to our business. We believe that as we have been significantly increasing usage of imported crude oil, we will continue to be able to obtain from the market such imported crude oil that is compatible with our refining equipment. The overall mix of foreign versus domestic crude oil we process in 2014 will depend on a variety of factors, including the amount of future supply of domestic offshore crude oil and the availability, price, quality, processing profitability and compatibility with our refining capabilities of imported crude oil. Provided there are no significant modifications to the existing channels of crude oil supply, we believe that sufficient supplies of crude oil will be available on the domestic or international markets for our 2014 production capacity and goals.

In 2013, our crude oil was sourced as follows:

Domestic offshore crude oil	0.21%
Imported crude oil	99.79%
Total:	100.00%

As a result of a consistent decrease in the supply of domestic crude oil, we expect that we will continue to rely principally on foreign sources for our crude oil supply. However, we believe that we will be able to maintain our processing efficiency through technological adjustments of our equipment and quality control and that increased use of imported oil will not materially adversely impact our business and results of operations.

Foreign and domestic offshore crude oil is supplied by tanker and pipeline to our oil terminal wharf and oil storage tank. See Item 4.D. Property, Plants and Equipment -Wharfs.

In the past, we have not experienced disruption in our crude oil supply. We have on-site crude oil storage tanks at Chenshan wharf capable of storing approximately 300,000 cubic meters of crude oil, primarily to provide crude oil to our No. 2 atmosphere vacuum distillation facility. This crude oil storage can provide us with approximately a 2-week supply of crude oil. The crude oil for our No. 3 atmosphere vacuum distillation facility is mainly supplied from the Ningbo-Shanghai-Nanjing oil pipeline. Due to our ability to obtain crude oil from multiple sources, we are able to meet our normal requirements for crude oil.

Pricing The price of domestic offshore crude oil is controlled by China National Offshore Oil Corporation (CNOOC) and Sinopec Group based on government pricing policies and by reference to the price of the crude oil of the same quality in the international market, while imported crude oil is generally sold to us at prevailing international market prices. The average cost of imported crude oil and domestic offshore crude oil in 2013 was RMB4,758.25 (U.S.$786.01) per ton and RMB5,393.37 (U.S.$ 890.92) per ton, respectively. In 2013, we processed15,635,300 tons of imported crude oil and 32,500 tons of domestic offshore crude oil (including 811,800 tons of crude oil processed on a sub-contract basis).

Until March 2001 the Chinese government implemented a unified pricing system for crude oil. Each month, the National Development and Reform Commission (NDRC) would establish an indicative price for each grade of domestic onshore crude oil based on comparable international market prices, inclusive of any duties that would have been imposed had the oil been imported. The actual price for domestic onshore oil would be such indicative price plus a surcharge. This surcharge was determined by China National Petroleum Corporation (CNPC) and Sinopec Group to reflect any transportation and other miscellaneous costs that would have been incurred in having the oil delivered to various refineries. Beginning March 2001, the NDRC ceased publishing an indicative price. Instead, the indicative price for domestic onshore oil is calculated and determined directly by CNPC and Sinopec Group based on the principles and methods formerly applied by the NDRC.

On March 26, 2013, the NDRC announced adjustments to the existing refined oil pricing mechanism, which include, among other things, (i) shortening of price reference period from 22 working days to 10 working days; (ii) lifting the 4% downward and upward fluctuation cap on benchmark crude oil prices; and (iii) adjusting the composition of domestic benchmark crude oil types in response to changes of types of imported crude oil and crude oil trading in the overseas market. In the cases of changes such as significant increase in domestic prices or significant fluctuations of crude oil price, the NDRC may issue additional procedural guidelines, such as implementing ad hoc suspension or delay of price adjustment upon the approval by the State Council.

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We purchase crude oil through Sinopec Corp. and its affiliates from the sources selected and in the quantities confirmed by the Company at market prices. On this basis, we believe that changes in crude oil prices should not have a material effect on our competitiveness with other domestic producers. Nevertheless, any increase in the price of crude oil could have an adverse impact on our profitability to the extent that we are unable to pass cost increases on to our customers.

Changes in crude oil prices can affect the Company s profitability. In 2013, the trend of the world s oil supply being sufficient to satisfy the world s demand remained unchanged. International crude oil prices fluctuated at a high level primarily due to geopolitical risks in the Middle East and North Africa, global oversupply of crude oil caused by the development of shale oil gas in North America and market speculation. Because U.S. economic growth was stronger than expected, the demand for oil in America increased in contrast with the trend of falling demand over the past several years, new crude oil transmission pipes were used and many speculators took long position which resulted in the price of West Texas Intermediate (WTI) crude oil on the New York Mercantile Exchange increasing as compared with the previous year. In 2013, the average price of WTI crude oil was U.S.$97.94/barrel, representing an increase of 4.06% from U.S.$94.12/barrel in 2012. The price of Brent crude oil on the London Intercontinental Exchange decreased as compared with the previous year due to a stagnant European economy, the declining demand and oversupply of crude oil. In 2013, the average price of Brent crude oil was U.S.$108.64/barrel, representing a decrease of 2.68% from U.S.$111.63/barrel in 2012. In 2013, the average price of crude oil in Dubai was U.S.$105.45/barrel, representing a decrease of 3.00% from U.S.$109.05/barrel in 2012.

For the year ended 31 December 2013 we processed a total of 15,667,800 tons of crude oil (including 811,800 tons of crude oil processed on a sub-contract basis), representing an increase of 4,474,300 tons, or 39.97%, over the previous year. Of the crude oil we processed in 2013, domestic offshore oil accounted for 32,500 tons and imported crude oil accounted for 15,635,300 tons. After the launching of the refinery revamping and expansion project as part of Phase 6 Project in 2012, we enhanced the adaptability of the crude oil and significantly improved the ability to process the relatively low-cost high-sulfur crude oil in 2013. The average unit cost of crude oil processed (by us) was RMB4,819.11/ton (RMB5,224.38/ton in 2012), representing a decrease of 7.76% over the previous year. Our total cost of crude oil processed reached RMB71.593 billion in 2013, representing an increase of 28.91% compared to RMB55.538 billion for the previous year, which represented 69.36% of the total cost of sales.

Coal

Most of the coal used for electricity generation is purchased through a unified system of procurement by Sinopec Corp., and the rest is purchased directly by us from mines. Coal is transported by rail from the mines to Qinhuangdao port and shipped by barge to Jinshanwei where it is delivered to the plant via a wharf and conveyer system. Our cost of coal is primarily dependent on coal price and transportation charges. Although coal may be purchased from alternative sources, railroad transportation must be obtained by allocation from the Chinese government on a monthly basis.

We expect that our total requirement for coal to generate electricity in 2014 will be approximately 2.14 million tons. In 2013, we consumed approximately 2.11 million tons of coal, an increase from 2012 of 0.015 million tons.

Other Raw Materials

We produce most of the raw materials used as feedstock for our operations. If any of these raw materials, other than ethylene, becomes unavailable from internal production, we believe that there are sufficient alternative sources at reasonable prices and the unavailability of raw materials from internal sources will not have a significant effect on our operations and profitability.

We purchase some ancillary raw materials from outside sources. These raw materials include natural gas, MX, methanol, ammonia, sodium hydroxide, sulfur, acetone, acrylonitrile, PTA, propylene and a variety of catalytic agents. In 2013, the total cost of these materials accounted for approximately 12.16% of our total cost of sales. We do not expect any difficulties in obtaining a supply of any of these ancillary raw materials in amounts sufficient to meet our needs in the foreseeable future.

Sales and Marketing

Distribution

The distribution of our fuel products is subject to government regulations. We are required to sell certain refined products to the subsidiaries of Sinopec Group or customers designated by Sinopec Group. Since the second half of 2005, Sinopec Group has executed reforms to its system of selling petrochemical products and implemented what it refers to as a Five Consolidations strategy featuring consolidated marketing strategy, consolidated promotion, consolidated logistics optimization, consolidated sales and consolidated branding . As a result, the sales of our major petrochemical products are now conducted in a consolidated manner by sales agents designated by Sinopec Group. However, we have the autonomy to decide on the distribution method of our other products in accordance with market conditions. The products we sold in 2013 that were subject to planned distribution by Sinopec Group, sales by agents and sales based on our own discretion accounted for 58.55%, 39.35% and 2.10%, respectively, of the total products we sold.

We generally sell our products to larger trading companies and industrial users with whom we have long-standing relationships, including Sinopec Group or customers designated by Sinopec Group. We believe that the transition to sales of major petrochemical products by agents designated by Sinopec Group will increase our distribution efficiency, reduce horizontal competition and enhance our overall bargaining power, by allowing us to benefit from Sinopec Group s extensive and highly specialized sales network. It will also allow us to focus more of our resources on reducing production costs and enhancing our technical support.

We use long term contracts to sell most of our products. We did not experience significant write-offs or defaults on our accounts receivable or other trading accounts in 2013. In general we managed to maintain a stable correlation between production and sales in 2013.

Product breakdown

Synthetic Fibers In 2013, 9.01% of our synthetic fiber products were purchased by provincial and municipal government trading companies that act as intermediaries between us and end-users. No single customer accounted for more than 15.37% of our sales of synthetic fibers in 2013.

Resins and Plastics In 2013, approximately 4.51% of our resins and plastics sales were to provincial and municipal government trading companies and approximately 62.75% were sold to industrial users. No single customer accounted for more than 3.16% of our sales of resins and plastics in 2013.

Intermediate Petrochemicals We sell a variety of intermediate petrochemical products, among which the sale volume of petroleum benzene and paraxylene was relatively high in 2013. Secco is the principal outside consumer of our petroleum benzene. In 2013, we sold 178 thousand tons of petroleum benzene to Secco, representing 42.58% of our total 2013 production of such product.

Jiaxing Petrochemical Company Limited and Oriental Petrochemical (Shanghai) Corporation (Oriental) are the principal outside consumers of our paraxylene. In 2013, we sold 338 thousand tons and 150 thousand tons of paraxylene, representing 36.02% and 15.97% of our total 2013 production of such product, to Jiaxing Petrochemical Company Limited and Oriental respectively, at prices mutually agreed upon by the relevant parties.

Petroleum Products In 2013, our primary gasoline and diesel customer was Sinopec Huadong Sales Company Limited.

Trading of Petrochemical Products In 2013, our primary trading customer for petrochemical products was Sinopec Chemical Commercial Holding Company Limited.

Product Pricing

Most of our products are permitted to be sold at market prices. However, four types of petroleum products (gasoline, diesel and jet fuel, and liquefied petroleum gas) that we sell are subject to varying degrees of government pricing control and are, accordingly, sold at prices set by the Chinese government, which may sometimes be below our costs. In 2011, 2012 and 2013, approximately 36.70%, 40.09% and 49.11% of our net sales were from products subject to price controls. Price controls may apply to these products in various ways. Such price controls are sometimes applied exclusively to our products, exclusively to our competitors products or sometimes applied to neither our products nor our competitors products. The Chinese government has adopted changes to the pricing mechanism for domestic refined oil to be indirectly aligned with international crude oil prices in a controlled manner through use of certain formula(s).

For products that are not subject to price controls, we set our prices with reference to prices in the major Chinese chemical commodities markets in Shanghai and other parts of China. We also monitor pricing developments in major international commodities markets, particularly in Southeast Asia. In most cases, we revise product prices each month, or more frequently during periods of price volatility. Due to our economies of scale, brand recognition and high quality of products, we believe that we can continue to price our products competitively.

Competition

We compete principally in the Chinese domestic market where 99.83% of our products in volume were sold in 2013. In addition, the limitation in transportation infrastructure in China and the difficulties involved in transporting petrochemical products force companies to compete primarily on a regional basis. In 2013, 94.61% of our net sales were made to customers in Eastern China.

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Our Competitive Advantages

We believe our primary competitive advantages are quality of product, pricing, brand recognition, geographic location and vertical integration. We have received many prizes and awards from both central and local government authorities for high product quality. Furthermore, our location on the outskirts of the densely populated and highly industrialized Shanghai area places us in close proximity to many of our customers. This location also gives us convenient access to ocean transport and inland waterways, which results in a competitive advantage in terms of transportation cost and reliability and punctuality of product delivery.

We believe that our vertical integration in business model represents a significant competitive advantage over non-integrated competitors in China, both in terms of reliability in delivery and price. For most downstream products, our vertical integration results in significant savings on transportation and storage costs which would be incurred by less vertically integrated facilities.

The Domestic Competitive Environment

Prior to 1993, because distribution and pricing of our products were determined in accordance with the State Plan, we did not operate in a competitive environment. With the liberalization of control over pricing and product allocation by the Chinese government, competition in the domestic market has been gradually increasing. At the same time, Chinese private enterprises have gradually overcome technological and funding barriers to extend their business from the downstream processing sector to the upstream petrochemical field. These enterprises have advantages in many areas such as flexibility in operation costs, preferential policy treatment and regional presence, and may use these advantages to compete with us in markets for our products.

Foreign Competition and the World Trade Organization

China joined the WTO on December 11, 2001. As part of its membership commitments, China agreed to eliminate certain tariff and non-tariff barriers to foreign competition in the domestic petrochemical industry that benefited us in the past. In accordance with its WTO commitments, China:

- has reduced tariffs on imported petrochemicals products that compete with ours;
- increased levels of permitted foreign investment in the domestic petrochemicals industry, allowing foreign investors to own 100% of a domestic petrochemicals company from December 11, 2004;
- has gradually relaxed restrictions on the import of crude oil by non-state owned companies;
- has granted foreign-owned companies the right to import petrochemical products; and
- has permitted foreign-owned companies to distribute and market fuel products in both retail and wholesale markets in China.

As a result of these measures, we are facing increasing competition from foreign companies and imports. On the other hand,, we think that China s WTO entry and increasing foreign investments in China have contributed and will continue to contribute to the growth of investment and business in China, resulting in an increase in sales opportunities for us.

Our Competitive Position

In the following discussion, internal consumption of resins and intermediate petrochemicals produced by integrated manufacturers in the production of downstream products are treated as sales.

Synthetic Fibers

In 2013, we had an approximate 0.85% share of total domestic polyester and acrylic consumption while imports had an approximate 3.18% share.

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The following table summarizes the competitive position of our principal synthetic fibers according to domestic sales in 2013.

Product	Our share of domestic consumption (%)	Our competitive ranking	Location of principal domestic competitor	Principal domestic competitor s share of consumption (%)	Imports share of consumption (%)
Acrylic	26.64%	1	Jilin Province	25%	23.87%

Sources: Statistics provided to us by Sinopec Group and the China National Council of Textiles.

Resins and Plastics

In 2013, we had an approximate 3.47% share of total domestic resins and plastics consumption while imports had an approximate 34.86% share. The following table summarizes the competitive position of our principal resins and plastics products according to domestic sales in 2013.

Product	Our share of domestic consumption (%)	Our competitive ranking	Location of principal domestic competitor	Principal Domestic competitor s Share of consumption (%)	Imports share of consumption (%)
Polyester chips	3.82%	14	Jiangsu Province	8.7%	2.20%
PE	5.59%	12	Guangdong Province	7.4%	45.08%
PP	4.11%	12	Guangdong Province	7.1%	22.32%

Intermediate Petrochemicals

In 2013, we were one of the largest sellers of intermediate petrochemicals in China, holding an approximate 4.65% share of total domestic consumption, while imports had an approximate 25.90% share of domestic consumption. Ethylene glycol, paraxylene, benzene and butadiene are our major intermediate petrochemical products. In 2013, we were a major producer of ethylene glycol, paraxylene and benzene in China. The following table summarizes the competitive position of our principal intermediate petrochemicals according to domestic sales in 2013.

Product	Our share of domestic consumption (%)	Our competitive ranking	Location of principal domestic competitor	Principal Domestic competitor s Share of consumption (%)	Imports share of consumption (%)
Ethylene glycol	8.58%	2	Zhejiang Province	8.6%	66.10%
Paraxylene	12.04%	2	Jiangsu Province	11%	56.60%
Benzene	5.93%	1	Jiangsu Province	5.5%	11.10%
Butadiene	5.30%	12	Zhejiang Province	5.7%	13.20%

Petroleum Products

In 2013, we had an approximate 3.05% share of total domestic petroleum products market while imports had an approximate 3.54% share. Although we have one of the largest refining capabilities in China, we use most of our refining capacity to produce feedstock for our own downstream processing of petrochemical products.

The domestic markets for each of our major petroleum products are geographically concentrated because these markets tend to be highly localized with individual producers controlling a large share of the markets in their locality. In 2013, we sold approximately 98.69% of our petroleum products in Eastern China.

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Investments

We established Secco, a Sino-foreign equity joint venture, in late 2001 with BP and Sinopec Corp., primarily to build and operate a 900,000 ton Rated Capacity ethylene petrochemical manufacturing facility. Secco completed construction and commenced its manufacturing operations in 2005. In 2009, Secco had expanded the capacity of certain facilities to 1,090,000 tons of ethylene per annum. We own 20% of the equity interest of Secco. Secco plans to invest in a new acrylonitrile plant project with a capacity of 260,000 tons/year, a new ethylene plant with a new supercharger, a new butadiene plant with a capacity of 90,000 tons/year, and a utility facilities upgrading project. One third of the investment will be funded by the shareholders of Secco through the increase of Secco s registered capital by U.S.$150,085,618. The Company is obligated to contribute an amount of U.S.$30,017,124 prior to January 24, 2016.

In 2013, Secco achieved a sales revenue of RMB29.370 billion (U.S.$4.852 billion), representing an increase of 8.14% from its sales revenue of RMB27.158 billion (U.S.$4.486 billion) in 2012. The increase of sales revenue was primarily attributable to the relatively high level of operation loads of the manufacturing facilities in 2013, as a result of which both the volume of production and sales increased. Secco produced 1,166.7 thousand tons of ethylene in 2013, representing an increase of 125.8 thousand tons over the previous year, up by 12.08%. Secco achieved a net profit of RMB199.82 million (U.S.$33.008 million) in 2013, as compared to a net loss of RMB349.03 million (U.S.$56.02 million) in 2012. The increase in net profit was primarily due to the fact that although the domestic petrochemicals market continued to be sluggish, Secco was able to generate marginal profit with respect to some of its petrochemical products. In addition, the sales volume increased in 2013. All the above reasons contributed to Secco s net profit in 2013.

Environmental Protection

We are subject to national and local environmental protection regulations, which currently impose a graduated schedule of fees for the discharge of waste substances, require the payment of fines for pollution and provide for the forced closure of any facility that fails to comply with orders requiring it to cease or cure certain environmentally damaging practices. We have established environmental protection systems which consist of pollution control facilities to treat certain of our waste materials and to safeguard against accidents. Because of the nature of our business, however, we store a significant amount of waste substances in the plants and discharge them into the environment after making such waste substances meet the discharge standards. During 2013, we were assessed a total of RMB38.474 million (U.S.$6.355 million) in fees for discharges of waste substances.

We completed the upgrading of some equipment of the environmental protection facility that supports the continuous polyester testing plant of the Polyester Fiber Research Institute under our Polyester Fiber Department in the second half of 2006, and then commenced the operation of the facility without complying with the required inspection and acceptance procedures for the facility. As a result, we were in breach of the relevant environment regulations of the PRC, and the Environmental Protection Bureau of Jinshan District imposed a fine of RMB80,000 upon us for such breach.

We believe our environmental protection facilities and systems are adequate for the existing national and local environmental protection regulations. In 2013, the Company continued to carry out various energy-saving and emissions reduction measures in accordance with the relevant domestic energy conservation and emissions reduction requirements, and achieved all energy-saving and emissions reduction goals set by the Chinese government during the year.

In 2013, the Company s overall energy consumption per RMB10,000 of product value was 0.832 tons of standard coal, representing a decrease of 16.63% compared to 2012. In 2013, the proper disposal ratio of waste water, waste solids and waste gas reached 100%, with a year-on-year decrease of 58.96% in the solid residues disposed of by contractors, a year-on-year decrease of 0.14% in chemical oxygen demand (COD), a year-on-year decrease of 5.25% in the emissions of nitrogen oxides, and a year-on-year decrease of 11.51% in the total emissions of ammonia nitrogen. Despite the full operation of the refinery revamping and expansion project as part of the Phase 6 Project, the total emissions of sulphur dioxide were controlled effectively, with only a slight increase of 9.04%. The compliance rate of the discharge of waste water, the disposal rate of hazardous waste and other indicators, in each case, met the relevant environmental protection requirements. The average heat efficiency of the heating furnaces reached 92.24%, an increase of 0.35% over the previous year. In accordance with the requirements set forth by the Shanghai Municipal Government for eliminating obsolete production capacity, the service of No.1 ethylene cracker was halted in November 2013 ahead of schedule. We actively improved the quality of our refined oil products by upgrading our Shanghai V gasoline and China V diesel and supplied the same to the market. In 2013, the Company actively responded to carbon emission trading, securing carbon emission quotas for 2013 through 2015 and consummating its initial carbon emission trading with a volume of 1,000 tons.

Despite of our continuous efforts to protect the environment and save energies, there can be no assurance that Chinese national or local authorities will not impose additional regulations that would require additional expenditures in respect of environmental matters in the future.

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Insurance

We currently participate in a package of insurance coverage plan through Sinopec Group as its controlled subsidiary, which, as of December 31, 2013, was approximately RMB37.215 billion (U.S.$6.147 billion) on our property and facilities and approximately RMB3.034 billion (U.S.$0.501 billion) on our inventory. In addition, we maintain insurance policies for such assets as the engineering construction projects and products in transit with third-party s commercial insurance company. The Sinopec Group insurance coverage is compulsory and applies to all enterprises controlled by Sinopec Group, pursuant to guidelines of Sinopec Group which may not be legally enforceable against Sinopec Group. Thus, there are uncertainties under Chinese law as to what percentage insurance claims we may demand against Sinopec Group.

We do not carry any third party liability insurance to cover claims in respect of personal injury, property or environmental damage arising from accidents on our property or relating to our operations other than on our transportation vehicles. We have not had a third party liability claim filed against us during the last five years. Since business interruption insurance is not customary in China, we do not carry such insurance.

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Government Regulations

Following the development of several major oil fields and a growth in demand for petroleum and petrochemical products in China in the early 1970s, the Chinese government organized petroleum refining and petrochemical production and processing plants into large complexes that would permit integrated production of petroleum products, intermediate petrochemicals, resins and plastics, and synthetic fibers.

Although the Chinese government is liberalizing its control over the petroleum and petrochemical industries in China, significant government regulations that limit the business strategies available to us remain. Central government agencies and their local or provincial level counterparts do not own or directly control our production plants. However, they exercise significant control over the petrochemical industry in areas such as pricing, production quotas, quality standards, allocation of raw materials and finished products, allocation of foreign exchange and Renminbi loans for capital construction projects. The Chinese government s intentions with respect to the development objectives and policies for the petrochemical industry are stated as part of the Five Year Plans for National Economic and Social Development formulated every five years. These plans at both the national and Shanghai municipality level have identified the petrochemical industry as a development industry .

Historically, we were supervised by Sinopec, a ministry-level enterprise under the direct supervision of the State Council, China s highest administrative body. As a result of a governmental restructuring in 1998, we became subject to the administration of the State Bureau of Petroleum and Chemical Industry. After its functions were terminated in March 2001, we became subject to the administration of the State Economic and Trade Commission. The State Economic and Trade Commission was dissolved in March 2003 and its function in directing the reform and management of state-owned enterprises was assumed by the State-owned Assets Supervision and Administration Commission, its function in industry planning and policy making was assumed by the NDRC, and its functions in administering domestic trade, coordinating and implementing import and export plans of critical industrial products and raw materials were assumed by the Ministry of Commerce. Since then, we have been subject to the industrial oversight of these three governmental agencies at the national level.

As part of this restructuring, Sinopec was also restructured in July 1998. The succeeding entity, Sinopec Group, was authorized to conduct petrochemical business and to control the exploration of crude oil and natural gas and crude oil refining, mainly in the southern and eastern regions of China. China Petroleum and Natural Gas Corporation, another major state-owned petrochemical company, was also restructured, renamed China National Petroleum Corporation and authorized to conduct the same type of business, mainly in the northern and western regions of China. On December 31, 1999, Sinopec Group completed a reorganization pursuant to which certain of its core oil and gas and chemical operations and businesses and related assets and liabilities were transferred to its subsidiary, Sinopec Corp., currently our controlling shareholder.

Business Operations Relating to Iran and other U.S. Sanctioned Countries

In 2013, we sourced a small amount of crude oil from Iran through a wholly-owned subsidiary of Sinopec Corp., our controlling shareholder, and such amount represented 7.04% of our total purchase volume of crude oil. Details of the purchase volume and purchase expenses are provided below:

	Volume (thousand tons)	% of total	Amount (RMB billion)	% of total
Iran	1,018.226	7.04	4.873	7.08
Others	13,449.312	92.96	63.968	92.92
Total	14,467.538	**100.00**	68.841	**100.00**

In addition, based on feedback to our inquiries to Sinopec Group, the controlling shareholder of Sinopec Corp., Sinopec Group, directly or indirectly, engaged in a small amount of business activities in Iran such as providing engineering support and designs. Sales revenue from these business activities accounted for 0.0015% of Sinopec Group s total unaudited sales revenue in 2013. No profits were generated from these business activities in 2013.

We have no performance obligations under any contract to continue to purchase crude oil sourced from Iran in 2014.

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C. Organizational Structure.

Our Subsidiaries

Our significant subsidiaries are listed below. All of the subsidiaries named below are incorporated in China.

Subsidiary Name	Our ownership interest (%)	Our voting power (%)
Shanghai Petrochemical Investment Development Company Limited	100.00	100.00
China Jinshan Associated Trading Corporation	67.33	67.33
Shanghai Jinchang Engineering Plastics Company Limited	74.25	71.43
Shanghai Golden Phillips Petrochemical Company Limited	60.00	60.00
Zhejiang Jin Yong Acrylic Fiber Company Limited	75.00	75.00
Shanghai Golden Conti Petrochemical Company Limited	100.00	100.00

Sinopec Corp.

We are a member of a group (defined as a parent and all its subsidiaries) for purposes of the disclosure rules of the Securities and Exchange Commission. The parent company of this group is Sinopec Corp., our controlling shareholder. Sinopec Corp. is operated by separate management and from time to time uses its interest as a shareholder to direct our policies and management. We have extracted the following information regarding Sinopec Corp. from its public filings:

Overview

Sinopec Corp. is an integrated petroleum and petrochemical company with upstream, midstream and downstream operations. Based on trading volume in 2013, Sinopec Corp. is one of the largest publicly listed companies in China and one of the largest petroleum and petrochemical companies in both China and Asia. Sinopec Corp. is one of the largest refiners, distributors and marketers of gasoline, diesel, jet fuel and most other major refined products in China and Asia with principal markets in the eastern and southern regions of China. Sinopec Corp. is also a producer and distributor of petrochemicals in China and additionally explores, develops and produces crude oil and natural gas principally to supply its refining and chemical operations.

Subsidiaries

Details of Sinopec Corp. s principal subsidiaries are given in the table below. Except for Sinopec Kantons Holdings Limited and Sinopec (Hong Kong) Limited, which are incorporated in Bermuda and Hong Kong respectively, all of the below principal subsidiaries are incorporated in China.

Name of Company	Particulars of issued capital (millions)	Type of legal entity	Percentage of equity Percentage of equity held by Sinopec Corp. and its subsidiary (%)	Principal activities
China Petrochemical International Company Limited	RMB1,400	Limited company	100.00	Trading of petrochemical products
Sinopec Chemical Commercial Holding Company Limited	RMB1,000	Limited company	100.00	Trading of petrochemical products
Sinopec Sales Company Limited	RMB1,700	Limited company	100.00	Sale of refined oil
	RMB13,203		100.00	

Sinopec Yangzi Petrochemical Company Limited		Limited company		Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Zhongyuan Petrochemical Company Limited	RMB2,400	Limited company	93.51	Manufacturing of petrochemical products
Fujian Petrochemical Company Limited	RMB5,619	Limited company	50.00	Manufacturing of plastics, intermediate petrochemical products and petroleum products

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Name of Company	Particulars of issued capital (millions)	Type of legal entity	Percentage of equity held by Sinopec Corp. and its subsidiary (%)	Principal activities
Sinopec Shanghai Petrochemical Company Limited	RMB10,800	Limited company	50.56	Manufacturing of synthetic fibers, synthetic resin, intermediate petrochemical products and petroleum products
Sinopec Kantons Holdings Limited	HK$248	Limited company	60.34	Trading of crude oil and petroleum products
Sinopec Yizheng Chemical Fiber Company Limited	RMB4,000	Limited company	40.25	Production and sale of polyester chips and polyester fibers
Sinopec International Petroleum Exploration and Production Company Limited	RMB8,000	Limited company	100.00	Investment in exploration, production sales, etc. of petroleum and nature gas
Sinopec Shell (Jiangsu) Petroleum Marketing Company Limited	RMB830	Limited company	60.00	Sale of refined oil
BP Sinopec (Zhejiang) Petroleum Company Limited	RMB800	Limited company	60.00	Sale of refined oil
Sinopec Qingdao Refining and Chemical Company Limited	RMB5,000	Limited company	85.00	Manufacturing of intermediate petrochemical products and petroleum products
China International United Petroleum & Chemical Co., Ltd.	RMB3,000	Limited company	100.00	Trading of crude oil and petrochemical products
Sinopec Hainan Refining & Chemical Company Limited	RMB3,986	Limited company	75.00	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec (Hong Kong) Limited	HK$5,477	Limited company	100.00	Trading of crude oil and petrochemical products
Sinopec Senmei (Fujian) Petroleum Ltd.	RMB1,840	Limited Company	55.00	Sale of refined oil
Sinopec Fuel Oil Sales Company Limited	RMB2,200	Limited Company	100.00	Sale of refined oil

D. Property, Plant and Equipment.

Real Property

Our corporate headquarters and production facilities, occupying an area of approximately 7.03 square kilometers, are located in Jinshanwei, approximately 75 kilometers from downtown Shanghai. The total gross floor area of all our production and other facilities is approximately 2 million square meters. We own all of the buildings and facilities located at the site. We have the right to use the land upon which our buildings and facilities are located for a term of 50 years beginning in 1993 without the payment of any rent or usage fees other than land use taxes. We also have the right to transfer our land use rights to third parties without any payment to the Chinese government, so long as the use of the land remains the same as when the land use right was granted to us and the terms of the land use right we received will be applicable to any transferees.

Plants and Facilities

The following tables set forth the Rated Capacities of our principal production units. The actual production capacity of a production unit can exceed the Rated Capacity and may be further increased without increasing the Rated Capacity through technical improvements or expansion of such unit. The utilization rate of a production unit is based upon the Rated Capacity rather than actual production capacity and may vary with technical enhancements, changes in production management and scheduling of maintenance.

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The following table sets forth the Rated Capacities and weighted average utilization rates of our principal production units for petroleum products and intermediate petrochemicals in 2013:

Production Unit (number of units)	Rated Capacity (tons)	Utilization Rate (%)
Crude oil distillation units (2)	14,000,000	102.20
Hydrocracker (2)	3,000,000	93.85
Ethylene units (2)	850,000	104.88
Aromatics unit	835,000	124.77
PTA unit	400,000	89.00
EO/EG unit (2)	525,000	94.51
Acrylonitrile unit	130,000	100.37
*Cracking and catalyzing (2)	4,500,000	103.63
Delayed Coking (2)	2,200,000	95.06
Diesel oil hydrogenation unit (3)	5,050,000	84.46
C5 segregation unit (2)	205,000	119.67

* For cracking and catalyzing units, the utilization rate of 86.32% only applies to one unit. The second unit creased operating in 2013.

Our two crude oil distillation units were designed and built in China. In 2013, the actual quantity of crude oil we processed was approximately 15.6678 million tons. Our hydrocracker uses technology from United Oil Products Corporation of the United States. Our first ethylene unit uses technology from Mitsubishi Petrochemical Corporation of Japan. The second ethylene unit uses technology from ABB Lummus Global Inc. of the United States. The aromatics unit uses technology from Universal Oil Products Corporation of the United States. The PTA unit uses technology from Mitsui Petrochemical Corporation of Japan. The EO/EG unit was constructed using technology from Scientific Design Corporation of the United States.

The following table sets forth the Rated Capacities and weighted average utilization rates of our principal production units for resins and plastics and synthetic fibers in 2013:

Production Unit (number of units)	Rated Capacity (tons)	Utilization Rate (%)
Polyester units (3)	550,000	98.97
Polyester staple units (2)	158,000	99.91
Polyester filament units	21,000	88.39
Acrylic staple fiber units (4)	141,000	119.20
PE units (3)	408,000	102.80
PP units (3)	400,000	101.59
Vinyl acetate unit (2)	102,000	91.02

Our polyester units use technology from Kanebo Corporation of Japan and E.I. Dupont DeNemours & Co. Inc. (Dupont) of the United States. The polyester staple units use technology from Teijin of Japan and Jima of Germany as well as Chinese technology. The polyester filament units use technology from Murata Manufacturing Company Limited and Teijin Corporation of Japan, Barmag AG of Germany and Dupont. We produce polyethylene in three units; two LDPE units which use technology from Mitsubishi Petrochemical Corporation of Japan and BASF LDPE of Germany; and one HDPE unit uses the Borstar bimodal polyethylene technology from Northern European Chemical Engineering Company.

The acrylic fiber units were built domestically, based on a design of equipment which had been imported into China in the 1960s and that we substantially improved. In 1996, we acquired two additional acrylic fiber units which use technology from the Kawasaki Corporation of Japan. We produce PP in three identical units using technology from Himont Corporation of Italy. The PVA unit uses technology acquired from Kuraray Corporation of Japan.

Power Facilities

Our electricity requirements are currently supplied by our own 425 megawatt coal-fired power plant and petroleum coke power plant. These power plants are designed to provide sufficient power supply needed by our facilities. We are connected to the Eastern China electricity grid, which provides a back-up source of power in case of a shortfall in our self-generated power supply.

Other Facilities

We also have facilities to produce industrial water, steam, hydrogen, oxygen and nitrogen which we use in our production facilities.

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Maintenance

We engage in production stoppages for facility maintenance and repairs and implement our routine monthly maintenance and repair plans according to the needs of our production facilities, our requirements for product quality, and our commitment to security and environmental protection. The technicians in our facility management department have responsibility for the daily management of maintenance and repair work. We also outsource facility maintenance and repair projects to qualified contractors.

In 2013, we continued to place emphasis on HSE by implementing an HSE responsibility system at each level to strengthen the safety supervision at our operations and construction sites and to improve the HSE-related performance appraisal. These efforts have resulted in continued improvement in our safety and environmental protection practices. We did not encounter serious accidents involving production safety, environmental pollution or occupational poisoning in 2013. We achieved our goal of creating a safe and environmentally-friendly work environment. Our overall production remained stable and the number and duration of unplanned shutdowns at our major production plants declined by 34.48% and 9.27%, respectively. Among the 109 major indicators that measure technical and economic capacity, 66 exceeded those of the previous year while 38 reached advanced levels in our industry.

Transportation-Related Fixtures

Crude oil, our principal raw material, is transported by pipeline and oil tanker to a crude oil terminal wharf and storage tanks. Our products leave the factory by water, rail, road and pipeline. In 2013, approximately 42.02% of our products by sales volume were collected by customers from our premises, and we delivered the balance. Our major ethylene customer is supplied via a pipeline. Some of the products collected by customers were also transported using our facilities.

Wharfs

We own one chemical wharf at Jinshan with five berths of 2,000, 5,000, 8,000, 10,000 and 25,000 tons. We also own a connecting pipeline capable of loading up to approximately 1.4 million tons of chemical products annually onto ocean-going barges and ships. In 2013, products representing 17.32% of total sales volume were shipped from the wharf. We also have a facility to load ships and barges which use the region s inland waterways. In 2013, products representing 2.23% of total sales volume were shipped from these facilities. We believe that we have a competitive advantage because a greater proportion of our products are shipped by water as opposed to rail and truck, which is subject to capacity constraints on China s rail and highway networks. Additionally, we own facilities for receiving crude oil and coal at docks that we own and transporting such materials by pipeline or conveyor to our production facilities.

Rail

We own a railroad loading depot with an annual capacity of 500,000 tons. The depot provides access via a spur line to the national Chinese railway system. In 2013, products representing 1.14% of total sales volume were transported from the factory by rail. Our ability to transport products by rail is limited because of China s overburdened railway system, the allocation of use of which remains strictly controlled by the Chinese government.

Capital Expansion Program

Our principal capital expansion projects for the near term are summarized in the table and further described below. In aggregate, we expect that total investment in the projects described will be approximately RMB2 billion in 2014. This amount will be funded by our own capital and by bank loans.

Name of Project	**Rated Capacity (tons/year)**	**Start Date**	**Expected Completion Date**	**Status**
Refining Capacity Expansion				
No. 3 Diesel Hydrogenation Unit Reconstruction and Diesel Quality Upgrading Project	N/A	2014	2014	Basic Design submitted
Expansion of New and Existing Downstream Petrochemical Products				
The Carbon Fiber Project with a Capacity of 1,500 Tons/Year	1,500	2010	Phase I completed in 2012	Phase I completed
Manufacturing Facilities of EVA with a Capacity of 100,000 Tons/Year	100,000	2014	2015	Basic Design complied

N/A not applicable.

In 2011, 2012 and 2013, we invested RMB3.225 billion, RMB3.811 billion and RMB1.317 billion, respectively, in capital expansion projects.

Refining Capacity Expansion

With a view to fulfilling our need to adjust product mixes, we adhere to the operational principle of purchasing and using more heavy and low-quality crude oil. We have made a significant effort to improve the overall processing procedures, enhanced our reprocessing capacity, and continuously increased the operating adaptability and overall efficiency of our refining facilities. The construction of the Phase 6 Project, which was designed based on the considerations of and with emphasis on (i) both low cost and product diversity; (ii) both mass and refined production; and (iii) low cost and mass production in the upstream supply and high value added and refined production in the downstream production, and focuses on the reconstruction of refining facilities, fine chemicals, structure adjustment and system perfection, has basically been completed. The construction of the Refinery Revamping and Expansion Project has been completed. The relevant facilities were put into operation in December 2012.

With a view to complying with the national requirement to improve the quality of refined oil, we launched the No. 3 Diesel Hydrogenation Unit Reconstruction and Diesel Quality Upgrading Project. In July 2013, the feasibility study report for this project was approved by Sinopec Corp. We commenced the procurement process for a diesel hydrofining reactor in 2013. We plan to undertake the project in connection with the replacement and maintenance of the catalyst of our No.3 diesel hydrogenation unit in June 2014.

Expansion of New and Existing Downstream Petrochemical Products

As a fully integrated petrochemical complex, we produce a wide range of intermediate and downstream petrochemical products. We plan to utilize the currently available resources and develop higher-margin downstream products and fine chemicals, with raw materials including cracking carbon 5, carbon 4, epoxy ethane, vinyl acetate and acrylonitrile. With a view towards enhancing our competitive strength and our ability to maintain sustainable development, we plan to further increase our overall utilization rate of resources and adjust and improve our industrial structure through the measures discussed below. In response to the national requirement for the protection of a green environment and in order to fulfill our development needs, we have improved the environmental protection facilities through technological upgrading.

To take advantage of our specialty in producing acrylics fiber and to improve our industrial structure and upgrade certain products, we plan to construct a carbon fiber project with a capacity of 1,500 tons/year. Sinopec Corp. approved the basic design for this project in December 2010; pile foundation construction was commenced in December 2010; civil engineering was commenced in February 2011 and one series of facilities under phase I were launched for trial operation in 2012. The Company will decide on the timing of the construction of the additional phases of the project based on market conditions.

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We plan to construct a new 100,000t/a EVA production unit with imported technology. The revised feasibility study report for this project was submitted to Sinopec Corp. for approval in September 2011. The construction of this project is scheduled to be commenced in 2014 and completed in 2015.

ITEM 4A. UNRESOLVED STAFF COMMENTS.

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS.

General

You should read the following discussion and analysis in conjunction with our audited financial statements and our selected financial data, in each case, together with the accompanying notes included elsewhere in this annual report. Our audited financial statements have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board.

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Critical Accounting Policies

The following discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements. The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during 2013. Our financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of our financial statements. We based our assumptions and estimates on historical experience and on various other assumptions that we believe to be reasonable and which form the basis for making judgments about matters that are not readily apparent from other sources. On an on-going basis, our management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

Our principal accounting policies are set forth in Note 2 to our consolidated financial statements. The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our financial statements. We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

Impairments for long-lived assets

Assets, that have an indefinite useful life, must be tested annually for impairment. Long term assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset s fair value less costs to sell and value in use. In determining the value in use, expected cash flows generated by the asset or the cash-generating unit are discounted to their present value. We use all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs. During the years ended December 31, 2011, 2012 and 2013, we recognized impairment charges on property, plant and equipment of RMB11 million, RMB nil and RMB nil, respectively. As of December 31, 2012 and 2013, the estimated recoverable amounts of its long-lived assets that were subject to impairment testing substantially exceeded their carrying values.

Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. We review the estimated useful lives of the assets annually in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on our historical experience with similar assets, taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates. There were no significant changes in these estimates during the years ended December 31, 2011, 2012 and 2013.

Impairment for bad and doubtful debts

We estimate impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. We base the estimates on the aging of the accounts receivable balance, customer credit-worthiness and historical write-off experience. If the financial condition of the customers were to deteriorate, actual impairment losses would be higher than estimated. Impairment provisions for bad and doubtful debts were a reversal of RMB2 million, a provision of RMB0.2 million and a provision of RMB0.01 million, during the years ended December 31, 2011, 2012 and 2013, respectively.

Inventory management

At the beginning of every year, the management team determines the appropriate levels of inventories to maintain on the basis of annual production and operating plans, financial budgets and market conditions. Every six months, the management team conducts an inventory status analysis in conjunction with its supply, production, marketing, financial and other departments and develops a plan for keeping inventories at an appropriate level.

Management assesses the realizability of our inventories based on the estimates of the net realizable value of the inventories at the end of each reporting period. Net realizable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. We base the estimates on all available information, including the current market prices of the finished goods and raw materials and historical operating costs. Any excess of the cost over the net realizable value of each item of inventories is recognized as a provision for diminution in the value of inventories. If the actual selling prices were to be lower or the costs of completion were to be higher than the estimates, the actual allowance for diminution in value of inventories could be higher than estimated. In addition, management periodically reviews inventory aging information to assess if any obsolete inventories are required to be written down at the period end. Based on our assessments, we recorded write-down of inventories of RMB110 million, RMB204 million and RMB40 million respectively for the years ended December 31, 2011, 2012 and 2013. Barring unforeseeable changes that may occur to the current economic environment in either China or worldwide, our management does not anticipate encountering major difficulties with our attempt to realize by the end of 2014 the bulk of our inventories as of December 31, 2013 after deducting for diminution in values.

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Income tax

In June 2007, the State Administrative of Taxation issued a tax circular (Circular No.664) to the local tax authorities requesting the relevant local tax authorities to rectify the applicable enterprise income tax (EIT) for nine listed companies, which included us. After the notice was issued, we were required by the relevant tax authority to settle the EIT for 2007 at a rate of 33 percent. To date, we have not been requested by the tax authorities to pay additional EIT in respect of any years prior to 2007. There is no further development of this matter during the year ended December 31, 2013. No provision has been made in the financial statements at December 31, 2013 for this uncertainty because we believe it is not probable that the Company will be required to pay additional EIT for tax years prior to 2007.

Recognition of deferred tax assets

There are many transactions and events for which the ultimate tax determination is uncertain during the ordinary course of business. Significant judgment is required from the Company in determining the provision for income taxes in each of these jurisdictions. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are recognized in respect of temporary deductible differences and the carry forward of unused tax losses. We recognize deferred tax assets only to the extent that it is probable that future taxable profit will be available against the assets which can be realized or utilized. At the end of each reporting period, we assess whether previously unrecognized deferred tax assets should be recognized. The Company recognizes a previously unrecognized deferred tax asset to the extent that it is probable that future taxable profit will allow the deferred tax asset to be utilized. In addition, we assess the carrying amount of deferred tax assets that are recognized at the end of each reporting period. The Company reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available for the deferred tax asset to be utilized.

In making the assessment of whether it is probable the Company will realize or utilize the deferred tax assets, we primarily rely on the generation of future taxable income to support the recognition of deferred tax assets. In order to fully utilize the deferred tax assets recognized at December 31, 2013, the Company would need to generate future taxable income of at least RMB2,739 million, of which RMB2,371 million is required to be generated by 2017 prior to the expiration of the unused tax losses incurred in 2012.

We believe that it is probable that the Company will generate sufficient taxable income before the unused tax losses expire. Favorable factors include the enlargement of crude oil refinery capacity of the Company and the new pricing mechanism in the PRC for setting gasoline and diesel prices to more closely track crude oil costs. Uncertainties which could affect the estimated taxable income include various factors such as the volatility of international crude oil prices and the cyclical nature of the petroleum and petrochemical industry. Upon changes in facts and circumstances, management may conclude that deferred tax assets may not be realizable in future periods, resulting in a future reduction in the carrying amount of a deferred tax asset.

Government Policies

The impact of government economic, fiscal, and monetary policies can materially affect our financial condition, results of operations, and cash flows (see Item 3. Key Information - D. Risk Factors).

In particular, we consume large amounts of crude oil to manufacture our products of which more than 90% is typically imported. We attempt to mitigate the effect of increased costs due to rising crude oil prices. However, our ability to pass on these increased costs to our customers is dependent on government regulations, among other factors. Given that the increase of the sales prices of our products can lag behind the increase of crude oil costs, we sometimes fail to completely cover the increased costs by increasing our sales prices, particularly where government regulations restrict the prices of certain of our fuel products such as gasoline, diesel and jet fuel, and liquefied petroleum gas. In 2011, 2012 and 2013, approximately 36.70%, 40.09% and 49.11% of our net sales were from such products subject to price controls. Although the current price-setting mechanism for refined petroleum products in China allows the Chinese government to adjust price in the PRC market when the average international crude oil price fluctuates beyond certain levels within a certain time period (see Item 4. Information on the Company B. Business Overview Product Pricing), the Chinese government still retains discretion as to whether or when to adjust the prices of the refined oil products. The Chinese government generally exercises certain price control over refined oil products once international crude oil prices experience a sustained rise or become significantly volatile. Moreover, the Chinese government controls the distribution of many fuel products in China. For instance, some of our fuel products are required to be sold to designated distributors (such as the subsidiaries of Sinopec Corp.). Because we cannot freely sell our fuel products to take advantage of opportunities for higher prices, we may not be able to fully cover increases in crude oil prices by increases in the sale prices of our products, which has had and will continue to have a material adverse effect on our financial condition, results of operations and cash flows.

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In addition, the exchange rates between the Renminbi and the U.S. Dollar or other foreign currencies are affected by Chinese government policies. In particular, the value of the Renminbi is only permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. The Chinese government continues to receive significant international pressure to liberalize its currency policy. Most of our revenue is denominated in Renminbi, and most of our purchase of crude oil and some equipment and repayment of certain borrowings are made in foreign currencies. In general, the trend for appreciation of the Renminbi has been helpful to us since our imported crude oil purchases constitute such a large portion of our total costs. By contrast, any depreciation of the Renminbi would increase our costs and adversely affect our capacity of making profits. In addition, any depreciation of the Renminbi could adversely affect the value of the dividends of our H shares and ADSs, which we pay in foreign currencies. Further appreciation in the value of Renminbi against foreign currencies (including the U.S. Dollar) may cause a decrease in the value of our cash and cash equivalents that are denominated in foreign currencies.

Summary

The following table sets forth our sales volumes and net sales for the years indicated:

	For the year ended December 31,								
	2011			2012			2013		
	Sales Volume (000 tons)	Net Sales (Millions of RMB)	% of Total Net Sales	Sales Volume (000 tons)	Net Sales (Millions of RMB)	% of Total Net Sales	Sales Volume (000 tons)	Net Sales (Millions of RMB)	% of Total Net Sales
Synthetic fibers	250.9	4,150.2	4.6	253.3	3,313.3	3.8	250.8	3,220.5	3.1
Resins and plastics	1,590.7	16,418.6	18.3	1,582.8	14,706.3	16.9	1,506.7	14,268.4	13.5
Intermediate petrochemicals	2,246.7	19,023.2	21.3	2,209.2	17,993.5	20.6	2,545.0	18,430.8	17.5
Petroleum products	6,968.1	37,350.2	41.7	6,921.0	38,301.4	43.9	10,391.5	57,419.8	54.4
Trading of petrochemical products		11,617.0	13.0		12,020.7	13.8		11,157.6	10.6
Others		950.5	1.1		882.1	1.0		1,006.1	0.9
Total	11,056.4	89,509.7	100.0	10,966.3	87,217.3	100.0	14,694.0	105,503.2	100.0

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The following table sets forth a summary statement of the Company s consolidated statements of operations for the years indicated:

	For the year ended December 31,					
	2011		2012		2013	
	Millions of RMB	% of Net sales	Millions of RMB	% of Net sales	Millions of RMB	% of Net sales
Synthetic fibers						
Net sales	4,150.2	4.6	3,313.3	3.8	3,220.5	3.1
Operating expenses	(3,848.9)	(4.3)	(3,718.6)	(4.3)	(3,823.4)	(3.6)
Segment profit/(loss)	301.3	0.3	(405.3)	(0.5)	(602.9)	(0.5)
Resins and plastics						
Net sales	16,418.6	18.3	14,706.3	16.9	14,268.4	13.5
Operating expenses	(16,406.6)	(18.3)	(15,997.7)	(18.4)	(15,034.7)	(14.3)
Segment profit/(loss)	12.0	0.0	(1,291.4)	(1.5)	(766.3)	(0.8)
Intermediate petrochemicals						
Net sales	19,023.2	21.3	17,993.5	20.6	18,430.8	17.5
Operating expenses	(17,874.6)	(20.0)	(17,160.8)	(19.6)	(17,366.8)	(16.5)
Segment profit	1,148.6	1.3	832.7	1.0	1,064.0	1.0
Petroleum products						
Net sales	37,350.2	41.7	38,301.4	43.9	57,419.8	54.4
Operating expenses	(37,803.6)	(42.2)	(39,294.4)	(45.0)	(55,242.6)	(52.3)
Segment loss/(profit)	(453.4)	(0.5)	(993.0)	(1.1)	2,177.2	2.1
Trading of petrochemical products						
Net sales	11,617.0	13.0	12,020.7	13.8	11,157.6	10.6
Operating expenses	(11,602.0)	(13.0)	(11,974.3)	(13.7)	(11,052.1)	(10.5)
Segment profit	15.0	0.0	46.4	0.1	105.5	0.1
Others						
Net sales	950.5	1.1	882.1	1.0	1,006.1	0.9
Operating expenses	(914.2)	(1.0)	(843.9)	(1.0)	(791.3)	(0.7)
Segment profit	36.3	0.1	38.2	0.0	214.8	0.2
Total						
Net sales	89,509.7	100.0	87,217.3	100.0	105,503.2	100
Operating expenses	(88,449.9)	(98.8)	(88,989.7)	(102.0)	(103,310.9)	(97.9)
Profit/(loss) from operations	1,059.8	1.2	(1,772.4)	(2.0)	2,192.3	2.1
Net financing income/(costs)	83.5	0.1	(283.3)	(0.3)	121.7	0.1
Investment income	0.7	0.0	6.4	0.0		
Share of profit of associates and jointly controlled entities	152.7	0.1	32.8	0.0	130.7	0.1
Earnings/(loss) before income tax	1,296.7	1.4	(2,016.5)	(2.3)	2,444.7	2.3
Income tax	(310.2)	(0.3)	511.4	0.6	(379.2)	(0.3)
Net income/(loss)	986.5	1.1	(1,505.1)	(1.7)	2,065.5	2.0
Attributable to:						
Equity shareholders of the Company	956.1	1.0	(1,528.4)	(1.8)	2,055.3	1.9
Non-controlling interests	30.4	0.1	23.3	0.1	10.2	0.1
Net income/(loss)	986.5	1.1	(1,505.1)	(1.7)	2,065.5	2.0

Net sales represent sales revenue of the respective segments after sales taxes and surcharges. Operating expenses represent cost of sales, selling and administrative expenses and other operating expenses /income, as allocated to respective segments.

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A. Results of Operations

In 2013, we witnessed the sluggish recovery of the global economy, the gradual economic growth in the developed countries, and a slow but steady recovery of the American economy. However, due to insufficient overall demand, the developed countries demand for imports from developing countries declined significantly. Emerging economies and developing countries struggled to cope with the decrease in capital inflows as well as significant fluctuations in the financial markets which resulted in their economies growing at a much slower pace than they had in previous years. Amid such substantial adjustments and changes, the global economy lacked momentum for growth. The complex and ever-changing global economic environment put further downward pressure on the PRC economy. The PRC government adhered to its strategy of seeking economic development while maintaining stability and managing stable growth, adjusting the country s industrial structure and promoting reforms. The PRC economy showed steady improvement with its annual GDP growth rate at 7.7%, which represented a further slowdown in economic growth as compared with the previous year. The petroleum and petrochemical markets remained sluggish, which was mainly attributable to a variety of factors such as increased downward pressure on the economy, a weak recovery in downstream demand and significant issues with overcapacity.

In 2013, facing complex market conditions, we focused on our target of building up a refining and petrochemical enterprise which is a leader in China and first-class in the world , and improved our quality and efficiency. Adopting a market-orientated approach, we took full advantage of our refinery revamping and expansion project (completed as part of the Phase 6 Project) by improving various aspects of our production, operation and development so as to enhance the level of safety and environmental-friendliness of our plants, and maintain the stability of and further optimize our production and operations. Our major production facilities recorded stable and high volumes of throughput. Significant results were achieved through refined management and we made substantial improvements to our production and operational efficiency.

In 2013, our turnover amounted to RMB115,490.3 million, increasing by 24.17% compared with 2012. Our production/sale ratio was 100.07%, and the trade receivables recovery rate was 100%. Our total amount of import and export was U.S.$11,256 million, increasing by 24.84% compared with 2012.

Year ended December 31, 2013 compared with year ended December 31, 2012

Net sales

Against the backdrop of the slackened economic growth at home and abroad in 2013, the overall operation of the petrochemical industry tended to decline. The excessively expanded production capacity of bulk petrochemical products and the declined rate of growth in the demand in domestic and international markets led to more intense market competition and a substantial fall in the market prices of petrochemical products. Domestic oil consumption continued to grow while the supply of refined oil products could easily satisfy the consumption demand. In 2013, our net sales amounted to RMB105,503.2 million, representing an increase of 20.97% from RMB87,217.3 million in 2012. For the year ended December 31, 2013, the weighted average prices (excluding tax) of our synthetic fibers, intermediate petrochemical products and petroleum products decreased by 1.83%, 11.08%, and 0.15%, respectively, over the previous year, while the weighted average price (excluding tax) of resins and plastics increased by 1.92%.

(i) Synthetic fibers

In 2013, the net sales of synthetic fibres amounted to RMB3,220.5 million, representing a decrease of 2.80% compared to RMB3,313.3 million in the previous year. The weighted average sales price of synthetic fibres decreased by 1.83% as compared to the previous year. In particular, the weighted average sales prices of acrylic fiber and polyester fiber, the principal products of synthetic fibres, decreased by 1.15% and 7.15% over the previous year, respectively. The sales of acrylic fiber and polyester fiber accounted for 76.17% and 17.23% of the total sales of synthetic fibres, respectively.

Net sales of synthetic fiber products accounted for 3.1% of total net sales in 2013, representing a decrease of 0.7 percentage points as compared to the previous year.

(ii) Resins and plastics

The net sales of resins and plastics amounted to RMB14,268.4 million in 2013, representing a decrease of 2.98% as compared to RMB14,706.3 million in 2012, with the sales volume decreasing by 4.81% as compared to the previous year while the weighted average sales prices of resins and plastics increased by 1.92% in 2013. Among resins and plastics products, the weighted average sales price of polyethylene for 2013 increased by 4.71%; the weighted average sales price of polypropylene for 2013 increased by 0.38%; the weighted average sales price of polyester pellet for 2013 decreased by 4.75%. The sales of polyethylene, polypropylene and polyester pellet accounted for 41.67%, 32.14% and

22.00% of the total sales of resins and plastics, respectively.

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The net sales of resins and plastics accounted for 13.5% of total net sales in 2013, representing a decrease of 3.4 percentage points as compared to the previous year.

(iii) Intermediate petrochemicals

The net sales of intermediate petrochemical products amounted to RMB18,430.8 million in 2013, representing an increase of 2.43% as compared to RMB17,993.5 million in 2012, with the sales volume increasing by 15.20% as compared to the previous year while the weighted average sales price of intermediate petrochemical products decreased by 11.08% in 2013. The decrease of the weighted average sales prices of intermediate petrochemicals is attributable to the sluggish domestic chemical market, and the relatively large decrease of the average price of the Company s key intermediate petrochemicals.

Among the intermediate petrochemical products, weighted average sales prices of paraxylene, butadiene and ethylene oxide decreased by 3.35%, 45.55% and 8.64%, respectively, while the weighted average sales price of benzene and glycol increased by 7.72% and 0.29%. The sales of paraxylene, butadiene, glycol, ethylene oxide and benzene accounted for 35.47%, 6.05%, 8.81%, 9.54% and 18.09% of the total sales of intermediate petrochemical products, respectively.

The net sales of intermediate petrochemical accounted for 17.5% of total net sales in 2013, representing a decrease of 3.1 percentage points as compared to the previous year.

(iv) Petroleum products

The net sales of petroleum products amounted to RMB57,419.8 million in 2013, representing an increase of 49.92% as compared to RMB38,301.4 million in the previous year, with the sales volume increasing by 50.14% as compared to the previous year while the weighted average sales price decreased by 0.15% in 2013.

The net sales of petroleum products accounted for 54.4% of total net sales in 2013, representing an increase of 10.5 percentage points as compared to the previous year.

(v) Trading of petrochemical products

The net sales of the trading of petroleum products amounted to RMB 11,157.6 million in 2013, representing a decrease of 7.18% as compared to RMB12,020.7 million in the previous year. Such decrease in the net sales was mainly attributable to a slight decrease in the trading volume of petrochemical products as compared to the previous year.

The net sales of trading of petrochemical products accounted for 10.6% of total net sales in 2013, representing a decrease of 3.2 percentage points as compared to the previous year.

(vi) Others

The net sales60; -

230
10
-
240

Deferred Income Taxes

23
232
(1)
-
254

Other Current Assets

25
60
96
(72)
109

Total Current Assets

(121)
1,646
1,063
(97)
2,491

Properties

6
27,606
1,387
-
28,999

Accumulated Depreciation

(9)
(6,400)
(810)
-
(7,219)

Properties - Net

(3)
21,206
577
-
21,780

Investment in Conrail

-
-
639
-
639

Affiliates and Other Companies

-
470
(105)
-
365

Investment in Consolidated Subsidiaries

14,524

-
34
(14,558)
-

Other Long-term Assets

(330)
203
442
(56)
259

Total Assets

$ 14,070
$ 23,525
$ 2,650
$ (14,711)
$ 25,534

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:

Accounts Payable

$ 90
$ 799
$ 112
$ (25)
$ 976

Labor and Fringe Benefits Payable

36
374
51
-
461

Payable to Affiliates

-
1,325
(1,253)
(72)

Casualty, Environmental and Other Reserves

-
226
21
-
247

Current Maturities of Long-term Debt

	669
	111
	5
	-
	785
Short-term Debt	
	-
	2
	-
	-
	2
Income and Other Taxes Payable	
	(761)
	572
	302
	-
	113
Other Current Liabilities	
	8
	72
	7
	-
	87
Total Current Liabilities	
	42
	3,481
	(755)
	(97)
	2,671
Casualty, Environmental and Other Reserves	
	-
	540
	84
	-
	624
Long-term Debt	
	5,229
	1,230
	11
	-
	6,470
Deferred Income Taxes	
	(176)
	6,291

	(19)				
	-				
	6,096				
Long-term Payable to Affiliates	-	-	56	(56)	-
Other Long-term Liabilities	290	541	195	(38)	988
Total Liabilities	$ 5,385	$ 12,083	$ (428)	$ (191)	$ 16,849
Shareholders' Equity:					
Common Stock, $1 Par Value	408	181	-	(181)	408
Other Capital	37	5,525	2,705	(8,230)	37
Retained Earnings	8,565	5,768	421	(6,189)	8,565
Accumulated Other Comprehensive Loss	(325)	(32)			

	(48)
	80
	(325)
Total Shareholders' Equity	
	8,685
	11,442
	3,078
	(14,520)
	8,685
Total Liabilities and Shareholders' Equity	
	$ 14,070
	$ 23,525
	$ 2,650
	$ (14,711)
	$ 25,534

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CSX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 13. Summarized Consolidating Financial Data, continued

Consolidating Cash Flow Statements
(Dollars in Millions)

Quarter Ended March 28, 2008	CSX Corporation	CSX Transportation	Other	Eliminations	Consolidated
Operating Activities					
Net Cash Provided by (Used in) Operating Activities	$ 67	$ 603	$ 157	$ (93)	$ 734
Investing Activities					
Property Additions	(2)	(406)	(38)	-	(446)
Insurance Proceeds	-	1	-	-	1
Purchases of Short-term Investments	(50)	-	-	-	(50)
Proceeds from Sales of Short-term Investments	295	-	-	-	295
Other Investing Activities	(15)	(25)	35	16	11
Net Cash Provided by (Used in) Investing Activities	228	(430)	(3)	16	(189)
Financing Activities					
Short-term Debt - Net	-	5	-	-	5

Long-term Debt Issued	1,000	-	-	-	1,000
Long-term Debt Repaid	1	(45)	-	-	(44)
Dividends Paid	(62)	(81)	(8)	90	(61)
Stock Options Exercised	36	-	-	-	36
Shares Repurchased	(300)	-	-	-	(300)
Other Financing Activities	28	11	(5)	(13)	21
Net Cash Provided by (Used in) Financing Activities	703	(110)	(13)	77	657
Net Increase (Decrease) in Cash and Cash Equivalents	998	63	141	-	1,202
Cash and Cash Equivalents at Beginning of Period	(594)	55	907	-	368
Cash and Cash Equivalents at End of Period	$ 404	$ 118	$ 1,048	$ -	$ 1,570

Quarter Ended March 30, 2007	CSX Corporation	CSX Transportation	Other	Eliminations	Consolidated
Operating Activities					
Net Cash Provided by (Used in) Operating Activities	$ 91	$ 704	$ (130)	$ (68)	$ 597

Investing Activities					
Property Additions	-	(404)	(24)	-	(428)
Insurance Proceeds	-	10	-	-	10
Purchases of Short-term Investments	(530)	-	-	-	(530)
Proceeds from Sales of Short-term Investments	558	-	-	-	558
Other Investing Activities	(49)	10	(11)	38	(12)
Net Cash (Used in) Provided by Investing Activities	(21)	(384)	(35)	38	(402)
Financing Activities					
Short-term Debt - Net	-	1	-	-	1
Long-term Debt Issued	-	-	-	-	-
Long-term Debt Repaid	-	(31)	2	-	(29)
Dividends Paid	(54)	(30)	(7)	38	(53)
Stock Options Exercised	89	-	-	-	89
Shares Repurchased	(179)	-	-	-	(179)
Other Financing Activities	27	(257)	265	(8)	27
Net Cash (Used in) Provided by Financing	(117)	(317)	260	30	(144)

Activities					
Net (Decrease) Increase in Cash and Cash Equivalents	(47)	3	95	-	51
Cash and Cash Equivalents at Beginning of Period	419	17	25	-	461
Cash and Cash Equivalents at End of Period	$ 372	$ 20	$ 120	$ -	$ 512

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CSX CORPORATION

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

STRATEGIC OVERVIEW

The Company provides customers access to a modern transportation network that connects ports, production facilities and distribution centers to markets in the Northeast, Midwest and the rapidly growing southern states. The Company transports a diversified portfolio of products, from domestically abundant coal to new energy sources such as ethanol, from automobiles produced by traditional American manufacturers to "new domestic" factories owned by European, Japanese and Korean automotive companies, and from life-essential chemicals to life-enriching consumer electronics. Additionally, the Company serves every major market in the eastern United States and has direct access to all Atlantic and Gulf Coast ports, as well as the Mississippi River, the Great Lakes and the St. Lawrence Seaway. Furthermore, the Company has access to Pacific ports through alliances with western railroads. Overall, the CSXT transportation network encompasses approximately 21,000 route miles of track in 23 states, the District of Columbia and the Canadian provinces of Ontario and Quebec.

As the nation consumes increasingly higher quantities of imported goods, those products must be transported across the country in a way that minimizes the impact on the environment, takes traffic off an already congested highway system and minimizes fuel consumption and transportation costs. The Company's transportation network, located in some of the largest and fastest-growing population centers in the nation, is well-positioned to capitalize on consumption growth trends. In this regard, more than two-thirds of Americans live within the Company's service territory, accounting for about three-quarters of the nation's consumption.

The Company has made substantial strides in improving operating performance in order to capitalize on these consumption growth trends. In 2004, CSXT implemented the ONE Plan, which continues to focus on optimizing the train network and utilizing rail assets more efficiently. Anchored by the ONE Plan and a variety of other initiatives implemented after the ONE Plan was introduced, the Company has achieved significant operational improvements that have enhanced safety, service reliability and productivity.

In addition to the ONE Plan, the Company continues to implement its Total Service Integration initiative ("TSI"), which aims to better align the Company's capabilities with customer demands. TSI aims to optimize train size and increase asset utilization while delivering more reliable service to customers.

These initiatives delivered strong results for shareholders while higher levels of customer service have led to improved pricing. These efforts combined with operational efficiencies have resulted in substantial improvements in CSX's operating income and operating ratio.

In addition to driving better financial results to create value for shareholders, CSX also employs a balanced approach in deploying its capital for the benefit of shareholders. This approach includes investments in the future, share repurchases and dividends. Through this balanced use of financial resources, CSX will strive to capitalize on an economic environment that is increasingly favoring rail transportation.

CSX CORPORATION

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FIRST QUARTER 2008 HIGHLIGHTS

- Revenue grew $291 million or 12% to over $2.7 billion.
- Expenses increased $150 million or 8% to $2.087 billion driven by rising fuel costs.
- Operating income was a 1st quarter record at $626 million an increase of $141 million or 29%.
- Service and safety measurements improved in all categories.

CSX achieved record first quarter revenue, operating income and earnings per share from continuing operations. Revenue and revenue-per-unit increased 12% and 14%, respectively, driven by the value CSX provides to its customers through better service as well as higher fuel recovery due to higher fuel prices. The Company was able to achieve pricing gains predominantly due to CSXT service improvements and the overall cost advantages that the Company's rail-based solutions provide to customers versus other modes of transportation.

These strong results in revenue were achieved despite volume declines in the Company's merchandise and automotive lines of business. The overall 2% volume decrease was primarily driven by continued weakness in housing construction and associated markets, as well as lower automotive production.

Expenses were higher primarily due to the effects of rising fuel prices. Lower first quarter 2008 volume and better productivity from improved operations offset the effects of inflation for certain expense categories.

For additional information, refer to Rail and Intermodal Results of Operations discussed on pages 33 through 35.

In addition to the Company's strong financial results, leadership and continued execution of established safety programs, which emphasize training, rules compliance and employee engagement, helped the Company deliver continued improvement in safety performance. The positive momentum continued as personal injury frequency improved 19% to 1.10 for the quarter. Train accident frequency improved 1% on a year-over-year basis to 3.04.

All key operating measures also improved during the first quarter of 2008, reflecting improved service reliability and efficiency gains. Train performance showed marked improvement, with on-time originations and arrivals improving 7% and 8%. System dwell, the average number of hours a rail car spends in a terminal, declined to 22.7 hours reflecting gains in terminal performance. Both average train velocity and recrews improved, indicating a positive trend in overall network fluidity. Train velocity increased 3% to 20.8 miles per hour, while average recrews improved 7% to 66 per day.

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CSX CORPORATION

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RAIL OPERATING STATISTICS (Estimated)		First Quarters 2008	2007	Improvement (Decline) %
Service Measurements	FRA Personal Injuries Frequency Index	1.10	1.35	19 %
	FRA Train Accident Rate	3.04	3.07	1
	On-Time Train Originations	78.6%	73.7%	7
	On-Time Destination Arrivals	69.3%	63.9%	8
	Dwell	22.7	24.5	7
	Cars-On-Line	221,193	225,317	2
	System Train Velocity	20.8	20.1	3
	Recrews	66	71	7 %
				Increase/ (Decrease)
Resources	Route Miles	21,225	21,167	- %
	Locomotives (owned and long-term leased)	4,049	3,917	3
	Freight Cars (owned and long-term leased)	93,351	100,588	(7)%

Key Performance Measures Definitions

FRA Personal Injuries Frequency Index – Number of FRA-reportable injuries per 200,000 man-hours.

FRA Train Accident Rate – Number of FRA-reportable train accidents per million train-miles.

On-Time Train Originations – Percent of scheduled road trains that depart the origin yard on-time or ahead of schedule.

On-Time Destination Arrivals – Percent of scheduled road trains that arrive at the destination yard on-time to two hours late (30 minutes for intermodal trains).

Dwell – Amount of time in hours between car arrival at and departure from the yard. It does not include cars moving through the yard on the same train.

Cars-On-Line – A count of all cars on the CSX network (does not include locomotives, cabooses, trailers, containers or maintenance equipment).

System Train Velocity – Average train speed between terminals in miles per hour (does not include locals, yard jobs, work trains or passenger trains).

Recrews –Number of crews used in addition to those planned for the trains running that day.

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CSX CORPORATION

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FINANCIAL RESULTS OF OPERATIONS

Results of Operations(Unaudited)(a)
(Dollars in Millions)
First Quarters

	Rail(b)		Intermodal		Operating Income		
	2008	2007	2008	2007	2008	2007	$ Change
Revenue	$ 2,365	$ 2,104	$ 348	$ 318	$ 2,713	$ 2,422	$ 291
Operating Expense:							
Labor and Fringe	726	714	19	20	745	734	(11)
Materials, Supplies and Other (c)	458	496	49	43	507	539	32
Fuel (c)	439	283	2	1	441	284	(157)
Depreciation	217	211	5	10	222	221	(1)
Equipment and Other Rents	84	91	27	29	111	120	9
Inland Transportation	(122)	(109)	185	166	63	57	(6)
Gain on Insurance Recoveries	(2)	(18)	-	-	(2)	(18)	(16)
Total Expense	1,800	1,668	287	269	2,087	1,937	(150)
Operating Income	$ 565	$ 436	$ 61	$ 49	$ 626	$ 485	$ 141
Operating Ratio	76.1%	79.3%	82.5%	84.6%	76.9%	80.0%	

(a) Beginning in 2008, certain items have been reclassified within the income statement. These reclassifications include reclassifying all items within other operating income and certain items within other income into the Rail segment. As a result of this change, CSX consolidated operating income and Surface Transportation operating income will now be the same; therefore, the Company will no longer report separate Surface Transportation results. The Rail segment was not materially impacted by these reclassifications. Certain prior-year data have been reclassified to conform to the 2008 presentation.

(b) In addition to CSXT, the Rail segment includes non-railroad subsidiaries such as TDSI, Transflo, CSX Technology and other subsidiaries.

(c) The Company reclassified all non-locomotive fuel related costs previously included in materials, supplies and other into fuel on the Company's consolidated income statement so that it now includes all fuel used for operations and maintenance. For first quarters 2008 and 2007, these amounts were $36 million and $25 million, respectively.

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CSX CORPORATION

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

VOLUME AND REVENUE (Unaudited)
Volume (Thousands); Revenue (Dollars in Millions); Revenue Per Unit (Dollars)
First Quarters

	Volume			Revenue			Revenue Per Unit		
	2008	2007	% Change	2008	2007	% Change	2008	2007	% Chang
Chemicals	128	133	(4)%	$ 357	$ 317	13 %	2,789	$ 2,383	
Emerging Markets	99	112	(12)	138	137	1	1,394	1,223	
Forest Products	80	92	(13)	175	183	(4)	2,188	1,989	
Agricultural Products	109	97	12	235	179	31	2,156	1,845	
Metals	92	93	(1)	197	176	12	2,141	1,892	
Phosphates and Fertilizers	91	92	(1)	130	106	23	1,429	1,152	
Food and Consumer	51	56	(9)	110	111	(1)	2,157	1,982	
Total Merchandise	650	675	(4)	1,342	1,209	11	2,065	1,791	
Coal	440	441	-	720	603	19	1,636	1,367	
Coke and Iron Ore	23	21	10	42	30	40	1,826	1,429	
Total Coal	463	462	-	762	633	20	1,646	1,370	
Automotive	96	109	(12)	202	203	-	2,104	1,862	
Other	-	-	-	59	59	-	-	-	
Total Rail	1,209	1,246	(3)	2,365	2,104	12	1,956	1,689	
International	253	292	(13)	123	133	(8)	486	455	
Domestic	255	217	18	220	180	22	863	829	
Other	-	-	-	5	5	-	-	-	
Total Intermodal	508	509	-	348	318	9	685	625	
Total	1,717	1,755	(2)%	$ 2,713	$ 2,422	12 %	$ 1,580	$ 1,380	

Prior periods have been reclassified to conform to the current presentation.

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CSX CORPORATION
ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

First Quarter Rail Results of Operations

Rail Operating Revenue

The Company was able to achieve continued pricing gains during first quarter 2008 predominantly due to the overall cost and service advantages that rail-based solutions provide versus other modes of transportation. These pricing gains, and higher fuel recovery due to higher fuel prices, more than offset volume weakness in housing construction, domestic automobile production and related markets.

Merchandise

Chemicals – Revenue and revenue-per-unit increases were driven primarily by improved pricing and increased fuel recovery. Volume was down due to weakness in plastic shipments and chemicals used in construction.

Emerging Markets, Forest Products, and Food and Consumer – Volume declines in building products, appliances and aggregates, which include crushed stone, sand and gravel, were due to continued softness in residential construction and related markets. Revenue-per-unit increases were driven by yield management initiatives and favorable fuel recoveries.

Agricultural Products – Gains in price and fuel surcharge coverage led to increases in revenue and revenue per unit. Volume growth was due to strong demand for many of the commodities in this segment including feed ingredients, export grain, wheat, soybeans and vegetable oil. Additionally, ethanol volumes rose substantially as a result of expanded use of ethanol in the northeastern United States.

Metals – Improved pricing and increased fuel recovery continue to drive revenue and revenue-per-unit gains. Volumes were down slightly as weakness in sheet steel used for automobile production more than offset increases in scrap metal, semi-finished steel and pipe shipments.

Phosphates and Fertilizers – Revenue and revenue-per-unit increased due to favorable pricing actions and a rise in long-haul, high revenue per unit shipments. Volume declines in short-haul phosphate shipments in Florida more than offset a trend of stronger fertilizer volumes due to increased crop plantings.

Coal

Sustained growth in yield, longer length of haul and improved fuel recovery positively influenced revenue and revenue-per-unit. Volumes increased in the export market due to strong overseas demand. These gains were offset by weakness in utility shipments.

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Automotive

Volume was down due to declines in vehicle production and vehicle sales, and a strike at a supplier to the automotive industry. Revenue-per-unit improved due to price increases and higher fuel recoveries.

Rail Operating Expense

Labor and Fringe expenses increased $12 million. This increase was primarily driven by wage and benefit inflation and higher incentive compensation. Partially offsetting these increases were productivity gains from improved operations and lower volume, which resulted in a reduction of train crew headcount.

Materials, Supplies and Other expenses decreased $38 million. The primary driver was a decrease in train accident-related expenses from the prior year and a current year decrease in the cost associated with personal injuries. These decreases were partially offset by inflation.

Fuel expense increased $156 million due to higher fuel prices which more than offset increased fuel efficiency.

Depreciation expense increased $6 million. A larger asset base related to higher capital spending was partially offset by lower depreciation rates resulting from asset life studies.

Equipment and Other Rents expense decreased $7 million primarily due to lower volumes which more than offset the impacts of inflation and asset utilization.

Gain on Insurance Recoveries of $2 million represents insurance recoveries related to Hurricane Katrina property damage and lost profits. The decrease from last year's quarter is due to timing of cash receipts.

First Quarter Intermodal Results of Operations

Intermodal Operating Revenue

International - Revenue-per-unit increases were primarily driven by increased fuel recovery and yield management. Volumes declined due to slowing imports and customer losses in 2007.

Domestic - Growth in transcontinental (coast-to-coast) shipments resulted in revenue and volume gains. Revenue-per-unit increases were primarily driven by increased fuel recovery as the favorable mix change from increased transcontinental business was largely offset by the growth in lower revenue-per-unit short-haul train services introduced in 2007.

CSX CORPORATION

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Intermodal Operating Expense

Intermodal operating expense increased due to higher inland transportation expense. This was driven by higher fuel expense charged by CSXT for purchased transportation services and increased purchased transportation services from other railroads to support Intermodal's coast-to-coast business. These increases were partially offset by improved productivity.

Additional First Quarter Consolidated Results

Other Income

Other income increased $63 million to $55 million in first quarter 2008 due to higher income from real estate sales and a $30 million non-cash adjustment to correct equity earnings from a non-consolidated subsidiary. The impact of this adjustment is expected to be immaterial in future reporting periods.

Interest Expense

Interest expense increased $20 million to $119 million due primarily to higher average debt balances in first quarter 2008.

Income Tax Expense

Income tax expense increased $73 million to $211 million, which was driven by higher operating income in first quarter 2008.

Net Earnings

Net earnings increased $111 million to $351 million, and earnings per diluted share increased $.33 to $.85. Pricing gains and increased fuel recovery more than offset higher fuel expense.

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CSX CORPORATION
ITEM 2: MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

LIQUIDITY AND CAPITAL RESOURCES

Material Changes in Consolidated Balance Sheets and Significant Cash Flow Statement Items

The following are material changes in the Consolidated Balance Sheets and sources of liquidity and capital, which provide an update to the discussion included in CSX's most recent Annual Report on Form 10-K.

Long-term debt increased nearly $1 billion due to debt issued at the end of the quarter. For additional information, see Note 6, Debt and Credit Agreements, under Part I, Item 1 of this Quarterly Report on Form 10-Q.

This $1 billion debt issuance also drove higher cash and cash equivalent balances, which increased $1.2 billion during first quarter 2008. Cash provided by operating activities increased to $734 million due in part to strong earnings during the quarter. These gains were offset by property additions of $446 million and share repurchases of $300 million.

Working Capital

Working capital can be considered a measure of a company’s ability to meet its short-term needs. CSX had a working capital surplus of $710 million at March 2008, compared to a deficit of $180 million at December 2007. The increase was primarily due to higher cash balances as a result of the recent $1 billion debt issuance.

The Company’s working capital balance varies from quarter to quarter due to factors such as the timing of scheduled debt payments and changes in cash and cash equivalent balances. As a result, the working capital balance could return to a deficit in future periods. A working capital deficit is not unusual for CSX or other companies in the industry and does not indicate a lack of liquidity. The Company continues to maintain adequate current assets to satisfy current liabilities and maturing obligations when they come due. CSX has sufficient financial capacity, including the revolving line of credit and shelf registration, to manage its day-to-day cash requirements and any anticipated obligations.

Credit Ratings

Credit ratings reflect an independent agency’s judgment on the likelihood that a borrower will repay a debt obligation at maturity. The ratings reflect many considerations, such as the nature of the borrower’s industry and its competitive position, the size of the company, its liquidity and access to capital and the sensitivity of a company’s cash flows to changes in the economy. The two largest rating agencies, Standard & Poor’s (“S&P”) and Moody’s Investors Service (“Moody’s”), use alphanumeric codes to designate their ratings. The highest quality rating for long-term credit obligations is AAA+ and Aaa1 for S&P and Moody’s, respectively. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency.

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Long-term ratings of BBB- and Baa3 or better by S&P and Moody's, respectively, reflect ratings on debt obligations that fall within a band of credit quality considered to be "investment grade." Currently, the long-term ratings for CSX's obligations are BBB- and Baa3 and have a stable outlook. If CSX's credit ratings were to decline to lower levels, the Company could experience more significant increases in its interest cost for new debt. In addition, the market's demand, and thus the Company's ability to readily issue new debt, could become further influenced by the economic and credit market environment.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires that management make estimates in reporting the amounts of certain assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and certain revenues and expenses during the reporting period. Actual results may differ from those estimates. These estimates and assumptions are discussed with the Audit Committee of the Board of Directors on a regular basis. Consistent with the prior year, significant estimates using management judgment are made for the following areas:

- casualty, environmental and legal reserves;
- pension and post-retirement medical plan accounting;
- depreciation policies for assets under the group-life method; and
- income taxes.

For further discussion of the Company's critical accounting estimates, see the Company's most recent Annual Report on Form 10-K.

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CSX CORPORATION

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

Certain statements in this report and in other materials filed with the SEC, as well as information included in oral statements or other written statements made by the Company, are forward-looking statements within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934. These forward-looking statements include, among others, statements regarding:

- Expectations as to results of operations and operational improvements;
- Expectations as to the effect of claims, lawsuits, environmental costs, commitments, contingent liabilities, labor negotiations or agreements on the Company's financial condition;
- Management's plans, goals, strategies and objectives for future operations and other similar expressions concerning matters that are not historical facts, and management's expectations as to future performance and operations and the time by which objectives will be achieved; and
- Future economic, industry or market conditions or performance.

Forward-looking statements are typically identified by words or phrases such as "believe," "expect," "anticipate," "project," "estimate" and similar expressions. The Company cautions against placing undue reliance on forward-looking statements, which reflect its good faith beliefs with respect to future events and are based on information currently available to it as of the date the forward-looking statement is made. Forward-looking statements should not be read as a guarantee of future performance or results and will not necessarily be accurate indications of the timing when, or by which, such performance or results will be achieved.

Forward-looking statements are subject to a number of risks and uncertainties and actual performance or results could differ materially from those anticipated by these forward-looking statements. The Company undertakes no obligation to update or revise any forward-looking statement. If the Company does update any forward-looking statement, no inference should be drawn that the Company will make additional updates with respect to that statement or any other forward-looking statements. The following important factors, in addition to those discussed elsewhere, may cause actual results to differ materially from those contemplated by these forward-looking statements:

- Legislative, regulatory or legal developments involving transportation, including rail or intermodal transportation, the environment, hazardous materials, taxation, including the outcome of tax claims and litigation, the potential enactment of initiatives to re-regulate the rail industry and the ultimate outcome of shipper and rate claims subject to adjudication;
- The outcome of litigation and claims, including, but not limited to, those related to fuel surcharge, environmental contamination, personal injuries and occupational illnesses;

- Material changes in domestic or international economic or business conditions, including those affecting the transportation industry such as access to capital markets, ability to revise debt arrangements as contemplated, customer demand, customer acceptance of price increases, effects of adverse economic conditions affecting shippers and adverse economic conditions in the industries and geographic areas that consume and produce freight;
- Changes in fuel prices, surcharges for fuel and the availability of fuel;
- The impact of increased passenger activities in capacity-constrained areas or regulatory changes affecting when CSXT can transport freight or service routes;
- Natural events such as severe weather conditions, including floods, fire, hurricanes and earthquakes, a pandemic crisis affecting the health of the Company's employees, its shippers or the consumers of goods, or other unforeseen disruptions of the Company's operations, systems, property or equipment;
- An unintentional failure to comply with applicable laws or regulations;
- The inherent risks associated with safety and security, including the availability and cost of insurance, the availability and vulnerability of information technology, adverse economic or operational effects from actual or threatened war or terrorist activities and any governmental response;
- Labor costs and labor difficulties, including stoppages affecting either the Company's operations or the customers' ability to deliver goods to the Company for shipment;
- Competition from other modes of freight transportation, such as trucking and competition and consolidation within the transportation industry generally;
- The Company's success in implementing its strategic plans and operational objectives and improving operating efficiency; and
- Changes in operating conditions and costs or commodity concentrations.

Other important assumptions and factors that could cause actual results to differ materially from those in the forward-looking statements are specified elsewhere in this report and in CSX's other SEC reports, accessible on the SEC's website at www.sec.gov and the Company's website at www.csx.com.

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ITEM 3: QUANTATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risk from the information provided under "Quantitative and Qualitative Disclosures about Market Risk" in Item 7A of CSX's most recent Annual Report on Form 10-K.

ITEM 4: CONTROLS AND PROCEDURES

As of March 28, 2008, under the supervision and with the participation of CSX's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), management has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the CEO and CFO concluded that, as of first quarter 2008, the Company's disclosure controls and procedures were effective at the reasonable assurance level in timely alerting them to material information required to be included in CSX's periodic SEC reports. There were no changes in the Company's internal controls over financial reporting during the first quarter of 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

For information relating to the Company's settlements and other legal proceedings, see Note 5, Commitments and Contingencies under Part I, Item 1 of this Quarterly Report on Form 10-Q.

ITEM 1A. RISK FACTORS

For information regarding factors that could affect the Company's results of operations, financial condition or liquidity, see the risk factors discussed under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of CSX's most recent Annual Report on Form 10-K. See also "Forward-Looking Statements," included in Item 2 of this Quarterly Report on Form 10-Q. There have been no material changes from the risk factors previously disclosed in CSX's most recent Annual Report on Form 10-K.

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ITEM 2: CSX PURCHASES OF EQUITY SECURITIES

CSX is required to disclose any purchases of its own common stock for the most recent quarter. CSX purchases its own shares for two primary reasons: to further its goals under its share repurchase program and to fund the Company's contribution required to be paid in CSX common stock under 401(k) plans which cover certain union employees.

On March 17, 2008, CSX announced additional share repurchase authority of approximately $2.4 billion. This is in addition to the remaining share repurchase authority under the 2007 program of $600 million for a new combined total of $3 billion. CSX intends to complete all authorized share repurchases by year-end 2009. The timing and amount of repurchase transactions will be determined by the Company's management based on its evaluation of market conditions, share price and other factors. While it is not the Company's intention, the program could be suspended or discontinued at any time, based on market, economic or business conditions.

Cumulatively since 2006 under various authorized repurchase programs, CSX has already bought approximately $2.9 billion of its outstanding common stock through the first quarter of 2008. These actual repurchases along with the new authorization of $3 billion equal nearly $6 billion expected to be repurchased through 2009.

Share repurchase activity of $300 million for first quarter 2008 was as follows:

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CSX Purchases of Equity Securities
for the Quarter

First Quarter		Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
Beginning First Quarter Balance					$ 874,363,982
January					
	(December 29, 2007 - January 25, 2008)	6,569,300	$ 42.03	6,569,300	$ 598,287,355
February					
	(January 26, 2008 - February 22, 2008)	540,700	$ 44.24	540,700	$ 574,368,036
March					
	(February 23, 2008 - March 17, 2008)	-	N/A	-	$ 574,368,036
Additional $2.4 billion authority granted					$ 3,000,000,000
March					
	(March 18, 2008 - March 28, 2008)	-	N/A	-	$ 3,000,000,000
Total/Ending Balance		7,110,000	$ 42.19	7,110,000	$ 3,000,000,000

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ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5: OTHER INFORMATION

The Company is voluntarily furnishing the following information:

On March 17, 2008, the Company filed a lawsuit against The Children's Investment Master Fund (together with certain of its affiliates, "TCI"), 3G Capital Partners Ltd. (together with certain of its affiliates, "3G") and certain of their affiliates (collectively, the "TCI Group") in the United States District Court for the Southern District of New York alleging violations of federal securities laws, including violations of Sections 13(d) and 14(a) of the Securities Exchange Act of 1934. The lawsuit alleges, among other things, that TCI and 3G have undisclosed plans with respect of CSX. The lawsuit further alleges that TCI and 3G have employed swap agreements in order to evade the filing requirements of Section 13(d) and that their Section 14(a) and Section 13(d) filings concerning their collective 12.3 percent swap position in CSX shares are materially misleading. The lawsuit further alleges that TCI's and 3G's disclosures in their Section 14(a) and Section 13(d) filings concerning their formation of a Section 13(d) group are false and misleading.

The complaint seeks an order (i) declaring that TCI and 3G failed to file disclosures as required by the Securities Exchange Act of 1934, (ii) directing TCI and 3G to file truthful and accurate Schedule 13D and Schedule 14A disclosures, (iii) enjoining TCI and 3G from acquiring additional shares of the Company until such truthful and accurate filings have been made, (iv) enjoining TCI and 3G from acquiring any Company shares referenced in swap arrangements to which they are party, (v) directing TCI and 3G to sell all Company shares acquired, and terminate all swaps referencing Company shares that TCI and 3G entered into, renewed or extended after the date by which TCI and 3G should have filed a Schedule 13D, and enjoining TCI and 3G from voting such shares at the Meeting, or alternatively, directing TCI and 3G to vote such shares in proportion with the votes of other shareholders of CSX, (vi) enjoining TCI and 3G from voting any proxies received prior to the date on which TCI's and 3G's filings complied with the requirements of Schedule 13D and Schedule 14A, as determined by the court, (vii) declaring that TCI's and 3G's notices with respect to the nomination of candidates for the Board and the two shareholder proposals are invalid as non-compliant with the Company's bylaws, and (viii) granting leave to the Company to conduct expedited discovery regarding the above claims. TCI and 3G have stated that they believe the claims to be without merit and intend to defend themselves vigorously.

CSX CORPORATION

On April 4, 2008, TCI and 3G each filed substantially similar counterclaims against the Company and Michael Ward, chairman, president and CEO of CSX. The counterclaims allege, among other things, that (i) the 2007 long-term incentive plan target share awards to the Company's named executive officers and over 600 other employees and the May 2007 stock grants to the Company's non-employee directors under the CSX Corporation Stock Plan for Directors were made while the board of directors of CSX was in possession of material, non-public information, (ii) such awards and grants and the December 2007 stock grants to the Company's non-employee directors were made in violation of the CSX Omnibus Incentive Plan, the Company's insider trading policy, the code of ethics, the corporate governance guidelines and the bylaws, (iii) the Company's proxy statement omits details regarding the bylaw amendments relating to shareholder requests for special meetings adopted in February 2008, which will be considered at the 2008 annual meeting of shareholders, including the requirement that the request come from holders of record, the requirement that the requesting shareholders hold the shares through the date of the requested meeting and other procedural requirements, (iv) the Company's proxy statement mischaracterizes a special shareholder meeting shareholder proposal proposed by TCI and the purpose of the non-binding 2007 special shareholder meeting proposal, (v) the Company's proxy materials mischaracterize the TCI Group's intentions as seeking control and the TCI Group's suggestions regarding limitations on capital spending, (vi) the Company's proxy materials mischaracterize CSX's reasons for filing the lawsuit, (vii) the February 2008 bylaw amendments violate Virginia law, and (viii) the Company's proxy statement and other proxy materials are materially false and misleading and violate Section 14(a) of the Securities Exchange Act of 1934 because they fail to disclose such alleged items and include such mischaracterizations.

TCI and 3G seek an order (i) declaring that the Company failed to file disclosures required by Section 14(a) of the Securities Exchange Act of 1934, (ii) directing the Company to file truthful and accurate Schedule 14A disclosures at the personal expense of the current directors, (iii) declaring that the board of directors of CSX was in violation of Company policies and the bylaws, (iv) directing that the February 2008 bylaw amendments are void under Virginia law, (v) enjoining the proposal regarding the bylaw amendments relating to shareholder requests for special meetings adopted in February 2008 from being considered at the 2008 annual meeting of shareholders, (vi) enjoining the Company from voting any proxies received prior to the date on which the Company's proxy statement is accurate and compliant, as determined by the court, (vii) enjoining the Company from committing violations of Rule 14a-9 promulgated under the Securities Exchange Act of 1934, and (viii) granting costs, including attorneys' fees to TCI and 3G. The Company believes the TCI and 3G counterclaims are without merit and will defend against them vigorously.

The outcome of the litigation cannot be predicted.

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CSX CORPORATION

ITEM 6: EXHIBITS

Exhibits

31.1* Principal Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2* Principal Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1* Principal Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2* Principal Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CSX CORPORATION
(Registrant)

By:/s/ CAROLYN T. SIZEMORE
Carolyn T. Sizemore
Vice President and Controller
(Principal Accounting Officer)

Dated: April 15, 2008

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