

Highlights of Our First 180 Days

How would you describe the first half of the year? Has it been like a roller coaster ride? You've been moving fast and furious with big hills to climb and hair-raising turns to navigate, and just when you think it's over, the ride begins again.

This description seems appropriate considering the three big jobs we've had to do: keep the business running, start up a new company and lay the foundation for future profitable growth. Lube Talk interviewed our North America L&PS Regional Director Donna Couch to find out how we did and what's ahead. Did we just survive or have we started to thrive?

Lube Talk: We had several 180-day metrics. How did we do?

Donna: During the first half of the year, we stayed focused on our three big jobs and consequently made good progress on our key 180-day metrics. The list of what went well exceeds by far what didn't. For example, two metrics we did well on were:

- **Staffing**—Selecting and getting people in place
- **Customers**—Maintaining our customer focus to ensure there were no disruptions and to communicate the merger to our key customers.

However, there are two critical areas—safety and earnings—that are showing red lights on our 2000 reports. While we ended June in good shape on earnings because of strong sales, unit margins are lagging. This was driven by significant cost increases for raw

materials (additives and base stocks) as crude jumped from less than \$15 a barrel to hover around \$30 when base stock supplies tightened in North America.

We need to be creative in looking for opportunities to counteract the earnings squeeze in the second half of the year. We should be focusing on continuing to improve customer value, supporting higher realizations and keeping a keen eye on expenses.

We don't have any excuses for our safety numbers. We can make a significant improvement on these in the second half of the year.

Let's take a more detailed look at our key metrics and briefly review how we did.

Safety: We cannot emphasize safety enough! North America has experienced a relatively high number of incidents this year—four times that of other regions.

We have undertaken a number of initiatives to improve our safety performance. We have conducted assessments at the six lube plants designated as high priority sites (HPS) and have received the recommendations on what actions to take.

We are implementing our safety management program, Operations Integrity Management System (OIMS), at heritage Mobil facilities and are improving our use of this tool at heritage Exxon plants.

OIMS will give us a good structure for the improvement, as will Behavior Based Safety (BBS) training. This will help us see and address unsafe work areas, whether they are in the plants, the car or the office. Encouraging peer interventions when unsafe or questionable activities are observed is also crucial. We must remember no job is so important that it needs to be done without regard to safety.



We've made good progress on our key 180-day metrics.

Earnings: Halfway through the year, the PVL, CVL and Industrial lines of business (LOBs) have delivered strong marketing results in the face of very unfriendly market conditions.

The cost of crude is 80 percent higher than last year and 40 percent higher than plan through the first six months. Fortunately, we were able to recover some of this impact by increasing finished product prices in February and May, an effort that has been a primary focus of the sales organizations. Increasing prices is always a difficult task, but it should help us rebound in the fourth quarter.

Operating expenses, at 8 percent below plan, also helped offset the impact of higher raw materials.

We should also see some bottom-line benefit in the fourth quarter as we begin implementing the supply chain optimization initiatives.

Volume: While 3 percent higher than last year, volume is 1 percent below plan, with results consistent for the United States, Canada and Mexico. Several factors have impacted volume, including intense pressure from our competitors as they try to capitalize on our

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It's a Wrap at Beaumont B&P

If you were our customer, what would you rather see when you opened a rail car or truck shipment from Beaumont B&P? Pallets askew with product, damaged and dripping? Or neat, secure bundles, intact and in good condition?

If you had to prepare product for shipping, what tools would you rather use? Plywood, nails, hammers and saws? Or a soft, cloth-like material and tape?

You get the idea. When Beaumont B&P began using the Ty-Gard System last year to secure its products, the benefits were obvious—safer operations, quality for our customers and environmental compliance.

Ty-Gard is a type of fiber strapping that is attached to a trailer's walls and then wrapped around the last pallet in the trailer. So if the load shifts suddenly, Ty-Gard acts like a shock absorber and evenly displaces the energy of the

impact. This means the load moves only slightly rather than the individual product packages going their separate way.

"We've been using it for nine months, and our customers are very positive about the change," said Debbie Mobley, quality systems management representative. "Ty-Gard helps us deliver products in good condition, which is part of our customer service objectives. It also helps us keep the warehouse neater, making it a safer place to work."

Foreign shipments are also easier. Many foreign countries restrict certain types of wood from entering their borders. With Ty-Gard, there are no such restrictions.

"When we weighed all the factors, Ty-Gard was not only the safest but also our customers' choice and the most economical one," Debbie said. ■



In replacing the wooden crates, Ty-Gard also replaces sharp tools, splinters and ergonomic problems, making it much safer and easier to install than hand-made wooden braces. Steve Williams, warehouse/package operator, is pictured here bracing a trailer load for shipment. Our customers also like the fact that Ty-Gard creates a safer environment for their employees.