



ANNUAL REPORT 2007  
Teboil Group

# The Teboil Group in a nutshell

## Contents

### 2007

The Group in a nutshell	2
Review by the General Director	5
Market trend and company activities	7
<b>Teboil Group's financial statements</b>	
Consolidated profit and loss account	14
Consolidated balance	15
Statement of changes in financial position	16
Notes to the financial statements	17
Auditors' report	18
Teboil's contact information and distribution network	19

The Teboil Group is a full service oil company whose product range includes fuels for traffic, light and heavy fuel oils, LP gas, lubricants and all their related services.

The Teboil Group's parent company is Oy Teboil Ab, which is sole owner of its subsidiaries Suomen Petrooli Oy, Suomen Tähtihovit Oy and Suomen Tähtiautomaatit Oy. Suomen Petrooli handles the sourcing, transport and storage of oil products, Suomen Tähtihovit operates major service stations and Suomen Tähtiautomaatit runs the automat stations that transferred to the company under the terms of the JET transaction. Suomen Petrooli and Suomen Tähtihovit will be merged into Oy Teboil Ab during 2008.

Oy Teboil Ab was founded in Helsinki in 1934 and it holds a well-established position on the Finnish oil market. It is engaged in the marketing, sale distribution of oil and energy products and it operates service stations in Finland. The company markets oil products and related services to private consumers, companies, industry, municipalities and state establishments.

The company has a nationwide chain of Teboil service stations and a network of D-automats for commercial traffic. At year-end, the chain of Teboil service stations comprised 354 locations. The network expanded considerably during 2007 as a result of the JET transaction when 49 JET stations were integrated into the Teboil chain as Teboil Express automat stations. Around 400 refuelling stations, 214 of them D-automats, serve commercial traffic.

Teboil lubricants are produced at the plant in Hamina. The lubricant plant and laboratory functions transferred to the management of LLK Finland on 31 December 2007. LLK International is responsible for the production of lubricants within the Lukoil Group.

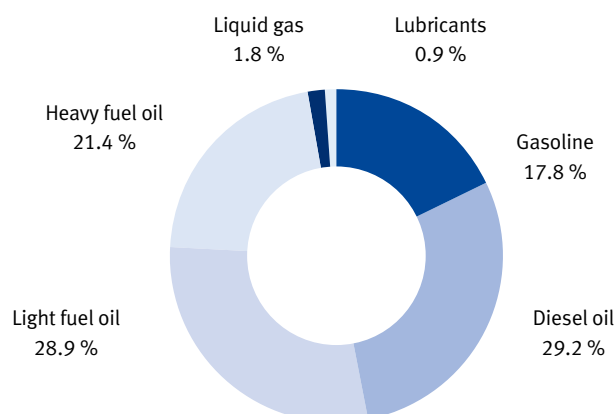
The Group's business concept is to be an efficient oil company that is close to the customer and reacts quickly to changes in the operating environment.

The Group's strategy is to be viable, profitable and one of the two leading oil companies in Finland. Investing in customer-oriented operations, high quality products, functional logistics and its own distribution network puts the company in a position to respond to the demands set by corporate and consumer customers as well as to the challenges of the times.

The company's core values are customer orientation, a human approach, responsibility and quality.

Teboil has been owned by OAO Lukoil since 23 March 2005. OAO Lukoil ranks among the largest oil companies in the world. It operates in 30 countries and it employs more than 150,000 people. The company has the world's second largest oil reserves and it is the sixth largest oil producer. In 2002, Lukoil was the first Russian company to be listed on the London Stock Exchange. The company's strategic partner is the US company ConocoPhillips, which owns around 20 per cent of Lukoil's shares. Lukoil owns around 6,000 service stations in 17 European countries and the USA.

### Teboil's main product sales to consumers 2007 (2 044 000 tonnes)



#### Key figures

		2007	2006	2005	2004	2003
Sales	1 000 t	2 044	1 906	1 933	1 919	1 969
Market share	%	26.2	24.5	23.7	23.2	23.0
Turnover	mill. €	1727	1597	1438	1182	1082
Operating margin	mill. €	37	13	35	32	19
Planned depreciation	mill. €	16	14	14	14	13
Net interest	mill. €	-9	4	0	1	1
Other inc./exp.	mill. €	0	-5	0	0	0
Taxes	mill. €	0	0	5	6	3
Result for financial year	mill. €	13	-7	15	13	9
Investments	mill. €	74	10	15	16	18
Storage tank capacity	1 000 m <sup>3</sup>	435	415	415	415	395
Service stations	installations	354	309	293	288	283
Personnel at the end of the year	persons	520	358	358	359	357

The figures of the Teboil Group are from 2007. The figures from 2003–2006 are consolidated figures of Teboil and Suomen Petrooli.

#### Oil product sales to consumers in Finland 2007

		National Total Sales	National Change, %	Teboil Sales	Teboil Change, %	Market share, %	Change, %
Basic products	t	7 825 300	0.6	2 043 700	7.2	26.2	1.7
Gasoline	m <sup>3</sup>	2 481 400	-0.1	484 800	26.9	19.5	4.1
Diesel oil	m <sup>3</sup>	2 606 800	6.0	705 600	8.2	27.1	0.6
Light fuel oil	m <sup>3</sup>	2 240 600	-5.5	699 000	2.9	31.2	2.6
Heavy fuel oil	t	1 009 100	-5.8	437 900	-1.2	43.4	2.0
Liquid gas	t	274 800	-6.6	37 100	8.6	13.5	1.9
Lubricants	t	77 900	-1.7	18 300	3.1	23.5	1.1

The figures of the Teboil Group include JET's 12 months sales.



Centre: Alexander Malanin, General Director, CEO.  
From the left: Kim Tuomolin, Director, Operations;  
Jari Mäkinen, Director, Finance and Administration;  
Martti Suikkanen, Director, Direct Sales Business;  
Sergey Chikulaev, Deputy General Director;  
Matti Hämäläinen, General Counsel and Ari Rajala,  
Director, Service Station Business.

# Review by the General Director, CEO

## Growth in demand for oil products continues despite peak prices

World market dollar prices for crude oil and oil products almost doubled during 2007. Rising demand, which outpaced production, the weakening dollar, tension in the Middle East, and investment into energy forced Brent crude up to close on 100 dollars a barrel. In 2007, Brent crude cost an average of 72.52 dollars a barrel, which was 11 per cent higher than in the previous year when it cost an average of 65 dollars a barrel.

Despite the price trend, world oil consumption continued to rise in 2007, with the highest rise in consumption coming from the Asian and Pacific regions.

According to the International Energy Agency (IEA), world oil consumption amounted to 86 million barrels per day, which was 1.4 per cent higher than a year earlier. Oil consumption in 2008 is forecast to rise to 87.2 million barrels per day.

The production of oil and gas condensates virtually remained on a par with the previous year, at around 85.6 million barrels a day; the largest producer is OPEC, which retains a 41 per cent share. In 2007, OPEC output amounted to approximately 0.2 million barrels more than in the previous year.

## Good economic situation secures the Finnish oil trade

Finnish sales of oil products remained virtually on a par with the previous year. Although the prices for oil products followed the world market trend and the discourse on biofuels became quite heated, the good economic situation kept up demand.

Last year, Finland underwent more rapid economic growth than the average in EU member states. According to preliminary information from Statistics Finland, the gross national product rose by an average of 2.9 per cent in EU member states whereas growth in Finland amounted to 4.4 per cent. The demands of the national economy gave an added boost to exports, consumption and investments, and unemployment fell.

A few warning signs were visible on the horizon: during 2007, share values seasawed, interest rates rose, prices for raw materials fluctuated, and the US dollar fell in relation to the euro. The impacts of the mortgage crisis in the United States were felt throughout the world, and they also generated a degree of uncertainty in Finland.

Although household disposable income rose by a nominal 4 per cent last year, real growth amounted to only 2.4 per cent. For the first time, the accrual of debt exceeded annual disposable income and the financial deficit rose to 8 billion euros.

## The company retains its position in this critical phase of the oil trade

The structure of the Finnish oil trade underwent huge changes during the past year. Corporate transactions, which resulted in ABC and S11 dividing up Esso and the transfer of the JET stations in Finland to Teboil ownership, brought about significant change in power relations between oil companies. As a result of the transactions, the power relations between oil companies and the structure of the distribution network changed, which also had an impact on market shares for oil products.

Expanding our network of Teboil Express automat stations and opening two large Hovi service stations contributed to Teboil strengthening its position as the second largest oil company in Finland and increasing the company's share of petrol and other oil product sales. Our loyal customer and interest group system for the various customer segments were also commercially profitable.

The company returned a satisfactory result when taking into consideration challenging pricing and competition.

## Cooperation in art and environmental projects

In 2007, Teboil and Lukoil signed two significant collaboration agreements. One of them concerns collaboration with Helsinki City Art Museum. According to the agreement a series of five exhibitions will be compiled from the collections of the State Tretyakov Gallery. The first exhibition, named "the Magical Landscape", was opened on February 20, 2008 in the Art Museum Meilahti.

The other agreement is related to the project SÖKÖ II. The project aims to work out an operational model for the oil combating authorities for the coordination of response operations in case of a large-scale oil accident. The project concerns the rescue districts of Uusimaa, Western Uusimaa and Eastern Uusimaa, i.e. the whole Baltic Sea coastal area from Finland's eastern border to the Hankoniemi peninsula. The project SÖKÖ II, which is carried out by Kymenlaakso University of Applied Sci-

ences, will be completed by the end of the year 2011.

## Teboil begins revamping its business operations

The revision of the service station business concept that got underway will reinforce local Teboil station services and increase the flow of customers to our business locations. Our cooperation agreements with Ruokakesko, Rolls Family, Jokes Family and Örum provide us with the opportunity to offer our customers a greater range of services.

The K-markets opening in around 70 Teboil service stations will significantly augment the range of groceries we offer. In addition, our customers will be able to receive the Plussa card bonus. The Rolls and Jokes hamburger concepts will round out our cafés at around 100 Teboil service stations.

The Autoasi brand enables us to continue guaranteeing the quality spare parts and accessories needed for servicing and repairs at Teboil service centres as well as the technical support for the rapidly developing vehicle technology.

The full implementation of this considerable revamp will take two years, and it will call for the whole-hearted input of our personnel, dealers and partners. Some of these new services will already be available to our customers during the coming summer and autumn.

The Group structure underwent huge reorganisation during 2007, which naturally taxed personnel to the limit. I would warmly like to thank them for the adaptability and flexibility they displayed in taking the changes through to conclusion. I am confident that we are now in an even stronger position to face future challenges.

I would also like to express our gratitude to our dealers; their member association, Tebo-Kauppiat ry (Association of Teboil Dealers), celebrated its 40th anniversary in December. Throughout the course of our history, we have always found a common language with our dealers and found the way forward together even in the most difficult of circumstances.

Finally, I would like to thank all our customers and partners for their confidence in the company and for making the success of our business operations possible.

Alexander Malanin  
General Director, CEO



Teboil tankers make around 130,000 deliveries of heating oil to households per year.

# Market trend and company activities

## Climate and alternative energy sources constantly made the headlines in 2007

The past year was characterised by animated discussion on the measures and objectives to combat climate change as well as on the direction that energy policy should take, but the proposed measures and objectives were highly contradictory. Realism on how to implement the solutions became progressively obscure in the dialogue on increasing the number of different renewable energy sources and combating climate change.

Political discussion in Finland on the EU climate and energy package put too much stress on heating, and oil heating in particular. Pointed disclosures with regard to a radical reduction in the use of fossil oil in heating and thereby a reduction in emissions gave a distorted image of modern oil heating. The use of oil to heat houses accounts for less than 2 per cent of Finland's energy consumption, and the carbon dioxide emissions thus produced account for 2.5 per cent of fossil carbon dioxide emissions. Replacing oil heating with thermodynamic heating would necessitate an estimated 2–2.4 TWh of additional electricity annually. This requirement is greater than, for instance, the electric output of the nuclear power plant currently under construction at Olkiluoto.

The discussion omitted several measures that oil companies in Finland have undertaken voluntarily in order to control climate change and reduce energy consumption. Since 1997, the oil industry has participated in the Höylä energy savings programme, which for its part implements the national climate regimen. The programme, which was launched by the Ministry of Trade and Industry and the Ministry of the Environment, aims to reduce by 2010 the

oil consumption of small properties by 10 per cent from the 1997 level. Over the past decade, the programme's measures have been the means for saving around 8.3 terawatt hours, which corresponds to the annual consumption of about 250,000 oil-heated homes.

In December 2007, the oil industry committed to the Höylä III energy efficiency agreement. The objective of the agreement is still to reduce energy consumption and through different measures, to make the use of heating and traffic fuels more efficient as well as to utilise renewable forms of energy in oil heating. The parties to the programme – the oil sector and its cooperative organisations, the Ministry of Trade and Industry and the Ministry of the Environment – have agreed on concrete and numerical goals to save, advise on and upgrade energy as well as to couple renewable energy products alongside oil during 2008–2016.

## Widespread trust in the quality of Teboil's light fuel oil and operating models

The year 2007 was unprecedentedly warm in Finland. According to the Finnish Meteorological Institute, the mean temperature for March reached a record-breaking level and after the mild autumn, December was unusually warm for the second consecutive year. The thermal winter, when the daily average temperature remains below zero, started 5–9 weeks later than usual in southern and central parts of the country. Winter was 60–80 days shorter than average, thus reducing the need for heating. In addition, the dry summer and early autumn brought about a reduction in the energy needs for agriculture, particularly for drying grain.

According to the Finnish Oil and Gas Federation, the average consumer price in Finland for light fuel oil was 63.5 cents per

litre, which was 0.3 c/l lower than in 2006. The monthly average price peaked in November at 73.9 c/l.

The warm weather and minimal use by agriculture reduced the demand for light fuel oil. Correspondingly, sales to the earthworks sector showed a healthy increase due to its high consumption rate.

Sales of light fuel oil for domestic consumption, which includes heating oil and engine fuel oil, declined by 5.5 per cent during the past year and topped 2.2 million m<sup>3</sup>. However, the company's sales increased in the declining market by 2.9 per cent, amounting to 699,000 m<sup>3</sup>. The market share rose by 2.6 percentage points to 31.2 per cent.

Teboil consolidated its number-two position in the heating oil and engine fuel oil markets. The company continued to increase its share of light fuel oil deliveries to small heating oil consumers and industrial customers. Teboil and Maatalouskesko Oy started sales cooperation to agricultural customers during the past summer.

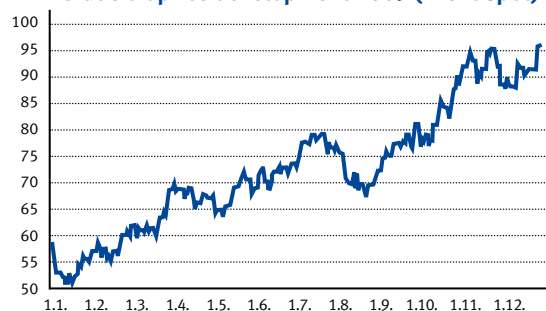
Teboil's extranet order channel became increasingly popular as a means for enquiring about prices and ordering oil. The reorganisation of the customer service and order centre enhanced the quality of customer service.

## Diesel becomes more popular

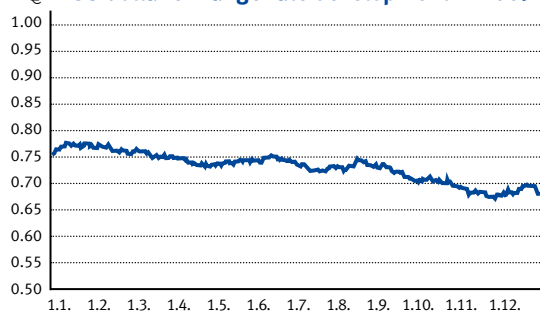
The more widespread prevalence of diesel engines in passenger cars was the primary factor behind growth in diesel oil sales. The continuing sound economic trend and related increase in road transport also contributed to the rise in sales of diesel oil.

The preparations to introduce biodiesel onto the market numbered among the most significant changes within the sector. In line with the Government decision, traf-

USD Crude oil price development 2007 (Brent spot)



€ US dollar exchange rate development in 2007





The Teboil Hovi network comprises nine large service stations. New Hovi stations are due to open in Kaakkuri, Oulu, and Suomensjärvi in autumn 2008.



fic fuel distributors are obliged as of 2008 to supply a minimum of 2 per cent of biofuels in the overall energy content of engine fuel oil, diesel oil and biofuels.

The limited supply of bio-components coupled with growing demand sharply raised prices for biofuels on the world market. As an outcome of the obligation, the price for diesel oil including value added tax rose close on 2 c/l. The Government Programme for 2007 passed a decision on increased taxation for diesel oil as well as other traffic and energy liquid fuels.

In 2007, Teboil expanded its AdBlue® distribution network. AdBlue is a urea-based additive in demineralised water that contributes towards reducing the exhaust emissions in freight trucks equipped with SCR diesel technology. AdBlue satisfies the Euro 4 standards set for exhaust gas emissions as well as the future Euro 5 standards. By the end of the year, AdBlue will be available at ten distribution points located in the immediate proximity of D-automats.

Around one-fifth of the costs for commercial traffic stem from fuel. Consequently, price competition remained fierce. Alongside price, the extent of the network and easy availability of the product are also important competitive factors. Teboil's D-network expanded still further with the opening last year of new D-automats in Laitila, Honkajoki, Ilmajoki, Hyvinkää, Äänekoski and Vuosaari, Helsinki. At the end of the year, there were 214 D-automats. The D-card for commercial traffic can also be used for refuelling at a contract price in Teboil's service station network, making a total of more than 400 refuelling points.

The company continued the traditional quality policy for its D-automats; in other words, customers get special summer quality diesel, which has good cold-weather properties, in place of normal summer quality as well as winter quality during the coldest winter months. The quality policy has generated cost savings for commercial traffic because commercial traffic is able to use the special summer quality during most of the winter.

Teboil retained its strong number-two position in the commercial traffic customer segment. Diesel oil consumption rose by 6 per cent, amounting to 2.6 million m<sup>3</sup>. The growth of the company's diesel sales was above the average level and the market share increased to 27,1 percent.

### **Teboil strengthens its share in domestic heavy fuel trade**

Sales of heavy fuel oil are directly linked to prevailing weather conditions. Heavy fuel oil is often used as a backup source of power for other forms of energy production. The mild weather in 2007 reduced the demand for heavy fuel oil because the product was used to a lesser degree than normal to produce electricity. The forest industry's energy solutions as well as its reduced production capacity in Finland also contributed towards a decline in sales.

More than 94 per cent of the heavy fuel oil supplied to Teboil's Finnish customers had low sulphur content and was more environmentally friendly. The combustion catalyst added to the product also reduced particle emissions significantly.

There were no noteworthy changes in the number of Teboil customers. The single most significant agreement was the one signed with Fortum Power and Heat Oy, in which Teboil ensures deliveries of heavy fuel oil to around one hundred private heating plants.

Teboil's heavy fuel oil sales to its customers in Finland fell by 1.2 per cent compared with 2006, amounting to around 438,000 tons. The general market trend was also on the decline in that domestic sales of the product were down by 5.8 per cent and aggregate sales came to around million tons. Teboil's market share rose by 2 percentage points and stood at 43.4 per cent at year-end.

### **Teboil strengthens its position as a supplier of marine fuels**

Owing to EU regulations, the limits on the sulphur content of heavy marine oils (3.5% > 1.5%) were extended in autumn 2007 to apply to the North Sea and the English Channel in addition to the Baltic area, as was previously the case. The reduction in sulphur levels was expected to cause problems with the availability of low-sulphur products, particularly in Europe's major ports. In all probability, poor availability in Europe would have improved Finland's relative competitive edge because the conditions in Finland are good for distributing low-sulphur heavy fuel oil. However, the envisaged problems with availability did not arise. There was a vast supply of low-sulphur products in Central Europe as well as in several Baltic ports, which was borne out by the pricing of our overseas competitors.

The competitive situation affected Finland in that despite increased shipping traffic, the numbers of marine bunkers for sale in our country fell by 23 per cent in 2007 compared with the previous year. Despite the shrinking domestic market, Teboil succeeded in increasing sales of heavy marine fuels by around 6 per cent in 2007. Teboil's market share rose from 19.6 per cent to 27.2 per cent. The result is attributable to the ongoing development carried out in recent years. The company has invested in its marine fuel oil business by developing its sales activities and supportive technological solutions as well as by boosting the efficiency of its logistics. Teboil has consolidated its position as a recognised supplier of marine fuels at all Finnish ports and the company enjoys a good reputation.

With the marine fuel oil market in Finland having shrunk at least temporarily, Teboil was also successful in extending its market area in 2007 to include northern Sweden. Ports in the region have traditionally lacked marine bunkers. Suppliers have to bring products from long distances because no heavy marine fuel oils are stored in northern Sweden. In cooperation with companies that operate out of ports in northern Sweden, Teboil has developed its operations to transport products from Teboil's depots in northern Finland by marine bunker to the ports of Luleå and Piteå for old and new customers.

### **Petrol sales continue to decline**

Sales of engine fuel declined for the third consecutive year. In 2007, a total of 2,481,400 m<sup>3</sup> were sold in Finland, which is 0.1 per cent down on the previous year. Petrol consumption is expected to continue its decline in the years ahead. However, diesel sales rose sharply by 6 per cent, amounting to 2,606,800 m<sup>3</sup>. Diesel sales in the consumer market are expected to increase in the next few years. Nevertheless, overall volume will not likely register any further significant growth. The reasons for this change are explained by the reform in car taxation at the end of 2007, which favours shifting over to diesel engines, the development of vehicle engines with increasingly lower consumption and fuel prices remaining at high levels.

Major structural changes took place in Finland's service station market. The 49 JET stations acquired by Teboil were converted into Teboil Express automat sta-



The first Teboil Express automat station opened in May in Rantaperkiö, Tampere.

tions during the summer. The disappearance of the network of Esso stations from the Finnish market also became a reality as an outcome of the corporate transaction conducted by SOK and St1. The first Esso stations changed their colours at the end of the year.

Another significant change on Finland's oil market was the rapid increase of automat stations. This trend is still continuing. At the end of 2007, automat stations accounted for around 50 per cent of the total number of stations in Finland's oil sector. Close on 60 per cent of overall fuel sales by the service station business are sold through automat stations or gauge field automats.

The rapid changes in the service station market kept up fierce price competition. Regional price differences widened. At the same time, the gulf between prices at service stations and net priced automat stations became more pronounced. Price competition is expected to remain stiff in the years ahead.

Despite turbulence on the oil market, Teboil retained its solid market position. Along with its acquisition of the network of JET stations Teboil's market share rose to 19.5 per cent when JET's sales are included for the whole year.

In addition to the acquisition of the JET network, the company also invested in developing the rest of its station network. Last year saw the opening of large new service stations – Sveitsinhovi in Hyvinkää and Rengonhovi in Seinäjoki. In addition, construction got underway on the next two large units – one in Suomensjärvi alongside the new Turku motorway and the other in Kaakkuri, Oulu. These stations will be ready at the end of 2008. The company's network of Hovi stations is operated by Teboil's subsidiary, Suomen Tähtihovit Oy.

The company continued its programme to refurbish its network of stations. Preventing environmental damage and conducting business safely at stations constituted the priorities of the company's safety programme and personnel training. New automat stations were opened in Salo and Vantaa. Seven business locations were closed in 2007. At the end of the year, the Teboil service station chain comprised 354 locations, of which 168 were service stations, 180 automat stations and 6 marinas.

The oil sector market and customer requirements are currently undergoing rapid change. In order to safeguard and enhance competitiveness, the company launched a revised comprehensive business concept with the objective of broadening the scope of services provided by the company's service stations. The organisation of the service station business was revamped to bring it in line with this revised concept and the task of the newly established chain management group is to develop and coordinate the company's so-called non-fuel operations between the company, the field and dealers.

Mutual trust between the company and its customers constitutes the decisive factor behind Teboil's strong market position. Service station marketing focused on developing Teboil's regular customer system, interest groups (trade unions in particular), expanding membership card cooperation and acquiring new corporate customers. The company signed a major member benefit agreement with Akava - Confederation of Unions for Professional and Managerial Staff in Finland. Overall, there was a considerable rise in the number of regular customers.

Dealers comprise the second crucial success factor in service station operations. Teboil stations enjoy a reputation for their good and considerate customer service. A thriving network of cooperation between dealers will be a vital element in the future development and operations of the company's service station business in this critical phase of the oil sector. Teboikauppiat ry (Association of Teboil Dealers) celebrated its 40th anniversary at Hotel Rosendahl in Tampere in December.

#### **Deliveries of LP gas systems to industrial companies on the rise**

In 2007, the liquid gas market in Finland declined by 6.6 per cent and totalled 274,800 tons. The main decline in sales was to industrial companies. At 8.6 per cent, Teboil's sales increased at a faster rate than the general trend. The company's market share rose by 2 percentage points to 13.5 per cent.

Teboil's subsidiary, Suomen Petrooli Oy, which imported a total of 36,000 tons of LP gas, propane and butane during 2007, is responsible for importing the LP gas sold by Teboil. The imports were transported by rail either directly to customers

or to the company's Onttola LP gas depot in Joensuu.

The company's deliveries of LP gas to industrial customers rose considerably during 2007 and the company gained new customers from the foodstuffs, construction and metal industries. Teboil also supplied LP gas to heat various special locations such as paintshops and industrial halls.

Several factors, such as product quality and delivery reliability, affected the acquisition of new customers. Partners skilled in their professions, appropriate equipment solutions and correctly targeted direct marketing campaigns and sales activities made it easier for customers to choose LP gas as their new fuel.

Customers seemingly appreciated Teboil's integrated deliveries of LP gas systems, which included equipment (tanks, piping systems, and burners), planning and the licensing process. Teboil was also able to satisfactorily resolve for customers the issues related to the more stringent requirements for explosion and protection plans.

The company also continued the product development of steamer and container packages designed for industry. More than thirty mass-produced small tanks imported from Germany were sold and hired to customers. These new competitive products helped the company to gain a record number of new container gas customers.

#### **Composite bottles consolidate their position**

The company has developed logistic solutions in sales of bottled liquid gas to households. Due to the high quality of the product and service, the company has been able to retain a market share in excess of 30 per cent.

Liquid gas grills and diverse leisure equipment such as heaters have increased in popularity year after year. Alongside the traditional 5 kg and 11 kg steel bottles, 6 kg and 10 kg composite bottles account for close on half of sales. In 2007, the company sold nearly 25,000 liquid gas bottles.

The trend in sales of liquid gas looks set to achieve stable levels in the future. Leisure use is making liquid gas better known among wider groups of consumers and various industrial applications are steadily increasing the proportion of liquid gas on the energy market.



The Teboil product range includes engine oils for motorists as well as products specific to each make.

### Goal-oriented work makes Teboil Finland's second largest lubricant supplier

Overall consumption of lubricants in Finland in 2007 declined by around 1.7 per cent on the previous year. Sales amounted to 77,900 tons. For several years, the domestic lubricant market has declined in terms of volume, which is due to the shift towards longer intervals between oil changes. This has been particularly apparent with regard to engine oils, where overall consumption fell by 6.3 per cent compared with the previous year.

Despite the drop in overall volume, turnover on the lubricant market is increasing steadily. Longer intervals between oil changes, minimal service shutdowns and increasingly stringent emission regulations set increasing demands on the quality of lubricants. A rise in the quality of products means increased turnover on the lubricant market despite a decline in volume.

The strength behind Teboil's lubricant business lies in its long history of a sound understanding of local markets and a customer-oriented chain of operations, which have developed into the competence and partnership respected by customers. A wide-ranging product assortment and competent personnel have been strong points which have resulted in Teboil turning in a sound performance despite fierce competition on the lubricant market.

Overall, 2007 was a good year for Teboil's lubricant business. The company's market share in lubricants rose by 1.1 per cent and came to 23.5 per cent. The market share for engine oils was 26.2 per cent and for other lubricants, 21.6 per cent. Teboil's sales within Finland amounted to 18,300 tons. The company also turned in a successful performance on the export market when bearing in mind the heated competitive situation on Russia's export market.

As in previous years, Teboil introduced on to the market numerous new or upgraded products to match the special requirements of consumers. Such examples include the fully synthetic Teboil Super XLD-2 heavy vehicle engine oil, which meets Scania's special requirements for the new extended intervals between oil changes as well as the top standard Teboil Hydraulic 46 Max-S, which in terms of its quality represents a new generation on the entire hydraulic oil market.

In recent years, the trend in Teboil's lubricant sales has outpaced the change on the market. As a result of its goal-oriented work, the company has become the second largest lubricant supplier on the Finnish market. The changes in the Finnish lubricant market and the demands placed on developing the lubricant product assortment to keep pace with technical development will become huge challenges for the business at large. In an integrated Europe, the Finnish market may also be of interest to new competitors who may well bring about change in market structures. The company's knowledge of local conditions and sound professional skill place it in a position to take on these challenges.

### Sourcing and logistics

As in previous years, Suomen Petrooli Oy, a subsidiary of Oy Teboil Ab, was responsible for the sourcing and logistics of the oil products sold by the company. It procured a total of about 2.2 million tons of oil products. Suomen Petrooli purchased the oil products from a domestic refinery and on the international market. The procurements were mainly shipped by sea in the ice-reinforced vessels of contracting Scandinavian and Finnish shipping companies.

The network of fuel depots comprises seven coastal depots in Oulu, Pietarsaari, Vaasa, Pori, Hamina and two in Turku and inland depots in Joensuu and Kuopio. The number of depots rose by one when a depot in Turku transferred to the company under the terms of the JET transaction. In addition to the company-owned network of depots, Teboil used joint depots when necessary. The entire network handled a total of 1.8 million tons of oil products.

The single largest investment was the upgrade of the truck loading bridge in Vaasa.

Oil products were delivered to customers primarily using contracted and company-owned tankers. By the end of the year, the company sold ten of its twelve tanker units to contract carriers.

### A more efficient organisation

The Teboil Group's core sub areas underwent reorganisation during 2007 due to the changes that had taken place within the subsidiaries and the need to reshape the organisation. As a result of the chang-

es, the company entered into codetermination negotiations.

Teboil acquired the shares in ConocoPhillips Finland Oy and the company's name was changed to Suomen Tähtiautomaatit Oy. Its employees continued on the payroll of the new company.

At the end of the year, lubricant production was split off from Suomen Petrooli's organisation and transferred to the management of LLK Finland Oy; employees continued at LLK Finland under their current terms of employment.

In addition, Suomen Petrooli's oil deliveries to customers were outsourced, and the company sold ten tanker units to contract carriers; under the terms of the transaction, its employees transferred to the new owners.

The Group's organisation was revamped by dividing commercial activities into two business units: the Service Station Unit and Direct Sales Unit. Customer service and sales support functions were centralised in the customer service centre at the Head Office, marketing and technical departments were set up and finance and management were centralised within the same unit. The operations sector is responsible for product sourcing, storage and transport.

At the end of the year, the Teboil Group employed a total of 520 permanent staff who worked in Oy Teboil Ab, Suomen Petrooli Oy, Suomen Tähtiautomaatit Oy and Suomen Tähtihovit Oy. Of the Group's workforce, 96 per cent worked in permanent positions. Agency employees were used at the busiest times of the year as well as to cover for sick leave or parental leave.

During the current decade, the company has prioritised personnel development through long-term training programmes. For instance, the training for a professional qualification in sales, which started in autumn 2006, continued throughout 2007. The course is a two-year apprenticeship programme and it is attended by people working in commercial duties in the Lubricants and LP Gas Units.

Job satisfaction and recreational activities were singled out for attention by such measures as making dining in the staff canteen more pleasurable and by arranging joint sports and cultural events initiated by the various divisions of the Tebo Club for employees.

## Teboil Group's consolidated profit and loss account

<b>01.01.–31.12.</b> (1 000 €)	<b>2007</b>	<b>2006</b>
Net turnover	1 726 942	1 596 968
Other operating income	12 199	1 601
Raw materials and services		
Purchases during the financial year	-1 630 203	-1 510 595
Variation in stocks	27 464	15 175
External services	-35 742	-34 254
	-1 638 481	-1 532 823
Staff expenses		
Wages and salaries	-20 225	-20 239
Pension expenses	-3 440	-3 260
Other social security expenses	-3 571	-3 436
	-27 236	-26 935
Depreciation		
Depreciation according to plan	-16 152	-13 798
Reduction of consolidation difference	2 876	2 876
Depreciation of group goodwill	-1 277	0
Other operating charges	-35 569	-30 837
<b>OPERATING RESULT</b>	<b>23 304</b>	<b>203</b>
Financial income and expenses	-9 464	-1 775
<b>RESULT BEFORE APPROPRIATIONS</b>	<b>13 840</b>	<b>-1 573</b>
Income taxes	-72	-125
Deferred taxes	850	1 279
<b>RESULT FOR THE FINANCIAL YEAR</b>	<b>14 617</b>	<b>-419</b>





## Teboil Group's consolidated balance

31.12. (1 000 €)

<b>ASSETS</b>	<b>2007</b>	<b>2006</b>
<b>NON-CURRENT ASSETS</b>		
Intangible assets		
Intangible assets	2 372	2 407
Other capitalised long-term expenses	5 612	5 730
	7 984	8 137
Group goodwill	8 299	0
Tangible assets		
Land and waters	7 879	6 884
Buildings	35 269	40 447
Machinery and equipment	33 993	30 660
Other tangible assets	5 321	3 283
Advance payments and construction in progress	65	203
	82 527	81 476
Investments		
Shares and participations	5 954	6 823
<b>CURRENT ASSETS</b>		
Stocks		
Raw materials and consumables	115 310	94 389
Debtors		
Trade debtors	164 381	124 825
Loan receivables	135	135
Other debtors	8 068	10 404
Prepayments and accrued income	10 308	7 279
Deferred tax assets	650	177
	183 542	142 820
Cash in hand and at banks	8 997	2 881
<b>TOTAL</b>	<b>412 612</b>	<b>336 525</b>
<b>LIABILITIES</b>		
<b>CAPITAL AND RESERVES</b>		
Subscribed capital	8	10
Premium fund	4 365	8 698
Retained earnings	13 883	9 919
Result for the financial year	14 617	-419
	32 873	18 209
<b>PROVISIONS</b>		
Other provisions	2 500	680
Consolidation difference	6 472	9 349
<b>CREDITORS</b>		
Loans from Group companies	115 888	114 027
Loans from credit institutions	59 921	59 083
Advances received	1 384	1 527
Trade creditors	96 513	39 955
Other creditors	80 611	84 471
Accruals and deferred income	11 333	3 079
Deferred tax liabilities	5 117	6 145
	254 879	194 260
<b>TOTAL</b>	<b>412 612</b>	<b>336 525</b>

# Teboil's distribution network

## Teboil's distribution network

-  Service stations
-  Automat stations
-  Teboil Express automat stations
-  D-automats for heavy traffic

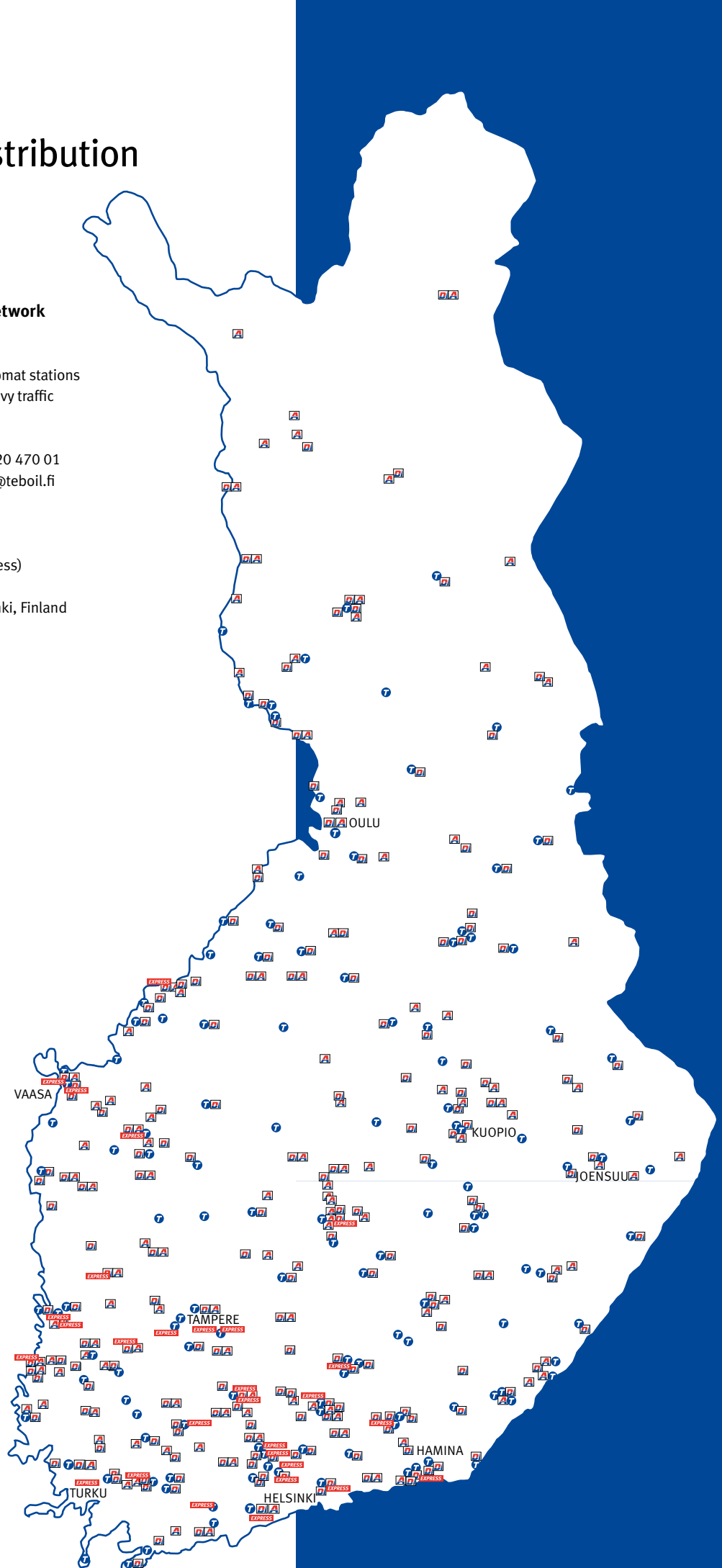
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**TEBOIL**

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