



October 22, 2008

Ms Debbie Yau
Panel of Economic Development
Legislative Council
Legislative Council Building
8 Jackson Road
Central
Hong Kong

Dear Debbie,

Panel on Economic Development – Special meeting on Oct 24, 2008

With reference to your fax dated October 15, 2008 inviting our representation at the captioned meeting, we thank you for your invitation and regret that we are unable to attend as it is our company policy not to discuss pricing issues in the presence of competitors or in a public forum.

However, we will provide the Panel with a written response to address the issue raised in the invitation, and hope the information could assist the Panel discussion at the meeting. If there are any further questions, please do not hesitate to contact the undersigned on 3197 8333.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Grace Lam", with a long horizontal flourish extending to the right.

Grace Lam (Mrs.)
Vice President
Public Affairs – HK & S. China

ExxonMobil Hong Kong Limited

ExxonMobil Hong Kong Limited ("EMHK") provides the following response to the Panel on Economic Development (Panel) on local auto fuel prices for the Panel meeting on October 24, 2008.

We appreciate the public's concern on fuel prices and the impact of the oil prices on people's livelihood. We regularly review the market situation and make timely price adjustments when the market warrants such a move. We endeavor to adjust pump prices whenever there is an opportunity, as evidenced by the nine pump prices reductions between July 14 and October 20.

The finished petroleum products, including auto-fuel (i.e. motor gasoline and diesel), are imported mainly from refineries across Asia Pacific and product costs are closely related to the commodity price quoted in the Asia Pacific petroleum market. Such costs are well represented by the price reference known as Mean of Platts Singapore (MOPS).

Besides product cost, the pump price also comprises many other components such as government duty (e.g. HK\$ 6.06 /Ltr for mogas duty), increasing cost of operation, manpower and utilities, transportation, high land cost, government rate and rent, station hardware investment, cost for equipment maintenance and upgrading, discounts, market demand as well as market competition, not forgetting costly dilution process with every introduction of more stringent product specification like Euro V diesel in 2007 and possible Euro V mogas in 2009.

Apart from the subject of the high petrol station land cost which requires huge amount of up-front capital outlay, EMHK has invested significantly to upgrade our station equipment in recent years – e.g. replacement of existing fuel dispensers in order to comply with the latest environmental legislation (i.e. vapour recovery systems) and fire service regulations.

Hence, we suggest that the Panel take all of the above factors into consideration during analysis of the pricing situation and competition in auto-fuel markets.

We would also like to draw the Panel's attention to the highly competitive auto-fuels market in Hong Kong as evidenced by the various discounts offered and the promotional programs launched by individual oil companies. Majority of Esso customers are paying a much lower effective purchase price than the listed pump price under various promotion, discount or loyalty programs.

The various forms of discounts and incentives we are offering to customers include: loyalty points; rebates; discount coupons; and direct discounts to commercial customers.

To our petrol customers, they can join our Smiles Driver Rewards program ("Smiles") in which Smiles points will be given for each petrol purchase. At present, our Smiles members can enjoy up to HK\$0.6/Ltr of free petrol redemption using the accumulated Smiles points.

The offer is further strengthened with the current Add On Discount (AOD) promotion which allows our Smiles members to enjoy an additional HK\$0.9/Ltr instant discount on top of above-mentioned free petrol redemption. This combined offer is about 10% of present pump price.

Additionally, we also offer attractive petrol discounts through our Bank of China Esso Mastercard ranging from HK\$1.40/Ltr to HK\$2.70/Ltr until year-end.

To our diesel customers, at present, Esso also offers walk-in discount up to 12% of pump price. In addition, we offer various very attractive kinds of fleet/discount programs to different categories of customers depending on their volume consumption, credit worthiness, customer profile and other business consideration. Due to the sensitivity of the data, we are not able to give the details on the customer-specific programs. However, as well known to the diesel market, we have been offering more and more discounts in recent years.

We understand the government is trying to enhance transparency in auto fuel prices. We will continue to work with the government to identify the kind of price information and the means of disclosure that will help the public understand auto fuels pricing in Hong Kong. We hope that in introducing any new initiatives, the government will ensure that a fair and free market environment is maintained.

To conclude, we would like to reiterate that the local retail auto fuels market is highly competitive. We will continue to remain competitive by offering discounts and various promotional programs to customers to attract and retain them.
