

## MARKETING

The Marketing BU performed well in 2003 despite the challenges of the SARS outbreak, terrorism, the Iraqi war, the significant slowdown of Singapore's economy and the competitive marketplace. Its sales revenue, margins, operating profitability and earnings contribution to the Group surpassed the previous year, achieving a sales volume of about six million barrels. This good performance is attributable to the BU's continued focus and attention to leveraging on the momentum arising from the successful key strategies and initiatives undertaken in previous years. Effective management of major customer accounts, acquisition of new opportunities, prudent management and control of credit and accounts receivables, and tight control of operating expenses were key to Marketing's exceptional performance in a challenging year.

Marketing's strategic approach was to differentiate itself from competition. Its initiatives and programmes are highly competitive, customer-focused and consistent with its operating business model of delivering better value-add by being quicker, better and more cost effective. The key Marketing initiatives in 2003 were focused on achieving a sustainable growth in earnings and profitability, and building the premium SPC brand at the same time through cost effective marketing events and activities. The brand building effort spearheaded by the Retail and Lubricant businesses was highly successful.

SPC's network of 10 service stations have been at the forefront of the challenge to promote the SPC brand as a household name in Singapore. The retail initiatives are driven by highly localised customer-focused marketing programmes aimed at meeting customers' expectations with better value retail offerings. Improvements in both the hardware and software over the past two to three years have significantly increased the awareness of the SPC brand amongst the motoring community and the general public. More importantly, the well tested and proven initiatives have contributed significantly to the Group's bottomline.

In continuing to develop the SPC branded lubricant business, SPC Lubricant unit invested in highly selective sponsorship of automotive/motorcycle related marketing events in the region including the international world-class event, the Asian Supercross, staged for the first time in Singapore.

Together with innovative product sales efforts these events have strongly complemented the efforts in building the SPC brand, particularly in key Asia Pacific markets.

For 2004, SPC's Marketing BU will continue to focus on strengthening its brand equity and market presence through cost effective sales promotions and marketing events-based sponsorships. These include participation in special community and charity promotion activities that provide unrivalled value to all its customers and the community in which it conducts business, both in Singapore and overseas.

Despite the various economic, social and competitive challenges, SPC's Marketing BU managed to improve its year-on-year profitability and earnings targets despite the lower total sales volumes. This demonstrates the robustness and sustainability of the BU's strategies and business model.

The Marketing BU is organized into three revenue channels and two support services units. The Marketing channels comprise of Commercial Sales, Retail Sales & Development, and Lubricant Sales. The Operations & Logistics unit provides operations, logistics, distribution and engineering support services to the Marketing channels. Market Development & Ventures has stewardship over the existing Marketing joint ventures, and selectively seeks out and evaluates potential regional investment and market development opportunities.

### Commercial Sales

This channel markets petroleum products other than lubricants to the domestic market and trading and exports of special products comprising asphalt, LPG and sulphur in the Asia Pacific region. Sales, particularly of diesel, to the industrial and commercial customers account for a significant portion of the Marketing BU sales volume. SARS and the weakness of the Singapore economy during the first half of 2003 were largely responsible for the weaker sales volumes. In particular, the slowdown in land reclamation activities and factory and commercial orders, resulted in lower sales compared to the year before.

With the recent pick-up in the Singapore and regional economies, SPC's Commercial Sales activities are expected to

improve this year, barring any unforeseen circumstances. A significant contributor to Commercial Sales is the trading/export of special products including the domestic LPG sector which continues to experience steady growth in sales revenue and earnings despite the domestic industry's stagnant growth in LPG demand.

Looking ahead to 2004, this segment of the industry is expected to continue to be keenly contested with the presence of independent traders, wholesalers, distributors and the major brands. While a squeeze in margins is highly expected, SPC will continue to employ selective customer-focused strategies and programmes to achieve its profitability and market share targets.

### Retail Sales & Development

SPC's brand awareness is relatively high amongst the motoring public and consumers, despite a retail chain of only 10 service stations. SPC's retail network continues to be the most efficient in the industry. SPC is also the pump price leader in the highly competitive service station segment. Competitors follow and offer price discounts that match SPC's in the trade areas where SPC service stations operate.

Intense competition in this sector resulted in the retail network locked in keen competition in the second half year. Competitors offered discounts matching SPC's only in trade areas where SPC has a station. The discounts competition only abated towards the end of the year as international product prices started its sharp upwards climb in line with rising crude prices.

Apart from intense competitive pressures in a mature and limited growth market, another challenge is beginning to emerge in the form of cleaner fuel standards and more fuel-efficient vehicles. Clean fuels such as electric hybrids, LPG, CNG and hydrogen fuel are expected to penetrate and compete against the traditional diesel and gasoline powered vehicles in the next 10 to 15 years. With the growth in vehicle population curbed, an expected switch to alternative fuels and lower consumption from fuel-efficient vehicles and constantly evolving customer's demands, SPC will continually strive to upgrade and reinvent its retail offerings and range of services to meet customers' expectations. SPC's retail business model is to



SPC - Your Friendly Neighbourhood Service Station

remain relevant and a pacesetter in providing better value retail offerings on a sustainable basis to its customers in the primary areas of fuel sales, convenience store, car care/grooming services, and tyre and maintenance services.

SPC believes that it is more than able to meet the challenges ahead with confidence. The tenth retail service station located at Hougang Avenue 2 commenced fuels sales in January 2004. The site was successfully secured through e-bidding in September 2003. The new station operates on a 24-hour basis with the latest equipment/facilities and incorporates the proven business model of better value offerings for fuels, convenience-store and auto care services. Since its opening, Hougang residents and others in the greater trading neighbourhood are able to experience SPC's special brand of friendliness, care and customer-focused service delivery. As SPC continues to plan for further network expansion, its retail motto "Your Friendly Neighbourhood Service Station" will remain a cornerstone of SPC's special commitment to all its customers island-wide.

Courteous and efficient service is a mission-critical retail initiative that SPC continuously strives to improve. The 24-hour retail network handles thousands of customer transactions each day. The frontline service staffs are well-trained and annual refreshers are conducted to achieve consistency in delivering high quality customer service across the entire network.

In recognition of the efforts and dedication of the service station team, SPC has hosted and will continue to host the “Best Station of the Year” competition. The stations are judged on improvements in retail factors to a standard comparable to the best in the retail industry. This is to instill pride and commitment in the frontline service station staff to achieve excellence in the business. In 2002, the Upper Thomson service station won the award while Pasir Ris service station won the best station of the year award in 2003.

### Lubricant Sales

The greatest challenge confronting the regional lubricants business in 2003 was the tight base oil supply situation resulting in high base oil prices, especially in the second half of the year. Base oil is the basic raw material component used in the blending of lubricants. Finished lubricants comprise more than 80 per cent base oil whose cost has increased by more than 50 per cent year-on-year. Competition for market share in the face of a weak economy, especially during the SARS period largely prevented price increases due to the lack of demand. Hence, increase in the prices of finished lubricants still lagged behind base oil cost increases. This will continue to put pressure on margins in 2004. Nevertheless, the Lubricants segment which has enjoyed double digit growth rates over the past three years remains a profitable niche business for SPC.

While Singapore is a profitable core market for SPC lubricants, it is a mature, saturated market that offers limited growth opportunities. SPC’s growth strategy is therefore focused on the growing regional economies, particularly Indonesia and China, which are experiencing an accelerated growth in car population. More than 70 per cent of SPC’s lubricant business comes from its overseas markets.

Due to the proliferation of many brands of lubricant in the region, SPC has concentrated more on total package offerings to selected niche markets for automotive, motorcycle and industrial lubricants. The customer package offering complements the sale of car care/grooming services together with the SPC branded lubricant products in SPC’s “SpeedyCare” franchise model in Singapore and China for the automotive sector. There are currently six SpeedyCare outlets in Singapore and two in China.



SPC is a title sponsor of the inaugural FIM Asian Supercross 2003.

Today, one in every 250 persons in China owns a vehicle as compared to one in two in the US market. The potential doubling of the China car population over the next 10 years presents immense opportunities for SPC. SPC will continue to expand and franchise the SpeedyCare network in China. SPC’s branded lubricants, blended in its joint venture ItalSing plant in Singapore, are second to none in terms of quality and performance characteristics. Formulations for the premium grades continue to be upgraded to meet the highest international standards demanded by automobile manufacturers and users.

The ability of SPC to compete is not confined to emerging economies. SPC is also carving out a niche market for industrial lubricants in the agriculture and mining sector in Australia. Other countries with new and established SPC lubricant distributors include Thailand, East Malaysia, Bangladesh and Taiwan.

### Market Development & Ventures (“MDV”)

A key driver and rationale for SPC’s overseas expansion is the limited demand growth for petroleum products in Singapore. SPC currently has marketing joint ventures and investments in China, South Korea, Malaysia and Singapore. The joint venture with Cyclelink in April 2003 is an initiative to grow and expand SPC’s lubricant business in China.

The search for and evaluation of new market development and joint venture opportunities remains a key activity of MDV. More opportunities are expected as the emerging economies gradually open up their markets for foreign participation.

Another primary responsibility of MDV is to provide stewardship to all the marketing joint ventures. As a listed company on the Singapore Exchange, SPC shares and encourages its partners to adopt proper governance and best business practices in management, accounting, operations and internal processes to elevate the joint venture's performance in their respective countries. SPC will continue to transfer knowledge and soft skills in management, accounting, technical expertise and operations to its partners.

While the domestic marketing joint ventures have performed very well, the performance of SPC's overseas marketing joint ventures' performance was adversely affected by the difficult operating environment and changing market conditions in 2003.

### Operations & Logistics

The Operations & Logistics unit handled eight per cent less throughput in 2003 as compared to a 15 per cent increase in 2002. This was largely due to the lower inland sales, attributable to the effects of SARS, the shortage of sand for reclamation works, and the slowdown of Singapore's economy.

In May 2003, Operations & Logistics commissioned two new storage tanks and reconfigured the services of three tanks to increase the storage capacity and flexibility for fuels and base oils. Initiatives implemented by Operations & Logistics in 2003 included the engineering, design, construction and commissioning of the ninth service station at Commonwealth Avenue. This station opened for business in April 2003. The latest achievement is the completion and streaming of SPC's tenth service station at Hougang Avenue 2 in January 2004. SPC engineers demonstrated their capabilities and experience when, despite a wet December, they and the contractors took only 49 days to put every system in place.

SPC's commitment to the highest standards in Health, Safety, Security and Environmental ("HSE") matters remained at the forefront of responsible corporate stewardship. It is the task of the Operations & Logistics unit to ensure strict compliance to health, safety, security and environmental best practices at its Jalan Buroh complex ("JBP"). As part of its ongoing review, enhanced safety and security audits have been conducted at key installations with assistance from the relevant authorities and the necessary measures have been implemented. Additionally, fire-fighting capabilities at JBP have been enhanced with the upgrading of the fire-fighting facilities.

A safe and secure working environment for staff and employees is another important commitment to employees. Employees of the Operations & Logistics unit have completed 32,438 man-hours without a loss time injury incident at the JBP based on ongoing safety best practices, including regular operations reviews and implementation of preventive measures.



SPC launched its car grooming services, SpeedyCare, in China in 2003.