

## Marketing and Sales

In 2017, we took a lean marketing approach to bolster profitability by upgrading sales network, deepening "Internet + Marketing" and promoting an integrated marketing framework for refined products, fuel cards, non-fuel business and lubricants.

### Sales of Refined Products

The year 2017 saw a sustained refined products glut in the overcrowded domestic market. We sold 114.16 million tons of refined products, up 1% year-on-year, by optimizing resource allocation, linking production and marketing closely, expanding gasoline sales and stabilizing diesel sales.

### Marketing Network

We continued to make headway in expanding and optimizing marketing network to enhance marketing capacity. In 2017, 463 of our newly built 623 service stations were completed and put into operation, adding 3.79 million tons to our retailing capacity. By the end of 2017, we had 21,399 service stations in operation across the country.

Under an integrated marketing framework for refined products, fuel cards, non-fuel business and lubricants, we further broadened the service offerings of our service stations with a focus on fuel card, and promoted cross-sector cooperation and joint marketing efforts. Centered on the promotional theme of "Four Seasons" and various brand campaigns,

we issued 22,420,000 Kunlun fuel cards and various products cards in 2017. Meanwhile, our online customer base and business volume expanded rapidly through our WeChat Official Account, third-party payment and retail APPs. Joint campaigns with SAIC Motor, China Bank of Communications, Alipay, JD.com and other partners continued to gain momentum. The "3+1" model (managed services, accountability, asset leasing + brand franchising) was adopted to address the issue of low-performing gas stations in terms of sales and profitability.

### Non-fuel Business

Non-fuel business, with convenience stores as the carrier, saw steady growth in both sales and earnings. In 2017, we newly opened 1,438 "uSmile" stores, bringing the total number to 19,338. Earnings of our "uSmile" stores were approx. 30% more than the previous year. There was a rapid growth in a range of activities, such as own-brand products, kitchen engineering, in-app purchase platform and auto service network, etc. Meanwhile, we explored business opportunities in fertilizer, advertising and fast food. We partnered with the Charoen Pokphand Group to launch the fast food brand "uSmile Chia Tai" and opened 30 new outlets. In 2017, our non-fuel business generated RMB 18.6 billion in revenue, up 29.2% year-on-year.

### Sales of Lube Oil

By integrating our channel resources, leveraging on technical and service strengths and targeted marketing, we sold 1.43 million tons of lubricants in 2017, an increase of 260,000 tons. Sales of high-value products such as automotive lubricants, automotive fluids and marine lubricants showed noticeable growth in both absolute and relative terms. In particular, automotive fluid sales soared up to 120,000 tons, up 188% year-on-year.

### Sales of Miscellaneous Refined Products

The sales of our miscellaneous refined products recorded a historical high of 33.90 million tons in 2017, an increase of 540,000 tons from the previous year. We sold 8.53 million tons of asphalt, 1.41 million tons more than the previous year and taking a 28% share in the domestic market, number one among the players. And the sales to end-users accounted for 59% of the total, up 42% year-on-year, marking a record high.



uSmile convenience store in service station