

SECTOR STUDY ON THE PETROL STATION MARKET

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List of Abbreviations

BfT	Bundesverband Freier Tankstellen e.V., Federal Association of Free Petrol Stations
BMU	Bundesministerium für Umwelt, Naturschutz und Reaktorsicherheit, Federal Ministry for the Environment, Conservation and Reactor Safety
€Cent	cent
EID	Energieinformationsdienst, Energy Information Service
EUR	euros
f.	following
ff.	continuing
LPG	liquefied petroleum gas
MWV	Mineralölwirtschaftsverband e.V., Economic Association of the Mineral Oil and Natural Gas Production
p.a.	per year
UNITI	Bundesverband mittelständischer Mineralölunternehmer e.V., Federal Association of Medium-size Mineral Oil Enterprises

The Commission and How it is Carried out

The Commission:

The Interessengemeinschaft Mittelständischer Mineralölverband commissioned Prof. Dr. Schneck Rating GmbH to update this sector study in November of 2005. Prof. Dr. Schneck Rating GmbH authored and drafted the initial version of this study in 2004.

The Objective of This Study:

The objective of this study is to provide a diversified description of the petrol station market while demonstrating the potential for opportunities and risks in this market. However, it is neither supposed to provide an extensive analysis of the petrol station market, nor provide a rating of this sector in an evaluation model. Instead, this study has the purpose of outlining the factors determining success in this sector that petrol station entrepreneurs can apply to maximising their business opportunities and/or minimising these risks or even avoiding them altogether. This paper is intended to make it easier for market players to more precisely evaluate an individual company within the framework of the entire sector.

Evaluations:

All of the content of this study is premised on information and documents from publicly available sources of information or was formulated in interviews with petrol station entrepreneurs. We do not accept any responsibility for the correctness of the information.

Working Principles, Methods and Liability:

We have taken utmost care to prepare this study to the best of our knowledge while applying an academic procedure for preparing market studies.

The analysts at Prof. Dr. Schneck Rating GmbH:

Bernhard Drüner and Beate Schweiker

Reutlingen, Germany, December 21, 2005

Prof. Dr. Schneck Rating GmbH

1. Executive Summary

Various recent¹ studies and publications have described the petrol station market in Germany as a sector experiencing weakness in terms of growth and revenues, surplus capacities and above-average cyclicity, making it a high risk for the sector. The objective of this sector study is not to add another indiscriminate description of the problems, challenges and risks facing this sector to the already existing analyses that underrate the petrol station sector. Conversely, the objective of this sector study is not to attempt to subjectively analyse this sector to brighten up and improve the difficult market position of German petrol station enterprises. Instead, this sector study has the purpose of pointing out to the target group of this document that the petrol station sector – like other sectors – deserves a diversified analysis and should therefore not be branded as a sector in crisis. It will only be possible to adequately determine and apply its impact on the business outlook of one single petrol station enterprise by undertaking a diversified analysis of opportunities, risks and factors for success for the specific company.

First and foremost, it should be kept in mind that there are significant differences between the specific opportunities and risks of each individual company depending upon each operator model and the constellation of ownership of the petrol station enterprise. There should be a distinction drawn between petrol station operations that are affiliated with groups and those not affiliated with groups including the various mixed forms arising from these structural scenarios. This also includes forms of operations such as supermarket petrol stations conducted as subsidiary gainful activity operations. There are various other supplier constellations that are of importance for the profile of opportunities and risks for petrol station enterprises (such as free fuel purchase with or without fixed margin agreements or system supplier purchase versus individual purchase of shop articles). Beyond this, the amount of valuable assets a company has built up – such as in the form of hidden reserves – should also be kept in mind. This shows that it is essential for a sector study to analyse the substantial operator and ownership strategies and the opportunities and risks they feature.

¹ Constanze Nüsperling and Joachim Rotering: Developmental Trends and Challenges for the Petrol Station Market in Germany and Europe, Tankstellenmarkt October/November 2002, Feri Sector Rating Germany, Tankstellen, Q3 2005 and „Sector Special Petrol Stations“; Federal Association of German of People's Banks and Rural Credit Cooperatives (BVR), October 2005

Beyond the above aspects specific to the operator model, the petrol station sector is driven by a wide variety of business opportunities and risks beyond all sector enterprises.

On the level of opportunities, this includes

- the fact that competitors are relatively inflexible, particularly in the retail trade,
- the fact that laws will be more greatly simplified in future,
- the specific benefits of the petrol station as a business opportunity and the fact that it is correspondingly easy to implement the customer's demands for convenience, and
- consumers' growing interest in personal customer service and customer proximity

On the level of risks, petrol station enterprises are confronted with

- margin and sales risks
- procurement and operating risks,
- relatively short-term changes in statutory regulations, and
- cost and competitive pressures that may rise to an even greater extent

Applying the opportunity and risk scenarios specific to the operator model and the general opportunities for and risks to entrepreneurial latitude for action shows that there is a certain probability that a petrol station enterprise will be able to increase potential opportunities while minimising its risks. This is the reason why the factors defining this entrepreneurial latitude deserve a particularly high level of attention. After all, the scope and professionalism of their application dictate the economic success of a petrol station enterprise. Even beyond this, it is essential to apply what are known as *factors for success* not only on the level of the specific enterprise, but also on the sector level in terms of total number of sector enterprises. After all, the number of companies consciously taking advantage of these factors in their day-to-day business practice is co-decisive factor for the success of this sector and it being perceived as a *successful industry*.

Five groups of factors for success can essentially be identified that interact with one another in a complex fashion:

- the quality of the location
- commercial expertise
- offensive and systematic marketing
- a wide range of services; additional business
- the capability and willingness to co-operate within sector enterprises, and
- customer loyalty systems

However, it is necessary to bear the fact in mind that the significance of these factors for success and the components they are formed of differ to the extent that they can cause a positive change in the financial situation of the enterprise, i.e. particularly its financial position and its earning power

- immediately,
- in the short-term and
- as a key factor.

What is more, these factors for success deserve a diversified analysis to the extent that their implementation requires differing amounts of time, financial resources/investments and strength of leadership/leadership talent of the entrepreneur to put the company on track for success. The *range of services / including additional business and commercial expertise* have been identified as factors that tend to be of greater significance for the economic success of its member companies. Generally, they are also comparably easy to influence and implement.

Along with these factors for success, some *special factors having an impact on success* should also be considered in the petrol station sector because they are key factors in distorting the quantitative analysis of petrol station enterprises in a negative fashion. The substantial boost in *mineral oil tax* in the last few years and some of the rapid increases in the fuel price level in past years due to corresponding movements on the crude oil market has led to an extension of the balance sheet, a shift in sales relations, a drop in the equity ratio and return on total capital employed with petrol station enterprises that do *not* sell fuel on a commission basis. That means that the turnover of these petrol station enterprises rises per litre of fuel sold, although revenues do not. Beyond this, due to a lack of knowledge of the business model of petrol station enterprises, third parties making company or sector analyses often do not classify *current assets* and *trade debtors* adequately (i.e., they tend to underrate a company's creditworthiness). The petrol station sector can correct this view by enlightening third parties and explaining their business model to them and this sector study also sees itself as contributing to this project.

The petrol station sector does not have any control over the amount of mineral oil tax. The only thing that the representatives of this sector can do is to make political decision-makers more aware of these interrelations and point out to them that raising the mineral oil tax or the fuel price level not only has the impact of steering the ecology, traffic or other social phenomena in a specific direction. It also greatly has the effect of jeopardising the capability of petrol station enterprises to borrow money when they have to indemnify higher amounts to their suppliers. In other words, raising the mineral oil tax could place a sizable strain on the results of ratings. However, mineral oil tax demands in excess of 5,000 euros can be subtracted from the collateralisation in commercial businesses if the contract formulation is adapted (Section 53 of Mineralölsteuerverordnung - Mineral Oil Tax Ordinance).

It becomes evident from a diversified analysis of the petrol station sector according to potential opportunities and risks and factors for success that there are no grounds for a *blanket discount* of this sector. There is certainly no doubt that the petrol station sector will be exposed to considerable risks and dangers in future. However, a study of opportunities and factors for success also indicates that petrol station entrepreneurs operating on sound commercial guidance, skilled marketing and business field strategies deserve to be recognised as companies full of opportunities that are on track for success. In other words, they can be a profitable, worthwhile and stable investment for their equity capital providers and lenders.

In any event, it will always be the job of a lender to investigate each individual company in detail and apply a knowledge on the specific sector and business model to enquire whether a specific company takes advantage of the entrepreneurial latitude for action it has to maximise its opportunities in its specific sector and minimise the known risks. Incidentally, this is the same rule that should be applied to making these decisions in all sectors. In contrast, *the job of a petrol station entrepreneur* in this framework will have to be providing the data transparency needed for an adequate analysis to describe the company's detailed status quo and future perspectives both in quantitative and qualitative terms. The key motivation of this sector study is to create the basis that will be instrumental in meeting these challenges.

2. Introduction

2.1. The Historical Development of the Petrol Station Market

The petrol station market emerged in tandem with the automobile market. The first "petrol station" in the world arose in August of 1888 due to the plight of Bertha Benz in the city of Wiesloch in the German state of Baden-Württemberg. The greater the popularity of the automobile in the following decades, the greater was the need for fuels to drive them. This need created the petrol station market that experienced skyrocketing growth in its initial decades.

This growth trend continued until the two oil price crises of the 1970's when the crude oil prices ballooned several times within a very short period of time. Although the economy overcame these crises after a couple of years, there was a continuing drastic decline in the number of petrol stations that was to last over the coming years. This form of market adjustment had an impact particularly on petrol stations that were not able to guarantee their profitability. A petrol station's profitability is jeopardised when it gets too little sales or turnover in relation to its cost structure or if it maintains an excessive overhead cost structure in terms of its level of sales and turnover. Other factors contributing to this development since the mid-80's are the escalation in environmental protection requirements, exploding competitive pressure and customers' mounting sensitivity towards prices.

Other changes in the economic, business management and political constraints have surfaced in the more recent history of the development of petrol stations, some of which have been substantial. One has been the fact that myriad discount or state-of-the-art customer loyalty systems have been rolled out over a number of years at petrol station enterprises affiliated with groups. Customers participating in this system get bonus points that can be translated into premiums or cash repayments at a later date. Companies not affiliated with groups have not followed this trend and instead they apply the margin latitude they gain to maintain the regional price leadership they normally have. However, altogether this development has driven down the margin for petrol station operators.

Another is the destabilisation witnessed in the political situation in a variety of regions in the world since 2001 due to international terrorism and the mounting frequency and severity of natural catastrophes that has brought about greater nervousness on international raw commodity markets. This has precipitated a measurably enhanced volatility in the price level. Finally, the demand for raw materials that has been spiking for years, particularly from growing Asian states, has caused the price level to rise on the markets for crude oil and fuel products. Consumers react to this situation on the one hand by economising (scaling back their driving or buying low-consumption cars). This consequently puts a crunch on the

competitive situation of petrol station operations. On the other hand, consumers' price consciousness and price sensitivity climb to even greater heights.

The gathering competitive pressure is unmistakably reflected in the development of the total number of petrol station enterprises. 1970 witnessed the maximum number of petrol station enterprises with just over 45,000 petrol stations on the market. The number has dropped continually in the subsequent years so that as per July 1, 2005 the German network of petrol stations consists of 15,324² stations. Figure 1 is a graph of the number of petrol stations for the period ranging from 1950 to 2004. A statistical analysis reveals a downward trend only interrupted in 1986, although there has been a visible levelling off tendency since the onset of the 80's. Therefore, there is a clear case for the thesis that the number of petrol stations has approached a natural lower limit, especially since the density of petrol stations in Germany is one of the lowest in Europe and petrol station enterprises are increasingly expanding their business activities to new or other business fields.

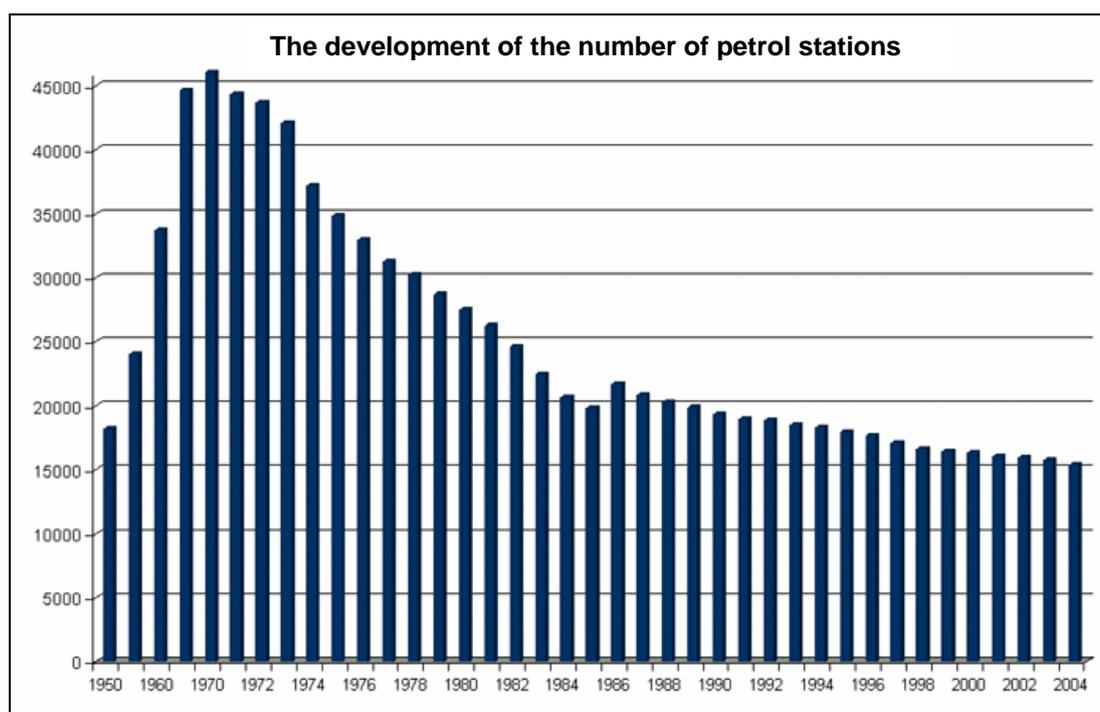


Figure 1 The development of the number of petrol stations in Germany from 1950 to 2004, source: MWV

Along with the historical factors having an impact on success, there is another that has gained in importance for the current and future perspectives of the development of petrol station enterprises: the financing of petrol station enterprises on the basis of the radical

² Energy Information Service, number 31/2005

changes in the international and particularly the German bank market in connection with the BASEL II Regulations.

2.2. The Impact Basel II has had on Banks Extending Loans

The new equity capital agreement of banks known under the buzzword "Basel II" tightens and clarifies the equity capital regulations for banks. This set of rules sets forth the agenda of improving banks' risk control. Given the increasing risks of default in the volatile globalised markets that can be seen from the rapidly rising rates of insolvencies, a tightened risk selection and identification in extending loans is one of the foremost components of Basel II. However, it should be noted that, in spite of some subsequent improvements, the peculiarities of specific sector areas and corporate dimensions were not sufficiently taken into consideration when developing the rules for Basel II. That particularly applies to companies such as the sector under consideration here that earn high turnover at a low margin and rapid stock turn.

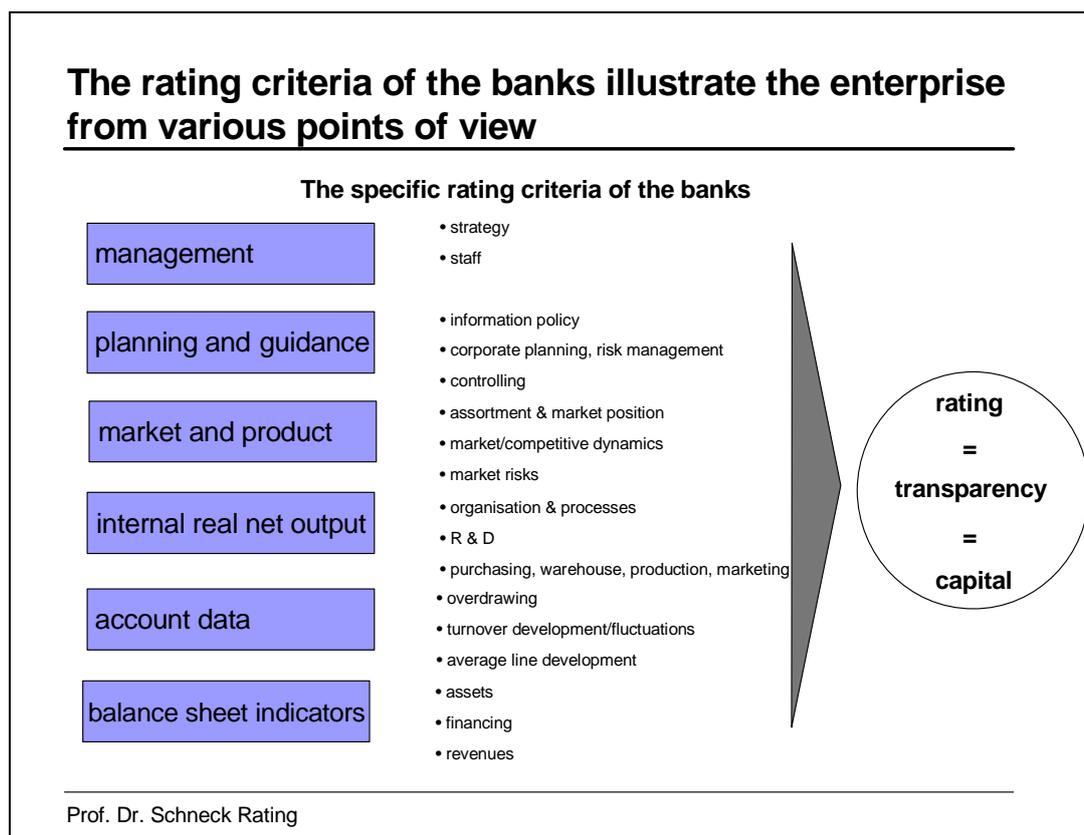


Figure 2 The rating criteria of banks

The pivotal element of Basel II is the banks' obligation to align their capital backing for the money lent to a greater extent towards the customers' creditworthiness. This new rule states that the greater the probability is that a loan will be paid back and the agreed to

conditions of the loan will be complied with, the less equity capital the bank has to deposit as a safeguard. Different risks create different costs for the banks that they pass onto their customers in the form of interest. Basel II states that all companies should be rated to make this default risk calculable. To a great extent, the better the rating, the more attractive are the loan conditions. Hence, rating is becoming increasingly important in corporate financing, making it an issue that every company has to come to grips with – including petrol station enterprises.

Companies frequently operate on the assumption that the absolute size of a company measured in terms of turnover, assets, cash flow, number of employees or market capitalisation are the crucial factors for assessing the credit risk of a company. This is correct to the extent that experience shows that smaller businesses are exposed to greater risks since their size can exacerbate potential weaknesses in relation to competitors. Of course, the majority of rating agencies are of the opinion that there is no minimum size for reaching a specific rating category since the size in and of itself does not limit upward ratings. It is evident that petrol station enterprises proactively accept the challenges involved in Basel II from the fact that a number of companies in this sector have been using a special rating software application based on the standard rating software R-Cockpit™ since 2004. It verifies companies' creditworthiness with a rating analysis, describes measures for improvement and generates a status quo expert report³. R-Cockpit™ uses the rating notation of Standard & Poors.

2.3. The Significance of the Sector Analysis

Beyond the rating criteria described in Section 2.2., the key factor is the profile of opportunities and risks of the sector that a company operates in. An analysis by *Standard & Poors*, the rating agency operating on the international scene, states that the competitive position within this sector and geographic and operational diversification according to areas and products are the crucial factors for evaluating the business risk of a company. In turn, these factors determine the amount of financial risks appropriate for a particular rating category. High on the agenda of a corporate analysis are factors such as the operational strengths and weaknesses of a company within the sector and on its sales markets as well as the issue of whether its financing profile alleviates or exacerbates the risks it faces. What other areas are of importance in the loan analysis beyond the size of a company emerge from the factors for success in this particular sector and how susceptible the sector or the issuer is towards external influences. Official agencies, statistical offices or ministries, professional and industrial associations, economic research institutes, international

³ Rating Software R-Cockpit™, petrol station edition

organisations and information services and experts specialised in this sector served as the banks' sources of data for information on and analysing the sector.

What is particularly important is the fact that *all* sectors have both successful and less successful companies. Even sectors that are dependant upon the domestic economic situation such as the construction industry, the textile or the car trade have companies with superior growth and revenue strength. There are also substantial differences in the economic situation and efficiency of specific companies in the petrol station sector. The research company Feri⁴ arrives at the assessment in its petrol station sector report that the chances of medium-sized and larger companies on the market should be seen as much more positive than the average in the sector in spite of the risk for the sector remaining on a high level.

It would be negligent to give a sweeping analysis of this sector since that would disregard more differentiated views and hence discount entire areas of industry and income. It would also create a starting position for high-powered companies that would not yield an adequate rating while disadvantaging corporate financing in comparison to other economic sectors. A diversified analysis of this sector would have to be based on applying a precise comprehension of the business model to investigating the present and future factors for opportunities and risks in a sector while describing the potential for success that particularly innovative and professionally managed enterprises equipped with high-powered marketing work would have in this sector to safeguard and advance their economic performance.

In turn, a description of the factors for success could supply criteria for third parties to discern the difference between a successful company in a particular sector and a less successful one while avoiding sweeping evaluations. In the final analysis, the extent to which a petrol station enterprise can be proved to exploit the full potential for success is decisive for the probability of there being opportunities for the company's business establishment and the amount of the company's additional added value (i.e., the additional turnover or contribution margin).

Some sector studies on the petrol station market emphasise the fact that the German petrol station market – in terms of its market situation and perspectives – continues to be overoccupied and would resist any greater movements towards concentration. And, indeed, the "Big Four" (ARAL, Shell, Esso and Total) even shut down petrol stations from July 1, 2004 to July 1, 2005 that could not be managed profitably for them⁵. In spite of other brand names expanding the number of petrol stations, the gradual overall decline in the total number of petrol station enterprises under observation has been continuing for years⁶.

⁴ Feri Sector Rating Germany, Tankstellen, Q3 2005

⁵ Energy Information Service, number 31/2005

⁶ refer to Figure 1, page 10

Granted, caution is advisable with a general forecast on a further reduction in petrol stations since there is no 100% assurance that this will occur. It is only a trend that may occur with a certain probability, but there are no guarantees. The probability that the concentration will develop in this fashion depends upon the extent to which other opportunities and risks will present themselves in this sector that determine the overall demand for petrol stations and the demand for their assortment of products. This especially holds true considering that only 25% of the products assortment consists of fuel sales on the average. There is a great likelihood that any forecast on the chances for continued existence with petrol stations would deliver false findings if it only emphasises developments on the fuel market.

The associations of medium-sized petrol station operations state that during the past 10 years they took 25% of the petrol stations from 1994 out of the market once and for all. These closures were regularly overcompensated for by petrol stations from brand name lessees who also owned their stations and whose brand name agreements were not extended for various reasons. However, the fact that they left the brand name camp does not necessarily mean that these stations were less efficient. They might have good chances to hold their own on the market with the right business model, the lessee's expertise (particularly for the follow-up market), customer proximity and the right advice from expert associations. The fact that some entrepreneurs are longstanding members in their associations bears witness to the competitiveness of these medium-sized petrol stations.

Moreover, it bears note that, assuming the movement towards concentration continues, the true criterion for assessing whether this particular company is economically jeopardised or might profit from market developments is the extent to which a petrol station enterprise can make use of potential for success or indeed has implemented it in the past. For example, some brand name suppliers such as AGIP, Avia, OMV Tamoil/HEM, OIL!, BayWA and member companies of BfT measurably advanced their market visibility between July of 2004 and July of 2005⁷.

This is the reason why it will be necessary to detail the factors for opportunities and risks on the petrol station market in the following to enable third parties and particularly outsiders to this sector to weigh off the fundamental future perspectives in it. Afterwards we will describe the factors for success in Section 5 that enable petrol station entrepreneurs to control the extent to which opportunities occur and risks can be avoided. It should be kept in mind that this sector study cannot be a substitute for any diversified rating of a petrol station operation, but it might also provide the basis for one. Section 3 will investigate the structures of the petrol station enterprises in Germany and the way they are embedded into developments on the international or European markets including the current business management position to provide the basis for an initial assessment of opportunities, risks and factors for success.

⁷ Energy Information Service, number 31/2005

3. The Current Situation and Structure of the Petrol Station Market

The previous section showcased some constraints that have an impact on the petrol station market while providing insight into this sector. This section will now go into the petrol station market in detail and explain its specific peculiarities. However, as a first step, it would make sense to analyse the entire market volume. In Germany, passenger cars and trucks travelled⁸ approximately 697 billion kilometres in 2004 consuming 65 million litres of fuel⁹. Of this entire quantity of fuel, approximately 72% is sold at petrol stations and 28% via other sales channels. When we analyse the types of fuel, we see that the proportion of gasoline sold by the channels of distribution of the petrol station is 95% while only 50% of the total diesel is sold via petrol stations. The fact that petrol stations sell less diesel may be attributed to the fact that large amounts of diesel fuels are supplied directly to large-scale commercial and public companies such as freight forwarders and local public passenger services and therefore not sold via the network of petrol stations.¹⁰

3.1. The Various Types of Petrol Stations and Their Significance

All experts agree that the five operator models and the mixed forms are known in Germany (also refer to Annex 6). The community of experts designates the first three models as group petrol stations that sell the fuels of a large-scale supplier via its brand name. The other group encompasses all petrol stations not affiliated with a brand name that can be distinguished by the importance that selling fuel has for the company.

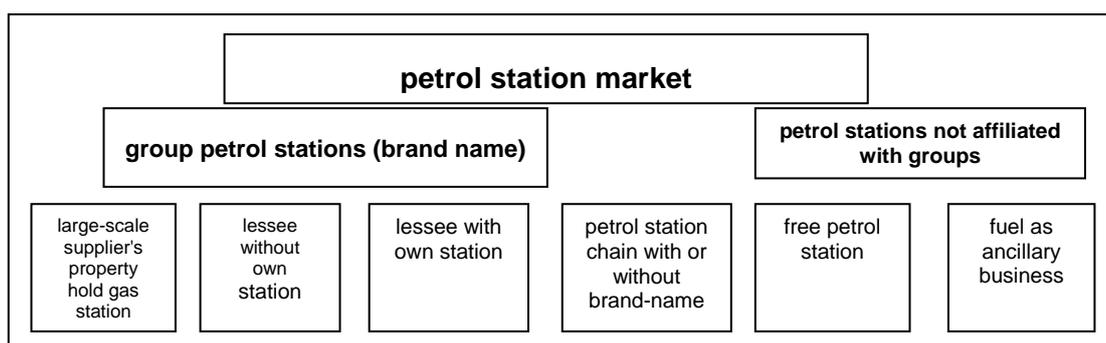


Figure 3 A representation of the various models for petrol station operation

The first operator model that belongs to group petrol stations is a *station owned by a large-scale supplier* such as Shell, BP or ESSO. In this case, these petrol stations are the property of the large-scale supplier who operates it with salaried employees in its own name. These

⁸ DIW Wochenbericht, Berlin, 37/2005

⁹ Bat Arbeitskreis, January of 2005

¹⁰ „Sector Special Petrol Stations“; Federal Association of German of People's Banks and Rural Credit Cooperatives (BVR), October 2005

salaried employees only have limited influence on the operation of the petrol station since the large-scale supplier guides activities such as marketing, purchasing and making decisions on products from a central location. Admittedly, there is only a small number operating on this model, making it of secondary importance.

The second operator model also encompasses petrol stations belonging to a large-scale supplier. However, the petrol station is not operated by salaried employees of the large-scale supplier, but by a lessee who leases the petrol station. That means that this is a *non-lessee-owned station*. Since in this model the lessee also sells the fuel exclusively in the name of and on the account of the large-scale supplier, it may also be included among the group petrol stations. Given the plummeting margins in the fuel trade, there is much greater potential for conflict between the large-scale supplier and petrol station operator with this model. Furthermore, the operator also has narrow latitude for marketing campaigns (such as customer loyalty programmes) since the large-scale supplier guides these activities from a central location as with the stations owned by the large-scale supplier.

While in the previous models the large-scale supplier owned the petrol station, in the third operator model, it is the operator who owns the petrol station. Therefore, in this case, this is a *lessee-owned station* where the lessee only "leases" the brand name of the large-scale supplier and sells its fuels. This model can also be classified as a group petrol station since fuels are sold under the business name of the large-scale supplier and the lessee also receives a fixed commission per litre of fuel for selling it. This model not only differs in terms of different ownership relationships, but primarily in terms of the opportunity of independently setting up one's own business fields (such as shops). In contrast, with the two previous models, it was generally the large-scale supplier who made and guided these decisions from a central location. Due to their major importance, we will especially detail these additional business fields in a subsequent section. The models described here encompass all petrol stations operating under the business name of a large-scale supplier. At the beginning of 2005, this group included 9,522 of a total of 15,428 petrol stations (61.7%)¹¹.

The non-group affiliated medium-sized petrol station chain operators constitute a mixed form. These are dealers that both operate petrol stations under brand names and petrol stations that are not affiliated with a brand name. The remaining petrol stations are subsumed under petrol stations not affiliated with a brand name where two models should be distinguished. First of all, the model of the *free petrol station* will be explained. This is a petrol station that is neither bound to a large-scale supplier through sales of fuel, nor any additional business fields while the operator is either the owner or also lessee of the petrol station. The operator generally purchases fuel on his own and some commercial and shop

¹¹ „Sector Special Petrol Stations“; Federal Association of German of People's Banks and Rural Credit Cooperatives (BVR), October 2005 referring to the Energy Information Service

articles are purchased via joint purchase groups / associations via petrol station entrepreneurs not affiliated with a brand name. This business procedure joins the fragmented purchasing volumes of each of the petrol station enterprises to a power on the market to get prices lower than any individual company would be able to. Master agreements are also made within associations for purchasing technical installations or the supply of sales articles that have a positive impact on the sole trader's purchasing means. In spite of these organised structures, each and every company is completely independent in both a legal and economic sense. This is not to say that there are not any concentration processes within petrol stations not affiliated with brand names that have brought about the formation of petrol station chain operations. Indeed, mixed forms between this organisation model and the above mentioned lease models are entirely normal in everyday practice.

The last model includes *subsidiary income petrol stations* where selling fuels is not the core business. These are petrol stations affiliated with supermarkets, car dealerships or large car washes. Here, selling fuels only has the purpose of offering additional customer benefit while earning contribution margin in addition to the core business. The operator is not economically dependent upon selling fuels and usually does not expand the petrol station operation to other adjacent business fields.

3.2. The Pivotal Position of Other Business Fields

The previous section described the various operator models on the German petrol station market. However, another thing mentioned in this presentation was the fact that these days selling fuels often only constitutes a part of the core business of petrol stations. This can be demonstrated using the distribution of revenues in the petrol station business since in past years the proportion of gross yield of fuel sales of the petrol station operator has continually declined. In 2004, it only amounted to 22.6% of the entire gross yield¹² with a leased self-service brand petrol station.

This section will present other business fields for petrol stations that have increasingly come to the fore in past years. Odds are they will be even more important in future. Of particular importance among these additional business fields is the derived business for fuel sales that encompasses the garage, the car wash and the shop. This situation also calls for a diversified analysis.

The *shop business* (meaning the retail trade with basic commodities) has acquired an exceptional position because for years it has continually expanded its range of products and services with such things as coffee shops, baked goods shop, bistro corners and lottery and football pools agencies, etc. The growth of the business spaces used for it and the turnover it

¹² „Sector Special Petrol Stations“; Federal Association of German of People's Banks and Rural Credit Cooperatives (BVR), October 2005 referring to BTG Annual Report 2004

generates provide stunning proof of this. In the past 14 years, shop spaces at petrol stations have peaked from an average of 30 square meters to 80-110 square meters while the average turnover has grown a whopping five times¹³. These days, it is an average of 5,200 euros / square meter¹⁴ in the area of former West Germany. The following is a comparison: The Berlin-based Otto Reichelt GmbH has more than 2,700 employees operating 85 branch grocer's shops in Germany's Edeka organisation and it earns 6,100 euros / square meter with its modernised branches. That puts it far above the productivity in sales per square meter of comparable new sales markets (3,800 euros / square meter)¹⁵.

The gross yield of the shop business made up 48.3% of the total gross yield¹⁶ in 2004 with a leased self-service brand petrol station. Unfortunately, after -2.0% in 2003, shop business turnover slumped another 2.2%¹⁷ in 2004. On top of the general weakness of the domestic economic situation, experts blamed rolling out deposit bottles and raising the tobacco tax for this¹⁸. In any event, any sweeping analysis here would also provide a faulty evaluation. Ultimately, the proportion of turnover with fast food products rose almost 12% from 2003 to 2004 in the area of former West Germany, thus indicating above-average opportunities for growth in this area¹⁹.

There are various strategies in practice for operating shops presented here.

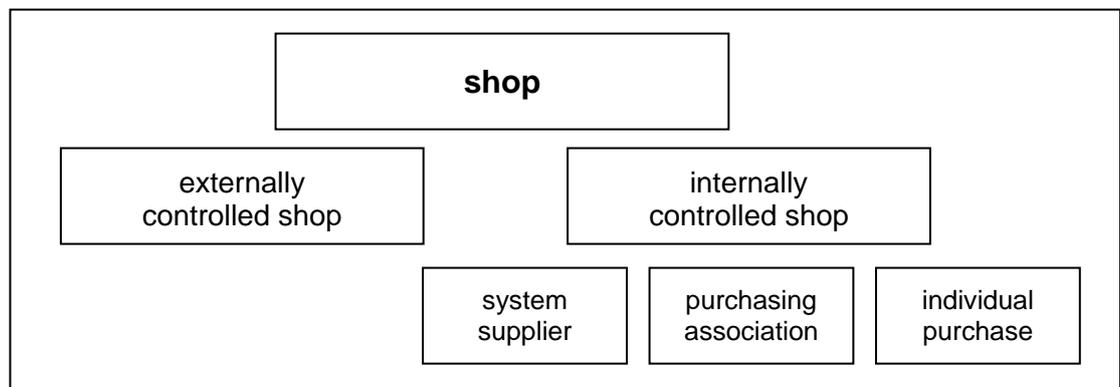


Figure 4 A cross-section of the shop organisation strategies

Figure 4 showcases the various shop organisation strategies at a petrol station. It indicates that shop business can be clearly distinguished into two forms differing from one another in terms of the degree of independent operator responsibility. The externally controlled shop is

¹³ „Petrol station shops are losing customers for the first time“, Handelsblatt , May 15, 2003

¹⁴ EURODATA

¹⁵ RUNDSCHAU für den Lebensmittelhandel, www.rundschau.de vom 27.4.2005

¹⁶ „Sector Special Petrol Stations“; Federal Association of German of People's Banks and Rural Credit Cooperatives (BVR), October 2005 referring to BTG Annual Report 2004

¹⁷ ibid

¹⁸ ibid

¹⁹ Energy Information Service, number 31/2005 referring to BTG/Eurodata

most common among the property hold petrol station operator models and the non-lessee-owned station model. In these models, the shop is centrally guided by the large-scale supplier while the salaried employee/lessee is only called upon to handle sales and replenish stock on hand. Other companies provide marketing and consultation without guidance.

The autonomous shop is the most popular of all operator models because it offers the operator a wide range of opportunities for structuring shop operation. On the one hand, he can have one single system supplier such as Lekkerland or Marketing und Convenience - Shop System GmbH (MCS) take over the entire shop supply. This would have the benefit of contributing the supplier's experience and knowledge of the market that the petrol station operator would otherwise have to provide. Admittedly, this would also involve a loss of the operator's control over the shop because it is quasi externally controlled.

On the other hand, several operators could join forces and operate on the market as a purchasing pool which would put them in a position to arrive at low-price agreements for all parties involved in the association. This way of doing things is most common among petrol stations not affiliated with groups who have structured themselves into associations and who form these purchasing pools. They normally do not sign exclusive agreements with one single supplier who supplies the entire assortment. Instead, several suppliers take over a particular portion. Beyond this, the members of the purchasing pool can also sign individual agreements with other suppliers on more extensive services. This option puts them in a position to decide themselves what areas should be externally controlled or internally developed. Experts on this sector see proactive advertising and a high profile for their products as being important for success in the shop business.

However, there is yet another option for structuring the shop. A petrol station operator can also come up with an independent strategy and purchase the products for the shop from several suppliers. This model gives the operator maximum control over the shop business since he can directly influence all issues ranging from the selection of products to purchasing and marketing right down to pricing. That puts this operator in a position to develop a profile that differs from other petrol stations, although he has to forego the lower prices from purchasing pools and make all the decisions himself.

In contrast to the shop, the importance of *garages* has dwindled at petrol stations in past years. Technological changes in automobiles supply the explanation here. For many years it used to be possible to repair a car just using mechanical tools. Unfortunately, today this requires a wide variety of highly specialised diagnostic instruments to trace and solve problems. In turn, these instrument call for major investments that can only be amortised by a large number of repairs. Petrol station garages cannot attract as many orders as larger specialised dealer garages. This is the reason why the potential in petrol stations is restricted

to less sophisticated technical services such as changing tyres and oil or selling standardised spare parts such as lamps and operating materials. In the final analysis, car repair and servicing only contribute 3% to the gross yield of a leased self-service brand petrol station²⁰.

Along with the garage, the *car wash* is an additional business segment of significance. The proportion of total yield contributed by the car wash has remained constant at 16% in past years²¹, although experts in this sector say it could be as much as 25%. However, two developments can be seen in this business segment that might have a substantial impact on its future perspectives for development²². First of all, more and more companies are entering the market particularly in areas of industrial concentration specialising as car wash operators and they are putting themselves in direct competition with petrol stations. They frequently have highly efficient equipment that enables them to offer their service at lower prices on the market. That means that they may deprive petrol station operators of market shares in future assuming the petrol station operators do not attempt to assert or build up their position on the market with such things as attractive car washes (for instance, multiple-stage textile cleaners). Secondly, the lawmaker is having an increasing impact on the continued development of the car wash business with tightened environmental protection laws which may force operators to invest in more equipment. At the same time, it also raises the barriers to entering the market for other competitors.

3.3. The Financing Structure of Petrol Stations

The previous sections showcased the structure of the German petrol station market while providing more detailed explanations of the various organisation models on this market. This section will delve into the financing structure of petrol stations that also differs from other markets.

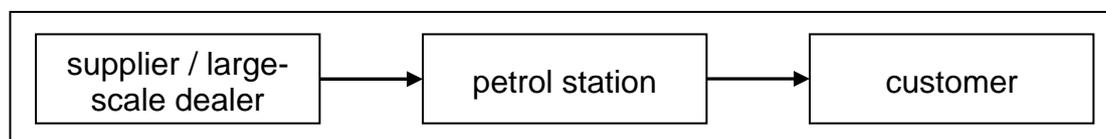


Figure 5 The item flow of fuels

First of all, the flows of financing will be described between the fuel supplier and the petrol station. Currently, 80%²³ of petrol stations are not run by their owners in Germany, but

²⁰ „Sector Special Petrol Stations“; Federal Association of German of People's Banks and Rural Credit Cooperatives (BVR), October 2005

²¹ *ibid*

²² also refer to Section 4.1.2.

²³ as per BfT Workshop November 2005

are leased to operators (*i.e., non-lessee-owned stations*). These operators run the petrol station as an independent entrepreneur and pay a lease rent. These operators (lessees) receive a commission for the fuels and lubricants sold for their sales activities, just over 1 euro cent per litre of fuel on the average in the sector²⁴. If they sell 250,000 to 350,000 litres per month, that results in an annual income amounting to 30,000 to 42,000 euros from fuel sales for a petrol station of this magnitude. The final amount of income from this hinges exclusively on the fuel sales. This variable income – that the earnings from the shop business and miscellaneous services are added to – should be seen in the framework of the fixed costs of petrol station operation. Ultimately, the business risk of a petrol station is dictated at least in part by the risk of marketing fuels.

As a rule, the classical operator of a non-group affiliated petrol station (chain) freely purchases fuels on the market while those who purchase their fuels in whole or in part through fixed distribution contracts do not bear the margin risk. They can only earn lower margins at high market margins as companies who freely supply themselves.

After describing fuel financing in terms of suppliers and petrol stations, this section will deal with the petrol station's fuel sales to customers. Customers usually pay for fuels in cash or via a debit/EC card. But there are two special cases that warrant more detailed explanation. Some customers use credit cards (such as VISA or Eurocard) to pay their bills which not only involves a delay, but also certain fees. This delay means that the point in time of performance is separate from the point in time of payment. It is the petrol station operator who has to finance delay and these fees and that spells out a reduction in revenues.

Some groups of customers (including freight forwarders, taxi drivers or corporate clients) are given single bills that are rendered after certain periods of time. A positive factor with these groups of customers is the virtually constant and higher fuel consumption in relative terms. Beyond this, these groups of customers often make agreements with just one petrol station providing a form of exclusivity that allows customer loyalty to be developed and maintained. Signing prepayment agreements enable petrol station entrepreneurs to downscale the financial burden of advance financing involved in single billing while reducing the risk of delayed payment or even default on payments.

3.4. Market Shifts and Processes of Concentration

As Section 2.1 already described, the number of petrol station on the market has dropped continuously since the beginning of the 70's. This section will investigate the reasons for this decline in petrol stations.

²⁴ Energy Information Service 06/2005

One thing of importance for this is mergers among various large-scale suppliers. In past years, German Shell merged with DEA while British Petroleum (BP) merged with ARAL. If these transactions had included all petrol stations in these companies, it would have exacerbated the oligopolous structure of the market. Experts in this sector state that this is the reason why the Berlin-based Federal Cartel Office only approved this action if a portion of the petrol stations and refinery capacities were sold to other suppliers. Before this time, the network of petrol stations of these four companies encompassed 6,350 petrol stations but after this transaction experts says it dropped to 4,900 petrol stations. The petrol stations offered for take-over were bought up by other large-scale suppliers as well as by free suppliers and international petrol station operators such as the Austrian OMV, Polish ORLEN and Italian AGIP companies that targeted providing a more active selection on the German petrol station market.

These shifts also generated geographically modified structures. Shell/DEA or BP/ARAL reduced their networks of petrol stations particularly in rural areas because they could only sell less fuels in these areas due to the lower population density than in areas of industrial concentration. Therefore, when deciding on a location based entirely on the quantity of fuel to be sold, it makes business sense to divest oneself of these petrol stations and concentrate on areas of industrial concentration. In contrast, the medium-sized and smaller international suppliers (such as OMV, Orlen and AGIP) are targeting a profitable overall strategy not exclusively based on fuel demand. They can operate profitable companies with a smaller quantity of fuel by entering into the right business relationships.

A final phenomenon has been a constant increase in efficiency at petrol stations in past years. The number of automobiles purchasing their fuel needs at specific petrol stations can be used as an indicator of this. While one petrol station was only capable of supplying approximately 300 cars in the 70's²⁵, this rose to 3,171 motor vehicles (passenger cars and utility vehicles) in 2004²⁶. This trend can be attributed to two causes. For a start, fuel consumption per passenger car has dropped on a constant level in past years²⁷ which has continually boosted the range of passenger cars. In turn, this higher range has allowed the network of petrol stations to slim down since spatial proximity has become less and less significant. Secondly, the profitability of this sector has changed. To a great extent, the margins per litre of fuel sold have stayed unchanged since the 70's – excluding the above-average 90's²⁸ while the cost for operating petrol stations as well as investing in substitutes or expanding has risen. Thirdly, various changes have become necessary for complying with modified laws first and foremost concerning environmental protection. That means that the

²⁵ Figures on number of motor vehicles as per VDA Association of the Automobile Industry, Frankfurt, 2005

²⁶ „Oil – Raw Material and Energy Carrier“, MWV, Juli 1996

²⁷ The Ecological Tax Reform: Start, Continuance and Continued Development for an Ecological Financial Reform, Federal Ministry for the Environment, Conservation and Reactor Safety, February 2004

²⁸ www.mwv.de, The Composition of the Price for Super 1972 to 2004, December 2005

economic viability of a petrol station operation can only be represented in terms of fuels by boosting the volume of turnover and especially with higher vehicle/customer volume.

3.5. The European Petrol Station Market

Statistical data from 2002 indicate that Germany is among the European countries with the lowest petrol station density.

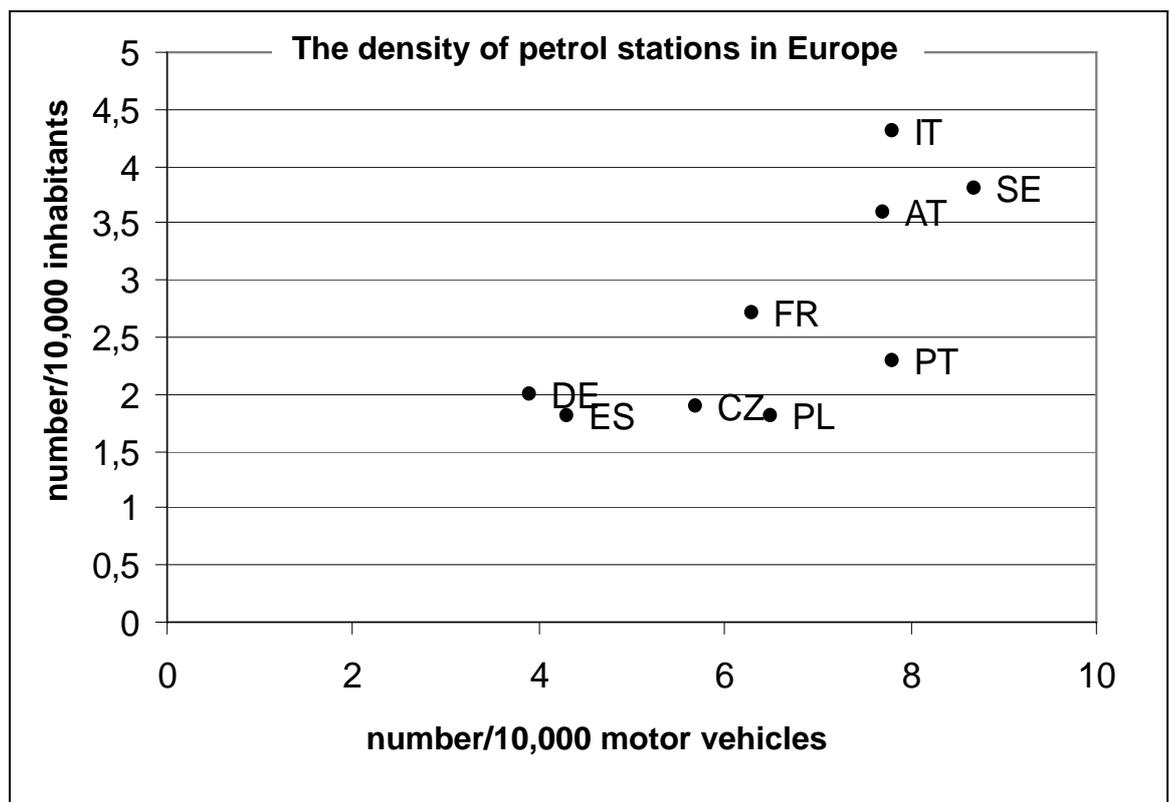


Figure 6 The density of petrol stations in Europe; source: tankstellen markt, 10/11 2002, Datamonitor

Figure 6 shows a cross-section indicating that Germany has the lowest density of petrol stations in terms of the number of motor vehicles. Together with Spain, the Czech Republic, Poland and Portugal, Germany is also in last place in the table in terms of the density of petrol stations and number of inhabitants. That means that Germany has almost gone through a development that most other European countries still have before them.

The authors of an essay entitled "The Future Perspectives of the Petrol Station Market in Germany and Europe"²⁹ arrive at the conclusion that no other sector has had to grapple with a comparably high degree of structural metamorphosis in the last few years. They point to a major crunch to consolidate that petrol station enterprises have been subject to for several

²⁹ Constanze Nüsperling and Joachim Rotering: Developmental Trends and Challenges for the Petrol Station Market in Germany and Europe, Tankstellenmarkt October/November 2002

years particularly on the German market. The more petrol station enterprises transform themselves from specialised undertakings trading in fuels and lubricants with an add-on retail trade into specialised retail trade businesses with an add-on fuel and lubricant trade³⁰, the greater will be the impact of statistical market data that encompass less products and suppliers from the mineral oil trade than information on what's happening on the market in the retail trade sector. This is the reason why analyses on the long-term success of petrol stations and their perspectives for development (that essentially emphasise what's happening on the fuel market and its data) should still be considered relevant, although they do not constitute the only meaningful statements. Focusing exclusively on the market that trades in fuels and lubricants cannot generate any reliable information on the economic viability of the petrol station sector as such. Given the shifts in the structure of the products and services of many members of this sector, these analyses can only deliver faulty estimates.

Another thing to bear in mind when analysing the German petrol station market in comparison to the European market is the fact that consumer prices for fuels in Germany (*adjusted by tax effects*) only rank in the second half of the statistics³¹. The tax burden for fuels in Germany *presently* provides a relatively unattractive starting market position for investors or petrol station enterprises as compared with international markets (the price position for diesel fuel, place 5 and Eurosuper place 7 from 25)³². If Europe harmonises its taxes in the fuel sector in the medium-term, German petrol station enterprises would fare much better.

3.6. Business Management Development among German Petrol Station Lessees

The analyses below on the business management position of German petrol station lessees is founded on the statistical data of EURODATA. This is a specialised sector service whose evaluations rest upon the business management findings from a total of 6,442 companies (6/2005), 1,383 of which have their principal place of business in the area of former East Germany and 5,059 companies in the area of former West Germany. The development of shop turnover (both in absolute figures and relative to total turnover) merits special attention in this study along with evaluations of the return on sales and gross yield.

³⁰ Refer to statements under Section 3.2.

³¹ Statistics from the Energy Information Service, Hamburg, July 2005 (refer to Annex 4)

³² *ibid*

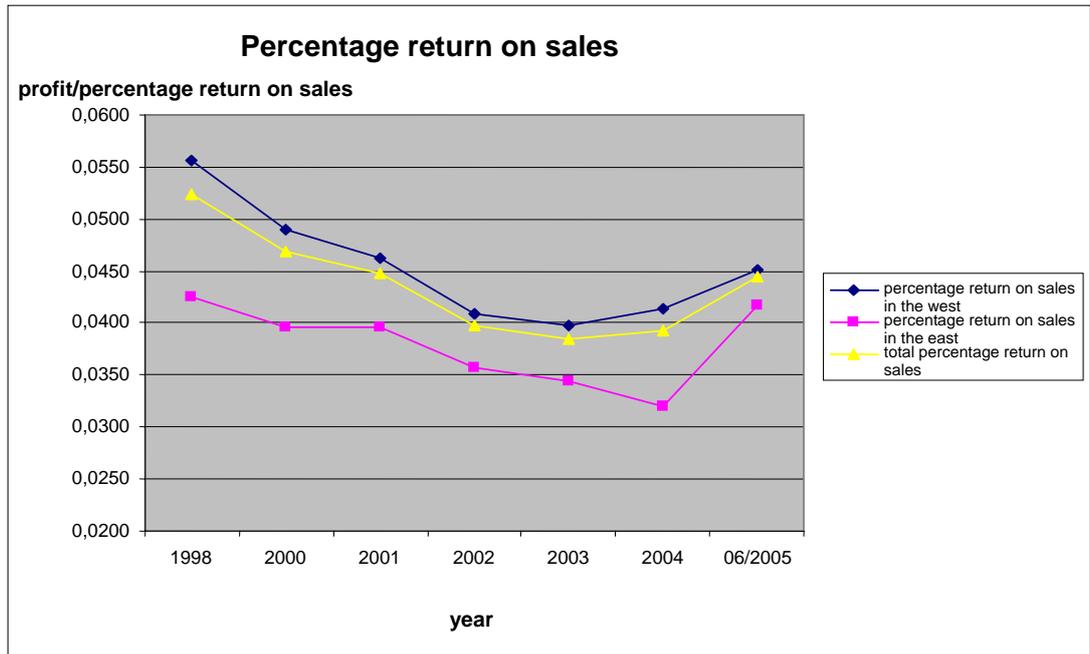


Figure 7 Return on sales, source: EURODATA

The return on sales of the petrol station enterprises recorded by EURODATA indicate that they have stabilised at a total of approximately 3.8% in the period from 2003 through 2004 after a substantial decline in the period from 1998 through 2002 and that they are increasing to just below 4.5% for the first half of 2005. Companies that have their principal place of business in the area of former East Germany have taken a negative yield development in 2004 – in contrast to companies from the area of former West Germany. In the first half of 2005, they were able to catch up again measurably.

An evaluation of the development of gross yield does not indicate any essential differences between the petrol station enterprises with their principal places of business in the east or west of the Federal Republic of Germany. After reaching the pit of the slump in 2003 and recovering in 2004, we are now witnessing another decline to the level of 2003 in the first half of 2005 (see figure 8, following page).

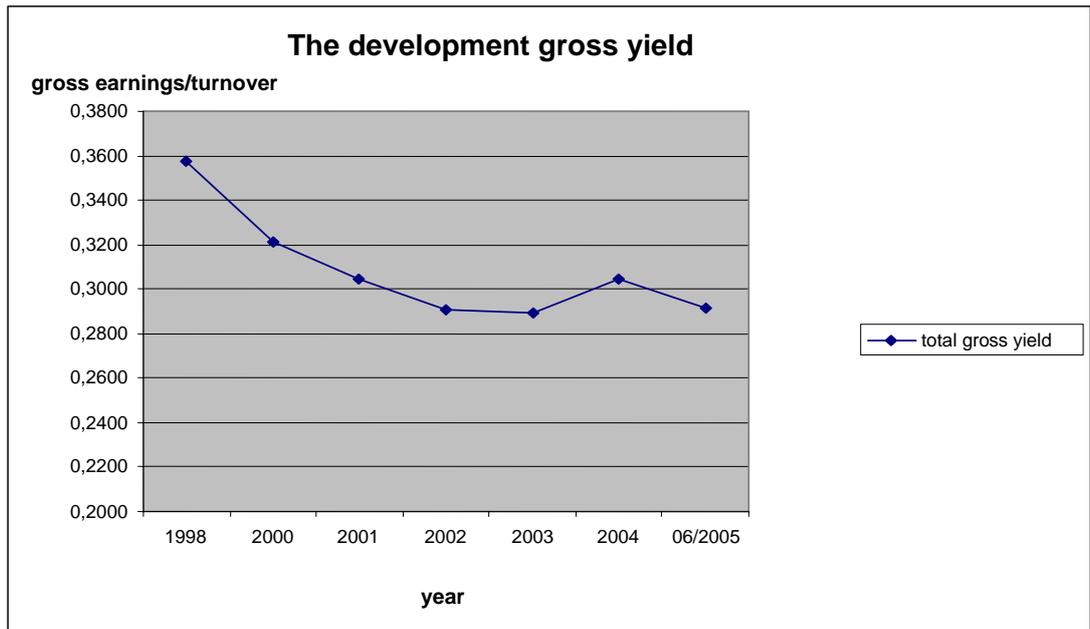


Figure 8 Gross yield, source EURODATA

An analysis of the development of shop turnover in a view of all companies indicates that it has risen from an average of 600,000 euros / petrol station p.a. in 1998 to approximately 800,000 euros / petrol station p.a. in 2003 (+33%). That means that they reached a temporary peak. Unfortunately, a slight decline of turnover could be reported in the area of former East Germany from 2002 to 2003 that has extended onto 2004 in terms of total figures and this has been perceptibly amplified in the area of former East Germany.



Figure 9 Absolute shop turnover, source EURODATA

Shop business turnover has measurably increased in importance relative to total turnover in the period from 1998 through 2004 and – as shown by the graph below – earned an average share of 86% in 2004 (1998: 75%), even if there was a drop to 84% in the first half of 2005. This may be put down to a distinct decline in the proportion of turnover at petrol station operations in the area of former West Germany. It should be mentioned that the major proportion of turnover is also due to the fact that EURODATA statistics only show fuel turnover as net margin / litre without reporting the actual fuel turnover. However, even based on the gross yield (gross earnings), the proportion of the shop business reaches proportions just below 50%³³.



Figure 10 Shop turnover relative to the total turnover, source EURODATA

³³ „Sector Special Petrol Stations“; Federal Association of German of People's Banks and Rural Credit Cooperatives (BVR), October 2005

The key findings:

- The net earnings situation of petrol stations deteriorated rapidly from 1998–2002 over all locations. It stabilised from 2003 and 2004 and improved in the first half of 2005, whereby the yield development differed dramatically in some companies in the area of former West Germany and former East Germany.
- In the first half of 2005, a decline in gross yield can be witnessed to the level of 2003 after reaching the pit of the slump in 2003 and recovering in 2004.
- Shop turnover has reached a dominant share of the business volume of a petrol station, thus measurably reducing the original dependency on developments in crude oil/fuel supplier structures, the automobile industry and individual traffic, although a decline in shop sales emerged in 2004 (as early as 2003 in the area of former East Germany) that also led to a decline in shop turnover of the total turnover in the first half of 2005.
- The foremost factors for assessing the petrol station sector at present and in future are developments in the area of retail trade and structural changes emerging in this area.

4. A Cross-Section of Opportunities and Risks

After the previous section provided an explanation of the structure of the petrol station market, this section will outline the opportunities and risks of this market in greater detail. This will make it necessary to define the terms opportunity and risk for the purpose of this study. An opportunity should be understood as the probability that there will be a positive business event; in contrast, a risk should be understood as the probability that there will be a negative event. Both the opportunity and the risk impact the company from outside whereas the company either has no or only a slight influence on it.

What is important for comprehending these terms is the fact that the added value that a realised opportunity can deliver may not only be of a quantitative nature (i.e., in the form of additional turnover, contribution margin or lowering costs, etc.) It can also take on qualitative characteristics such as enhancing the strategic position by reducing the number of competitors, the profit or the loyalty of efficient employees. This qualitative added value usually has a delayed positive effect on quantitative operating figures in the company. In an analogous fashion, the corresponding interpretation applies to the concept of risk, but in the opposite direction: quantitatively measurable damage could be for example losses to turnover and contribution margin or higher costs. There might be qualitative damage in terms of new competitors etc. appearing on the market.

4.1. Opportunities

4.1.1. The Inflexibility of the Retail Trade

The service trade union *ver.di* that is responsible for the retail trade published an appeal headed by the text "10 Good Reasons for the Legal Shop Closing Times" on its homepage in September of 2004 together with church employee-elected representatives. It discusses *ver.di*'s belief that longer legal shop closing times or their liberalisation

- would not bring any more turnover
- would create additional operating expenditures without additional turnover
- would cause retail trade businesses to be deserted in the vicinity of the city centre
- would favour a "minority of customers" who "think it's fun to shop at any imaginable time" at the expense of persons working in shops, and
- would jeopardise the country's "time prosperity".

ver.di made this statement before the backdrop of the Federal Constitutional Court's decision in June of 2004 to temporarily allow the applicable legal shop closing times to continue to exist. It simultaneously called upon the German federal government to consider

whether the German states should be authorised to extensively reorganise them³⁴. The resulting findings of the coalition task force on reforming federalism on November 7, 2005 accept this recommendation and propose that the legislative authority should be shifted to the German federal states³⁵. Various federal states and the Main Association of the German Retail Trade (HDE) pleaded for legal shop closing times to be completely liberalised on workdays³⁶. HDE directly targets eliminating "competitive distortion in relation to train stations, airports and *petrol stations*".

At present, it is difficult to foresee when and to what extent the advocates of liberalising shop closing laws will be able to assert their views in Germany. However, the resistance from trade unions and church interest groups is anticipated to be substantial, which will continue to favour shops at petrol station operations with their advantageous starting position. At least for Sundays and holidays, there will probably be little change in the long term. Regardless of the discussion on legal shop closing times, experts in this sector estimate that the liberalisation that has already taken place in legal shop closing times will hardly have any impact on the petrol station business.

4.1.2. Simplifying Laws and Regulations

Beyond the inflexibility of the retail trade, there is another opportunity in simplifying statutory regulations. They also cannot be influenced by petrol station operators or only indirectly via their lobby associations, although they have a direct impact on their opportunities. Two examples can be cited from the recent past that have engendered new opportunities for petrol station operators.

The first case refers to selling fresh prepared foods. In Germany, they are subject to a variety of laws that made it impossible for petrol station to feature them until 2003. Previously, food had to be prepared fresh and delivered packaged, but an amendment to the law waived this restriction³⁷. That means that, within certain limits, petrol stations are now allowed to prepare fresh products, thus enhancing their position on the restaurant market. The car wash on Sunday is another example that could be cited. It has been allowed in the German state of Schleswig-Holstein since July 15, 2004. This was made possible by an amendment to the Sunday and holiday law pushed through by the state parliament in Kiel to harmonise the various interests of the private economy, people and churches. "It was necessary to amend the law to ensure the continued acceptance of the constitutionally

³⁴ www.FAZ.NET, 10.6.2004

³⁵ The Results of the Coalition Task Force on the Federalism Reform dated November 7, 2005, II, 4.a., page 11

³⁶ www.FAZ.NET, 10.6.2004

³⁷ Federal Gazette I number 63/1997

guaranteed protection of Sundays and holidays"³⁸. Experts in this sector are also foreseeing greater liberalisation in legalising car washes on Sunday in the German state of Bavaria.³⁹

4.1.3. The Specific Selling Points of Petrol Stations

A key motivation for purchasing foods or basic commodities at a petrol station is the flexibility both in terms of the duration of purchasing and long business hours. Especially younger customers accord the comparably small amount of time required great importance. Experts in this sector believe that customers would be willing to accept as much as an 18.5% mark-up at petrol stations these days, although not queuing up. The availability of parking spaces (that there is a distinct lack of in big cities and areas of industrial concentration) is a compelling argument for shopping at a petrol station since they often have parking areas nearby. This is the reason why petrol stations have continually expanded their range of goods and services in the last few years, which becomes apparent when we cast a glance at burgeoning shop sizes⁴⁰. Cashpoint machines, letterboxes, even selling non-food articles such as CDs and lottery and football pool coupons have ceased to be a rarity these days.⁴¹ Other affiliated business fields ranging from car rental, baked goods shops, coffee shops, bistro corners, fast-foods and even internet cafés would be conceivable for petrol station shops and some are already being launched.⁴² Not only petrol station entrepreneurs, but also their business partners in the shop and add-on business have recognised this situation. As a matter of fact, the convenience product manufacturer and petrol station system supplier Lekkerland-Tobaccoland⁴³ formulates the foundation of his corporate policy as follows: „Convenience is our business; fast and convenient shopping anywhere and anytime“.

It goes on to say that the key factor for the success of convenience shops is "not only the location, availability and particularly the business hours, but also how sales are handled". "The more anonymous everyday life becomes, the more emotional factors play a role when going shopping. Consumers yearn for spontaneous communication and friendliness" and the range of products offered by the system suppliers and the way they approach customers at the point of sale appeals directly to this expectation of customers.

Furthermore, petrol stations and their range of products are extremely well suited to customer loyalty programmes considering the regularity of customers frequenting petrol stations and the extreme interchangeability or lack of differentiation of fuel as a product. They can be broken down into two categories: price-oriented loyalty programmes (that give

³⁸ Ulrich Lorenz, State Secretary of Schleswig-Holstein, according to www.carwashinfo.de

³⁹ Draft statute for amending the holiday law and needs trade ordinance, www.stmi.bayern.de

⁴⁰ „Petrol station shops are losing customers for the first time“, *Handelsblatt*, May 15, 2003

⁴¹ *ibid.*

⁴² „Sector Special Petrol Stations“; Federal Association of German of People's Banks and Rural Credit Cooperatives (BVR), October 2005

⁴³ Homepage: www.letob.de

customers lower prices immediately) and non-price-oriented loyalty programmes. The latter give indirect benefits in the form of bonus programmes such as getting commodities at a lower price or free if they reach bonus point limits. However, these programmes are very heterogeneous all over Europe. While these programmes are highly developed in England and Norway, they were only rolled out in the last few years in Germany⁴⁴. In the meantime, they have been expanded on a regular basis and they have become a permanent fixture in the world of the petrol station sector.

Bonus programmes not only have the intension of boosting customer loyalty to a brand name, they also offer the possibility of registering and analysing the customers' driving behaviour. This makes it possible to select and systematically appeal to frequent car users, the A customers of a petrol station. Some petrol stations that are not affiliated with groups and cut-rate suppliers consciously forgo these marketing concepts, preferring to pass on lower fuel prices directly⁴⁵. Beyond this, they focus on personally appealing to their customers and personal customer service for sustained customer loyalty.

⁴⁴ Constanze Nüsperling and Joachim Rotering: Developmental Trends and Challenges for the Petrol Station Market in Germany and Europe , Tankstellenmarkt October/November 2002, page 30 ff.

⁴⁵ Moring, A. in: Hamburger Abendblatt dated November 19, 2005

4.2. Risks

4.2.1. Procurement and Operating Risks

During the two oil price crises in 1973 and 1978, the price for crude oil multiplied many times within a very brief period of time (see the graph). This not only resulted in an analogously massive rise in the prices for petrol. This also put the mineral oil sector in the centre of global interest for assessing the international economic situation. Simultaneously, price hikes in this area are tantamount to jeopardising the business activities of an economy or economic region. This is the reason why consumers, mass media and political representative react extremely sensitively to price movements in this sector, particularly if the causes cannot be clearly identified or can be explained with burgeoning raw material prices or shifts in currency relations.

The oil price crises of the 70's are history. However, the trend towards destabilisation of the political situation in many regions of the world since 2001 due to international terrorism and the increasing frequency and intensity of natural catastrophes has constituted an ever-increasing threat to the stability on the international raw commodity markets. This is precipitated in a distinct increase in volatility of the price level. Beyond this, the demand for raw materials has been on the rise for years particularly due to growing Asian states and that has spurred a higher price level on the markets for crude oil and fuel products.

Studies have not borne out the thesis that consumers react to this by sustainably cutting back expenditures such as reducing driving. Admittedly, 2003 is witnessing a slight decline in driving for all German passenger cars and trucks. That is not surprising considering driving hit a new peak in 2004 at 697 billion kilometres. Average motor vehicle consumption only dropped slightly in 2004 and the overall fuel consumption is +1.6% higher⁴⁶.

⁴⁶ DIW Berlin, Wochenbericht, 37/2005

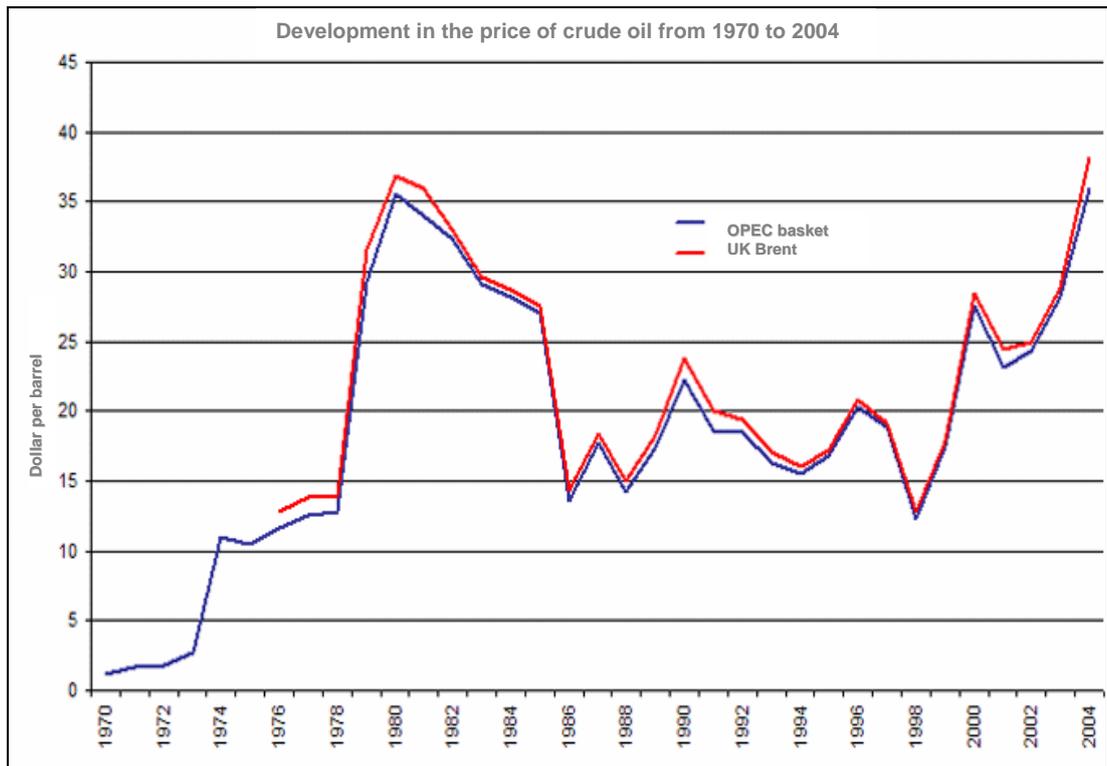


Figure 11 The development of crude oil prices 1970-2004, source MWV, December 19, 2005

Crude oil price movements are a pivotal business management risk of petrol station enterprises both in the form of a procurement risk and marketing risk. Granted, companies that have signed fixed distribution contracts are exempted from this margin risk. But, they still have to bear the marketing risk that can lead to losses in turnover if petrol stations raise their prices significantly due to temporary reticence in consumer demand. On the other hand, companies that have not signed fixed margin agreements cannot pass on all of the higher prices to the final customer incurred by them for purchasing commodities due to competition. They not only have to accept sales risks, but also reductions in margin. However, this risk has to be seen in the framework of the opportunity of earning higher yield in times of normal price movements.

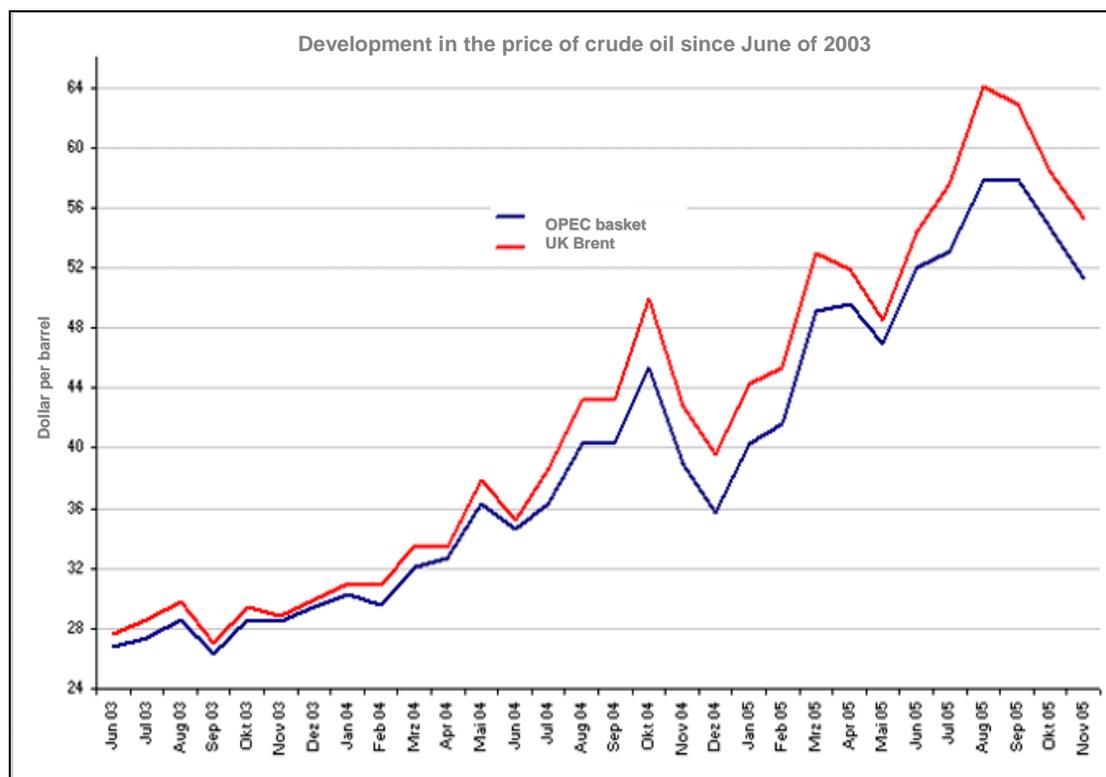


Figure 12 The development of crude oil prices from June of 2003 to November of 2005 on a monthly average, source MWV, December 19, 2005

The cause for these margin and sales risks, i.e. the fluctuations in crude oil prices, have come to the fore in the last few years, but particularly in 2005. The crude oil price reacts increasingly sensitive to specific political events and crises due to the global political situation that has become exacerbated in the last few years (refer to Figure 11 and Figure 12).

Beyond external and global developments, there are other operating risks for petrol stations arising from the peculiarities of the business operations and particularly the characteristics of petrol station products. Any risks from environment hazards were eliminated in the past by putting safeguarding measures into place which was uniformly completed throughout the petrol station sector in 2000. Regular checks carried out by independent watchdog organisations (such as TÜV or Dekra) and supervisory offices (such as the trade and hygienic supervisory offices) and compliance with the legal standards such as the Bundesimmissionschutzgesetz (the Federal Pollution Control Act), the Landeswassergesetz (the State Water Act), the Hygieneverordnung (the Hygienic Ordinance), the Gefahrstoffverordnung (Hazardous Substance Ordinance) minimise this business risk. Beyond this, the usual operating risks are covered by insurance policies where

it is important to provide an extensive description of risks to correspondingly insure their probability of occurrence.

4.2.2. Social Changes

Companies do not have the power to influence social developments so that they have to be classified as external givens. The current forecast population calculations from the Federal Statistical Office indicate that the average age of the population in Germany will persist in rising in the coming decades, sparking a trend towards higher age among petrol station customers.⁴⁷ A study of Shell Deutschland Oil also arrives at this conclusion while predicting a further increase in the groups of female customers.⁴⁸ These demographic changes may also trigger some changes in the needs of the (petrol station) clientele and the demand for petrol station products and services that could be difficult to predict. Given the range of products and the peculiarities of the shop clientele (where especially younger customers have a high degree of acceptance for this range of products), an initial assessment would have to classify them as a risk. Admittedly, the demographic factors require more substantial investigation to be able to analyse the potential opportunities involved in particular for the petrol station sector. This would primarily include the needs of older customers and what conclusions could be drawn for the range of products and services.

Society is also constantly in flux in terms of environmental policy. Years ago, issues such as environmental protection and pollution were only accorded minor importance for society at large. However, today, people are much more sensitive to these issues. This becomes particularly apparent in terms of health issues that have increasingly come to the fore and forced petrol station operations to undertake major new investments in the past. This won't be any different in future. It should also be kept in mind that social trends change. An example is the fact that it is "in" these days to make a certain proportion of purchases at a petrol station or using it as a service or snack point. Needless to say, it cannot be ruled out that this trend might take a negative turn in future.

4.2.3. Technological Innovations

It is likely that there will be a decline in the overall fuel consumption from a present 33 to 27 million tonnes in the coming 25 years⁴⁹. This decline is derived from several model scenarios that can primarily be attributed to technological improvements that enable engines to consume less fuel. Beyond this, new inventions and improvements might make it possible

⁴⁷ „Germany's population to 2050“, Wiesbaden-based Federal Statistical Office, 2003

⁴⁸ „Flexibility dictates motorisation – Shell PKW Scenarios to 2030“, Shell Deutschland Oil , 2004

⁴⁹ „Flexibility dictates motorisation – Shell PKW Scenarios to 2030“, Shell Deutschland Oil , 2004

to build cars driven by other energy sources. This development could jeopardise the number of petrol stations in the long term if they do not feature these new energy sources. This would involve the burdens and risks from financing investments for purchasing.

At present, only 30,000 natural gas vehicles and 41,000 gas-fired vehicles are registered⁵⁰ in Germany. Measured in terms of 48.9 million cars⁵¹ (the total motor vehicles currently on the road), this is an entirely unassuming quantity. Other alternative drive strategies (such as LPG, biodiesel or hydrogen) present a risk to the sales of conventional fuels, although they may also be construed as an opportunity for maintaining petrol station enterprises for the future. After all, natural gas is offered by 3.9%, LPG by 5% and biodiesel by 12.2% of petrol stations⁵².

4.2.4. Changes in the Legal Framework

Developments in taxation merit particular attention because they can engender a disproportionately large burden on the assortment of the petrol station's products in comparison to other (commercial) sectors. They can also augment their business risk, particularly if there are more extensive specific burdens.

⁵⁰ Flüssiggas, Issue 6, 2005, Strobel Verlag, Arnsberg, page 3

⁵¹ Figures from VDA Association of the Automobile Industry, Frankfurt for 2004 (including utility vehicles)

⁵² Energy Information Service 31/05

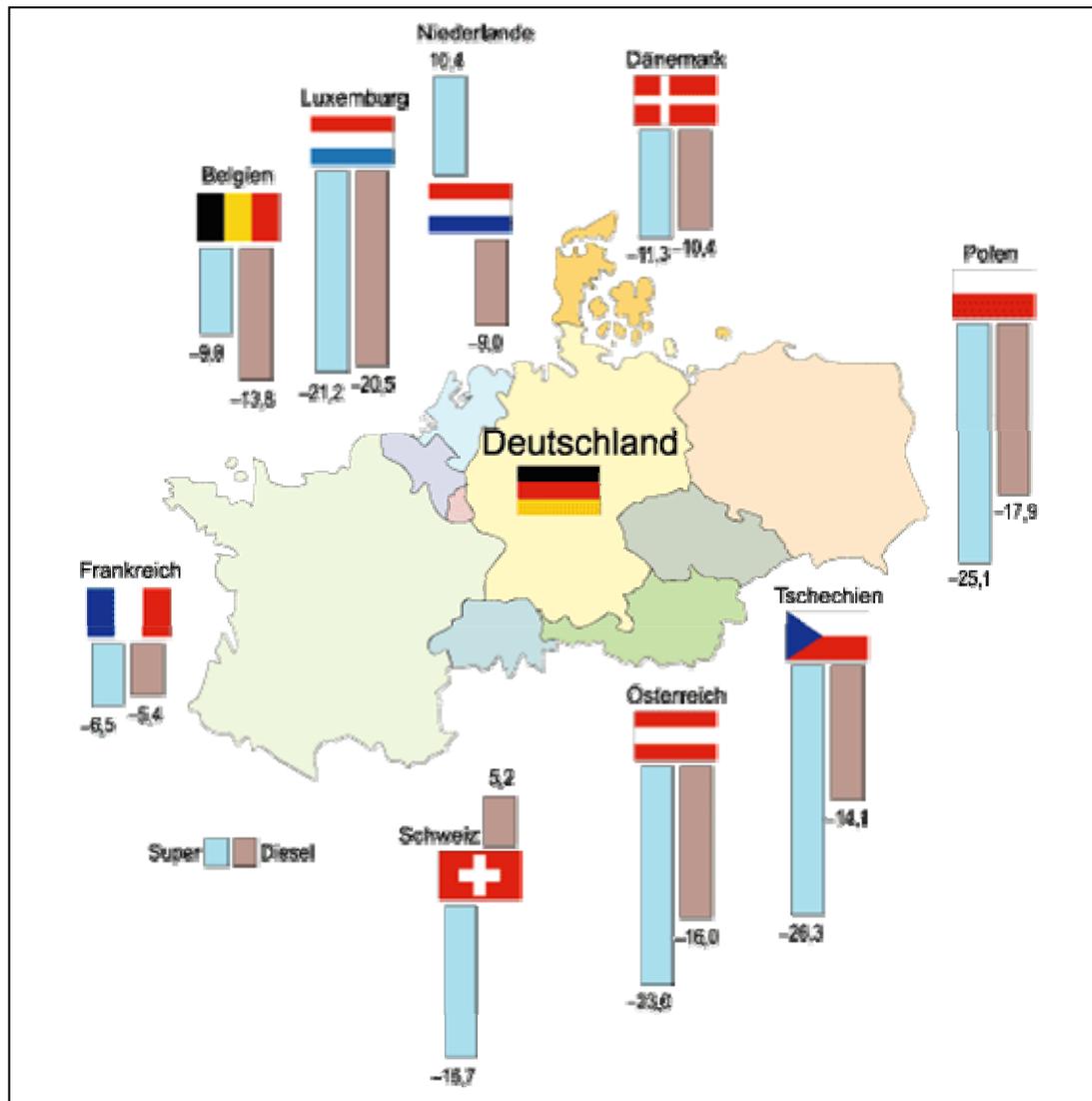


Figure 13 Differences in mineral oil taxation; information given in cents/litre, source MWV; March of 2005

Of primary importance for the petrol station sector is the mineral oil tax. This was drastically raised in the framework of what is known as the Ecological Tax Reform in Germany. An information sheet issued by the Federal Ministry for the Environment, Conservation and Reactor Safety⁵³ states:

"With the Ecological Tax Reform, the federal government is advancing the agenda of stimulating people to save energy and use energy efficiently while promoting regenerative energies".

⁵³ The Ecological Tax Reform: Start, Continuance and Continued Development for an Ecological Financial Reform, Federal Ministry for the Environment, Conservation and Reactor Safety, Stand February 2004

This agenda has found its expression in the several rises in the mineral oil tax rate (in 5 phases since April 1, 1999). The burden from mineral oil tax for diesel and petrol fuel has risen 15.34 euro cents/litre altogether since March 31, 1999. The petrol station associations take the view that the Ecological Tax Reform has only exacerbated the problem of fuel tourism without leading to a greater reduction in consumption.⁵⁴ At present, there is no reason to believe that the new German federal government that has been in office since November of 2005 will make any fundamental changes in tax policy. The agreement regulating the coalition policy between the parties CDU, CSU and SPD has the following to say on the issue of energy taxes: "Germany is a centrally located state in the European domestic market that has a pre-eminent interest in accelerating the harmonisation process in energy taxation in the European Union. We will work towards simple and transparent regulations. Given the high energy prices, it is important not to impair the international competitiveness of the energy-intensive private economy."⁵⁵

Apart from ecologically motivated tax rises or tearing down (tax) law privileges, other changes in legislation may have a burdensome effect on the business foundation of a petrol station operation. Some prime examples are the extension of legal shop closing times currently under debate, the deposit laws ushered in on disposable beverage packaging in 2003 or changes in the taxes on tobacco products motivated by fiscal policy. The consequences of these measures are drastically exacerbated because they are relatively surprising and experts in this sector are not sufficiently consulted in technical implementation.

4.2.5. Price-Dominated Purchase Decisions

Fuels are numbered among the homogenous commodities that do not differ from one another or only to a minor extent. Hence, there is hardly any way to distinguish the product from others. However, markets not only differ in terms of their products, but also in terms of the price. In other words, similar commodities are offered at lower prices. Since a myriad of commodities are very homogenous these days, a differentiation strategy is increasingly applied with some examples being the "Geiz ist Geil" ("Cheapskates are Cool") campaign of the Saturn electronic chain stores and the "Jubelpreis" ("Exciting Price") offensive of Media Markt in the same sector. However, a strategy akin this for selling fuel would be all out proportion considering the very tight calculations.

Something else that exacerbates this situation is the fact that the tax load on fuels is not uniform throughout the European Union. That has engendered increasing fuel tourism into neighbouring foreign countries where there can be as much as a 15 euro difference per full

⁵⁴ also refer to Section 4.2.1.

⁵⁵ Coalition agreement between CDU, CSU and SPD dated November 18, 2005, page 72

tank. That would mean that a lot of petrol station operators would have to close their businesses. 200 petrol stations have closed in the vicinity of the border to Austria alone in the past two years. The idea of ushering in a price reduction for persons living near the border in purchasing fuel has been under discussion since 2004 as a way to prevent fuel tourism. To date this has not been implemented, but it continues to fuel the political debate.

The dominance of the price factor in purchase decisions could gain in significance in future since experts in this sector assess that consumers' sensitivity towards prices has been escalated even more since the last price hikes from crude oil in autumn of 2005. This dominance of the price factor could even take hold of the shop business. After all, very few buyers would be prepared to spend more money on shop articles at today's prices for petrol.

4.2.6. The Development of Margin

In spite of some significant price movements for fuels in past years, the margin situation for petrol station enterprises (i.e., the selling price per litre less the product purchase costs and mineral oil taxes) has not changed recognisably.

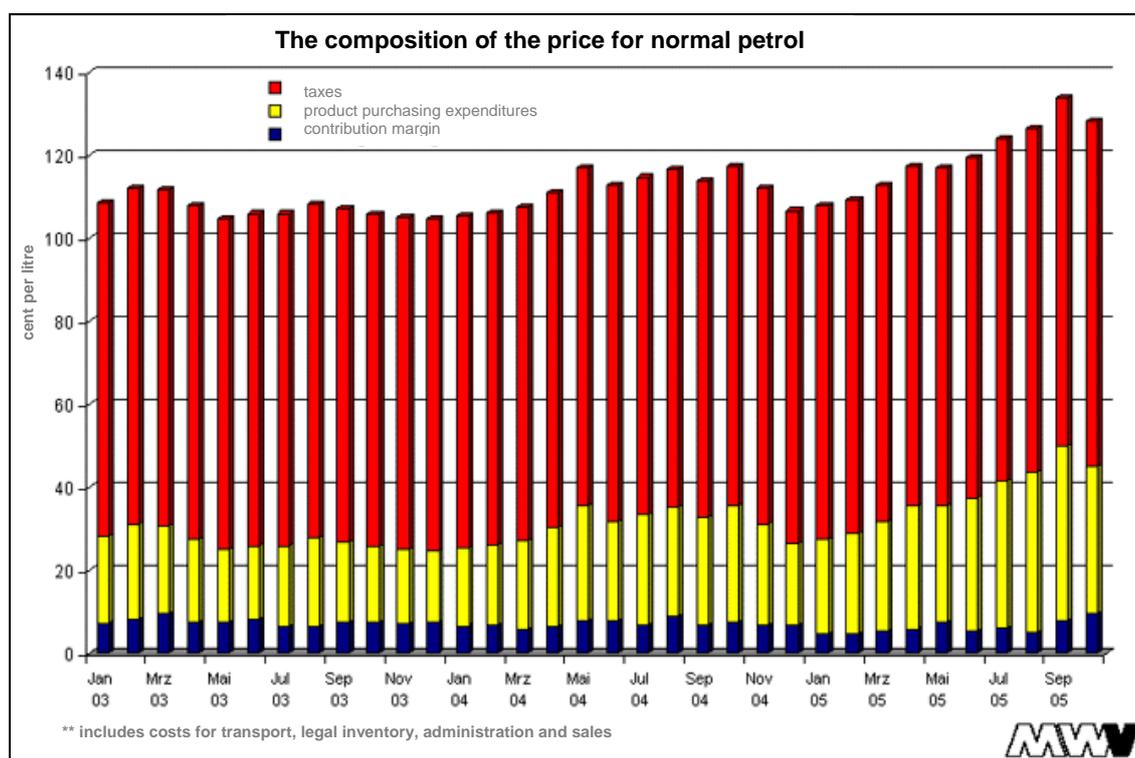


Figure 14 The composition of the price for normal petrol, source MWV, 2005

After stable margins in 2003 and 2004, a declining development has emerged particularly since Q1 2005 even though the picture brightened up in Q2 again⁵⁶. German petrol station enterprises are in last place in terms of the margin situation in comparison to their European neighbours⁵⁷. It is primarily the operating costs of companies that dictate the return on sales of petrol station enterprises, although special local competitive situations can cause temporary reductions in the profit margin. This is the reason why the types of operating costs below merit a higher degree of attention due to their price development or they are subject to greater risk of a price increase:

- forwarding expenses (road toll and fuel prices)
- energy expenditures
- charges on bank guarantees
- service charges for technical installations (such as the recent law imposing the requirement of expert explosion reports)
- insurance expenditures, and
- shrinkage costs (the higher acquisition cost for fuel)

⁵⁶ EID 31/05, page 8

⁵⁷ *ibid.*, page 30

5. The Criteria for Success for Small- and Medium-Sized Entrepreneurs on the Petrol Station Market

5.1. Quantitative and Qualitative Criteria

Business management success for a petrol station enterprise (i.e., the best possible utilisation of the entrepreneurial opportunities described or avoiding risks to the widest possible extent) can be seen in the net earnings and balance sheet indicators of any company. Section 3 described the current business management situation of the petrol station sector in detail based on the EURODATA statistics. Although EURODATA statistics reflect a variety of subgroups of petrol station enterprises according to size and geographic location, it still only supplies a general cross-section of the sector. The subsequent report will supply diversified ways and aids to classify individual petrol station enterprises in terms of both a quantitative and qualitative comparison within the sector. It will start with a cross-section of the essential asset and revenues position indicators and the corresponding indicators within the sector:

financial position	calculation	within the sector
		sector values in turnover classes in million euros (statistical data of the Deutsche Bundesbank the retail trade including motor vehicle trade and petrol stations) <2.5 / 2.5 – 50 / >50
tangible fixed assets to turnover	tangible fixed assets/sales revenues	0.106 / 0.083 / 0.053
stocks to turnover	stocks/sales revenues	0.163 / 0.139 / 0.091
trade debtors to turnover	trade debtors/sales revenues	0.057 / 0.054 / 0.035
equity ratio	equity capital/total of accounts receivable	-0.061 / 0.139 / 0.219
trade creditors to material expenditures	trade creditors/material expenditures	0.149 / 0.093 / 0.082

revenue position	calculation	within the sector
		sector values in turnover classes in million euros <2.5 / 2.5 – 50 / >50
equity return (after taxes)	profit (after taxes) /equity capital	-1.421 / 0.223 / 0.226
return on total capital employed	[profit (after taxes) + interest expenditures for current year] /total of accounts receivable	0.133 / 0.062 / 0.068
return on sales	profit (after taxes)/ sales revenues	0.035 / 0.011 / 0.016
financial position/	calculation	within the sector
fixed-assets-to-net-worth ratio A	equity capital/fixed assets	-0.226 / 0.553 / 0.749
fixed-assets-to-net-worth ratio B	(equity capital + long-term liabilities + long-term accruals)/fixed assets	1.358 / 1.350 / 1.189
degree of liquidity 2	(receivables and other assets + securities in current assets + cash on hand, checks and bank balances) /liabilities to 1 year	0.541 / 0.561 / 0.764
degree of liquidity 3	current assets / liabilities to 1 year	1.222 / 1.217 / 1.290
EBIT times interest earned ratio	(profit before taxes + interest expenditures) / interest expenditures	3.211 / 2.448 / 4.271
short-term intensity of indebtedness	liabilities to 1 year /(total liabilities – liabilities to 1 year)	1.434 / 3.469 / 6.438

Figure 15 Indicators and comparative figures within the sector, source Prof. Dr. Schneck Rating GmbH

With the above selection of quantitative operating figures and the corresponding comparative figures within the sector, what should be kept in mind is the fact that they also provide a way to quantitatively categorise the business management success of a petrol station enterprise within the sector. Unfortunately, they do not supply any meaningful statements comparable to individual ratings.

In contrast to the procedure of comparing within a sector as described above, a rating process will be applied to supply an absolute evaluation of the operating figures in terms of creditworthiness and not by comparing them with other sector enterprises. In other words, a petrol station enterprise with an equity ratio of 20% may be at the top of its sector in relative terms. But, rating criteria may still rate it as a comparably unstable company with just enough capital reserves. Ultimately, rating a company supplies a more meaningful statement than comparing a company within its sector, since the latter always provides a relative value.

For instance, to achieve the BBB rating class, the measures for

- return on total capital employed are in the area of $> 12.0\%$
- EBIT times interest earned is ratio in the area of > 2.8
- degree of liquidity $3 > 1.9$

with central balance sheet indicators for petrol station enterprises. The BBB rating class (Standard & Poors' rating system, one of the leading rating agencies in the world) includes companies that just make what is known as the "investment grade" according to international capital market investment criteria. That means that there is a comparably greater likelihood that they will fail from the point of view of investors/shareholders, although they are not yet considered speculative financial investment.

It is not only the quantitative measuring parameters that are of importance, but also the analysis of qualitative criteria both when assessing a company in comparison to others in its sector and when rating it. They will be dubbed the factors for success below and described in keywords. The factors for success are the instruments and necessary equipment that the petrol station entrepreneur can directly or indirectly influence the application and installation of. These factors can maximise the probability that entrepreneurial opportunities will appear or minimise the probability that risks will appear. How many entrepreneurs apply and utilise these factors for success (and to what extent) for guiding and developing their company is vital for assessing the long-term success, financial power and anticipated entrepreneurial success of the petrol station sector in its entirety. Given these facts, it makes sense that the profile of opportunities and risks of a petrol station differ individually depending upon to what extent its owner or management is orientated towards success.

5 essential factors for success have been identified for petrol station enterprises:

1. the quality of the location
2. the commercial expertise
3. offensive and systematic marketing
4. a wide range of services; additional business
5. petrol station entrepreneurs being prepared to pool their talents.

A keyword description of the factors for success was attached in Annex 7.

The graph below shows what importance each of these factors has for the petrol station enterprise's overall success and to what extent the single entrepreneur can objectively implement or even influence these factors for success.

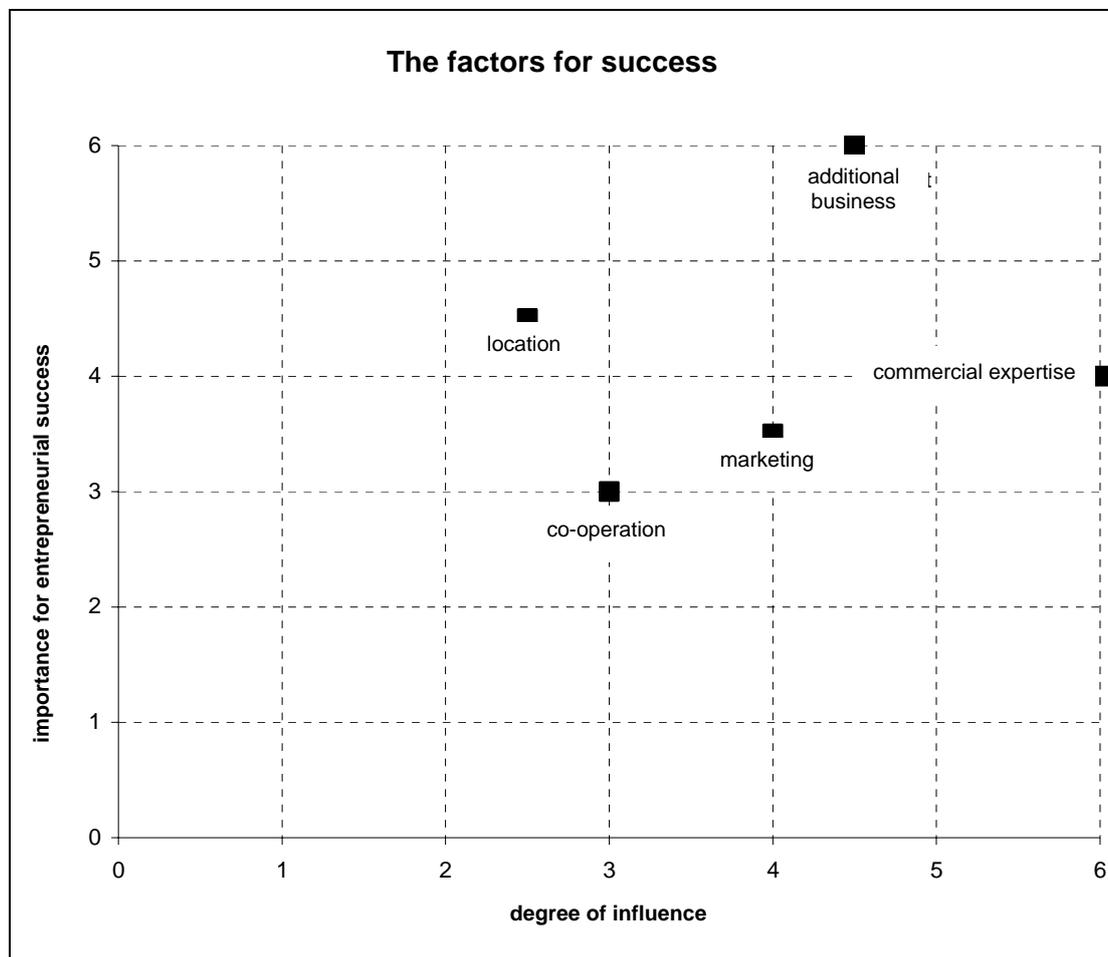


Figure 16 The factors for success in the petrol station business; source: internal figure

These factors for success are classified in terms of their significance based on the extent to which each of these factors for success can bring about a

- direct,
- short-term, and
- key

positive change in the revenue and financial position of the company. The higher the value, the greater is the impact on business management success. To what extent these factors for success can be implemented or influenced was defined by the amount of

- time,
- financial resources/investments and
- strength of leadership/entrepreneurial talent

required to put the company on track for success. A comparably small amount of time and effort means that these factors for the success can be easily influenced. This is represented

by a correspondingly high score on the figure. Each rating dimension contains no more than 6 points. This evaluation was carried out in consultation with experts in this sector. Entering these factors for success into the dimensions representing "significance for entrepreneurial success" and "extent of influence" enables us to conclude that the factors for success on the upper right-hand half of the graph (5.5. "wide range of services, including additional business" and 5.2. "commercial expertise") should be in the focus of the petrol station sector. They tend to be of greater significance for the economic success of their member companies and they can more easily influence and implement them.

5.2. Peculiarities of the Petrol Station Sector Having an Impact on Success

Three special factors have been identified that have a crucial influence on the analysis of the petrol station sector apart from the criteria for success described under 5.1. that dictate the long-term success and financial soundness of petrol station enterprises. These facts deserve particular attention since they have generally not been taken into account by standard analyses of company ratings, shifting ratings to the disadvantage of each petrol station enterprise:

- mineral oil tax
- current assets (marketability of goods in stocks), and
- trade debtors

5.2.1. Mineral Oil Tax

The sales revenues reported in the profit and loss account and the inventories of petrol station enterprises in the balance sheet contain approximately 70% of mineral oil tax. That has constantly increased due to the development of the mineral oil tax in the past (refer to the graph below).

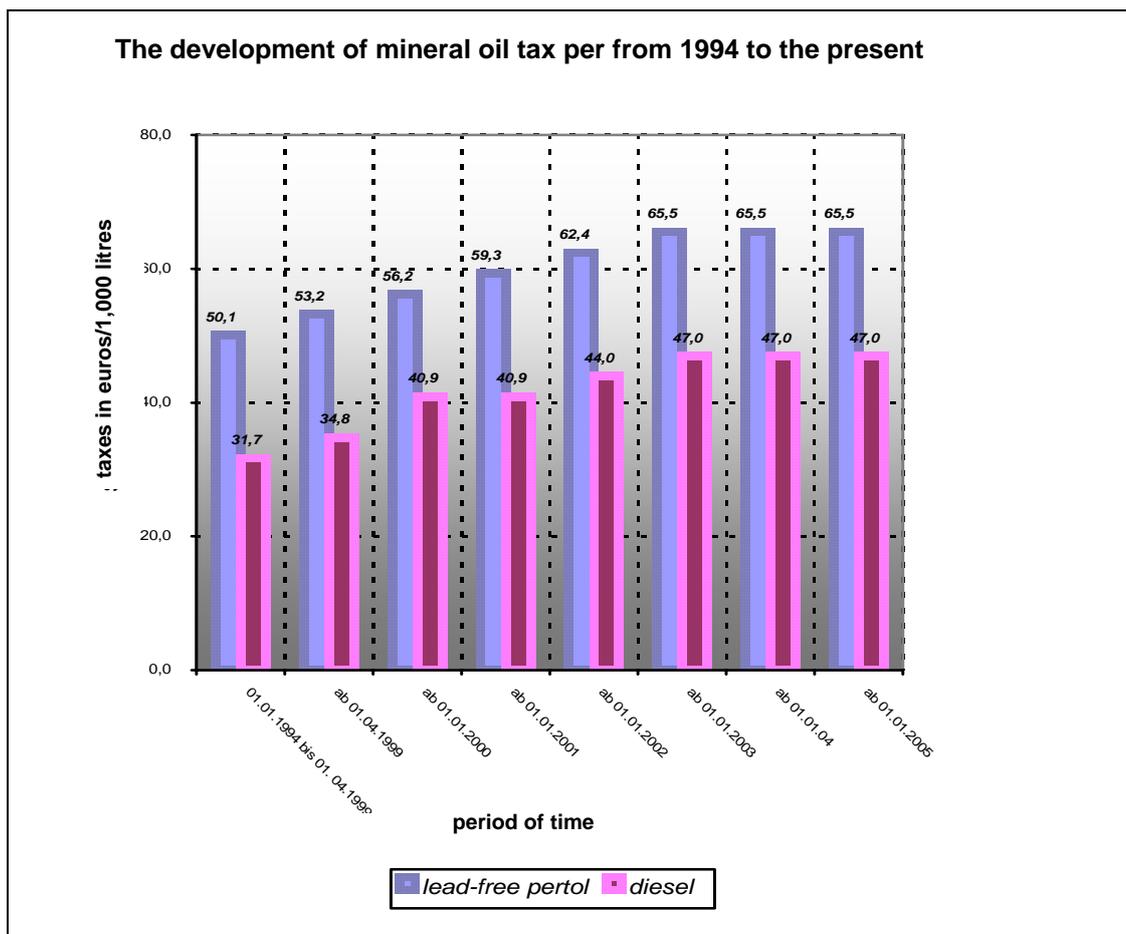


Figure 17 The development of the proportion of tax per litre of fuel, source: MWV Stand 2005

The drastic increase in the proportion of mineral oil tax in the sales revenues and current assets in the long term has measurably shifted balance sheet indicators and yield indicators with an impact on ratings to the disadvantage of petrol station enterprises. The balance sheet extension automatically reduces the equity ratio of this company. Furthermore, the tax-related inflation of the volume of turnover reduces the company's return on sales and return on total investment. All things remaining constant, that means that petrol station enterprises would be able to achieve a better rating without the significant mineral oil tax boosts of recent years.

5.2.2. Current Assets

The fuel stocks allocated to current assets (petrol, super and diesel) are real fast movers; this commodity turns over within 3-5 days while only having a minor marketing risk at current prices. Usually, this circumstance is not adequately taken into account in the

quantitative and qualitative analysis of the current assets of petrol stations or it is not included in the standard rating analysis to improve creditworthiness as it should. Something similar applies to the current assets of the petrol station shop that normally also consists of 90% of fast moving retail trade articles (such as tobacco articles). Finally, stocks of lubricant also have a similarly low marketing/liquidating risk as the fuel stocks.

5.2.3. Trade Debtors

A significant proportion of the stocks of claims of a petrol station enterprise consist of valuable accounts receivable arising primarily from monetary transactions with debit (EC card) and credit cards (Visa, Euro, Amexco or Diners) as well as credit cards from the diesel business (accounts receivable towards DKV, Shell or BP). That means that approximately 60%-80% are guaranteed accounts receivable from transactions with banks and large accounts with an excellent credit rating. Accounts receivable to petrol station lessees are covered with bank guaranties, land charges or passbooks. This fact is also not adequately taken into account or it is not included in the standard rating analysis to improve creditworthiness as it should.

6. Analysis

A diversified analysis of the petrol station sector according to potential for opportunities and risks as well as the criteria for success indicates that it is not justified to underrate this sector in a sweeping estimate – as is the habit of most of analyses of this sector made to date. There is no doubt that this sector is continually exposed to specific and significant risks. However, the investigation of opportunities and criteria for success shows that petrol station entrepreneurs operating on sound commercial guidance, skilled marketing and business field strategies deserve to be seen as companies with multiple opportunities on track for the future that could be worthwhile, profitable and stable investment for equity capital providers and lenders. They should be seen less as trading firms specialised in fuels and lubricant that are dependant upon mineral oil groups and the development of crude oil prices. What should be kept in mind here is the fact that petrol station enterprises and their business segment focus should be perceived to a greater extent as versatile and innovative service and trading firms at high-profile frequently visited locations than has been expressed in a number of sector analyses. In the final analysis, the increasing investments made by international petrol station enterprises in the framework of restructuring the German market demonstrates that various market players in Germany have a positive assessment of the future perspectives of this sector assuming that a vigorous programme of the factors for success specific to this sector are applied and installed.

The investor will always have to study each individual company in detail and apply her or his knowledge of sector and business models to deliberate whether this company uses or can use its entrepreneurial latitude for action to maximise the opportunities specific to this sector and minimise the known risks. *The petrol station entrepreneur* will have to ensure the data transparency required for an adequate analysis. That means describing the status quo and future perspectives of the company and overall market in detail both quantitatively and qualitatively. The key motivation of this sector study is creating a basis that will be instrumental in meeting these challenges.

Annexes:

Annex 1: The Development of the Number of Petrol Stations in Germany

Sources: The Hamburg-based Energy Information Service, the Gesellschaft für Nebenbetriebe der Bundesautobahnen mbH (GFN) and calculations of the Mineralölwirtschaftsverband e.V. (December 6, 2005) www.mwv.de

The Development of the Number of Petrol Stations			
<i>year</i>	<i>number</i>	<i>year</i>	<i>number</i>
1950 ¹⁾	18,200	1991	18,958
1955 ¹⁾	24,029	1992	18,836
1960	33,743	1993	18,464
1965	44,614	1994	18,300
1970	46,091	1995	17,957
1971	44,352	1996	17,660
1972	43,693	1997	17,066
1973	42,054	1998	16,617
1974	37,195	1999	16,404
1975	34,804	2000	16,324
1976	32,940	2001	16,068
1977	31,296	2002	15,971
1978	30,196	2003	15,770
1979	28,681	2004	15,428
1980	27,528		
1981	26,237		
1982	24,586		
1983	22,410		
1984	20,642		
1985	19,781		
1986	21,647		
1987	20,817		
1988	20,243		
1989	19,859		
1990	19,317		

¹⁾ Motorway petrol stations were not recorded until 1956

Annex 2: Petrol Stations in Germany According to Companies

Source: The Hamburg-based Energy Information Service; Mineralölwirtschaftsverband e.V.
(December 6, 2005) www.mwv.de

	Jan 1 1999	Jan 1 2001	Jan 1 2003	Jan 1 2004	Jan 1 2005
Aral	2,418	2,395	2,393	2,699	2,567
Shell	1,616	1,515	1,432	2,393	2,230
DEA	1,623	1,681	1,635	under Shell	under Shell
Esso	1,440	1,385	1,351	1,328	1,272
BP	1,129	958	914	under Aral	under Aral
Elf/Minol	603				
Fina	323				
Total	186				
Total		1,056	1,054	1,106	1,156
Avia	819	680	618	763	814
ConocoPhillips(Jet)	626	710	750	751	739
Agip	403	388	377	595	682
Orlen				492	494
OMV	15	81	116	386	382
HEM-Tamoil	212	223	199	220	236
Westfalen	174	177	207	215	216
OIL!*			180	190	198
Beckmann (Q1)				124	136
Baywa	107	106	106	104	113
Kuwait Petroleum	55	74	89	94	91
Calpam	78	74	76	74	66
Eller Montan	49	44	41	40	40
Score	39	36	38	37	37
SVG	18	16	16	14	12
Eggert (EM)	105	169	169		
Freie (BfT)*	1,618	1,726	1,515	1,569	1,542
miscellaneous	2,961	2,830	2,695	2,576	2,405
total	16,617	16,324	15,971	15,770	15,428

*The petrol stations of BfT and OIL! are generally reported together.

Annex 3: The Composition of the Consumer Price for Normal Petrol

Source: Federal Statistical Office, The Hamburg-based Energy Information Service; calculations of Mineralölwirtschaftsverband e.V. (from December 7, 2005) www.mwv.de

	consumer price Ct/l	product price Ct/l	mineral oil tax Ct/l	value-added tax Ct/l	contribution margin* Ct/l
Jan 01	95.8	19.8	59.3	13.2	3.4
Feb 01	102.5	21.7	59.3	14.1	7.4
Mar 01	102.3	20.8	59.3	14.1	8.0
Apr 01	104.4	25.5	59.3	14.4	5.3
May 01	110.1	28.0	59.3	15.2	7.5
Jun 01	106.4	22.3	59.3	14.7	10.1
Jul 01	100.5	19.6	59.3	13.9	7.7
Aug 01	99.1	19.9	59.3	13.7	6.3
Sep 01	100.8	20.5	59.3	13.9	7.0
Oct 01	95.3	16.4	59.3	13.1	6.4
Nov 01	93.1	15.2	59.3	12.8	5.7
Dec 01	92.6	14.0	59.3	12.8	6.5
Jan 02	96.1	15.1	62.4	13.3	5.3
Feb 02	98.0	15.4	62.4	13.5	6.7
Mar 02	101.5	18.7	62.4	14.0	6.5
Apr 02	106.8	21.5	62.4	14.7	8.2
May 02	104.7	20.1	62.4	14.4	7.7
Jun 02	103.6	19.0	62.4	14.3	8.0
Jul 02	103.4	19.5	62.4	14.3	7.3
Aug 02	104.1	19.9	62.4	14.4	7.4
Sep 02	105.5	20.9	62.4	14.6	7.6
Oct 02	106.0	20.6	62.4	14.6	8.4
Nov 02	101.9	17.5	62.4	14.1	8.0
Dec 02	102.1	19.5	62.4	14.1	6.1
Jan 03	108.7	20.9	65.5	15.0	7.3
Feb 03	112.2	22.9	65.5	15.5	8.3
Mar 03	111.8	21.2	65.5	15.4	9.6
Apr 03	107.9	20.0	65.5	14.9	7.5
May 03	104.9	17.4	65.5	14.5	7.5
Jun 03	106.0	17.7	65.5	14.6	8.2
Jul 03	106.1	19.5	65.5	14.6	6.4
Aug 03	108.3	21.6	65.5	14.9	6.3
Sep 03	107.0	19.2	65.5	14.8	7.6
Oct 03	105.9	18.3	65.5	14.6	7.5
Nov 03	104.9	18.0	65.5	14.5	7.0
Dec 03	104.8	17.3	65.5	14.5	7.5
Jan 04	105.5	18.8	65.5	14.6	6.6
Feb 04	106.2	19.3	65.5	14.6	6.8
March 04	107.6	21.4	65.5	14.8	5.8
April 04	111.2	24.0	65.5	15.3	6.4

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May 04	117.1	27.8	65.5	16.2	7.7
June 04	112.8	23.8	65.5	15.6	7.9
July 04	114.9	26.7	65.5	15.8	6.8
Aug 04	116.8	26.2	65.5	16.1	9.0
Sep 04	113.9	26.0	65.5	15.7	6.7
Oct 04	117.3	28.1	65.5	16.2	7.5
Nov 04	112.2	24.5	65.5	15.5	6.7
Dec 04	106.7	19.8	65.5	14.7	6.7
Jan 05	107.8	22.7	65.5	14.9	4.7
Feb 05	109.4	24.0	65.5	15.1	4.8
Mar 05	112.9	26.6	65.5	15.6	5.3
Apr 05	117.4	29.8	65.5	16.2	5.9
May 05	117.1	27.9	65.5	16.2	7.6
Jun 05	119.5	32.0	65.5	16.5	5.5
Jul 05	124.3	35.4	65.5	17.1	6.2
Aug 05	126.5	38.7	65.5	17.4	4.9
Sept 05	133.9	42.3	65.5	18.5	7.6
Oct 05	128.4	35.7	65.5	17.7	9.5
Nov 05**	121.1	31.7	65.5	16.7	7.2

* includes costs for transport, storage, statutory inventorying, administration, sales and profit
 ** temporary

**Annex 4: A Comparison of Consumer Price in the European Union
(November 21, 2005)**

source: The Hamburg-based Energy Information Service; Mineralölwirtschaftsverband e.V.
(December 7, 2005) www.mwv.de

country	without taxes		with taxes	
	unleaded Eurosuper cent/l	diesel fuel cent/l	unleaded Eurosuper cent/l	diesel fuel cent/l
Belgium	41.8	47.9	122.2	99.2
Denmark	43.0	47.8	121.3	105.5
Germany	38.5	46.0	120.5	108.0
Estonia	41.2	47.2	82.5	84.5
Finland	42.8	47.1	124.0	96.5
France	38.3	45.2	116.3	103.9
Greece	45.1	52.1	89.8	92.1
Great Britain	41.2	46.9	129.0	135.7
Ireland	53.9	57.3	118.8	113.9
Italy	45.8	51.9	122.7	111.8
Latvia	43.5	48.8	83.9	85.3
Lithuania	41.4	48.2	82.9	85.9
Luxemburg	44.8	50.9	102.4	89.0
Malta	68.5	59.5	117.4	99.2
Netherlands	46.9	50.5	134.9	105.4
Austria	45.0	48.8	105.0	98.6
Poland	49.2	50.8	102.8	98.4
Portugal	46.2	51.3	120.4	100.1
Sweden	40.8	49.0	115.8	108.9
Slovak Republic	44.0	50.2	100.0	104.3
Slovenia	47.3	53.1	100.0	100.0
Spain	44.3	50.0	98.1	92.9
Czech Republic	45.3	50.2	102.1	100.2
Hungary	43.3	50.9	102.3	102.7
Cypruss	45.6	51.3	87.4	87.7
order of Germany	24 (out of 25)	24 (out of 25)	7 (out of 25)	5 (out of 25)
from EID				

Annex 5: Current Mineral Oil Data from December 2, 2005

Source: Mineralölwirtschaftsverband e.V. (December 6, 2005) www.mwv.de

crude oil import Germany	October 2005	September 2005	change (%) to the month in previous year		January- October 2005	change (%) Jan to October 2005 / 2004
			October	September		
t o t a l	9,783	9,503	-0.3	6.1	93,405	1.8
among them						
O P E C	2,773	2,527	12.2	9.5	22,065	19.6
North Sea	2,960	2,585	-0.1	-10.6	27,495	-11.8
average price (euros / t)	357.69	371.75	29.2	48.6	308.10	39.9

refinery products Germany	October 2005	September 2005	change (%) to the month in previous year		January- October 2005	change (%) Jan to October 2005 / 2004
			October	September		
crude oil usage	9,779	9,779	-1.5	6.5	94,996	2.0
miscellaneous usage (reuse, additives)	956	822	7.3	-17.2	8,597	1.1
total usage	10,735	10,601	-0.7	4.2	103,593	1.9
production of mineral oil products	10,543	10,400	-0.8	4.0	101,816	2.0
including:						
gasoline	2,185	2,116	2.2	3.0	21,095	3.6
diesel fuel	2,867	2,993	0.6	5.6	28,816	8.5
light heating oil	1,541	1,452	0.7	8.9	14,472	2.5
heavy heating oil	1,032	914	-7.9	-8.2	10,041	-5.7
capacity usage	99.7	103.0			98.7	

product import Germany	September 2005	August 2005	change (%) to the month in previous year		January- August 2005	change (%) Jan to September 2005 / 2004
			September	August		
t o t a l	3,410	3,260	11.2	2.7	25,489	2.6
including						
gasoline	170	220	-47.6	-34.2	2,179	-21.2
diesel fuel	269	265	2.7	5.6	1,899	-22.7
light heating oil	1,285	1,176	36.0	16.4	7,145	10.7
heavy heating oil	112	136	-12.6	-7.5	1,247	18.1

domestic deliveries Germany	October ** 2005	September 2005	change (%) to the month in previous year		January- October 2005	change (%) Jan to October 2005 / 2004
			October	September		
gasoline	1,980	1,909	-7.9	-7.4	19,751	-5.7
diesel fuel	2,490	2,547	0.7	-1.1	23,853	-0.2
light heating oil	2,200	2,430	6.7	-3.6	20,092	-0.7
heavy heating oil	480	486	-7.6	7.9	4,959	-3.1

stocks (creditable yield as per the OECD definition) Germany	September 2005	August 2005	change (%) to the month in previous year		daily consumption	range= stocks: daily consumption
			September	August		
t o t a l	29,967	29,685	3.0	-0.4	246.5	121.6

* quantities given in 1,000 t

** MWV extrapolation

Annex 6: Different Forms of Petrol Station Operations (a selection)

Different Types:

1. Group/Brand-Name Petrol Stations

- ownership: a. mineral oil company
b. medium-sized company or single petrol station

Form of operations for 1a. (the owner is mineral oil company)

The mineral oil company operates the petrol stations with auxiliary enterprises on its own or leased land

- Alt. 1** The fuel sale price is set by the group (the group has price autonomy)
Fuel is sold in the name and at the account of the group
The group employs the lessee for operating the petrol station at his choice
The lessee operates an auxiliary enterprise (such as the shop/car wash/care) in his own name and on his own account
- Alt. 2** The fuel sale price is set by the group (the group has price autonomy)
Fuel is sold in the name and at the account of the group
The group employs the lessee for operating the petrol station at his choice
The lessee operates some auxiliary enterprises in the name and on the account of the group

Form of operations for 1b. (the owner is a medium-sized company or single petrol station)

The owner operates the petrol station with auxiliary enterprises on its own or leased land and signs a brand name or commission agreement with a group using the brand name and symbol.

- Alt. 1** The fuel sale price is set by the group (the group has price autonomy)
Fuel is sold in the name and at the account of the group.
The group may participate in the petrol station investment.
The owner receives an upwardly variable and downwardly fixed margin/commission guarantee for fuel sold from the group.
The owner employs the lessee for operating the petrol station at his choice.
The lessee operates an auxiliary enterprise (such as the shop/car wash/care) in his own name and on his own account
- Alt. 2** The fuel sale price is set by the group (the group has price autonomy)
Fuel is sold in the name and at the account of the group.
The group may participate in the petrol station investment.
The owner receives an upwardly variable, downwardly fixed margin/commission guarantee for fuel sold from the group.
The owner operates an auxiliary enterprise (such as the shop/car wash/care) in his own name and on his own account
- Alt. 3** The owner rents the petrol station to the group
The fuel sale price is set by the group (the group has price autonomy)
Fuel is sold in the name and at the account of the group
The owner receives a fixed rent from the group
The group employs the lessee for operating the petrol station at his choice

2. Brand-Name/Group-Free Petrol Stations

→ ownership: b. medium-sized company or single petrol station

Various forms of operations of free owners of petrol stations not affiliated with groups (among other things)

The owner operates the petrol station with auxiliary enterprises on his own or leased land

- Alt. 1** The fuel sale price is set by the owner (the owner has price autonomy)
Fuel is sold in the name and at the account of the owner
The owner purchases fuel on the free market (no fixed supplier)
The owner operates an auxiliary enterprise (such as the shop/car wash/care) in his own name and on his own account
- Alt. 2** The fuel sale price is set by the owner (the owner has price autonomy)
Fuel is sold in the name and at the account of the owner
The owner purchases fuel on the free market (no fixed supplier)
The owner employs the lessee for operating the petrol station at his choice
The lessee operates an auxiliary enterprise (such as the shop/car wash/care) in his own name and on his own account
- Alt. 3** The fuel sale price is set by the owner (the owner has price autonomy)
Fuel is sold in the name and at the account of the owner
The owner signs a fuel supply agreement with fixed suppliers - without a fixed margin
The owner employs the lessee for operating the petrol station at his choice
The lessee operates an auxiliary enterprise (such as the shop/car wash/care) in his own name and on his own account
- Alt. 4** The fuel sale price is set by the owner (the owner has price autonomy)
Fuel is sold in the name and at the account of the owner
The owner signs a fuel supply agreement with fixed suppliers - with a fixed margin
The owner employs the lessee for operating the petrol station at his choice
The owner operates an auxiliary enterprise (such as the shop/car wash/care) in his own name and on his own account
- Alt. 5** The fuel sale price is set by the owner (the owner has price autonomy)
Fuel is sold in the name and at the account of the owner
The owner signs a fuel supply agreement with fixed suppliers - with a fixed margin
The owner operates an auxiliary enterprise (such as the shop/car wash/care) in his own name and on his own account

Annex 7 Qualitative Criteria for the Success of a Petrol Station Enterprise

The quality of the location

The advantageous position of the petrol station

- frequency of motor vehicle customers from the road
- the speed of traffic and the available exits
- the constancy of motor vehicle frequency
- the neighbourhood (businesses, residential areas, trades and mixed areas)
- the region's economic strength (such as the AI rate)

The modern condition of the technical installations

- the age of the petrol station
- the last time modernised/renovated
- contaminated sites
- the condition of the building installation
- the visual appearance (if the installation is cleaned up)

Adequate technical equipment and size

- the size of the company grounds adequate to its turnover
- the size of the retail store adequate to its turnover
- equipped with petrol pumps adequate to sales
- complying with any CD/CI specifications
- environmental protection work

Attractive local market potential

- motor vehicle registration density
- the number of competitors in the catchment area
- ratio of motor vehicles to petrol stations
- the competitive situation in the retail trade

Commercial Expertise

Systematic staff work or minimising the fluctuation rate

- regularly personal qualification (engineering, products and customer contact)
- regular employee talks
- employee profit sharing

Current information on the company's business management position

- defining and capturing success indicators for guiding the company on a daily, weekly and monthly basis
- annual profit and loss account and balance sheet planning as a basis for a monthly target-to-actual comparison
- current liquidity planning on a monthly basis
- benchmarking with comparable petrol station enterprises

Active and systematic claims management

- regularly drawing up an open-item list
- systematic implementation of effective collection work

Adequately insuring the company for all essential operating risks (such as fire, third-party liability, plant interruption, accidents and environmental pollution)

Regularly and adequately notifying lenders on the business position (possibly also the supplier/suppliers)

- regular company rating
- annual report for banks/lenders including a personal talk

Active cost management

- The capability to undertake turnover-related cost management; i.e., defining and installing the maximum cost scope / litre and therefore the corresponding targeted margin / litre (streamlining purchasing conditions and taking advantage of synergies with business co-operation and mergers, etc.)

Applying quantitative corporate rating criteria to managing the company

Offensive / Systematic Marketing

The brand name strength

- a vigorous programme of structuring elements
- high rate of recognition with chain petrol stations
- building up corporate design and corporate identity

The personality of the service

- customer loyalty with a personal appeal and bonus programmes
- taking advantage of the atmosphere of a family company as a competitive edge
- selling is seen not just as a transaction, but as a service
- customers want a clean and well cared for petrol station where they enjoy spending time and not only have the feeling of shopping for operating materials and lubricants
- the petrol station as a communication and feel-good centre

Winning orders particularly from large-scale customers / disseminators, direct appeal (call centers or personal visits)

Offensive marketing of new products (biodiesel)

Systematic competitive analysis

- mystery shopping
- launching advertising efforts (such as bonus programmes)
- if prices can be freely formulated / with price reduction campaigns: taking advantage of early action and building up regional image

Wide range of services, including additional business

Systematic strategic work

- formulating a corporate strategy for the specific location
- coming up with, formulating and implementing USP (unique selling proposition)
- regular revision and adjustment of corporate strategy
- coming up with product innovations (including services)

Using all available add-on business potential (such as post, bank, dry cleaning, restaurant and mediating hotel rooms)

- investing in tangible fixed assets and staff qualification

Willingness and capability to work together

Cooperation of entrepreneurs in associations or best practice groups

- training/qualifying employees of affiliated partner companies
- best practice comparisons (cost structures, yield indicators and marketing)
- training employees at partner companies (staff exchange programmes)
- forming purchasing pools to boost purchasing power and reduce supplier dependency
- formulating and co-ordinating political interests