Annual Report 2005

NESTE OIL

2005

Neste Oil aims to be the leading, independent Northern European refining and marketing company, focused on high-quality oil products for cleaner traffic, and committed to world-class operational and financial performance.

refining the future

NESTE OIL

Contents

2005

Achievements in 2005

- Demerger from Fortum Corporation as from 1 April
- Successful listing on the Helsinki Stock Exchange on 18 April
- Strategic Diesel Project progressed well at the Porvoo refinery. The project is now expected to improve Neste Oil's total refining margin by over USD 2/bbl
- Start of construction of a new biodiesel plant based on proprietary technology at Porvoo
- Evaluation work on investment opportunities in the Components business continued
- Lubricant base oil production expanded at the Porvoo refinery
- Divestment of 50% stake in the Russian oil production company, SeverTEK, in line with the Group's strategic focus on oil refining and marketing
- Oil Retail continued profitable growth in the Baltic Rim
- Shipping retained its strong position on the crude oil transportation market in the Baltic.

Key figures

EUR million (unless otherwise noted)	**2005**	**Carve-out*) 2004**
Sales	**9,974**	7,909
Operating profit	**791**	713
Comparable operating profit**)	**525**	584
Earnings per share, EUR	**2.60**	2.37
Capital expenditure and investment in shares	**668**	316
Net cash from operating activities	**596**	537

	31 Dec 2005	**31 Dec 2004**
Interest-bearing net debt	**796**	969
Equity-to-assets ratio, %	**42.4**	32.2
Leverage ratio, %	**33.0**	49.3
Gearing, %	**49.4**	97.0

*) All Carve-out figures for 2004 presented in this report are derived from Neste Oil's Combined Carve-out Financial Statements for the year ended 31 December 2004. The Neste Oil Group was incorporated through a demerger on 1 May 2004, and as a result no fully comparable income statement exists for the full 12 months of 2004.

**) Comparable operating profit is calculated by excluding inventory gains/losses, gains/losses from sales of fixed assets, and changes in the fair value of oil derivatives from the reported operating profit.

Neste Oil's most important announcements in 2005

February
15. Investment decision made on a biodiesel production plant in Porvoo

March
31. Fortum's Annual General meeting approved the distribution of Neste Oil shares as a dividend
14. Neste Oil Corporation financial performance targets, capital structure targets, and dividend policy
14. Neste Oil's financial disclosure

April
21. Neste Oil's Board of Directors appoints two committees

May
26. Neste Oil preparing to issue two domestic bonds with a combined value of EUR 200 million
18. Syndication of Neste Oil's 1.5 billion euro credit facility completed
3. Neste Oil records a first-quarter operating profit of EUR 146 million

June
7. Neste Oil´s EUR 200 million notes subscribed

July
8. Neste Oil and Total to evaluate a joint venture in biodiesel production

A leading Northern European oil refiner

Oil Refining

- Porvoo, Finland
- Naantali, Finland
- Sweden
- Great Britain

Components

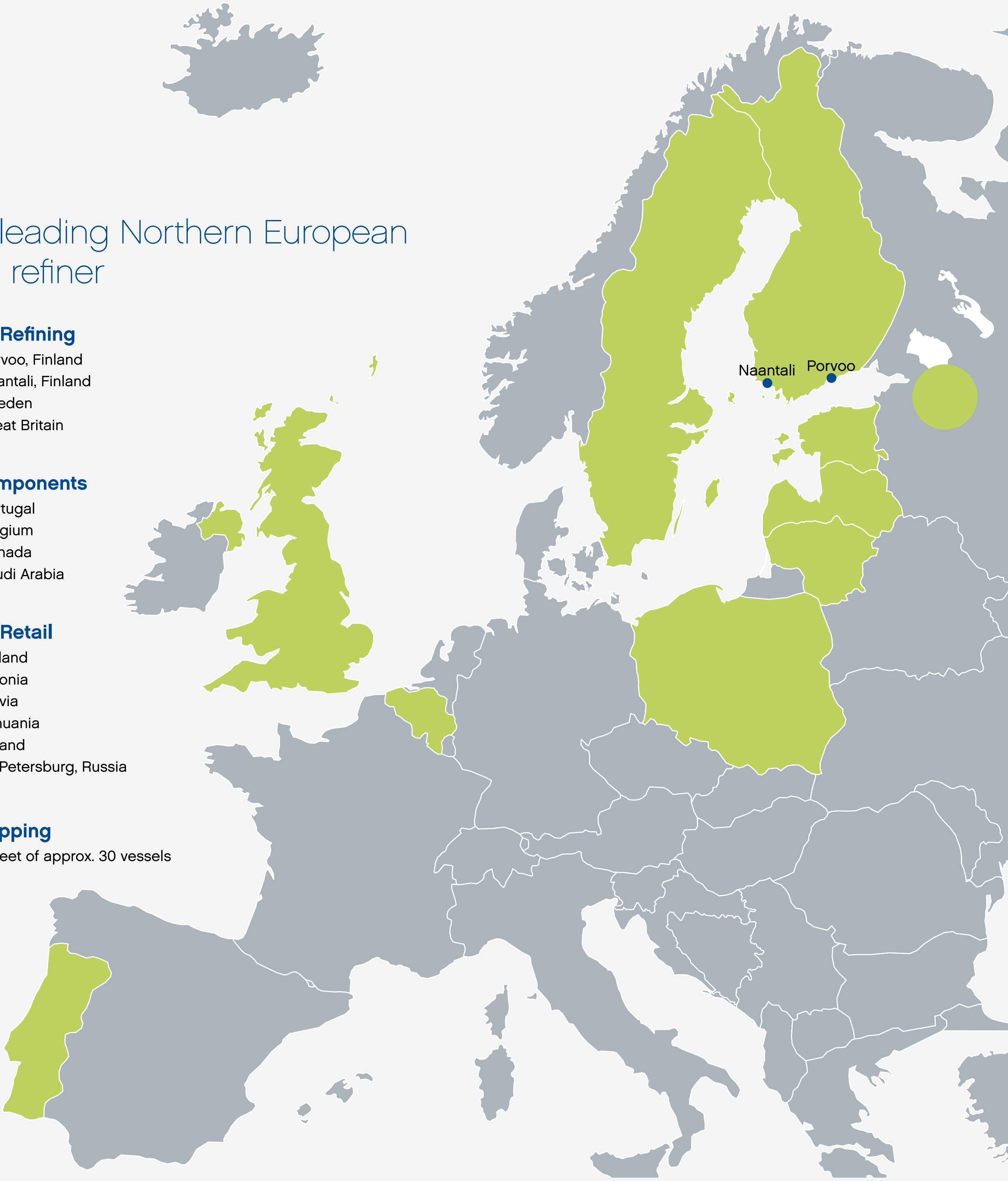
- Portugal
- Belgium
- Canada
- Saudi Arabia

Oil Retail

- Finland
- Estonia
- Latvia
- Lithuania
- Poland
- St. Petersburg, Russia

Shipping

- A fleet of approx. 30 vessels



August

18. Neste Oil and Bapco to move ahead with lubricant base oil joint venture
17. Neste Oil's Porvoo refinery prepares for major maintenance shutdown
4. Neste Oil reports strong profits in the second quarter
4. Changes in profitability and cost estimates of the Diesel Project at the Porvoo refinery

September

30. Neste Oil to sell its holding in Pikoil to Ruokakesko

October

25. Neste Oil reports good profits despite maintenance shutdown at Porvoo
18. Foundation stone laid at Neste Oil's new biodiesel plant at Porvoo
3. Porvoo refinery back on stream after its maintenance shutdown

November

23. Neste Oil and Lukoil close the sale of Neste Oil's stake in SeverTEK
22. Neste Oil to sell its holding in SeverTEK to Lukoil

December

13. Hannele Jakosuo-Jansson appointed Senior Vice President, HR
12. Shareholders' Nomination Committee appointed
12. Neste Oil's updated fourth-quarter outlook
7. Product tanker M/T Neste handed over to Neste Oil

All releases can be found at www.nesteoil.com

Neste Oil in brief

A leading refiner of cleaner traffic fuels in Northern Europe

More on Oil Refining on pages 12–17.

Proprietary solutions for higher-performance fuels and lubricants worldwide

More on Components on pages 18–21.

The leading retailer of petroleum products in Finland, with a growing presence around the Baltic Rim

More on Oil Retail on pages 22–25.

One of the world's largest ice-strengthened tanker fleets

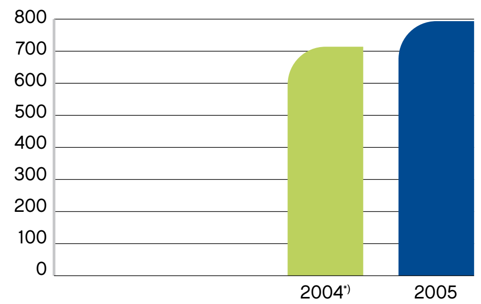
More on Shipping on pages 26–29.

Neste Oil Corporation is an independent Northern European oil refining and marketing company with a focus on high-quality traffic fuels and other high value-added petroleum products with reduced environmental impact. Neste Oil had net sales of EUR 9,974 million for the year ended 31 December 2005. At the end of 2005, it had approximately 4,500 employees. Neste Oil is listed on the Helsinki Stock Exchange.

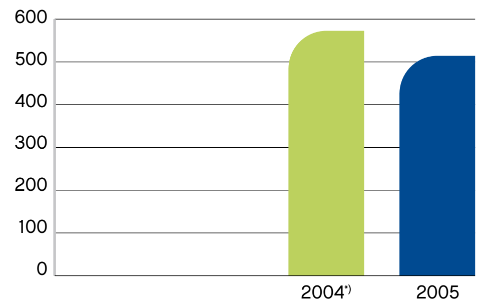
The company's four business divisions are Oil Refining, Components, Oil Retail, and Shipping, and its operations cover oil refining and marketing, shipping, and engineering services. Neste Oil's Porvoo and Naantali refineries have a combined crude distillation capacity of approx. 12.5 million tons a year (250,000 bbl/d).

Neste Oil produces all the main petroleum products used today, and exports almost half of its output. Sales in Finland totaled 7.5 million tons in 2005, and exports 5.6 million tons.

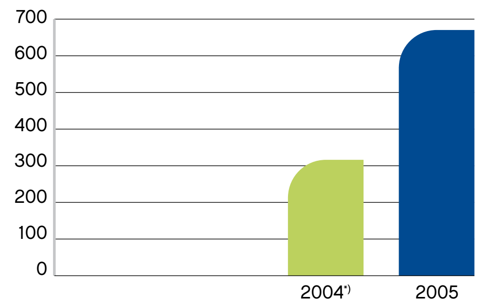
Operating profit
MEUR



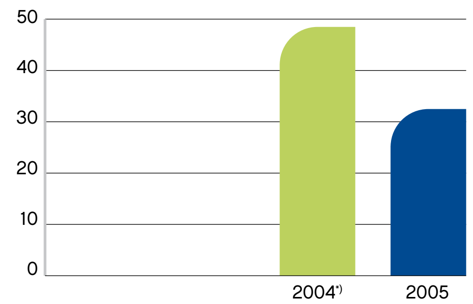
Comparable operating profit)**
MEUR



Capital expenditure
MEUR



Leverage
%



*) Carve-out figures
**) Comparable operating profit is calculated by excluding inventory gains/losses, gains/losses from sales of fixed assets, and changes in the fair value of oil derivatives from the reported operating profit.

Neste Oil in brief

Our success is based on advanced competence

There is an old saying that something well-planned is already half-done. Neste Oil's demerger from its previous parent company was planned for nearly 18 months, so we were well-prepared for life as an independent listed company. This provided a good foundation for us, particularly during the second half of 2005, which proved an eventful one for everybody in the oil industry.

Looking back at the beginning of 2005, I described 2004 as an exceptional year. It soon became clear, however, that the upward trend in crude oil prices was going to continue and that, although refining margins were fluctuating quite extensively, margins were running above what we had been used to. By mid-year, we reported earnings that matched the performance we had recorded in what I had described as the exceptional year of 2004.

The greatest upheavals in the market were witnessed in August and September, when hurricanes hit key US production and refining areas around the Gulf of Mexico. This underlined the fact that the world simply did not have any spare refining capacity. Product prices and refining margins jumped to all-time highs, and remained there throughout September and even beyond. It was unfortunate, therefore, that the heart of Neste Oil's refining operations, our Porvoo refinery, was offline during September due to a major maintenance shutdown that had been planned a couple of years earlier. As a result, we were unable to take full advantage of one of the most profitable periods in refining history.

A strong result and strong cash flow

Despite the fiveweek shutdown at Porvoo, however, we were able to turn in a comparable operating profit almost in line with our performance in 2004, as well as a strong cash flow. This has provided us with the muscle to finance our extensive investment program and reduce our debt burden. The proceeds of the sale of our non-core holding in the oil production company, SeverTEK, further strengthened our financial position. Our shareholders have also shared in our success. Neste Oil's share price closed 65% higher at the end of the year than the IPO price in April. Neste Oil's Board of Directors will propose a dividend of EUR 205 million for 2005, equivalent to 31% of our net profit for the year.

The market was favorable to us in 2005, but we would not have achieved the result we did without the investments that have been made in our refineries and the know-how that has been built up going back over a number of years. These investments and expertise have been particularly focused on gasoline, jet fuel, and diesel fuel, and the ability to produce these products from heavier crude. This trend will continue, as our future success will be based to an important extent on using our refining expertise to produce cleaner traffic fuels from lower-cost feedstock.

Our key investment projects – the Diesel Project and our new biodiesel plant – will bring our product offering even better in line with demand. Both of these facilities are designed to produce the type of diesel fuel that the European marketplace in particular is increasingly looking for. I am particularly proud of the fact that our proprietary technology is playing such a decisive role here, especially in our biodiesel projects. We are well ahead of our competitors in developing traffic biofuels, thanks to our in-house biodiesel expertise.

Our Shipping business has been faced with the arrival of a number of new competitors in the Baltic, in the shape of new, competitive, ice-strengthened tonnage and new shipowners. Thanks to its good customer service and long-term relationships, however, Shipping has been able to address this new challenge successfully.

Our Oil Retail business has experienced some very tough competition in Finland. Despite this, we have been able to retain our market position, and been able to keep on top of developments. We have launched the new NEX network of low-cost outlets and sold our holding in Pikoil. Outside Finland, Oil Retail has continued to grow profitably in the Baltic countries, Poland, and Russia. Our outlets sell nearly as much gasoline outside Finland as they do in Finland.

Meeting the challenge

The oil business is a very capital-intensive industry, which makes it difficult for those in the business to adapt to rapid changes in the marketplace. In this respect, Neste Oil has been able to take advantage of its relatively small size, as it is easier for us than larger companies to shift the focus of our production in line with changes in demand patterns. We often like to say that the faster the changes in our industry, the better for us!

Successfully commissioning our new diesel line will be our greatest challenge in 2006. This project involves some very complex refining technology. When it is up and running smoothly, the new line will fundamentally improve our competitiveness and further increase our earnings potential.

We will carry out a scheduled maintenance shutdown at our Naantali refinery in the third quarter of 2006. We will also continue our ongoing efforts to further improve efficiency and safety.

As growth is important for us, we will be looking for opportunities in those product areas where we either already have strong expertise and a global market position, or where these can be achieved. The products I am particularly referring to here include our premium lubricant components and biodiesel, of course. Should the right opportunities present themselves, we will be ready to grasp them with both hands, including opportunities that involve restructuring.

My thanks to all of you

Neste Oil is a company full of enthusiasm, and one that very much wants to prove to the world that we can meet the goals and expectations that have been set to the company. My sincerest thanks for this enthusiasm go to our personnel. I also want to thank our shareholders, our customers, our suppliers, and all our other partners for their input to this joint effort.

Risto Rinne

Industry fundamentals paving the way for future success

Industry overview

- Global demand for high-quality traffic fuels is continuing to grow
- Ongoing shortage of refining capacity is expected to continue
- Use of diesel fuel is increasing in Europe
- Biofuels are gaining ground, particularly in Europe

The refining business

The oil refining industry operates in a global business environment. Crude oil and refined petroleum products are used worldwide, and the industry has developed standards and systems, particularly in the logistics area, to serve this global market. Neste Oil is one of the companies with the clearest focus on refining and marketing in Europe.

Key business drivers

The success of refining companies depends on their refining margin, or the price differential between crude oil and petroleum products. Refining margins are highly dependent on the demand for and the prices of petroleum products relative to the supply and cost of crude oil and other feedstocks. Additional margins depend on refineries' ability to maximize the yields they generate from higher value-added products through the use of secondary processing units and running their facilities at the maximum possible capacity utilization ratios.

The quality of crude oil and other feedstocks dictates the level of processing necessary to achieve the desired mix of petroleum products. The prices of light, sweet crude oils are higher, as they require less refining and yield more high-value light petroleum products, such as gasoline and diesel fuel. Heavier, sourer crude is typically priced lower, as this needs additional refining to produce the same result. For a complex refiner, such as Neste Oil, the price differential between these two main types of crude oil is a critical factor and directly affects the company's financial performance.

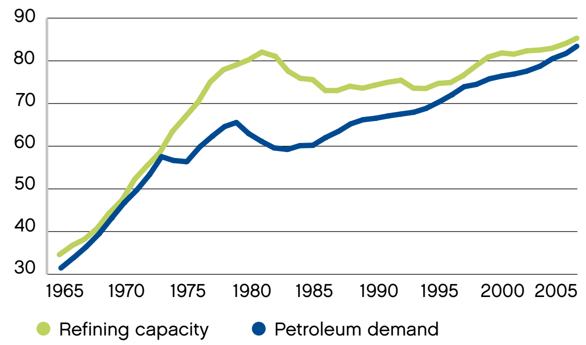
Crude oil and other feedstocks, as well as petroleum products and shipping freights around the world, are all priced in US dollars, while other costs and expenses are mostly paid in local currencies. Neste Oil pays its operating costs and expenses mainly in euros, and its accounts are also denominated in euros. As a result, the EUR/USD exchange rate has a significant effect on the Group's financial result.

Refining capacity crunch

There has been a growing shortage in recent years of refining capacity globally to produce the lighter, higher-quality petroleum products that are in demand around the world. Tougher product specifications in Europe, North America, and to a growing extent in the Asia-Pacific region as well, have increased the need for sophisticated – or complex – refining capacity. The industry has seen most investments in Europe and North America targeted at modernizing existing refineries to make them better capable of meeting the demand for lighter, low-sulfur or sulfur-free traffic fuels and other products.

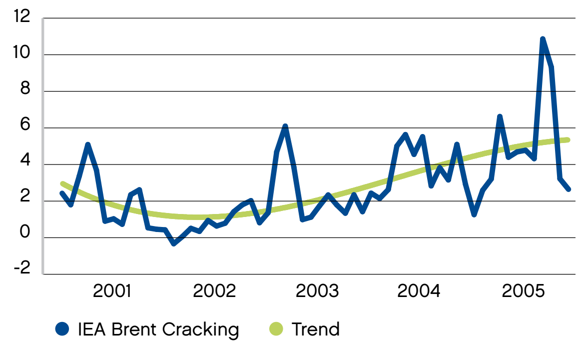
Tougher product specifications and the increased demand for lighter petroleum products, such as gasoline

Tightness in global refining capacity...
million barrels per day



Source: IEA, broker research

...has led to higher refining margins
USD/bbl, monthly average



Industry overview

and middle distillates, have resulted in large price differentials between these products and lower-value products, such as heavy fuel oil, which is in surplus globally. The pricing of petroleum products is mainly driven by the balance between supply and demand, crude oil prices, and changes in inventory levels. This also dictates the development of local wholesale prices to a great extent, as local suppliers have to compete with imported products.

Supply and demand varies from region to region. Diesel fuel has gained substantial market share in Europe at the expense of gasoline, while in the US the demand for gasoline continues to exceed domestic supply. This has opened up an attractive opportunity for European oil companies capable of supplying products that comply with the required specifications to increase production of diesel fuel and make the most out of exporting gasoline to the US market.

Trends in product demand

The global demand for petroleum products in 2005 increased by 1.3%, and totaled 83.3 mbbl/d (82.2). Demand was mainly driven by economic growth in Asia and the US. A European Union decision that came into effect on 1 January further limited the sulfur content of the gasoline and diesel fuel sold in Europe. Overall, the price of diesel was exceptionally high throughout the year, even during the summer months, which normally see reduced demand for middle distillates, backed by projected tightness towards the end of the year.

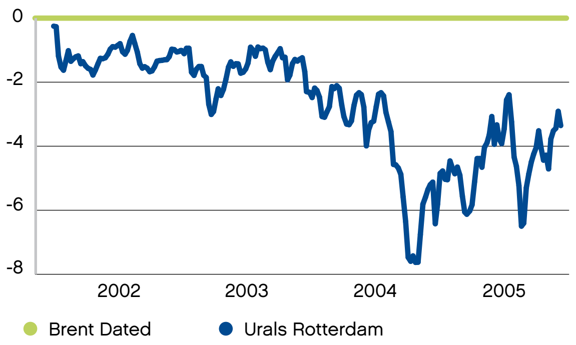
Hurricanes Katrina and Rita caused extensive damage to the oil industry around the Gulf of Mexico in the US in August and September and had a major impact on the global oil market. Outages at a number of US refineries, representing one quarter of total US capacity, immediately after the hurricanes led to tightened gasoline supply in the US and pushed up gasoline prices in Europe as well for a short time.

Demand for gasoline components, such as MTBE, ETBE, and iso-octane, as well as premium-quality lubricant base oils, such as EHVI needed to comply with stringent product specifications continued to grow throughout 2005. Demand for high-octane gasoline components was extremely high in the aftermath of hurricanes in the Gulf of Mexico.

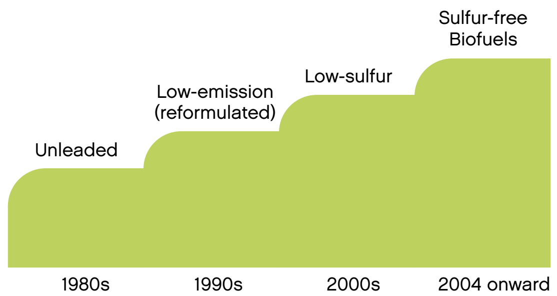
In line with the European Union's biofuels directive, several member states have introduced national legislation promoting the use of traffic biofuels. The high price of petroleum products has also encouraged public debate on the utilization of biofuels. Based on the EU directive and tax incentives, the European biofuel market is expected to grow substantially in the next few years.

Price difference between Russian crude oil and Brent has been volatile

USD/bbl, weekly average



Evolution of traffic fuel specifications



Retail remains competitive

The oil retail market is heavily influenced by the structure of distribution networks, logistics, and competition in the marketplace. The Finnish retail market continues to be characterized by a high level of competition, and there have even been short-lived price wars in some regions. Total retail volumes in Finland are not expected to grow significantly in the immediate future. Volumes in the other markets around the Baltic Rim – Estonia, Latvia, Lithuania, Poland, and the St. Petersburg area in Russia – are growing, and market developments are particularly favorable for retailers of high-quality traffic fuels.

A changing shipping environment

The demand for oil tanker capacity on world markets is shaped by a variety of factors, including international economic activity, changes in oil production and consumption of petroleum products in different geographical areas, oil price levels, and the inventories held by oil companies. Tanker fleet capacity is a critical determinant in pricing tanker transportation services.

The strong growth in demand for petroleum products in recent years has stretched shipping capacity to its limits, and resulted in higher freight rates. In 2005, however, work continued on building a significant amount of new shipping capacity, and some new tonnage has already entered the market.

The rapid increase in exports of Russian crude oil from the Primorsk terminal Northwest of St. Petersburg in the Baltic has increased the demand for ice-strengthened tankers. Harsh ice conditions have resulted in higher freight rates during the winter months, when ice-strengthened vessels have enjoyed high premiums over historical rates. The recent imbalance between the supply and demand of ice-strengthened shipping capacity has been corrected by new tonnage under construction or that has already entered the market.

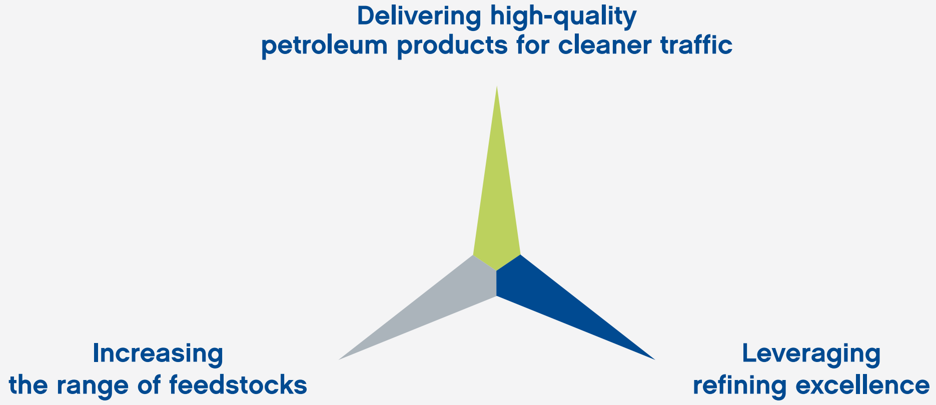
Strengthening our refining lead

Neste Oil aims to be the leading, independent Northern European refining and marketing company, focused on high-quality petroleum products for cleaner traffic, and committed to world-class operational and financial performance.

Neste Oil's strategy has been developed to leverage the most potential from current trends in the oil market and reinforce the company's leading position, based on the following key strengths:

- Sophisticated refineries and high-quality products
- Flexible refining facilities and logistics management
- Good geographical location for benefiting from Russian crude flows
- Strong wholesale market position in Finland and Sweden
- Leading retail presence in Finland and growth in the Baltic Rim area
- Advanced technology base.

Neste Oil's strategy



Neste Oil's financial targets

- Return on average capital employed after tax (ROACE) of at least 13%
- Leverage 25–50%

Neste Oil intends to continue utilizing its refining facilities to take advantage of the demand for high-margin petroleum products.

Neste Oil intends to enhance its current position further by implementing the following business strategies:

Continue to focus on high-quality products. Neste Oil has a strong position in high-quality traffic fuels and other high value-added petroleum products, thanks to its sophisticated refining assets and advanced technological capabilities. Neste Oil intends to continue utilizing its refining facilities to take advantage of the demand for high-margin petroleum products.

Capture the benefits of the Diesel Project. The Diesel Project is expected to further enhance Neste Oil's market position as a producer of high value-added petroleum products. This investment, scheduled to be completed by the end of 2006, will allow Neste Oil to process greater volumes of heavier and sourer crude oil and other feedstocks into higher-margin products, such as sulfur-free diesel fuel. It will also largely eliminate the production of lower-value heavy fuel oil, demand for which is on the decline. The Diesel Project will give Neste Oil considerable flexibility in using a variety of crude feeds, and logistics benefits from increasing crude oil flows from Russia through the Baltic ports. Based on updated long-term market assumptions, Neste Oil believes that these factors will result in an increase of at least USD 2 /bbl in its total refining margin.

Diesel Project

- A major investment at the Porvoo refinery, total investment cost slightly over EUR 600 million
- Expected to add over USD 2 /bbl to Neste Oil's total refining margin
- Due for completion by the end of 2006
- A new residual hydrocracker and the world's second-largest hydrogen plant are being built at the site
- Will enable the refinery to switch to 100% heavier crude input
- Will increase production of sulfur-free diesel fuel by approx. 1 million t/a
- Will increase the refinery's complexity from 10.4 to approximately 12.1 (Nelson index)
- Approximately 3,000 man-years of direct employment will be generated during construction
- Will employ permanently about 100 people.

Continue to pursue attractive growth opportunities in specialty product markets. Neste Oil expects to generate sustainable growth by investing in the increased production of biofuels and premium lubricant base oils. A new biodiesel production unit based on proprietary technology is under construction at the Porvoo refinery and is scheduled for completion in 2007. Neste Oil is also planning to expand biodiesel production outside Finland. MTBE units in Porvoo and Sines in Portugal have been converted to produce ETBE, a high-octane gasoline component derived from renewable bioethanol. Neste Oil has expanded its own lubricant base oils production, and is in discussions with third parties on jointly building additional production capacity.

Maintain strong wholesale and retail market share in Finland and take advantage of attractive growth opportunities around the Baltic Rim. Neste Oil intends to maintain its strong wholesale and retail market share in Finland, sustain its profitability, and concentrate on its core petroleum product business. In addition, Neste Oil intends to take advantage of attractive growth opportunities in the Baltic Rim area by focusing on cost-efficient unmanned stations. Neste Oil's current plans for new retail stations around the Baltic Rim are mainly focused on the St. Petersburg region and Poland.

Effectively utilize the logistics chain. Neste Oil's shipping fleet is central to guaranteeing a reliable supply of crude oil and other feedstocks for the company's refineries and export needs. The company is committed to maintaining the efficiency and quality of its fleet, by ordering or chartering new tankers and selling and replacing older vessels.

Consider the potential of non-organic growth opportunities. Neste Oil may consider future acquisition opportunities consistent with its strategy and core competencies, together with mergers, strategic partnerships, or other corporate transactions. In considering potential restructuring opportunities, the company will place particular emphasis on their projected returns and the impact on the company's earnings and cash flows. Neste Oil will only consider potential restructurings that are consistent with its aim to be the leading Northern European refining and marketing company or that will strengthen its position as one of the world leaders in selected components for lubricants and traffic fuels.

Investments and divestments Neste Oil will concentrate on its focus areas and divest non-core assets. In line with this, the company sold its 50% stake in the SeverTEK oil production joint venture in Russia to Lukoil in 2005; and divested its 50% holding in Pikoil, which handles the retailing of groceries, automotive accessories, and car wash services, together with restaurant operations, at some Neste stations. Neste Oil is also studying the potential for divesting its 10% stake in Ibn Zahr, a polypropylene and MTBE production company in Saudi Arabia. Future capital investments will be designed to enhance profitable growth in oil refining and components, and in selected areas of the oil retail business, and maintain and develop the productivity of the company's existing businesses.

World-class refining

The Oil Refining division is committed to being a leading producer of high-quality, cleaner traffic fuels and other petroleum products.

Neste Oil is one of the leading refiners in Northern Europe, and one of the two largest wholesale suppliers on the Nordic petroleum product market. The company has two oil refineries in Finland, with a total atmospheric crude distillation capacity of approximately 250,000 bbl/d.

Refining operations had a strong year and enjoyed strong margins.

Neste Oil's total refining margin was (USD/bbl)
8.82

Profitability was impacted by a scheduled maintenance shutdown at the Porvoo refinery. Despite the shutdown the segment reported

a comparable operating profit of (EUR million)*)
422

The planned 5-week shutdown reduced production significantly.

Total refinery output (million tons)
12.9

The use of heavier, sourer crude oil is increasing at Neste Oil's refineries.

Heavier input in 2005 totaled
50%

*) In external reporting, the Oil Refining and Components divisions form the Oil Refining segment.

Oil Refining

Favorable market for complex refineries

Key figures*)

	2005	Carve-out 2004
Sales, MEUR	8,150	6,306
Operating profit, MEUR	546	562
Comparable operating profit, MEUR	422	463
Capital expenditure, MEUR	589	203
Total refining margin, USD/bbl	8.82	7.90

*) Segment reporting includes the Oil Refining and Components divisions

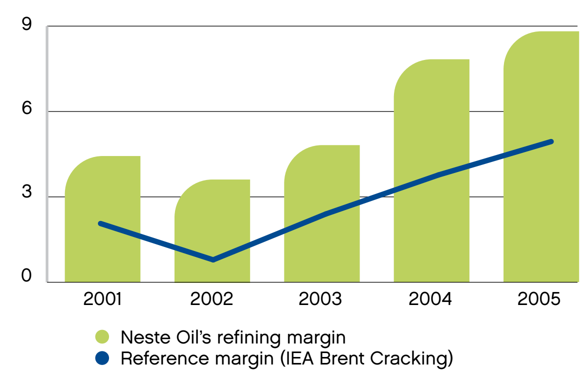
- Porvoo refinery upgrade continued according to plan. A new diesel line will begin production in late 2006
- A scheduled maintenance shutdown was completed successfully at Porvoo
- The Naantali refinery operated at a record-high capacity utilization rate
- Operational efficiency and safety remain top priorities

Neste Oil is one of the leading refiners in Northern Europe, and one of the two largest wholesale suppliers on the Nordic petroleum product market. The company has two oil refineries in Finland, with a total atmospheric crude distillation capacity of approximately 250,000 bbl/d. These refineries process crude oil and other feedstocks into high-quality traffic fuels and other high value-added petroleum products. By leveraging its refining expertise, Neste Oil is able to bring new products to market and use a wide range of raw material inputs and refining technologies.

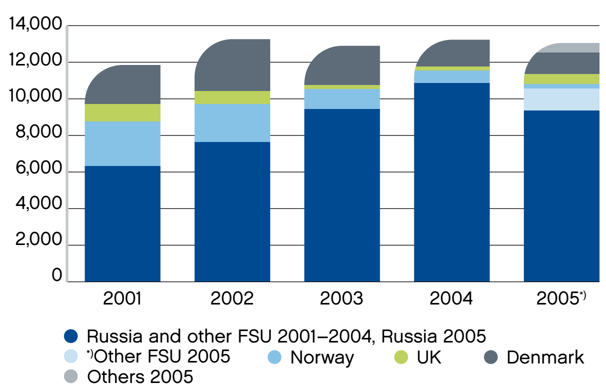
The key market drivers of Oil Refining's financial performance are the international refining margin, the price differential between heavy, sour crude oil and light, sweet crude, and the EUR/USD exchange rate. Changes in crude oil prices mainly impact performance in the form of inventory gains or losses.

Oil Refining's capabilities will be further enhanced when the upgrade of the Porvoo refinery is completed. A number of other projects are also under way designed to boost operational efficiency and secure good profitability in changing market conditions.

Neste Oil's refining margin has exceeded the reference margin
USD/bbl



Supply of crude oil and feedstocks to Neste Oil's refineries
1,000 t



Margins climbed over 2004 levels

The reference refining margin used by Neste Oil, IEA Brent Cracking, remained at 2004 levels for most of 2005, but averaged almost 30% higher at USD 4.98 /bbl (3.78). In September and October, the reference margin reached a new record level of approximately USD 16 /bbl in the aftermath of hurricanes Katrina and Rita, which idled a number of refineries in the USA.

Neste Oil's total refining margin was USD 8.82 /bbl (7.90). This higher margin resulted from the strong diesel market for most of the year, and a wider price differential between heavy and light crude oil during the first three quarters of 2005 than in 2004.

The price difference between Brent Dated and Russian Export Blend crude oil was volatile throughout the year, and averaged USD -4.42 /bbl (-3.96). The difference narrowed towards the end of the year, as the Russian rail tariff structure and taxation encouraged domestic refinery usage over export by rail.

The EUR/USD exchange rate averaged 1.24 (1.25).

Petroleum product prices increased well above long-term averages over the course of the year, partly due to refinery outages in the US. Speculation about the sufficiency of gasoline and middle distillates also pushed prices up, as did strong product demand, particularly in China and the US. The price differentials between middle distillates and crude oil were wider than in 2004, and remained very high throughout 2005. The gasoline differential stayed at 2004 levels, until the tight supply situation in late August and early September pushed them to all-time highs.

Driven by the tight supply of low-sulfur crude oil, prices for crude continued to rise until fall 2005. Brent Dated started the year at approximately USD 40 /bbl and reached an all-time high of USD 68 /bbl in August, before falling back to around USD 55–60 /bbl. The annual average was USD 54 /bbl (38).

Investments and production

The slightly over EUR 600 million Diesel Project at the Porvoo refinery progressed to schedule, and the new production line is expected to come on stream in late 2006. When completed, the project will increase Neste Oil's production capacity of sulfur-free diesel fuel by 1.1 million t/a, and reduce production of lower-value heavy fuel oil. The Porvoo refinery will also be able to switch over completely to using heavier, sourer crude input. The project is expected to increase Neste Oil's total refining margin for its annual production of approximately 100 million barrels by over USD 2 /bbl.

A planned maintenance shutdown was carried out at the Porvoo refinery in August and September. In addition to normal maintenance work, this included a number of investments designed to enhance the refinery's productivity,

Neste Oil's sales from in-house production, by product category*)

1,000 t	2001	2002	2003	2004	2005
Motorgasoline and components	4,525	5,204	5,045	4,896	**4,673**
Diesel fuel	3,310	3,619	3,886	4,265	**4,183**
Jet fuel	455	586	611	705	**608**
Biofuels	0	0	0	39	**111**
Base oils	123	190	237	279	**274**
Heating oil	1,713	1,503	1,474	1,197	**791**
Heavy fuel oil	1,201	1,233	1,314	1,280	**946**
Other Products	1,451	1,359	1,591	1,564	**1,460**
Total	12,778	13,694	14,158	14,225	**13,046**

*) Includes the Oil Refining and Components divisions

Neste Oil's sales from in-house production, by market area*)

1,000 t	2001	2002	2003	2004	2005
Finland	7,499	7,865	7,904	8,302	**7,455**
Other Nordic countries	2,009	2,019	1,980	2,175	**2,135**
Other Europe	1,941	1,982	2,455	1,948	**2,000**
Russia & the Baltic countries	45	41	62	100	**29**
USA & Canada	1,212	1,713	1,668	1,508	**1,246**
Other countries	72	74	89	192	**181**
Total	12,778	13,694	14,158	14,225	**13,046**

*) Includes the Oil Refining and Components divisions

Neste Oil's wholesale market share of key petroleum products in Finland stood at 77% (79%) in 2005.

including modifications linked to the new forthcoming diesel and biodiesel units and increased EHVI base oil capacity. The shutdown lasted 37 days, compared to 50 days during the previous shutdown in 2001. The next major maintenance shutdown at Porvoo is scheduled for 2010.

Neste Oil imported a total of 10.8 million tons (12.3 million) of crude oil and other feedstocks in 2005, of which 80% (82%) came from Russia and the countries of the former Soviet Union and the remainder from the North Sea. About 50% of the crude oil sourced was logistically competitive heavier, sourer crude. Other feedstocks included middle distillates, vacuum gas oils, fuel oil, gasoline components, and LPG (Liquefied Petroleum Gas).

The majority of input, 90% (90%), was delivered to Neste Oil's refineries by sea, and 10% (10%) by rail.

Neste Oil refined a total of 12.9 million tons (13.6 million) of crude oil; 65% (62%) of products consisted of sulfur-free or low-sulfur traffic fuels.

The crude distillation capacity utilization rate at the Porvoo refinery was 89.2% (100.0%) and was heavily impacted by the site's scheduled maintenance shutdown in August and September. Both crude units at Naantali were overhauled at the beginning of 2005, after which capacity utilization was high for the rest of the year and reached a record level of 96.1% (93.7%).

Sales volumes in Finland totaled 7.5 million tons (8.3 million). Neste Oil's wholesale market share of key petroleum products in Finland stood at 77% (79%).

Exports totaled 5.5 million tons (5.9 million), of which 2.4 million tons (2.7 million) comprised gasoline and 1.8 million tons (1.7 million) diesel fuel. The main gasoline export markets were the other Nordic countries, Germany, and North America. The US and Canada accounted for 42% of Neste Oil's total gasoline exports. The main export markets for diesel fuel were Sweden and Germany. Smaller volumes went to the other Nordic countries and elsewhere in Europe.

Success of in-house technologies

In addition to the refineries, the cornerstone of Neste Oil's refining expertise lies in its research and development organization, which has played an important role in the development of NExBTL biodiesel technology, for example, which is a natural continuation of earlier Neste Oil advances in proprietary fuel processing technologies.

These advances include NExOCTANE iso-octane production technology, and NExETHERS and NExTAME etherification technologies, all of which are global leaders in their sectors.

Quality bitumen from Nynäs

Neste Oil has a 50% stake in the Swedish company, Nynäs Petroleum, one of Europe's leading producers and marketers of quality bitumen and a global leader in premium napthenic specialty oils. Nynäs is a joint venture with the Venezuelan national oil company, Petróleos de Venezuela S.A. Nynäs Petroleum owns two bitumen refineries in Sweden, and two bitumen refineries in the UK, one wholly owned and one jointly owned on a 50/50 basis. **Read more at www.nynas.com**

Strong engineering know-how

Neste Jacobs develops and applies technologies in cooperation with Neste Oil's production plants and research units, as well as other customers. The company has over 40 years of experience in various process plant investment projects in the oil refining, gas, and petrochemical industries in Europe, North America, and the Middle East. Neste Jacobs is owned by Neste Oil (64%) and Jacobs Engineering Group, Inc. of the US (36%). **Read more at www.nestejacobs.com**

Porvoo refinery

- Started operations in 1965
- One of the most sophisticated and complex refineries in Europe
- Focuses on producing high quality, low-emission traffic fuels
- Crude distillation capacity of some 196,000 bbl/d
- Features extensive storage facilities for crude oil and petroleum products
- Neste Oil's Porvoo harbor is the largest in Finland in terms of traffic volumes. Crude oil and petroleum product cargoes totaling 16–19 million tons a year are discharged and loaded at the harbor
- The new diesel line currently under construction will come on stream in late 2006 and will add some 1 million t/a of diesel capacity
- Employs about 1,800 people.

Naantali refinery

- Started operations in 1957
- Focuses on traffic fuels and specialty products, such as bitumens, solvents, and small engine gasoline
- High ratio of specialty product output means that refining margins at Naantali are better than those of similar-sized complex refineries
- Crude distillation capacity of approx. 54,000 bbl/d
- Runs completely on heavier, sourer crude
- Achieved a record capacity utilization rate of 96.1% in 2005
- Employs some 400 people.

Cleaner fuels, less emissions

By using its proprietary technological advantage, Components provides the foundation for traffic fuels and lubricants offering high performance and lower emissions.

Neste Oil's Components division produces and markets high value-added fuel and lubricant components for a growing market, with a number of potential investment opportunities. The components business gives Neste Oil a valuable competitive edge, and underlines its commitment to a clean traffic fuels strategy.

A next-generation biodiesel production plant under construction in Porvoo.

NExBTL biodiesel will be launched in
2007

The production capacity of premium-quality base oil EHVI was expanded at Porvoo.

Porvoo EHVI production now totals (t/a)
250,000

Demand for the high-octane gasoline component, ETBE, is increasing in Europe.

Total ETBE production and marketing volume (t/a)
175,000

In external reporting, the Oil Refining and Components divisions form the Oil Refining segment.

The Components business is expected to become Neste Oil's key growth area

- Attractive growth prospects in global markets for high-quality traffic fuel and lubricant components
- Next-generation biodiesel production facility under construction at the Porvoo refinery
- Ongoing evaluation of investment opportunities worldwide

Components addresses current and future demand for traffic fuels and lubricants that calls for ever-better products offering both reduced environmental impact and excellent performance on the road.

Next-generation biodiesel

Neste Oil's new biodiesel production plant under construction at the Porvoo refinery is due to commence production in summer 2007. The plant is based on proprietary NExBTL technology that is capable of producing high-quality biodiesel from vegetable oils and animal fats. Neste Oil's biodiesel is widely recognized as an excellent fuel with exceptional cold properties and overall performance.

NExBTL biodiesel

- A next-generation biodiesel developed by Neste Oil
- Can use a flexible mix of both vegetable oils and animal fats
- Excellent fuel properties that meet the highest requirements of automotive manufacturers
- Contributes to a significant reduction in exhaust emissions
- Can be used as a blending component in conventional diesel fuel
- Available from summer 2007.

Neste Oil and Total S.A. of France are currently evaluating the possibilities for building a jointly owned NExBTL biodiesel production facility at one of Total's refineries in Europe. The companies signed a memorandum of understanding on this in summer 2005. If an investment decision is made, production is expected to start in summer 2008.

Neste Oil is also actively looking for other partner-based investment prospects in biodiesel production.

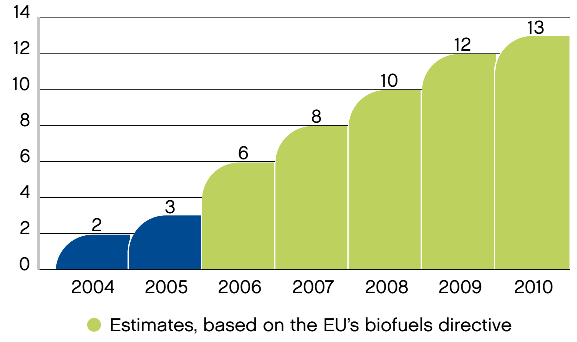
Gasoline components

Neste Oil's gasoline components are used in blending the company's own reformulated gasoline and for sale to other oil companies.

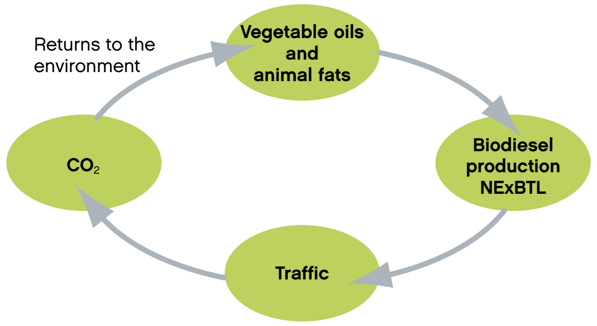
Neste Oil produces ETBE, a bioethanol-based gasoline component, at its Porvoo refinery and at a wholly owned plant in Sines in Portugal. These units have a capacity of 85,000 t/a and 50,000 t/a, respectively. Neste Oil is also responsible for marketing 40,000 t/a of ETBE produced by a Borealis plant in Stenungsund in Sweden.

Neste Oil and Chevron jointly own a 500,000 t/a production facility producing iso-octane, a hydrocarbon-based gasoline component, in Edmonton in Canada. Output from this facility is primarily sold on the Californian market. The plant, which previously produced MTBE, was converted to iso-octane in 2002, after it became clear that MTBE would be phased out in California and other US states. It uses Neste Oil's proprietary iso-octane production technology, NExOCTANE, which is a market leader in this sector. At the end of 2005, personnel at the Edmonton plant had worked over 4,300 days without injuries resulting in lost workdays.

The biodiesel market in Europe
million tons



NExBTL CO_2 circulation



In addition, Neste Oil has a 10% stake in an MTBE production plant in Al-Jubail in Saudi Arabia. This facility produces some 1,580,000 t/a of MTBE and 700,000 t/a of polypropylene, and recorded an all-time record in MTBE production in 2005. Neste Oil has announced its intention to divest its stake in the Al-Jubail plant to concentrate on its core businesses.

Lubricant base oils

The ever-tougher quality requirements of the automotive industry are driving growing demand for the premium-quality base oils used in blending lubricants. Premium, sulfur-free lubricant components are one of Neste Oil's growth areas.

Neste Oil has an approximately 30% share of the European market for polyalphaolefin base oil (PAO), a key component in blending high-quality synthetic lubricants, which it produces at Beringen in Belgium. At the end of 2005, the Beringen plant had operated close to 5,300 days without injuries that result in lost workdays for company personnel.

Neste Oil produces 250,000 t/a of EHVI base oil at its Porvoo refinery, which is sold to leading lubricant manufacturers and is used in Neste Oil's own lubricant products. The capacity of the EHVI unit at Porvoo was increased by 30,000 t/a in September 2005.

Neste Oil is currently evaluating the possibility of building a 400,000 t/a EHVI production plant in Bahrain with the Bahraini oil company, Bapco. A favorable investment decision would enable the plant to come on stream in the first half of 2008.

Biofuels in the spotlight The main rationale behind using biofuels on the road is carbon dioxide circulation. Biofuels bind the same amount of carbon dioxide that is released when they are burnt.

The high price of crude oil and petroleum products, together with growing environmental awareness, have resulted in increasing demands for increasing the use of biofuels in traffic. In Europe, this development has been strengthened by the European Union's biofuels directive encouraging member states to increase biofuel usage to 5.75% of all gasoline and diesel fuel used in traffic by 2010. Many European countries already support the use of biofuels and have introduced various taxation measures to promote their use. Tax incentives are considered pivotal, as the raw materials used in producing biofuels are more expensive than those used in conventional fossil fuel-based products.

Winning new customers in Oil Retail

Neste Oil retained its leading position on the retail market in Finland and continued expanding its operations around the Baltic Rim.

Oil Retail markets petroleum products, LPG, and associated services directly to a wide range of end-users, of which the most important are private motorists, industry, transport companies, farmers, and heating customers. Traffic fuels are marketed through Neste's own service station network. Other sales are handled by a dedicated sales organization.

Oil Retail recorded stable profitability.

Comparable operating profit of (EUR million)
49

Expansion will continue around the Baltic Rim.

Outlets in the Baltic Rim in December totaled
210

Product sales decreased slightly compared to 2004.

Total volume was (million m^3)
4.1

Oil Retail

An important link with the end-users

Key figures

	2005	Carve-out 2004
Sales, MEUR	2,931	2,374
Operating profit, MEUR	48	60
Comparable operating profit, MEUR	49	49
Capital expenditure, MEUR	47	36
Product sales volume, 1,000 m³	4,115	4,005

- Strong commitment to building and strengthening customer relationship management capabilities
- Profitable growth in the St. Petersburg region and in Poland
- New NEX unmanned station concept will be developed further in Finland

Oil Retail represents an important channel for marketing and launching Neste Oil products, particularly through the company's extensive network of outlets in Finland and around the Baltic Rim. Neste Oil had a total of 889 (873) retail outlets in Finland as of the end of 2005, and 210 (178) outlets in other countries around the Baltic.

Neste Aviation supplies high-quality products and service to international and national airlines and aircraft operators. Operations are concentrated at some 20 airports in Finland and at Riga International Airport in Latvia.

Oil Retail also operates a lubricants production plant in Helsinki.

Tough competition in Finland, growth around the Baltic

Neste Oil retained its position as the leading supplier of petroleum products on the retail market in Finland in 2005. Its market share in gasoline was 27.2% (27.6%) and in diesel 40.6% (41.6%). Tough price competition and a growing number of new service station investments are making retaining this position increasingly challenging. An extended labor dispute affecting the paper and pulp industry in Finland, hurricanes in the US Gulf, and exceptionally warm weather in Finland all made themselves felt on the retail market in 2005. The tough competition in traffic fuels is expected to continue in 2006, which will make profitability and market leadership key issues for Oil Retail during the year.

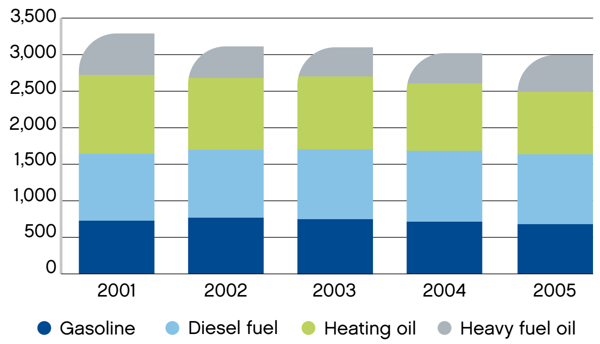
A new low-cost, unmanned outlet concept, known as NEX, was piloted in Finland during 2005. Customer feedback from the pilot was good and development of the NEX network will continue in 2006. The new stations are designed to offer motorists exceptionally good prices in a market where competitors are offering a growing range of low-cost options. A total of 11 NEX outlets were operational as of the end of the year. The new concept is expected to strengthen Neste Oil's leadership of the retail market for traffic fuels in Finland.

Neste Oil was the first company in Finland to begin distribution of a urea-based solution for diesel vehicles in 2005, through the Neste retail network. The majority of European manufacturers of diesel-powered commercial vehicles have selected SCR technology to meet the new Euro IV emissions standard, which will come into force in 2005 and 2006. As SCR catalytic converters use a standardized urea solution known as AdBlue. Distribution currently covers outlets in Rovaniemi in Lapland, Nurmijärvi and Vantaa in the Greater Helsinki region, and Raisio in Southwest Finland.

Oil Retail will continue its expansion around the Baltic Rim. Neste Oil is already a major retailer of traffic fuels in the Baltic countries, Poland, and Northwest Russia.

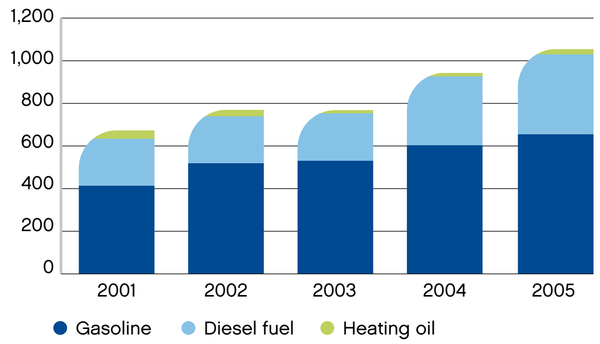
Sales volumes in Finland remain fairly stable...

1,000 m³



...whereas the Baltic Rim volumes continue to grow

1,000 m³



Particularly positive progress was made in the St. Petersburg region in Russia, where the consumption of traffic fuels is continuing to grow, despite rising prices. Poland was the focus of service station-related investments in 2005. Improvements in economic prospects will drive further expansion, and growth is anticipated in Poland and Northwest Russia in particular.

Exports of lubricants were concentrated on markets in Russia and the countries of the former Soviet Union.

Continuous development

The program launched in 2004 to develop Oil Retail's direct customer base continued in 2005, and covers the entire division. The program is designed to improve internal operations and build longer-term customer relationships.

The aim is to achieve certification for all aspects of Oil Retail's operations in 2006, on the basis of ISO 9001, ISO 14001, and OHSAS 18001 certificates.

Oil Retail is committed to further enhancing its customer relationship skills, product and service strategies, and competitive offering to meet the challenges that are anticipated over the next two to three years.

Retail network in Finland, 31 Dec 2005

Dealer-owned Neste stations	185
Other Neste stations	109
Unmanned A24 stations	179
Unmanned NEX stations	11
Futura Partners outlets	83
D stations	322
Total	889

Retail network in the Baltic Rim, 31 Dec 2005

Neste stations	23
Unmanned A24 stations	183
D stations	4
Total	210

Securing flexible logistics

Shipping retained a strong position on the crude oil transportation market in the Baltic in 2005.

The Neste Shipping fleet carries crude oil, petroleum products, and chemicals for the Group and other customers – safely, professionally, and competitively. Neste Oil's refineries rely on Shipping for an interruption-free supply of the crude oil they need, precisely when they need it, and for shipping refined products to customers.

Freight rates declined from 2004's record levels.

Aframax Worldscale index averaged **164 points**

Shipping's profitability remained solid in 2005.

Comparable operating profit of (EUR million) **85**

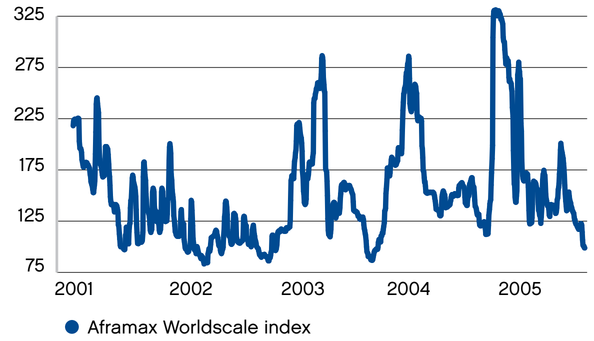
The fleet carried a total of 40 million tons.

Fleet utilization rate was **92.2%**

Supplies and deliveries handled by a fleet of some 30 tankers

Key figures	2005	Carve-out 2004
Sales, MEUR	352	339
Operating profit, MEUR	87	113
Comparable operating profit, MEUR	85	94
Capital expenditure, MEUR	24	77
Deliveries total, millions of tons	40.2	40.7
Fleet utilization rate, %	92	93

North Sea crude oil rates vary seasonally
daily rates, points



Shipping

- Fleet capacity utilization rate remained high
- North Sea crude oil freight rates remained solid, but were lower than in 2004
- Hurricanes in the Gulf of Mexico pushed product freights up around the world.

Shipping carried a total of 40 million tons (41) during the year, half of this for third parties.

The capacity utilization rate of the Shipping fleet was high in 2005, although slightly down on the figure for 2004, because of docking and other maintenance work.

Fleet and operations

The Shipping fleet comprised 27 tankers as of the end of 2005, of which 9 were crude carriers and 18 product tankers. The fleet also includes three escort tugs and two combined push-barges. Altogether, the fleet has around a million deadweight tons of capacity.

In-house needs account for around half of Shipping's sales, and outside customers the rest. Shipping guarantees a flexible and reliable crude supply for Neste Oil's two refineries, and safe product shipping for the company's customers. The volume generated by shipments for external customers helps ensure the competitiveness and flexibility of operations, and ensures a high capacity utilization rate for Neste Oil's ships.

The Shipping fleet includes Neste Oil-owned tankers, and bareboat and time-chartered vessels. Spot capacity is used where necessary to meet fluctuations in demand. Approximately one third of the fleet is owned by Neste Oil.

Shipping's main operational areas are the Baltic, the North Sea, and the North Atlantic, and the division's main markets are in Northwest Europe. Crude oil is mainly sourced from terminals in the Baltic and the North Sea. The bulk of petroleum products and chemicals are shipped to customers in Northern Europe and Finland. Gasoline is also exported to the US and Canada.

Safety is a key priority for Shipping. Crude is carried only in double-hull or partial double-hull tankers. Many of Neste Oil's tankers are also ice-classified to ensure trouble-free operations during the winter season. Personnel are extensively trained in navigating in ice and winter conditions, as Neste Oil's refineries are the only units in the world that are regularly iced in during the winter months.

Given the challenging navigation conditions typical of the approaches to Neste Oil's refineries, Shipping deploys escort tugs for all crude and product shipments in excess of 40,000 tons to and from the company's own harbors. This ensures that vessels can be kept safely in designated shipping fairways should a fault develop in a tanker's navigation system. A simulator has been developed and installed in Turku for training the officers of Neste Oil's tankers and escorts in these operations. Shipping's escorts can be equipped with oil spill containment equipment when needed.

Ice premiums of crude freights reduced

Crude oil freights in the North Sea stood at an average of 164 Worldscale points in 2005 (188). This decline of 13% on the record level seen in 2004 was partly the result of reduced ice premiums, due to a milder winter.

Product freight rates are largely based on annual contracts, and were higher during 2005 than in 2004. Freights for shipments across the Atlantic rose during the third quarter as a result of the hurricanes that struck the Gulf of Mexico in August and September. Fuel costs and time charter rates rose at the same time.

Strategic measures

Shipping continued its fleet replacement program in 2005. Two new tankers were added to the fleet, the Neste and the Suula. A joint venture between Neste Oil and Concordia Maritime of Sweden has two 75,000-dwt Panamax tankers under construction that Neste Oil will time-charter when completed. The first vessel is scheduled for delivery in 2006 and the second in 2007. The two tankers will secure Neste Oil's gasoline deliveries to North America.

Neste Oil's fleet at the end of 2005

9 crude tankers, of which 3 were company-owned
18 product tankers, of which 7 were company-owned
2 combined push-barges, both company-owned
3 tugs, of which 1 was company-owned.
www.nesteshipping.com

DAT (Double Acting Tanker). Shipping has been a pioneer in making use of advanced DAT technology in its winter operations. Two crude oil carriers, the Tempera and the Mastera, feature a DAT design, and operate bow-first in open water and stern-first in thick ice. Their ability to operate without the assistance of icebreakers in most conditions provides additional security of supply for Neste Oil's refineries.

Shipping

A responsible approach to business makes better business sense

Responsibility

Neste Oil believes that a company must behave responsibly if it is to succeed and retain the trust of its interest groups. What is at stake is how dynamic and well-managed a company is, what its goals are, and how successfully it balances different needs – whether they are linked to its own personnel, its health, safety, and environmental responsibilities, or its obligations and duties as a corporate citizen.

A responsible approach to business not only contributes to achieving business objectives, it also reflects a company's commitment to operating in accordance with its values and sustainably. Good performance in the health, safety, and environmental area is directly dependent on the degree to which operations are based on a solid and systematic foundation.

Neste Oil can point to many examples where its agility and pioneering spirit have shown their worth, particularly in the field of product development.

A Finnish focus

Neste Oil's refineries and the bulk of its employees are located in Finland. Public health care has a long tradition in Finland, and the company's own occupational health care service is also of a high standard. Finland is well-known for its political stability, respect for the law, and cooperation between citizens and the authorities, and between communities and other groups.

The size and scope of Neste Oil's activities mean that the company has a major impact on society in Finland, and a direct and indirect influence on the economy in areas such as taxes, export revenues, and dividends paid to the shareholders. In line with this, Neste Oil is committed to developing its operations responsibly and sustainably and to promoting the company's position as a valuable and valued member of society.

Smooth management-employee cooperation is a clear Neste Oil goal, and company and employee representatives have agreed a framework for this in Finland, designed to increase and develop cooperation between employees and their employer and between employees and employee groups in Group companies. Employees select representatives to this Finnish Management-Employee Cooperation Forum in accordance with the principles of the Co-determination Act.

Sustainability reporting

Neste Oil has been a forerunner in environmental and corporate citizenship reporting. Former Neste Corporation is the only Finnish company to have won the European Environmental Reporting Award for its Corporate Health, Safety and Environmental Report, in 1999.

In late 2005, Stock at Stake, a corporate responsibility and advice body used for profiling oil companies for the consumer organization ICRT, ranked Neste Oil first both in its environmental and overall assessment.

Neste Oil has been also selected for the Ethibel Excellence Register.

Both Neste Oil's refineries publish annual voluntary HSE reports to provide their local stakeholders with relevant data on their performance and impact.

Managing environmental risks and liabilities

HSE

Achieving excellent operational and financial performance is a central Neste Oil objective, as is striving for an excellent safety record and minimizing risks and other liabilities. To achieve this, the company needs to be aware of the hazards associated with its operations and the risks they pose to the environment and health.

Neste Oil's health, safety, and environmental (HSE) policy defines the company's goals as follows:

- Develop, make, and deliver to the customers superior products and technologies that are safe and environmentally sound
- Comply with all applicable regulatory requirements
- Regard good handling of HSE issues as an integral part of business activities, and aim at efficient management of related risks
- Act responsibly in the society and in the use of natural resources, and make decisions supportive of sustainable development
- Prove committed to the Responsible Care Program.

Neste Oil is committed to addressing people's concerns about potential health hazards or environmental risks associated with its operations. As expert assessments and technical information are not always sufficient to win people's trust, the company regularly engages in dialogue with its interest groups on these issues. Neste Oil also publishes environmental reports on its refineries annually, with content specifically tailored to the needs and interests of those living close to its facilities.

Neste Oil produces the bulk of its products at its Porvoo and Naantali refineries, both of which feature advanced technology and are manned by expert personnel, who draw on a body of expertise that has been built up systematically and consistently over the years. Systems at the refineries comply with the requirements of the ISO 14001, ISO 9001:2000, and OHSAS 18001 standards.

All personnel have received HSE training. In addition to company personnel, employees of outside logistics companies working on Neste Oil contracts are also trained regularly in HSE matters. Neste Oil requires that the operating systems of these companies comply with the requirements of the ISO 14001 standard. In addition, the company gives safety-related training frequently to employees of service providers and contractors working at the refineries.

HSE investments

Neste Oil's HSE investments in 2005 totaled EUR 36 million (36 million), equivalent to 5% of the company's overall capital expenditure. All projects aimed primarily at enhancing safety or environmental performance are classified as HSE investments, while those with a partial HSE dimension are classified only in respect of their HSE content. The environmental permits of both refineries are currently up for renewal, but the company does not expect investment requirements to result from this that would materially impact its financial result.

Neste Oil monitors its HSE costs on a systematic basis. HSE operating expenses in 2005 totaled EUR 47 million (38 million), and covered areas such as measures designed to prevent air and soil pollution, wastewater treatment, waste disposal, and fire protection.

The company's environmentally driven product strategy has proved successful and has opened up new markets; and well-managed, quality operations always bring savings. These can take the form of lower harbor dues, resulting from the use of safer ships, for example, and savings generated by responding proactively to upcoming changes in regulations and promoting safety.

which provides indemnity up to EUR 300 million per incident and during the duration of the policy. In the case of the United States and Canada, cover is restricted in terms of the duration of any damage caused and how it is reported. Possible pollution of the environment occurring on a gradual basis is not covered. Potential risks and liabilities not covered by the company's insurance policy are reviewed annually and provisions are booked where appropriate.

Although environmental legislation is continuing to develop rapidly in Neste Oil's area of operation, legislation currently in place or being drafted does not contain any requirements that would impose a material burden in

No serious environmental damage resulting in claims against the company, or accidents resulting in significant interruptions in production, took place in 2005.

Environmental liabilities

For the purpose of its initial public offering, Neste Oil commissioned an extensive review in early 2004 of the environmental liabilities associated with all its corporate companies and subsidiaries in which Neste Oil has a 50% or greater holding. The liabilities and risks that Neste Oil is aware of are not considered as having a material impact on the company's financial position.

Studies have been carried out on the contamination of soil and groundwater resulting from earlier operations at the company's refineries and other major locations. Neste Oil's refineries have comprehensive groundwater management systems, and its service stations are covered by a risk management program that has assessed conditions at most outlets and carried out clean-ups where appropriate. A total provision of EUR 8.7 million has been booked to cover environmental clean-ups. Neste Oil treats environmental liabilities and risks in line with IFRS regulations.

No serious environmental damage resulting in claims against the company, or accidents resulting in significant interruptions in production, took place in 2005. Neste Oil has been able to reduce significantly the amounts of emissions and discharges arising from its operations, and these have mainly been kept inside the limits set by the authorities. Consequently, there is only a low risk for environmental damage to occur.

The possibility of sudden and unexpected environmental damage worldwide is covered by corporate liability insurance, terms of additional costs on Neste Oil's financial performance or status.

Climate questions

The Finnish Energy Market Authority granted both of Neste Oil's refineries their final permits for greenhouse gas emissions during the first quarter of 2005. These cover the requirements for both emission monitoring and reporting. The quotas for carbon dioxide (CO_2) emissions were received at the end of 2004, and Neste Oil has not yet participated in carbon dioxide emissions trading. After the completion of the Diesel Project at the Porvoo refinery, the company might have a small need to acquire some additional emissions rights.

Emission quota prices have been included in operational management models, and they are updated regularly, thereby ensuring that the additional costs associated with CO_2 released when firing heavy fuel oil, for example, are taken into account when selecting the fuels used at the power plants at the Porvoo refinery.

Product stewardship

Neste Oil has committed itself to the international Responsible Care Program and promoting its concept of product stewardship, which is designed to extend environmental awareness beyond the traditional environmental and safety concerns associated with production locations.

Neste Oil has set up a project to ensure that it complies with all aspects of the new regulatory framework for chemicals introduced by the European Commission and known as REACH (Registration, Evaluation and Authorization of Chemicals) – which requires that enterprises manufacturing or importing one ton or more a year of chemical substances should register these chemicals in a central database.

Neste Oil is committed to the Responsible Care Global Charter, revised in early 2006, targets of which converge with those of the UN Global Compact.

The Rotterdam-based Green Award Bureau has granted the Green Award to the following Neste Oil ships: Natura, Tervi, Palva, Mastera, and Tempera. Green Awards recognize ships that are shown to be environmentally safe during inspections of their operations and structure, and result in a 6% discount on harbor dues in Rotterdam. Neste Oil vessels saved a total of EUR 226,000 harbor dues in Rotterdam in 2005.

Performance shortcomings

Although Neste Oil's plants normally operate within the terms of their operating permits, occasional problems

Promoting safety at work

Neste Oil has put a lot of work into further developing safety procedures and safety thinking. New safety reviews have been introduced, improvement measures launched, management visibility enhanced at the grass roots level, and extensive training carried out to foster a broader common understanding of and approach to safety.

A cumulative LWIF (lost workday injury frequency – or the number of cases resulting in a lost workday per million hours worked) figure of 4.9 was recorded during 2005. A total of 34 accidents occurred, causing the LWIF to exceed the figure of 4.0 recorded in 2004, and the target of 3 that had been set for the year.

The LWIF for the Porvoo refinery shutdown was 4.7, in line with the target of less than 5. This compares to a LWIF of 33 for the 2001 shutdown at Porvoo.

An accident-related fatality involving an employee of an outside contractor took place at the Naantali refinery in February 2005.

Neste Oil's fleet of tankers is made up solely of double-hull or partially double-hull vessels, and its chartered tonnage matches the same criteria. The Finnish authorities level a 200% oil pollution prevention charge on all cargoes of oil that are carried in single-hull vessels. Neste Oil paid a total of EUR 6 million in the form of the basic charge in 2005. Shipments are covered by third-party liability insurance valued at USD 1,000 million.

do occur. One of these affected the wastewater treatment plant at the Porvoo refinery in early 2005, and resulted in waterborne oil discharges exceeding permitted levels in January and when preparing for the shutdown in August. No adverse effect on the marine environment was observed, however. The monthly permitted level for phosphorus emissions was exceeded in August, and an operational problem in October after the shutdown resulted in exceeding the monthly permitted nitrogen emission level. The reasons for both problems have been investigated, work on the necessary corrective measures has been started, and emissions are now in accordance with permitted levels.

Operations at the company's other locations complied with the conditions and levels required under their relevant health, safety, and environmental permits and regulations throughout the year.

The court proceedings resulting from a leak of oil at the Naantali refinery in 2001 are continuing. The court rejected the claims for compensation and fines made against the company. The Turku District Court has, however, fined four Neste Oil employees. All the parties in the case have appealed the verdict.

See more on HSE on pages 112–114.

Enthusiasm and competence are the key to success

- Neste Oil's personnel played a key role in creating the operational backbone needed when the company was listed on the Helsinki Stock Exchange
- The transformation created, and was driven by, a new sense of entrepreneurship and enthusiasm
- Investment projects at the Porvoo refinery highlight the excellent competence, cooperative skills, and flexibility of the company's personnel

Focusing on the future

A high level of professional skills, a readiness to commit to challenging objectives, and a flexible approach to working together, not only within the company but also with outside partners, will all be essential to helping Neste Oil achieve its goal of being the leading oil company in Northern Europe.

One of the key human resource management tools used at Neste Oil are performance and development discussions between personnel and their managers. These are held to ensure that personal targets are both challenging and understood. Development discussions support the company's day-to-day management and give those involved the opportunity to give each other feedback and ensure that people's skills and abilities are developed appropriately. Discussions of this type have been held across virtually the entire company for a number of years.

Neste Oil's human resource development and performance management processes are closely linked to the company's long-term strategic goals, and will play an important part in ensuring success into the future. A safe workplace is one of the company's key organizational development areas at the moment. Everybody in the company has taken part in safety training, which is designed to enhance people's awareness of their role in ensuring their own safety and that of their colleagues and the environment. A responsible, proactive mind-set is an important factor in securing and developing a safe workplace.

Internal job rotation offers personnel an excellent opportunity to develop and expand their skills, and for the company to strengthen internal collaboration. The system used to allocate expert resources for projects brings together people from a wide range of backgrounds in investment and development projects.

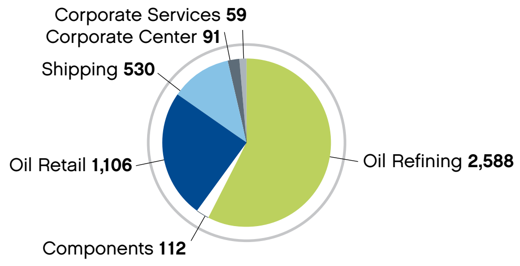
An employee satisfaction survey is carried out annually to measure how well departments, functions, and units are functioning and review the overall workplace atmosphere. The results of the most recent survey, which attracted replies from a record 82% of employees, indicate a high level of motivation and enthusiasm among personnel. The details of the results will be reviewed in units and locations to promote further improvements.

Building Neste Oil

All of Neste Oil's personnel were involved in creating the new company that was listed on the Helsinki Stock Exchange in April 2005. HR systems and processes were adapted to the needs of a listed company. Personnel and management agreed the key areas of HR work.

Development work on a new HR management system was started at the beginning of the year, and forms an integral part of Neste Oil's human resource development

Personnel by divisions, 31 Dec 2005



Core competences across Neste Oil will be identified and reviewed as part of the Capitalizing on Knowledge program launched in the fall. The information generated will be used to develop resources for guaranteeing the company's future success and growth potential.

A corporate value process was launched in the fall. As part of this, the company's personnel reviewed existing and future values and models. Input from this will be used by management to outline Neste Oil's new corporate values and link them with the company's strategic challenges. Broad-based discussions on these values, and involving all personnel, will be held in 2006.

effort. The new system, which will be introduced in early 2006, is designed to manage personnel- and organization-related data, recruitment, training information, reporting, and salary review processes. Additional functionality will be added later to provide extended support for HR processes. The system will be available to all managers and employees in the first quarter of 2007.

The structure for management-employee cooperation in the new company was outlined with representatives appointed by employees, with the aim of reaching an efficient, dialogue-driven solution for discussing topical issues and exchanging ideas and experience. Discussion also covered the continuance of employees' compensation and base benefit structure in the new company. An Employee Profit-Sharing Fund was set up in April 2005. In 2005, the average performance bonus based on criteria set for 2004 was 11.23% of the annual salary of a Neste Oil employee.

Work on developing a system for position evaluation of blue-collar employees and the merit rating model of white-collar staff was started together with personnel.

Neste Oil's equality policy and guidelines were developed and supplemented in discussions between Group management and personnel on the basis of Finland's new legislation in the area. The 2005 employee satisfaction survey also addressed people's views on this subject.

Motivated and enthusiastic

2005 was an interesting and challenging year in many respects. Building Neste Oil's business organization and the Group as a whole provided new opportunities for many employees, and job rotation reached a record level. A number of new key personnel were recruited to meet Neste Oil's needs as a listed company.

Construction work on two major projects – the Diesel Project and a new biodiesel plant – proceeded at the Porvoo refinery. Both projects required extensive additional resources, and will bring well over 100 new jobs to Porvoo. The technology and engineering behind these projects and their construction are an excellent example of the high standard of expertise and innovation within Neste Oil, and in Finland generally. World-leading expertise and pioneering technological excellence of this type will drive Neste Oil's success into the future.

Neste Oil aims to recruit a range of new skilled personnel over the next few years to ensure the continuity of its business and transfer experience to the next generation. Developing the capabilities of these new people and their commitment to the company's goals will be of central importance. Passing on the experience of today's experts to those of the future will help ensure Neste Oil's future in the oil business.

See more on Personnel on pages 115–116.

Building independent risk management processes

- An independent risk management program developed in-house
- A corporate risk management policy and other risk management policies and steering documents produced prior to the initial public offering
- Enhanced risk management practices established in the company's main risk categories

Role and objective of risk management

The oil refining business, by definition, exposes Neste Oil to market, counterparty, contractual, and operational risks, as well as other risks, including health, safety, and environmental (HSE) risks, IT and security risks, and general political and regulatory risks. The company's risk management program reflects this, and is aimed at supporting the achievement of Neste Oil's strategic and business targets by monitoring the impact on earnings resulting from market, operational, and other changes. The management of financial and financially related risks is directed towards reducing earnings, balance sheet, and cash flow volatility, while at the same time securing effective and competitive financing for the company's needs.

Sensitivities

The main market risks impacting the profitability of Neste Oil are commodity price risks and foreign exchange rate risks.

The following table details the approximate impact that movements in Neste Oil's key price and currency exposures would have on its operating profit for 2006, based on assumptions regarding the company's reference market and operating conditions, but excluding the impact of hedge transactions.

Key sensitivities for 2006

Approximate impact on operating profit excluding hedges	
10% in the EUR/USD exchange rate	+/- 80–100 EUR million
USD 1.00/barrel in total refining margin	+/- 100 USD million
USD 1.00/barrel in crude oil price	+/- 10 USD million
10 Aframax Worldscale points in crude oil freight rates	+/- 15 USD million

The impact of the key price exposures is indicated as amounts in US dollars, which is the pricing currency used in the international oil business.

Risk management policies

Neste Oil has developed a number of risk management strategies to address the impact of risks related to its business activities. The Board of Directors has approved an umbrella policy document, the corporate risk management policy, which outlines the objectives, principles, processes, and responsibilities of Neste Oil's risk management operations. This policy establishes guidelines for defining, quantifying, monitoring, and reporting financial risks.

In addition, Neste Oil's operating divisions exposed to market and financial risk have their own risk management policies, which are approved by the Chief Executive Officer. Neste Oil also has separate policies, procedures, and instructions relating to treasury, insurance, HSE, IT, and security risk management.

Risk management organization

Risks are generally managed at source, within the company's operating divisions. Neste Oil's Group Treasury is responsible, however, for managing foreign exchange, interest rate, liquidity, and refinancing risk, and works in close cooperation with the company's divisions. Group Insurance is responsible for establishing insurance schemes covering certain operational and hazard risks. The Corporate Risk Management and Group Treasury Units form part of Neste Oil's Finance function, headed by the Chief Financial Officer.

Insurance management, together with credit and counterparty risk management, are organized within Corporate Risk Management. Decisions on the credit worthiness of counterparties are handled within line organizations and by the Credit Committee, which comprises representatives from the company's divisions, as well as from Group Treasury and Corporate Risk Management.

IT risk management is handled by Corporate IT, and corporate security risks are managed by the Corporate Security Unit. Responsibility for risk management related to HSE lies with divisions. The HSE function supports them in improving HSE performance and ensures the regulatory compliance of operations.

Risk management process

The Audit Committee of Neste Oil's Board of Directors is responsible for reviewing the quality, adequacy, and effectiveness of the company's risk management.

Corporate Risk Management Unit drives the risk management process, and develops and reviews risk control processes. Managing risks that are specific to a division and form an essential part of its business is the responsibility of the company's divisions.

Risk management reporting is supervised by the Chief Financial Officer. Market and financing risks related to the company's divisions are reported by divisions to the Corporate Risk Management Unit, which carries out group-wide consolidation and analysis of risks. A Group-level report on these risks is included in the monthly management report presented to the Board of Directors, Chief Executive Officer, and other corporate management.

Managing major risks

Refining margin risk

As Neste Oil's refining margin is an important determinant of oil refining earnings, its fluctuations constitute a significant risk. To secure a minimum margin per barrel, Neste Oil hedges its refining margin with the aid of derivative instruments. The level of hedging used depends on the budget for the period in question and management's view of market conditions, but 10% of Neste Oil's refinery output volume over rolling 12-month period is normally hedged. Hedging transactions are targeted at the components of Neste Oil's total refining margin, based on budgeted sales and refinery production that are exposed to international market price fluctuations. Because of the differences between the qualities of the underlying crude oil and refined petroleum products for which derivative instruments can be sold and purchased and the actual quality of Neste Oil's feedstock and refined petroleum products in any given period, the business remains exposed to some degree of basic risk. The normal level of 10% of output over the next 12 months can be varied if separately approved.

Inventory risk

From a risk management perspective, Neste Oil's refinery inventory consists of two components. The first and largest component remains relatively constant over time, at approximately 70–80% of total inventory volumes, and is referred to as the 'base' inventory. This base inventory consists of the minimum level of stocks that Neste Oil is required to maintain under Finnish legislation and regulations, together with the operational minimum required to run the company's refineries under normal conditions. The base inventory creates a risk in Neste Oil's income statement and balance sheet, inasmuch as

Neste Oil applies the FIFO method for measuring the cost of goods sold, raw materials, and inventories, but no significant cash risk is incurred, due to the relatively constant level of the base inventory. As a result, hedging operations do not target the base inventory. Instead, Neste Oil's inventory risk management measures target inventories above and beyond the base inventory, inasmuch as these inventories create cash flow risks, depending on the relationships over any given period between feedstock purchases, refinery production, and refined petroleum product sales. The inventories above and beyond the base inventory that Neste Oil aims to hedge at any given time depends on management's view as to the likely magnitude and duration of this additional inventory and general market conditions. In practice, the entire additional inventory position is typically hedged.

The risk management program is aimed at supporting the achievement of Neste Oil's strategic and business targets by monitoring the impact on earnings resulting from market, operational, and other changes.

Freight rate risk

Derivative transactions targeting freight rates are used to provide a minimum level of coverage for Neste Oil's shipping margin. However, as the international market for freight rate derivative instruments is relatively illiquid, and as there are no derivative instruments available to hedge exposure to freight rate fluctuations in the Baltic region, Neste Oil's shipping business remains largely exposed to fluctuations in freight rates.

Emissions trading risk

The EU Emissions Trading Scheme (ETS) is a joint tool operated by the EU to reduce emissions under the requirements of the Kyoto Protocol. As the Finnish oil refining industry comes under the EU Emission Trading Scheme, Neste Oil is exposed to fluctuations in emissions prices. Compared to the major market risks impacting the company's profitability, emissions trading risks are not considered significant.

In addition to measures taken at its refineries to reduce emissions, Neste Oil intends using market-based emissions instruments to manage its exposure to emissions prices. The company is also investigating the possibility of using flexible Kyoto Protocol mechanisms as a risk management tool in emissions trading.

Foreign exchange risk

As the pricing currency used on the world's oil markets is the US dollar and Neste Oil reports in the euro, this exposes Neste Oil's business to short-term transaction and longer-term economic currency risks.

Neste Oil's foreign exchange risk management is designed to limit the uncertainty resulting from changes in foreign exchange rates on the future value of cash flows and earnings and Neste Oil's balance sheet. This is normally done by hedging currency risks in contracted and forecasted cash flows and balance sheet exposures (referred to as transaction exposure), and in the equity of non-eurozone subsidiaries (referred to as translation exposure).

In general, all Neste Oil's divisions hedge their transaction exposure over the next 12-month period. Deviations from this risk-neutral benchmark position are subject to separate approvals set by the Group Treasury Risk Policy. The company's net exposure is managed through the use of forward contracts, swaps, and options. The most important hedged currency is the US dollar.

Group Treasury is responsible for managing Neste Oil's translation exposure that results from the company's net investments in foreign subsidiaries and associated companies. Neste Oil's policy is to seek to reduce the volatility of Neste Oil's consolidated shareholder's equity resulting from this type of translation exposure. Foreign currency loans and forward contracts are used to hedge translation exposure. Hedging decisions are made on a case-by-case basis by Group Treasury, based on an assessment of factors, such as hedging costs and prevailing market conditions.

Interest rate risk

Neste Oil is exposed to interest rate risk mainly through its interest-bearing net debt. The company's interest rate risk management aims to reduce the volatility of interest costs in the income statement. The risk-neutral ▶

▶ benchmark duration for the net debt portfolio is 12 months, and duration can vary +/- six months from the benchmark. Interest rate derivatives are used to adjust the duration of the net debt portfolio.

Liquidity and refinancing risks

Liquidity and re-financing risk is defined as the amount by which earnings and/or cash flows are affected as a result of the company not being able to secure sufficient financing. Neste Oil's principal source of liquidity is expected to be cash generated from operations. In addition, the company seeks to reduce its liquidity and re-financing risks by ensuring that its loan portfolio has a broad-based maturity profile.

Counterparty risk

Credit risks arise from the potential failure of counterparties to meet their contractual payment obligations. As a result, the amount of risk involved depends on the creditworthiness of the company's counterparties. Counterparty risk also arises in conjunction with cash investments and hedging instruments. The amount of risk is quantified as the expected loss to Neste Oil in the event of default by a counterparty. Credit risk limits are set at corporate level and delegated to Neste Oil's divisions. Limits for Neste Oil's credit risk position are defined and documented, and credit limits for specific counterparties are based on their credit rating, the duration of the exposure involved, and the monetary amount of the credit risk exposure.

Corporate security and IT risks

The security-related risks associated with business operations are managed by Neste Oil's divisions as part of normal business management. The company's divisions also maintain business continuity procedures for crisis management purposes. Corporate-wide security concepts and principles for business operations are defined by the Corporate Security Unit. Corporate Security's primary objective is to reduce security risks and promote continuity by implementing corporate-level security procedures and services.

Corporate Security also monitors the adequacy of the security management-related planning, information, and control systems in the company's divisions. Corporate Security carries out selective audits to prevent and identify risks of this type.

Risks posed by IT systems are minimized through instructions, principles, and services provided by the Corporate IT Unit. External and internal threats affecting the company's IT infrastructure and corporate-level applications are managed centrally. Divisions are responsible for avoiding unnecessary risk affecting the business applications they use in their operations.

Hazard risks

In addition to preventive risk management measures, major hazard risks are covered by insurance policies to ensure that operations can be maintained in all circumstances. Property damage, business interruption, cargo transport, and liability exposure are covered by worldwide insurance programs. The ratings of the companies with which Neste Oil holds policies are monitored closely. Neste Oil Insurance Ltd, a captive company, has been established for risk management purposes and is used to gain access to the reinsurance market. The Group Insurance Unit is responsible for coordinating and controlling insurable risks to maximize possible economies of scale.

Future risk management challenges

The emphasis in developing Neste Oil's risk management program in the future will be on completing and implementing the framework for enterprise risk management and follow-up, and integrating regular management reporting across the company's divisions and corporate functions.

Risk management

Transparency in all levels of the governance

Neste Oil's corporate governance guidelines comply with the latest rules and recommendations.

Neste Oil Corporation complies with the Finnish Companies Act, the Company's Articles of Association, and the Corporate Governance Recommendation for Listed Companies that came into effect as of 1 July 2004 and was issued by the Working Group appointed by the Helsinki Stock Exchange, the Central Chamber of Commerce of Finland, and the Confederation of Finnish Industry and Employers.

Governance Bodies

The control and management of the Company is divided between the shareholders, the Supervisory Board, the Board of Directors and its two Committees, and the President and Chief Executive Officer.
www.nesteoil.com/investors/corporate governance

The Neste Executive Team assists the President and Chief Executive Officer in the management and coordination of the implementation of the Company's strategic and operational goals. Each of the Company's operational divisions has its own management team.

Matters material to the Company as a whole are submitted to the President and Chief Executive Officer or the Board of Directors for decision. Neste Oil has one regular auditor, as decided by the shareholders at the Annual General Meeting.

General Meeting of Shareholders

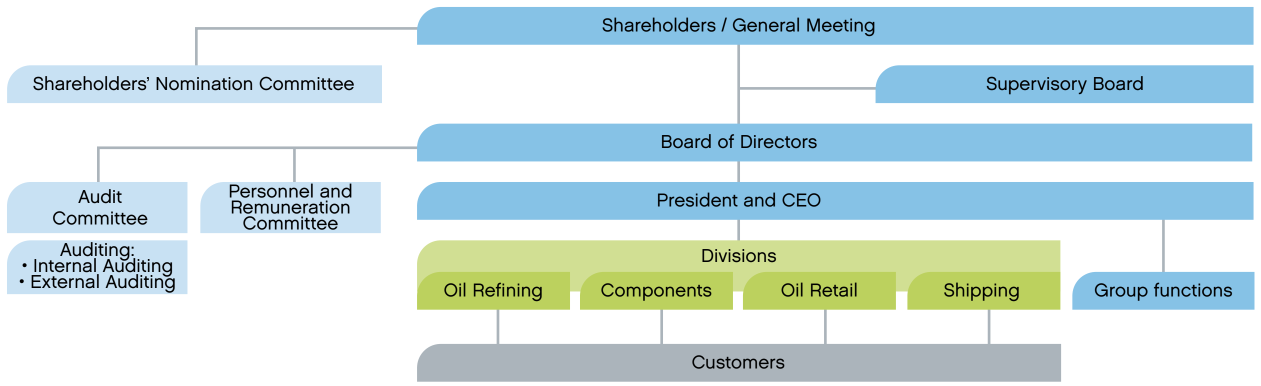
Shareholders participate in the control and management of the Company through resolutions taken at General Meetings of Shareholders by being in attendance in person or through an authorized representative. Each share entitles its holder to one vote.

At the Annual General Meeting, the shareholders take decisions, among other things, on adoption of the income statement and the balance sheet and the consolidated income statement and consolidated balance sheet, on the amount and time of payment of a dividend, if any, on granting of discharge from liability to the members of the Supervisory Board, the Board of Directors, and the President and Chief Executive Officer, as well as on the election of the members of the Supervisory Board, the Board of Directors and the auditor, and on their respective remunerations.

The Annual General Meeting of Shareholders is held annually by the end of June. An Extraordinary General Meeting of shareholders in respect of specific matters shall be held when considered necessary by the Board of Directors or the Supervisory Board, or when requested in writing by an auditor of the Company or by shareholders representing at least one-tenth of all the issued shares.

The Board delivers a notice for the General Meetings of Shareholders by publishing it in at least two regularly published newspapers determined by the Board of Directors

Organization



or otherwise in a verifiable manner no earlier than two months and no later than 17 days prior to the meeting.
www.nesteoil.com/investors/corporate governance

Shareholders' Nomination Committee

On 29 March 2005, an Extraordinary General Meeting of Shareholders resolved to establish a Nomination Committee to prepare proposals on the composition and remuneration of the Company's Board of Directors for the next Annual General Meeting of the Company's shareholders.

The Shareholders' Nomination Committee consists of the Chairman of the Board, acting as an expert member, and representatives of the Company's three largest shareholders. Those three shareholders that had the largest holdings of voting rights in the Company on 1 December 2005 were entitled to appoint the members of the Shareholders' Nomination Committee representing the shareholders of the Company.

The Shareholders' Nomination Committee is convened by the Chairman of the Board, and the Committee elects one of its members as a chairman. The Nomination Committee gave its proposal concerning the composition and remuneration of the Board on 30 January 2006.

2005 Neste Oil's three largest shareholders on 1 December 2005 were the Finnish State, the Ilmarinen Mutual Pension Insurance Company, and The Finnish Social Insurance Institution, and their representatives in the Committee were: Mr Markku Tapio (Ministry of Trade and Industry), Mr Kari Puro (Ilmarinen Mutual Pension Insurance Company), and Mr Jorma Huuhtanen (Social Insurance Institution). Neste Oil's Chairman of the Board, Mr Timo Peltola, acting as an expert member.

Supervisory Board

The Supervisory Board oversees the administration of the Company and submits its statement on the financial statements and the auditors' report to the Annual General Meeting. Furthermore, it may give guidance to the Board of Directors in matters that are extensive or important in principle.

The Supervisory Board is required to have between 6 and 12 members, each of whom is appointed by the Annual General Meeting for a one-year term ending with the next Annual General Meeting. A person who has reached the age of 68 cannot be elected to the Supervisory Board.

The Supervisory Board meets as frequently as necessary and constitutes a quorum if more than half of its members are present. No more than three employee representatives appointed by Neste Oil's labor unions have the right to be present at meetings of the Supervisory Board but are not considered members of the Supervisory Board.

Corporate Governance

Remuneration of the Supervisory Board

EUR	
The Chairman of the Supervisory Board	1,000 per month
The Vice Chairman	600 per month
Other members	500 per month
Meeting fee	200 per meeting

All members are entitled to travel expense compensation against receipts in accordance with the Company's travel policy.

Total compensation for the Supervisory Board in 2005 can be found in Note 28 of the Financial Statements.

2005 The Supervisory Board comprised 8 members and met 4 times. Average attendance at these meetings was 78.1%.

The members of the Supervisory Board taking office on 18 April 2005 for a one-year term of office were the following:

Klaus Hellberg, (Chairman), born 1945, Member of the Finnish Parliament

Markku Laukkanen, (Vice Chairman), born 1950, Member of the Finnish Parliament

Mikael Forss, born 1954, Director, the Social Insurance Institution of Finland

Heidi Hautala, born 1955, Member of the Finnish Parliament

Satu Lähteenmäki, born 1956, Professor, Turku School of Economics and Business Administration

Markus Mustajärvi, born 1963, Member of the Finnish Parliament

Juhani Sjöblom, born 1949, Member of the Finnish Parliament

Jutta Urpilainen, born 1975, Member of the Finnish Parliament

None of the members of the Supervisory Board had any shares in Neste Oil on 31 December 2005.

Board of Directors

The Board of Directors is responsible for the administration and proper arrangement of the operations of the Neste Oil Group in compliance with the relevant rules and regulations, the Company's Articles of Association, and the instructions given by the General Meeting of Shareholders and the Supervisory Board. The Board of Directors is responsible for the Neste Oil Group's strategic development and for supervising and steering the business.

The Board of Directors decides on Neste Oil Group's key operating principles; confirms the annual operating plan; adopts the annual financial statements and the interim reports; decides on major investments; confirms the Neste Oil Group's values and most important policies and oversees their implementation; appoints the President and CEO and his or her immediate subordinates and decides on their remuneration; confirms the Neste Executive Team's and the Neste Oil Group's organizational and operating structure at top management level; and defines the Company's dividend policy for proposal to the General Meeting of Shareholders.

The roles and responsibilities of the Board are defined in more detail in the Charter approved by the Board. The main content of the Charter can be found on the Company's website.

According to the Company's Article of Association, the Board of Directors consists of 5–8 members, each of whom is appointed by the Annual General Meeting of shareholders for a one-year term ending with the next Annual General Meeting. A person who has reached the age of 68 cannot be elected to the Board of Directors. To be considered independent, the Board must resolve that a director has no material relationship with the Company other than as a director or that a director is independent of a significant shareholder of the Company.

All Directors are required to deal at arm's length with the Company and its subsidiaries and to disclose circumstances that might be perceived as a conflict of interest.

The Board annually establishes an Operational Plan for the work of the Board to be carried out during the period between the Annual General Meetings of the Company. The Operational Plan establishes, among other things, a schedule for Board meetings and the highest priority matters to be addressed in each meeting.

The Board meets as frequently as necessary to promptly discharge its responsibilities. There shall be approximately 6–8 ordinary meetings annually, all scheduled in advance. In addition, extraordinary meetings shall, if requested by a Board member or the CEO, be convened by the Chairman, or should the Chairman be unable to do so, by the Vice Chairman. The Board constitutes a quorum if more than half of its members are present.

The Board evaluates its performance annually to determine whether it is functioning effectively. The performance review is discussed with the full Board following the end of each fiscal year, at the latest.

Remuneration of the Board of Directors

EUR	
Chairman of the Board	55,000 per year
Vice Chairman	42,000 per year
Members	30,000 per year
Meeting fee*)	500 per meeting

*) A fee is paid to each member of the Board for each meeting attended, as well as for any meetings of Board committees attended.

Furthermore, all the members of the Board are entitled to compensation for their travel expenses in accordance with the Company's travelling policy.

Total compensation for the Board of Directors can be found in Note 29 of the Financial Statements.

2005 The Board of Directors that took office on 18 April 2005 has 8 members (see page 46–47), all of whom independent with the exception of Mr Juha Laaksonen, who is employed by the former parent company and Mr Pekka Timonen, who represents the majority owner. The Board convened 9 times, of which 2 were teleconferences. On average, directors attended 98.6% of meetings.

Neste Oil shares owned by the Board as of 31 December 2005

	Shares
Timo Peltola, Chairman	250
Mikael von Frenckell, Vice Chairman	25,000
Ainomaija Haarla	–
Kari Jordan	225
Juha Laaksonen	5,000
Nina Linander	–
Pekka Timonen	–
Maarit Toivanen-Koivisto	3,750

Information on Neste Oil shares owned by Board members covers all holdings owned directly by members, through organizations in which they have a controlling interest, and in their capacity as trustees.

Board Committees

The Board's work is supported through its committees – the Audit Committee and the Personnel and Remuneration Committee, each having four members. A quorum exists when more than two of the members of a Committee, including the Chair, are present. All members of Committees are elected from amongst the members of the Board for a one-year term.

The tasks and responsibilities of each Committee are defined in their Charters, which are approved by the Board. The schedule and frequency of Committee meetings is determined by the Chair of each of the Committees. However, Committees meet at least twice a year.

Each Committee reports regularly on its meetings to the entire Board and submits the minutes of its meetings to the Board. The report includes at least a summary of the matters addressed and the measures undertaken by the Committee. Each Committee conducts an annual self-evaluation of its performance and reports to the Board the results thereof.

Audit Committee

The Audit Committee oversees the finances and financial reporting processes of the Company. It is responsible for assisting the Board's monitoring of the financial position and reporting of the Company and the Board's control function. It prepares the election of the External Auditor, maintains contacts with the External Auditor, and reviews all material reports from the External Auditor addressed to the Company or its subsidiaries, as well as evaluates the Company's compliance with laws and regulations.

According to the Charter for the Audit Committee, the Audit Committee shall consist of a minimum of three non-executive members of the Board of Directors. These must be independent of and not affiliated with the Company or any of its subsidiaries and have sufficient knowledge of accounting practices and of the preparation of financial statements and other qualifications deemed necessary or desirable by the Board.

The Audit Committee is permitted to use external consultants and experts when the Committee deems it necessary.

Since 21 April 2005 The Audit Committee has comprised four members, Ms Nina Linander (Chair), Mr Kari Jordan, Mr Pekka Timonen, and Ms Maarit Toivanen-Koivisto, and it convened 3 times. Average attendance at these meetings was 91.7%.

Personnel and Remuneration Committee

The Personnel and Remuneration Committee prepares and makes proposals to the Board on compensation and incentive systems for the key personnel of the Neste Oil Group. Furthermore, it also prepares and proposes to the Board the most important appointments of the Senior Executives, such as the CEO and the members of the Neste Executive Team and their salary and other employment terms and conditions, as well as monitors and evaluates their performance.

According to the Charter for the Personnel and Remuneration Committee, the Committee shall consist of the Chairman of the Board and at least two non-executive members of the Board.

Since 21 April 2005 The Personnel and Remuneration Committee has comprised four members: Mr Timo Peltola (Chair), Mr Mikael von Frenckell, Ms Ainomaija Haarla and Mr Juha Laaksonen, and it convened twice. Average attendance at these meetings was 87.5%.

President and CEO

The role of the President and CEO is to manage the company's business operations in accordance with the Finnish Companies Act and the instructions issued by the Board of Directors. The President and CEO is appointed by the Board of Directors.

The Board evaluates annually the performance of the President and the CEO and approves his compensation on the basis of the recommendation by the Personnel and Remuneration Committee.

In addition to a monthly salary and fringe benefits, the President and Chief Executive Officer is eligible for a performance-based bonus on an annual basis (see Incentive Programs below). In the event the Company decides to give notice of termination, he is entitled to compensation equalling 24 months' salary. The retirement age of the President and Chief Executive Officer is 60, and the pension paid is 66% of his remuneration for the fiscal year immediately before retirement.

Neste Executive Team

The Neste Executive Team (NET) assists the President and Chief Executive Officer in the management and coordination of the implementation of Neste Oil's strategic and operational goals. NET members are appointed by the Board, and currently NET consists of the President and CEO, four division heads, and the heads of Communications, Corporate Development, Finance (CFO), and Human Resources.

The NET meets regularly, on average once a month.

The members of the Neste Executive Team receive a base salary and are eligible for an annual performance-based bonus. In addition, all members are entitled to fringe benefits. Under the employment agreements, employment can typically be terminated upon six months' notice. Several members of the Neste Executive Team are parties to employment agreements that provide for a fixed severance payment of six or, in certain cases, 12 months' salary.

Compensation for the President and CEO and the Neste Executive Team in 2005

EUR	Salaries and fringe benefits	Performance related bonuses	Total	Share participation*)
President and CEO	463,179	115,071	578,250	16,477
Other members of the NET	1,262,765	273,924	1,536,689	33,033

Neste Oil shares owned by the Neste Executive Team as of 31 December 2005

	Shares	Share participation*)
Risto Rinne	137	16,477
Jarmo Honkamaa	5,937	7,741
Kimmo Rahkamo	4,000	4,931
Matti Peitso	25	9,111
Risto Näsi	5,000	7,004
Hannele Jakosuo-Jansson	-	-
Osmo Kammonen	500	-
Juha-Pekka Kekäläinen	50	4,246
Petri Pentti	500	-

Information on Neste Oil shares owned by members of the NET covers all holdings owned directly by members, through organizations in which they have a controlling interest, and in their capacity as trustees.

*) Share participation shows the number of shares granted to each person under the first Plan of the Management Performance Share Arrangement. After deduction of taxes and other social payments, the delivered net amount of shares will be 40–50% of the amount indicated here. The shares will be delivered in the spring of 2008.

Compensation and incentive programs

The Board makes decisions on compensation and incentive systems for group management and key personnel on the recommendation of the Personnel and Remuneration Committee of the Board.

Short-term incentive bonuses

The Company may pay annual short-term incentive bonuses to its personnel in addition to their salary and fringe benefits. The criteria for any short-term incentive bonuses shall be based on the performance and success in reaching the personal goals set for each individual and/or on the Company's financial performance and success in reaching its goals.

2005 The average performance bonus based on criteria set for 2004 was 11.23% of the annual salary of a Neste Oil employee.

Management performance share arrangement

Neste Oil has implemented a Management Performance Share Arrangement for the management and other key persons. At the moment, approximately 60 members participate in the Arrangement. The Arrangement aims to increase the commitment and loyalty of the participants in the Arrangement to the Company and to align the interests of the Company's shareholders and key executives in order to raise the value of the Company.

The Board of Directors plans to establish a new share incentive scheme in 2006, which will replace the current Arrangement. Description of the current Arrangement can be found in Notes 28 and 29 of the Financial Statements.

Auditors

Each year, the Annual General Meeting elects one regular auditor, which must be an auditing firm approved by the Finnish Central Chamber of Commerce. The auditor's term of office expires at the end of the next Annual General Meeting of Shareholders following the election.

2005 PricewaterhouseCoopers Oy was named as Neste Oil's auditors effective as from 1 March 2005, with Mr Markku Marjomaa, authorized public accountant, serving as responsible auditor. The fees invoiced and expected to be invoiced by the auditors for professional services rendered for auditing Neste Oil's annual financial statements for 2005 and other services through 31 December were as follows:

EUR 1,000	
Audit fees	343
Other	294
Total	637

The members of the Board of Directors and the Supervisory Board, the CEO, the auditor with the main responsibility for the audit, the members of the Neste Executive Team and its secretary have all been classified as insiders subject to declaration requirement. The holdings of the Company securities of such insiders subject to declaration requirement are filed in the public Insider Register. See Neste Oil's website. Furthermore, the Company has designated as permanent company-specific insiders certain other executives, as well as certain persons responsible for the finances, financial reporting or communications who receive inside information on a regular basis due to his or her position or task.

Internal audit

The Company's Internal Audit Unit is an independent, objectively assurance and consultation function designed to add value to the Company and to improve its operations. It assists the organization in evaluating and improving the effectiveness of risk management, financial control, and governance processes.

Internal Audit reports to the Audit Committee of the Board and administratively to the President & CEO.

Internal Audit is a staff function without any direct authority over the activities it reviews.

Insider guidelines

The Company complies with the HEX Insider Guidelines. The Company's own Guidelines for Insiders are to some extent stricter than the minimum requirements of the HEX Insider Guidelines, for example, the Company's Closed Window exceeds the minimum requirements under the HEX Insider Guidelines.

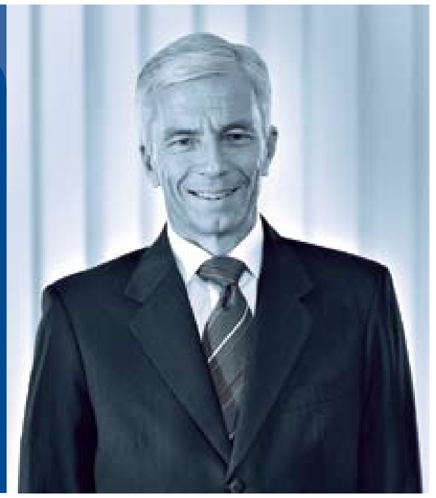
The Company's Guidelines for Insiders are regularly updated and made available to all personnel. The Company arranges training on insider rules for personnel and expects that its Guidelines for Insiders are followed by personnel.

Permanent insiders may not trade in any securities of the Company during the period from the expiry date of an interim or annual accounting period to the date of publication of the interim or annual report for that period, the minimum period being, however, always 28 days prior to the said publication of the interim or annual report ('Closed Window'). The dates of publication of the interim and annual reports are published in the financial calendar at **www.nesteoil.com/investors**

Persons who participate in the development and preparation of a project, such as mergers and acquisitions including inside information, are considered project-specific insiders. Such persons are entered in a separate Register on Project-specific Insiders, which is maintained by the Company's Legal Department.

www.nesteoil.com/investors/corporate governance

Board of Directors
on 1 January 2006


Timo Peltola


Juha Laaksonen, Ainomaija Haarla, and Mikael von Frenckell


Nina Linander and Kari Jordan


Pekka Timonen and Maarit Toivanen-Koivisto

Timo Peltola
M.Sc. (Econ.), Hon. Ph.D (Econ.). Chairman of the Board. Independent member.
Born 1946. Former Chief Executive Officer of Huhtamäki Corporation. Vice Chairman of the Board of Nordea AB (publ.), and member of the Boards of TeliaSonera AB and SAS AB. Chairman of the Supervisory Board of Mutual Pension Fund Ilmarinen, and member of the Supervisory Board of the Finnish Fair Corporation Co-operative. Chairman of Neste Oil's Personnel and Remuneration Committee. Owned 250 shares in Neste Oil at the end of 2005.

Mikael von Frenckell
M.Sc. (Soc.), Commercial Counsellor. Vice Chairman of the Board. Independent member.
Born 1947. Partner of Sponsor Capital Oy. Chairman of the Boards of Sponsor Capital Oy, Tamfelt Corp, Vice Chairman of the Board of Fiskars Corporation and member of the Board of Tamro Plc. Member of Neste Oil's Personnel and Remuneration Committee. Owned 25,000 shares in Neste Oil at the end of 2005.

Juha Laaksonen
B.Sc. (Econ.), Non-independent member.
Born 1952. Chief Financial Officer of Fortum Corporation. Member of the Board of Directors of Teollisuuden Voima Oy, member of the Supervisory Boards of Tapiola Mutual Insurance Company and Kemijoki Oy. Member of Neste Oil's Personnel and Remuneration Committee. Owned 5,000 shares in Neste Oil at the end of 2005.

Ainomaija Haarla
D.Sc. (Tech.), MBA. Independent member.
Born 1953. Vice President in the Business Development of UPM-Kymmene Group. Previously Vice President of Corporate Marketing in Metso Corporation. Member of Neste Oil's Personnel and Remuneration Committee. Owned no shares in Neste Oil at the end of 2005.

Nina Linander
M.Sc. (Econ.), MBA. Independent member.
Born 1959. Member of the Board of Opcon AB. Former Group Treasurer of AB Electrolux and Director, Product Area Electricity, of Vattenfall AB. Chair of Neste Oil's Audit Committee. Owned no shares in Neste Oil at the end of 2005.

Kari Jordan
M.Sc. (Econ.). Independent member.
Born 1956. President and CEO and Vice Chairman of the Board of Metsäliitto Group. Vice Chairman of the Board of Finnair Plc, and member of the Board of Julius Tallberg-Kiinteistöt Oyj. Member of the Supervisory Board of the Finnish Cultural Foundation. Member of Neste Oil's Audit Committee. Owned 225 shares in Neste Oil at the end of 2005.

Pekka Timonen
LL.D. Non-independent member.
Born 1960. Advisor for state ownership policy at the Finnish Ministry of Trade and Industry and docent at the University of Helsinki and University of Tampere. Member of Neste Oil's Audit Committee. Owned no shares in Neste Oil at the end of 2005.

Maarit Toivanen-Koivisto
M.Sc. (Econ.). Independent member.
Born 1954. Chief Executive Officer and member of the Board of Onvest Oy. Chairman of the Board of the Onninen Group. Member of Neste Oil's Audit Committee. Owned 3,750 shares in Neste Oil at the end of 2005.

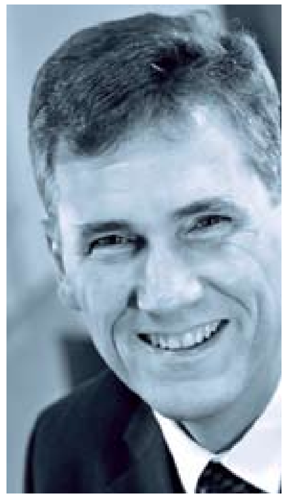
Information on Neste Oil shares owned by Board members covers all holdings owned directly by members, through organizations in which they have a controlling interest, and in their capacity as trustees.

Board of Directors

Neste Executive Team
on 1 January 2006


Risto Rinne


Jarmo Honkamaa


Kimmo Rahkamo


Matti Peitso


Risto Näsi


Hannele Jakosuo-Jansson


Osmo Kammonen


Juha-Pekka Kekäläinen


Petri Pentti


Matti Hautakangas

Executive Team

Risto Rinne

M.Sc. (Eng.). President & CEO since 1 May 2004, Chairman of the Neste Executive Team.
Born 1949. Employed by the Company since 1975. President, Oil Sector, of Fortum Corporation (January 2004–March 2005) and President, Oil Refining, of Fortum Corporation (1999–2004). Chairman of the Board of the Finnish Oil and Gas Federation, Vice Chairman of the Board of the Chemicals Industry Federation of Finland, and a member of the Board of EUROPIA (the European Petroleum Industry Association). Owned 137 shares in Neste Oil and had a share participation[*] of 16,477 shares at the end of 2005.

Jarmo Honkamaa

M.Sc. (Eng.), M.Sc. (Laws). Executive Vice President, Oil Refining since 1 April 2005.
Born 1956. Employed by the Company since 1987. Heads Oil Refining (Porvoo and Naantali Refineries), Wholesale, Trading and Supply, Engineering (Neste Jacobs Oy), and Nynäs Petroleum. Vice President, Wholesale and Supply, of Fortum Corporation (2000–2004), and Vice President, MTBE Business Unit, of Fortum Corporation (1996–2000). Member of the Board of Directors of the Finnish Oil and Gas Federation. Owned 5,937 shares in Neste Oil and had a share participation[*] of 7,741 shares at the end of 2005.

Kimmo Rahkamo

M.Sc. (Eng.). Executive Vice President, Components since 1 April 2005.
Born 1962. Employed by the Company since 1990. Head of the production, marketing, and sales of gasoline components, base oils, and biofuels. Vice President, Supply, Oil Refining, of Fortum Corporation (2001–2004), General Manager of Neste Canada Inc. (1999–2001) and General Manager of Neste Petroleum Inc. (1997–1999). Owned 4,000 shares in Neste Oil and had a share participation[*] of 4,931 shares at the end of 2005.

Matti Peitso

M.Sc. (Econ.). Executive Vice President, Oil Retail since 1 April 2005.
Born 1952. Employed by the Company since 1980. Heads Retail Finland, Retail Baltic Rim, Direct Sales, LPG Business, and Corporate Security. President, Oil Retail Business Unit, of Fortum Corporation (2001–2004). Member of the Board of the Finnish Oil and Gas Federation and Luottokunta Oy. Owned 25 shares in Neste Oil and had a share participation[*] of 9,111 shares at the end of 2005.

Risto Näsi

M.Sc. (Eng.). Executive Vice President, Shipping since 1 April 2005.
Born 1957. Employed by the Company since 1983. Heads Shipping business, including chartering, fleet management, and asset management of the Company's fleet of tankers. President, Shipping, of Fortum Corporation (2004), and Vice President, Components Unit, of Fortum Corporation (1999–2003). Chairman of the Board of the Finnish Shipowners' Association. Owned 5,000 shares in Neste Oil and had a share participation[*] of 7,004 shares at the end of 2005.

Hannele Jakosuo-Jansson

M.Sc. (Eng). Senior Vice President, Human Resources since 1 January 2006.
Born 1966. Employed by the company since 1990. Heads affairs relating to Human Resources. Laboratory and Research Manager at the Company's Technology Center (1998–2004) and Vice President, Human Resources, in Neste Oil's Oil Refining division (2004–2005). Owned no shares in Neste Oil at the end of 2005.

Osmo Kammonen

M.Sc. (Laws). Senior Vice President, Communications since 1 April 2005.
Born 1959. Employed by the Company since 2004. Heads internal and external communications. Senior Vice President, Corporate Communications and Investor Relations, of Elcoteq Network Corporation (1996–2004). Owned 500 shares in Neste Oil at the end of 2005.

Juha-Pekka Kekäläinen

M.Sc. (Eng.). Senior Vice President, Corporate Development since 1 April 2005.
Born 1962. Employed by the Company since 1987. Heads corporate strategy and structure development, business environment and market analysis, and coordination of business development activities. Vice President, Term Sales, of Fortum Corporation (2001–2004) and General Manager, Business Development Oil Refining, of Fortum Corporation (2000–2001). Owned 50 shares in Neste Oil and had a share participation[*] of 4,246 shares at the end of 2005.

Petri Pentti

M.Sc. (Econ.). Chief Financial Officer since 1 April 2005.
Born 1962. Employed by the Company since 2004. Heads the overall financial activities of the Company, such as corporate finance, financial and management accounting, corporate business control, tax, treasury, and cash management. Also responsible for investor relations, risk management, and corporate IT services. Chief Financial Officer of Finnair Plc (1999–2004). Owned 500 shares in Neste Oil at the end of 2005.

Matti Hautakangas[**]

M.Sc. (Laws). General Counsel, Secretary to the Neste Executive Team since 1 April 2005, and Secretary to the Board of Directors, and the Supervisory Board.
Born 1963. Employed by the Company since 2003. Heads legal affairs. Legal Counsel, Oil Refining, of Fortum Corporation (2003–2004) and an attorney-at-law at Procopé & Hornborg Law Offices Ltd (1994–2003). Owned no shares in Neste Oil at the end of 2005.

[*] Share participation shows the number of shares granted to each person under the first Plan of the Management Performance Share Arrangement. After deduction of taxes and other social payments, the delivered net amount of shares will be 40–50% of the amount indicated here. The shares will be delivered in the spring of 2008.

[**] Not a member of the Neste Executive Team

Information on Neste Oil shares owned by members of the Neste Executive Team covers all holdings owned directly by members, through organizations in which they have a controlling interest, and in their capacity as trustees.

Neste Oil Corporation

Consolidated Financial Statements in accordance with International Financial Reporting Standards.

Parent company Financial Statements in accordance with Finnish Gaap.

For the period 1 January to 31 December 2005.

Contents	page

Review by the Board of Directors

The market in 2005 was favorable for an oil refiner with complex refining capacity. Product prices remained at historically high levels, reflecting the increasing global demand for high-quality traffic fuels and high crude prices. Neste Oil recorded a strong full-year profit and cash flow, despite a record-high level of capital expenditure and a scheduled major maintenance shutdown at its Porvoo refinery in Finland.

In April, Neste Oil was demerged from its former parent company and listed on the Helsinki Stock Exchange. The company attracted a lot of interest from investors from the start and the share price closed the year up by 65%.

Note on the comparative figures

Comparative figures for 2004 are derived from Neste Oil's Combined Carve-out Financial Statements for the year ended 31 December 2004, which were published in stock exchange releases on 14 March 2005 and 29 April 2005 and in the Offering Memorandum related to the sale of Neste Oil's shares on 1–15 April 2005. The Neste Oil Group was incorporated through a demerger on 1 May 2004, and as a result no fully comparable income statement exists for 2004.

The Group's sales and results

Sales at the Neste Oil Group for 2005 totaled EUR 9,974 million (7,909 million), an increase of some 26% on the figure for 2004, resulting primarily from higher crude oil and petroleum product prices.

The Group achieved an operating profit of EUR 791 million (713 million), driven by a stronger total refining margin, asset sales, and inventory gains.

Neste Oil's total refining margin stood at USD 8.82 /bbl (7.90), which is almost USD 4 /bbl above the IEA Brent Cracking reference margin of USD 4.98 /bbl (3.78). The operating profit includes a EUR 141 million gain from the sale of the Group's 50% stake in the oil production company, SeverTEK, and EUR 127 million in inventory gains.

These positive developments were negatively impacted by weaker USD/EUR hedges and a scheduled maintenance shutdown at the Porvoo refinery. Changes in the fair value of open oil derivative positions, primarily used to hedge future cash flows, had a negative impact of EUR 11 million on the operating profit; this compares to a gain of EUR 28 million in 2004. Under IFRS, outstanding oil derivative positions are recognized at fair value for each reporting date. Since Neste Oil did not apply hedge accounting to its oil derivatives in 2005, changes in their fair value are recognized in the income statement.

The comparable operating profit for 2005, excluding inventory gains/losses, changes in the fair value of oil derivatives, and gains/losses from sales of fixed assets, was EUR 525 million (584 million).

Earnings per share were EUR 2.60 (2.37).

Given the capital-intensive and cyclical nature of its business, Neste Oil uses return on average capital employed after tax (ROACE%) as its primary financial indicator. Prior to the completion of the Diesel Project at the Porvoo refinery, the target was set at a minimum of 13% under reference market and operating conditions. This target was exceeded in 2005, and ROACE reached 13.4% (adjusted to reference market and operating conditions) and 19.0% (unadjusted).

Comparable operating profit (MEUR)

	2005	2004
Comparable operating profit	525	584
- changes in the fair value of open oil derivative positions	-11	28
- inventory gains	127	74
- gains from sales of fixed assets	150	27
Operating profit	791	713

Market overview

The hurricanes in the US Gulf in August and September had a major impact on oil refining in 2005, causing damage to a number of refineries and other facilities and putting some out of action for an extended period. Reference refining margins in North-West Europe peaked at record highs of approximately USD 16 /bbl, and brought the average reference refining margin for complex refineries (IEA Brent Cracking) for 2005 as a whole to USD 4.98 /bbl, over 30% up on 2004. Margins returned to more normal levels during the fourth quarter, following the restart of most idled US refineries. During the fourth quarter, the reference refining margin averaged USD 5.24 /bbl (10–12/04: 3.73).

Product prices also peaked in the aftermath of the hurricanes and began to push demand down, but this was short-lived and demand returned to normal during the course of the fourth quarter.

Gasoline prices varied in line with seasonal demand, but the average price difference between gasoline and crude oil was narrower in 2005 than in 2004. Prices reached all-time highs in August and September. The market remained strong in October, but weakened in November and December as a result of lower seasonal demand and increased supply as refineries resumed normal production.

The US gasoline market was supplied with lower-octane imported products during the early fall, which boosted global demand for high-octane gasoline components, such as iso-octane in the US, and ETBE and MTBE in Europe. Demand eased off in the fourth quarter as the need for lower-octane gasoline import in the US decreased.

Middle distillates (diesel fuel, jet fuel, and heating oil) were the strongest product category for most of the year due to strong demand driven by economic growth. In the fourth quarter, however, the price differential with crude oil narrowed because of improved supply and the relatively mild weather conditions.

The price difference between heavy and light crude remained volatile throughout the year: the average Urals Rotterdam - Brent Dated difference was approximately USD -4.42 /bbl (-3.96). In the fourth quarter, this was narrowed by USD 0.50 /bbl compared to the previous quarter to USD -3.91 /bbl (10–12/04: -6.46). Urals volumes shipped via Baltic ports were stable, while rail-based crude exports from Russia remained at a low level, as the Russian rail tariff structure and taxation practice encouraged domestic refinery usage over export by rail.

The price for Brent Dated crude oil averaged USD 54.4 /bbl (38.2) in 2005.

The current high prices of crude oil and petroleum products have encouraged public discussion on the utilization of biofuels. In line with the European Union biofuels directive, several member states have introduced national legislation promoting the use of biofuels in traffic, creating a growing market for Neste Oil's ETBE and future biodiesel businesses. The US Energy Policy Act of 2005, which was approved in August, will increase the demand for renewable fuels in the US.

Market growth for high-end lubricant base oils, especially EHVI (Enhanced High Viscosity Index), has continued, as a result of more stringent emissions and performance requirements. Despite this growth in demand, no major base oil capacity increases are expected in the near future.

The Finnish oil retail market was highly competitive in 2005, putting pressure on gasoline margins in particular. Demand for traffic fuels in the Baltic Rim area is growing steadily, which is reflected both in volume growth and good margins.

Shipping rates were somewhat lower on average in 2005 than in 2004. The difference was especially wide during the last quarter, because of lower ice premiums due to milder weather conditions.

Segment reviews

Neste Oil's businesses are grouped into four segments for external reporting purposes: Oil Refining, Oil Retail, Shipping, and Other. The Components business is included under Oil Refining.

Oil Refining

Oil Refining recorded a full-year operating profit of EUR 546 million in 2005 (562 million). Oil Refining's comparable operating profit for 2005 was EUR 422 million (463 million). The main reason for the segment's lower profit was the five-week scheduled maintenance shutdown at the Porvoo refinery, which coincided with the two major hurricanes in the US Gulf, and which cut production volumes. As a result, Neste Oil was unable to capitalize on the exceptionally high refining margins and product prices in the wake of the hurricanes. Weaker USD/EUR hedges also contributed to the lower profit figure.

Neste Oil's total refining margin reached USD 8.82 /bbl in 2005, exceeding 2004's total refining margin of USD 7.90 /bbl. This higher figure resulted from the strong diesel market during most of the year, and a wider price differential between heavy and light crude oil during the first three quarters than in 2004. The IEA Brent Cracking reference margin averaged USD 4.98 /bbl in 2005 (3.78).

2005 was a year of high capital expenditure in Oil Refining, totaling EUR 589 million (203 million). The main investment projects were the Diesel project and the construction of a biodiesel plant, both at the Porvoo refinery.

Oil Refining's return on net assets (RONA) was 34.7% (46.7%).

Key figures

	2005	Carve-out 2004
Sales, MEUR	8,150	6,306
Operating profit, MEUR	546	562
Comparable operating profit, MEUR	422	463
Capital expenditure, MEUR	589	203
Total refining margin USD/bbl	8.82	7.90

Neste Oil imported a total of 10.8 million tons (12.3 million) of crude oil and condensates in 2005, of which approximately 80% was sourced from Russia and the countries of the former Soviet Union. Other feedstock supply totaled 2.2 million tons. Volumes were lower than in 2004 due to the maintenance shutdown at the Porvoo refinery. Around 50% of the crude oil and condensates was heavier, sourer crude.

Neste Oil refined a total of 12.9 million tons (13.6 million) in 2005, of which 10.3 million tons (11.1. million) at Porvoo. The Naantali refinery reached a new record of 2.6 million tons (2.5 million). Crude distillation capacity utilization at the Porvoo refinery was 89.2% (100.0%), while the Naantali refinery recorded an all-time high figure of 96.1% (93.7%).

Neste Oil's wholesale market share of key petroleum products in Finland averaged 77% in 2005 (79%).

Components

Production of ETBE, a bioethanol-based high-quality gasoline component, was started in January 2005 at Neste Oil's facility at Sines in Portugal, and continued as planned for the rest of the year. Prior to the conversion, the plant produced MTBE. The plant has an annual capacity of 50,000 tons of ETBE.

Neste Oil and Borealis signed a marketing agreement in November 2005 covering output from Borealis' 40,000 t/a ETBE plant in Stenungsund in Sweden. Under the agreement, Neste Oil is responsible for marketing the plant's production and for procuring its feedstock ethanol.

The Alberta Envirofuels Inc. (AEF) iso-octane plant in Edmonton in Canada – a joint venture owned 50/50 by Neste Oil and Chevron – started up successfully after a planned maintenance shutdown in August and September, and reached a new monthly production record of 52,000 tons in December.

Oil Retail

Oil Retail recorded a full-year operating profit of EUR 48 million (60 million) and a comparable operating profit of EUR 49 million (49 million). Operating profit benefited from high volumes and good margins in the Baltic Rim area, and suffered from tight gasoline margins in Finland.

Oil Retail's return on net assets (RONA) was 13.2% (18.1%).

Key figures

	2005	Carve-out 2004
Sales, MEUR	2,931	2,374
Operating profit, MEUR	48	60
Comparable operating profit, MEUR	49	49
Capital expenditure, MEUR	47	36
Product sales volume, 1,000 m^3	4,115	4,005

Neste Oil's retail market share in Finland was slightly lower in 2005 in both gasoline and diesel fuel than in 2004, and stood at 27.2% (27.6%) in gasoline and 40.6% (41.6%) in diesel.

Neste Oil piloted a network of net-price unmanned NEX stations in Finland during 2005, and had 11 NEX outlets operational as of the end of the year. Feedback from the pilot phase has been encouraging and development of the NEX network will continue in 2006.

All together Neste Oil had 889 stations in Finland at the end of 2005.

Demand for traffic fuels continued to grow in the Baltic Rim region in 2005. Neste Oil opened new stations and total sales volumes in its retail network rose by approximately 18%. As of the end of the year, Neste Oil had 34 stations in the St. Petersburg area in Russia, 103 stations in Estonia, Latvia, and Lithuania, and 73 outlets in Poland.

A six-week labor dispute in the Finnish paper and pulp industry in May and June was reflected in lower direct sales of diesel fuel for the year as a whole. The unusually warm weather in the second half of 2005, coupled with rising petroleum product prices, made consumers cautious and reduced sales of heating oil.

LPG (Liquefied Petroleum Gas) sales totaled 235,000 tons (300,000) for the year as a whole.

Shipping

Shipping's full-year operating profit of EUR 87 million was 23% lower than in 2004 (113 million). This reflects lower freight rates compared to the exceptionally high freight rates seen in the second half of 2004. In addition, new ice-classified tonnage entered the Baltic crude oil freight market during 2005, impacting freight rates. Higher fuel costs and time charter rates increased operating costs in the shipping business in 2005. Shipping's full-year comparable operating profit was EUR 85 million (94 million).

Shipping's return on net assets (RONA) was 26.7% (37.1%).

Key figures

	2005	Carve-out 2004
Sales, MEUR	352	339
Operating profit, MEUR	87	113
Comparable operating profit, MEUR	85	94
Capital expenditure, MEUR	24	77
Deliveries total, millions of tons	40.2	40.7
Fleet utilization rate, %	92	93

The fleet utilization rate remained high throughout the year, but was slightly lower than in 2004, mainly as a result of planned dockings and other repair work to the fleet.

Shipping carried a total of 40.2 million tons (40.7 million) in 2005, of which crude oil shipments accounted for 22.8 million tons (24.6 million) and products 17.4 million tons (16.1 million).

North Sea crude freights during 2005 averaged 164 Worldscale points (188). Shipping's product freight prices are mostly based on annual contracts. These reflected increased costs and were slightly higher compared to 2004. The market freight levels for Trans-Atlantic product shipments were exceptionally high in August and September, due to increased demand after the hurricanes in the US Gulf.

Neste Oil continued to renew its fleet in 2005. Two product tankers, the Sotka and the Sirri, were sold in October and December, respectively. A new 25,000-dwt product tanker, the M/T Neste, joined the fleet in December.

At the end of 2005, Neste Oil operated 30 tankers, of which 12 were company-owned and the remainder under contract. The fleet is capable of carrying approximately 1.3 million tons of crude oil and petroleum products.

Other

Neste Oil's Other segment consists of the Group's Corporate Center. Neste Oil sold its 50% stake in SeverTEK, an oil exploration and production joint venture in northwestern Russia included in the segment, in November. A gain of EUR 141 million was booked on the sale of these shares.

Capital expenditure

The Group's capital expenditure was high in 2005 and totaled EUR 668 million (316 million). Oil Refining accounted for EUR 589 million, Oil Retail for EUR 47 million, and Shipping for EUR 24 million. The Diesel Project's capital expenditure was EUR 361 million during the year.

Depreciation in 2005 was EUR 153 million (139 million).

Financing

Neste Oil's interest-bearing net debt was reduced towards the end of 2005, thanks to proceeds from the sale of the Group's holding in SeverTEK and a strong cash flow from operations. Net debt amounted to EUR 796 million as of 31 December 2005 (31 Dec 2004: 969 million). Net financial expenses during the year were EUR 8 million. The average interest rate at the end of 2005 was 3.5%, and the average maturity of borrowings was 4.4 years.

Net cash from operating activities between January and December totaled EUR 596 million (1–12/04: 537 million).

Good profitability and the sale of Neste Oil's shares in SeverTEK strengthened the balance sheet significantly. The equity-to-assets ratio was 42.2% (31 Dec 2004: 32.2%), the gearing ratio 49.4% (31 Dec 2004: 97.0%), and the leverage ratio 33.0% (31 Dec 2004: 49.3%).

Cash and cash equivalents and committed, unutilized credit facilities amounted to EUR 1,429 million at the end of December.

In accordance with its hedging policy, Neste Oil has hedged the majority of its net foreign currency exposure for the next 12 months, mainly using forward contracts and currency options. The most important hedged currency is the US dollar.

Neste Oil signed a EUR 1.5 billion, 5-year revolving credit facility and a EUR 400 million domestic commercial paper program in March. Two domestic bonds were issued in June. The amount of the 4-year floating rate note was EUR 80 million, and that of the 7-year fixed rate note EUR 120 million.

Neste Oil signed a EUR 150 million, 8-year loan agreement with the European Investment Bank in January 2006. The loan will be used to finance the Diesel project at the Porvoo refinery.

Shares, share trading, and ownership

Neste Oil's share performed positively during 2005. The listing price of Neste Oil Corporation's shares in the IPO in April 2005 was EUR 15.00, giving an initial market capitalization of EUR 3.9 billion. Share trading commenced on the Helsinki Stock Exchange on 18 April 2005.

The share price closed at EUR 16.18 after the first day of trading. At its highest during 2005, the share price reached EUR 32.19, while at its lowest the price stood at EUR 15.22, with the average for the year coming in at EUR 22.16. The share price closed the year at EUR 24.81, or 65.4% above the subscription price in April, giving the company a market capitalization of EUR 6.1 billion as of 31 December.

The share price was volatile during the course of the year, and trading was strong. A total of 2.0 million shares were traded on average daily, equal in value to EUR 44 million. This represents 0.8% of the company's shares and 0.7% of its market capitalization. On average, some 44.5 million shares were traded monthly, equal in value to EUR 872 million. During the year as a whole, 361 million shares, or 141% of the total number of shares, were traded, making Neste Oil one of the most traded stocks on the Helsinki Stock Exchange.

Neste Oil's share capital registered with the Company Register as of 31 December 2005 totaled EUR 40 million, and the total number of shares outstanding is 256,403,686. The company does not hold any of its own shares, and the Board of Directors has no authorization to buy back company shares or to issue convertible bonds, share options, or new shares.

At the end of 2005, the Finnish State held 50.1% of Neste Oil's shares outstanding, foreign institutions 34.8%, Finnish institutions 9.6%, and Finnish households 5.5%.

Personnel

Neste Oil employed an average of 4,528 employees between January and December 2005 (Jan–Dec 2004: 4,296). As of the end of the year, Neste Oil had 4,486 employees (4,284), of whom 3,447 (3,239) worked in Finland.

Corporate Governance

The Board of Directors that took office after the listing of Neste Oil shares in April comprises the following members: Mr Timo Peltola (Chairman), Mr Mikael von Frenckell (Vice Chairman), Ms Ainomaija Haarla, Mr Kari Jordan, Mr Juha Laaksonen, Ms Nina Linander, Mr Pekka Timonen, and Ms Maarit Toivanen-Koivisto.

The company also has a Supervisory Board. The members of the Supervisory Board are: Mr Klaus Hellberg (Chairman), Mr Markku Laukkanen (Vice Chairman), Mr Mikael Forss, Ms Heidi Hautala, Ms Satu Lähteenmäki, Mr Jouni Lappeteläinen, Mr Markus Mustajärvi, Mr Matti Neiglick, Mr Timo Nyman, Mr Juhani Sjöblom, and Ms Jutta Urpilainen. Lappeteläinen, Neiglick and Nyman represent various Neste Oil personnel groups.

The terms of the members of both Boards extend until Neste Oil's Annual General Meeting on 22 March 2006.

Shareholders' Nomination Committee was appointed in December and comprised following persons: Mr Markku Tapio, Director General, Ministry of Trade and Industry; Mr Kari Puro, President and CEO, Ilmarinen Mutual Pension Insurance Company, and Mr Jorma Huuhtanen, Director General, Social Insurance Institution. The Chairman of Neste Oil's Board of Directors, Mr Timo Peltola served as the Committee's expert member.

Group Management

Ms Hannele Jakosuo-Jansson, M.Sc. (Eng), was appointed Senior Vice President, Human Resources and a member of the Neste Executive Team as of 1 January 2006. Jakosuo-Jansson was previously Vice President, Human Resources in the Oil Refining division.

Health, safety, and the environment

The main indicator for safety performance used by Neste Oil, lost workday injury frequency (LWIF), or the number of injuries resulting in lost workdays per million hours worked, stood at 4.9 at the end of 2005. This compares to a LWIF of 4.0 in 2004. Work on further improving this figure has started.

The major maintenance shutdown at the Porvoo refinery, employing a total of 2,300 people and bringing a number of outside contractors to the site, was a success from the safety point of view. The LWIF for the entire shutdown was 4.7, a major improvement from the LWIF of 33 recorded during the 2001 shutdown.

Neste Oil has not participated in carbon dioxide (CO_2) emissions trading as yet. All the arrangements required for verifying and reporting emissions, or participating in emissions trading, are in place.

The European Commission has issued a legislative proposal for a new regulatory framework for chemicals. Under the proposed new system, known as REACH (Registration, Evaluation and Authorization of Chemicals), enterprises that manufacture or import more than one ton of chemical substances a year will be required to register such chemical substances in a central database. Neste Oil's project for meeting REACH requirements has progressed according to plan.

Neste Oil performed well in a study by Stock at Stake, a corporate responsibility and advice body used for profiling oil companies by the consumer organization, ICRT. Neste Oil was ranked top in the environmental section, as well as in the overall assessment. Neste Oil has also been selected for the Ethibel Excellence Register. Ethibel is an independent consultancy agency that provides advice on socially responsible investment to financial institutions and manages a quality label and index issued to European banks and brokers with ethical saving products and funds.

Strategy implementation and investment projects

Neste Oil aims to be a leading independent Northern European oil refiner, with a focus on high-quality petroleum products designed for cleaner traffic and a commitment to world-class operational and financial performance. Leveraging its refining excellence, Neste Oil is ideally placed to develop new products and use a wide range of feedstocks and new technologies. Neste Oil is committed to developing its structure and business portfolio to implement this strategy effectively.

Diesel project

The Diesel project at the Porvoo refinery progressed according to plan in 2005. By the end of the year, the last delivery of main process equipment was made to the site. Recruitment for the project was completed and the forthcoming operation and maintenance organization of the new production line, numbering more than 100 people, is now at full strength.

The project's estimated impact on Neste Oil's total refining margin was increased in 2005 to over USD 2 /bbl, following the favorable development of the key market drivers. Due to improvements in design and higher-than-expected international steel prices, the project's total investment cost is estimated to be slightly above EUR 600 million.

The new production line is expected to be in operation by the end of 2006. Once completed, it will increase Neste Oil's production capacity of sulfur-free diesel fuel by over 1 million tons a year, and reduce production of heavy fuel oil. The Porvoo refinery will also be able to switch completely to using heavier, sourer crude input.

Biodiesel

The construction of the EUR 100 million biodiesel plant at the Porvoo refinery also proceeded as planned in 2005. The foundation stone of the facility was laid in October, and it is due to enter production in the summer of 2007. The plant will have an annual production capacity of 170,000 tons of biodiesel.

Production of biodiesel will be based on a process developed by Neste Oil that is capable of producing high-quality diesel fuel from renewable raw materials, such as vegetable oils and animal fats. Neste Oil's biodiesel (NExBTL) has superior fuel properties and meets the highest requirements set by automotive companies. Demand for biodiesel is expected to increase in the future particularly within the European Union, as the EU is encouraging member states to boost their use of renewable raw materials in traffic fuels through its biofuels directive. Several member states have introduced national legislation promoting the use of biofuels in traffic fuels, creating a growing market for biofuels.

Neste Oil and Total S.A. are continuing to evaluate the possibilities for jointly building a biodiesel plant at one of Total's refineries in Europe, with the aim of beginning production in 2008. Production will be based on Neste Oil's proprietary NExBTL technology.

Lubricant base oils

Production of a synthetic type of sulfur-free EHVI (Enhanced High Viscosity Index) base oil, used as a raw material for lubricants, was restarted at Porvoo after the refinery's maintenance shutdown. A 30,000 t/a capacity expansion project was completed during the shutdown and capacity now stands at 250,000 t/a.

The market for high-end lubricant base oils, especially EHVI, has continued to grow, as a result of more stringent emissions and performance requirements. No major capacity growth is expected globally in the near future for new base oil production.

Neste Oil and the Bahraini company, Bapco, proceeded with a plan announced in August aiming at a joint venture to produce high-quality lubricant base oils at Bapco's refinery in Bahrain. The planned facility will be capable of producing 400,000 t/a of EHVI base oil. The target is to commence production in 2008.

Structural development

Neste Oil continued to focus on its core strategy by divesting some non-core businesses and assets during 2005.

The company sold its 50% interest in SeverTEK, an oil exploration and production joint venture based in northwestern Russia, to its joint venture partner Lukoil, on 22 November – booking a profit of EUR 141 million on the transaction.

In September, Neste Oil sold its 50% stake in Pikoil Oy, a retailer of traffic fuels and grocery products that operates some Neste stations. Following the transaction, Neste Oil is responsible for the retail sale of fuels from the pumps at stations managed by Pikoil, while Pikoil handles the retailing of groceries, automotive accessories, and car wash services, together with restaurant operations. The transaction did not affect operations at dealer-owned Neste stations, or Neste's unmanned D, A24, and NeX stations.

In addition, Neste Oil is evaluating the possibility of divesting its 10% holding in The Saudi European Petrochemical Company Ibn Zahr, which produces MTBE and polypropylene in Al-Jubail in Saudi Arabia.

Change in accounting principles

Neste Oil will apply hedge accounting as defined under IFRS to certain oil commodity derivatives used for hedging forecast future cash flows as of 1 January 2006. This change in accounting principle will have no effect on reported figures for the financial period 2005.

Outlook

The key market drivers of Neste Oil's financial performance are the international benchmark refining margin, the price differential between Russian Export Blend (REB) and Brent crude oil, and the USD/EUR exchange rate. Changes in crude oil prices impact Neste Oil's financial results mainly in the form of inventory gains or losses.

Provided that solid global economic growth continues, the company sees the long-term market fundamentals in oil refining as likely to remain unchanged supporting Neste Oil's core strategy. Tightness of complex refining capacity is expected to keep refining margins volatile, but well over historical averages in 2006. Recent history shows that geopolitical concerns and natural disasters can significantly add to this volatility.

As in 2005, margins have been soft during the early weeks of the first quarter. Forward markets in gasoline and diesel suggest that margins could strengthen towards the end of the year, and the company is preparing for a strong gasoline season starting in the second quarter.

The price differential between REB and Brent is expected to stay at approximately the same level or slightly lower than the figure seen in 2005.

The Diesel Project at the Porvoo refinery is scheduled to be online at the end of 2006.

Growth and healthy margins are expected to continue in the oil retail market in the Baltic Rim area. Tough competition is likely to continue in the Finnish market.

In shipping, over-supply of ice-classified tonnage for crude oil shipments from Primorsk may reduce winter freight premiums.

The Group's capital expenditure in 2006 is expected to be approximately EUR 450 million.

Regularly updated market information is available on the Neste Oil website www.nesteoil.com from 15 February 2006 onwards.

Consolidated income statement

MEUR	Note	1 Jan-31 Dec 2005	1 May-31 Dec 2004[1]
Sales	3, 4	9,974	5,454
Other income	5	170	47
Materials and services	6	-8,443	-4,462
Employee benefit costs	7	-223	-141
Depreciation, amortization and impairment charges	8	-153	-95
Other expenses	9	-534	-317
Operating profit		791	486
Share of profit (loss) of associates and joint ventures		40	32
Financial income and expenses	10		
Finance income		26	14
Finance expenses		-29	-25
Other -losses/gains - net		-5	13
		-8	2
Group contributions paid[2]		0	-411
Profit before income taxes		823	109
Income tax expense	11	-153	12
Profit for the year		670	121
Attributable to:			
Equity holders of the Company		667	119
Minority interest		3	2
		670	121
Earnings per share from profit for the period attributable to the equity holders of the company during the year basic and diluted (in euro per share)	12	2.60	1.60

The notes are an integral part of these consolidated financial statements.

[1] Neste Oil Group was incorporated through a demerger on 1 May 2004, and thus no fully comparable income statement exists for the full 12 months period in 2004.

[2] Group contributions were paid to the former parent company, Fortum Corporation, since Neste Oil was part of the Fortum Group in 2004. Within Fortum Group, the profits and losses of Finnish group companies were combined for tax purposes through group contributions.

Consolidated balance sheet

MEUR	Note	31 Dec 2005	31 Dec 2004
ASSETS			
Non-current assets			
Intangible assets	14	50	30
Property, plant and equipment	13	2,009	1,510
Investments in associates and joint ventures	15	126	140
Long-term interest-bearing receivables	16, 17	17	68
Pension assets	27	63	47
Deferred tax assets	25	23	17
Other financial assets	16, 17	24	28
		2,312	1,840
Current assets			
Inventories	18	601	415
Trade and other receivables	16, 19	837	666
Cash pool receivables	20	0	124
Cash and cash equivalents	20	79	60
		1,517	1,265
Total assets		3,829	3,105
EQUITY			
Capital and reserves attributable to equity holders of the company			
Share capital	23	40	40
Other equity		1,565	953
		1,605	993
Minority interest		7	5
Total equity		1,612	998
LIABILITIES			
Non-current liabilities			
Borrowings	16, 24	635	715
Deferred tax liabilities	25	192	193
Provisions	26	14	15
Pension liabilities	27	13	13
Other non-current liabilities	16, 24	24	21
		878	957
Current liabilities			
Borrowings	16, 24	240	438
Income tax liabilities		6	8
Trade and other payables	16, 24	1,093	704
		1,339	1,150
Total liabilities		2,217	2,107
Total equity and liabilities		3,829	3,105

The notes are an integral part of these consolidated financial statements.

Consolidated cash flow statement

MEUR	Note	1 Jan-31 Dec 2005	1 May-31 Dec 2004
Cash flows from operating activities			
Profit for the year		670	121
Adjustments for			
Income tax	11	153	-12
Share of profit (loss) of associates and joint ventures	15	-40	-32
Depreciation and amortization	8	153	95
Other non-cash income and expenses		-11	-13
Finance cost-net	10	8	-2
Profit/loss from disposal of fixed assets and shares	5	-150	-20
Group contributions paid		0	411
		783	548
Change in working capital			
Decrease (+)/increase (-) in trade and other receivables		-165	26
Decrease (+)/increase (-) in inventories		-177	-93
Decrease (-)/increase (+) in trade and other payables		296	74
Change in working capital		-46	7
		737	555
Interest and other finance cost paid		-1	-12
Dividends received		22	13
Realized foreign exchange gains and losses		-23	7
Income taxes paid		-139	-1
		-141	7
Net cash generated from operating activities		596	562
Cash flows from investing activities			
Purchases of property, plant and equipment	13	-635	-221
Purchases of intangible assets	14	-29	-6
Purchases of associates/joint ventures	15	-4	-2
Proceeds from sale of subsidiaries, net of cash disposed		0	7
Proceeds from sale of property, plant and equipment		14	13
Proceeds from sale of associates/joint ventures		193	0
Changes in long-term receivables		43	24
Net cash used in investing activities		-418	-185
Cash flow before financing activities		178	377
Cash flows from financing activities			
Payment of (-)/proceeds from (+) short-term borrowings		-215	398
Proceeds from long-term liabilities		735	2
Repayments of long-term liabilities		-804	-292
Group contributions paid		0	-411
Dividends paid to minority interests		-2	0
Net cash used in financing activities		-286	-303
Net (-)(decrease)/(+) increase in cash and cash equivalents		-108	74
Cash and cash equivalents at beginning of the year		184	114
Exchange (+) gains/(-) losses on cash and cash equivalents		3	-4
Cash and cash equivalents at end of the year	20	79	184

The notes are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

	Note	Attributable to equity holders of the Company					Minority interest	Total equity
MEUR		Share capital	Reserve fund	Hedging reserve	Translation differences	Retained earnings		
Total equity at 1 May 2004		40	9	2	0	795	3	849
Translation differences					-4			-4
Dividends paid								0
Cash flow hedges, net of taxes	22			32				32
Net investment hedges, net of taxes	22				0			0
Change in minority								0
Net profit for the year						119	2	121
Total equity at 31 December 2004		40	9	34	-4	914	5	998
Total equity at 31 December 2004		40	9	34	-4	914	5	998
Translation differences					21			21
Dividends paid								0
Cash flow hedges, net of taxes	22			-67				-67
Net investment hedges, net of taxes	22				-9			-9
Change in minority							-1	-1
Net profit for the year						667	3	670
Total equity at 31 December 2005		40	9	-33	8	1,581	7	1,612

The notes are an integral part of these consolidated financial statements.

Notes to the consolidated Financial Statements

1. General information

Neste Oil Corporation (the Company) is a Finnish public limited liability company with domicile in Espoo, Finland. The Company is listed on the Helsinki Stock Exchange.

Neste Oil Corporation continues the oil operations of Fortum Oil and Gas Oy, which was demerged into two companies as per 1 May 2004. On 24 September 2003, the Extraordinary General Meeting of the shareholders of the demerging company, Fortum Oil and Gas Oy, approved a demerger plan. Under the demerger plan, all the assets and liabilities related to the oil businesses of Fortum Oil and Gas Oy were transferred to the Company at historic book values and all other assets and liabilities of Fortum Oil and Gas Oy were transferred to another receiving company, Fortum Heat and Gas Oy. The demerger took effect on 1 May 2004, when the relevant registration authority, the National Board of Patents and Registration, registered the execution of the demerger with the Trade Register. As a result of the consummation of the demerger, Fortum Oil and Gas Oy was dissolved, and Fortum Corporation, as its former sole shareholder, received all of the outstanding shares of the Company and of Fortum Heat and Gas Oy. The name of the Company was changed to Neste Oil Corporation on 8 March 2005. Since Neste Oil's operations as a separate legal entity started on 1 May 2004 and its first financial period was eight months, the income statement and cash flow statement and related notes in the financial statements for the financial period ended 31 December 2004 are not comparable with the financial statements for the period ended 31 December 2005. In segment information (note 3), the comparative segment information for 2004 is based on the audited Neste Oil Carve-out financial statements, which represent the historical operations of the oil business of Fortum Corporation transferred to Neste Oil Group in the demerger discussed above.

Neste Oil Corporation and its subsidiaries (together the Neste Oil Group) is a refining and marketing company focused on high-quality traffic fuels and other high value-added petroleum products. The Group´s refineries and other production facilities, together with its network of service stations and other retail outlets both in Finland and the Baltic Rim area, supply both domestic and export markets with gasolines, diesel fuels, aviation fuels, marine fuels, heating oils, heavy fuel oils, base oils, lubricants, traffic fuel components, solvents, liquefied petroleum gases and bitumen. Neste Oil´s supply and distribution chain includes a tanker fleet for crude oil and other feedstock imports and refined product exports. As an oil refiner, Neste Oil is the leading manufacturer of environmentally benign oil products. These consolidated financial statements have been approved for issue by the Board of Directors on 14 February 2006.

2. Summary of significant accounting policies

These consolidated financial statements are the first published financial statements of Neste Oil Group prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The consolidated financial statements have been prepared under the historic cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through income statement. The consolidated financial statements are presented in millions of euros unless otherwise stated.

The Company has adopted IFRS during the year 2005 and has applied IFRS 1, First-time Adoption of International Financial Reporting Standards to these financial statements. Consolidated financial statements of Neste Oil Group until 31 December 2004 had been prepared in accordance with Finnish Accounting Standards (FAS). FAS differ in certain respects from International Financial Reporting Standards (IFRS). When preparing these consolidated financial statements, management has amended certain accounting, measurement and consolidation methods applied in the FAS consolidated financial statements to comply with IFRS. The date of transition from FAS to IFRS was 1 May 2004. The comparative figures in respect of 2004 were restated to reflect these adjustments. Neste Oil Group has elected to apply the following exemptions from the requirements other IFRSs as allowed in IFRS 1:

- The Group will not apply IFRS 3 Business Combinations retrospectively to past business combinations but keep the same classification and recognition of assets and liabilities as in its FAS consolidated financial statements.
- The Group has elected to keep FAS revaluations net of cumulative depreciations of certain items of property, plant and equipment as deemed cost of property, plant and equipment.
- Under IAS 19 Employee Benefits the Group has elected to recognize all cumulative actuarial gains and losses at the date of transition to IFRS's and use a corridor approach for later actuarial gains and losses. The financial component of post-employment benefits is included in the employee costs.
- The Group deems all cumulative translation differences for all foreign operations to be zero at the date of transition to IFRSs.

The Group has chosen to early adopt the following amendments to existing standards:

- IAS 19 Employee benefits: the Group has prepared the additional disclosure requirements but has not changed its accounting policy for the recognition of actuarial gains or losses to the option allowed by the amendment.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods but which the Group has not early adopted:

- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions and IAS 39 (Amendment), The Fair Value Option, IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts: these amendments are not relevant to the Group.
- IFRS 6 Exploration for and Evaluation of Mineral Resources and IFRS 1 (Amendment) and IFRS 6 (Amendment): the standard and the related amendment are not relevant to the Group.
- IFRS 7 Financial Instruments: Disclosures and the related amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures. The Group has assessed the impact of IFRS 7 and the related amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures. The Group will apply IFRS 7 and the amendment to IAS 1 from annual period beginning 1 January 2006.
- IAS 21 (Amendment) Net Investment in Foreign Operation: management estimates that the change has no effect to Group reporting.
- IFRIC 4 Determining whether an Arrangement contains a Lease: management estimates that the interpretation has no effect to Group reporting.
- IFRIC 5 Rights to Interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds: the interpretation is not relevant to the Group's operations.
- IFRIC 6 Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment: the interpretation is not relevant to the Group's operations.
- IFRIC 7 Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies: the interpretation is not relevant to the Group's operations.
- IFRIC 8 Scope of IFRS 2: management estimates that the interpretation has no effect to Group reporting.

Of the above, IAS 21, IAS 39 and IFRS 4 Amendments, IFRS 1 and IFRS 6 Amendments, IFRIC 6, IFRIC 7 and IFRIC 8 are still subject to EU endorsement.

Use of estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

Consolidation

Subsidiaries

The consolidated financial statements include the parent company Neste Oil Corporation and all those companies in which Neste Oil Corporation has the power to govern the financial and operating policies and generally holds, directly or indirectly, more than 50% of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, subsidiaries' accounting policies have been changed to ensure consistency with the policies the Group has adopted.

Associates

Associated companies over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights are accounted for by the equity method of accounting and are initially recognized at cost.

The Group's share of its associates' post-acquisition profits or losses after tax is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the

Notes to the consolidated Financial Statements

Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Joint ventures
Joint ventures are entities over which the Group has contractually agreed to share the power to govern the financial and operating policies of that entity with another venturer or venturers. The Group's interests in jointly controlled entities are accounted for by the equity method of accounting. Identifiable assets acquired and liabilities and contingent liabilities assumed in the investment in joint ventures are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the joint venture acquired, the difference is recognized directly in the income statement.

Segment reporting
The Group's primary format for reporting segment information is business segments and secondary format is geographical segments. A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

Non-current assets and disposal groups held for sale
Non-current assets (or disposal groups) are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

Foreign currency translation
(a) Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in euros, which is the Company's functional and presentation currency.

(b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

(c) Group companies
The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
(iii) all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognized in the income statement as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The Group deems all cumulative translation differences for all foreign operations to be zero at the date of transition.

Revenue recognition
Revenue from sale of goods is recorded into the income statement when the significant risks and rewards related to the ownership of the goods have been transferred to the buyer. Revenue from services is recorded when the services have been provided. Revenue is recorded for exchange of goods only when dissimilar goods are exchanged.

Sales include sales revenues from actual operations and exchange rate differences on trade receivables, less discounts, indirect taxes such as value added tax and excise tax payable by the manufacturer and statutory stockpiling fees. Trading sales include the value of physical deliveries and the net result of derivative contracts.

Government grants
Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are deducted from the acquisition cost of the asset and recognized as income by reducing the depreciation charge of the asset they relate to.

Borrowing costs
Borrowing costs are recognized as expense in the period in which they are incurred, except if they are directly attributable to the construction of an asset that meets the determined criteria, in which case they are capitalized as part of the cost of that asset. These determined criteria are that (a) the borrowing costs incurred for the construction of an investment that exceeds EUR 100 million that (b) it will take more than 18 months to make the related asset operational, and (c) that it is an initial investment.

Income taxes
The Group's income tax expense includes taxes of group companies calculated from the taxable profit for the period, with adjustments for previous periods as well as the change in deferred income taxes. For items recognized directly in equity the income tax effect is similarly recognized.

Deferred income tax are stated using the balance sheet liability method, to reflect the net tax effect of temporary differences between the financial reporting and tax bases of assets and liabilities. The main temporary differences arise from depreciation difference on property, plant and equipment, fair valuation of derivative financial instruments, pension assets recognized and tax losses carried forward. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is determined using tax rates that have been enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Research and development
Research expenditure is recognized as an expense as incurred and included in other operating expenses in the consolidated financial statements. Expenditure on development activities is capitalized only when they relate to new products which are technically and commercially feasible. Majority of the Group's development expenditure do not meet the criteria for capitalisation and are recognized as expenses as incurred.

Property, plant and equipment
Property, plant and equipment comprise mainly oil refineries and other production plants and storage tanks, marine fleet, as well as retail station network machinery and equipment. Property, plant and equipment are stated at historical cost, less depreciation and any accumulated impairment losses, in the balance sheet. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Acquired assets on the acquisition of a new subsidiary are stated at their fair values at the date of acquisition.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Costs for major periodic overhauls at oil refineries and other production plants on a 3–5 year cycle are capitalized when they occur and then depreciated during the shutdown cycle, i.e. the time between shutdowns. All other repairs and maintenance are charged to the income statement during the financial period in which they incur.

Land areas are not depreciated. Crude oil rock inventory bottoms included in other tangible assets are depreciated according to possible usage of the crude oil. Depreciation on tangible assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings and structures including terminals	20–40 years
Production machinery and equipment	15–20 years
Marine fleet	15–20 years
Retail station network machinery and equipment	5–15 years
Other equipment and vehicles	3–15 years
Other tangible assets	20–40 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated income statement.

Intangible assets
Intangible assets are stated at the historical cost and are amortized on a straight-line method over expected useful lives. The intangible assets comprise following:

Computer software
Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (three to five years). Costs associated with developing or maintaining computer software programmes are recognized as an expense as incurred.

Trademarks and licences
Trademarks and licences have a definite useful life and are carried at cost less accumulated amortization. They are amortized over their estimated useful lives (three to ten years). Amortization is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives.

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisition of subsidiaries is

included in 'intangible assets'. Goodwill on acquisitions of associates is included in 'investments in associates'. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Emission allowances

Emission allowances purchased are accounted for as intangible assets and measured at cost, and emission allowances received free of charge are accounted for at nominal value, i.e. at zero. An impairment charge is recognized in the income statement, if the fair value is lower than the carrying value.

A provision is recognized to cover the obligation to return emission allowances, if emissions allowances received free of charge do not cover actual emissions. The provision is measured at its probable settlement amount. The difference between emissions made and emission allowances received as well as the change in the probable amount of the provision are reflected in operating profit.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Non-financial assets other than goodwill that suffered and impairment are reviewed for possible reversal of the impairment at each reporting date.

Financial assets

The Group classifies financial assets in the following categories: financial assets at fair value through income statement, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired.

Financial assets at fair value through income statement

The assets in this category are financial assets held for trading. Derivative financial instruments are categorized into this category, if they are either held for trading or do not meet the criteria for hedge accounting as defined under IAS 39. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of financial assets are recognized on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through income statement. Financial assets are derecogzised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default in payments are considered as indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted with the effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement within 'Other expenses'.

Available- for-sale financial assets and financial assets at fair value through income statement are subsequently carried at fair value. Unlisted equity securities, for which fair value cannot be reliably measured, are recognized at cost less impairment. Loans and receivables are carried at amortized cost using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of the 'financial assets at fair value through income statement' category are included in the income statement in the period in which they arise. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Leases

Finance leases

Lease arrangements that transfer substantially all the risks and rewards related to the leased asset to the lessee are classified as finance lease. Finance leases are capitalized at the commencement of the lease term at the lower of the fair value of the leased property or the present value of the minimum lease payments each determined at the inception of the lease. Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in interest-bearing liabilities. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Assets acquired under finance leases are depreciated over the useful life of the asset or the lease term, whichever is the shorter.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Inventories

Inventories are stated at the lower of either cost or net realizable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term, highly liquid investments with original maturities of three months or less.

Provisions

Provision are recognized in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that the obligation will result in payment, the amount of which can be reliably estimated. Provisions can arise from environmental risks, litigation, restructuring plans or onerous contracts. Environmental provisions are recorded based on current interpretations of environmental laws and regulations when the conditions referred to above are met.

Financial liabilities

Financial liabilities are recognized initially at net proceeds less transaction costs incurred. In subsequent periods, they are stated at amortized cost; any difference between the net proceeds and the redemption value is recognized as interest cost over the period of the borrowing using the effective interest method. Bank overdrafts are shown in current liabilities on the balance sheet. Derivative financial instruments are categorized as held for trading and included in financial liabilities at fair value through income statement unless they are designated as hedges as defined in IA9 39. Liabilities are included in non-current liabilities, except for maturities less than 12 months after the balance sheet date.

Employee benefits

Pension obligations

Neste Oil has number of pension plans in accordance with local practises in the countries where it operates. The plans are generally funded through Group's pension funds or through insurance companies. The Group has both defined benefit and defined contribution plans.

The Group's contributions to defined contribution plans are charged to the income statement in the period when they are due.

For defined benefit plans, pension costs are assessed using the projected unit credit method. The cost of providing pensions is charged to the income statement as to spread the service cost over the service lives of employees. The defined benefit obligation is measured as the present value of the estimated future cash flows using interest rates of high-quality corporate bonds that have terms to maturity approximating to the terms of the related pension liability. The liability or asset recognized in the balance sheet is the defined benefit obligation at the balance sheet date less the fair value of plan assets. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

Actuarial gains and losses exceeding 10% of total defined benefit obligations or the present value of plan assets (whichever is higher) are recorded in the income statement over the employees' expected average remaining working lives. Past-service costs are recognized immediately in income statement. The interest cost is included in the employee benefit expense. At the date of transition all accumulated actuarial gains and losses related to defined benefit plans are recognized in the balance sheet as allowed in IFRS 1.

Derivative financial instruments and hedging activities

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing any resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of highly probable forecast transactions (cash flow hedges); (2) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or (3) hedges of net investments in foreign operations. The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Hedge accounting for each type of hedge is described in more detail in note 22.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in equity. Any gain or loss relating to the ineffective portion is recognized immediately in the income statement. Amounts accumulated in equity are recycled in the income statement within sales or finance income and expense during the periods when the hedged item affects profit or loss, when a forecasted sale that is being hedged takes place, for example.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement within financial income and expenses together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If derivatives do not qualify for hedge accounting, any movement in fair value is recognized in the income statement within financial income and expenses.

Derivatives that do not qualify for hedge accounting
Oil commodity derivatives do not qualify for hedge accounting although these instruments are largely held for economic hedging purposes. Oil commodity derivatives are also held for trading for profit purposes. Certain currency and interest rate derivatives do not qualify for hedge accounting, either. For those derivatives, which do not qualify for hedge accounting, any movement in fair value is recognized in the income statement in operating profit concerning oil commodity derivatives and in financial income and expenses concerning derivatives related to financing activities.

Definitions

Operating profit
Operating profit includes the revenue from sale of goods and services, other income such as gain from sale of shares or fixed assets, less losses from sale of shares or fixed assets as well as expenses related to the production, marketing and selling activities, administration, depreciation, amortization and impairment charges. Realized and unrealized gains or losses on oil derivatives as well as realized gains and losses from foreign currency derivatives that have been recycled in the income statement in cash flow hedges of commercial sales and purchases are also included in operating profit.

3. Segment information

Business segments

The Group's businesses are divided into the following reporting segments:

- Oil Refining segment consists of two divisions: Oil refining division and Components division. Oil refining produces and sells gasoline, diesel fuels, light and heavy fuel oils, aviation fuels, and liquefied petroleum gases. Components division produces and sells base oils and gasoline components and develops biocomponents for traffic fuels.
- Oil Retail segment markets petroleum products, LPG, and associated services directly to end-users, of which the most important are private motorists, industry, transport companies, farmers, and heating customers. Traffic fuels are marketed through Neste Oil's own service station network.
- Shipping segment operates a tanker fleet, which carries crude oil, petroleum products, and chemicals for the Group and other customers.
- Other segment includes Group administration and shared service functions as well share of profits of SeverTEK, a crude oil producing company, the shares of which were sold in November 2005.

The accounting policies of the segments are the same as those for the Group as described in "Summary of significant accounting policies."

2005	Oil Refining	Oil Retail	Shipping	Other	Eliminations	Group
External sales	6,894	2,850	229	1	-	9,974
Internal sales	1,256	81	123	9	-1,469	-
Total Sales	8,150	2,931	352	10	-1,469	9,974
Other income	11	6	12	149	-8	170
Materials and services	-7,076	-2,701	-45	0	1,379	-8,443
Employee benefit costs	-147	-29	-34	-13	-	-223
Depreciation, amortization and impairments	-101	-28	-22	-2	-	-153
Other expenses	-291	-131	-176	-34	98	-534
Operating profit	546	48	87	110	0	791
Share of profit of associates and joint ventures	24	-3	0	19	-	40
Financial income and expense	-	-	-	-	-	-8
Profit before taxes	-	-	-	-	-	823
Income taxes	-	-	-	-	-	-153
Profit for the period	-	-	-	-	-	670
Comparable operating profit	422	49	85	-31	-	525
Capital expenditure	589	47	24	8	-	668
Segment assets	2,721	612	347	22	-158	3,544
Investment in associates and joint ventures	118	2	6	-	-	126
Deferred tax assets	-	-	-	-	-	23
Unallocated assets	-	-	-	-	-	136
Total assets	2,839	614	353	22	-158	3,829
Segment liabilities	950	239	27	16	-154	1,078
Deferred tax liabilities	-	-	-	-	-	192
Unallocated liabilities	-	-	-	-	-	947
Total liabilities	950	239	27	16	-154	2,217
Segment net assets	1,889	375	326	6	-4	2,592

Notes to the consolidated Financial Statements

2004 **Based on carve-out financial statements**	Oil Refining	Oil Retail	Shipping	Other	Eliminations	Group
External sales	5,351	2,366	192	-	-	7,909
Internal sales	955	8	147	-	-1,110	-
Total Sales	6,306	2,374	339	-	-1,110	7,909
Other income	34	13	23	2	-	72
Materials and services	-5,354	-2,163	-21	3	1,107	-6,428
Employee benefit costs	-141	-30	-35	-5	-	-211
Depreciation, amortization and impairments	-94	-27	-18	0	-	-139
Other expenses	-189	-107	-175	-21	2	-490
Operating profit	562	60	113	-21	-1	713
Share of profit of associates and joint ventures	27	-5	0	14	-	36
Comparable operating profit	463	49	94	-21	-1	584
Capital expenditure	203	36	77	0	-	316
Segment assets	1,928	502	361	1	-134	2,658
Investment in associates and joint ventures	112	-1	2	26	0	139
Total segment assets	2,040	501	363	27	-134	2,797
Segment liabilities	625	199	27	14	-131	734
Segment net assets	1,415	302	336	13	-3	2,063

Segment result includes gains and losses from foreign currency derivatives hedging cash flows of commercial sales and purchases that have been recycled in the income statement.

Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated parties. All inter-segment sales are eliminated in consolidation.

Income statement line 'other expenses' for each of the business segments includes the following major items in the order of significance:

- Oil Refining: maintenance, freights, rents and other property costs and insurance premiums, change in the fair value of open derivative positions
- Oil Retail: rents and other property costs and maintenance
- Shipping: time-charter freights and maintenance.

Segment assets consist primarily of property, plant and equipment, intangible assets, investments, pension assets, inventories and receivables. They exclude deferred taxes, interest-bearing receivables, derivative financial instruments designated as hedges of forecasted future cash flows.

Segment liabilities comprise of operating liabilities, pension liabilities and provisions. They exclude items such as taxation, interest-bearing liabilities and derivative financial instruments designated as hedges of forecasted future cash flows.

Geographical segments

The Group operates production facilities in Finland, Canada, Belgium and Portugal and retail selling network in Finland, Russia, Estonia, Latvia, Lithuania and Poland.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods or services.

2005	Finland	Other Nordic countries[4]	Baltic rim[5]	Other European countries	USA and Canada	Other countries	Elimina-tions	Group
Sales by destination[1]	4,334	999	690	1,417	2,501	33	-	9,974
Total segment assets[2]	3,076	127	209	59	240	0	-41	3,670
Capital expenditure[3]	628	0	31	0	9	0	-	668

2004 **Based on carve-out Financial Statements**	Finland	Other Nordic countries[4]	Baltic rim[5]	Other European countries	USA and Canada	Other countries	Elimina-tions	Group
Sales by destination[1]	3,687	761	449	1,028	1,842	142	-	7,909
Total segment assets[2]	2,312	120	164	57	186	0	-42	2,797
Capital expenditure[3]	294	0	19	0	3	0	-	316

[1] Sales are allocated based on the country in which the customer is located.
[2] Total segment assets are allocated based on where the assets are located.
[3] Capital expenditure are allocated based on where the assets are located.
[4] In "Other Nordic countries" are included Sweden, Norway and Denmark.
[5] In Baltic rim are included Estonia, Latvia, Lithuania, Russia and Poland.

Comparative segment information for 2004 for business segments and geographical segments are based on carve-out financial statements. Neste Oil Group was incorporated through a demerger on 1 May, 2004, and thus no comparable segment information exists for the full 12 months period in 2004. The carve-out information cannot be reconciled to the Group balance sheet as at 31 December 2004. The full carve-out income statement for Neste Oil Group for 2004 is presented below for comparison purposes.

Combined carve-out income statement	**1 Jan-31 Dec 2004**
Sales	7,909
Other income	72
Materials and services	-6,428
Employee benefit costs	-211
Depreciation, amortization and impairment charges	-139
Other expenses	-490
Operating profit	713
Share of profit (loss) of associates and joint ventures	36
Financial income and expence	
Finance income	15
Finance expenses	-5
Other -losses/gains – net	8
	18
Profit before income taxes	767
Income tax expense	-157
Profit for the period	610
Attributable to:	
Equity holders of the Company	608
Minority interest	2
	610

4. Analysis of sales by category

	2005	2004
Sale of goods	8,588	4,827
Revenue from services	273	161
Royalty income	1	1
Oil trading	1,096	464
Other	16	1
	9,974	5,454

EUR 52 million (2004: 72 million) of the above arise from product exchanges.

5. Other income

	2005	2004
Gain on sale of SeverTEK shares	141	-
Capital gains on disposal of non-current assets	10	21
Rental income	4	2
Other	15	24
	170	47

6. Materials and services

	2005	2004
Change in product inventories	-122	0
Materials and supplies		
Purchases	8,594	4,528
Change in inventories	-51	-75
External services	22	9
	8,443	4,462

7. Employee benefit costs

	2005	2004
Wages, salaries	189	113
Social security costs	21	12
Pension costs-defined contribution plans	11	11
Pension costs-defined benefit plans	-8	0
Other costs	10	5
	223	141

Key management compensation is included in note 29, Related party transactions.

Personnel (average)	2005	2004
Oil Refining	2,720	2,614
Oil Retail	1,124	1,057
Shipping	545	581
Oil Other	139	44
	4,528	4,296

8. Depreciation, amortization and impairment charges

	2005	2004
Depreciation of property, plant and equipment		
Buildings and structures	44	26
Machinery and equipment	97	63
Other tangible assets	3	2
	144	91
Amortization of intangible assets	8	3
Impairment of property, plant and equipment		
Buildings	0	1
Other tangible assets	1	0
	1	1
Depreciation, amortization and impairment charges total	153	95

9. Other expenses

Operating leases

Lease rental expenses amounting to EUR 92 million (2004: 54 million) relating to the lease (under operating leases) of property, plant and equipment are included in the income statement in other expenses.

10. Financial income and expenses

	2005	2004
Finance income		
- Dividend income on available for sale investments	10	3
- Interest income from loans and receivables	16	11
- Other financial income	0	0
	26	14
Finance expenses		
- Interest expenses for financial liabilities at amortized cost	28	25
- Interest rate derivatives	-1	0
- Other financial expenses	2	0
	29	25
Other losses/gains net		
Net foreign exchange gains/losses on:		
- Loans and receivables	4	10
- Other	7	42
- Non-hedge accounted foreign exchange derivatives	-16	-39
	-5	13
Finance cost – net	-8	2

Net gains/losses on financial instruments included in operating profit	2005	2004
Non-hedge accounted commodity derivatives	-25	-1
Foreign exchange rate derivatives under hedge accounting	-58	32
	-83	31

Net gains/losses include realized and unrealized gains and losses on derivative financial instruments.

The aggregate exchange differences charged/credited to the income statement lines	2005	2004
Sales	16	-6
Materials and services	-10	-1
	6	-7

11. Income tax expense

Major components of tax expenses are:

	2005	2004
Current tax expense	138	5
Adjustments recognized for current tax of prior periods	0	2
Change in deferred taxes	15	-19
	153	-12

The difference between income taxes at the statutory tax rate in Finland and income taxes recognized in the consolidated income statement is reconciled as follows:

	2005	2004
Profit before tax	823	109
Hypothetical income tax calculated at Finnish tax rate 26% (2004: 29%)	-214	-32
Effect of different tax rates of foreign subsidiaries	0	0
Tax exempt income and non-deductible expense	52	11
Utilisation of previously unrecognised tax losses	0	3
Changes in the carrying amounts of deferred tax liabilities from prior years	0	20
Taxes for prior years	0	-2
Net results of associated companies	10	9
Other	-1	3
Tax charge in the consolidated income statement	-153	12

The Group's effective tax rate is 18.54% (2004: 11.31%). The substantially low effective tax rate is caused by tax exempt capital gains incurred in 2005. Income tax expense in the financial year 2004 is not representative due to the fact that Neste Oil Group was not an independent group, since Neste Oil was part of the Fortum Group in 2004, and profits were transferred to the ultimate parent company through tax exempt group contributions.

12. Earnings per share

Basic and diluted earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. Since the number of outstanding shares has not changed and the company has granted no options, there is no dilution.

When calculating earnings per share for 2004, group contribution has not been deducted from the profit for the period. Instead, a tax charge of EUR 119 million has been deducted. This amount represents the additional taxes Neste Oil would have paid, if the group contribution had not been paid to Fortum Corporation.

	2005	2004
Profit attributable to the equity holders of the company	667	119
Group contribution paid	-	411
Taxes on group contribution	-	-119
	667	411
Weighted average number of ordinary shares in issue (thousands)	256,404	256,404
Earnings per share basic and diluted (euro per share)	2.60	1.60

13. Property, plant and equipment

	Land	Buildings and cons-tructions	Machinery and equipment	Other tangible assets	Assets under cons-truction	Total 2005	Total 2004
Gross carrying amount at the beginning of period[1]	42	1,054	1,683	86	241	3,106	2,942
Exchange differences	0	36	4	0	1	41	-6
Additions	9	80	234	7	305	635	221
Disposals	-1	-6	-91	0	-2	-100	-51
Transfers between categories	0	3	1	0	0	4	0
Gross carrying amount at 31 December 2005 (2004)	50	1,167	1,831	93	545	3,686	3,106
Accumulated depreciation and impairment losses at the beginning of period[1]	0	545	1,014	37	-	1,596	1,545
Exchange differences	0	22	4	0	-	26	-4
Disposals	0	-3	-86	0	-	-89	-38
Transfers between categories	0	0	0	-1	-	-1	1
Depreciation for the period	0	44	97	3	-	144	91
Impairment charges	0	0	0	1	-	1	1
Accumulated depreciation and impairment losses at 31 December 2005 (2004)	0	608	1,029	40	-	1,677	1,596
Carrying amount at the beginning of period[1]	42	509	669	49	241	1,510	1,397
Carrying amount at 31 December 2005 (2004)	50	559	802	53	545	2,009	1,510

[1] 1 January 2005 or 1 May 2004

1. Finance leases

Machinery and equipment includes the following amounts where the Group is a lessee under a finance lease:

	2005	2004
Gross carrying amount	137	137
Accumulated depreciation	22	17
Carrying amount	115	120

2. Capitalized borrowing costs

Borrowing costs of EUR 9 million (2004: 2 million) arising on financing specifically entered into for the construction of Porvoo Diesel investment were capitalized during the year and are included in 'Additions' of buildings and structures and machinery and equipment. A capitalization rate of 3.74% (2004: 4.20%) was used, representing the borrowing cost of the loan used to finance the project.

14. Intangible assets

	Goodwill	Other intangible assets	Total 2005	Total 2004
Gross carrying amount at the beginning of period*)	63	74	**137**	145
Exchange differences	0	1	**1**	0
Additions	0	29	**29**	6
Disposals	0	0	**0**	-12
Transfers between categories	0	3	**3**	-2
Gross carrying amount at 31 December 2005 (2004)	63	107	**170**	137
Accumulated depreciation and impairment losses at the beginning of period*)	52	55	**107**	118
Exchange differences	0	1	**1**	0
Disposals	0	0	**0**	-13
Transfers between categories	0	4	**4**	-1
Depreciation for the period	0	8	**8**	3
Accumulated depreciation and impairment losses at 31 December 2005 (2004)	52	68	**120**	107
Carrying amount at the beginning of period*)	11	19	**30**	27
Carrying amount at 31 December 2005 (2004)	11	39	**50**	30

*) 1 January 2005 or 1 May 2004

Impairment test of goodwill

Goodwill is allocated to the Group's cash-generating units (CGU's), which are identified as the Group's business divisions, Oil Refining, Components, Oil Retail and Shipping. The recoverable amount of goodwill is based on value in use.

A segment-level summary of the goodwill allocation is presented below:

	2005	2004
Oil Refining	**2**	2
Oli Retail	**9**	9
	11	11

15. Investments in associates and joint ventures

1. Associates

	2005	2004
At 1 January (at 1 May in 2004)	**7**	7
Share of results of associates	**0**	0
Investments in associates	**0**	0
Sales of associates	**-2**	0
Translation differences	**0**	0
Other equity movements	**0**	0
At 31 December	**5**	7

Summarized financial information in respect of the Group's associates all of which are unlisted, is set out below:

	2004
Assets	28
Liabilities	19
Sales	47
Profit/loss	0

The Group's principal associate as at 31 December 2005 is CanTerm Canadian Terminals Inc. In December 2005 the Group sold 25% of its interest in the joint venture CanTerm and the investment was reclassified to associated companies. A complete list of Group's associated companies, countries of incorporation and interest held is disclosed in note 30.

The financial statements of the Group's associates are not published within the Group's reporting timetable. Thus the summarized financial information presented above are from the latest published financial statements of the associates.

2. Joint ventures

	2005	2004
At 1 January (at 1 May in 2004)	**133**	109
Share of results of joint ventures	**40**	32
Investments in joint ventures	**4**	2
Sales of joint ventures	**-41**	0
Translation differences	**-3**	0
Other equity movements	**-12**	-10
At 31 December	**121**	133

The Group's interest in its principle joint ventures at 31 December all of which are unlisted, were as follows:

	Country of incorporation	2005 % interest held	2004 % interest held
AB Nynäs Petroleum	Sweden	**49.99**	49.99
CanTerm Canadian Terminals Inc.	Canada	**-**	50.00
Lacus Ltd	Bermuda	**50.00**	50.00
Terra Ltd	Bermuda	**50.00**	50.00
Pikoil Oy	Finland	**-**	50.00
SeverTEK ZAO	Russia	**-**	50.00

AB Nynäs Petroleum is a Swedish company that specializes in producing and marketing bitumen in Europe and naphthenics on a global basis. The sales volumes, incl. various fuels as side products amounted to 3.8 million tons in total in 2005. The remaining 50.01% of the shares of Nynäs Petroleum is owned by a subsidiary of a Venezuelan oil company, Petroleos de Venezuela S.A. AB Nynäs Petroleum is governed as a 50/50 owned joint venture although the other party owns majority of the total share capital. Nynäs Petroleum is the subject of legal proceedings by EU and Swedish competition authorities concerning alleged anticompetitive conduct.

Terra Ltd and Lacus Ltd are two Joint Venture Companies (JVC's) owned 50/50 basis by NesteOil and Concordia Maritime AG (part of Stena Group) to acquire two Panamax size tankers from Brodosplit ship yard in Croatia. Neste Oil Shipping has entered into a 10 years time charter contract with the JVC's for the acquired vessels.

Pikoil Oy is a Finnish company established by Neste Oil and Kesko in 2003 to operate nationwide retail chain selling petroleum products and every-day consumer goods. Neste Oil sold it's 50% stake in Pikoil to Kesko in November 2005.

SeverTEK is a Russian legal entity, which was owned 50/50 ultimately by Neste Oil and Lukoil, and which is developing and producing the South Shapkino oil field located in the Komi Republic. Neste Oil sold it's 50% stake in SeverTEK to Lukoil in November 2005.

Joint ventures have been consolidated using the equity method.
Summarized financial information in respect of the Group's joint ventures is set out below:

2004	AB Nynäs Petroleum	Lacus Ltd	Terra Ltd	Pikoil Oy	SeverTEK ZAO
Assets:					
Non-current assets	261	2	2	2	304
Current assets	285	0	0	8	40
	546	2	2	10	344
Liabilities:					
Non-current liabilities	107	0	0	0	235
Current liabilities	239	0	0	9	55
	346	0	0	9	290
Net assets	200	2	2	1	54
Group's share of joint ventures' net assets	100	1	1	1	27
Income	1,164	0	0	87	156
Expenses	1,108	0	0	97	124
Profit after income tax	56	0	0	-10	32
Group's share of joint ventures' profit based on the company's latest published financial statements (2004)	**28**	**0**	**0**	**-5**	**16**
Group's share of joint ventures' profit consolidated in the Group accounts	**24**	**0**	**0**	**-3**	**19**

The financial period of the joint ventures is from 1 January to 31 December, excluding Pikoil Oy. Pikoil Oy was established 1 July 2003 and the first financial period is from 1 July 2003 to 31 December 2004.

The financial statements of the Group's join ventures are not finalised within the Group's reporting timetable. Thus the summarized financial information presented above are from the latest published financial statements of the joint ventures (2004). The share of profits of joint ventures for 2005 are consolidated based on their preliminary results.

16. Carrying amounts of financial assets and liabilities by measurement categories

2005 Balance sheet item	Financial assets at fair value through income statement	Loans and receivables	Available-for-sale financial assets	Financial liabilities at fair value through income statement	Financial liabilities measured at amortized cost	Carrying amounts by balance sheet item	Fair value	Note
Long-term interest-bearing receivables		17				**17**	**16**	17
Other financial assets	7	0	17	0	0	**24**	**24**	
- Other shares and holdings			17			17	17	17
- Derivative financial instruments	7					7	7	21
Trade and other receivables	72	765	0	0	0	**837**	**837**	
- Trade and other receivables		765				765	765	19
- Derivative financial instruments	72					72	72	21
Non-current liabilities	0	0	0	10	649	**659**	**660**	
- Derivative financial instruments				10		10	10	21
- Other non-current liabilities					649	649	650	24
Current Interest-bearing liabilities					240	**240**	**240**	24
Trade and other payables	0	0	0	104	995	**1,099**	**1,099**	
- Derivative financial instruments				104		104	104	21
- Trade and other payables					995	995	995	24
Carrying amount by category	**79**	**782**	**17**	**114**	**1,884**			

2004 Balance sheet item	Financial assets at fair value through income statement	Loans and receivables	Available-for-sale financial assets	Financial liabilities at fair value through income statement	Financial liabilities measured at amortized cost	Carrying amounts by balance sheet item	Fair value	Note
Long-term interest-bearing receivables		68				**68**	**84**	17
Other financial assets	10	0	18	0	0	**28**	**28**	
- Other shares and holdings			18			18	18	17
- Derivative financial instruments	10					10	10	21
Trade and other receivables	74	593	0	0	0	**667**	**667**	
- Trade and other receivables		593				593	593	19
- Derivative financial instruments	74					74	74	21
Non-current liabilities	0	0	0	12	724	**736**	**737**	
- Derivative financial instruments				12		12	12	21
- Other non-current liabilities					724	724	725	24
Current Interest-bearing liabilities					438	**438**	**438**	24
Trade and other payables	0	0	0	20	692	**712**	**712**	
- Derivative financial instruments				20		20	20	21
- Trade and other payables					692	692	692	24
Carrying amount by category	**84**	**661**	**18**	**32**	**1,854**			

The fair values of each class of financial assets and financial liabilities are presented in the detailed note for each balance sheet item referred to in the table above.

17. Other financial assets

Available-for-sale financial assets	**2005**	**2004**
At 1 January (at 1 May in 2004)	18	18
Disposals	1	0
At 31 December	17	18
Investments in unlisted equity instruments	17	18
	17	18

Available for sale financial assets are investments in unlisted equity instruments and they are measured at cost, because their fair value cannot be reliably measured in the absence of active market.

Non-current interest-bearing receivables	**Fair value 2005**	**2004**	**Book value 2005**	**2004**
Receivables from associated companies and joint ventures				
Loan receivables	0	69	0	54
Loan receivables	14	15	15	14
Other receivables	2	0	2	0
	16	84	17	68

The carrying amounts of loan receivables are measured at amortized cost using the effective interest rate method and the fair values are determined by using discounted cash flow method applying the market interest rate at the balance sheet date.

%	**2005**	**2004**
The effective interest rates on non-current receivables	3.5	11.6

18. Inventories

	2005	**2004**
Materials and supplies	211	185
Work in progress	118	75
Finished products and goods	253	137
Other inventories	19	18
	601	415

19. Current trade and other receivables

Current receivables	**Fair value 2005**	**2004**	**Book value 2005**	**2004**
Trade receivables	662	493	662	493
Receivables from associated companies and joint ventures				
Trade receivables	0	1	0	1
Other receivables	2	0	2	0
Advances paid	0	2	0	2
Accrued income and prepaid expenses	0	16	0	16
Other receivables	51	20	51	20
Advances paid	20	19	20	19
Accrued income and prepaid expenses	30	42	30	42
	765	593	765	593

The carrying amounts of current receivables are reasonable approximations of their fair value. Impairment of trade receivables amounted to EUR 2 million (2004: 1 million).

20. Cash and cash equivalents

Cash and cash equivalents include the following:

	2005	2004
Cash at bank and in hand	78	60
Cash pool receivables	0	124
Short term bank deposits	1	0
	79	184

%	2005	2004
The effective interest rates on short term bank deposits	2.2	0.0

21. Derivative financial instruments

2005	Notional amount			Fair value	
	Remaining maturities		Total	Positive	Negative
Interest rate and currency derivatives	Under 1 year	Above 1 year			
Interest rate swaps		308	308	1	4
Forward foreign exchange contracts	942		942	2	29
Currency options					
- Purchased	835		835		17
- Written	835		835	4	7
Total				**7**	**57**
Fair value hedging interest rate derivatives		60	60		1
Cash flow hedging interest rate derivatives		48	48		3
Non-hedging interest rate derivatives		200	200	1	
Cash flow hedging foreign exchange derivatives	2,341		2,341	4	51
Non-hedging foreign exchange derivatives	270		270	2	2
Total				**7**	**57**

2005	Volume 1,000 bbl			Fair value	
	Remaining maturities		Total	Positive	Negative
Oil derivatives	Under 1 year	Above 1 year			
Futures and forwards					
- Sales contracts	47,333	7,163	54,496	47	26
- Purchase contracts	72,398	27,490	99,888	21	27
Options					
- Purchased	5,654	1,250	6,904	1	3
- Written	5,289	300	5,589	3	1
Total	**130,674**	**36,203**	**166,877**	**72**	**57**
Non-hedging oil derivatives					

Balance sheet reconciliation	**Asset**	**Liability**
Non-current derivative financial instruments	7	10
Current derivative financial instruments	72	104

2004	National amount			Fair value	
	Remaining maturities		Total	Positive	Negative
Interest rate and currency derivatives	Under 1 year	Above 1 year			
Interest rate swaps		59	59	6	
Forward foreign exchange contracts	567		567	10	
Currency options					
- Purchased	438		438	17	
- Written	438		438	6	
Total				**33**	**6**
Fair value hedging interest rate derivatives					
Cash flow hedging interest rate derivatives					
Non-hedging interest rate derivatives		59	59	6	
Cash flow hedging foreign exchange derivatives	1,135		1,135	33	
Non-hedging foreign exchange derivatives	308		308		
Total				**33**	**6**

2004	Volume 1,000 bbl			Fair value	
	Remaining maturities		Total	Positive	Negative
Oil derivatives	Under 1 year	Above 1 year			
Futures and forwards					
- Sales contracts	43,195	2,354	45,549	27	11
- Purchase contracts	55,399	14,185	69,584	17	8
Options					
- Purchased	4,797		4,797	4	2
- Written	6,784		6,784	3	5
Total	**110,175**	**16,539**	**126,714**	**51**	**26**
Non-hedging oil derivatives				51	26

Balance sheet reconciliation	**Asset**	**Liability**
Non-current derivative financial instruments	10	12
Current derivative financial instruments	74	20

Fair value estimations

Derivative financial instruments are initially and subsequently measured at their fair values e.g. at the amount which could be used if willing parties would make transactions at the balance sheet date. The fair values are determined by using variety of methods and financial valuation techniques and the assumptions are based on market quotations existing on each balance sheet date.

Fair values of the interest rate swaps are the present values of the estimated future cash flows. Changes in the fair value of interest rate swaps are reported either in equity or in income statement depending on whether they qualify for hedge accounting or not.

Foreign exchange forward contracts are measured using the market rates on the balance sheet date. The fair value of currency options are calculated using market rates on the balance sheet date and by using the Black and Scholes option valuation model. Changes in the fair value of foreign currency derivatives are reported either in equity or in the income statement depending on whether they qualify for hedge accounting or not.

The fair value of exchange traded oil commodity futures and option contracts is determined using the forward exchange market quotations at the balance sheet date. The fair value of over-the-counter oil commodity derivative contracts is calculated using the net present value of the forward derivatives quoted market prices at the balance sheet date.

22. Hedge accounting

The Group uses foreign currency derivatives in order to reduce the uncertainty created by changes in foreign exchange rates on the future cash flows of forecasted future sales and earnings, as well as in Neste Oil's balance sheet. Foreign exchange derivatives have been designated as hedges of the forecasted transactions e.g. cash flow hedges, hedges of net investments or as derivatives not meeting the hedge accounting criteria. The Group uses mainly foreign exchange forwards and options as hedging instruments.

The Group uses interest rate derivatives in order to reduce the volatility of interest expenses in the income statement and in order to adjust the duration of the debt portfolio. Interest rate derivatives have been designated as hedges of forecasted transactions e.g. cash flow hedges, hedges of the fair value of recognized assets or liablilities or as derivatives not meeting the hedge accounting criteria. The Group uses interest rate swaps as hedging instruments.

Cash flow hedges

The portion of the Group's foreign currency derivatives and interest rate swaps, which meet the qualifications for hedge accounting, are designated as cash flow hedges. Under cash flow hedging, the Group has predetermined a portion of the estimated US Dollar sales for the next 12 month period as well as a portion of the interest expense cash flow during periods 2006–2010. The effective portion of the changes in the fair value of the derivatives that are designated as and qualify for cash flow hedges are recognized in equity. Any gain or loss relating to the ineffective portion is recognized immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement during the periods when the hedged item affects profit or loss, e.g. when a forecasted sale that is being hedged takes place. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in the equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

	2005	2004
Hedging reserve opening balance	34	2
Amounts recognized in equity during the current period	-65	32
- Deferred tax	23	-11
Amounts removed from equity and reported in sales	-25	11
Hedging reserve closing balance	-33	34

Fair value hedges

Certain interest rate swaps are designated as fair value hedges in 2005. Changes in the fair value of the derivatives designated and qualifying as fair value hedges, and which are highly effective, are recorded in the income statement, together with any changes in the fair value of the hedged assets or liabilities attributable to the hedged risk. Ineffective portion is recognized in the income statement.

	2005	2004
- gains or loss on the hedging instrument	1	0
- gain or loss on the hedged item	-1	0

Hedge of net investment in foreign entity

Hedges of the net investments in the foreign operations are accounted for in a similar way to the cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in the equity, while any gain or loss relating to the ineffective portion is recognized immediately in the income statement. Gains and losses accumulated in the equity are included in the income statement when the foreign operation is disposed of.

Group translation exposure	Investment	Hedge	Hedge %
USD	37	9	23
SEK	84	67	60
CAD	89	66	71
PLN	15	8	53
GBP	2	2	92
Other	97	0	0
	324	152	42

23. Equity

Calculation of distributable funds	2005	2004
Retained earnings	1,581	914
Negative hedging reserves	-33	-
Untaxed reserves in retained earnings	-419	-397
Distributable funds	1,129	517

24. Non-current and current liabilities

Non-current liabilities	Fair value 2005	2004	Book value 2005	2004
Bonds	199	0	198	0
Loans from financial institutions	289	19	289	19
Pension loans	40	42	40	41
Finance lease liabilities	107	99	107	99
Long-term liabilities to associated companies				
Advances received	1	2	1	2
Other long-term liabilities	6	556	6	556
Accruals and deferred income	8	7	8	7
Non-current liabilities total	650	725	649	724
of which interest-bearing			635	715

The carrying amounts of non-current liabilities are measured at amortized cost using the effective interest rate method and the fair values are determined by using discounted cash flow method applying the market interest rates or market values at the balance sheet date.

Current liabilities	Fair value 2005	2004	Book value 2005	2004
Loans from financial institutions	211	10	211	10
Finance lease liabilities	5	5	5	5
Advances received	27	2	27	2
Trade payables	625	349	625	349
Liabilities to associated companies				
Advances received	0	1	0	1
Trade payables	1	1	1	1
Other short-term liabilities	1	0	1	0
Other short-term liabilities	298	687	298	687
Accruals and deferred expenses	67	75	67	75
Current liabilities total	1,235	1,130	1,235	1,130
of which interest-bearing			240	438

The carrying amounts of current interest-free liabilities are reasonable approximations of their fair value. The carrying amounts of current interest-bearing liabilities are measured at amortized cost using the effective interest rate method and the fair values are determined by using discounted cash flow method applying the market interest rates at the balance sheet date.

The effective interest rates on interest-bearing liabilities were as follows:

%	2005	2004
Bonds	3.2	-
Loans from financial institutions	2.7	4.6
Pension loans	6.2	6.2
Finance lease liabilities	4.1	4.1
Other	4.2	2.8

Notes to the consolidated Financial Statements

The contractual maturity of non-current interest-bearing liabilities is as follows:

	2006*)	2007	2008	2009	2010	2011–	Total
Bonds and debentures	0	0	0	80	0	118	198
Loans from financial institutions	211	2	0	0	247	40	289
Pension loans	0	0	0	0	0	40	40
Finance lease liabilities**)	8	8	8	8	8	89	121
- less finance charges	3	2	2	2	2	6	14
Carrying amount of finance lease liabilities	5	6	6	6	6	83	107
Other long-term liabilities	24	0	1	0	0	0	1
	240	8	7	86	253	281	635

*) Repayments in 2006 are included in current liabilities
**) The amounts presented are the gross finance lease obligations before deducting finance charges

Finance lease liabilities

The future minimum lease payments and their present value at the balance sheet

	2005 Minimum lease payments	Future finance charges	Present value of minimum lease payments	2004 Minimum lease payments	Future finance charges	Present value of minimum lease payments
Amounts payable under finance lease:						
Within one year	8	2	6	7	2	5
Between one and five years	39	11	28	36	10	26
More than 5 years	82	4	78	78	5	73
Total amounts payable	129	17	112	121	17	104

Finance lease liabilities relate to Shipping segment and arise from bareboat agreements on crude oil tankers Tempera and Mastera delivered 2002 and 2003, escort tugs Ukko and Ahti delivered 2002 and a leasing agreement made in 2003 on spare parts of Mastera that are classified as finance lease agreements under IAS 17. The lease terms are 12 years for all the vessels with the lessor having an option to extend the term with additional 3 years, and 7 years for spare part leasing agreement. Bareboat agreements of the vessels include a call option to purchase the leased asset at 10th and 11th year of the lease period at a value determined at the inception of the lease. Spare part leasing agreement includes a call option to purchase the leased asset at termination of the agreement at a value determined at the inception of the lease. The option prices stated in the agreements are used as the residual values for the leased assets. Minimum lease payments in each agreement include these option prices as terminal payments. Contingent rentals arising from the fluctuation of interest rates are excluded from the minimum lease payments. Contingent rents amounted to EUR 1.6 million (2004: -0.4 million).

25. Deferred income taxes

The movement in deferred tax assets and liabilities during the year 2005	at 1 Jan 2005	Charged to income statement	Charged in equity	at 31 Dec 2005
Deferred Tax Assets				
Temporary differences by each type:				
Tax loss carried forwards	12	6	0	18
Provisions	4	0	0	4
Effects of consolidations and eliminations	1	-1	0	0
Other temporary differences	0	1	0	1
Total deferred tax assets	17	6	0	23
Deferred Tax Liabilities				
Depreciation difference and untaxed reserves	140	7	0	147
Temporary differences	43	11	0	54
Cash flow hedges	10	3	-22	-9
Total deferred tax liabilities	193	21	-22	192

The movement in deferred tax assets and liabilities during the year 2004	at 1 May 2004	Charged to income statement	Charged in equity	at 31 Dec 2004
Deferred Tax Assets				
Temporary differences by each type:				
Tax loss carried forward	0	12	0	12
Provisions	5	-1	0	4
Effects of consolidations and eliminations	0	1	0	1
Other temporary differences	0	0	0	0
Total deferred tax assets	5	12	0	17
Deferred Tax Liabilities				
Depreciation difference and untaxed reserves	150	-10	0	140
Temporary differences	42	1	0	43
Cash flow hedges	-2	1	11	10
Total deferred tax liabilities	190	-8	11	193

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Deferred tax assets	2005	2004
Deferred tax asset to be recovered after more than 12 months	13	4
Deferred tax asset to be recovered within 12 months	10	13
	23	17

Deferred tax liabilities	2005	2004
Deferred tax liability to be recovered after more than 12 months	192	176
Deferred tax liability to be recovered within 12 months	0	17
	192	193

Deferred income tax assets are recognized for tax loss carry forwards to the extent that realization of the related tax benefit through the future taxable profits is probable.

Deferred tax liability on undistributed earnings of subsidiaries has not been recognized in the consolidated balance sheet because distribution of the earnings is in the control of the Group and such distribution, which will realize a relevant tax effect, is not probable within foreseeable future. The Finnish dividend taxation system, which came into effect in the beginning of 2005, enables distribution of earnings in Finnish entities without any compensatory tax.

Notes to the consolidated Financial Statements

26. Provisions for other liabilities and charges

	Environmental provisions	Other provisions	Total
At 1 January 2005	11	4	15
Charged to income statement			
Additional provisions	2	3	5
Used during the year	-4	-2	-6
At 31 December 2005	9	5	14

The nature of certain of Neste Oil's businesses exposes Neste Oil to risks of environmental costs and potential contingent liabilities arising from the manufacture, use, storage, disposal and maritime and inland transport and sale of materials that may be considered to be contaminants when released into environment. Liability may arise also through the acquisition, ownership or operation of properties or businesses.

27. Retirement benefit obligations

Defined benefit pension plans

The amounts recognized in the balance sheet	2005	2004
Present value of funded obligations	566	495
Fair value of plan assets	-696	-556
	-130	-61
Unrecognized actuarial gains and losses	80	27
Unrecognized past service cost	0	0
Liability (+)/asset (-) in the balance sheet	-50	-34

The amounts recognized in the income statement	2005	2004
Current service cost	10	3
Interest cost	24	7
Expected return on plan assets	-38	-10
Net actuarial gains and losses recognized during the year	0	0
Increase in obligation	2	0
TEL-adjustment	-6	0
Total included in personnel expenses (note 7)	-8	0

The actual return on plan assets was EUR 128 million (2004: 45 million).

The movement in the asset/liability recognized in the balance sheet	2005	2004
At the beginning of the period	-34	-32
Total expense charged in the income statement	-8	0
Contributions paid	-8	-2
At the end of the period	-50	-34
Defined benefit pension obligations	13	13
Defined benefit pension assets	-63	-47
Net asset (-)/liability (+)	-50	-34

Changes in the present value of the defined benefit obligation	2005	2004
Opening defined benefit obligation	495	479
Service cost	10	3
Interest cost	24	7
Increase in obligation	2	0
New pension plans	17	0
Actuarial losses	34	10
Benefits paid	-16	-4
Closing defined benefit obligation	566	495

Changes in the fair value of plan assets	2005	2004
Opening fair value of plan assets	556	511
Expected return	38	10
Actuarial gains	87	38
Contributions by employer	7	1
TEL-adjustment	6	0
New pension plans	18	0
Benefits paid	-16	-4
Closing fair value of plan assets	696	556

Analysis of the fair value at the balance sheet date	2005	2004
Equity instruments	354	255
Debt instruments	275	250
Property	60	47
Other assets	7	4
	696	556

Pension plan assets include the Parent Company's ordinary shares with a fair value of EUR 30 million (2004: 0, related party shares EUR 73 million) and a building occupied by the Group with a fair value of EUR 29 million (2004: 25 million).

The principal actuarial assumptions used, %	2005	2004
Discount rate	4.5–5.0	4.0–5.0
Expected return on plan assets	4.5–7.5	4.0–7.0
Future salary increases	3.5–5.0	3.5–4.0
Future pension increases	1.3–3.0	1.8–3.0

The Group has several pension arrangements in different countries. In Finland, the statutory TEL plan as well as voluntary pension plans are funded through Group's own pension fund. Since the employer has the ultimate responsibility for the return of the plan assets, in own pesion funds, also the Finnish statutory TEL plan is accounted for as defined benefit plan under IAS 19. The Group has a defined benefit plan also in Belgium and UK. Pension plans in other countries are defined contribution plans.

The Finnish TEL plan is a statutory earnings-related plan. The plan is, to a large extent, funded on a pay-as-you go basis, although there is an element of advance funding. The benefits provided under TEL are old age pensions, disability pensions, unemployment pensions and survivors' pensions. The Group's voluntary pension plan grants additional pension benefits in excess of the statutory benefits. The fund provides old age pensions, disability pensions, survivors' pensions and funeral grants. The voluntary pension fund has been closed since 1995.

28. Share-based payment

The Group has implemented a long-term management performance share arrangement for the key members of top management. At the moment, approximately 60 members participate in the arrangement. The amount of shares that may be acquired for the participants in the incentive scheme will be based on long-term incentive bonuses and the annual salary of each participant. The criteria for the long-term incentive bonuses shall be based on the performance and success in reaching the personal goals set for each individual and/or on the Group´s financial performance and success in reaching its goals.

The arrangement is divided into individual performance share plans, with a new plan being introduced annually and each plan having a duration of approximately six years. The Board decides annually as to the inclusion of participants in commencing Performance Share Plans. Each performance share plan begins with a three-year earning period, during which a participant accumulates the annual bonus percentages, followed by a three-year restriction period, at the end of which a participant receives a pre-determined number of Neste Oil shares. Before delivering the shares to the participant, the company deducts all taxes and other charges payable by the participant, and the participant receives the remaining portion (in Finland currently approx 40–50%) of the value in shares.

The number of shares granted after the three-year earning period (share participation) is based on the annual bonus percentages accumulated over those three years. In order to determine the number of shares, the participant's annual salary is multiplied by the cumulative annual bonus percentages, and this figure is divided by the share price at the time of grant. The number of shares granted under each annual share plan is adjusted during the restriction period by potential dividends paid up until the share delivery, which takes place at the end of the restriction period. The first plan began in 2002, when Neste Oil was part of Fortum Group. The shares earned during the years 2002–2004 where converted from Fortum shares to Neste Oil shares in 2005.

Participants included in the first plan will not receive any shares until the spring of 2008. The maximum value in shares a participant can be granted after the first three years is equal to one year's salary (incl. fringe benefits). The actual final value of each share plan is always dependent on the performance of Neste Oil and each individual during the earning period, as well as the Neste Oil share price development over the course of the restriction period.

The earned bonuses and related social charges are entered in the income statement spread over the earnings period and restriction period, and a respective liability is entered into the balance sheet. Assuming that the shares are to be purchased in the name of individual participants on the open market for delivery to such participants, the incentive plan will have no dilutive effect. The Group has hedged its exposure to the share price development during the restriction period in relation to the granted shares.

29. Related party transactions

The Group is controlled by the Finnish State, which owns 50.10% of the Company's shares. The remaining 49.9% of the shares are widely held.

The group has a related party relationship with subsidiaries, associates, joint ventures (see note 30) and with its directors and executive officers. The transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

In 2004 the ultimate parent of the Group was Fortum Corporation. Transactions with Fortum and its subsidiaries, which are not part of Neste Oil Group are reported on line "Parent" in the table below.

The following transactions were carried out with related parties

2005	Sales	Purchases	Interest income	Interest expense	Loan receivables	Other receivables	Loan payable	Other liabilities
Associates	3	9	0	0	0	2	0	3
Joint ventures	59	4	10	0	0	0	0	0
	62	13	10	0	0	2	0	3

2004	Sales	Purchases	Interest income	Interest expense	Loan receivables	Other receivables	Loan payable	Other liabilities
Parent	15	37	8	21	0	5	538	25
Associates	2	6	0	0	0	3	0	1
Joint ventures	40	1	3	0	54	16	0	3
	57	44	11	21	54	24	538	29

The major part of business between Neste Oil and its joint venture, Nynäs Petroleum, comprise of sales of bitumen production of Naanatali refinery to Nynäs Petroleum based on a long term agreement. Also, process oils were sold from Porvoo refinery to Nynäs Petroleum.

Key management compensation	2005	2004
Salaries and other short-term employee benefits	2	1

Key management consists of the Members of Board of Directors, President and CEO and other memebers of the Executive Team. There were no outstanding loans receivable from Key Managament on 31 Dec 2005 or 31 Dec 2004.

The members of Neste Executive Team have been granted share participations equivalent to 49,510 shares (of which 16,477 were granted to the President and CEO) in 2005 as part of the long term management performance share arrangement described in note 28. The number of share participations will be adjusted during the restriction period by potential dividends paid up until the share delivery. After deducting taxes and other charges payable by the participants the final number of shares will be diminished to approximately 50% of the granted number. These shares will be delivered to the recipients in 2008.

Compensation to President and CEO, Board of Directors and Supervisory Board

Euros	2005	2004
Risto Rinne, President and CEO	578,250	187,231
Board of Directors		
Timo Peltola, chairman	44,750	-
Mikael von Frenckell, vice chairman	35,500	-
Ainomaija Haarla	26,500	-
Kari Jordan	26,500	-
Juha Laaksonen	26,500	-
Nina Linander	26,500	-
Pekka Timonen	26,500	-
Maarit Toivanen-Koivisto	26,500	-
Board of Directors, all members total	239,250	-
Supervisory Board, all members total	45,200	-

The figures above for 2004 represent compensation for the eigth months period from May to December 2004. The President and CEO was not at that time responsible for a separate listed company and the Members of the Board of Directors received no remuneration.

In the event the Company decides to give notice of termination to the President and Chief Executive Officer, he is entitled to compensation equalling 24 months' salary. The retirement age of the President and CEO is 60, and the pension paid is 66% of his remuneration for the fiscal year immediately before retirement.

30. Group companies on 31 December 2005

Name of the subsidiary	Group holding%	Country of incorporation
Best Chain Oy	100.00	Finland
Eastex Crude Company Partnership	70.00	USA
Kide Automaatit Oy	100.00	Finland
Kiinteistö Oy Janakkalan Linnatuuli	70.14	Finland
Neste Canada Inc.	100.00	Canada
Neste Crude Oil Inc.	100.00	USA
Neste Eesti AS	100.00	Estonia
Neste Jacobs Oy	66.00	Finland
Neste LPG AB	100.00	Sweden
Neste Markkinointi Oy	100.00	Finland
Neste Oil AB	100.00	Sweden
Neste Oil BR Ltd	100.00	Belarus
Neste Oil Components Finance B.V	100.00	The Netherlands
Neste Oil Finance B.V	100.00	The Netherlands
Neste Oil Holding (U.S.A.) Inc.	100.00	USA
Neste Oil Insurance Ltd	100.00	Guernsey
Neste Oil Ltd	100.00	Great Britain
Neste Oil Markets Oy	100.00	Finland
Neste Oil N.V.	100.00	Belgium
Neste Oil Portugal S.A.	100.00	Portugal
Neste Oil Services Inc.	100.00	USA
Neste Oil US, LLC	100.00	USA
Neste Petroleum Inc.	100.00	USA
Neste Polska Sp.z.oo	100.00	Poland
Neste Production Russia Oy	100.00	Finland
Neste St. Petersburg OOO	100.00	Russia
Neste Trading (U.S.A.) Inc.	100.00	USA
Neste USA, L.L.C.	100.00	USA
Neste/Wrigth Asphalt Products Company Partnership	60.00	USA
Reola Gaas AS	93.85	Estonia
SIA Neste Latvija	100.00	Latvia
SIA Saskidrinata Naftas Gaze	100.00	Latvia
Tehokaasu Oy	100.00	Finland
UAB Neste Lietuva	100.00	Lithuania

Name of the associated company	Group holding%	Country of incorporation
Alberta Envirofuels Inc.	50.00	Canada
Borealis Electricicade E Calor Ace	33.33	Portugal
CanTerm Canadian Terminals Inc.	25.00	Canada
Innogas Oy AB	50.00	Finland
Kiinteistö Oy Helsingin Asesepänkuja 2	26.74	Finland
Kiinteistö Oy Porvoon Leporanta	50.00	Finland
Nemarc Shipping Oy	50.00	Finland
Neste Arabia Co. Ltd	48.00	Saudi Arabia
OAO Pechormornef	39.00	Russia
Oy Atlas-Öljy AB	40.00	Finland
Porvoon Alueverkko Oy	33.33	Finland
Svartså Vattenverk-Mustijoen Vesilaitos	40.00	Finland
Tahkoluodon Polttoöljy Oy	31.50	Finland
Tapaninkylän Liikekeskus Oy	40.03	Finland
Variston Liikekeskus Oy	25.00	Finland
Vaskiluodon Kalliovarasto Oy	50.00	Finland

Name of the joint venture	Group holding%	Country of incorporation
AB Nynäs Petroleum	50.00	Sweden
Lacus Ltd	50.00	Bermuda
Terra Ltd	50.00	Bermuda

31. Contingencies and commitments

Contingent liabilities	2005 Debt	Value of collateral	2004 Debt	Value of collateral
On own behalf				
For debt				
Pledges	3	5	4	6
Real estate mortgages	1	28	1	28
For other commitments				
Real estate mortgages	0	1	0	0
Other contingent liabilities	0	16	0	2
Total	4	50	5	36
On behalf of associated companies and joint ventures				
Pledges and real estate mortgages	0	0	0	9
Guarantees	0	10	0	8
Other contingent liabilities	0	3	0	0
Total	0	13	0	17
On behalf of others				
Guarantees	0	1	0	0
Other contingent liabilities	0	0	0	3
Total	0	1	0	3
	4	64	5	56

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Operating lease liabilities	2005	2004
Due within one year	73	76
Due between one and five years	58	46
Due in more than five years	60	54
	191	176

Commitments	2005	2004
Commitments for purchase of property, plant and equipment	95	225
Commitments for purchase of intangible assets	2	3
	97	228

EUR 2 million of the above relates to the joint venture Terra Ltd.

Other contingent liabilities

Neste Oil Corporation has a collective contingent liability with Fortum Heat and Gas Oy of the demerged Fortum Oil and Gas Oy's liabilities based on the Finnish Companies Act's Chapter 14a Paragraph 6.

32. Financial risk management

Financial risk management principles

Neste Oil, due to the nature of its operations, is exposed to a number of financial risks. The objective of financial risk management in Neste Oil is to decrease volatility in earnings, balance sheet and cash flow while securing effective and competitive financing for the Group. In order to address the impact of these risks, various risk management policies and strategies have been developed by Neste Oil. The Board of Directors of Neste Oil approves the umbrella policy document, the Corporate Risk Management Policy, which sets forth the objectives, principles, processes and responsibilities of Neste Oil's risk management operations. The policy establishes guidelines for defining, quantifying, monitoring and reporting financial risks. Neste Oil has established several sub-policies to support Company's risk management objectives.

The objectives and principles of financial risk management are defined in the Group Treasury Risk Policy, as well as division risk management policies and their sub-policies such as Oil Price Risk Management Manual. All divisions exposed to financial risks have their own policies for financial risk management within their respective divisions. Risk management for certain financial risks is centralized to Group Treasury, which works in close co-operation with Group's divisions. Group Treasury is responsible for currency risk, interest rate risk and liquidity and refinancing risks. Corporate Credit Control in Corporate Risk Management is responsible for monitoring and evaluating counterparty risks and credit worthiness.

Oil price risk management is organized in Risk Management unit within Oil Refining division, where hedging is conducted for refining margin and refinery inventory price risk. Risk Management unit is providing oil price hedging services to internal and external counterparties, as well.

Market risks

1. Oil price risk

The market prices for crude oil and other feedstocks, as well as refined petroleum products, are subject to significant fluctuations resulting from a variety of factors affecting demand and supply globally. Neste Oil's results of operations in any period are principally driven by demand for and prices of refined petroleum products relative to the supply and cost of crude and other feedstocks. These factors, combined with Neste Oil's specific consumption of crude oil and other feedstocks and its specific output of refined products drive results of operations and cash flows in the refining operations, which is Neste Oil's largest business segment in terms of sales, profits and net assets.

As the total refining margin is an important determinant of oil refining earnings, its fluctuations constitute a significant risk. With the aim of securing a minimum margin per barrel, Neste Oil hedges its refining margin with the use of derivative instruments. The level of hedging depends upon the budget for the given period and management's view of market conditions but the normal convention is that the total refining margin for ten percent of Neste Oil's refinery output volume over each rolling 12 month period will be subject to hedging transactions. These transactions are targeted at the components of Neste Oil's total refining margin, based upon its budgeted sales and refinery production, that are exposed to international market price fluctuations. Because of the differences between the qualities of underlying crude oil and refined petroleum products for which derivative instruments can be sold and purchased and the actual quality of Neste Oil's feedstock and refined petroleum product in any given period, the business will remain exposed to some degree of basis risk. The normal levels of ten percent of output over the next 12 months can be varied with separate approval.

From a risk management perspective, Neste Oil's refinery inventory consists of two components. The first and largest component of its inventory remains relatively constant over time at approximately 70–80 percent of total inventory volumes and is referred to as the "base" inventory. Base inventory consists of the minimum level of stocks that Neste Oil is required to maintain under Finnish laws and regulations plus the operational minimum level of supplies without which the refinery cannot be reasonably assured of remaining in operation. Base inventory creates a risk in Neste Oil's income statement and balance sheet inasmuch as Neste Oil applies the FIFO method for measuring the cost of goods sold, raw materials and inventories but, due to the relatively constant level of base inventory, no significant cash risk is presented thereby. As a result, hedging operations do not target the base inventory. Instead, Neste Oil's inventory risk management policies target the amount of inventories in excess of the "base inventory" inasmuch as these amounts create cash flow risks depending on the relationships over any period between feedstock purchases, refinery production and refined petroleum product sales. The amount of inventories in excess of base inventory that Neste Oil will seek to hedge at any given time depends upon management's view as to the likely magnitude and duration of the excess over base inventory levels and general market conditions but, in practice, the entire excess inventory position is typically hedged.

The Company estimates the oil price risk by measuring the impact of changes in refining margin and crude oil price by using Value-at-Risk sensitivities based on forward price curves and historical volatilities. Scenario analyses for other business areas are used, as well.

At 31 December 2005, a change of U.S. dollar 1.00 per barrel in Neste Oil's total refining margin with all other variables held constant, would have increased/decreased operating profit by EUR 80 million.

At 31 December 2005, a change of U.S. dollar 1.00 per barrel in crude oil price related to Neste Oil's refinery inventory with all other variables held constant, would have increased/decreased operating profit by EUR 10 million. The impacts of the movements stated above are based on a data giving no effect to any hedge transactions.

Note 21 summarises the exposure to oil derivative open positions as per 31 December 2005.

2. Foreign exchange risk

As the pricing currency of the oil markets is U.S. dollar and Neste Oil reports in euro, this factor among others, exposes Neste Oil's business to short term transaction and longer term economic currency risks.

The objective of foreign exchange risk management in Neste Oil is to limit the uncertainty created by changes in foreign exchange rates on the future value of cash flows and earnings as well as in Neste Oil's balance sheet. Generally, this is done by hedging currency risks in contracted and forecasted cash flows and balance sheet exposures (referred to as transaction exposure) and the equity of non-eurozone subsidiaries (referred to as translation exposure).

Transaction exposure

In general, all divisions hedge their transaction exposure related to highly probable future cash flows over the next 12 month period. Deviations from this risk neutral benchmark position are subject to separate approvals set by the Group Treasury Risk Policy. The net exposure is managed with forward contracts, swaps and options. All transactions are primarily made in hedging purposes and they are partly hedge accounted for and partly treated as economic hedges. The most important hedged currency is U.S. dollar.

Neste Oil has several currency denominated assets and liabilities in its balance sheet, such as foreign currency loans, deposits, accounts payable/receivable and cash in other currencies than home currency. Company hedges this balance sheet exposure with forwards and options. The largest item in the balance sheet exposure is net working capital. Since many of the Group's business transactions, sales of products and services and purchases of crude oil and other feedstocks, are related to U.S. dollar environment, the daily exposure of net working capital is hedged as part of the above mentioned balance sheet hedge in order to neutralize the effect of volatility in euro/U.S. dollar exchange rate movements. During 2005 the range of the daily exposure has fluctuated between EUR 30 and 300 million.

The Company estimates the foreign exchange risk by measuring the impact of currency rate changes based on the historical volatility. Stress testing is also done based on extreme market movements.

Translation exposure

Neste Oil's Group Treasury is responsible for managing Neste Oil's translation exposure. This consists of net investments in foreign subsidiaries and associated companies. Neste Oil's policy is to seek to reduce the volatility in Neste Oil's consolidated shareholder's equity as a result of these translation exposures. Forward contracts are used to hedge the translation exposure. Hedging decisions are made on a case-by-case basis by the Group Treasury based upon an assessment of various factors, including hedging costs and prevailing market conditions. The total non-euro-denominated equity of the Group's subsidiaries and associated companies was EUR 385 million as per 31 December 2005.

Note 21 summarises the nominal and fair values of outstanding foreign exchange derivative contracts as per 31 December 2005 (includes also closed positions).

The table below shows the nominal values of the Group's interest-bearing debt by currency as per 31 December 2005.

Currency	Amount in MEUR
EUR	732
USD	122
Other	21
	875

At 31 December 2005, if the euro had weakened/strengthened by 10% against U.S. dollar with all other variables held constant, operating profit for the year would have been EUR 80–90 million higher/lower.

The impact of the movement stated above is based on a data giving no effect to any hedge transactions.

3. Interest rate risk

Neste Oil is exposed to interest rate risk mainly through its interest-bearing net debt. The objective of the Company's interest rate risk management is to reduce the volatility of interest expense in the income statement. The risk neutral benchmark duration for the debt portfolio is 12 months, and the duration can vary +/- 6 months from the benchmark. Interest rate derivatives have been used to adjust the duration of the net debt portfolio. Group's interest rate risk management is centralized to Group Treasury. Note 21 summarizes the nominal and fair values of outstanding interest rate derivative contracts as per 31 December 2005 (includes also closed positions).

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The Company applies IFRS hedge accounting treatment for interest rate derivatives that are directly linked to underlying funding transactions. Other interest rate derivatives are measured at fair value through income statement.

The following table summarizes the re-pricing of the Group's interest-bearing debt:

Period in wich the repricing occurs	within 1 year	1 year – 5 years	more than 5 years	Total
Financial instruments with floating interest rate				
Financial liabilities				
Bonds	80			80
Loans from financial institutions	499			499
Pensions loans	40			40
Finance lease liabilities	112			112
Other	26			26
Effect of interest rate swaps	-308	200	108	0
Financial instruments with fixed interest rate				
Bonds			118	118
				875

As the Group has no significant interest-bearing assets, the Group's operating profit and operating cash flows are substantially independent of changes in market interest rates.

At 31 December 2005, a one per cent parallel shift in the interest rates would have increased/decreased net financial expenses by EUR 5 million over the next twelve month period. The impacts of the movements stated above are based on a data giving no effect to any hedge transactions.

Liquidity and Refinancing Risks

Liquidity and refinancing risk is defined as the amount by which earnings and/or cash flows are affected as a result of the Company not being able to secure sufficient financing. Neste Oil's principal source of liquidity is expected to be cash generated from operations. In addition, the Company seeks to reduce liquidity and re-financing risks with diversified maturity profile of its loan portfolio. Certain other limits have also been set to minimize the liquidity and refinancing risks. The Company must at all times have access to unutilized, committed credit facilities to cover all loans maturing within the next twelve months. In all cases, the unutilized committed credit facilities must always amount to at least 400 million euros.

The average loan maturity as per 31 December was 4,4 years. The most important financing programs in place are:

- Domestic commercial paper program (uncommitted), EUR 400 million
- Revolving multicurrency credit facility (committed), EUR 1,500 million
- Overdraft facilities (committed), EUR 100 million

As per 31 December 2005, the Company had cash and cash equivalents and committed, unutilized credit facilities totaling EUR 1,429 million at its disposal.

	2005
Floating rate	
- cash and cash equivalents	79
- overdraft facilities, expiring within one year	100
- revolving multicurrency credit facility, expiring beyond one year	1,250
	1,429

Credit risk

Credit risk arises from the potential failure of a counterparty to meet its contractual payment obligations and, thus, the amount of risk depends on the creditworthiness of the counterparty. In addition, counterparty risk arises in conjunction with cash investments and with hedging instruments. The amount of risk is quantified as the expected loss to Neste Oil in the event of a default by the counterparty. Credit risk limits are set at the corporate level and delegated to the divisions of Neste Oil. Limits for Neste Oil's credit risk position are defined and documented and credit limits for specific counterparties are based on the credit rating of the counterparty, duration of the exposure and monetary amount of the credit risk exposure.

Treasury reduces credit risk by executing transactions only with most creditworthy counterparties with approved counterparty risk limits. Minimum counterparty rating requirement by Treasury is BBB. Business divisions reduce credit risk by counterparty specific screening. From counterparties with no granted open credit line, a satisfactory collateral is required. There is no concentration of credit risk with respect to receivables, as the Group has a large number of internationally dispersed customers and counterparties.

33. Key financial indicators

		2005	2004
Income statement			
Sales	MEUR	9,974	5,454
Operating profit	MEUR	791	486
- of sales	%	7.9	8.9
Comparable operating profit	MEUR	525	388
Profit before income tax	MEUR	823	109
- of sales	%	8.3	2.0
Profitability			
Return on equity (ROE)[*]	%	51.3	19.7[**]
Return on capital employed, pre-tax (ROCE)	%	37.0	40.3[**]
Return on average capital employed, after tax (ROACE)	%	19.0	-
Financing and financial position			
Interest-bearing net debt	MEUR	796	969
Gearing	%	49.4	97.0
Leverage ratio	%	33.0	49.3
Equity-to-assets ratio	%	42.4	32.2
Other indicators			
Capital employed	MEUR	2,487	2,151
Investments	MEUR	668	229
- of sales	%	6.7	4.2
Research and development expenditure	MEUR	8	10
- of sales	%	0.1	0.2
Average number of personnel		4,528	4,296
Share-related key figures			
Earnings per share (EPS)	EUR	2.60	1.60
Equity per share	EUR	6.26	3.87
Cash flow per share	EUR	2.33	2.19
Price/earnings ratio		9.5	N/A
Share prices			
At the end of the period		24.81	N/A
Average share price		22.16	N/A
Lowest share price		15.22	N/A
Highest share price		32.19	N/A
Market capitalization at the end of the period	MEUR	6,123	N/A
Trading volumes			
Number of shares traded	1,000	360,876	N/A
In relation to weighted average number of shares	%	141	N/A
Number of shares		256,403,686	256,403,686

[*] The figure for 2004 includes the group contribution paid to the former parent company, Fortum Corporation.
[**] The ROCE %, and ROE % reported for the 2004 have been calculated by annualizing the May-December 2004 results.

Notes to the consolidated Financial Statements

Calculation of key figures

Calculation of key financial indicators

Comparable operating profit	=	Operating profit –/+ inventory gains/losses –/+ gains/losses from sales of fixed assets and investments - change in fair value of oil derivatives
Return on equity, (ROE) %	= 100 x	$\frac{\text{Profit before taxes – taxes}}{\text{Total equity average}}$
Return on capital employed, pre-tax (ROCE) %	= 100 x	$\frac{\text{Profit before taxes + interest and other financial expenses}}{\text{Capital employed average}}$
Return on average capital employed, after-tax (ROACE) %	= 100 x	$\frac{\text{Net profit (adjusted for invetory gains/losses and gains/losses from sales of fixed assets and investments net of taxes) + minority interest + interest expenses and other financial expenses related to interest-bearing liabilities (net of taxes)}}{\text{Average capital employed (= total equity + interest-bearing debt)}}$
Capital employed	=	Total assets – interest-free liabilities – deferred tax liabilities – provisions for liabilities and charges
Return on net assets, %	= 100 x	$\frac{\text{Operating profit + share of profits of associates and joint ventures}}{\text{Average net assets}}$
Segments net assets	=	Fixed assets, shares, pension assets and working capital allocated to the business segment, provisions and pension liabilities
Interest-bearing net debt	=	Interest-bearing liabilities – cash and marketable securities
Gearing, %	= 100 x	$\frac{\text{Interest-bearing net debt}}{\text{Total equity}}$
Equity-to assets ratio, %	= 100 x	$\frac{\text{Total equity}}{\text{Total assets – advances received}}$
Leverage ratio, %	= 100 x	$\frac{\text{Net debt}}{\text{Net debt + total equity}}$

Calculation of key share ratios

Earnings per share (EPS)	=	$\frac{\text{Profit before taxes – taxes on regular business operations – minority interest}}{\text{Adjusted average number of shares during the period}}$
Equity per share	=	$\frac{\text{Shareholder's equity attributable to Company's equity holders}}{\text{Adjusted average number of shares at the end of the period}}$
Cash flow per share	=	$\frac{\text{Net cash generated from operating activities}}{\text{Adjusted average number of shares during the period}}$
Price/earnings ratio (P/E)	=	$\frac{\text{Share price at the end of the period}}{\text{Earnings per share}}$
Average share price	=	$\frac{\text{Amount traded in euros during the period}}{\text{Number of shares traded during the period}}$
Market capitalization at the end of the period	=	Number of shares at the end of the period x share price at the end of the period
Trading volume	=	Number of shares traded during the period, and in relation to the weighted average number of shares during the period

34. IFRS Transition information

Neste Oil adopted the International Financial Reporting Standards (IFRS) as of 1 January, 2005 as the Group's accounting principles for financial reporting. Prior to 1 January, 2005, Neste Oil's accounting principles were in accordance with Finnish GAAP. The date of transition from Finnish GAAP to IFRS for Neste Oil is 1 May, 2004. An overview of the effects of IFRS transition on Neste Oil's income statement and balance sheet was included in the notes to the financial statements for the 1 May – 31 December, 2004 accounting period, prepared in accordance with Finnish GAAP.

The following section presents the major changes in accounting principles and effects of the transition to IFRS on Neste Oil's consolidated financial statements for the financial period 1 May – 31 December, 2004, as well as the reconciliation of equity and net profit reported under Finnish GAAP to IFRS.

Major changes to accounting principles affecting the financial statements

Neste Oil has applied the exemptions allowed in IFRS 1, First-Time Adoption, in its IFRS transition. However, financial instruments have been initially recognized at fair value as of 1 May, 2004 and subsequently for the comparative income statement and balance sheet for the 1 May – 31 December, 2004 financial period. No impairment charges have been recognized in the IFRS opening balance sheet.

The major changes in the transition to IFRS relate to the following standards:

- IAS 17 (Leases)
- IAS 19 (Employee Benefits)
- IAS 39 (Financial Instruments: Recognition and Measurement) and IAS 32 (Financial Instruments: Disclosure and Presentation)
- IAS 16 (Property, Plant and Equipment)
- IAS 37 (Provisions, Contingent Liabilities and Contingent Assets)
- IAS 2 (Inventories)
- IAS 23 (Borrowing Costs)

IAS 17 (Leases)

Lease arrangements that transfer substantially all the risks and rewards related to the leased asset to the lessee are classified as finance leases. Finance leases are capitalized at the commencement of the lease term at the lower of the fair value of the leased property and the present value of the minimum lease payments as determined at the inception of the lease. Assets acquired under finance leases and recognized in the balance sheet are depreciated over the useful life of the asset or the lease term, whichever is the shorter. The lease liability is recognized as an interest-bearing liability.

Under Finnish GAAP, all leases were accounted for as operating leases.

IAS 19 (Employee Benefits)

Neste Oil has a number of pension plans in accordance with local practices in the countries where it operates. The Group has both defined benefit and defined contribution plans. The Group's contributions to defined contribution plans are charged to the income statement in the period to which the contributions relate.

For defined benefit plans, pension costs are assessed using the projected unit credit method. The cost of providing pensions is charged to the income statement so as to spread the service cost over the service lives of employees. The defined benefit obligation is measured as the present value of the estimated future cash flows using interest rates of high-quality corporate bonds with terms to maturity approximating to the terms of the related pension liability. The liability or asset recognized in the balance sheet is the defined benefit obligation at the balance sheet date less the fair value of plan assets. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

All accumulated actuarial gains and losses related to defined benefit plans are recognized in the balance sheet at the date of transition as allowed by IFRS 1. The interest component is included in employee benefit costs in the income statement.

The Finnish TEL pension scheme, including the disability part, has been accounted for as a defined benefit plan, since the TEL pension scheme is covered in the Group's own pension fund for the most part.

Under Finnish GAAP, all pension plans were accounted for as defined contribution plans.

IAS 39 (Financial Instruments: Recognition and Measurement) and IAS 32 (Financial Instruments: Disclosure and Presentation)

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing any resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if is, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of highly probable forecasted transactions (cash flow hedges); (2) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or (3) hedges of net investments in foreign operations.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in equity. Any gain or loss relating to the ineffective portion is recognized immediately in the income statement. Amounts accumulated in equity are recycled in the income statement during the periods when the hedged item affects profit or loss, when a forecasted sale that is being hedged takes place, for example.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If derivatives do not qualify for hedge accounting, any movement in fair value is recognized in the income statement.

Oil derivatives entered into to hedge price risks are economical hedges and do not qualify for hedge accounting under IAS 39. All fair value changes are recognized in the operating profit.

Foreign exchange derivatives are used to hedge forecasted sales and purchases transactions, assets and liabilities in the balance sheet and net investments in foreign operations. Hedge accounting is applied to foreign exchange derivatives used to hedge forecasted future cash flows. Interest rate derivatives and currency derivatives used to hedge Shipping leasing liabilities apply hedge accounting starting on January 1, 2005.

Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in equity; while any gain or loss relating to the ineffective portion is recognized immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

Under Finnish GAAP, gains or losses on derivative financial instruments for hedging purposes were recognized once the underlying income or expense occurred. Open financial instrument positions were not initially recognized at fair value in the balance sheet.

IAS 16 (Property, Plant and Equipment) and IAS 37 (Provisions, Contingent Liabilities and Contingent Assets)

Property, plant, and equipment are stated at historic cost, less depreciation, in the balance sheet. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and that the cost of the item can be measured reliably. Costs for major periodic overhauls at oil refineries and other production plants on a 3–5 year cycle are capitalized when they occur and then depreciated during the shutdown cycle, i.e. the time between shutdowns. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Under Finnish GAAP, the costs of major overhauls were accrued in advance of the shutdown and accounted for as a provision in the balance sheet.

IAS 2 (Inventories)

Inventories are stated at the lower of either cost or net realizable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Under Finnish GAAP, production overheads were not capitalized to the cost of finished goods and work in progress.

IAS 23 (Borrowing costs)

Borrowing costs are recognized as expense in the period in which they are incurred, except if they are directly attributable to the construction of an asset that meets determined criteria, in which case they are capitalized as part of the cost of that asset. These determined criteria are that (a) the borrowing costs incurred for the construction of an investment that exceeds EUR 100 million that (b) it will take more than 18 months to make the related asset operational, and (c) that it is an initial investment.

Under Finnish GAAP, no borrowing costs were capitalized.

Changes in classification

Some shareholdings that have been consolidated according to the equity method under Finnish GAAP are classified as joint ventures under IFRS. However, joint ventures will also be consolidated according to the equity method under IFRS. The share of profit from associated companies and joint ventures is presented below operating profit in the income statement.

Crude oil rock inventory bottoms have been reclassified to fixed assets from inventory. Certain minority shareholdings are classified as available for sale financial assets. These assets are measured at fair value, and the change in fair value is recorded in the fair value reserve in equity. Unquoted shares, whose fair value cannot be reliably measured, are measured at cost.

The effects of IFRS transition are summarised in the following consolidated income statement and balance sheet 2004, reconciliation of net profit and equity, as well as the related specification of each balance sheet line item affected.

Consolidated income statement

	Note	Finnish GAAP 1 May-31 Dec 2004	Effect of transition to IFRS	IFRS 1 May-31 Dec 2004
Sales		5,454		5,454
Share of profit (loss) of associates and joint ventures		32	-32	0
Other income		20	27	47
Materials and services		-4,468	6	-4,462
Employee benefit costs		-142	1	-141
Depreciation, amortization and impairment charges		-81	-14	-95
Other expenses		-324	7	-317
Operating profit		491	-5	486
Share of profit (loss) of associates and joint ventures		0	32	32
Finance costs, net		-10	12	2
Group contributions paid*)		-411	0	-411
Profit before income taxes		70	39	109
Income tax expense		18	-6	12
Profit for the period	1	88	33	121
Attributable to:				
Equity holders of the Company		86	33	119
Minority interest		2		2
		88	33	121
Earnings per share attributable to the equity holders of the company during the year (in euro per share)**)				1.60

*) Group contributions were paid to the former parent company, Fortum Corporation, since Neste Oil was part of the Fortum Group in 2004. Within Fortum Group, the profits and losses of Finnish group companies were combined for tax purposes through group contributions.

**) When calculating Earnings per share, group contribution has not been deducted from the profit for the period. Instead, a tax charge of EUR 119 million has been deducted. This amount represents the additional taxes Neste Oil would have paid, if the group contribution had not been paid to Fortum Corporation.

Consolidated balance sheet

	Note	Finnish GAAP 1 May 2004	Effect of transition to IFRS	IFRS 1 May 2004	Finnish GAAP 31 Dec 2004	Effect of transition to IFRS	IFRS 31 Dec 2004
ASSETS							
Non-current assets							
Intangible assets	2	27	1	28	27	3	30
Property, plant and equipment	3	1,241	154	1,395	1,373	137	1,510
Investments in associates and joint ventures		116	0	116	140	0	140
Long-term interest-bearing receivables		73	0	73	68	0	68
Pension asset	4	0	43	43	0	47	47
Deferred tax assets	13	16	-11	5	30	-13	17
Other financial assets	5	18	6	24	18	10	28
		1,491	193	1,684	1,656	184	1,840
Current assets							
Inventories	6	329	-5	324	420	-5	415
Trade and other receivables	7	636	39	675	578	88	666
Cash pool receivable		13	0	13	124	0	124
Cash and cash equivalents		101	0	101	60	0	60
		1,079	34	1,113	1,182	83	1,265
Total assets		2,570	227	2,797	2,838	267	3,105
EQUITY							
Capital and reserves attributable the Company's equity holders							
Share capital and other equity		49	2	51	49	34	83
Retained earnings		730	65	795	725	66	791
Profit for the period		0	0	0	86	33	119
Total equity attributable to the Company's equity holders		779	67	846	860	133	993
Minority interest		3	0	3	5	0	5
Total equity	8		67	849		133	998
LIABILITIES							
Non-current liabilities							
Interest-bearing liabilities	9	907	123	1,030	616	99	715
Deferred tax liabilities	13	163	27	190	151	42	193
Provisions	10	63	-40	23	74	-59	15
Defined pension liabilities		0	0	0	0	13	13
Other non-current liabilities	11	3	17	20	6	15	21
		1,136	127	1,263	847	110	957
Current liabilities							
Interest-bearing liabilities	9	27	6	33	433	5	438
Trade and other payables	12	625	27	652	693	19	712
		652	33	685	1,126	24	1,150
Total liabilities		1,788	160	1,948	1,973	134	2,107
Total equity and liabilities		2,570	227	2,797	2,838	267	3,105

1. Reconciliation of profit for the period attributable to the equity holders of the company Finnish GAAP to IFRS

	1 May-31 Dec 2004
Net profit according to Finnish GAAP	86
Financial instruments	14
Leasing	15
Employee Benefits	3
Overhauls	-2
Capitalized interests	2
Capitalization of fixed costs in inventory	0
Other	1
Net profit according to IFRS	119

2. Intangible assets

The increase in intangible assets results from the reversal of goodwill amortisation.

3. Property, plant and equipment

The increase in property, plant, and equipment results from certain lease agreements, all of which relate to leased ships, classified as a finance lease (31 December 2004 EUR 122 million), capitalized overhaul costs (31 December 2004 EUR 12 million), accumulated depreciation on revaluations (31 December 2004 EUR -13 million), reclassification of crude oil rock inventory as tangible assets (31 December 2004 EUR 13 million) and capitalization of borrowing costs (31 December 2004 EUR 2 million)

4. Pension asset

The pension asset comprises the defined benefit plan assets in excess of the corresponding pension liability. The asset relates mainly to the Group's pension fund in Finland.

5. Other non-current assets

Other non-current assets show an increase, due to the recognition of derivative financial instruments with a maturity exceeding 12 months in the balance sheet.

6. Inventories

The value of inventories decreases due to the reclassification on crude oil rock inventory to tangible assets (31 December 2004 EUR -13 million). This decrease is offset by capitalized production overheads, (31 December 2004 EUR 8 million).

7. Current receivables

The increase in current receivables relates to the recognition of derivative financial instruments with a maturity of less than 12 months in the balance sheet.

8. Shareholder's equity

	1 May 2004	31 Dec 2004
Equity according to Finnish GAAP	779	860
Minority FAS	3	5
Financial instruments	1	48
Leasing	0	14
Employee Benefits	31	34
Overhauls	48	46
Revaluations	-17	-16
Other	4	7
Equity according to IFRS	849	998

9. Interest-bearing liabilities

Non-current interest-bearing liabilities show an increase of EUR 99 million and current interest-bearing liabilities an increase of EUR 5 million (31 December 2004), due to finance lease liabilities recognized in the balance sheet.

10. Provisions

Provisions are reduced by EUR 48 million (31 December 2004) as a result of the reversal of the Finnish GAAP provision for refinery major overhauls.

11. Other non-current liabilities

Other non-current liabilities increase due to the recognition of derivative financial instruments with a maturity exceeding 12 months in the balance sheet.

12. Other current liabilities

Other current liabilities show an increase, due to the recognition of derivative financial instruments with a maturity of less than12 months in the balance sheet.

13. Deferred taxes

Deferred taxes are recognized for all taxable temporary differences in accordance with IAS 12 (Income taxes).

Parent company income statement and balance sheet

MEUR	Note	1 Jan-31 Dec 2005	1 May-31 Dec 2004
Income statement			
Net sales	2	6,509	3,543
Change in product inventories and work in progress		107	0
Other operating income	3	24	18
Materials and services	4	-5,449	-2,712
Personnel expences	4	-159	-94
Depreciation, amortisation and write-downs	8	-91	-51
Other operating expenses	4	-411	-294
Operating profit		530	410
Financial income and expenses	5	30	-3
Profit before extraordinary items		560	407
Extraordinary items	6	16	-392
Profit before appropriations and taxes		576	15
Appropriations		-30	-19
Income taxes	7	-128	24
Net profit for the period		418	20

MEUR	Note	31 Dec 2005	31 Dec 2004
Balance sheet			
Assets			
Fixed assets and other long-term investments	8, 9		
Intangible assets		23	11
Tangible assets		1,514	1,069
Shares in group companies		226	225
Shares in associated companies		7	3
Other shares		15	15
Interest bearing receivables		203	246
		1,988	1,569
Current assets			
Inventories	10	431	307
Trade receivables		493	402
Other receivables	11	78	63
Deferred tax assets		24	27
Cash and cash equivalents		25	4
		3,039	2,372
Shareholders' equity and liabilities			
Shareholders' equity	12		
Share capital		40	40
Retained earnings		185	165
Net profit for the period		418	20
		643	225
Accumulated appropriations	13	535	506
Provisions for liabilities and charges	14	37	72
Liabilities	15, 16		
Long-term liabilities			
Interest-bearing		558	581
Interest-free		4	3
		562	584
Short-term liabilities			
Interest-bearing		451	425
Interest-free		811	560
		1,262	985
		3,039	2,372

Parent company cash flow statement

MEUR	1 Jan-31 Dec 2005	1 May-31 Dec 2004
Cash flow statement		
Cash flows from operating activities		
Profit before extraordinary items	560	407
Depreciation, amortisation and write-downs	91	51
Other non-cash income and expenses	-32	14
Financial income and expenses	-30	3
Divesting activities, net	-5	-7
Operating cash flow before change in working capital	584	468
Change in working capital		
Decrease (+)/increase (-) in interest-free trade and other receivables	-88	70
Decrease (+)/increase (-) in inventories	-137	-55
Decrease (-)/increase (+) in interest-free liabilities	247	43
Change in working capital	22	58
Cash generated from operations	606	526
Interest and other financial expenses paid, net	-4	-11
Dividends received	55	7
Income taxes paid	-126	-1
Realized foreign exchange gains and losses	-24	7
Cash flow before extraordinary items	-99	2
Group contributions received, net	2	-
Net cash from operating activities	509	528
Cash flows from investing activities		
Capital expenditures	-542	-191
Proceeds from sales of fixed assets	11	9
Investments in shares in subsidiaries	-1	-3
Investments in shares in associated companies	-4	-2
Proceeds from sales of shares in subsidiaries	-	7
Change in other investments, increase (-), decrease (+)	43	-100
	-493	-280
Cash flow before financing activities	16	248
Cash flows from financing activities		
Proceeds from long-term liabilities	762	2
Payments of long-term liabilities	-782	-272
Change in short-term liabilities	25	415
Group contributions paid	-	-395
Cash flow from financing activities	5	-250
Net increase (+)/decrease (-) in cash and marketable securities	21	-2
Cash and marketable securities at the beginning of the period	4	6
Cash and marketable securities at the end of the period	25	4
Net increase (+)/decrease (-) in cash and marketable securities	21	-2

Notes to the Financial Statements

1. Accounting policies

The financial statements of Neste Oil Corporation (Parent company) are prepared in accordance with Finnish GAAP.

Net sales

Net sales include sales revenues from actual operations and exchange rate differences on trade receivables, less discounts, indirect taxes such as value added tax and excise tax payable by the manufacturer and statutory stockpiling fees. Trading sales include the value of physical deliveries and the net result of derivative contracts.

Other operating income

Other operating income includes gains on the sales of fixed assets and contributions received as well as all other operating income not related to the sales of products or services, such as rents.

Foreign currency items

Transactions denominated in foreign currencies have been valued using the exchange rate at the date of the transaction. Receivables and liabilities denominated in foreign currencies outstanding on the balance sheet date have been valued using the exchange rate quoted on the balance sheet date. Exchange rate differences have been entered in the income statement. Net exchange rate differences relating to financing have been entered in financial income or expenses.

Derivative financial instruments

Neste Oil enters into derivative contracts mainly to hedge oil price, foreign exchange and interest rate exposures.

Oil commodity derivatives hedging future cash flow are booked once the underlying exposure occurs. Unrealized losses on derivatives held for trading purposes are booked immediately, but gains are booked only at maturity or when the open exposure of the derivative is closed with similar derivative.

There are three different types of foreign exchange derivatives: hedges for future cash flow, hedges of balance sheet items and derivatives held for trading purposes. Gains or losses on derivatives that hedge future cash flows are recognized once the underlying income or expense occurs. Derivatives used to hedge balance sheet items e.g. bank accounts, loans or receivables are valued employing the exchange rate quoted on the balance sheet date, and gains or losses are recognized in the income statement. Foreign exchange gains on trading deals are booked only at maturity, but losses are recognized immediately. The interest element on all forward contracts is accrued. Option premiums are treated as advances paid or received until the option matures, and any losses on options entered into other than hedging purposes are entered as an expense in the income statement. Gains or losses for derivatives used to hedge the interest rate risk exposure are accrued over the period to maturity and are recognized as an adjustment to the interest income or expense of the underlying liabilities.

Fixed assets and depreciation

The balance sheet value of fixed assets consists of historical costs less depreciation according to plan and other possible write-offs, plus revaluation permitted by local regulations. Fixed assets are depreciated using straight-line depreciation based on the expected useful life of the asset. The depreciation is based on the following expected useful lives:

Buildings and structures	20–40 years
Production machinery and equipment	15–20 years
Marine fleet	15–20 years
Other equipment and vehicles	3–15 years
Other tangible assets	20–40 years
Intangible assets	5–10 years

Inventories

Inventories have been valued on the FIFO principle at the lower of direct acquisition cost or market value, taking into account the impact of possible hedging operations. Crude oil rock inventory bottoms (EUR 13 million) have been transferred from inventories to other tangible assets.

Research and development

Research and development expenditures are expensed as incurred with the exception of investments in buildings and equipment.

Pension expenses

Statutory pension obligations are covered through a compulsory pension insurance policy. Payments to Group's pension fund are recorded in the income statement in amounts determined by the pension fund according to the actuarial assumptions pursuant to the Finnish Employee's Pension Act. The liabilities on pensions granted by the company itself have been entered as a provision in the balance sheet.

Extraordinary items

Extraordinary items consist of received or given group contributions from or to Neste Oil Group companies.

Deferred taxes

Deferred taxes are determined on the basis of temporary differences between the financial statement and tax bases of assets and liabilities. Deferred income tax is determined using tax rates that have been enacted at the balance sheet date and are expected to apply.

Provisions

Foreseeable future expenses and losses that have no corresponding revenue and which Neste Oil Corporation is committed or obliged to settle, and whose monetary value can reasonably be assessed, are entered as expenses in the income statement and included as provisions in the balance sheet. These items include expenses relating to the pension liabilities, guarantee obligations, expenses relating to the future clean-up of proven environmental damage and obligation to return emission allowances. Provisions are recorded based on management estimates of the future obligation. The shutdown provision concerning Porvoo refinery has been reversed against the costs incurred. The shutdown provision concerning Naantali refinery will be reversed during the next shutdown (year 2006). Costs for new shutdowns are not provided for.

2. Net Sales

Net Sales by segment	2005	2004
Oil Refining	6,281	3,385
Oil Retail	25	106
Shipping	350	205
Other	11	1
Eliminations	-158	-154
Total	6,509	3,543

Net Sales by market area	2005	2004
Finland	3,349	1,974
Other Nordic countries	978	545
Baltic States, Russia and Poland	70	41
Other European countries	1,363	604
USA and Canada	614	267
Other countries	135	112
Total	6,509	3,543

3. Other operating income

	2005	2004
Rental income	7	4
Gains on sales of fixed assets	5	13
Government grants	10	0
Other	2	1
Total	24	18

4. Other operating expenses

Other operating expenses	2005	2004
Materials and services		
Materials and supplies		
Purchases during the period	5,478	2,766
Change in inventories	-29	-55
External services	0	1
Personnel expenses		
Wages, salaries and remunerations	130	76
Indirect employee costs		
Pension costs	16	11
Other indirect employee costs	13	7
Other operating expenses	411	294
Total	6,019	3,100

Divesting activities included in other operating expenses		
Losses on sales of fixed assets and write-offs	0	5
Total	0	5

Salaries and remuneration

Key management compensations are presented in Note 29 in the Neste Oil Group consolidated financial statements

Average number of employees	2005	2004
Oil Refining	1,987	1,938
Oil Retail	14	76
Shipping	545	578
Other	135	41
Total	2,681	2,633

5. Financial income and expenses

Financial income and expenses	2005	2004
Income from other long-term investments		
Dividend income from Group companies	44	5
Interest income from Group companies	14	5
Dividend income from others	10	3
Other interest and financial income		
From Group companies	3	7
Other	2	0
Exchange rate differences	-6	1
Interest expenses and other financial expenses		
To Group companies	-11	-21
Other	-26	-3
Total	30	-3

Total interest income and expenses		
Interest income	19	13
Interest expenses	-35	-24
Net interest expenses	-16	-11

6. Extraordinary items

	2005	2004
Extraordinary income		
Group contributions	17	3
Extraordinary expenses		
Group contributions	-1	-395
Total	16	-392

7. Income taxes

	2005	2004
Taxes on regular business operations	124	90
Taxes on extraordinary items	4	-114
Total	128	-24
Taxes for the period	124	2
Taxes for the previous periods	1	1
Change in deferred tax assets	3	-27
Total	128	-24

Parent company Financial Statements

8. Fixed assets and long-term investments

Change in acquisition cost 2005 Intangible assets	Goodwill	Other intangible assets	Total
Acquisition cost as of 1 January 2005	1	43	**44**
Increases	-	19	**19**
Decreases	-	2	**2**
Acquisition cost as of 31 December 2005	1	60	**61**
Accumulated depreciation, amortization and write-downs as of 1 January 2005	1	32	**33**
Accumulated depreciation, amortization and write-downs of decreases and transfers	-	1	**1**
Depreciation and amortization for the period	0	6	**6**
Accumulated depreciation, amortization and write-downs as of 31 December 2005	1	37	**38**
Balance sheet value as of 31 December 2005	0	23	**23**
Balance sheet value as of 31 December 2004	0	11	**11**

Tangible assets	Land areas	Buildings and structures	Machinery and equipments	Other tangible assets	Advances paid and construction in progress	Total
Acquisition cost as of 1 January 2005	10	636	1,247	44	224	**2,161**
Increases	3	62	148	6	304	**523**
Decreases	1	3	36	0	1	**41**
Transfer between categories	-	0	0	13	-	**13**
Acquisition cost as of 31 December 2005	12	695	1,359	63	527	**2,656**
Accumulated depreciation, amortization and write-downs as of 1 January 2005	0	315	788	20	-	**1,123**
Accumulated depreciation, amortization and write-downs of decreases and transfers	-	3	32	0	-	**35**
Depreciation, amortization and write downs for the period	0	22	62	1	-	**85**
Accumulated depreciation, amortization and write-downs as of 31 December 2005	0	334	818	21	-	**1,173**
Revaluations	6	25				**31**
Balance sheet value as of 31 December 2005	18	386	541	42	527	**1,514**
Balance sheet value as of 31 December 2004	16	346	459	24	224	**1,069**
Balance sheet value of machinery and equipments used in production						**333**

Other long-term investments	Shares in group companies	Receivables from group companies	Shares in associated companies	Receivables from associated companies	Other shares and holdings	Other receivables	Total
Acquisition cost as of 1 January 2005	225	240	3	1	15	6	**490**
Increases	1	132	4	0	0	-	**137**
Decreases	0	174	-	0	-	2	**176**
Acquisition cost as of 31 December 2005	226	198	7	1	15	4	**451**
Accumulated depreciation, amortization and write-downs as of 1 January 2005	-	-	-	-	0	1	**1**
Accumulated depreciation, amortization and write-downs of decreases and transfers	-	-	-	-	-	1	**1**
Accumulated depreciation, amortization and write-downs as of 31 December 2005	-	-	-	-	0	-	**0**
Balance sheet value as of 31 December 2005	226	198	7	1	15	4	**451**
Balance sheet value as of 31 December 2004	225	240	3	1	15	5	**489**

9. Revaluations

	Revaluations as of 1 Jan	Increases	Decreases	Revaluations as of 31 Dec
Land areas	6	-	-	6
Buildings	25	-	0	25
Total	31	-	0	31

Policies and principles for revaluations and evaluation methods

The revaluations are based on fair values at the moment of revaluation.

10. Inventories

	2005	2004
Raw materials and supplies	**172**	154
Work in progress	**113**	75
Products/finished goods	**146**	78
Total	**431**	307

Difference between replacement value and book value of inventories is EUR 34 million (2004: 26 million).

11. Short-term receivables

	2005	2004
Trade receivables	**320**	245
Receivables from Group companies		
Trade receivables	**173**	156
Other receivables	**17**	3
Accrued income and prepaid expenses	**2**	19
Total	**192**	178
Receivables from associated companies		
Trade receivables	**0**	1
Total	**0**	1
Other receivables	**38**	25
Accrued income and prepaid expenses	**21**	15
Total	**571**	464
Short-term accrued income and prepaid expenses		
Accrued interest	**3**	19
Accrued taxes	**2**	0
Other	**18**	15
Total	**23**	34

12. Changes in shareholders' equity

	2005	2004
Share capital at the beginning of the period	**40**	40
Share capital at the end of the period	**40**	40
Retained earnings at the beginning of the period	**185**	165
Net profit for the period	**418**	20
Retained earnings at the end of the period	**603**	185
Distributable equity	**603**	185

13. Accumulated appropriations

	2005	2004
Accumulated depreciation above the plan	**535**	506

14. Provisions for liabilities and charges

	2005	2004
Provisions for pensions	**10**	11
Provisions for planned refinery maintenance and upgrade shutdown	**16**	49
Other provisions	**11**	12
Total	**37**	72

15. Liabilities

	2005	2004
Long-term liabilities		
Bonds	**199**	-
Loans from financial institutions	**288**	2
Pension loans	**40**	41
Liabilities to Group companies		
Other long-term liabilities	**30**	538
Liabilities to associated companies		
Advances received	**1**	2
Other long-term liabilities	**1**	0
Accruals and deferred income	**3**	1
Total	**562**	584
Short-term liabilities		
Loans from financial institutions	**190**	0
Advances received	**24**	-
Trade payables	**487**	254
Liabilities to Group companies		
Trade payables	**8**	14
Other short-term liabilities	**240**	428
Accruals and deferred income	**1**	7
Total	**249**	449
Liabilities to associated companies		
Advances received	**1**	1
Trade payables	**1**	0
Total	**2**	1
Other short-term liabilities	**260**	243
Accruals and deferred income	**50**	38
Total	**1,262**	985
Interest-bearing and interest-free liabilities		
Interest-bearing liabilities	**1,009**	1,005
Interest-free liabilities	**815**	564
Total	**1,824**	1,569
Liabilities due after five years		
Bonds	**120**	-
Loans from financial institutions	**40**	1
Pension loans	**40**	41
Liabilities to Group companies	**30**	538
Total	**230**	580
Short-term accruals and deferred income		
Salaries and indirect employee costs	**35**	32
Accrued interests	**6**	5
Accrued taxes	**1**	1
Other short-term accruals and deferred income	**9**	7
Total	**51**	45

16. Contingent liabilities

Collaterals and other undertakings on own behalf	2005 Debt	Value of collateral	2004 Debt	Value of collateral
Own debt secured by pledged assets				
Pension loans	3	3	4	4
Trade payables	0	2	0	2
Total	3	5	4	6
Own debt secured by real estate mortgages				
Loans from financial institutions	1	2	1	2
Trade payables	0	23	0	23
Total	1	25	1	25
Total	4	30	5	31
Collaterals given on behalf of Group companies				
Real estate mortgages		2		2
Total		2		2
Collaterals total		32		33

Other contingent liabilities	2005	2004
Leasing liabilities		
Due within a year	71	74
Due after a year	129	89
Total	200	163
Other contingent liabilities given on own behalf	1	1
Other contingent liabilities given on behalf of Group companies		
Guarantees	157	68
Other contingent liabilities total	358	232

17. Derivatives

Interest and currency derivatives	2005 Contract or notional value	Fair value	Not recog-nized as an income	2004 Contract or notional value	Fair value	Not recog-nized as an income
Interest rate swaps	308	-3	-3	58	-6	-6
Forward foreign exchange contracts	942	-27	-24	567	10	9
Currency options						
Purchases	835	-17	-17	438	17	17
Written	835	-3	-3	438	6	6

Oil futures and forward instruments	Volume 1,000 bbl	Fair value	Not recog-nized as an income	Volume 1,000 bbl	Fair value	Not recog-nized as an income
Sales contracts	45,665	20	20	45,549	19	19
Purchase contracts	92,101	-6	-6	69,584	6	6
Options						
Purchased	6,905	-2	-2	4,797	2	2
Written	5,589	2	2	6,784	-2	-2

The fair values of foreign exchange currency derivatives are based on market values at the balance sheet date. The fair values of interest rate swaps are the present values of the estimated future cash flows and the fair values of currency options are calculated with option valuation model.

The fair value of exchange traded oil commodity futures and option contracts are based on the forward exchange market quotations at the balance sheet date. The fair value of over-the-counter oil commodity derivative contracts is based on the net present value of the forward derivatives quoted market prices at the balance sheet date. Physical sales and purchase agreements within trading activities are treated as derivatives and reported in the Derivatives table.

Other contingent liabilities

The company has a collective contingent liability with Fortum Heat and Gas Oy of the demerged Fortum Oil and Gas Oy's liabilities based on the Finnish Companies Act's Chapter 14a Paragraph 6.

18. Shares and shareholders

Share capital

Under Neste Oil's Articles of Association, the Company's minimum share capital is set at EUR 30 million, and its maximum share capital at EUR 200 million. Within these limits, share capital can be increased or reduced without amending the Articles of Association. The Company's Articles of Association also state that the Company should have a minimum of 50 million shares and a maximum of 600 million shares. The Company's share has a book countervalue of EUR 0.15600 (infinite number).

Neste Oil's share capital registered with the Trade Register as of 31 December 2005 totalled EUR 40,000,000, divided into 256,403,686 shares of equal value. Until 8 March 2005 the number of shares was 100,000,000.

Quotation and trading of shares

Neste Oil's shares were listed for trading on the Helsinki Stock Exchange on 18 April 2005. At its highest during 2005, the share price reached EUR 32.19, while at its lowest the price stood at EUR 15.22, with the average for the year coming in at EUR 22.16. The share price closed the year at EUR 24.81, giving the company a market capitalization of EUR 6,123 million as of 31 December.

Share buyback and issue authorizations

The Board of Directors is not authorized to issue new Company shares or other securities. The Company does not have a share buyback program in place and the Board is not authorized to buy back Company shares.

Management shareholding

On 31 December 2005, the members of Board Directors and the President and CEO owned a total of 34,362 shares, which corresponds to 0.01% of the company's shares and voting rights. The members of the Supervisory Board owned no shares as per 31 December 2005.

Shareholders on 31 December 2005

Shareholder	No. of shares	Holding %
Finnish State	128,458,247	50.10
Ilmarinen Mutual Pension Insurance Company	3,465,800	1.35
Social Insurance Institution	2,648,424	1.03
The municipality of Kurikka	1,550,875	0.60
State Pension Fund	1,500,000	0.59
Neste Oil Pension Fund	1,258,738	0.49
OP-Delta Investment Fund	1,085,377	0.42
Etera Mutual Pension Insurance Company	927,470	0.36
Fennia Mutual Pension Insurance Company	890,000	0.35
Varma Mutual Pension Insurance Company	870,000	0.34
Special Investment Fund OMX Helsinki 25	450,688	0.18
Nordea Henkivakuutus Suomi Oy	442,149	0.17
Investment Fund Nordea Fennia	321,925	0.13
Finnish National Fund for Research and Development	302,525	0.12
The Local Government Pensions Institution	298,578	0.12
Investment Fund Alfred Berg Finland	293,750	0.11
Kirkon keskusrahasto	293,562	0.11
OP-Focus Special Investment Fund	285,050	0.11
The municipality of Kauhajoki	284,560	0.11
Investment Fund Gyllenberg Finlandia	268,750	0.10
20 largest shareholders	145,896,468	56.89
Nominee registrations	87,574,225	34.15
Other	22,932,993	8.96
Total number of shares	256,403,686	100.00

Breakdown of share ownership on 31 December 2005

By number of shares owned No. of shares	No. of share-holders	% of share-holders	No. of shares	% of shares
1–100	20,622	39.2	1,123,672	0.4
101–500	25,100	47.8	5,717,385	2.2
501–1,000	4,001	7.6	2,902,050	1.1
1,001–5,000	2,471	4.7	4,773,449	1.9
5,001–10,000	170	0.3	1,178,233	0.5
10,001–50,000	116	0.2	2,568,062	1.0
50,001–100,000	34	0.1	2,369,120	0.9
100,001–500,000	28	0.1	6,503,952	2.5
Over 500,000	13	0.00	229,267,763	89.4
Total	52,555	100.00	256,403,686	100.00
of which nominee registrations	15		87,574,225	34.2

By shareholder category	% of shares
Finnish State	50.1
Corporations	0.9
Financial and insurance institutions	1.6
Non-profit organizations	1.2
General government	5.9
Households	5.5
Non-Finnish shareholders	34.8
Total	100.0

19. Shares and holdings

	Country of incorporation	No. of shares	Holding %	Book value 31 Dec 2005 EUR 1,000
Subsidiaries				
Best Chain Oy	Finland	112,800	100.00	45,413
Neste Eesti AS	Estonia	10,000	100.00	5,926
Neste Jacobs Oy	Finland	2,310	66.00	482
Neste Markkinointi Oy	Finland	210,560	100.00	47,567
Neste Oil Ab	Sweden	2,000,000	100.00	23,972
Neste Oil Ltd	Great Britain	500,100	100.00	1,794
Neste Oil N.V	Belgium	1	0.00	0
Neste Oil BR Ltd	Belarus	1	100.00	-
Neste Oil Components Finance B.V.	The Netherlands	40	100.00	22
Neste Oil Finance B.V.	The Netherlands	26,088	100.00	15,763
Neste Oil Holding (USA) Inc	USA	1,000	100.00	18,428
Neste Oil Insurance Ltd	Guernsey	7,000,000	100.00	3,000
Neste Oil US, LLC	USA		100.00	1,100
Neste St.Petersburg OOO	Russia	10	100.00	58,427
Tehokaasu Oy	Finland	7,200	100.00	3,900
				225,794
Associated companies				
Kiinteistö Oy Porvoon Leporanta	Finland	300	50.00	300
Lacus Ltd	Bermuda	6,000	50.00	2,973
Nemarc Shipping Oy	Finland	2,000	50.00	33
Neste Arabia Co. Ltd	Saudi Arabia	480	48.00	156
Porvoon Alueverkko Oy	Finland	40	33.33	7
OAO Pechormornef	Russia	39	39.00	6
Svartså Vattenverk-Mustijoen Vesilaitos	Finland	14	40.00	124
Tahkoluodon Polttoöljy Oy	Finland	630	31.50	490
Terra Ltd	Bermuda	6,000	50.00	2,985
Vaskiluodon Kalliovarasto Oy	Finland	330	50.00	17
				7,091
Other shares and holdings				
Cristal Ltd	Great Britain	1		0
Ekokem Oy Ab	Finland	375	2.68	125
Finnish Measurement Systems FMS Oy	Finland	80	10.91	13
Nymex Holdings Inc	USA	2		-
Posintra Oy	Finland	50		17
Saudi European Petrochemical Company	Saudi Arabia	102,567	10.00	14,851
				15,006
Real estate companies				
Asunto-Oy Poutapolku	Finland	287	1.91	106
Oy Kokonhalli Ab	Finland	55	20.00	93
				199
Telephone shares				
Kymen Puhelin Oy	Finland	1		0
Lännen Puhelin Oy	Finland	20		5
Pietarsaaren Seudun Puhelin Oy	Finland	3		1
Pohjanmaan Puhelinosuuskunta PPO	Finland	1		-
Savonlinnan Puhelinosuuskunta SPY	Finland	1		1
				7
Connection fees				70
Total				248,167

Parent company Financial Statements

Proposal for the distribution of earnings

The Group's non-restricted equity as of 31 December stood at EUR 1,556 million, of which distributable equity totalled EUR 1,129 million. The parent company's distributable equity stood at EUR 603 million.

The Board of Directors proposes Neste Oil Corporation to pay a dividend of EUR 0.80 per share for 2005, totalling EUR 205 million, and that any remaining distributable funds to be allocated to retained earnings.

Espoo, 14 February 2006

Timo Peltola	Mikael von Frenckell
Ainomaija Haarla	Kari Jordan
Juha Laaksonen	Nina Linander
Pekka Timonen	Maarit Toivanen-Koivisto

Risto Rinne
President and CEO

Auditor's report

To the shareholders of Neste Oil Corporation

We have audited the accounting records, the financial statements and the administration of Neste Oil Corporation for the period 1 January – 31 December 2005. The Board of Directors and the President and CEO have prepared the report of the Board of Directors and the consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU and the parent company's financial statements prepared in accordance with prevailing regulations in Finland, that include the parent company's balance sheet, income statement, cash flow statement and the notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, the parent company's financial statements and on the administration of the parent company.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall financial statement presentation. The purpose of our audit of administration is to examine that the members of the Supervisory Board and the Board of Directors as well as the President and CEO of the parent company have complied with the rules of the Companies' Act.

Consolidated financial statements

In our opinion the consolidated financial statements give a true and fair view, as referred to in the International Financial Reporting Standards as adopted by the EU and defined in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position. The consolidated financial statements can be adopted.

Parent company's financial statements and administration

In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Finnish Accounting Act, of the parent company's result of operations as well as of the financial position. The financial statements can be adopted and the members of the Supervisory Board and the Board of Directors as well as the President and CEO of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the distributable funds is in compliance with the Companies' Act.

Espoo, 14 February 2006

PricewaterhouseCoopers Oy
Authorised Public Accountants

Markku Marjomaa
Authorised Public Accountant

Statement by the Supervisory Board

The Supervisory Board has today reviewed Neste Oil Corporation's income statement, balance sheet, notes to the financial statements, consolidated financial statements, the review by the Board of Directors and the related Board of Director's proposal concerning the distribution of earnings, and the auditors' report provided by the Company's auditor. The Supervisory Board has no comments to make on these. The Supervisory Board recommends that the income statement, balance sheet and consolidated financial statements can be approved and concurs with the Board of Directors' proposal for the allocation of profit.

The Supervisory Board is satisfied that its instructions have been followed and that it has received adequate information from the Board of Directors and the Company's management

Espoo, 15 February 2006

Klaus Hellberg	Markku Laukkanen	Mikael Forss	Heidi Hautala
Satu Lähteenmäki	Markus Mustajärvi	Juhani Sjöblom	Jutta Urpilainen

Quarterly segment information

Quarterly sales MEUR	10-12/2005	7-9/2005	4-6/2005	1-3/2005	Carve-out 10-12/2004	7-9/2004	4-6/2004	1-3/2004
Oil Refining	2,282	2,111	2,135	1,622	1,727	1,641	1,635	1,303
Oil Retail	782	834	695	620	611	666	566	531
Shipping	93	69	87	103	91	69	78	101
Other	2	4	3	1	0	0	0	0
Eliminations	-407	-433	-343	-286	-321	-285	-279	-225
Total	2,752	2,585	2,577	2,060	2,108	2,091	2,000	1,710

Quarterly operating profit MEUR	10-12/2005	7-9/2005	4-6/2005	1-3/2005	Carve-out 10-12/2004	7-9/2004	4-6/2004	1-3/2004
Oil Refining	132	96	194	124	152	129	180	101
Oil Retail	11	18	21	-2	13	16	24	7
Shipping	31	3	19	34	27	22	19	45
Other	135	-6	-13	-6	-6	-6	-3	-6
Eliminations	-1	4	-2	-1	0	0	0	-1
Total	308	115	219	149	186	161	220	146

Quarterly comparable operating profit MEUR	10-12/2005	7-9/2005	4-6/2005	1-3/2005	Carve-out 10-12/2004	7-9/2004	4-6/2004	1-3/2004
Oil Refining	82	80	168	92	165	86	125	87
Oil Retail	7	19	12	11	8	17	17	7
Shipping	28	2	20	35	18	14	18	44
Other	-6	-6	-13	-6	-6	-6	-3	-6
Eliminations	-1	4	-2	-1	0	0	0	-1
Total	110	99	185	131	185	111	157	131

Additional information on health, safety, and the environment

Excellence in Clean Fuel Technology

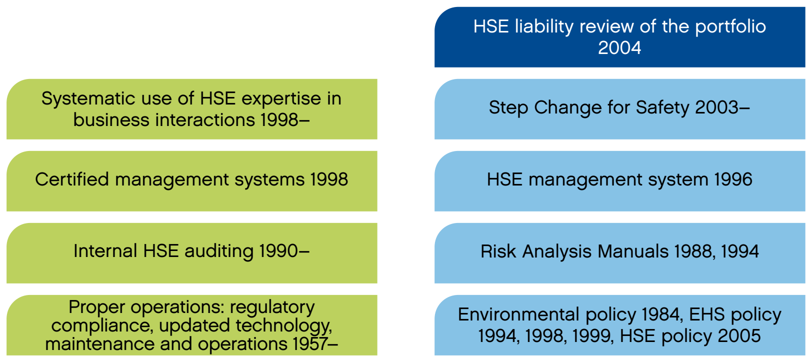
Neste Jacobs Oy, an engineering company 66% owned by Neste Oil Oyj, markets technology licences, such as Neste Oil's Clean Fuel technology and Advanced Automation Technology. Neste Jacobs has played a critical role in the development and application of these technologies and has put considerable effort and expertise into this area.

Alberta Envirofuels, 50% owned by Neste Oil, commissioned the world's first isooctane plant in Edmonton, Canada at the beginning of October 2002. Isooctane, a high-octane component for cleaner gasolines, is produced using NExOCTANE proprietary technology developed and licensed by Neste Jacobs Oy. NExOCTANE licenses have been sold to oil companies worldwide.

NExTAME and NExETHERS are proprietary new technologies for converting C4–C7 tertiary olefins to oxygenates in petroleum refining or petrochemical processing. They yield MTBE or ETBE, TAME, or TAEE and higher ethers as value-optimized blends or pure products.

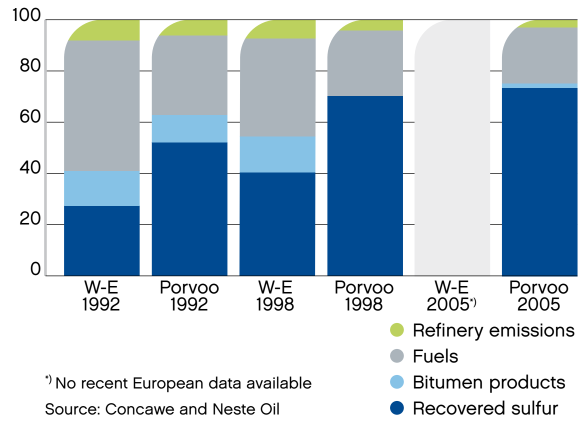
Neste Jacobs provides TAEE licenses and basic design packages for producing the TAEE biogasoline component – an alternative to TAME. Neste Jacobs has sold licenses for bioethanol-based ETBE or TAEE production totaling more than one million tons to date. This compares to feedstock volume of approximately 300 000 tons of bioethanol.

Building blocks of excellent HSE performance and risk mitigation



The sulfur balance of the Porvoo refinery compared to the Western European average

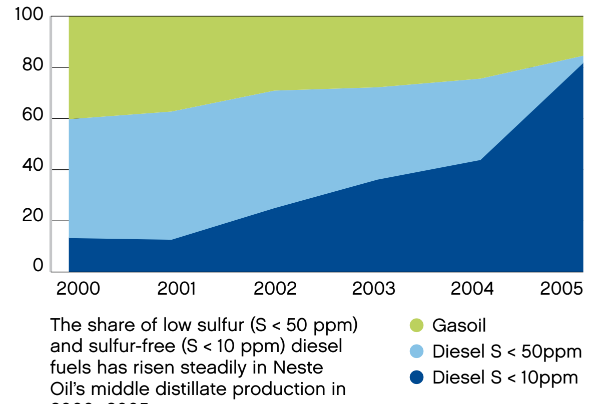
the fate of sulfur in the crude, %



*) No recent European data available
Source: Concawe and Neste Oil

More sulfur-free diesel

%



The share of low sulfur (S < 50 ppm) and sulfur-free (S < 10 ppm) diesel fuels has risen steadily in Neste Oil's middle distillate production in 2000–2005.

Neste Oil certificates

	Environment ISO 14001	Safety BS 8800, OHSAS 18001	Quality ISO 9001/9002
Porvoo and Naantali Refineries, Finland	X	X	X
Oil Research & Technology, Finland			X
Road Transport Management, Finland	X	X	X
Neste Marketing, Lubricants, Finland	X	X	X
Neste Oil N.V. Beringen, Belgium	X		X
ETBE plant, Sines, Portugal	X		X
Tehokaasu, Finland	X	X	X
Neste LPG, Sweden	X		X
AS Reola Gaas, Estonia			X
Neste Marketing/Direct Sales, Finland	X	X	X
Neste Marketing/Aviation Sales, Finland	X	X	X
Neste St. Petersburg/Direct Sales & Supply	X	X	X
Neste St. Petersburg, Terminal	X	X	X
Neste Estonia, Retail, Direct Sales & Supply	X	X	X
Neste Estonia, Terminal	X	X	X
Neste Latvia, Retail			X
Neste Latvia, Direct Sales & Supply			X
Neste Latvia, Terminal	X	X	X
Neste Lithuania, Retail, Direct Sales & Supply	X		X
Neste Poland, Retail			X
Neste Shipping	X	*)	X
Neste Jacobs Oy			X

*) **Shipping:** Chartering and Fleet management: ISO 9001: 2000 – BVQI since 1996
Fleet management and ships: ISM – BV 1996, ISO 14001: 2004 – BVQI since 1997
Green Award for ships: Natura – 1996, Tervi, Palva – 1997, Mastera, Tempera – 2003

Porvoo refinery

	2000	2001	2002	2003	2004	2005
Emissions to air						
CO_2 (t/a)	2,227,602	2,190,179	2,312,000	2,422,400	2,450,000	**2,278,000**
VOC (t/a)	2,994	2,840	2,417	2,590	2,290	**2,170**
NO_x (t/a)	3,427	3,331	3,681	3,728	3,780	**2,830**
SO_2 (t/a)	3,926	4,474	3,992	4,872	5,500	**4,870**
Emissions to water						
Oil (t/a)	3.7	6.0	3.0	1.3	7.9	**9.1**
Chemical oxygen demand, COD (t/a)	527	651	464	476	888	**913**
Waste						
Conventional waste (t/a)	3,435	8,650	7,555	6,322	4,990	**7,506**
Hazardous waste (t/a)	1,874	7,875	5,386[1]	5,071[1]	6,730[1]	**5,220[1]**
Raw materials						
Crude oil (t)	8,664,000	7,547,000	8,696,000	8,716,400	8,612,000	**7,577,000**
Other raw materials for oil refining (t)	891,500	1,877,200	2,064,100	1,987,900	2,470,000	**2,674,000**
Production						
LPG (t)	232,500	112,600	190,900	293,800	315,000	**344,000**
Gasolines (t)	3,503,800	3,249,400	3,834,600	3,706,000	3,814,000	**3,481,000**
Diesel and light fuel oil (t)	5,122,800	4,725,000	4,975,200	5,095,800	5,222,000	**4,885,000**
Fuel oil (t)	1,115,700	865,800	1,001,600	991,000	1,157,000	**990,000**
Bitumens (t)	16,700	32,500	59,400	139,100	81,300	**64,000**
Sulfur (t)	37,217	35,487	44,133	48,190	62,000	**54,000**

[1] Includes oil-contaminated soil

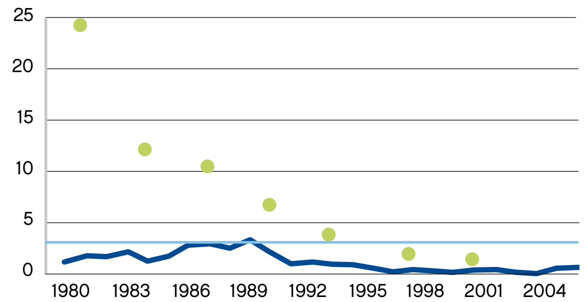
Naantali refinery

	2000	2001	2002	2003	2004	2005
Emissions to air						
CO_2 (t/a)	339,900	384,600	355,197	387,500	399,844	**398,765**
VOC[1] (t/a)	1,800	1,891	1,700	1,839	1,700	**1,550**
NO_x (t/a)	350	377	303	329	333	**330**
SO_2 (t/a)	1,200	1,366	1,387	1,600	1,535	**1,600**
Emissions to water						
Oil (t/a)	0.9	0.45	0.41	0.39	0.65	**0.28**
Waste						
Conventional waste (t/a)	632	1,437	1,042	971	1,006	**1,819**
Hazardous waste (t/a)	12,651[1]	11,913[1]	7,170[1]	4,894[1]	9,142[1]	**3,870[1]**
Raw materials						
Crude oil (t)	2,109,000	2,336,775	2,378,100	2,265,356	2,366,243	**2,411,185**
Other raw materials for oil refining (t)	208,000	258,948	105,272	192,101	178,841	**214,838**
Production						
LPG (t/a)	24,800	27,643	37,747	38,239	34,187	**30,825**
Gasoline (t/a)	583,400	674,166	645,166	692,863	699,914	**727,247**
Diesel and light fuel oil (t/a)	886,600	1,061,488	970,544	880,498	940,105	**925,740**
Fuel oil (t/a)	292,400	356,814	326,029	292,196	287,595	**321,568**
Bitumens (t/a)	222,500	211,084	265,555	285,441	270,082	**244,211**
Sulfur (t/a)	8,500	10,277	10,408	12,386	12,590	**12,954**
Solvents (t/a)	116,100	107,831	90,499	114,001	159,837	**222,656**

[1] Includes oil-contaminated soil

Waste water discharge at Neste Oil's refineries

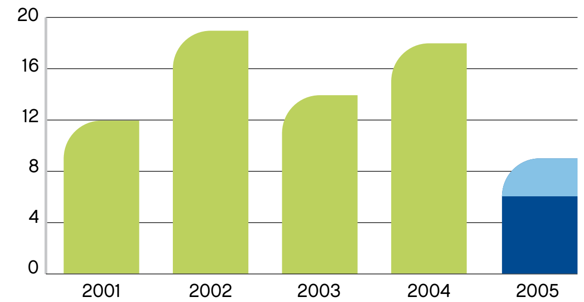
oil discharge (g)/feedstock input (ton)



- The average of Porvoo and Naantali Refineries
- The average in Western Europe
- 3 g/t, the Recommendation 23/8 (6/03/2002) of the Baltic Marine Environment Protection Commission

Source: Concawe and Neste Oil

Uncontained major spills, 2001–2005

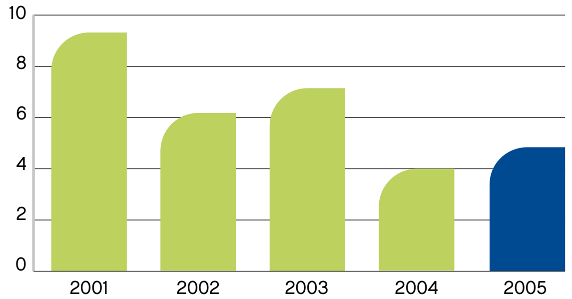


- Spills that occurred in the transportation companies' activities

In 2005, a total of 9 cases were registered in Neste Oil's operations, in which more than 500 litres or kilos of environmentally hazardous substances leaked into the environment. Of these cases, 3 took place in connection with load transfer or unloading by transportation companies acting as Neste Oil's contractors. Most of the cases were heavy fuel oil or bunker oil leaks. All the spilled material was cleaned up and no contamination remained in the soil or the sea. The incidents did not result in any environmental impact.

Lost workday injury frequency of Neste Oil personnel in 2001–2005

injury frequency, cases/million working hours (LWIF)



A total of 34 lost workday injury cases were reported in 2005.

Additional information on personnel

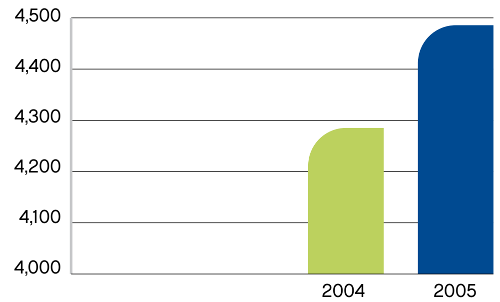
Some key figures, 31 Dec 2005

Average age	43.8
Average service years	14.5
Number of training days	15,736
HR development investments, EUR	2,778,916

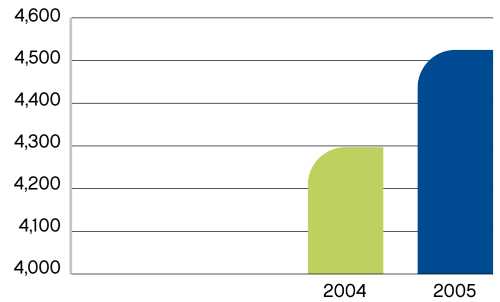
Number of personnel, 31 Dec

	2005	2004
Finland	**3,447**	3,239
Russia	**520**	510
USA	**190**	183
Other countries	**329**	352
Total	**4,486**	4,284

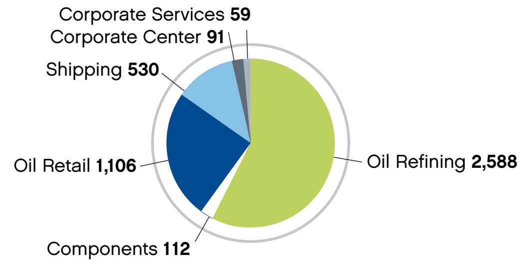
Number of employees, 31 Dec



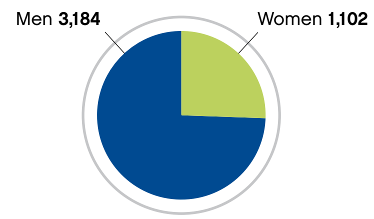
Average number of employees



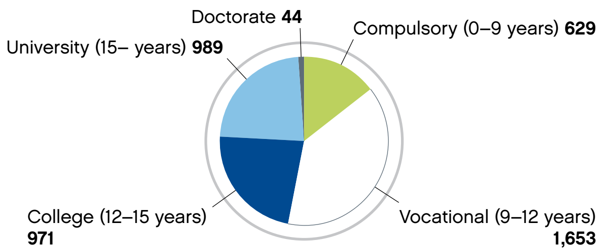
Personnel by divisions, 31 Dec 2005



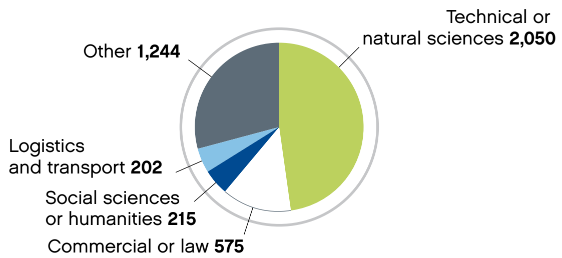
Gender ratio (permanent employees), 31 Dec 2005



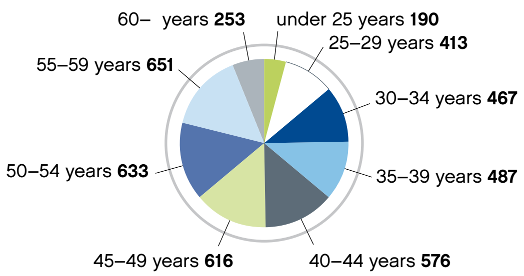
Educational level, 31 Dec 2005



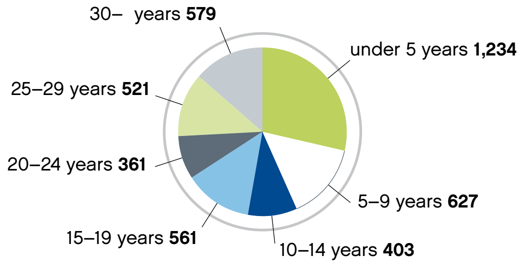
Educational field, 31 Dec 2005



Breakdown by age (permanent employees), 31 Dec 2005



Breakdown by service years, 31 Dec 2005



Investor information

- Succesful Initial Public Offering and listing of Neste Oil shares in April 2005
- After the listing, the share price gained over 65% by the end of the year
- Trading volumes have been high with a daily average of 2 million shares

Initial Public Offering

Fortum Corporation decided in September 2003 to begin preparations for separating its oil and power and heat businesses. The oil business was spun off as a separate legal entity in May 2004, with all the shares in the new company held by Fortum. Fortum's Annual General Meeting approved the demerger on 31 March 2005.

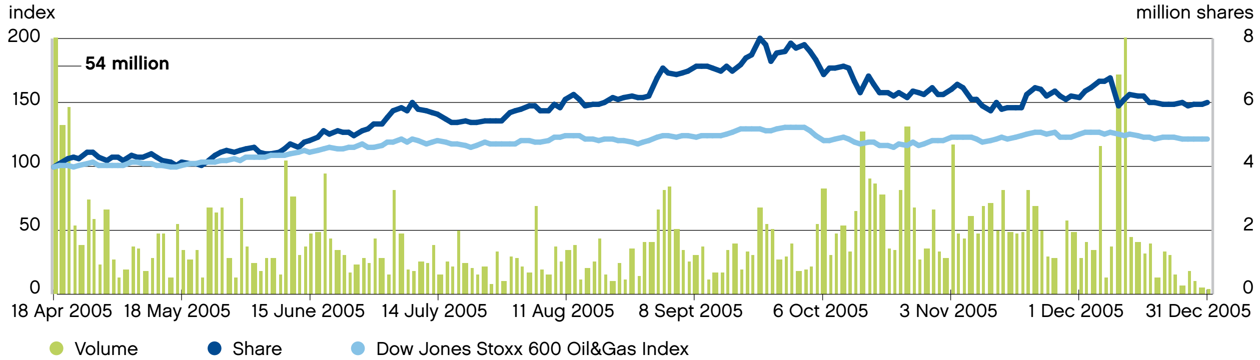
As part of the demerger, Fortum distributed 85% of Neste Oil shares to its shareholders in the form of a dividend and sold the remaining 15% to investors. Some 90% of the shares sold went to Finnish and international institutional investors, and around 10% to Finnish private investors. Neste Oil did not issue any new shares to acquire additional capital.

The share offer was held between 1 April and 14 April. A subscription price of between EUR 11.00 and EUR 13.00 was anticipated prior to this, and, due to strong demand, a final subscription price of EUR 15.00 set on completion of the offer on 15 April. Neste Oil's shares were listed for trading on the Helsinki Stock Exchange on 18 April 2005.

Share performance and trading

Neste Oil's stock performed positively during 2005. The subscription price of EUR 15.00 a share gave Neste Oil an initial market capitalization of EUR 3.9 billion. The share price closed at EUR 16.18 after the first day of trading. At its highest during 2005, the share price reached EUR

Relative share price and trading volume



32.19, while at its lowest the price stood at EUR 15.22, with the average for the year coming in at EUR 22.16. The share price closed the year at EUR 24.81, or 65.4% above the subscription price in April, giving the company a market capitalization of EUR 6.1 billion as of 31 December.

The share price was volatile during the course of the year, and trading was strong. A total of 2.0 million shares were traded on average daily, equivalent in value to EUR 44 million. This represents 0.8% of the Company's shares. An average of 44.5 million shares were traded monthly, equivalent in value to EUR 872 million. During the year as a whole, 361 million shares, or 141% of the total number of shares, were traded, making Neste Oil one of the most traded stocks on the Helsinki Stock Exchange.

Share information for 2005

Earnings per share, EUR	2.60
Cash flow per share, EUR	2.33
Equity per share, EUR	6.26
Dividend per share*), EUR	0.80
Dividend/earnings per share, %	31
Dividend yield, %	3.2
P/E	9.5
Highest, EUR	32.19
Lowest, EUR	15.22
Average, volume weighted	22.16
Latest, EUR	24.81
Volume	360,875,915
Volume of shares outstanding	141%
Turnover, EUR	7,996,247,749
Shares outstanding	256,403,686

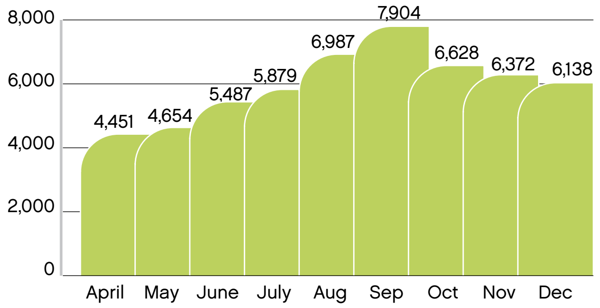
*) Proposed by the Board of Directors

Shareholders

Immediately following the IPO, Neste Oil had 57,500 shareholders, and this figure stood at 52,555 as of the end of the year. The reduction was mainly due to shareholders who received shares in the form off the dividend paid by Fortum selling off these shares. The Finnish State remains the Company's largest shareholder.

Market capitalization

EUR million



Largest shareholders, by size of holding

31 Dec 2005	Shares	Of shares, %
Finnish State	128,458,247	50.10
Ilmarinen Mutual Pension Insurance Company	3,465,800	1.35
The Finnish Social Insurance Institution	2,648,424	1.03
City of Kurikka	1,550,875	0.60
The Finnish State Pension Fund	1,500,000	0.59
Neste Oil Pension Fund	1,258,738	0.49
Op-Delta Mutual Fund	1,085,377	0.42
Etera Mutual Pension Insurance Company	927,470	0.36
Eläke-Fennia Mutual Insurance Company	890,000	0.35
Varma Mutual Pension Insurance Company	870,000	0.34
OMX 25 Exchange Traded Fund	450,688	0.18
Nordea Life Assurance Finland Ltd	442,149	0.17
Mutual Fund Nordea Fennia	321,925	0.13
The Finnish National Fund for Research and Development	302,525	0.12
Local Governments Pensions Institution	298,578	0.12
Alfred Berg Finland Unit Trust	293,750	0.11
The Central Church Fund	293,562	0.11
OP-Focus Special Fund	285,050	0.11
City of Kauhajoki	284,560	0.11
Mutual Fund Gyllenberg Finlandia	268,750	0.10

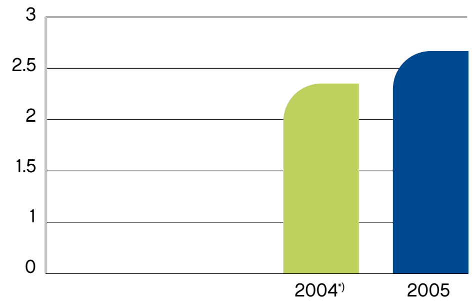
Share capital

Under Neste Oil's Articles of Association, the Company's minimum share capital is set at EUR 30 million, and its maximum share capital at EUR 200 million. Within these limits, share capital can be increased or reduced without amending the Articles of Association. The Company's Articles of Association also state that the Company should have a minimum of 50 million shares and a maximum of 600 million shares. The Company's share has a book countervalue of EUR 0.15600 (infinite number).

Neste Oil's share capital registered with the Company Register as of 31 December 2005 totaled EUR 40,000,000, divided into 256,403,686 shares of equal value. The Company's shares are included in the Finnish Book-Entry Securities System.

EPS

EUR



*) Carve-out

Share listing

Neste Oil's shares are listed on the Helsinki Stock Exchange under the symbol NES1V and have the following ISIN code: FI0009013296. The minimum trading lot is 50 shares, and transactions are carried out in euros (EUR). Neste Oil belongs to the Energy sector in GICS industry classification of the Helsinki Stock Exchange.

Annual General Meeting

Neste Oil's Annual General Meeting will be held at 11:00 am on Wednesday, 22 March 2006 in the Sea Cable Hall at the Cable Factory, Tallberginkatu 1 C, Helsinki. Shareholders can register, and voting papers will be distributed, from 10:00 am onwards.

Share buyback and issue authorizations

The Board of Directors is not authorized to issue new Company shares or other securities. The Company does not have a share buyback program in place and the Board is not authorized to buy back Company shares.

Dividend

On the basis of earnings in 2005, Neste Oil's Board of Directors will propose a dividend of EUR 0.80 per share which equals to 31% of the company's net result for the accounting year that ended on 31 December 2005.

Analyst report

The number of banks actively following Neste Oil rose significantly during 2005. A number of international merchant banks and brokerage houses began publishing analyses on Neste Oil as the year progressed, and in February 2006 the number of such companies totaled 23.

The following companies cover Neste Oil in their equity research:

ABG Sundal Collier	Handelsbanken
Alfred Berg ABN Amro	IXIS Securities
Carnegie	JP Morgan
Cheuvreaux	Mandatum
Citigroup	Merrill Lynch
Credit Suisse First Boston	Morgan Stanley
Deutsche Bank	Opstock
Enskilda Securities	Société Générale
eQ Bank	Standard & Poor's
Evli	UBS Warburg
FIM	Öhman Equities
Goldman Sachs	

Contact details for the analysts concerned at the institutions above can be found in the 'Investors' section of Neste Oil's Web site.

Investor Relations communications

Neste Oil's IR activities are based on the principle of providing accurate and timely information, commitment, transparency, and providing all investors with equal access to information. The Company's IR Policy can be consulted at www.nesteoil.com.

Closed period

Neste Oil observes a 'silent period' prior to the publication of its earnings. During these periods, the Company does not comment on non-disclosed developments or the prospects for its business in the quarter concerned. Members of the Company's management do not meet analysts or investors during silent periods, and do not take part in capital markets presentations. Neste Oil's silent periods always last for at least four weeks.

Reporting calendar for 2006

Neste Oil will publish interim reports in 2006 as follows:
Interim Report for January – March: 27 April 2006
Interim Report for January – June: 3 August 2006
Interim Report for January – September: 24 October 2006.

Contacts

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Debt Investor Relations

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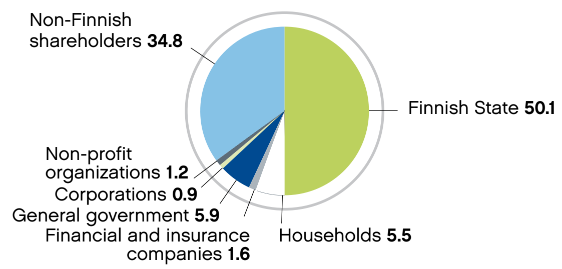
The Company can be contacted on general investor-related matters via the following email address: oilinvestors@nesteoil.com.

IR information at www.nesteoil.com

The 'Investors' section of Neste Oil's Web site contains the information presented here, together with other IR-related information. This includes a realtime Stock Monitor, delayed by 15 minutes, a list of the Company's insiders and their holdings, an extensive collection of presentation material, as well as an Investment Calculator for calculating the yield of the Company's share.

Regularly updated oil market information is available at **www.nesteoil.com**

Shareholders by sector, 31 Dec 2005



Investor information

Glossary of terms

Aframax Worldscale A marine cargo rate index calculated by the Baltic Exchange in London and based on shipments carried between Sullom Voe and Rotterdam in vessels capable of loading in excess of 80,000 tons of cargo.

Barrel (b or bbl) A standard unit of crude oil measurement, equivalent to approx. 159 liters, 0.137 tons, or 0.159 m^3.
bbl/d = barrels per day, mbbl/d = million barrels per day.

Base oil The main component in lubricant blends.

Biofuels Fuels produced from vegetable oils and other organic sources. Use of these fuels reduces greenhouse gas emissions (CO_2).

Bitumen The bottom product of crude oil vacuum distillation; solid or semi-solid at room temperature.

Brent Light crude oil from the North Sea, named after one of the region's largest fields.

Component A term used to describe the constituents used in producing fuels. Gasoline, for example, can comprise over 10 individual components.

Dwt, deadweight ton A unit of measurement referring to the total weight of a vessel, including cargo, fuel, fresh water, stores, and crew.

EHVI (Enhanced High Viscosity Index) A base oil used in producing high-quality motor oils that contribute to lower fuel consumption.

ETBE (ethyl tert-butyl ether) A bioethanol-based gasoline component designed to enhance combustion and reduce exhaust emissions.

Ethibel (http://www.ethibel.org) is an independent consultancy agency that provides advice on socially responsible investment to financial institutions and manages a quality label and index, issued to European banks and brokers offering ethical products and funds.

Feedstocks Crude oil, condensate, components, and other materials used by refineries and other facilities as their raw material input.

Fossil fuels Fuels originating from organic material laid down millions of years ago, including oil, coal, and natural gas.

Gallon The US gallon (3.8 liters) is a standard unit of measurement used in the oil industry. The imperial gallon is slightly larger, equivalent to 4.5 liters.

HSE An abbreviation of Health, Safety, and the Environment.

Hydrocracker A unit used to 'crack' heavy hydrocarbons at high pressure and high temperature in the presence of hydrogen, to produce fractions for premium-quality fuels.

IEA Brent Cracking A reference refining margin used by Neste Oil that refers to the typical margin achieved by refineries in northern Europe using Brent crude oil. Calculated by the International Energy Agency (IEA).

ISO (International Organization for Standardization)
ISO 9000/14000/18000 standards covering quality, the environment, and safety are widely used in industry.

Iso-octane A butane-based, high-octane component used in producing low-emission gasoline.

MTBE (methyl tert-butyl ether) An oxygen-rich component designed to promote cleaner gasoline combustion.

Nelson Complexity Index An index used to compare refining capability, compiled annually by the Oil & Gas Journal. Refineries are rated on the number of refining units they operate and their technological sophistication. The higher the figure given to a refinery, the more advanced it is in terms of refining capability.

NExBTL Neste Oil's biodiesel, based on the company's proprietary technology. NexBTL production is a highly flexible process that can use both vegetable oils and animal fats. The first NExBTL production unit will be completed at Porvoo in summer 2007.

NExETHERS A technology developed by Neste Oil for producing high-quality, low-emission gasoline components.

NExOCTANE A technology developed by Neste Oil for producing iso-octance, a premium-quality gasoline component.

NExTAME A Neste Oil technology used for producing high-quality, low-emission gasoline components.

OHSAS 18001 See ISO.

PAO (polyalphaolefin) A synthetic base oil used in the production of premium-quality lubricants.

Ppm Parts per million, milligrams per kilo.

Polypropylene (PP) One of the most common type of plastic, which is used to produce freezer boxes, for example.

RC – Responsible Care A voluntary environment, health, and safety program developed and promoted by the international chemical industry.

Russian Export Blend (REB) A blend that contains crude oil from a number of fields connected to the Russian pipeline network.

SCR (Selective Catalytic Reduction) A technology used in catalytic converters to reduce NO_x-related exhaust emissions significantly. The majority of European automotive manufacturers have selected SCR technology to ensure that their heavy vehicles comply with the Euro IV emissions standard.

Sulfur-free fuel A fuel that contains less than 10 mg/kg (ppm) of sulfur.

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