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**Deepening reform**

improving quality and efficiency to upgrade development

**Our challenges and opportunities**

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Ensure access to affordable, reliable, sustainable and modern energy for all

Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
Our action

In 2016, facing severe challenges from low oil prices and a complex and volatile operating environment, our management teams guided the staff and made significant achievements by overcoming these challenges. We implemented value-orientation and integrated resource allocation strategies, improved the quality and efficiency of our operations and transformed our development model. The new approach injected momentum into our development, and new advantages to our upstream, midstream and downstream operations, resulting in solid performance to contribute to the physical economy.

Revitalising the physical economy through supply-side structural reform

In 2016, Sinopec Corp. focused on improving the quality and profitability of corporate growth, by promoting supply-side structural reform. We also implemented measures to transform our development model and structure. Our commitment to market development, optimisation, cost reduction and risk control resulted in increased productivity.

Upstream segment We reduced high-cost crude oil production and improved the efficiency. Efficient exploration and extraction was our top objective and we improved our production of natural gas to form strategically viable operations. We advanced the construction of Fuling shale gas field which has a production capacity of 7 billion cubic meters annually. We made improvements to the natural gas production, trade, warehousing & transport, and sales, to provide clean fuel to regions in the Yangtze River economic belt. Our engagement with social investors contributes to our diversified operations in the Sichuan to East Gas Pipeline Project, which provides momentum and energy for the future development of the pipeline.

Refining segment Our four refining and chemical bases in Maotian, Zhenhai, Shanghai and Nanjing have made significant progress, with the Maotian already implementing with its Zhongke Refinery and Petrochemical project. We have accelerated the refined oil quality upgrading and supplied gasoline of National V emission standards across the country. We have also adjusted our product structure and boosted production of much-needed gasoline, especially high-grade products.

Chemicals segment We have optimised the structure of production and operations, raw material and products, and shifted our focus to high-end and fine chemical engineering. We have increased our ratio of high-end products made from the Three Synthetic Materials, enhanced the R&D of new products and improved the integration of production, sales, research and application to provide comprehensive solutions for customers.

Marketing segment We have kept a steady increase in sales volume and retail scale, expanded our supply of high-grade petroleum products, improved the marketing network, and promoted the construction and operation of gas stations which increased the sales volume of CNG by 25%. The non-fuel trade business, as a new growth point, grew with the turnover increasing by 41%, providing abundant products and quality service to society.

We have seen a rise in development opportunities from the “Internet Plus” and built e-commerce platforms such as EPEC and ChemEmall, which enhanced resource allocation capacity, customer services and risk prevention and control.

Developing Sinopec refining and chemical bases

During the period of Sinopec 13th Five-Year Development Plan, we will build four competitive world-class refining and chemical bases in Maotian, Zhenhai, Shanghai and Nanjing, all located in the Yangtze River Delta Region and the Pearl River Delta region. The four bases uphold our principle of pursuing win-win cooperation with local regions, and meeting petroleum product quality upgrading requirements. The bases will continue to upgrade our production of chemical raw materials, and optimise the product structure, quality and efficiency to facilitate growth in medium and high-end businesses. We will use the most advanced international production techniques and standards for energy conservation and emissions reduction when building these bases. Our goal is to promote base-centered and integrated refining and chemical operations in China that contribute to local and national economic growth, transforming and upgrading the Chinese petrochemical industry.

Today, the preliminary stages of construction at Zhenhai, Shanghai and Nanjing bases focus on tapping the potentials of existing units. The Maotian base has accelerated and upgraded its construction, and on December 20, 2016, the Zhongke Refinery and Petrochemical project in Maotian came into full operation.

The Belt and Road Initiative offers development opportunities

Sinopec Corp. actively provides high-value-added products to countries along the Belt and Road. Our business covers investment in oil & gas resources, refining & chemical operations, and the international trade of oil & gas products, equipment and materials. During the 12th Five-Year Plan period, we imported 519 million tonnes of crude oil and exported 13 million tonnes of refined oil products. Our import and export turnover for equipment, materials and chemical catalysts amounted to USD 17 billion. We have established long-term partnerships with petroleum and petrochemical companies in Russia, Kazakhstan and Saudi Arabia, developing oil & gas exploration and extraction and oil refining & chemical businesses in these countries. In 2016, we imported 206 million tonnes of crude oil. Yanbu Aramco Sinopec Refining Company Ltd. has come into operation.
Being a comprehensive service provider to all customers

Sinopec Corp. always operates with integrity and in compliance with laws and regulations. We advocate fair competition and obey the laws and regulations such as the Product Quality Law. We also comply with local anti-trust and anti-money laundering regulations to prevent bribery, extortion, fraud and money laundering.

Improving the quality of our products and services is a top priority for Sinopec Corp. We always put “quality first” and comprehensively control and monitor the quality of raw materials procurement, production and sales, which conveys the high quality of our brand. In 2016:

- The marketing company enhanced the quality management of oil sources and completed the construction of laboratory information management system. By monitoring quality data in the procurement, warehousing & transport and sales processes, we ensure “the quality of every drop of oil is monitored”. In 2016, more than 20,000 samples were spot checked by authorised organisations with all passed the inspections.
- The chemical sales company focused on making improvements in 2016, designing customised programmes for customers. We emphasise customer service and value creation in all aspects of our sales, production and R&D in order to meet or exceed the demands for products and services.
- The lubricant company took measures to improve the quality of products and services from the source and monitor the entire production process. By executing Supplier Management Procedure, the company guaranteed the quality of raw materials. In 2016, the company produced 34,240 batches of lubricants, with 100% passing factory inspections. In spot checks conducted by authorised organisations, 104 batches were inspected with all passed.

Inheriting “craftsmanship” and improving product and service quality

Meeting customer needs through diversified operations

Sinopec Corp. has implemented diversified operations, turning gas stations into “comprehensive service stations” and “motor lodges”. We integrated our oil and gas refuelling operations, convenience stores, automobile services, fast food and finance business, and achieved non-fuel turnover of 35.1 billion in 2016, a year-on-year increase of 41%.

- We conduct cross-industry cooperation and marketing services with insurance companies, banks and e-commerce companies. The number of insurance outlets that we cooperate reached 5,000 and the number of automobile service stations increased by 573, providing customers with convenient one-shop services.
- We offer products featuring local characteristics. Through our 25,000 nationwide Easy Joy convenience stores, we facilitate the sale of local products through our supply-side operations, contributing substantially to local economic growth. Meanwhile we sell commodities that meet the daily needs of our customers through our demand-side operations.

Case study

“Craftsmanship" escorts Shenzhou space crafts

On October 17, 2016, the Shenzhou-11 manned spacecraft was successfully launched and docked with the orbiting space lab Tiangong-2. As the exclusive lubricant supplier, Sinopec Lubricant plays a vital role in the control, probing and docking systems of Shenzhou-11.

As the long-term partner of China Aerospace, Sinopec Lubricant has contributed to many projects, including the Two bombs and One Satellite, the Long March Launch Vehicle Family, the Chinese Manned Space Engineering Project, and the Chinese Lunar Exploration Programme. The company designs products for every space mission, providing unrivalled service that lives up to the “craftsman” spirit. Sinopec Lubricant also solves lubricant problems that affect the space programme such as huge temperature differences, ultra-high vacuum (UHV) regimes and intense radiation. Nowadays, these aerospace-grade technologies have been applied in other industries and high quality products for civil use.
Passionately serving customers

In 2016, Sinopec Corp. tracked comments and suggestions from customers in an effort to improve the quality of the products and services. Our marketing company sent 100,000 questionnaires to customers to get feedback on our management and services. Our chemical sales company sent 3,800 questionnaires and analysed feedback, the year-on-year customer satisfaction rate was increased by 1.6%. The customer satisfaction rate of Sinopec lubricant products also achieved a 4.1% year-on-year increase. The above companies are now using the results to optimise their own operations and are implementing measures that will improve their product and service quality.

Enhancing standardised operations

Improving the auditing and supervision system to prevent risks

Advancing the law-based operation

Promoting anti-corruption and advocating clean governance

Guided by our comprehensive risk management system and policies, we have integrated risk management into our internal control system and established a comprehensive risk management working group. Relevant departments are responsible for controlling and mitigating strategic and commercial risks across the company, for example, safety, environmental protection, finance, legal affairs, anti-corruption and overseas public safety processes. We prepare the report on significant and major risks quarterly. At the beginning of 2016, we analysed both the domestic and foreign macroeconomic environment and predicted trends in the petroleum and petrochemical industries. We categorised external and internal risks and identified preliminary risks that could impact us. Our assessment helped us identify major risks to strategic planning, environmental protection, and safe production, and resulted the creation of contingency plans.

Protecting customer privacy

Sinopec Corp. complies with local laws and regulations and protects customers’ privacy. In 2016, we enhanced our customer service inspection system and Internet application system, determined safety protection grades, and improved the data centers protection. We also organised operational maintenance initiatives and self-inspected our fuel card system, non-fuel system, computer rooms and core networks. These measures help us ensure providing comprehensive privacy protection to our customers.

Improving the auditing and supervision system to prevent risks

Sinopec Corp. has always operated in accordance with the laws, whether in the reform and development or corporate governance system and operation management. In 2016, we focused on the simultaneous arrangement, deployment and operation of legal, technical and economic verifications, with 23 of Class A fixed asset investment projects being verified as legitimate and compliant with all regulations. While cooperating with the countries alongside the Belt and Road, we inspected the legality of all projects relating to oil & gas exploration and extraction, oil refining and international trade. We also took steps to protect and improve the management of our brand and intellectual property rights.

Sinopec Corp. complies with all national laws and anti-corruption regulations, and all laws and regulations in countries where we operate. We keep promoting anti-corruption measures and advocating clean governance. We have made improvements to our corporate systems and revised our punishment and prevention mechanism in order to ensure a clean Sinopec Corp.

Promoting anti-corruption and advocating clean governance

Sinopec Corp. conducts regular audits related to economic responsibilities, financial revenues, internal assessments, and engineering investments, improves the efficiency of supervision protocols and business transparency, and boosts corporate governance and standardised operations. In 2016, we conducted 1,053 audits, receiving and implementing 2,333 suggestions from those involved. Our subsidiaries also conducted 613 efficiency supervision projects, which resulted in 3,260 pieces of supervision-related advice.

Enhancing the law-based operation

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<table>
<thead>
<tr>
<th>Indicator</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
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<tbody>
<tr>
<td>Degree of customer satisfaction with lubricant products (%)</td>
<td>80.8</td>
<td>80.9</td>
<td>85.0</td>
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<tr>
<td>Degree of customer satisfaction with chemical sales (%)</td>
<td>94.3</td>
<td>89.7</td>
<td>91.3</td>
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<tr>
<td>Proportion of customer complaints for lubricant products solved (%)</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Proportion of customer complaints for chemical sales solved (%)</td>
<td>100</td>
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<tr>
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<td>100</td>
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