

Attachment 1

Mobil's Policy on Retail Pricing and Competition

The purpose of Mobil's Policy on Retail Pricing and competition is to preserve the free and open competition that is the lifeblood of the free enterprise system.

Mobil Oil Hong Kong policy is based on our corporate policy and stated in our handbook "Mobil Business Conduct and Legal Compliance Policies." The relevant section states that "the fundamental principle of Mobil's antitrust policy is full compliance with the law. This means all managers and employees of the corporation and its subsidiaries, wherever located, are expected to comply fully with all antitrust or competition laws that apply to their operations."

Even where no competition laws exist, Mobil's policy is to prevent the exchange with competitors of competitively sensitive subjects, such as price, profits, term and conditions of sales, customers, and prices demanded by our suppliers.

We are bound by this policy to ensure that we establish our retail prices competitively and within the bounds of the law.

In the Hong Kong retail market today there is intense competition for customers among the oil marketers. This competition appears in the form of product discounting, gifts with fuel purchases, payment card facilities, loyalty programs and service levels and new and modernized service stations.

Similarly, competition is active in the Hong Kong LPG market. Firstly, there is competition between alternate forms of energy that the consumer can choose namely LPG, towngas and electricity. Secondly, in the LPG trade itself, competition exists in pricing, delivery service and other value - added services such as safety inspection.

In summary, Mobil endorses open and fair competition in the market place and that concept is part of Mobil's business culture.

Relationship between movements in Crude Oil Prices, Product Landed Costs and Retail Pump Prices

In Hong Kong, Mobil is primarily a wholesaler of fuels such as gasoline and automotive diesel. These fuels are sold to the general public through our service stations. Mobil also sells LPG on a wholesale level to retail LPG shops, who sell to the public.

It is evident from the data presented in our Attachment 3, that there is not a direct relationship between crude oil price and product landed cost; crude oil prices have declined by about 40% in the period 1997 - 1998, while product landed costs have also declined but at different rates. Product landed costs are impacted by many variables only one of which is crude price. While product landed costs generally follow the directional trend of crude price, the exact level of product landed costs are also affected by many other supply chain factors. These include the regional product supply and demand balances, shipping costs, refinery operating costs and marketing investment levels. Furthermore, product landed costs also contain a premium reflecting the manufacturers commitment to stable and continuous product supply to the market.

Similarly pump prices do not necessarily adjust proportionately to product landed costs. While some of our costs are variable and can be passed to retail price as they change, marketing investment costs are fixed. In Hong Kong marketing investment levels are a significant contributor to retail pump prices. Service station land leases typically sell for bids of HK\$80 - 100 million and the investment on the building and other infrastructure is another HK\$15 - 16 million, and the land and assets that are committed at our terminal for receipt and storage of products represent an investment in excess of HK\$2 billion.

Furthermore, another reason for this discrepancy in the rate of change in pump prices versus product landed costs is because of the high proportion of government duty as a component of the pump price.

Moreover, in 1998 fuels volumes have marginally declined versus 1997 due in part to the economic downturn and also the impact of importation of suspected illegal fuels. This volume decline provides fewer liters from which to recover Mobil's substantial fixed costs and inflation.

The data in Attachment 3 illustrates that there is not a direct relationship between the price of a specific crude oil and the retail pump price in Hong Kong.

Relationship between Product Landed Cost and Retail LPG Price

Although the landed cost of LPG has dropped by HK\$0.71/Kg between 1997 and 1998, the list price has remained relatively stable.

The main reason for the list price remaining unchanged is that LPG sales have dropped by roughly 6% over the past year. This continuous reduction in market demand had resulted in a higher unit operating cost of the LPG business.

Part of the high operating cost is the need to maintain the highest safety standard and this is consistent with Mobil's Environmental, Health and Safety philosophy. In line with this, safety measures and facilities are continuously added to keep up with our own requirement on these standards. For example, we are using the best and the highest quality regulator and valve available in the market for our LPG cylinders.

Finally, in Hong Kong, retail LPG is sold through dealers, who determine their own selling price to consumers, and this selling price will take into account such factors as local market and operating environment. This business is very labor intensive and requires equally high operating expenses to cover shop rental, insurance, transportation and storage. Accordingly, the dealer's cost of doing the LPG business is reflected in the final selling price to the customers.

Data On Crude Oil Prices, Product-Landed Costs and Retail Prices

Crude Oil Price¹ (in HK\$/Ltr)				
	(a) <u>Jan 19, 97</u>	(b) <u>Nov 11, 98</u>	(b) - (a) <u>Variance</u>	<u>% Change</u> %
Dubai	1.00	0.58	-0.42	-42

Fuels Price (in HK\$/Ltr)									
		Auto -Diesel				Unleaded Gasoline			
		(a) <u>Jan 19, 97</u>	(b) <u>Nov 11, 98</u>	(b) - (a) <u>Variance</u>	<u>% Change</u>	(a) <u>Jan 19, 97</u>	(b) <u>Nov 11, 98</u>	(b) - (a) <u>Variance</u>	<u>% Change</u>
Product Landed Cost		<u>1.41</u>	<u>0.8</u>	-0.61	-43	<u>1.38</u>	<u>0.85</u>	-0.53	-38
Pump Price -	without Duty	<u>4.02</u>	<u>3.69</u>	-0.33	-8	<u>4.18</u>	<u>3.98</u>	-0.20	-5
	with Duty	<u>6.91</u>	<u>5.69</u>	-1.22	-18	<u>9.9</u>	<u>10.04</u>	0.14	1
Government Duty		<u>2.89</u>	<u>2</u>	-0.89	-31	<u>5.72</u>	<u>6.06</u>	0.34	6
Government Duty (% on pump price)		<u>42%</u>	<u>35%</u>			<u>58%</u>	<u>60%</u>		

Sources of information

1. Crude Oil Price from Mid of Platt's Price; provided by Saladin Co. (energy information provider)

Data on Product-Landed Cost and LPG Retail Price

LPG Price (in HK\$/Kg)	<u>Av. 97</u>	<u>Av. 98</u>	<u>Variance</u>	<u>% Change</u>
LPG landed cost	1.98	1.27	-0.71	-36%
Direct Operating Cost	5.2	5.5	0.3	6%
Retail List Price	8.35	8.35		