refining the future

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NESTE OIL Annual Report 2007

On the way

Annual Report 2007

NESTE OIL

Operations in 2007 focused on implementing the company's clean fuel strategy, driven by the Oil Refining and Biodiesel divisions, with valuable support provided by other businesses. Our aim is to grow our shareholder value by leveraging our extensive experience in producing and selling premium-quality fuels.

Contents

About the Annual Report

This is Neste Oil Corporation's third Annual Report. As the company became a listed company in spring 2005, complete IFRS financial information is only available for 2005, 2006, and 2007. Figures in parentheses refer to the equivalent period in 2006.

Neste Oil has five divisions: Oil Refining, Biodiesel, Specialty Products, Oil Retail, and Shipping, each of which form their own segment for reporting purposes from 2008 onwards. The company had three reporting segments in 2007: Oil Refining, Oil Retail, and Shipping. The Oil Refining segment included the biodiesel, gasoline components and base oil businesses.

The text of this Annual Report largely follows the divisional organization current in 2008, as this best reflects the company's operations and targets. The previous organization is referred to only when necessary, as in the case of financial statements.

Neste Oil aims to comply with all current recommendations and requirements in its reporting, at a minimum, to provide the reader with an overview of the company's performance, profitability, and future goals that is as accurate, comprehensive, and understandable as possible.

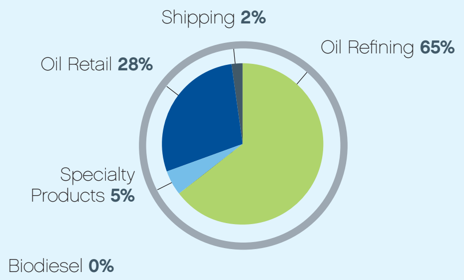
Neste Oil is a refining and marketing company focused on premium-quality, low-emission traffic fuels. The company's strategy is based on developing its traditional strengths in refining and growing as a producer of premium-quality renewable diesel. Neste Oil is committed to world-class operational and financial performance, and is driven in all its activities by four core values: responsibility, cooperation, innovation, and excellence.

Neste Oil is listed on the Nordic Exchange in Helsinki (NES1V.HE. GICS sector: Energy).

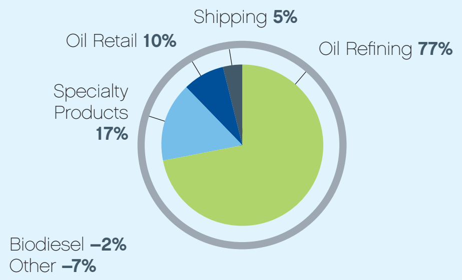
Neste Oil in brief

Key figures by segment *

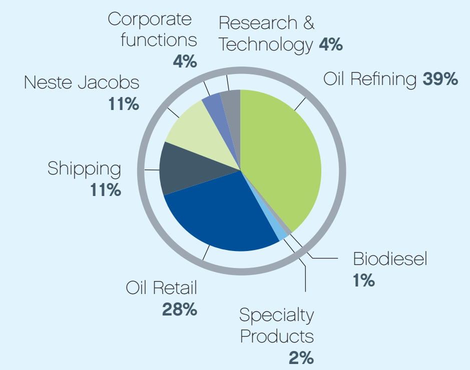
Sales EUR million (int. sales eliminated)
12,103 in total



Comparable operating profit EUR million
626 in total



Number of employees (average)
4,810 in total



As of the beginning of 2008, each division forms its own segment for reporting purposes

* In accordance with the new segment structure

Divisions in brief

Oil Refining

Business Refining petroleum products and supplying them to wholesale customers.
Main markets Europe and North America.
Refining capacity 260,000 bbl/d or 14 million t/a.
Operating environment A global market, where prices closely reflect supply and demand.
Strategic role Growth business.
Strengths Complex refineries, flexible logistics, high-quality products, good market position, ability to use Russian crude and other feedstocks.
Success factors Supplier of low-emission traffic fuels, location alongside a major Russian crude export route, unique set of refining capabilities.
Market position Leading producer of low-emission traffic fuels in Northern Europe, one of the largest wholesale suppliers of petroleum products in the Nordic region.
Customers and competitive environment In Finland: major petroleum product retailers and industrial customers. Internationally: wide range of different customers, large number of competitors, mainly other refiners or trading companies.

Specialty Products

Business Producing, selling, and marketing base oils and gasoline components; and managing Neste Oil's holding in Nynäs Petroleum, which produces bitumen and naphthenic specialty oils.
Main markets Europe and North America.
Production capacity 250,000 t/a of VHVI base oil, 50,000 t/a of polyalphaolefins, 260,000 t/a of iso-octane, and 160,000 t/a of ETBE.
Operating environment A growing market with global competition.
Strengths Technological and production expertise, strong network of partners.
Success factors Growth market, customer-driven business model.
Strategic role Complementary business.
Market position Among the three leading suppliers worldwide .
Customers and competitive environment Base oils: global and local lubricant producers, partner with additive suppliers and automotive manufacturers. Gasoline components: international oil companies. Global competition, with a small number of key players.

Shipping

Business Marine transportation of crude oil and petroleum products.
Main markets The Baltic and the North Sea. Gasoline transportation to North America.
Fleet 6 crude tankers and 25 product tankers.
Operating environment Volume of available capacity has grown, particularly ice-strengthened tonnage in the Baltic.
Strengths Strong awareness of safety and environmental issues, an expert in severe and cold conditions.
Success factors Modern fleet, flexibility.
Strategic role Support business.
Market position One of the three leading tanker fleets in the Baltic.
Customers and competitive environment Around 50% of capacity is devoted to Neste Oil cargoes. International players are beginning to acquire a presence in the Baltic.

Biodiesel

Business Producing and marketing NExBTL Renewable Diesel.
Main markets Europe, with potential in North America and the growing markets of Asia.
Production capacity 170,000 t/a. Additional planned capacity will bring the total to 1.14 million t/a by the end of 2010.
Operating environment NExBTL is the world's first commercial second-generation renewable diesel production technology. Competitors are strengthening their position, and new technology and new feedstocks are being developed.
Strategic role Growth business.
Strengths Cutting-edge proprietary technology and product, in-house capacity set to grow rapidly.
Success factors Solid experience in producing low-emission traffic fuels, excellent understanding of customers and markets, strategically located plants, logistics expertise.
Market position Rapidly growing market, NExBTL is the first second-generation product on the market.
Customers and competitive environment Other oil companies. The market is expanding rapidly, but currently dominated by first-generation technology products, which offer poor quality compared to second-generation products.

Oil Retail

Business Marketing petroleum products to end-users.
Main markets Finland and the Baltic Rim (Estonia, Latvia, Lithuania, Poland, and the St. Petersburg region in Russia).
Outlets 899 in Finland, 271 in Russia, the Baltic countries, and Poland.
Operating environment Competition is tough on the saturated Finnish market. Markets outside Finland are growing, but the competition for market share there is intense.
Strategic role Support business
Strengths Customer-driven operations, strong brand, extensive network, high-quality fuels.
Success factors Good understanding of customer needs, committed to profitability and securing critical mass.
Market position Market leader in Finland, second-largest player in Estonia, Latvia, and the St. Petersburg region, third-largest in Lithuania, a growing player alongside other international companies in Poland's urban centers.
Customers and competitive environment Consumers and corporate customers. Outside Finland, the trend is towards the disappearance of small players or their incorporation into larger units.

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Neste Oil moved ahead with its clean fuel strategy in 2007, completing two major capital projects at the Porvoo refinery. The new diesel line there is capable of producing over 1 million tons of sulfur-free diesel fuel a year, and the world's first NExBTL Renewable Diesel plant, 170,000 t/a of output. A second NExBTL plant is currently under construction alongside the first unit.

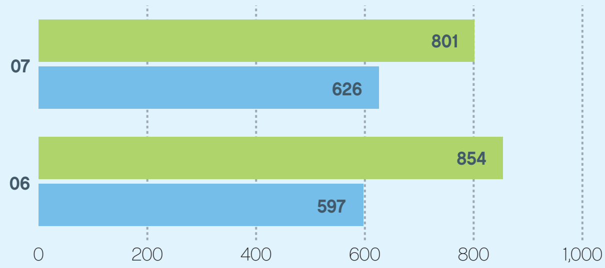
In November, Neste Oil announced its decision to build a world-scale NExBTL plant in Singapore. This will have a planned capacity of 800,000 t/a, and is budgeted to cost approximately EUR 550 million. The plant is scheduled to be completed at the end of 2010.

Key financial indicators

	2007	2006	Change, %
Income statement, EUR million			
Sales	12,103	12,734	–5
Operating profit	801	854	–6
Comparable operating profit	626	597	5
Profit before income tax	763	841	–9
Profitability, %			
Return on equity (ROE)	25.6	34.3	
Return on capital employed pre-tax (ROCE)	26.2	31.9	
Return on average capital employed after tax (ROACE)	15.5	15.4	
Financing and financial position			
Interest-bearing net debt, EUR million	755	722	5
Total equity, EUR million	2,427	2,097	16
Capital employed, EUR million	3,234	2,890	12
Equity-to-assets ratio, %	49.9	48.4	
Leverage ratio, %	23.7	25.6	
Cash flow from operations, EUR million	541	512	6
Share-related indicators			
Earnings per share (EPS), EUR	2.25	2.46	–9
Dividend per share, EUR	1.00 *	0.90	11
Dividend payout ratio, %	44.4 *	36.6	–
Share price at the end of the year, EUR	24.13	23.03	5
Average share price, EUR	25.48	25.19	1
Highest share price, EUR	30.03	29.95	0
Lowest share price, EUR	21.65	21.00	3
Market capitalization at the end of the year, EUR million	6,187	5,905	5
Other indicators			
Equity per share, EUR	9.47	8.15	16
Capital expenditure and investments in shares, EUR million	334	535	–38
Average number of personnel	4,810	4,678	3
R&D expenditure, EUR million	28	22	27
Refining margin, USD/bbl	10.46	9.11	15

* Proposal by the Board of Directors to the Annual General Meeting

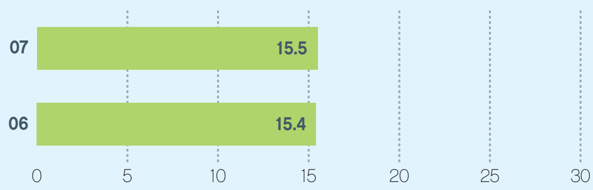
Operating profit and comparable operating profit * EUR million



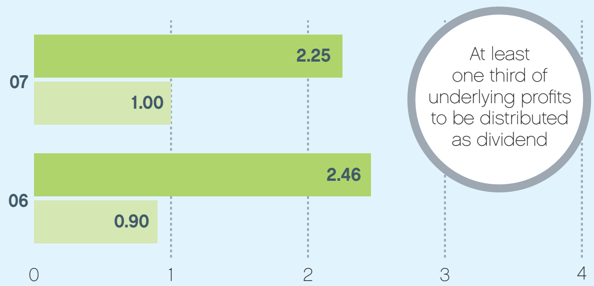
Operating profit · Comparable operating profit

* Comparable operating profit is calculated by subtracting inventory gains/losses, gains/losses from sales of fixed assets and investments, and unrealized changes in the fair value of oil and freight derivative contracts from the reported operating profit.

Return on average capital employed after tax (ROACE) %

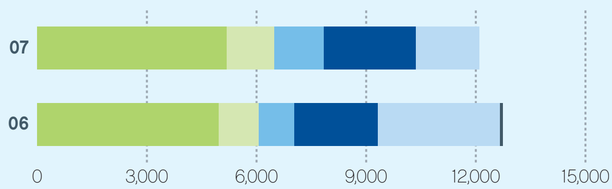


Earnings per share and dividend per share EUR



Earnings per share
Dividend per share

Sales by market area EUR million



Finland · Other Nordic Countries · The Baltic area · Other Europe · Americas · Other countries

Dear shareholders,

Crude oil prices in 2007 reached a level that few would have thought possible some years ago. This has underlined the refiner's need to be able to use as wide a range of feedstocks as possible. Feedstocks are the single largest cost for an oil refiner, and any and all savings that can be made here are very important.

Neste Oil commissioned two new plants at the Porvoo refinery in 2007, both of which feature some of the latest technology in the industry. Introducing this type of new technology typically involves its own learning curve, and the initial profitability of the two plants was modest in 2007. We expect them to perform significantly better in the future, however.

Cutting-edge refining technology and premium products

The project we started in 2003 to build a new diesel line at Porvoo was completed in summer 2007. This new line is capable of producing over one million tons of premium-quality diesel fuel from heavy fuel oil. As it represents such cutting-edge technology, running it calls for a lot from our people.

The key benefit of the technology is that it enables us to use heavy fuel oil, which is nearly USD 20 a barrel cheaper than crude oil. Increasing volumes of heavy fuel oil are being produced as refiners are using ever-higher volumes of heavier, sourer grades, so there is no shortage of this feedstock. Heavy fuel oil is also not in the demand that it once was, as bunker fuel or boiler fuel. The new line means, therefore, that Neste Oil can use lower-cost crude in its processes – and still produce higher value-added traffic fuels.

The world's first NExBTL Renewable Diesel plant was completed at Porvoo in the summer. This offers both high-quality output and the ability to use a broad range of feedstock inputs. NExBTL is the world's best renewable diesel, and even better than fossil diesel. It has a cetane number of 95 to 99, for example, indicating excellent ignition quality, while other diesel fuels typically have a cetane number of around 50.

Drivers can appreciate the quality of NExBTL in the shape of smoother engine performance, less knock, and less tailpipe emissions and particulates. Here in the North, performance in the cold is also important, and NExBTL can be specified down to operating temperatures as low as –30 °C.

Sustainable feedstocks

Our oil company customers understand these technical benefits, but what has attracted the most attention in the public arena has been the raw materials we use to produce NExBTL. These include a number of different vegetable oils and animal fats, but it is palm oil that has generated the largest number of questions and the most opposition. Important research work is being done all the time to identify new renewable raw materials that can be used. It will still be some years before forest biomass and algae can be used on a commercial scale, however. Climate change is accelerating all the time, and so it makes sense to produce biofuels from raw materials that can be used sustainably today.

Although world production of vegetable oil exceeds the volume used in the food industry, the increasing use of this oil for biofuels has put an upward pressure on food prices. The need to switch to non-food materials is, therefore, obvious.

I have repeatedly said to critics of biofuels that only those offering good energy efficiency over their entire life cycle and with lower greenhouse gas and tailpipe emissions than fossil alternatives can be considered truly sustainable biofuels. Production of feedstocks must never destroy the environment.

This is why we at Neste Oil require our raw material suppliers to commit themselves to sustainability principles, and why we carry out and commission audits of their entire supply chain – and why we are the first purchaser of palm oil to be able to seamlessly trace the origin of what we buy from the field to our factory gate. We have also committed ourselves to using solely RSPO-certified palm oil immediately it is available in sufficient volumes. We expect the first batches to come on to the market in spring 2008.

As in many other businesses, there are good and bad suppliers in the vegetable oil industry. If producer countries, producers, and users were to work together more determinedly here, the problems that currently exist could easily be solved. We simply need ground rules that would make unsustainable practices bad business and sustainable ones good business. This is what happened, for example, when we wanted to eliminate lead from gasoline.

From strategy to implementation

People's need for mobility is growing, despite all the technological advances that are shrinking distances. Many people

in Asia and Africa, for example, are only beginning to dream of their own car or public transport system.

Neste Oil's strategy is to develop and produce clean fuels and clean lubricants, and we are moving ahead with that strategy through a number of new capital projects. We are currently in the process of starting construction of the world's largest NExBTL plant in Singapore, and investigating the opportunities for similar plants in other key markets.

In addition to renewable diesel, we also intend continuing to build additional value-added refining capacity at our existing refineries. We are planning to increase diesel production at Naantali, and we could well see an investment decision on this towards the end of 2008. This would result in a similar type of increase in diesel output to that achieved at Porvoo in 2007.

Our two major base oil projects are also approaching the time for investment decisions to be made. New capacity here would strengthen Neste Oil's position as one of the world's leading producers of premium-quality base oils. These products complement our clean fuel strategy, as they make lower-emission engine technology possible.

We will only stay competitive if we remain technologically advanced and if we have a sufficiently strong position in the marketplace. This means that our investments will have to continue at a high level in the years to come. We have a strong balance sheet and cash flow, however, and the projects we are planning will not threaten our key financial targets.

Working together is important

I spoke a lot in 2007 about how a small oil company must be able to work well with others, both internally and externally. This is essential to making our resources work for us as they should. Cooperation is one of our core values, alongside excellence, responsibility, and innovation. I think that we are living up to our belief in innovation by investing our shareholders' money in advanced new prodution plants. Our owners and our shareholders are entitled to expect that these investments deliver a good return, and we must make them a success.

We celebrated our 60th anniversary on 9 January 2008. A little earlier, in August 2007, we celebrated 50 years of refining at Naantali. The company has built up a very solid body of oil industry experience over the years, and our present strong position owes much to the decisions taken by earlier generations. We have been entrusted with a valuable heritage. We want to build on it responsibly, for our customers and partners and our owners and financiers, for ourselves and for the environment.

Thank you all for your confidence in Neste Oil.

Risto Rinne
President & CEO

On the way

Refining the future

Sustainable growth

The growing energy requirement of the traffic and transport sector, and combating climate change, represent challenges that Neste Oil is committed to responding to by making major investments in its NExBTL Renewable Diesel technology, both in terms of product development and production capacity.

Cleaner fuel growth strategy progressing well

Neste Oil's vision is to be a leading supplier of clean traffic fuels. Specialization and a high level of technological and other expertise are seen as central to enabling a small oil company like Neste Oil succeed in the competitive international marketplace.

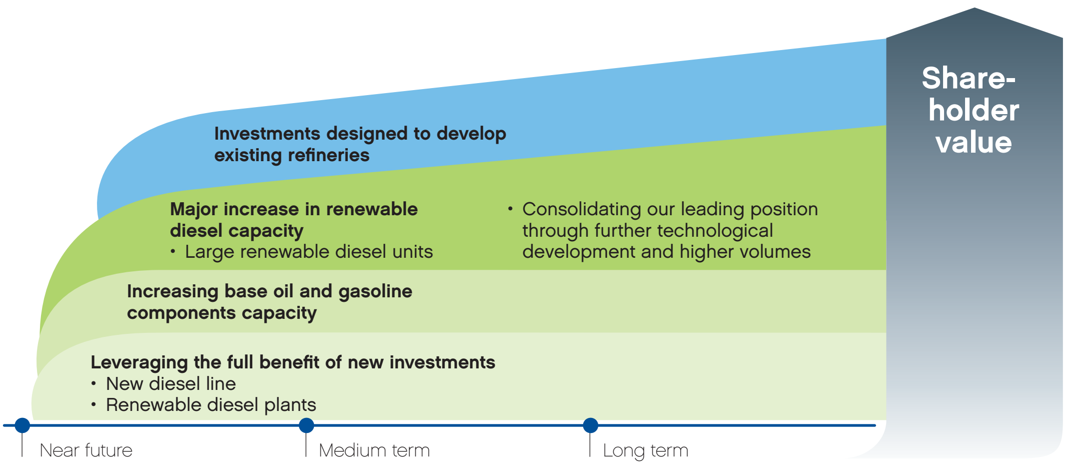
Neste Oil's strategy is based on its ability to use its unique range of refining expertise to produce premium-quality, low-emission traffic fuels from a broad range of low-cost feedstocks. This strategy is seen as the best way of increasing shareholder value.

Neste Oil continued to move ahead in 2007 with implementation of its clean fuel strategy, updated in 2006. Two major capital projects were completed and commissioned: a new diesel line and a new NExBTL Renewable Diesel plant, both at the Porvoo refinery.

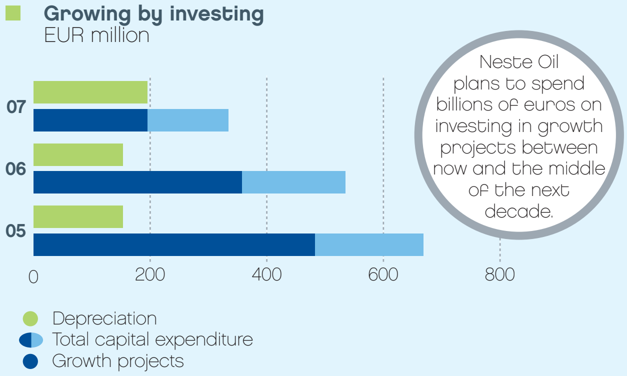
Neste Oil has the vision and the financial resources to develop major growth projects in its core areas of expertise. The company plans to invest several billions of euros in projects of this type between now and the middle of the next decade. A significant step towards this goal was taken in November 2007 when Neste Oil announced plans to build a major renewable diesel plant in Singapore. Further investments will also be made at the company's existing refineries. Growth will also come from premium-quality base oils and gasoline components.

Neste Oil's strategy is based on the growing worldwide demand for high-quality traffic fuels, particularly diesel. The surplus of heavy fuel oil offers a number of opportunities for investing in new capacity capable of refining heavy products like this that are less in demand into advanced, low-emission traffic fuels. The use of biofuels is also on the increase, driven in part by legislative requirements and tax incentives in a number of countries.

Growing as a producer of clean traffic fuels will create new shareholder value

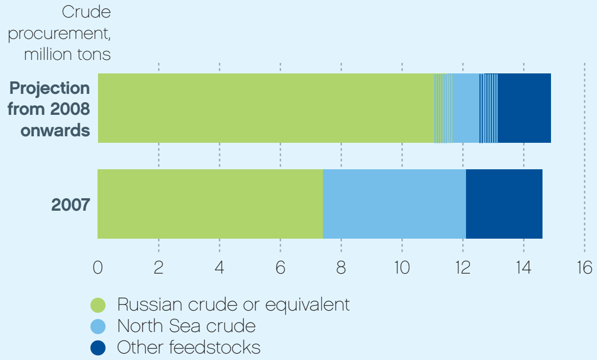


Growing by investing
EUR million

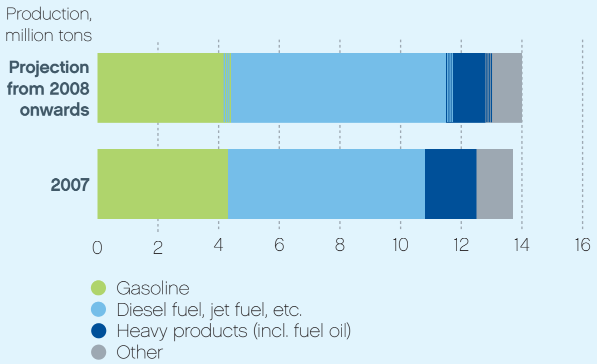


Higher value-added products from lower-cost feedstock

Replacing North Sea crude with Russian crude or equivalent



Diesel output rather than heavy fuel oil



Cleaner, better products from crude oil

The new diesel line at the Porvoo refinery, commissioned in summer 2007, will increase the proportion of value-added products produced there and increase Neste Oil's margins. The new line will enable Neste Oil to refine quality diesel fuel from heavier, sourer crude grades and will reduce output of low-value heavy fuel oil. The line will also improve Neste Oil's feedstock flexibility significantly, as its refineries can now use virtually any crude oil or other heavy feedstock available today.

Becoming the world's leading renewable diesel producer

The demand for biofuels that promote sustainable development and help reduce greenhouse gas emissions is growing rapidly worldwide. NExBTL Renewable Diesel, the outcome of a long development project, offers a range of properties that outperform fossil diesel fuel and other current biodiesels. Virtually any vegetable oil or animal fat can be employed in the NExBTL process, and the resulting fuel can be used in any modern diesel engine at up to 100% content. NExBTL is also fully compatible with existing distribution and logistics networks.

Neste Oil's first NExBTL plant was commissioned at Porvoo in 2007, and a second plant will be started up there in 2009. The plant to be built in Singapore will be the world's largest renewable diesel production facility and is scheduled to be operational at the end of 2010. Neste Oil plans to increase production by building additional NExBTL plants in a variety of markets, either as stand-alone projects or in cooperation with its partners.

Neste Oil is committed to remaining a technological leader, and is actively working on a range of projects in areas such as extending the NExBTL feedstock pool into non-food materials.

Clearly defined roles for the company's divisions

Oil Refining and Biodiesel will drive Neste Oil's strategy for future growth. Good growth prospects are also seen in premium-quality base oils and gasoline components, and a separate division – Specialty Products – was created in 2007 to manage these businesses. This organizational change will increase Neste Oil's operational transparency and enable its divisions to focus more clearly on leveraging and developing their core capabilities.

Neste Oil also has two businesses devoted to supporting its growth strategy. Shipping provides a range of marine shipments for both crude oil and petroleum products, while Oil Retail markets and sells fuels through Neste Oil service stations and other channels. Neste Jacobs, an engineering resource majority-owned by Neste Oil, has close to 50 years' experience in major capital projects in the oil industry, and gives Neste Oil a valuable competitive advantage in developing and implementing major new investments.

Continued market growth

Crude oil prices were consistently higher in 2007 than during 2006. Prices at the end of the year rose to their highest ever so far. Diesel fuel continued to strengthen its position as the most popular traffic fuel in Europe. Demand for biofuels also increased rapidly, helped by tax incentives and minimum usage requirements.

Global demand for petroleum products in 2007 increased by 1.2% compared to 2006 (0.9%) according to the International Energy Agency, and totaled 85.7 million barrels a day (84.4 million barrels). Demand increased in South-East Asia, India, and the Middle East in particular. Reporting in January 2008, the IEA projected demand growth to continue by some 2.5% during the year, to reach an annual level of 87.8 million barrels a day.

Strong refining margins

Demand for traffic fuels has been moving upwards for some time. Refinery investments have focused on meeting new quality specifications rather than increasing capacity, however, with the result that there continues to be a shortage of capacity and margins have remained strong for the last four years.

New capacity is under construction, but some of this will not be completed in the immediate future. The largest factors holding back investment projects have been the significantly increased cost of materials, components, and labor, and the shortage of engineering and construction resources. As a result, there is unlikely to be any overcapacity in the industry in the near future, unless economy prospects move downwards or high petroleum product prices slow the growth in demand.

Higher petroleum product prices have not affected economic development significantly so far. This is, in part, the result of the economic diversification typical of the world's more developed economies, and in part the result of a weaker US dollar, the industry's reference currency. The latter development has benefited Europe in particular.

Higher crude prices

Crude prices continued to rise in 2007. Brent traded at an average of USD 72.52/bbl, which was 11% higher than in 2006.

Traditionally, high crude prices tend to widen the price differential between light and heavy products, favoring the margins of more complex refineries. During the last quarter of 2007, however, the price of heavy fuel oil also rose to a record high, mainly as a result of strong demand in Asia and the completion of a number of refinery conversion projects. The latter have focused on improving the potential of refineries to produce lighter, higher value-added products, such as traffic fuels, from heavy fractions.

The price differential between different types of crude oil also narrowed somewhat. Refiners with more advanced capacity benefit from their ability to use heavier, sourer crude, such as the Urals blend from Russia, which is typically cheaper than Brent from the North Sea.

Diesel fuel continues to power ahead in Europe

Demand for diesel fuel has increased rapidly in Europe in recent years, and this trend is expected to continue. Demand has been moving ahead faster in this area than the general increase in demand for petroleum products. In many of the major European economies, over half of new vehicles are diesel-powered, and in some countries 70% of new registrations are for diesel vehicles. The proportion of diesel vehicles in the Nordic countries has been relatively low, but tax changes implemented in Sweden, Norway, and most recently Finland have seen their popularity increase rapidly.

The shortage of middle distillates in Europe is normally countered through imports of Russian diesel fuel and jet fuel from the Middle East. The sulfur content of heating oil, also categorized as a middle distillate, was halved, to 0.1%, in the EU as of the beginning of 2008, and this is likely to weaken the usability of heating oil refined in Russia, at least over the short term.

Diesel fuel is used heavily by trucks in the US, and is the main fuel used on the country's rail network. The dominance of gasoline among private cars and light vehicles remains unchallenged.


OIL


4
95
98
OIL

Biofuel usage on the increase

Biofuel usage is continuing to increase, for three reasons. These fuels are seen as having a major role to play in mitigating climate change, as helping countries reduce their dependence on imported oil, and as offering new production-related opportunities for local agriculture.

Rapeseed oil has been the main feedstock in first-generation biodiesels but recently the use of other vegetable oils has been increasing. The first-generation products have had major quality problems, however. In the future, biodiesel will need to meet the requirements of the automotive industry more closely if it is to succeed, and increasing production volumes will call for broadening the range of raw materials.

The volume of biofuels needs to be significantly increased to meet the targets of the European biofuel directive. In addition to biodiesel use, it will be necessary to add ethanol to gasoline, either as such or in etherized form, and increase imports of ethanol from outside Europe. The bulk of the ethanol used in Europe is blended into gasoline in the form of ether via ETBE.

The use of ethanol as a blending component has increased rapidly in the US. Its use has already reached the 2012 level required under old legislation, and is rising significantly as a result of the new energy bill approved at the end of 2007. This will increase the need for high-octane, low vapor pressure gasoline components such as iso-octane. The global gasoline market is growing, and demand for components of this type is expected to remain strong. A recession in the US could impact demand for gasoline components, however.

The efficiency of biofuels in reducing emissions, together with the ethical issues associated with producing the raw materials used in their production in particular, were the subject of much debate in 2007.

Growing demand for premium-quality base oils

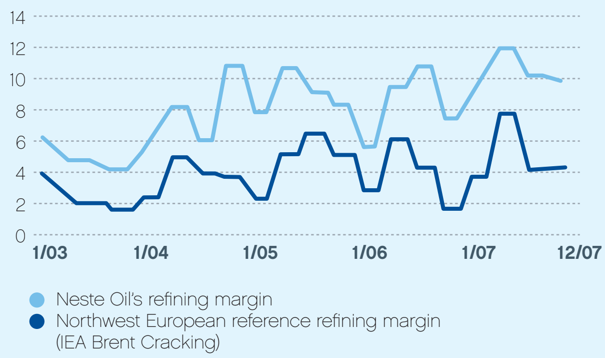
The need to reduce the environmental emissions of vehicles and improve their fuel economy is placing growing demands on lubricants. Better lubricants are being developed by producers of base oils and lubricants, in collaboration with automotive manufacturers, to meet these challenges. As a result, the demand for premium-quality base oil is expected to grow, particularly in Europe and North America.

The bitumen market is likely to remain stable, based on maintenance and upkeep projects of the road network. The market for naphthenic oils, in comparison, is expected to grow, and demand for the oils used in manufacturing vehicle tires is strong.

Key factors shaping Neste Oil's result

USD/EUR exchange rate

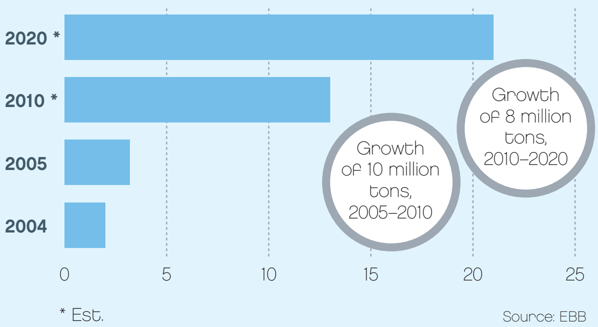
Refining margin, USD/bbl



Crude oil price differential, Urals/Brent, USD/bbl

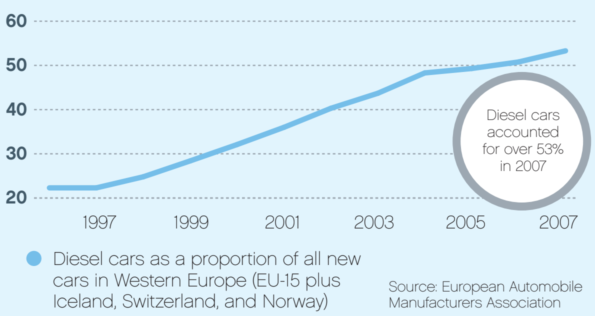
Biodiesel production will have to be increased rapidly to achieve EU targets

Million tons



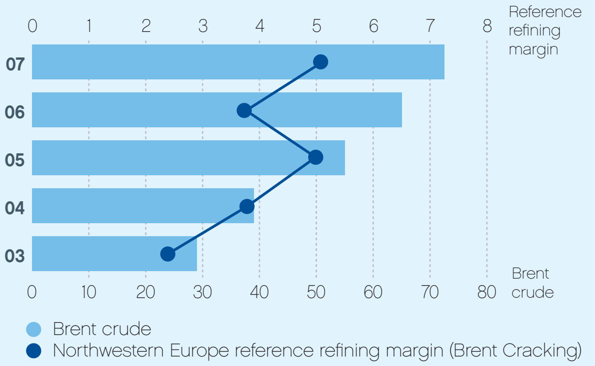
Popularity of diesel cars in Europe is growing rapidly

%



Strong crude prices support refining margins

USD/bbl, annual average



Smaller number of players on the service station market

The Finnish oil retail market has seen some changes, following the appearance of the ABC chain at urban locations as a result of various mergers and acquisitions. Sites previously operated by Esso are being transferred to the ABC chain. Teboil, owned by Lukoil, acquired the JET chain and has converted these sites into Teboil Express outlets. Many corporate customers have still not decided which chain they will use in the future.

Service station operations are focusing to an increasing degree on full-service outlets, and retail goods sales are increasing. The number of unmanned, low-cost outlets is also growing.

Strong economic growth in the Baltic countries has seen salary levels there rise, and Neste Oil has benefited here, as its stations in the region are largely unmanned.

Temporary voluntary production stoppages in heavy industry saw a lower level of LPG usage in Finland in 2007 compared to 2006. LPG prices remained at a record high level, however. The Finnish LPG market is expected to grow over the next few years, mainly because of increased usage by existing users and the emergence of some major new users.

Demand for heating oil was down, as a result of a warmer-than-normal winter.

Increased tanker capacity in the Baltic

Competition in Shipping's main market area in the North Sea and the Baltic continued to get tougher with the completion of extensive new tonnage. Crude cargoes from Primorsk, north of St. Petersburg, through the Baltic continued to increase and ship-owners have increased their ice-strengthened capacity to take advantage of this development. An average of 60 ships a month were loaded at Primorsk in 2007, compared to 54 in 2006. Oil flows from Primorsk rose 12% to 74.2 million tons in 2007.

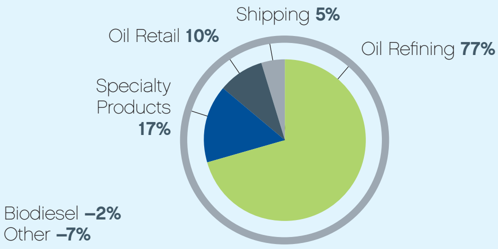
The Finnish government is due to consider new tonnage tax legislation in 2008. The proposed new system, based on ships' tonnage, would see ship-owners pay tax based on the net registered tonnage of their ships, and not on the profit of their ships as until now. This change, as and when implemented, will improve the competitiveness of Finnish-based ship-owners.

Divisional targets

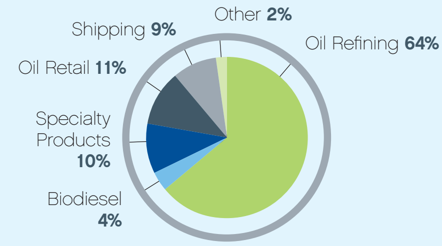
	Targets for 2007	Actions and achievements	Targets for 2008
Oil Refining	• Start up new diesel line and begin selling its output • Engineering decisions on new refinery investments • Improve safety and productivity	• New diesel line commissioned in the summer • Strong market position retained on key markets • Record-high output • Prefeasibility studies started on new investments • Reduced number of accidents	• Further enhancing the safety of personnel and refining processes • Retain a strong position on the wholesale market in Finland and neighboring countries • Decisions taken on new investments • High capacity utilization on the new diesel line
Biodiesel	• Start-up of production at Porvoo and introducing NExBTL to market • Decisions on investments outside Finland • Feasibility studies targeting at new capacity • Launch of NExBTL pre-marketing	• First NExBTL plant commissioned at Porvoo • Decision taken to build a NExBTL plant in Singapore • Product approval for NExBTL Renewable Diesel on key markets • Feasibility evaluation of new capital projects	• Start construction on the Singapore plant and continue work on the second plant at Porvoo • Expand the R&D effort on new feedstocks (e.g. jatropha and algae oils) • Start using certified palm oil • Progress on the construction of a pilot plant for third-generation biodiesel production at Varkaus • Move ahead on new capital projects
Specialty Products	• Meet growing demand for products • Consolidate market position in Europe • Complete studies on expanding production	• Strong market position retained • Negotiations started on building production plants in Bahrain and Abu Dhabi • Work started on expanding PAO capacity in Belgium by 20%	• Decision taken on a new base oil plant • Exploit the opportunities offered by seasonal demand for gasoline components • Build on existing strong performance in occupational safety
Oil Retail	• Improve operational efficiency • Secure profitability • Continue growing the business outside Finland	• Overall sales grew by 2% (7.5%), mainly outside Finland • Market share of 26.4% (26.2%) in gasoline and 40.6% (40.9%) in diesel fuel in Finland • Introduction of a more customer-driven strategy • Program launched to improve the technical and operational capabilities of the Finnish service station network	• Continue growing outside Finland • Consolidate operational safety performance • Roll out the new brand identity at outlets • Launch NExBTL Renewable Diesel on the retail market
Shipping	• Adapt to a rapidly changing marketplace • Integrate new ships into the fleet • Prepare for a growth in the volume of cargoes of biofuel-related feedstocks and products	• Two new Neste Oil-owned vessels and three time-chartered vessels joined the fleet • Global recognition for Shipping's safety performance	• Improved operational efficiency • Better profit performance • Strong safety performance across all aspects of operations

Key figures by segment * for 2007

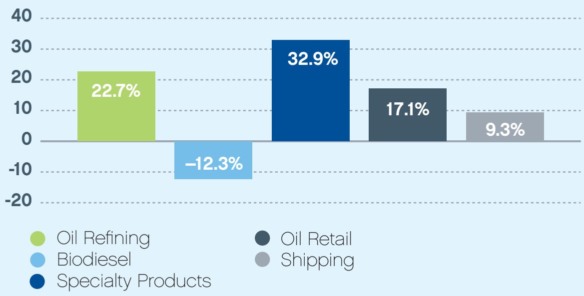
Comparable operating profit EUR million
626 in total



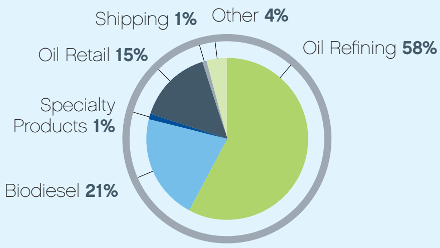
Net assets EUR million
3,370 in total



Comparable return on net assets (RONA) %

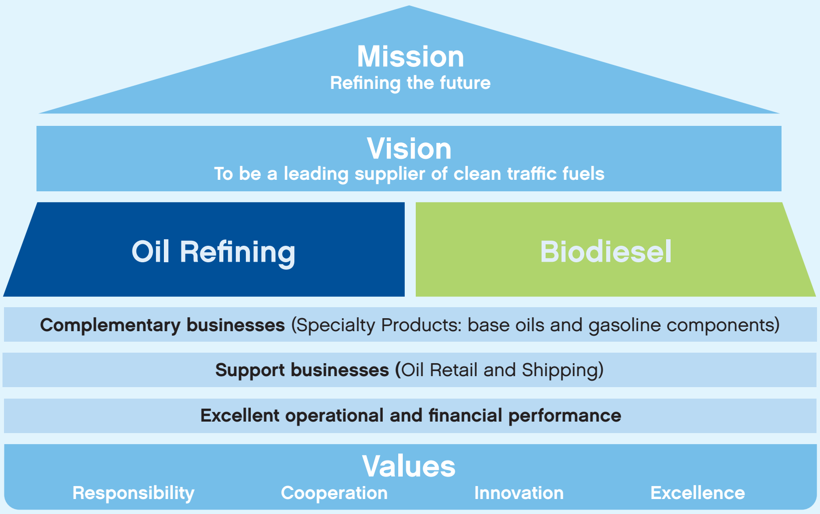


Capital expenditure EUR million
334 in total



* In accordance with the new segment structure

Our growth engines: Oil Refining and Biodiesel



Growth and good performance in Oil Refining

Oil Refining produces and sells a comprehensive range of petroleum products, with a focus on low-emission traffic fuels. Neste Oil's refineries at Porvoo and Naantali account for more than 20% of the Nordic region's total refining capacity, and Neste Oil is one of the region's largest wholesale suppliers of petroleum products. The Naantali refinery celebrated its fiftieth anniversary in August 2007.

Key figures

	2007
Sales, EUR million	9,348
Operating profit, EUR million	640
Comparable operating profit, EUR million	484
Net assets, EUR million	2,165
Comparable return on net assets (RONA), %	22.7
Capital expenditure, EUR million	193
Total refining margin, USD/bbl	10.46

Extensive refining expertise, an impressive track record in introducing new technologies, and the ability to use a wide range of different crude inputs and other feedstocks lie at the heart of the success of the Oil Refining Division.

The international reference refining margin and the EUR/USD exchange rate are the most important factors shaping the division's financial performance. Fluctuations in crude prices mainly result in inventory gains or losses.

New production line commissioned

Oil Refining is Neste Oil's largest division, and has been singled out as one of the company's growth areas, alongside Biodiesel. Investments at existing refineries are driving the division's growth. Continuous improvement programs support growth targets.

The largest challenge facing Oil Refining during 2007 was the start-up of the new diesel line at Porvoo and the resulting expansion of diesel output. The line was commissioned in the early summer. During a scheduled short maintenance outage at the end of September, however, a number of faulty valves were discovered and replacing these, together with other maintenance work, resulted in the line being out of commission throughout October and November. It returned to operation in December.

Despite being in operation for a relatively short period, the new line contributed to an increase in sales of diesel fuel, and also made a positive contribution to the company's overall refining margin. Production-related problems did have a negative impact on Neste Oil's fourth-quarter result, however.

Some EUR 70 million was invested in the diesel line in 2007, and the line cost a total of EUR 750 million in all. Thanks to the new line and modification work elsewhere at the site, production capacity at the Porvoo refinery has risen by over 500,000 t/a. Annual diesel fuel capacity has increased by over 1 million t/a. In the future, the new line is expected to increase Neste Oil's refining margin by over USD 2/bbl on total capacity of some 100 million bbl/a.

More diesel output to meet growing demand

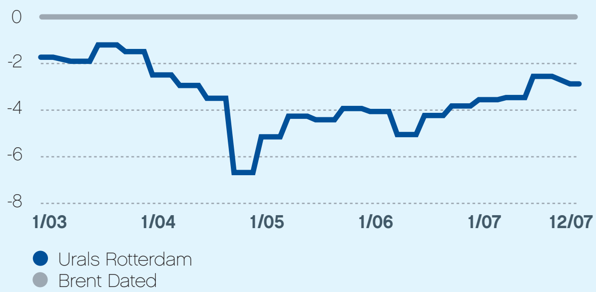
Growth investments will be focused on further developing the capabilities of the Porvoo and Naantali refineries. Additional capacity is possible at both sites to produce cleaner traffic fuels from the heavy fractions produced during the refining process.

New diesel line at Porvoo

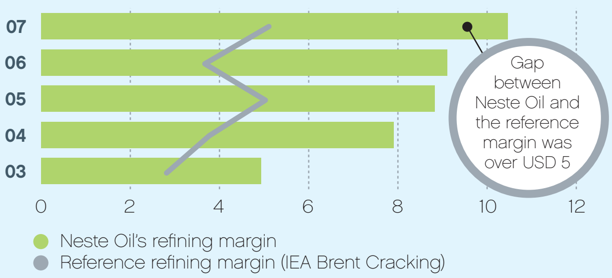
- Started up in 2007
- Produces premium-quality sulfur-free diesel from heavy fuel oil
- Over 1 million t/a of capacity
- Enables a complete switch-over to heavier crude
- Capital costs totaled EUR 750 million
- Will increase Neste Oil's refining margin by over USD 2/bbl

Market analysis

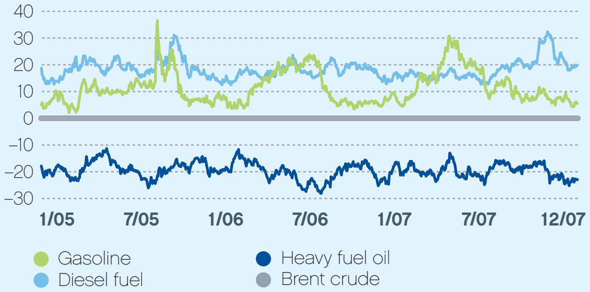
Neste Oil benefits from the price differential between Urals and Brent USD/bbl



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



Price differences support investments in conversion capacity USD/bbl



Possible new capacity will largely be concentrated on sulfur-free diesel fuel, which is in high demand in Europe. Heavy fuel oil or vacuum gas oil (VGO), both of which are available in excess of demand, could be used as feedstock. These are also attractive in terms of cost, as the prices for both have remained below that of crude. Sourcing additional feedstock from the merchant market would allow Neste Oil to build larger refining units than if it was to rely only on feedstock produced in-house.

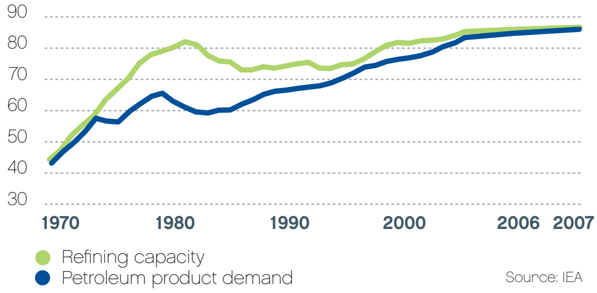
Major maintenance turnarounds every five to six years are one of the most important factors in guaranteeing the operational continuity of Neste Oil's refineries. The most recent one at Porvoo took place in fall 2005, and that at Naantali in fall 2006. The next ones are scheduled for Porvoo in 2010 and for Naantali in 2011.

Procurement and production on the rise

Both refineries recorded record output in 2007, and processed 14.6 million tons of feedstock (13.7 million tons). The Porvoo refinery now has a crude refining capacity of 205,000 bbl/d, and the Naantali refinery a capacity of 56,000 bbl/d.

Neste Oil imported 15.1 million tons of crude oil and other feedstocks in 2007 (14.5 million tons), of which 76% (66%) came from Russia and the other countries of the former Soviet Union, and the remainder from the North Sea. Non-crude feedstocks included middle distillates, vacuum gas oil, fuel oil, gasoline components, and LPG.

Global demand for petroleum products matches refining capacity
Million bbl/d



The bulk of feedstocks, 87% (87%), arrived at Neste Oil's refineries by sea, and 13% (13%) by rail. Neste Oil refined a total of 14.6 million tons of crude in 2007 (13.8 million tons). Some 60% (66%) of products were sulfur-free or low-sulfur traffic fuels.

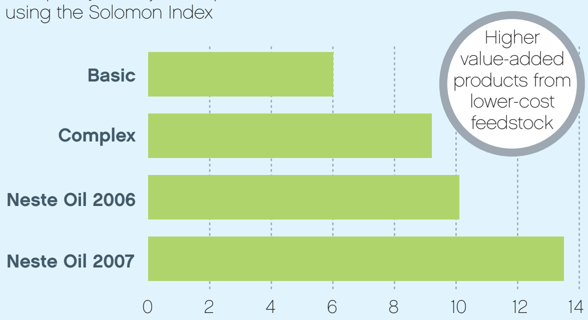
Higher market share

A total of 8.1 million tons (8.1 million tons) of petroleum products were supplied to the Finnish market, and Neste Oil had a 87% (84%) share of the Finnish petroleum product market.

Exports totaled 6.3 million tons (6.0 million tons), of which gasoline accounted for 2.4 million tons (2.5 million tons), and diesel fuel 2.3 million tons (2.1 million tons). North America, Sweden, and Germany were the most important gasoline export markets. The US and Canada accounted for 31% (42%) of Neste Oil's gasoline exports. Sweden and Germany were the most important export markets for diesel fuel.

New diesel line will increase Neste Oil's output of value-added products

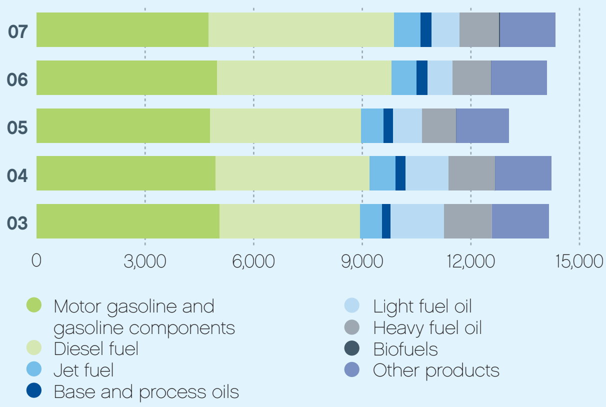
Complexity of major European refineries as measured using the Solomon Index



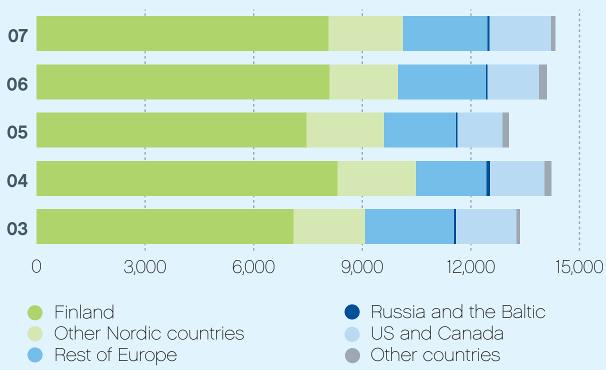
Source: Solomon study 2006

Neste Oil's sales based on in-house output

By product category 1,000 t

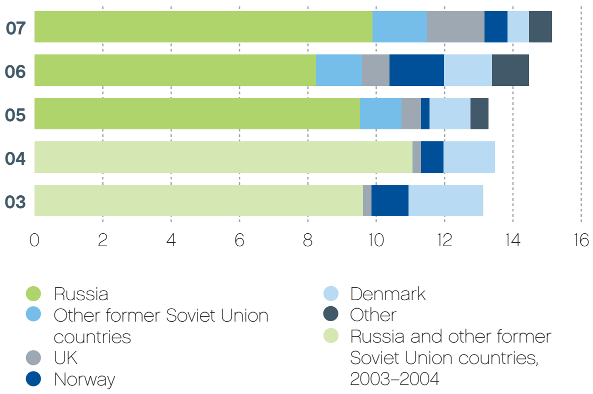


By market area 1,000 t

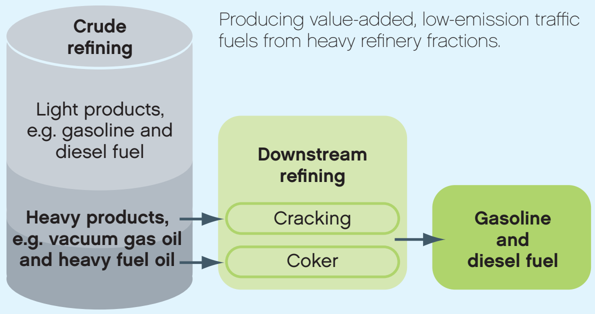


Supply of crude oil and feedstocks by region

1,000 t



Investments focused on increasing conversion capacity



Producing value-added, low-emission traffic fuels from heavy refinery fractions.

Two refineries

Porvoo

- Began operations in 1965
- One of Europe's most advanced and versatile refineries
- Concentrates on premium-quality, low-emission traffic fuels
- Approx. 205,000 bbl/d of crude refining capacity, and an annual output of some 11 million tons
- 7 million cubic meters of crude and product storage capacity
- Finland's largest harbor in terms of volume. Between 16 and 19 million tons of crude and petroleum products are loaded and unloaded annually.
- The new diesel line has increased diesel fuel production by over 1 million t/a
- The new NExBTL plant commissioned in summer 2007 is capable of producing 170,000 t/a of NExBTL Renewable Diesel from a range of renewable inputs
- Employs approx. 1,200 people

Naantali

- Began operations in 1957
- Primarily produces traffic fuels and specialty products, such as bitumen, solvents, and small engine gasoline
- Thanks to its specialty product-based structure, the refinery has a higher refining margin than other units of similar size
- Average refining capacity of 56,000 bbl/d, and annual output of some 3 million tons
- Over 1 million cubic meters of crude and product storage capacity
- Uses heavy, sour crude as its main input
- Employs approx. 400 people

Responsible construction

The new diesel line at Neste Oil's Porvoo refinery was completed in 2007 after nearly four years of construction. The site was one of the largest construction projects in Finland. Project management committed itself to running a safe site from the very start, and a very demanding set of site-specific practices was developed for managing safety during the project.

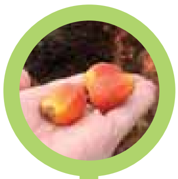
Safety Manager Leif Andersson explains that risk assessments, which reviewed the risks associated with all stages of work and established procedures for minimizing them, represented an important tool in making the project a success from a safety standpoint.

Over 10,000 people were given compulsory safety training during the course of the project. Contractors were provided with comprehensive information on safety issues and the importance of following strict safety procedures beginning from the tender negotiation phase onwards.

Over 2,000 people from a number of countries were on-site during the busiest period of the project. Despite this high figure, the average number of lost days resulting from accidents per million hours worked was only 3.4, compared to an average of 60–70 at Finnish construction sites in general.

Well on the way to future growth

The Biodiesel Division produces and sells premium-quality NExBTL Renewable Diesel, using Neste Oil's proprietary production technology. Neste Oil plans to build a number of NExBTL plants to serve markets around the world, both as Neste Oil and joint venture projects. The company maintains an active R&D effort in the biofuels and biofuel feedstock area.



Key figures

	2007
Sales, EUR million	40
Operating profit, EUR million	–12
Comparable operating profit, EUR million	–13
Net assets, EUR million	142
Comparable return on net assets (RONA), %	–12.3
Capital expenditure, EUR million	69

The demand for biofuels is growing rapidly. Neste Oil is the first oil company to produce and market a new-generation renewable diesel, and its aim is to become the world's leading producer of diesel fuel based on renewable raw materials. This will call for developing production capacity running into millions of tons and maintaining technology leadership in the field.

Production capacity on the increase

The NExBTL plant commissioned in summer 2007 at the Porvoo refinery is capable of producing some 170,000 t/a of NExBTL Renewable Diesel; and will be joined by a second, similar plant at the site in 2009.

Neste Oil announced its plans to build a NExBTL plant in Singapore in November 2007. The plant, costing EUR 550 million, will have a planned capacity of 800,000 t/a and be the world's largest renewable diesel plant. Construction will start in the first half of 2008 and the plant is due to be completed at the end of 2010.

Neste Oil is also planning construction of a NExBTL plant in cooperation with the Austrian-based oil and gas company, OMV. The intention is to build an approximately 200,000 t/a facility alongside OMV's Schwechat oil refinery in Austria. Production will begin there in 2011 at the earliest.

Neste Oil intends building a number of other NExBTL plants as Neste Oil projects or joint ventures with its partners

NExBTL production plants

Location	Capacity	Ownership	Completed	Investment	Status
Porvoo	170,000 t/a	100%	2007	EUR 100 million	Operational
Porvoo	170,000 t/a	100%	2009	Over EUR 100 million	Under construction
Singapore	800,000 t/a	100%	2010	EUR 550 million	Under construction
Schwechat	200.000 t/a	Jointly owned with OMV	2011	No decision	Feasibility study

in different parts of the world to serve markets worldwide. The company is also committed to an active program of R&D on biofuels and the raw materials used in their production.

The process used in NExBTL plants is based on Neste Oil's proprietary technology, which won the product category of the Finnish section of the European Business Awards for the Environment 2008.

NExBTL is sulfur- and aromatics-free. Thanks to its high cetane number, it offers excellent combustion and promotes smooth-running, low-emission engine performance. Offering good low-temperature performance, NExBTL can be used year-round, even in cold climates. It also has good storage properties and does not dissolve in water easily.

Flexible range of inputs

The NExBTL production process can use a flexible range of raw materials and virtually any vegetable oil or animal fat. This makes it the most versatile technology in terms of the inputs that can be used.

Palm oil is currently the most widely available vegetable oil. When produced appropriately, palm oil is a very competitive raw material for NExBTL production in terms of greenhouse gas emissions over the entire life cycle of the end-product. Palm oil volumes can be raised significantly by improving production techniques without increasing the amount of land used for cultivation. In addition to palm oil, Neste Oil's NExBTL plant at Porvoo uses rapeseed oil and animal fat, both of which are sourced locally. In 2007, Neste Oil has intensified its R&D activies with an aim to rapidly introduce new non-food feedstock such as jatropha and algae oils.

Sustainability and responsible operations, together with a commitment on the part of producers to continuously develope their operations, are essential in Neste Oil's supplier criteria when selecting where it sources its raw materials. The final choice is made on the basis of security of supply, price, and availability. Neste Oil is working through the Roundtable on Sustainable Palm Oil to promote the introduction of an international palm oil certification system.

Neste Oil is also working with the EU and a number of member states to help create a set of European criteria for reducing emissions of greenhouse gases and promoting sustainable development. The company sees the establishment of clear common guidelines as important in creating a level playing field.

Meeting automotive manufacturers' requirements

The properties of Neste Oil's NExBTL Renewable Diesel easily outperform those of conventional, first-generation biodiesels, and are even better than those of the best fossil diesel fuels currently on the market. Engine manufacturers recommend the use of biodiesel that matches or exceeds the level attained by NExBTL.

NExBTL Renewable Diesel reduces tailpipe emissions significantly compared to fossil diesel

- 10% less NO_x
- 28% less fine particles
- 50% less hydrocarbons
- 28% less CO
- 40–45% less aldehydes
- 40–45% less benzene
- Less polyaromatic hydrocarbons (PAH)
- Easier cold starting and less tailpipe soot

Sources: MAN, SAE

NExBTL Renewable Diesel in brief

- Produced from renewable raw materials using proprietary technology
- Can be produced from a flexible mix of vegetable oil and animal fat
- Suitable for all modern engines, no need to replace existing vehicles
- Can be used as such or as a blending component in conventional fuel
- Performance and ease of use equal to those of fossil diesel
- Reduces tailpipe and greenhouse gas emissions
- Can be produced in large volumes on an industrial scale

Excellent product properties

NExBTL Renewable Diesel	Conventional biodiesel
• No restrictions on blending proportions	• Maximum 5% blending limit *
• No changes to specifications needed to increase biofuel content	• Biofuel content requirements cannot be achieved without changing fuel specifications and reducing fuel quality
• Reduces emissions	• Higher NO_x emissions
• Excellent storability	• Must be used by its 'sell by' date
• No vehicle modifications needed	• May cause problems with engines

* Maximum permitted level under European diesel standards

NExBTL is fully compatible with current diesel engines and fuel logistics systems, and can be used as such or blended with normal diesel fuel. When blended, it improves technical fuel properties and reduces tailpipe emissions, without impacting consumption.

40–60% lower greenhouse gas emissions

NExBTL reduces greenhouse gas and other emissions significantly. Greenhouse gas emissions, as calculated over the entire life cycle of the fuel, are 40–60% lower than those of fossil diesel, depending on the raw materials used. When blended with conventional diesel fuel, NExBTL reduces emissions. The emission reduction depends on the blend proportion.

The properties of NExBTL have been studied widely. Tests have been run in cars and trucks, and the results have been very positive. In addition to lower greenhouse gas emissions, particulate emissions are lower compared to conventional diesel fuel. Furthermore, NO_x emissions are lower than those generated by conventional biodiesel. Considerably lower aldehyde emissions point to very efficient and clean combustion.

A number of cities have expressed interest in using NExBTL to help improve urban air quality. Neste Oil, Helsinki City Transport, the Helsinki Metropolitan Area Council (YTV), and Proventia launched a broad-based trial in fall 2007 to introduce NExBTL in city buses and waste disposal trucks. The three-year project aims to see half of the buses in Greater Helsinki running on NExBTL by 2010. The trial started with around 60 buses running on a 25% NExBTL blend, and the plan is to switch over to 100% NExBTL in spring 2008.

The Ministry of Finance has granted tax exemption to the NExBTL used in buses and waste disposal trucks in Greater Helsinki until the end of 2010.

The intention is to launch similar projects around the world, both in public transport and other areas of usage.

Statutory requirements and tax incentives

The EU has decided that bio-based traffic fuels must account for 5.75% of total traffic fuel usage by 2010, and 10% by 2020. A number of countries have established national targets, obligatory requirements, and tax incentives to promote the use of biofuels on the road to help mitigate climate change.

The Finnish Parliament approved biofuel legislation in 2007 requiring all companies supplying traffic fuels in Finland to include biofuels in their fuel offering as of the beginning of 2008. The requirement in 2008 will be 2%, rising to 4% in 2009, and 5.75% in 2010, as calculated on the basis of the energy content of gasoline and diesel fuel deliveries.

Worldwide demand for diesel fuel is expected to rise to 750 million tons in 2015, of which Europe, North America, and Asia are likely to account for some 80%. As of today, biofuels account for under 1% of the world's fuel production, according to the IEA.

To meet the EU's 5.75% target, some 20 million tons of biofuels will be needed to replace fossil fuels by 2010; to reach the 10% target set for 2020, over 30 million tons will be needed. This will call for a major increase in biofuel production.

Biodiesel production capacity in Europe in 2006 totaled some six million tons. The European Biodiesel Board (EBB) has estimated that capacity rose 70% in 2007, to 10.2 million tons. Biodiesel consumption in Europe is projected to grow to 13 million tons by 2010.

New technology under development

Neste Oil and Stora Enso are developing a new-generation biofuel production technology that will expand the range of raw materials significantly. The project is concentrating on using wood-based biomass, such as branches, stumps, and other forest industry residue. Recycled waste biomass could be added at a later date. The plan is to gasify this material to generate hydrocarbons using Fischer-Tropsch synthesis. The resulting crude biodiesel will then be refined at the Porvoo refinery into a commercial, premium-quality renewable fuel similar to today's NExBTL.

A pilot plant to develop the process is being built at Varkaus in Finland and is due to begin operations in 2009. The first commercial-scale, third-generation plants are expected to be operational around the middle of the next decade.

Second-generation NExBTL is a pure hydrocarbon

	Raw material	Technology	End-product
Fossil diesel	Mineral oil	Refining	Fossil diesel C_nH_{2n+2}
First-generation biodiesel	Vegetable oil and animal fat (mainly rapeseed oil)	Esterification	Ester-based biodiesel $H_3C{-}O{-}C({=}O){-}R$
Second-generation NExBTL diesel	Vegetable oil and animal fat	Hydrogenation	Biohydrocarbon C_nH_{2n+2}
Third-generation biodiesel	Biomass	Gasification and Fischer-Tropsch synthesis	Biohydrocarbon C_nH_{2n+2}

Palm oil is the most widely available feedstock at the moment

	Globally/EU-27	Globally	EU-27
	Production 1,000 t/a	Trading 1,000 t/a	Exports */ imports 1,000 t/a
Palm oil	37,156 / –	29,979	158 / 4,731
Soy oil	35,314 / 2,591	10,384	253 / 934
Rapeseed oil	18,449 / 6,317	2,088	63 / 696
Animal fat	8,450 / 1,107	2,154	43 / 74

January–December 2006
* Excludes internal trade in the EU
Sources: ISTA Mielke GmbH, OIL WORLD June 2007

Greenhouse gas emissions of NExBTL Renewable Diesel are significantly lower than those of fossil diesel

NExBTL	**Fossil diesel**
Vegetable oil production, * processing, and shipping	Crude oil production, processing, and shipping
↓	↓
Production and processing	Refining process
↓	↓
End-use	End-use
↓	↓
1.3–2.6 tons of CO_2 equivalent per ton of NExBTL	**3.8 tons of CO_2 equivalent per ton of fossil diesel**

* Raw materials produced sustainably
Sources: Concave, IFEU

Neste Oil – producing biofuels in accordance with the principles of sustainability

- We know the life cycle and origin of the raw materials we use
- We select our suppliers carefully and prioritize good health, safety, environmental, and social issues management on the part of our suppliers
- We require our suppliers to aim for sustainable operations and include this requirement in our main supply contracts
- We are committed to sourcing only sustainably produced raw materials
- We carry out and commission audits and monitor our entire supply chain
- We work with our suppliers to help them improve their operations
- We are committed to certification systems and regulations designed to improve the sustainable production of the raw materials we use.

Suppliers

Our suppliers must always comply with all relevant national laws and statutes. In addition, Neste Oil requires its suppliers:

- To support sustainability and be committed to the continuous improvement of the health, safety, and environmental (HSE) aspects of their operations
- To develop their HSE performance and sustainability regulations and standards together with government and other organizations
- To respect human rights and proactively promote occupational safety, and
- To act in accordance with good business ethics.

Production

- We use efficient production methods that comply with ISO and OHSAS environmental, health, safety, and quality standards
- We continually improve the safety of our production operations
- We develop production technologies that can make use of a wider range of raw materials.

End-products

- We develop and market quality products that reduce harmful emissions and can be used with existing engines
- We improve the greenhouse gas and energy balance of our production chain to reduce the impact we have on the environment
- We offer our customers and partners products and technologies that are compatible with current and future regulations.

Lower emissions with specialty products

Neste Oil created the Specialty Products division in October 2007. Specialty Products produces and sells premium-quality base oils and traffic fuel components; and manages Neste Oil's holding in Nynäs Petroleum, which produces and sells naphthenic oils and bitumen. Positive growth prospects are seen for both gasoline and lubricant components.

Key figures

	2007
Sales, EUR million	649
Operating profit, EUR million	122
Comparable operating profit, EUR million	109
Net assets, EUR million	324
Comparable return on net assets (RONA), %	32.9
Capital expenditure, EUR million	5

Increasingly tough legislation on emissions is set to continue to boost demand for premium-quality base oils. These products – polyalphaolefins (PAO) and Very High Viscosity Index (VHVI) base oils – are used together with additives to produce today's modern lubricants. Neste Oil's 50,000 t/a of PAO production capacity is based at Beringen in Belgium, while its VHVI unit at Porvoo has a capacity of 250,000 t/a.

Lubricants are being expected to deliver more and more in terms of quality, as advanced lubricants not only promote lower fuel consumption, but also reduce emissions as well. As a result, the quality expectations associated with the base oils used in lubricant blends are on the rise. Higher demand on the base oil market will be focused on premium-quality sulfur-free products, where Neste Oil already enjoys a leading position in Europe and is strong globally. In addition to rising demand, the growth potential of Neste Oil's base oil business is also being driven by the high quality of its products, its extensive customer base, and its wide range of lubricant recipes tailored to the needs of cars, trucks, and industry.

Demand for VHVI base oils outpaced supply in 2007, and demand for PAO products also developed favorably. Neste Oil's base oil units operated at full capacity throughout the year, helping make the year a success.

Given this background of increasing demand, Neste Oil has begun investigating alternatives for raising production. Discussions are under way with the Bahrain Petroleum Company on establishing a VHVI plant in Bahrain with a nameplate capacity of 400,000 t/a. Neste Oil is also planning a VHVI plant in Abu Dhabi with the Abu Dhabi Oil Refining Company and OMV, with a projected capacity of 500,000 t/a. Neste Oil decided in 2007 to expand its PAO plant at Beringen by 20% between 2008 and 2009.

Gasoline components meeting even the toughest standards

Neste Oil produces traffic fuel components for use both in its own products and for sale to other oil companies.

Adding ethanol to gasoline is one way of reducing the fossil content of fuel, but it results in higher vapor pressure, which in turn leads to higher emissions of volatile organic compounds. Low vapor pressure iso-octane – a high-octane hydrocarbon component – counters this problem and enables ethanol to be added to gasoline, resulting in a fuel that meets tough environmental standards. Neste Oil produces iso-octane at a jointly owned 520,000 t/a plant in Edmonton in Canada based on Neste Oil's proprietary NExOCTANE technology. Iso-octane produced there is sold to customers on the US West coast and Canada.

Capacity utilization at the Edmonton plant remained high in 2007, and production and sales performed well, despite seasonal fluctuations. The plant employs some 100 people, and the site has not experienced a single lost day of work resulting from an accident for some 14 years.

An expert in biocomponents

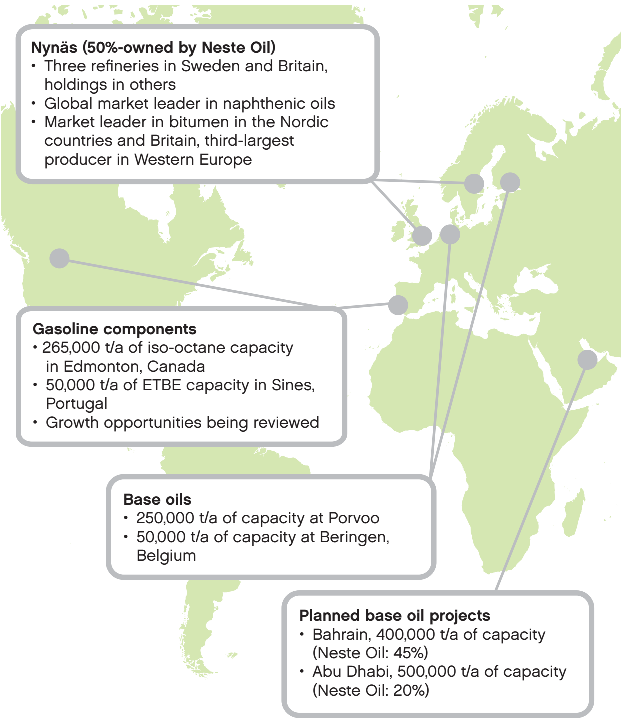
Ethanol can also be blended with gasoline as an ether via ETBE (ethyl tert-butyl ether). Neste Oil was one of the first refiners to begin production of ETBE, at its Porvoo refinery in 2004. Marketing of this biocomponent is concentrated in Europe. Demand for the product grew strongly in 2007, as it is well-suited to gasoline production. Its benefits include low vapor pressure and a high octane rating. The product is also sulfur- and aromatics-free. Neste Oil produces ETBE at a 50,000 t/a unit at Sines in Portugal and a 110,000 t/a unit at Porvoo. Output from the latter is mainly used in gasoline production at the Porvoo refinery.

Quality products from Nynäs

Neste Oil and Petróleos de Venezuela S.A. own Nynäs Petroleum on a 50/50 basis. Nynäs is the market leader in premium-quality naphthenic specialty oils and one of Europe's leading producers of bitumen. Nynäs also produces specialty bunker fuels and other fuel products. Tire manufacturers are one of Nynäs' important customer segments, and the company is working on new, more environmentally compatible products to meet manufacturers' increasingly tough specifications.

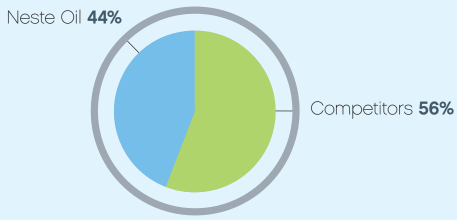
For more information, see www.nynas.com.

Good foundation for expanding operations



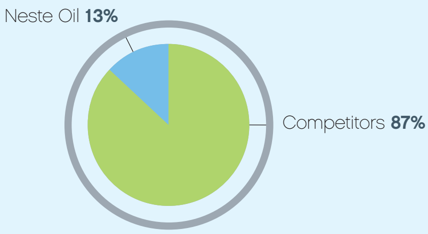
Strong position on the wholesale market for VHVI base oils

European wholesale market in 2007



Total market of 500,000 t/a

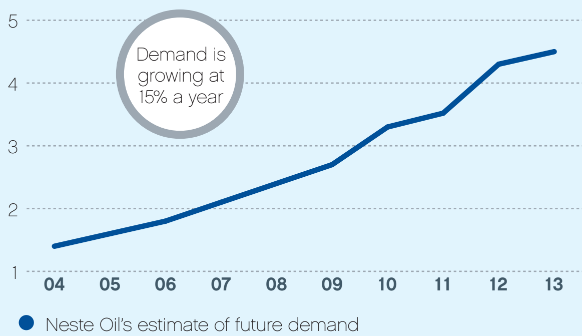
Global wholesale market in 2007



Total market of 1,500,000 t/a

Demand for VHVI base oils is increasing rapidly

Million t/a



Better fuel quality with premium-quality gasoline components in the US

Gasoline produced by basic refineries

- Low octane number
- Low price

\+

Legally required biocomponents

- Increased use of ethanol increases vapor pressure

\+

Neste Oil's premium-quality gasoline components

- High octane number
- Low vapor pressure
- Sulfur-free
- Aromatics-free

=

End-product gasoline meets very tough quality standards

Base oils for lower traffic emissions

The EU's legislation on emissions requires automotive manufacturers to develop increasingly more energy-efficient engines. Engine technology is indeed developing, and traffic-related emissions and fuel consumption are falling. To help make this happen, the quality and performance specifications imposed on lubricants are getting tougher all the time.

Quality lubricants keep engines clean, extend oil change intervals, reduce oil and fuel consumption, cut engine emissions, and promote better air quality.

Lubricants are a blend of base oil and performance-enhancing additives. Neste Oil has concentrated on producing two types of high-quality base oil: PAO and VHVI. Both of these are used in premium lubricants and motor oils. The use of base oils as the foundation for modern motor oils is expected to grow as more advanced and lower-emission engine designs are developed and as automotive manufacturers introduce new quality standards.

Polyalphaolefin (PAO) is synthetic base oil used to produce the highest-quality lubricants and motor oils. It is completely sulfur-free, colorless, and virtually odorless. Its best properties include good resistance to oxidization and excellent viscosity at both cold and high temperatures. PAO is typically used in modern fully synthetic engine lubricants.

Neste Oil's Very High Viscosity Index (VHVI) base oil is produced through the catalytic isomerization and hydrogenation of crude-derived hydrocarbon molecules, which give it excellent stability and cold performance.

In the future, it could be possible to produce high-quality base oil from renewables, and research on developing bio base oil is now under way.

A changing retail market

Oil Retail markets a comprehensive range of petroleum products through its own service station network and via direct sales to corporate and private customers. As of the end of 2007, the station network included 1,170 outlets in Finland, Estonia, Latvia, Lithuania, Poland, and Northwest Russia. The division's growth targets are focused on the expanding markets around the Baltic.

Key figures

	2007
Sales, EUR million	3,435
Operating profit, EUR million	60
Comparable operating profit, EUR million	59
Net assets, EUR million	381
Comparable return on net assets (RONA), %	17.1
Capital expenditure, EUR million	51
Total sales, 1,000 m^3	4,519

Oil Retail gives Neste Oil a direct interface with the end-users of its products, and a retail channel to launch new products. In Finland, Oil Retail's focus is on customer relationship management, enhancing operational efficiency, and developing its service station offering. The division's strengths are a well-respected brand and a broad-based network of outlets.

Sales on the rise around the Baltic

Oil Retail's total sales in 2007 increased by 2% on 2006 and totaled 4,519 million cubic meters, securing Neste Oil's leading position on Finland's competitive market. Neste Oil had a 26.4% (26.2%) share of retail gasoline sales, and a 40.6% (40.9%) share of diesel fuel sales. Gasoline sales around the Baltic increased by 12%, and diesel sales by 34% – driven by the region's economic growth and an expanded station network.

The retail market in Finland has seen a number of changes resulting from mergers and acquisitions. Esso's main outlets have been taken over by ABC, which has launched a new city station concept, while JET stations now operate as Teboil Express outlets. The market is polarizing between full-service service stations and low-cost unmanned outlets.

Short-term production outages in heavy industry resulted in lower overall LPG usage compared to 2006. LPG prices reached a record high, however. The Finnish market for LPG is expected to grow over the next few years as a result of the emergence of major new sites using the fuel and increased consumer usage.

Demand for heating oil was down as a result of a warmer-than-average winter.

An updated network

Neste Oil carried out a comprehensive review of its service station business in Finland in 2007. This resulted in the development of an extensive action program – covering areas such as internal processes and the service offering provided to different customer segments – aimed at reinforcing Neste Oil's leading position on the Finnish market. Improvements will be made in the technical and operational standard and quality of service stations, and a new visual identity will be introduced. Implementation was started at the end of 2007.

In the future, Neste Oil's service station network will be based around three types of outlet – Neste Oil service stations, unmanned Neste Oil Express outlets, and Neste Oil Truck outlets – under a single integrated Neste Oil brand. The plan is to complete the conversion project by 2010.

Expanded operations

Neste Oil had a total of 899 retail outlets in Finland as of the end of 2007. A development program aimed at improving the sales and operational quality of outlets owned by independent dealers continued throughout the year – and was aimed at securing the competitiveness of the stations concerned in a tougher competitive environment.

A total of 33 new stations were opened outside Finland. A dynamic logistics system based around in-house terminals is seen as central to driving retail growth around the Baltic. Neste Oil plans to further extend its retail network in the region.

A new lubricants partner

Production of Neste Oil lubricants and automotive chemicals will come to an end at the Laajasalo site in Helsinki in 2008. An outsourcing agreement covering blending and packaging was agreed in November 2007 with Dutch-based Ashland Nederland B.V. Logistics operations are also due to be outsourced. Sales and marketing of Neste Oil lubricants and automotive chemicals will remain in-house, as will product development, technical sales support, and product liability support.

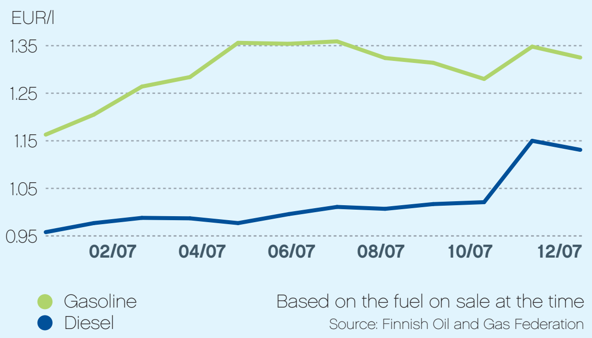
Prioritizing safety and quality

Oil Retail targeted reducing the number of days it loses through accidents in 2007, and successfully improved performance in respect of all its safety targets.

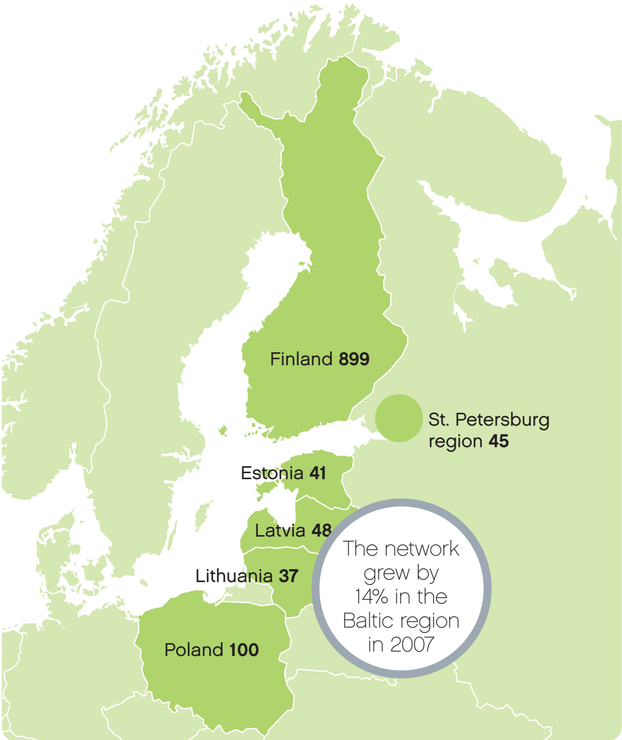
The ISO 9001, ISO 14001, and OHAS 18001 certifications of Finnish operations received in 2006 were updated in February 2007.

Service station operations in Russia were certified to the ISO 9001:2000, ISO 14001:2004, and OHSAS 18001:1999 standards. Operations in Estonia, Latvia, Lithuania, and Poland have already been certified to the same standards.

Average gasoline and diesel fuel retail prices in Finland in 2007

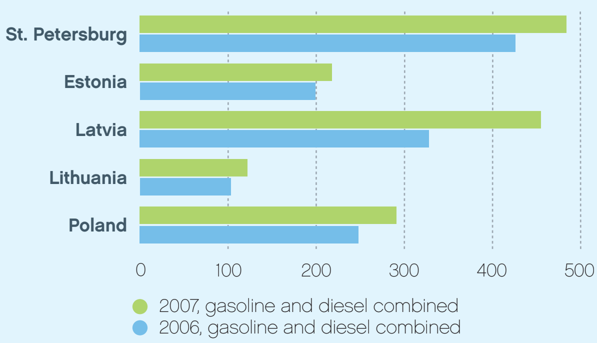


Neste Oil's service station network as of 31 December 2007

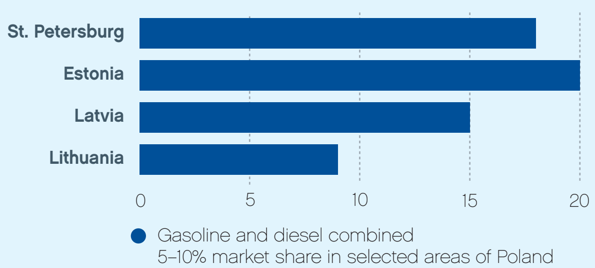


Neste Oil has a strong position on the growing Baltic markets

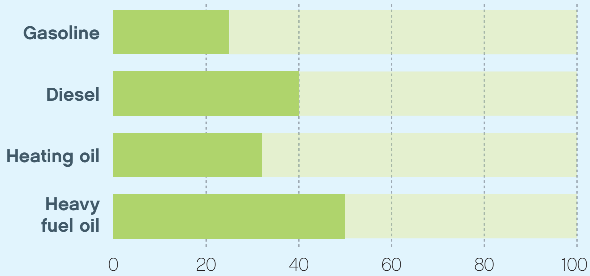
Sales of gasoline and diesel fuel grew strongly in 2007
1,000 m^3



Neste Oil's estimated market position in 2007
%



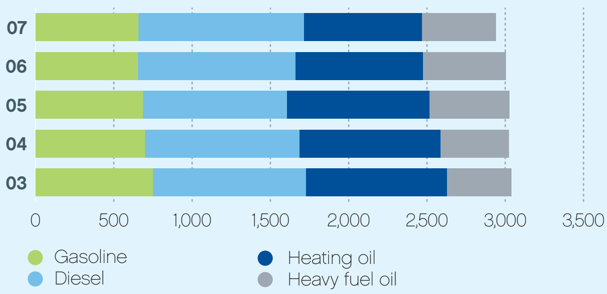
Neste Oil's share of the retail market * in Finland in 2007 %



Source: Finnish Oil and Gas Federation

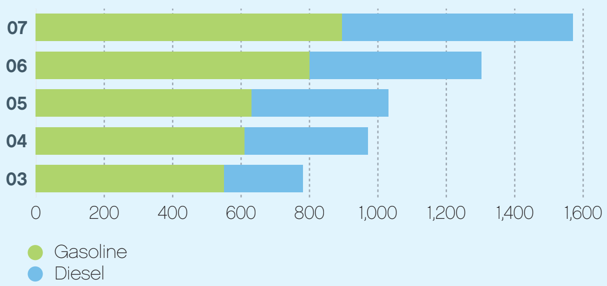
Sales in Finland remained stable

1,000 m³



Sales in the Baltic region grew by 20%

1,000 m³



Drivers have a key role to play in combating climate change

Drivers can reduce the amount of greenhouse gases their vehicles emit significantly. Simply driving more economically can easily cut emissions by 10%. Choosing a car with low fuel consumption is also important, and this is being encouraged in a number of countries through various tax incentives.

Drivers can also choose a cleaner fuel. Neste Oil has led the way in introducing lower-emission fuels for over 20 years. Unleaded Futura E, launched in 1989, made the start of the large-scale sale of cars fitted with catalytic converters possible for the first time in Finland.

Reformulated City Futura gasoline was launched in 1991, and helped cut emissions of carbon monoxide and hydrocarbons, particularly in subzero temperatures and in cars not fitted with catalytic converters. Futura Citydiesel, low in both sulfur and aromatics, was launched two years later, and second-generation reformulated Futura gasoline in 1994.

Neste Oil was the first to launch sulfur-free gasoline and diesel fuel on the Finnish market in 2004; and a 98-octane gasoline containing a biocomponent was introduced in 2006, well before the statutory requirement for minimum biocomponent content came into force at the beginning of 2008. Oil Retail is set to launch Neste Oil's NExBTL Renewable Diesel in 2008.

In-house shipping capacity ensures flexibility

Neste Shipping carries over 40 million tons of crude oil, petroleum products, and chemicals annually. Operations are focused on the Baltic, the North Sea, and the North Atlantic. Shipping has over 30 vessels in its fleet with a total deadweight tonnage of some 1.3 million tons.

Key figures

	2007
Sales, EUR million	394
Operating profit, EUR million	30
Comparable operating profit, EUR million	28
Net assets, EUR million	297
Comparable return on net assets (RONA), %	9.3
Capital expenditure, EUR million	2
Deliveries total, million of tons	40.6
Fleet utilization rate, %	94.1

By providing flexible marine transportation closely adapted to changing market needs, Shipping offers important strategic support for Neste Oil. Smooth-running, on-time deliveries ensure that customers receive the feedstocks and products they need when they need them.

Shipping's main area of operation is Northwest Europe. Crude oil transportation is concentrated in the Baltic and the North Sea; while product and chemical cargoes are focused mainly on routes in Northwest Europe and coastal traffic in Finland. Fuels – primarily gasoline – are also carried to ports in the US and Canada. Crude and product freight rates, together with capacity utilization levels, and the price of bunker fuel play a major part in shaping Shipping's financial performance.

High safety standards recognized

Safety is a major priority for Neste Shipping. All tankers of more than 40,000 dwt fully laden are escorted into and out of port in Porvoo and Naantali by escort tugs. Simulator training is used on a regular basis to maintain and develop the expertise of seagoing personnel. Expertise in cold conditions and well-designed and -equipped tonnage ensure reliable and safe operations year-round, even in ice.

Neste Shipping has regularly received recognition for its exemplary safety performance in worldwide surveys carried out by Port State Control, and Finnish ships always place highly in their safety statistics. All of Shipping's tankers are double-hulled and registered under the highest ice classes in the Finnish-Swedish classification system.

Change in legislation should bring improved competitiveness

The Finnish government is due to consider a switch to tonnage-based taxation in 2008. Under this, ship owners would pay tax based on the tonnage of their vessels rather than their financial performance, as up until now. As and when this reform is introduced, it will improve the competitiveness of Finnish vessels compared to those of other countries.

A tougher market in the Baltic

Crude freights in the North Sea averaged 135 Worldscale points in 2007. The competitive situation in the Baltic became tougher following the growth in the number of ships available for traffic there. The experience, reliability, good customer relationships, and ability to adapt to and operate in changing conditions that are a hallmark of Shipping's operations served to strengthen the division's competitiveness in a difficult market situation.

Oil flows from the Russian terminal at Primorsk rose 12% to 74,2 million tons in 2007, and an average of 6.2 million tons of crude a month were shipped from there. The terminal handled an average of 60 tankers a month, compared to 54 in 2006.

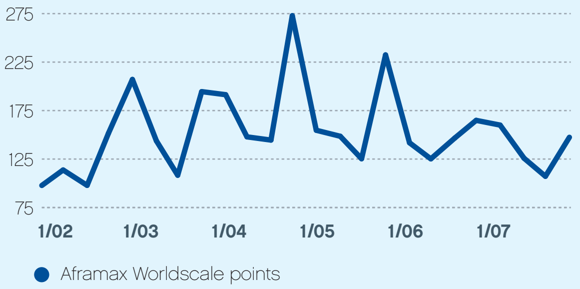
A modern fleet

Neste Oil operated 31 tankers as of the end of the year. The average age of the company's own tonnage was around two years, and that of time-chartered tonnage around six years – giving a fleet average of around four and half years.

Three new vessels joined the fleet in 2007 – the mt Stena Poseidon, the mt Stena Arctica, and the Mt Palva – all of which are jointly owned on a 50/50 basis with Stena.

Freight rate trends in the North Sea

Day rates



AMOS offered enhanced safety

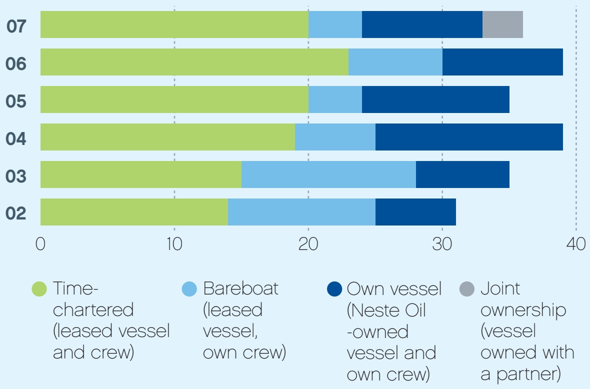
Neste Oil introduced a new electronic AMOS safety management system on board its ships in May 2007. This has allowed the fleet to systematize its procedures and clarify its guidelines, and update these where appropriate to ensure even higher standards of safety at sea. The single largest benefit of the new system is that procedures and forms are now identical on all ships in the fleet. As a result, crew members do not need to learn new procedures when changing ships.

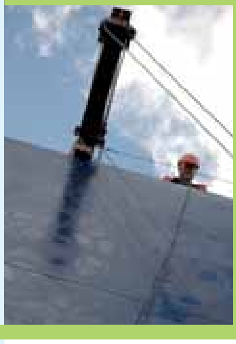
In addition to safety management, the AMOS system also includes a reporting system, a guidelines bank, information on ships supplies, engineering orders, and maintenance logs. Personnel at sea and on land can monitor the service status of ships; and the system has already resulted in both better operational reliability and cost savings.

All Neste Shipping personnel have been trained in using the new system.

Time chartering offers fleet flexibility

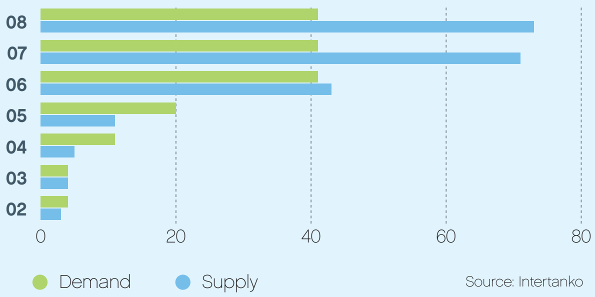
Vessels





Supply and demand for ice-strengthened tanker tonnage in the Baltic

Vessels



Source: Intertanko

Shipping in 2007

- 6 crude oil tankers
- 25 product tankers
- 3 escort tugs
- 2 push barges
- 3,715 port calls
- 40 million tons carried
- Approx. 1.3 million dwt of tonnage

Success through advanced products and technology

The Research & Technology Unit helps drive Neste Oil's competitiveness by developing refining processes and catalysts as well as processes and products based on renewable raw materials. The unit also provides expertise and services to internal and external partners.

The products developed by Neste Oil feature both premium quality and a small environmental footprint. Research focuses on developing traffic fuels and base oils with a low level of environmental impact, and the production technologies needed to produce them. The R&T organization has played a major role in developing NExBTL Renewable Diesel technology, for example. This represents a natural continuation of the production technologies developed for earlier generations of premium-quality products, such as NExOCTANE and NExETHERS technology, which are both leading technologies.

The bulk of Neste Oil's current R&D projects are linked to expanding the range of feedstocks that can be used in renewable fuels and developing the technologies for producing them. The most important of these are the NExBTL feedstock extension program and the wood-based BTL program. The aim in both of these is to shift feedstock procurement into non-food materials wherever possible. Development activities also include work on new product properties and new products.

Neste Oil works with leading research institutes, universities and other experts in a number of fields, and is involved in a range of national and international research projects.

Research & Technology became part of the Corporate Development Unit in 2007 and was reorganized to more closely reflect the growth and innovation needs of Neste Oil's strategy. The volume of R&D activities has grown steadily, and investments in the Research & Technology Unit increased by nearly 30% in 2007 compared to 2006. The unit's human resources and facilities were strengthened and new outside partners brought into the research effort. A biotechnology team was added to concentrate on renewable raw material-related research. Some 240 people work in the Research & Technology Unit today.

R&D milestones

2007 NExBTL Renewable Diesel, the world's first second-generation renewable diesel fuel

2002 NExOCTANE technology for producing a high-octane gasoline component promoting better engine combustion

1997 NExBASE for Very High Viscosity Index (VHVI) base oils

1991 Citygasoline (unleaded, high-octane oxygenated gasoline); NExTAME technology for producing high-octane gasoline components; synthetic NExBASE base oil (polyalphaolefin, PAO)

1990 Citydiesel, produced using in-house technology, supplied to Sweden, becoming the basis for MK1 diesel fuel

1989 Unleaded Futura E

1982 Neste Alfa lubricants

1980 MTBE high-octane oxygenate for advanced gasolines

1974 Engine laboratory built at Porvoo

1967 Research center built at Porvoo

1964 Neste Research Foundation established

1961 R&D laboratory opened at Naantali

1959 Engine research begun in Helsinki at the Helsinki University of Technology

1958 First research report produced

1957 R&D activities started

1956 Quality assurance laboratory established at Naantali

NEXBTL[R] technology: for producing diesel fuel from renewables. The most flexible technology in the field so far in terms of the feedstocks that can be processed, and capable of handling virtually any vegetable oil or animal fat. Numerous advanced product properties, including high cetane number, excellent performance at low temperatures, and good storability. NExBTL Renewable Diesel is a pure hydrocarbon.

NExOCTANE[R]: for producing the iso-octane gasoline component. A jointly owned plant based on the technology operates in Canada, and the technology has been licensed to refiners in Texas and California.

NExETHERS: for producing a range of ethers, such as TAME, TAEE, and ETBE. These boost gasoline octane ratings, improve engine combustion, and reduce tailpipe emissions.

Neste Jacobs – industry-leading engineering services

One of the largest bottlenecks holding back investments in the oil and chemical industries in recent years has been a lack of engineering resources. Neste Jacobs offers Neste Oil a major competitive advantage here.

Neste Jacobs offers engineering services both to Neste Oil and other oil, gas, and chemical companies, and has close to 50 years of experience in a wide range of capital projects in Europe, North America, and the Middle East. Neste Oil owns 60% of the company and Jacobs Engineering Group, Inc, 40%.

Neste Jacobs acquired Rintekno, a Finnish engineering consultancy, at the beginning of 2008. The acquisition created the Nordic region's strongest provider of engineering services for the oil, chemical, and biotechnology industries, employing some 750 people.

For more information: www.nestejacobs.com

Developing new raw materials

With the demand for biofuels growing all the time, R&D aimed at finding new raw materials to produce them is also accelerating. A number of factors have to be taken into account in this work, such as availability, price, life cycle, and source. Neste Oil's NExBTL process can use a very wide range of vegetable oil and animal fat in flexible combination.

Although some 145 million t/a of vegetable oil are currently produced worldwide, this is insufficient to meet the need for increasing biofuel output.

"The raw material issue is a major challenge for research, and will continue to be so into the future," says Pauliina Uronen, a research associate with Biotechnology team. New energy crops are being developed all the time, and Neste Oil's aim is to focus on non-food varieties.

"We always prioritize raw materials that meet sustainable development criteria. One area that's particularly interesting is algae. Single-cell algae multiply at a very fast rate, and the oil content of some strains can be quite high. We see algae as very likely to become a possible raw material for biofuels in the future."

A responsible approach across all operations

Responsibility is one of Neste Oil's core values, and is one of the pillars of the company's clean fuels-based growth strategy. Responsible principles are observed in all of the company's operations, regardless of division or country.

Neste Oil is committed to being an employer and a partner that can be relied on. Improving safety at work, promoting employee wellbeing, and focusing on overall profitability will be central to continuing to make Neste Oil a safe and attractive workplace. Neste Oil always keeps to its commitments and responsibilities when working with its partners, and expects them to act responsibly as well. A good example of this is the commitment to sustainable development required of the suppliers of the raw materials used in Neste Oil's biofuels production.

Neste Oil observes the OECD's recommendations for multinational companies and its recommendations on good corporate governance; and operates in accordance with the UN Charter on Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work. These ban actions infringing human rights, discrimination, forced labor, and the use of child labor. Neste Oil expects its partners to abide by the same requirements.

Continuous efforts for a better environment

Neste Oil aims to develop its environmental management and contribute to reducing the impact of traffic on the environment on a continuous basis, and generate the smallest possible amount of negative impact on the environment and society in general in all aspects of its operations. Environmental investments are made proactively and ahead of future requirements, benefiting both the environment and customers. A responsible attitude is seen as making an important contribution to the company's long-term success and managing the risks inherent to the oil industry.

In terms of products and product development, Neste Oil's focus is on clean traffic fuels and enhanced environmental performance. In line with the company's strategic intent, Neste Oil's aim is to become the world's leading supplier of biodiesel. This presents the company with a broad range of challenges.

Neste Oil carries out ongoing R&D aimed at extending the range of feedstocks that can be used to produce its fuels. NExBTL Renewable Diesel is a good example of the fruits of this work. Neste Oil sources its raw materials responsibly and in accordance with the principles of sustainable development, and operates in line with strict safety requirements at all stages of the logistics chain. Neste Oil has committed itself to promoting sustainable production by working through organizations such as the Roundtable on Sustainable Palm Oil (RSPO) and the Round Table on Responsible Soy.

Neste Oil is also committed to the international chemical industry's Responsible Care (RC) program, aimed at improving health, safety, and environmental performance. The company reports its emissions, accidents, and progress as part of national RC reporting. Neste Oil is also the first Finnish company to have committed to the RC Global Charter, which underlines the importance of responsibility and accountability in the initial stages of the product chain and in technology transfer.


refining the future

Neste Oil's REACH (Registration, Evaluation and Authorization of Chemicals) project has created the capabilities needed to comply with the requirements of this new EU regulatory framework, which came into force in June 2007.

Both the Porvoo and Naantali refineries carried out measures required under emissions trading legislation in 2007. The need for emissions allowances was reduced by the delays encountered in achieving full-scale operations on the new diesel line at Porvoo.

The Naantali refinery received a new environmental (IPPC) permit in November 2007, which sets out conditions on the amount and reporting of emissions at the site and stipulates how its environmental protection activities and official reporting procedures should be organized. The decision to issue an IPPC permit to the Porvoo refinery in 2006 is still being reviewed by the Vaasa Administrative Court.

HSE investments totaled EUR 41.5 million

Neste Oil's investments in health, safety, and the environment (HSE) totaled EUR 41.5 million in 2007 (20 million), equivalent to 12% of the company's overall capital expenditure. No HSE investments are expected over the next few years that would have a material impact on the company's financial result.

HSE costs are monitored systematically. HSE operating expenses in 2007 totaled approximately EUR 38 million (39 million), and covered areas such as the prevention of air and soil pollution, wastewater treatment, and fire protection.

Neste Oil's operations are covered by an integrated management system that complies with environmental, health, safety, and quality standards. In-house audits and annual audits by independent outside experts are carried out to ensure that systems are functioning as they should. Separate HSE audits were continued in 2007. All operations under the company's direct control have been audited, and follow-up audits will be carried out every three to five years.

Neste Oil has reviewed its health, safety, and environmental impact, including the risk of major accidents, and produced an action plan based on the information this generated, which is reviewed annually.

Low levels of emissions

Neste Oil's environmental emissions in 2007 were largely at the low level typical of previous years, and mainly within the limits of the company's permits.

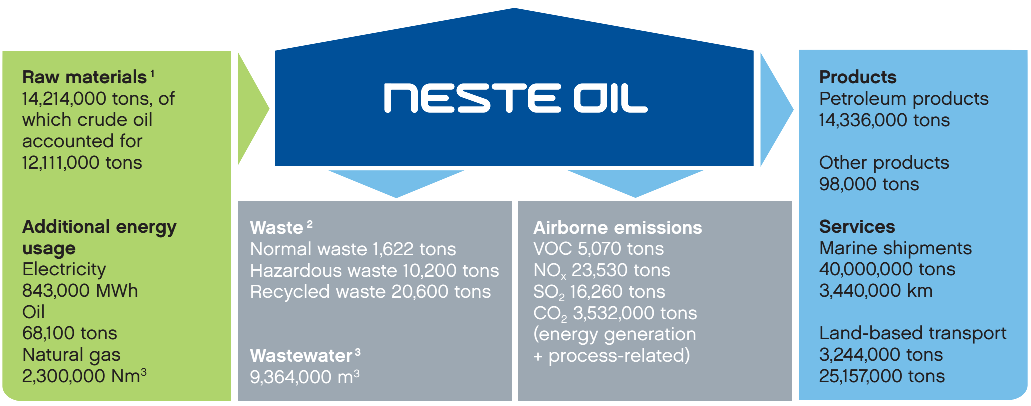
The biggest improvement took place in refinery wastewater treatment, which recorded problem-free operations throughout the year. Oil emissions of 0.13 grams per ton of crude oil refined are less than 5% of the 3 g/t target set by the Baltic Marine Environment Protection Commission.

No serious environmental impact involving financial liability or accidents resulting in production shutdowns took place in 2007.

Proactive preventive work

Neste Oil operates at over 1,000 locations, including its retail sites. Ongoing efforts are made to prevent the contamination of the soil and groundwater at all these locations, and past problems are resolved systematically. Fuel distribution loca-

Neste Oil's material balance in 2007



[1] Raw materials include primary and secondary raw materials
[2] Waste figures do not include waste generated by the service station network
[3] Refinery effluent contained 1.9 tons of oil

tions are reviewed annually as part of a risk management program introduced in 1995, and cleanup work is initiated where appropriate. This effort started at sites in groundwater areas, which are the most sensitive from an environmental standpoint, and all locations have now been studied and systems modernized where necessary.

The Porvoo and Naantali refineries have had a voluntary groundwater monitoring program in place since 1995, to ensure that any substances spilled do not find their way off-site. The environmental permits at both refineries dating from 2006 and 2007 have made this system a statutory requirement.

Neste Oil participates in broad-based monitoring work on the air quality of the areas around its refineries. In addition, the Porvoo refinery continues its own air quality monitoring. The size of the area affected by airborne emissions has steadily fallen, and the concentrations resulting from Neste Oil emissions exceed the background level in only a small area in the immediate vicinity of the refinery.

Neste Oil produces an annual review of the environmental risks and liabilities associated with its operations, and estimates the resulting provisions required under accounting standards and makes its liabilities public.

Act Safe

Neste Oil launched the Act Safe project in 2006 aimed at making Neste Oil a safer place to work. The project developed an integrated safety management system that was approved by the Neste Oil Executive Team in August 2007. This is intended to make operations safer for personnel, the local community, partners, customers, and the environment – through regular training, responding to projected safety risks, and using the best technology and services. The system is based on the principle of zero tolerance and the conviction that all accidents, damage, and injuries are preventable.

Lost workday injury frequency (LWIF) is the most important indicator of occupational safety, and indicates the number of accidents resulting in employee absence per million hours worked. An LWIF of 2.9 (3.8) was recorded in 2007, and a total of 39 (54) accidents occurred.

Corporate security

Corporate security at Neste Oil is promoted through a variety of measures. These include increasing personnel's awareness of security issues, monitoring developments in security-related legislation, developing corporate security criteria, principles, and guidelines, working with the authorities and stakeholders, and by supporting continuity planning.

Corporate security is an integral part of Neste Oil's corporate, divisional, and unit functions, and is designed to support the company's businesses achieve their performance targets. At Group level, the Corporate Security Unit is responsible for coordinating and developing the following areas: travel security, personal security, premises security, and criminal security; the security of operations outside Finland; dealing with wrongdoing and crises; and risk management as it is related to security. Changes affecting the security of the environments in which Neste Oil's locations operate, such as country risks, are also monitored on an active basis.

Neste Oil's Health, Safety and Environmental (HSE) Principles

- Develop, produce, and deliver 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 society and in the use of natural resources, and make decisions supportive of sustainable development.
- Act in accordance with Neste Oil's commitment to the Responsible Care program.

See more on HSE on pages 114–115.

The importance of IT systems and the data they hold for a company's operations and management is growing all the time; and data security at Neste Oil is the responsibility of the company's IT function. Key areas covered here include developing the classification and management of documents, securing the usability and reliability of systems, defining data security criteria, and technical data security solutions. An alarm procedure and Emergency Response Team system have been put in place for dealing with crisis situations.

Recognition for good performance

Neste Oil's line organization is responsible for day-to-day HSE management. Performance in this area is of an international standard.

Neste Oil's approach to responsibility is regularly evaluated in a number of studies, and the company scored excellently in 2007, and has been included in or is a member of the following:

- Dow Jones Sustainability Index
- Storebrand Best in Class
- Ethibel Pioneer and Excellence Investment Register
- The Global 100 (a list of the world's 100 most responsible companies)
- Responsible Care
- Responsible Care Global Charter
- Roundtable on Sustainable Palm Oil
- Roundtable on Responsible Biofuels
- Round Table on Responsible Soy

Neste Oil's refineries maintain outreach groups with the members of the local community to ensure smooth dialogue with residents living nearby and other local stakeholders. A questionnaire study carried by Taloustutkimus in Porvoo and Naantali has shown that local people's confidence in the company's operations, approach to environmental and safety issues, and communications continues to be high.

Many ways of combating climate change

Refining fossil resources into modern traffic fuels is a challenging business. The better the quality of end-products, the more energy is needed during the refining process, which adds to carbon dioxide emissions. These emissions can be reduced by using low-carbon fuels, which the Porvoo refinery does in the form of natural gas and the Naantali refinery does in the form of biofuels. Combined heat and power generation also offers greater overall efficiency. Neste Oil prioritizes the need for building greater energy efficiency into its processes and optimizing the energy balance of its units as part of its major maintenance turnarounds. Neste Jacobs is one of the pioneers in the Pinch analyses used in this work.

Modern vehicle engine technology calls for high-quality fuels to maximize the benefits of lower fuel consumption. High-quality lubricants also play an important part here. Neste Oil is one of the leading producers of the premium-quality base oils used in these lubricants. Extended oil change intervals, cleaner running engines, and reduced lubricant use all contribute to cleaner air and a cleaner environment.

Adding ethanol to gasoline offers another way of reducing fossil fuel usage. This increases gasoline vapor pressure, however, resulting in higher emissions of volatile organic compounds (VOCs). This can be countered by adding a component such as Neste Oil's iso-octane, which helps make more of greater ethanol usage.

Greenhouse gas emissions can also be reduced through urban planning and reducing people's need to travel. Consumers can make their own contribution by switching to energy-efficient diesel cars and by choosing the best available fuel for their cars. The greenhouse gas balance of NExBTL Renewable Diesel, for example, offers a clear advantage over that of fossil diesel fuel.

Good financial performance creates prosperity for all

Neste Oil's contribution to society is reflected in the cash flows linking the company and its stakeholders. These include the sales income it receives from customers, the purchases it makes from its suppliers, the wages and salaries it pays to its personnel, the dividends it pays to its shareholders, and the investments it makes in its business.

Financial impact

Neste Oil's direct customers include other oil companies, corporate customers, and individual consumers. Revenue from customers in 2007 totaled EUR 12,103 million (12,734 million), and generated expenses totaling EUR 10,916 million (11,780 million) in the form of payments for goods and services, equivalent to 90% of revenue. Payments related to the purchase of crude oil and other feedstocks accounted for the single largest item: EUR 10,352 million (11,186 million).

Neste Oil employed an average of 4,810 (4,678) personnel in 11 countries in 2007, and total wages and salaries, remunerations, and social benefits amounted to EUR 256 million (224 million).

Neste Oil had 56,467 shareholders as of the end of 2007. The Finnish State owned 50.1% of shares, international shareholders 26.3%, Finnish institutions 16.5%, and Finnish households 7.1%. The company paid a dividend of EUR 0.90 per share for 2006 in spring 2007, equivalent to EUR 231 million. The Board of Directors proposes that a dividend of EUR 1.00 per share be paid for 2007, or a total of EUR 256 million. Neste Oil's share on the Nordic Exchange in Helsinki rose by 5% during 2007.

The taxes paid on Neste Oil's income in 2007 totaled EUR 183 million (205 million). Society also benefits from the income tax personnel pay on their wages and salaries. Environmental taxes and fees, such as oil pollution fees and oil waste duties, amounted to EUR 8 million (8 million). As a fuel wholesaler, Neste Oil collected a total of EUR 1,664 million (1,509 million) in the form of fuel taxes and security of supply fees paid for by end-users in fuel prices.

Neste Oil made donations to a number of charitable activities in 2007, including to the Finnish Association for Mental Health for work among children and young people. The company also sponsors various environmental efforts and sports and cultural events, of which the WWF's Operation Mermaid, the Millennium Technology Prize, the Youth Academy, the Neste Oil Rally, the Espoo Blue ice hockey team, the Naantali Music Festival, and the Avanti! Summer Sounds Music Festival in Porvoo are the most important.

Neste Oil's operations have an extensive financial impact on society

Customers
Net sales EUR 12,103 million in 2007
State subsidy
EUR 8 million
Other income
EUR 19 million

NESTE OIL

EUR million	2007	2006
Suppliers of products and services		
Purchases of crude oil and other refinery feedstocks	10,352	11,186
Other	564	594
Personnel		
Salaries and wages	210	196
Social benefits	46	28
Owners and financial community		
Dividends	256 *	231
Interest and financing costs	40	16
Public sector/society		
Income tax	183	205
Fuel taxes and security of supply fees	1,664	1,509
Environmental taxes and fees	8	8
Charity and sponsorship	1	1

* Proposal by the Board of Directors to the Annual General Meeting

Know-how and expertise are key success factors

As Neste Oil grows and expands internationally, the importance of know-how, common ways of working, and a dynamic corporate culture will grow. All of Neste Oil's activities are grounded in its four core values of responsibility, cooperation, innovation, and excellence.

Neste Oil's human resource planning is based around promoting the success of the company's strategy by developing its leadership and management skills, expertise, and overall capabilities. Long-term personnel planning is designed to provide all of the company's businesses with the competences and resources they need – through a mix of recruiting, career planning, manager role and responsibility development, and ongoing training for managers and personnel.

Very satisfied employees

Employee satisfaction studies covering the entire organization are carried out regularly. The 2007 study took place in the early part of the year. Around 85% of personnel replied and feedback proved very positive. The majority of respondents (85%) said they would recommend Neste Oil as an employer to young people coming on to the job market. Employees' commitment to the company is reflected in the low level of personnel turnover, which stood at 4.7% in 2007 in Finland including retired employees.

Financial success, a reputation as a good employer, and a positive future were highlighted as the most positive aspects of working for Neste Oil in the 2007 study. Smooth communications between different parts of the organization and the support managers give to their team members in developing their careers were also seen as positive factors. Areas that could benefit from further development included how to deal more effectively with the flood of day-to-day information, the inflexibility of some ways of working, and the unwillingness to experiment with new methods people sometimes experience.

Work on analyzing the results of the study and implementing corrective measures was started immediately. The next employee satisfaction study will be carried out towards the end of 2008.

An audit of internal communications was also carried out in 2007, and showed that it is performing well. A closer focus on which information is communicated and prioritizing what is communicated were identified as areas that need development. Neste Oil's employee magazine, Oili, was named Finland's best employee publication by the Finnish Association of Communications Professionals.

Good personal development opportunities

A strong skills base is one of Neste Oil's key success factors, and the company is very much committed to promoting and developing the capabilities of its people.

A total of 3,500 employees took part in training organized by Neste Oil in 2007. Particular emphasis was given to supporting managers and their work. Managers' Days held at the end of 2006 and the beginning of 2007 were attended by some 470 managers in Finland and abroad, equivalent to 85% of all managers in the company.

180 managers took part in 'Being a Manager at Neste Oil' courses in 2007, and the program will continue. A number of other management-related training initiatives were organized, and focus groups were established to look at how managerial work can be further improved. Around 500 managers took part in training on specific themes.

Personnel are also encouraged to take part in training organized by outside organizations, and self-study.





The NExBTL team – a technological leader

The Technology Center at Porvoo celebrated its 40th anniversary in spring 2007. Around 10 years earlier, a group of personnel began studying how renewable raw materials could be used to produce quality traffic fuels. These were the first steps on the way to the development of NExBTL Renewable Diesel technology and the decision in 2005 to build a NExBTL plant at Porvoo. This was commissioned in 2007 and is based on a completely new, proprietary technology that is the first of its type anywhere.

The core of the NExBTL technology development team was made up of Pekka Aalto, Johan Grönqvist, Elina Harlin, Juha Jakkula, Raimo Linnaila, Jukka Myllyoja, Jouko Nikkonen, and Pekka Savolainen – representing a range of specialist, technology and business development, and process skills.

The team was awarded the Finnish Chemical Industry Innovation Award for 2006, and NExBTL technology has since won the product category of the Finnish section of the European Business Awards for the Environment 2008, as well as the Biotechnology Innovation of the Year Award 2006 from the World Refining Association.

All of these awards underline the significance of NExBTL technology and of the work of the people who helped create it.

Employees at production sites have the opportunity to improve their skills by studying for professional qualifications or by taking courses in a range of areas.

Performance reviews and appraisal discussions, which cover all employees, make a valuable contribution to helping people achieve their goals and develop in their work. These address issues such as Neste Oil's values, safety at work, and personal development.

The induction material provided to new employees was updated during the course of 2007.

Exciting career opportunities

Employees have the opportunity to progress not only on a managerial career, but also as a specialist, and the latter area of capabilities is to receive further attention in the future. The plan is to encourage personnel in specialist positions to develop and extend their expertise more and thereby create new opportunities for career development for themselves and others. A range of systems have been developed to maintain and promote specialist skills within the capability areas central to Neste Oil's businesses.

Job rotation within and between business units, and between locations in different countries, is one of the most effective ways of promoting employees' personal development and motivation. It also helps improve the company's competitiveness. Neste Oil has prioritized more systematic job rotation at different levels of the organization. A total of 250 people changed jobs within the company in 2007.

International expansion offers new challenges

Growth and international expansion call for the development of more integrated ways of working and a stronger common organizational culture. Growth projects also offer personnel the opportunity to develop their personal international business skills. International growth challenges the company as a whole to adapt to a wider range of multicultural environments, and understand and respect people from sometimes widely different backgrounds and learn new ways of working.

Training is offered in a number of areas related to international expansion and multiculturalism, and HR processes and capabilities are being further developed to meet these growing challenges. The company's international assignment practices were updated in 2007, and measures established to help ensure that Neste Oil has access to the best possible resources on the international labor market.

Committed to equal opportunities

Neste Oil works systematically to ensure equality of opportunity for men and women in recruitment, remuneration, and personal and career development. Performance in this area is monitored regularly.

Equality in terms of remuneration, and ensuring that job-related remuneration is up-to-date with the job market, were given specific attention as part of the company's equal opportunities plan in 2007. Everyone working at Neste Oil is guaranteed equal opportunities in terms of developing their skills and progressing in their career. Improving people's awareness of the company's remuneration systems was highlighted during the year. Both employer and employee representatives take part in developing the equal opportunities plan. Work in this area is of a long-term nature, by definition, and will continue.

Value discussions continued

Neste Oil announced its corporate values in spring 2006, and discussions on these continued in 2007 among teams and departments across the organization. Some 150 events were organized at the Porvoo refinery aimed at reinforcing the integration of these values into day-to-day work. Various development plans were drawn up during these events for 2008.

Neste Oil's values also play a part in the appraisal discussion process. All employees were given a 'Playbook' in 2007 to promote team skills and establish common ground rules for teamwork.

A better employer image

Neste Oil's personnel numbers are expected to expand as the company grows and expands internationally, and new talent will be needed to implement growth projects and replace people retiring.

To ensure access to the best possible talent, Neste Oil launched an employer image enhancement project in October 2007, to further enhance the company's standing in the labor market. As part of this, the number of training places and jobs for students will be increased.

Focusing on wellbeing at work

A wellbeing at work project was launched in the late fall aimed at promoting employees' health, working abilities, and safety. Company-specific targets and operating models will be established to promote people's wellbeing at work and encourage personnel to focus attention on their own wellbeing and that of their workplace. The project will continue into 2008.

The largest wellbeing at work-related project in 2007 took place at the Porvoo refinery, the R&T Unit, and Neste Jabobs. Known as NeSteP, this addressed the importance of exercise and overall wellbeing. Nearly all personnel based at Porvoo took part in the project.

Further information on personnel on pages 116–117.

Neste Oil's values

Responsibility

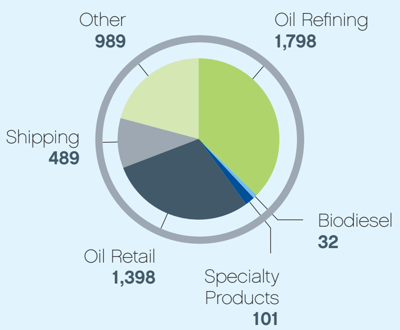
Cooperation

Excellence

Innovation

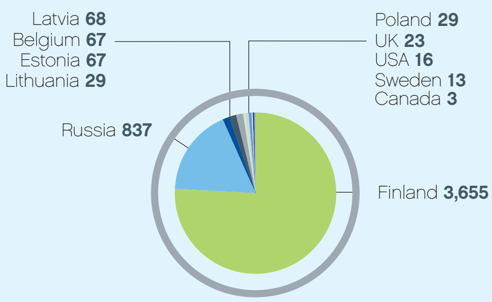
Personnel by segment, as of 31 December 2007

Total 4,807



Personnel by country, as of 31 December 2007

Total 4,807



Leading for the future

The Leading for the future program has been established to develop leadership and management skills across Neste Oil – and promote implementation of the company's strategy, strengthen Neste Oil's corporate culture and the adoption of best practices, and give managers a broader range of management capabilities.

The program includes:

- Foundation training for new and future managers and managers wanting to update their skills
- Annual training around specific themes to update people on existing management practices and encourage the adoption of new ways of working and new tools
- Focus groups to support day-to-day management
- Follow-on training to promote wider awareness of the core capabilities needed by Neste Oil's managers

The Leading for the future program is intended for all Neste Oil managers, and offers training in specific areas, assistance with creating personal development plans, and tools to help people leverage their existing strengths and develop new ones.

Managers in the program are encouraged to assess their way of working, and receive feedback from their teams and their own managers. After discussion on this feedback, managers have a one-to-one discussion with an HR specialist on their development needs.

The Leading for the future program will continue into 2008 and will be developed to meet the changing needs of the Nest Oil organization and its managers.

Tools used to develop management skills

Integrating risk management into day-to-day routines

Neste Oil encounters numerous risks as part of its business operations, linked to the state of the world economy, developments in the oil industry, and changes in the company's overall operating environment. A comprehensive enterprise risk management process was introduced in 2007 to manage these risks.

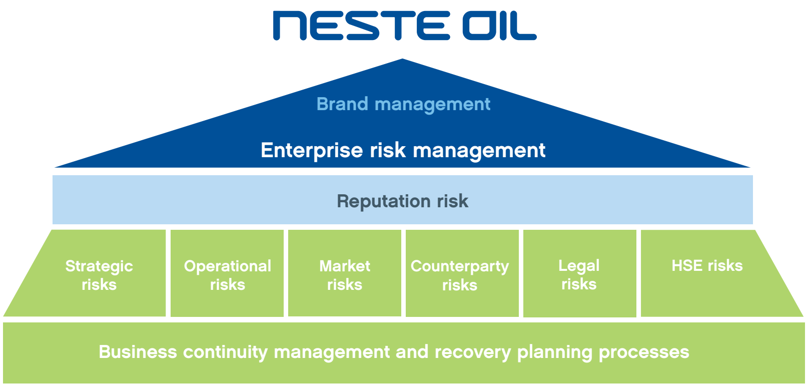
Neste Oil's enterprise risk management system is designed to integrate risk management procedures into normal work routines across the company, and aims to systematically recognize and evaluate risks affecting its strategic and business goals and operational targets, and report on them appropriately. The process makes use of the key risk management practices and principles in use across Neste Oil, combining them into a single approach where this can be of benefit.

Evaluating impact and probability

Risks are defined in the risk management process in terms of the relative probability of an event occurring that could affect the company's goals, and are measured and monitored on the basis of their impact and probability. Risk management aims at increasing Neste Oil's ability to take risks within acceptable limits. Monitoring the impact of changes in the company's markets, businesses, and other factors on earnings potential is intended to support the organization achieving its targets.

Managing financial risks focuses on reducing exposure to volatility affecting earnings, the balance sheet, and cash flow – while securing effective and competitive financing. Risk management in the area of strategic and operational management aims at recognizing risks on a rolling basis, assessing and prioritizing them on a consistent basis, and managing them proactively.

Scope of Neste Oil's risk management



Risk management strategies

Neste Oil aims to limit the impact of risks on its operations through a range of risk management strategies. The Corporate Risk Management Policy approved by the Board of Directors defines the risk management principles to be used for managing the risks associated with the strategic and operational targets of the Group as a whole and its divisions and functions.

Information on general Group-wide risks and risk management-related measures is contained in a risk database. The policy also includes detailed guidelines on areas such as the management of corporate and divisional strategic risks, operational risks, market risks, counterparty risks, legal liability, and safety-related risks.

This policy, together with other risk management principles and guidelines, covers the entire company. The Board is also responsible for approving Neste Oil's Treasury Risk Management Policy and Credit and Counterparty Risk Management Policy. Divisions and corporate and other functions also have their own principles, instructions, and procedures related to risk management, approved by the Chief Executive Officer.

Multiple levels of risk management

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

Corporate Risk Management coordinates the risk management process, and develops and reviews risk-monitoring processes. Divisions are responsible for managing the risks associated with their operations, and contribute to overall work in this area. Divisional risk management teams take part in Group-level risk management identification and assessment, and in measures and monitoring where appropriate.

Information on major risks and risk management capabilities is reported to the Board of Directors, the Audit Committee, the Chief Financial Officer, and other corporate management on a quarterly basis. Divisions report on their market and financing-related risks to senior management as part of monthly management reporting.

A good start has been made on introducing the enterprise risk management process, and work in the future will concentrate on integrating principles and guidelines more deeply into the daily routines of Neste Oil's divisions and corporate functions – to support the company in achieving its strategic and business goals.

Continuous monitoring, regular reviews, self-assessment, and benchmarking are an integral part of the continuous development of the company's risk management capabilities. Areas to be developed here include investment-related risk management, reputation risk management, business continuity planning, and defining and introducing the principles to be used for dealing with misuse of funds or position.

In addition to the risks in sensitive analysis, the following risks have also been identified

Strategic risks

- Changes in the world economy and demand for petroleum products
- Risks related to entering new businesses and working with new partners as part of the Group's growth strategy
- Risks associated with delays in investments
- Reputation-related risks

Market and financial risks

- Inventory risks
- Logistics price risks
- Emission trading risks
- Interest rate risks
- Liquidity and refinancing risks
- Counterparty risks

Operational risks

- IT security risks
- Corporate security risks
- Liability risks
- Marine shipment risks

Further information on the management policies covering these risks can be found on pages 59 and 93–98.

Sensitivity analysis

The approximate impact of the following risks on operating profit in 2008, excluding hedges, is estimated as follows

10% change in the EUR/USD exchange rate	+/– EUR 100–125 million
Change of USD 1.00/bbl in total refining margin	+/– USD 110 million
Change of USD 1.00/bbl in crude oil prices	+/– USD 10 million
Change of 10 Aframax Worldscale points in crude freight rates	+/– USD 10 million

The impact of key price exposures is indicated in US dollars, as this is the currency used in the international oil business. These calculations are based on assumptions related to normal market and business conditions and do not take account of the impact of hedging.

Administration and management

Neste Oil is listed on the Nordic Exchange, Helsinki, and its head office is located in Espoo. The company complies with the principles of good corporate governance laid out in the Finnish Companies Act, the company's Articles of Association, and the Corporate Governance Recommendation for listed companies in Finland.

Further information: www.nesteoil.com/Investors

In accordance with Finnish legislation, Neste Oil issues financial statement bulletins and interim reports on its financial performance in Finnish and English. The company adopted the International Financial Reporting Standards in spring 2005 when it became a listed company.

Governance bodies

The control and management of the Company is divided between shareholders, the Supervisory Board, the Board of Directors and its two Committees, and the President & Chief Executive Officer.

The Neste Oil Executive Team (NET) assists the President & 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 & Chief Executive Officer or the Board of Directors for decision. Neste Oil has one official auditor, appointed by shareholders at the Annual General Meeting.

Annual General Meeting

Under the Finnish Companies Act, shareholders exercise their decision-making power in Company matters at General Meetings of Shareholders, and attend meetings in person or through an authorized representative. Each share entitles the holder to one vote.

At the Annual General Meeting, shareholders take decisions on matters such as the adoption of the Financial Statements and on the distribution of profit for the year shown in the Balance Sheet, the dividend to be paid, discharging the members of the Supervisory Board, the Board of Directors, and the President & Chief Executive Officer from liability, as well as the election and remuneration of the members of the Supervisory Board, the Board of Directors, and the auditor.

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

According to the Articles of Association, an invitation to the Annual General Meeting shall be delivered to shareholders no earlier than two months and no later than 17 days prior to the meeting. The invitation must be announced in at least two newspapers that are published regularly determined by the Board of Directors, or in another verifiable manner.

The 2007 Annual General Meeting was held on Wednesday, 21 March. At the meeting, the income statements and balance sheets of the Parent Company and the Group for 2006 were adopted, and the Supervisory Board, the Board of Directors, and the President and CEO were discharged from liability for 2006. The Board of Directors' proposal on the distribution of profits for 2006 by paying a dividend of EUR 0.90 per share was approved. Shareholders registered in the register of shareholders maintained by the Finnish Central Securities Depository Ltd. on the record date for dividend payment (26 March 2007) were entitled to a dividend.

In addition, decisions were made regarding the members of the Board of Directors and Supervisory Board and their remuneration, and an auditor was elected.

Nomination Committee

The Nomination Committee prepares proposals on the composition and remuneration of the Company's Board of Directors for the next Annual General Meeting. The Nomination Committee comprises the Chairman of the Board as an expert member, and representatives of the Company's three largest shareholders.

The right to appoint the shareholder representatives to this Committee lies with the three shareholders holding the largest number of votes associated with all the Company's shares on the first day of November preceding the AGM. In the event that a shareholder does not wish to exercise his right to appoint a member, this right shall be transferred to the next largest shareholder. The Company's largest shareholders are determined on the basis of ownership information registered with the book-entry securities system, with the proviso that the holdings of a shareholder, held in a number of separate funds, for example, and who is required under Finnish securities legislation, as part of the flagging requirement, to notify the authorities of certain changes in the size of his holdings, shall be combined and treated as a single holding if the shareholder concerned informs the Company's Board of Directors of his wish that this should be done in writing by the end of October at the latest.

The Nomination Committee shall present its proposal to the Company's Board of Directors by February 1 prior to the AGM at the latest.

The Nomination Committee preparing the 2008 Annual General Meeting comprised Jarmo Väisänen of the Prime Minister's Office, Harri Sailas of the Ilmarinen Mutual Pension Insurance Company, and Risto Murto of the Varma Mutual Pension Insurance Company. Timo Peltola, Chairman of the Board of Directors, acted as the Committee's expert member. The Nomination Committee made a proposal concerning the Board members and the remuneration payable to them on 7 January 2008.

Supervisory Board

The Supervisory Board is responsible for overseeing the administration of the Company and submitting a statement on the financial statements and the auditors' report to the Annual General Meeting.

Election of members

The Supervisory Board is required to have between six and 12 members, each appointed by the Annual General Meeting for a one-year term ending with the next Annual General Meeting.

It is also expected that labor unions representing Neste Oil's employees will appoint a maximum of three employee representatives, who shall be entitled to attend Supervisory Board meetings but are not its members.

Members

The members of the Supervisory Board, whose term began on 21 March 2007 and whose term will end at the Annual General Meeting to be held in the first half of 2008, are:

Klaus Hellberg (Chairman), born 1945

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

Mikael Forss, born 1954, Director, 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

Marjo Matikainen-Kallström, born 1965, Member of the Finnish Parliament

Markus Mustajärvi, born 1963, Member of the Finnish Parliament

Jutta Urpilainen, born 1975, Member of the Finnish Parliament

As of the end of 2007, the members of the Supervisory Board did not hold any Company shares, and they are not included in Neste Oil's incentive or pension schemes.

Supervisory Board remuneration
EUR/month

	2007	2006
Chairman	1,000	1,000
Vice Chairman	600	600
Members	500	500
Attendance fee/meeting	200	200

Meetings

The Supervisory Board meets as frequently as necessary, and is convened by the Chairman or by the Vice Chairman in his absence. The Supervisory Board plans a schedule for its regular meetings. Meetings shall be held at the Company's head office or at another location mentioned in the notice to convene. At the Chairman's consent, meetings may also be held as teleconferences. A secretary appointed by the Supervisory Board shall take the minutes of the meeting.

The Supervisory Board convened five times in 2007, and the average attendance rate was 75%.

Board of Directors

The Board of Directors is responsible for the administration and appropriate organization of the operations of the Neste Oil Group in compliance with the relevant legislation and regulations, the Company's Articles of Association, and instructions provided by the Annual General Meeting and the Supervisory Board. The Board of Directors is also responsible for the strategic development of the Neste Oil Group and for supervising and steering its business.

The Board of Directors decides on Neste Oil's key operating principles; confirms the annual operating plan; approves the annual financial statements and interim reports; decides on major investments and divestments; confirms Neste Oil's values and most important policies and oversees their implementation; appoints the President & CEO and his or her immediate subordinates and decides on their remuneration; confirms the Neste Oil Executive Team's and Neste Oil's organizational and operational structure at senior management level; and defines the Company's dividend policy based on which a proposal regarding dividend payment is made at the Annual General Meeting.

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 consulted at the Company's web site.

Board of Directors as of 31 December 2007

Name	Born	Member since	Position	Independent	Personnel and Remuneration Committee	Audit Committee	Attendance at meetings Board	Committees
Timo Peltola	1946	2005	Chairman	✓	Chairman		8/8	4/4
Mikael von Frenckell	1947	2005	Vice Chairman	✓	✓		8/8	4/4
Michiel A. M. Boersma *	1947	2007	Member	✓	✓		7/7	3/3
Ainomaija Haarla	1953	2005	Member	✓	✓		8/8	4/4
Nina Linander	1959	2005	Member	✓		Chairman	8/8	5/5
Antti Tanskanen *	1946	2007	Member	✓		✓	7/7	2/4
Pekka Timonen	1960	2005	Member			✓	8/8	5/5
Maarit Toivanen-Koivisto	1954	2005	Member	✓		✓	8/8	5/5

* Members since 21 March 2007, when Kari Jordan and Juha Laaksonen left the Board of Directors.

Nomination of members

According to the Company's Articles of Association, the Board of Directors consists of five to eight members elected at the Annual General Meeting for a term ending with the following Annual General Meeting. A person who has reached the age of 68 cannot be elected to the Board of Directors.

To be considered independent, a Board member may not have any material relationship with the Company other than Board membership, and he/she may not be dependent on any of the company's major shareholders.

All members are required to deal at arm's length with the Company and its subsidiaries and to disclose all circumstances that might constitute a conflict of interest. Board members are not covered by the Company's incentive or pensions schemes.

Members were elected for a new term on 21 March 2007. The Board consists of eight members, all of who are independent, with the exception of Pekka Timonen, who represents the Company's majority shareholder.

Activities of the Board of Directors

The Board meets as frequently as necessary. There shall be approximately six to eight regular meetings annually, all scheduled in advance. In addition, extraordinary meetings, if requested by a Board member or the President & CEO, shall be convened by the Chairman, or, if the Chairman is prevented from attending, by the Vice Chairman, or if deemed necessary by the Chairman. The Board constitutes a quorum if more than half of its members are present. The Board is responsible for preparing an operating plan for itself for the period between Annual General Meetings, to include a timetable of meetings and the most important matters to be addressed at each meeting.

The Board evaluates its performance annually to determine whether it is functioning effectively. The performance review is discussed after the end of each fiscal year at the latest. The Board convened eight times in 2007, and the attendance rate at meetings was 100% on average.

Board Committees

The Board has set up an Audit Committee and a Personnel and Remuneration Committee, both of which have four members. A quorum exists when more than two of the members of a Committee, including the Chair, are present. All members 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 and members of the Committees. Committees meet at least twice a year.

Each Committee reports regularly on its meetings to the Board and submits the minutes of its meetings to the Board. Reports include a summary of the matters addressed and the measures undertaken by the Committee. Each Committee conducts an annual self-evaluation of its performance and submits a report to the Board.

Audit Committee

The Audit Committee oversees the Company's finances, financial reporting, risk management, and internal auditing. It is also 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 auditor, maintains contacts with the auditor, and reviews all material reports from the auditor regarding 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 Committee shall consist of a minimum of three members who are independent of and not affiliated with the Company or any of its subsidiaries, and have sufficient knowledge of accounting practices and the preparation of financial statements, and other qualifications the Board deems necessary.

The Audit Committee is permitted to use external consultants and experts when deemed necessary.

In 2007, the Audit Committee comprised Nina Linander (Chair), Antti Tanskanen, Pekka Timonen, and Maarit Toivanen-Koivisto, as well as Kari Jordan, whose membership of the Board and the Audit Committee ended on 21 March 2007. The Committee convened five times, and the average attendance rate was 90%.

Shareholdings and remuneration of the Board of Directors as of 31 December 2007

Name	Shares as of 31 December 2007	2006	Change	Remuneration EUR 2007	2006
Timo Peltola	1,250	1,250	–	55,000	55,000
Mikael von Frenckell	100,000	100,000	–	42,000	42,000
Michiel A. M. Boersma	–	–	–	30,000	
Ainomaija Haarla	1,700	1,500	+ 200	30,000	30,000
Nina Linander	1,100	1,100	–	30,000	30,000
Antti Tanskanen	–	–	–	30,000	
Pekka Timonen	–	–	–	30,000	30,000
Maarit Toivanen-Koivisto	2,500	2,500	–	30,000	30,000

Information on shareholdings cover Neste Oil shares held directly, through organizations in which those concerned have a controlling interest, and in their capacity as trustees.
A payment of EUR 500 per meeting is made for attendance and for committee meetings attended by a Board member.
Regularly updated data can be consulted at www.nesteoil.com/investors.

Personnel and Remuneration Committee

The Personnel and Remuneration Committee prepares the appointments of key executive personnel, and makes proposals to the Board on compensation and incentive systems for key personnel. Accordingly, it prepares and proposes to the Board the appointments of the President & CEO and the members of the Neste Oil Executive Team, and the terms and conditions of their employment, and monitors and evaluates their performance. The Personnel and Remuneration Committee consists of the Chairman of the Board and at least two non-executive members of the Board.

In 2007, the Personnel and Remuneration Committee comprised Timo Peltola (Chair), Michiel A.M. Boersma, Mikael von Frenckell, and Ainomaija Haarla, as well as Juha Laaksonen, whose membership of the Board and Personnel and Remuneration Committee ended on March 21 2007. The Committee convened four times, and the average attendance rate was 100%.

Share allocations made to the President & CEO and NET members, 2007–2009 earning period

President & CEO	40,000
Other NET members	109,000
Total	149,000

A new long-term management performance share arrangement was introduced at the beginning of 2007, when the maximum sums listed in the table above for the 2007–2009 earning period were established. The number of shares are the maximum payable and will be paid in full if the maximum targets that they are associated with are achieved.

Remuneration paid to the President & CEO and NET members EUR

	Salaries and benefits 2007	Performance bonuses	Total	Total 2006
President & CEO	588,441	185,713	774,154	719,743
Other members	1,470,710	385,499	1,856,209	1,669,880

Shareholdings and share incentives of the Neste Oil Executive Team as of 31 December 2007

Name	Born	Position	Member since	Shares as of 31 December 2007	2006	Change	Share incentives 2007	2006	Total *
Risto Rinne	1949	President & CEO	2004	137	137	–	39,125	21,481	78,151
Jarmo Honkamaa	1956	Deputy CEO	2004	5,937	5,937	–	15,844	8,573	32,661
Jorma Haavisto	1954	EVP, Oil Refining	2007	–	–	–	6,222	3,973	15,829
Kimmo Rahkamo	1962	EVP, Specialty Products	2004	4,000	4,000	–	9,956	5,038	20,245
Sakari Toivola	1953	EVP, Oil Retail	2007	–	–	–	–	–	–
Risto Näsi	1957	EVP, Shipping	2004	–	–	–	9,691	5,638	22,788
Hannele Jakosuo-Jansson	1966	SVP, HR	2006	–	–	–	6,228	1,069	7,297
Osmo Kammonen	1959	SVP, Communications	2004	500	500	–	12,998	2,677	15,675
Juha-Pekka Kekäläinen	1962	SVP, Development	2004	900	900	–	9,103	4,213	17,837
Petri Pentti	1962	CFO	2004	500	500	–	14,536	3,119	17,655

Information on shareholdings cover Neste Oil shares directly, through organizations in which those concerned have a controlling interest, and in their capacity as trustees.
* Refers to the total number of shares those concerned have been confirmed as being entitled to under the share programs that began in 2002, 2003, 2004, 2005 and 2006 under the Management Performance Share Agreement. The net number of shares received is projected to be 40–50% of the figures shown here following the payment of taxes and other statutory fees. Shares covered by the 2002 program will be distributed in spring 2008, and those covered by the 2003 program in spring 2009, and those covered by the 2004, 2005 and 2006 programs in spring 2010.
Regularly updated data can be consulted at www.nesteoil.com/investors.

President & CEO

The President & CEO manages the Company's business operations in accordance with the Finnish Companies Act and instructions issued by the Board of Directors. The President & CEO is appointed by the Board of Directors.

The Board evaluates the performance of the President & CEO annually and approves his remuneration on the basis of a proposal by the Personnel and Remuneration Committee.

In addition to a monthly salary and fringe benefits, the President & CEO is eligible for a performance-based bonus on an annual basis (see Incentive Programs). In the event the Company decides to give notice of termination, the President & CEO is entitled to a severance payment equaling 24 months' salary. The retirement age of the President & CEO is 60 years, and the pension paid is 66% of the pensionable salary.

Neste Oil Executive Team (NET)

The Neste Oil Executive Team (NET) assists the President & CEO in Company management and in the deployment of the Company's strategic and operational goals. NET members are appointed by the Board of Directors. The NET currently consists of the President & CEO, five divisional executive vice presidents, and the heads of Communications, Corporate Development, and Human Resources, and the CFO.

The NET meets regularly, on average once a month.

The members of the Neste Oil Executive Team receive a base salary and are eligible for an annual performance-based bonus. In addition, all members are entitled to fringe benefits. Their typical period of notice is six months. Several NET members have signed employment agreements that provide for a fixed severance pay equal to six or, in certain cases, 12 months' salary.

The retirement age of NET members is 60-62 years.

Compensation and incentive programs

The Board makes decisions on compensation and incentive systems for Group management and key personnel based on a proposal by the Personnel and Remuneration Committee.

Short-Term Incentive Bonuses

The Company may pay annual short-term incentive bonuses to senior executives and other personnel in addition to their salary and fringe benefits. The criteria for any short-term incentive bonuses shall be based on people's success in reaching their personal goals and on the Company's financial performance and success in reaching its goals. The bonus paid to senior management may not exceed 40% of their annual salary.

In 2007, the average performance bonus paid to personnel for 2006 was 7,2% of employees' annual salary on average. A new short-term, performance-based incentive program was developed in 2006 and came into effect at the beginning of 2007.

Management performance share arrangement

Neste Oil has a Management Performance Share Arrangement for senior management and other key personnel. This aims to increase the commitment and loyalty of participants to the Company and to align the interests of the Company's shareholders and key executives to increase the value of the Company.

The Board of Directors established a new scheme in 2006 that was launched at the beginning of 2007 and includes some 50 key personnel. This has two three-year earning periods, starting in 2007 and 2010. Payments shall be made in 2010 and 2013, partly in the form of Company shares and partly in cash. If the maximum targets are reached during the first earning period, the maximum reward for key personnel shall equal the value of 360,000 Neste Oil shares. The maximum reward for the President & CEO shall equal the value of 40,000 shares.

The reward for the three-year earning period shall not exceed each person's total fixed gross annual salary over three years. The share paid out in cash will cover the relevant taxes and other similar payments payable.

The criteria for the incentive system include the development of Neste Oil's comparable operating profit and the Company's share price development benchmarked against the international oil industry share index (FTSE Global Energy Total Return Index).

The scheme entails a non-transfer requirement for shares for one year from the end of the earning period, in other words, the duration of the scheme for both sets of shares is four years. Even following this, the Company's senior executives must hold shares with a value equal to their gross annual salary. This ownership requirement covers shares received as part of the Management Performance Share Arrangement and is effective for the duration of senior executives' employment with Neste Oil.

Neste Oil's Personnel Fund

Neste Oil's Personnel Fund was set up in spring 2005 and covers the Group's personnel in Finland. Those participating in the Group's share-based incentive system cannot be members. The Board of Directors determines the criteria for the profit-sharing bonus paid into the fund annually.

Personnel employed under both permanent and fixed-term employment contracts are members of the Personnel Fund. Membership begins in the month following that in which an employee's employment has lasted for an uninterrupted period of six months. Membership ends once a member has received his or her share of the fund in full.

Neste Oil paid a total of EUR 3,757,942 in profit-sharing earnings for 2006 into the Fund in 2007. The profit-sharing bonuses paid into the fund are distributed equally between members. Each employee's share is divided into a tied amount and an amount available for withdrawal. When an employee has been a member of the fund for five years, he or she can transfer an amount equivalent to no more than 15% of the capital from the tied amount for withdrawal.

The amount available for withdrawal will be determined annually and paid to members who wish to exercise their withdrawal rights. Members can choose whether they want to receive the amount available for withdrawal in cash, or in Neste Oil shares acquired through the Personnel Fund.

Pension Schemes

Companies in the Group have arranged statutory pension cover under the Finnish TYEL pension system in the Neste Oil Pension Fund. The pensions of seamen are insured in the Seamen's Pension Fund. Retirement age is 63 to 68 years.

The Neste Oil Pension Fund provides additional pension benefits, in addition to the statutory pension, to people who joined the company before 1994. The most important additional benefit is the opportunity to retire at the age of 60. This covers women and men who select a reduced pension. The additional cover provides a minimum pension of 66% of earnings after completing the full number of service years, together with a statutory pension.

Auditor

The Annual General Meeting elects an auditor annually, which must be an auditing company approved by the Finnish Central Chamber of Commerce. The auditor's term of office ends at the end of the next Annual General Meeting following the election.

Ernst & Young Oy was elected as Neste Oil's auditors in 2007, with Anna-Maija Simola, certified public accountant, as auditor.

Fees charged by the statutory auditor
EUR thousand

	2007	2006
Audit fees	560	578
Other	75	152
Total	635	730

Internal Audit

The Internal Audit Unit is an independent and objective assurance and consultation function designed to add value and improve the Company's operations. The Unit assists the organization in evaluating and improving the effectiveness of risk management, financial control, and governance processes. Internal Audit relies on international professional standards for internal audits, as well as on rules of ethics published by the Institute of Internal Auditors.

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. The roles, responsibilities, and authorities of Internal Audit are covered in a set of official guidelines. These guidelines and an annual operating plan are approved by the Board of Directors' Audit Committee.

Insider guidelines

Neste Oil complies with the Insider Guidelines of the Nordic Exchange in Helsinki. The Company has also approved its own Guidelines for Insiders, which are stricter in some areas. For example, the Company's closed window (see below) exceeds the minimum requirements.

The Company's Guidelines for Insiders are regularly updated and are available to all personnel. The Company arranges training on insider guidelines for personnel and expects that its guidelines are followed by personnel. The Company supervises compliance with insider guidelines by checking disclosed insider information with those concerned annually. The Company's Vice President, Corporate Legal Affairs is responsible for the coordination and supervision of insider matters. The head of each function or division is responsible for supervising insider matters within his or her organization.

The members of the Board of Directors and the Supervisory Board, the President & CEO, the Company's main auditor, and the members of the Neste Oil Executive Team and its secretary have all been classified as insiders subject to a declaration requirement. The holdings of Company securities of such insiders are filed in the public Insider Register, which can be consulted at the Company's web site. A public register is maintained in the insider register system of Finnish Central Securities Depository Ltd (P.O. Box 1110, FI-00101 Helsinki and Urho Kekkosen katu 5 C, Helsinki.
Telephone: +358 20 770 6000, fax: +358 20 770 6658,
e-mail: info@ncsd.eu, www.ncsd.eu).

The Company has also designated certain other executives, as well as certain individuals responsible for the Company's finances, financial reporting, and communications, who receive inside information on a regular basis due to their position or duties, as permanent Company-specific insiders.

Permanent insiders may not trade in any Company securities during the period from the closing 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 concerned is always 28 days prior to the publication of an interim or annual report ('Closed Window'). The publication dates of interim and annual reports are shown in the financial calendar at the Company's Web site.

Individuals who participate in the development and preparation of projects that involve insider information such as mergers and acquisitions are considered project-specific insiders. Such people are included in a separate register of Project-Specific Insiders, which is maintained by the Company's Legal Department.

Board of Directors as of 31 December 2007


Timo Peltola


Mikael von Frenckell


Michiel A. M. Boersma


Ainomaija Haarla

Timo Peltola

M.Sc. (Econ.), Hon. Ph.D (Econ.). Chairman of the Board. Independent member. Born in 1946. Former Chief Executive Officer of Huhtamäki Corporation, Vice Chairman of the Board of Nordea AB (publ.), Chairman of the Board of AW-Energy, member of the Boards of TeliaSonera AB and SAS AB, and an adviser to CVC Capital Partners and Sveafastigheter. Chairman of Neste Oil's Personnel and Remuneration Committee.

Mikael von Frenckell

M.Sc. (Soc.). Vice Chairman of the Board. Independent member. Born in 1947. Partner at Sponsor Capital Oy. Chairman of the Boards of Sponsor Capital Oy and Tamfelt Corp, and a member of the Board of Tamro Plc. Member of Neste Oil's Personnel and Remuneration Committee.

Michiel A. M. Boersma

Ph.D (Chem). Independent member. Born in 1947. Chief Executive Officer of Dutch utility, Essent NV. Served for many years in the Shell Group, most recently as President, Shell Global Solutions and Executive Vice President of the Shell Oil Products Executive Committee between 2000 and 2003. Member of Neste Oil's Personnel and Remuneration Committee.

Ainomaija Haarla

D.Sc. (Tech.), MBA. Independent member. Born in 1953. Advisor and Managing Partner at ProConsolium Ltd. Previously Vice President, Strategic Development at UPM-Kymmene Corporation and Vice President, Corporate Marketing at Metso Corporation. Member of the Boards of StyroChem Finland Oy, Korona Invest Oy, and the TKK Executive School of Business. Member of Neste Oil's Personnel and Remuneration Committee.


Nina Linander


Antti Tanskanen


Pekka Timonen


Maarit Toivanen-Koivisto

Nina Linander

M.Sc. (Econ.), MBA. Independent member. Born in 1959. Partner and member of the Board of Stanton Chase International AB. Member of the Boards of Opcon AB and Specialfastigheter AB. Former Group Treasurer of AB Electrolux and former Director, Product Area Electricity, at Vattenfall AB. Chairs Neste Oil's Audit Committee.

Antti Tanskanen

Ph.D (Econ), Independent member. Born 1946. Former Chairman and Chief Executive Officer of OKO Bank Group and former Chief Executive Officer of the Academy of Finland. Chairman of the Board of the Finnish Institute of International Affairs (FIIA) and a member of the Board of Directors of M-real Corporation. Member of Neste Oil's Audit Committee.

Pekka Timonen

LL.D. Non-independent member. Born in 1960. Head of Department at the Prime Minister's Office, and Docent at the Universities of Helsinki and Tampere. Member of Neste Oil's Audit Committee.

Maarit Toivanen-Koivisto

M.Sc. (Econ.). Independent member. Born in 1954. Chief Executive Officer and Chairman of the Board of Onvest Oy and Chairman of the Board of the Onninen Group. Member of the Boards of Are, Itella Oyj, and Tulikivi Oyj. Member of Neste Oil's Audit Committee.

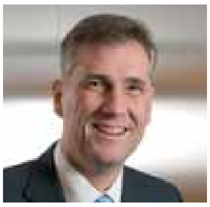
Information on members' ownership of Neste Oil shares can be found on page 47.

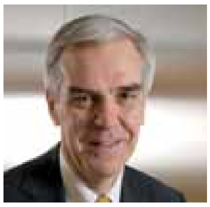
Neste Oil Executive Team


Risto Rinne


Jarmo Honkamaa


Jorma Haavisto


Kimmo Rahkamo


Sakari Toivola


Risto Näsi

Risto Rinne

President & CEO, Chairman of the Neste Oil Executive Team. Born in 1949. M.Sc. (Eng.). Joined the company in 1975 and President & CEO since 2004. Held various positions at both refineries, including Refinery Manager at the Naantali refinery, R&D director, Corporate Vice President, Corporate Planning, and President, Oil Refining (1999–2004). Chairman of the Boards of the Finnish Oil and Gas Federation, the Chemicals Industry Federation of Finland, and Energiafoorumi ry. Member of the Boards of Directors of EUROPIA (European Petroleum Industry Association) and the Confederation of Finnish Industries EK, and of the Advisory Board of the Finnish Institute of International Affairs and of the Awards Committee of the Central Chamber of Commerce.

Jarmo Honkamaa

Deputy CEO, Executive Vice President, Biodiesel. Born in 1956. M.Sc. (Eng.), M.Sc. (Laws). Joined the company in 1987. Responsible for biodiesel production, marketing, and sales. Served as Executive Vice President, Oil Refining (2005–2007), Vice President, Wholesale and Supply (2000–2004), and Vice President, MTBE Business Unit (1996–2000). Member of the Board of Directors of the Finnish Oil and Gas Federation.

Jorma Haavisto

Executive Vice President, Oil Refining. Born in 1954. M.Sc. (Eng). Joined the company in 1980. Responsible for oil refining (Porvoo and Naantali refineries), term sales, trading & supply, and operational management. Served as Refinery Manager of the Porvoo refinery (2002–2007), Vice President of Operational Management, Refining and Marketing (1998–2002), and Vice President, Staff Functions (1996–1998).

Kimmo Rahkamo

Executive Vice President, Specialty Products. Born in 1962. M.Sc. (Eng.). Joined the company in 1990. Responsible for lubricant base oils and gasoline components, and Neste Oil's holding in AB Nynäs Petroleum. Served as Executive Vice President, Biodiesel (2007), Executive Vice President, Components (2004–2006), Vice President, Supply, Oil Refining (2001-2004), General Manager of Neste Canada Inc. (1999–2001), and General Manager of Neste Petroleum Inc. (1997–1999).

Sakari Toivola

Executive Vice President, Oil Retail. Born in 1953. M.Sc. (Econ.). Joined the company in 2007. Responsible for oil retailing in Finland and the Baltic Rim, direct sales, and LPG. Served previously as Managing Director (2002–2007) and Retail Sales Director (2001–2002) of oy Esso ab (Finland). Member of the Supervisory Board of Luottokunta Oy, and member of the Board of Directors of the Finnish Oil and Gas Federation.

Risto Näsi

Executive Vice President, Shipping. Born in 1957. M.Sc. (Eng.). Joined the company in 1983. Responsible for the Group's shipping business since 2004. Served as Vice President, Components (1999–2003). Member of the Board of the Finnish Shipowners' Association.


Hannele Jakosuo-Jansson


Osmo Kammonen


Juha-Pekka Kekäläinen


Petri Pentti


Matti Hautakangas

Hannele Jakosuo-Jansson

Senior Vice President, Human Resources. Born in 1966. M.Sc. (Eng.). Joined the company in 1990. Responsible for the Group's human resources function. Served as Laboratory and Research Manager at the Technology Center (1998–2004) and Vice President, Human Resources at Oil Refining (2004–2005).

Osmo Kammonen

Senior Vice President, Communications. Born in 1959. M.Sc. (Laws). Joined the company in 2004. Responsible for the Group's internal and external communications, and corporate image. Served as senior vice president, corporate communications and investor relations and communications manager in various companies in the electronics, engineering, construction materials, and forest products industries. Member of the Board of Directors of Finnfacts.

Juha-Pekka Kekäläinen

Senior Vice President, Corporate Development. Born in 1962. M.Sc. (Eng.). Joined the company in 1987. Responsible for the Group's corporate strategic and structural development, business environment and market analysis, and for the Research & Technology Unit and Neste Jacobs. Served as Vice President, Term Sales (2001–2004) and General Manager, Business Development, Oil Refining (2000–2001).

Petri Pentti

Chief Financial Officer. Born in 1962. M.Sc. (Econ.). Joined the company in 2004. Responsible for the Group's financial management and for investor relations, risk management, corporate IT, and coordinating procurement. Served as Chief Financial Officer at Finnair Plc (1999–2004).

Matti Hautakangas *

General Counsel and Secretary to the Neste Executive Team and the Board of Directors and the Supervisory Board. Born in 1963. M.Sc. (Laws). Joined the company in 2003. Responsible for the Group's legal affairs. Served previously as Legal Counsel, Oil Refining (2003–2004) and an attorney-at-law at Procopé & Hornborg Law Offices Ltd. (1994–2003).

* Not a member of the Neste Oil Executive Team

Information on members' ownership of Neste Oil shares can be found on page 47.

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 2007

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Review by the Board of Directors

Neste Oil's performance in 2007 was mainly affected by the delay of the new diesel line at the Porvoo refinery. The comparable operating profit increased to EUR 626 million from EUR 597 million in 2006. The company's balance sheet was strong with leverage ratio at 23.7% at the end of December. The Board of Directors proposes a dividend of EUR 1.00 per share, which is equivalent to 44 % of earnings per share.

Figures in parentheses refer to the full-year financial statements for 2006, unless otherwise stated.

The Group's full-year results

Neste Oil's sales decreased by 5% to EUR 12,103 million in 2007, compared to EUR 12,734 million in 2006, and mainly resulted from the divestment of the Group's stake in Eastex Crude Company in early 2007. Excluding this, sales increased by 10%.

The Group's full-year operating profit totaled EUR 801 million (854 million). This includes an inventory gain of EUR 174 million (56 million), whereas the operating profit for 2006 included a EUR 210 million gain on asset sales.

The full-year comparable operating profit increased to EUR 626 million from EUR 597 million in 2006, thanks to higher refining margin and increased volumes in Oil Refining. This positive contribution was offset, however, by increased costs, including maintenance costs, and higher depreciation in Oil Refining.

Oil Refining posted a comparable operating profit of EUR 582 million (533 million), Oil Retail EUR 59 million (65 million), and Shipping EUR 28 million (32 million).

Profits from associated companies and joint ventures totaled EUR 39 million (39 million).

The Group's profit before income taxes amounted to EUR 763 million (841 million).

Income taxes for the period were EUR 183 million (205 million), and the effective tax rate was 24.0% (24.3%).

Profit for the period 2007 totaled EUR 580 million (636 million) and earnings per share, EUR 2.25 (2.46).

Given the capital-intensive nature of its business, Neste Oil uses return on average capital employed after tax (ROACE) as its primary financial indicator. At the end of December, the rolling twelve-month ROACE was 15.5% (2006 financial year: 15.4%).

Capital expenditure

Capital spending was significantly lower in 2007 compared to 2006. Investments totaled EUR 334 million (535 million), of which Oil Refining accounted for EUR 272 million (478 million), Oil Retail EUR 51 million (44 million), and Shipping EUR 2 million (10 million).

Depreciation in 2007 was EUR 195 million (153 million).

Group key figures, MEUR

	2007	2006
Comparable operating profit	626	597
- changes in the fair value of open oil derivative positions	-5	-9
- inventory gains	174	56
- gains from sales of fixed assets	6	210
Operating profit	801	854

Sales

	2007	2006
Oil Refining	9,925	10,768
Oil Retail	3,435	3,280
Shipping	394	293
Other	21	16
Eliminations	-1,672	-1,623
Total	12,103	12,734

Operating profit

	2007	2006
Oil Refining	754	671
Oil Retail	60	138
Shipping	30	78
Other	-42	-35
Eliminations	-1	2
Total	801	854

Comparable operating profit

	2007	2006
Oil Refining	582	533
Oil Retail	59	65
Shipping	28	32
Other	-42	-35
Eliminations	-1	2
Total	626	597

Financing

The Group's interest-bearing net debt was EUR 755 million at the end of the year (31 Dec 2006: EUR 722). Net financial expenses between January and December were EUR 38 million (13 million).

The average interest rate of borrowings at the end of 2006 was 4.5%, and the average maturity 4.6 years.

Net cash from operating activities between January and December was EUR 541 million (512 million).

Neste Oil's balance sheet continued to strengthen during 2007. The year-end equity-to-assets ratio was 49.9% (31 Dec 2006:

48.4%), the gearing ratio 31.1% (31 Dec 2006: 34.4%), and the leverage ratio 23.7% (31 Dec 2006: 25.6%).

The Group's liquidity remained healthy. Cash and cash equivalents and committed, unutilized credit facilities amounted to EUR 1,492 million at the end of December (31 Dec 2006: 1,667 million).

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.

Market overview

After the record prices seen in 2006, crude oil prices remained strong and climbed from USD 50 /bbl in January to close to USD 80 /bbl in July. Investor activity, OPEC production cuts, and lower US crude oil stocks pushed prices even higher during the second half of the year. Brent Dated recorded an all-time high of USD 96.02 /bbl in late December. Brent Dated averaged USD 72.52 /bbl (65.14) in 2007 as a whole.

The price difference between heavy and light crude narrowed compared to 2006. Demand for heavier crude improved, due to a tighter light crude market. The average differential between Urals and Brent Dated in 2007 was USD -3.10 /bbl (-4.28).

Refining margins increased significantly compared to 2006, particularly in the spring, when they were driven by strong gasoline margins. The international reference refining margin for complex refineries in Northwest Europe, IEA Brent Cracking, averaged USD 5.07 /bbl (3.73).

Gasoline prices rose steadily during the first half of 2007, pushed up both by high demand and historically low gasoline inventories in the US due to both planned and unplanned refinery outages. Prices softened as a result of higher refinery runs in the summer, but as inventories remained low, gasoline margins were better than normal also during the off-season.

The strong middle distillate market improved further in the second half of 2007 because of lower inventories on both sides of the Atlantic. Diesel margins remained healthy, due to growing demand and occasional supply disruptions caused by refinery shutdowns. In November, refinery problems led to limited diesel availability in Northwest Europe, which resulted in very high margins. Jet fuel and heating oil demand and margins also increased towards the end of the year.

Fuel oil margins remained largely negative, but above market expectations; the high-sulfur fuel oil market was temporarily tight due to low Russian exports and very good bunker demand during the last quarter.

The first-generation biodiesel (FAME) industry has continued to suffer from over-capacity and low profitability. EU Commission's draft proposal to promote renewable energy was released in January 2008. Discussion on raw material sustainability in the public domain has intensified and the importance of sustainability criteria has a central role also in the draft EU directive proposal. In addition, the criteria for certifying palm oil production were approved by the RSPO in November 2007, and implementation is expected to start in 2008. The demand for high quality renewable diesel, such as Neste Oil's NExBTL, has remained healthy. Prices for vegetable oil continued to increase in 2007, and this accelerated in the second half, driven by high demand for rapeseed oil to produce winter-grade FAME.

Competition for market share continued on the oil retail market in Finland. During the last months of the year, the competition moved away from gasoline to diesel, as diesel demand is continuing to increase. Overall demand for traffic fuels continued to grow in the Baltic Rim area. Rapidly increasing oil prices in the fourth quarter put pressure on margins.

Crude freight rates on the North Sea market were a little lower, but those on the Baltic market declined by 10% compared to 2006. Trans-Atlantic product freight rates fell by some 8% compared to 2006. The freight market was weak in the fourth quarter, particularly October-November.

Key drivers

	2007	2006
IEA Brent cracking margin, USD/bbl	5.07	3.73
Neste Oil's total refining margin, USD/bbl	10.46	9.11
Urals - Brent price differential, USD/bbl	-3.10	-4.28
Brent dated crude oil, USD/bbl	72.52	65.14
Crude freight rates, Aframax WS points	136	145

Segment reviews

In 2007, Neste Oil's businesses were grouped into four reporting segments: Oil Refining, Oil Retail, Shipping, and Other. The Biodiesel and Specialty Products businesses were included in Oil Refining.

Oil Refining

Oil Refining's full-year comparable operating profit was EUR 582 million (533 million), and its operating profit EUR 754 million (671 million).

Neste Oil's refining margin increased to USD 10.46/bbl in 2007, compared to USD 9.11 /bbl in 2006. This increase was due to higher product margins, which is reflected in the reference refining margin (IEA Brent cracking), which averaged USD 5.07 / bbl (3.73 /bbl). The new diesel line contributed positively to the refining margin, despite the limited amount of time that it was operational. Higher production volumes also made a positive contribution to the segment's profits. Negative impact resulted from higher costs and depreciation. High feedstock prices put pressure on the base oil business in the last quarter.

Oil Refining's return on net assets (RONA) in 2007 was 28.9% (29.9%). The comparable return on net assets was 22.3% (23.8%).

Key figures

	2007	2006
Sales, MEUR	9,925	10,768
Operating profit, MEUR	754	671
Comparable operating profit, MEUR	582	533
Capital expenditure, MEUR	272	478
Total refining margin USD/bbl	10.46	9.11

Production

Many records were broken at Neste Oil's refineries in 2007. The most important of these were total feed and total production, as well as diesel and base oil production.

Neste Oil refined a total of 14.6 million tons (13.8 million) of crude oil and feedstocks, of which 11.8 million tons (11.6 million) at Porvoo. The Naantali refinery processed 2.8 million tons (2.2 million). A major maintenance shutdown took place at Naantali in 2006.

Refineries operated almost at their full crude distillation capacity in 2007. The Porvoo refinery experienced lower rates during the first and fourth quarters, when utilization was 97% and 98% respectively, as a result of unplanned maintenance. Porvoo reached a 100% capacity utilization in 2006, while Naantali's figure of 83% was the result of the refinery's planned maintenance shutdown.

The start-up of the new diesel production line at Porvoo saw the proportion of Russian Export Blend in Neste Oil's total refinery input rise to 51% (43%).

Sales

Sales volumes in Finland totaled 8.1 million tons in 2007 (8.1 million), and export volumes 6.3 million tons (6.0 million). Sales to North America increased by 20% compared to 2006.

Thanks to the new production line at Porvoo, diesel sales increased in the second half of 2007 and exceeded sales in 2006 by 7%. 2007 was another record-breaking year in base oils, such as VHVI, driven by growing demand.

NExBTL Renewable Diesel

The first NExBTL plant was started up at the Porvoo refinery in the summer, and the first deliveries were made in the second half of the year. The NExBTL sales margin was healthy thanks to its premium quality and favorable feedstock sourcing.

Specialty products

Base oils showed lower profits compared to 2006. Most of this resulted from the weak last quarter, which was characterized by a rapid increase in feedstock prices and lower availability at the Porvoo base oil plant. Iso-octane profits remained at 2006 level.

Neste Oil's sales from in-house production (1,000 t)

by product category

	2007	2006
Motor gasoline and components	4,741	4,856
Diesel fuel	5,137	4,821
Jet fuel	729	702
Base oils	304	302
Heating oil	764	684
Heavy fuel oil	1,097	1,069
NExBTL Renewable Diesel	28	0
Other products	1,532	1,543
Total	14,332	14,095

by market area

	2007	2006
Finland	8,053	8,083
Other Nordic countries	2,059	1,906
Other Europe	2,399	2,473
USA & Canada	1,703	1,417
Other countries	118	216
Total	14,332	14,095

Oil Retail

Oil Retail posted a comparable operating profit of EUR 59 million (65 million) in 2007. The figure for 2006 includes rental and other income from service station properties in Finland sold in late 2006. Excluding this item, Oil Retail's comparable operating profit increased on 2006. Expansion of the station network in the Baltic Rim and higher volumes contributed positively to the segment's profit. Oil Retail's full-year operating profit for 2007 was EUR 60 million compared to EUR 138 million in 2006. The latter includes a EUR 72 million gain from asset sales.

Oil Retail's return on net assets (RONA) in 2007 was 17.4% (37.2%). The comparable return on net assets was 17.1% (17.5%).

Key figures

	2007	2006
Sales, MEUR	3,435	3,280
Operating profit, MEUR	60	138
Comparable operating profit, MEUR	59	65
Capital expenditure, MEUR	51	44
Product sales volume, 1,000 m^3	4,519	4,424

Total gasoline sales increased by almost 7% in 2007, whereas diesel sales jumped almost 15% compared to 2006.

Neste Oil's retail market share in Finland was 26.4% (26.2%) in gasoline and 40.6% (40.9%) in diesel fuel. At the end of 2007, the company had 899 outlets in Finland. Gasoline volumes in Finland were flat compared to 2006, but diesel volumes continued to increase steadily. Both increased in the fourth quarter, by 8% and 5% respectively. Sales of heating oil continued to fall due to mild weather and lower demand.

In November, Neste Oil signed a lubricant production agreement with Ashland Nederland B.V. to guarantee the continued production of Neste Oil lubricants when the company's plant in Helsinki closes at the end of 2008.

Oil Retail started a project designed to enhance its profitability and position on the domestic market in 2007. This will include a rebranding of service stations.

Outside Finland, the company expanded its network by 33 stations in 2007. At the end of the year, Neste Oil had 45 stations in Russia, 41 in Estonia, 48 in Latvia, 37 in Lithuania, and 100 in Poland.

Sales through the Baltic Rim station network continued to increase during 2007, by 12% in gasoline and 34% in diesel.

Shipping

Shipping's comparable operating profit totaled EUR 28 million in 2007 (32 million), and was negatively impacted by higher docking and time-charter costs, as well as lower crude freight rates. These were somewhat offset by successful bunker hedging. The full-year operating profit was EUR 30 million (78 million). The figure for 2006 includes an asset sale gain of EUR 49 million.

Shipping's return on net assets (RONA) was 9.9% (25.0%) in 2007. The comparable return on net assets was 9.3% (10.3%).

Key figures

	2007	2006
Sales, MEUR	394	293
Operating profit, MEUR	30	78
Comparable operating profit, MEUR	28	32
Capital expenditure, MEUR	2	10
Total fleet days	11,107	10,120
Fleet utilization rate, %	94	94

Shipping's total fleet days (the number of days vessels are operational, including repair and waiting days) amounted to 11,107 in 2007 (10,120). Fleet days for the crude fleet totaled 2,078 (1,813), and 9,029 (8,307) for the product fleet.

Neste Oil owned or controlled through contracts a total of 31 (30) tankers as of the end of December. Crude carrying capacity as of the end of December was 680,407 dwt (563,407), and for products 609,713 dwt (493,764), totaling 1,290,120 dwt (1,057,171).

The fleet utilization rate remained high in 2007, at 94% (94%).

Divisional restructuring and changes in segment reporting

Neste Oil announced a new divisional structure and new heads for four divisions on 27 September, to provide the company better focus to implement its strategy going forward. A new division, Specialty Products, was formed, and includes the base oil and gasoline component businesses and is also responsible for Neste Oil's holding in the Nynäs Petroleum joint venture.

The heads of the five divisions are as follows: Jorma Haavisto (Oil Refining), Jarmo Honkamaa (Biodiesel), Kimmo Rahkamo (Specialty Products), Sakari Toivola (Oil Retail), and Risto Näsi (Shipping). Jarmo Honkamaa was appointed Deputy CEO. These changes came into effect on 16 October.

Neste Oil changed its segment reporting as of 1 January 2008, and the performance of all five divisions will now be reported separately. The figures for Biodiesel and Specialty Products came under Oil Refining segment in 2007.

Shares, share trading, and ownership

Neste Oil's share price closed 2007 at EUR 24.13 and was up by 4.7% compared to the end of 2006. At its highest during 2007, the share price reached EUR 30.03, while at its lowest the price stood at EUR 21.65, with the weighted average for the year coming in at EUR 25.48. The market capitalization was EUR 6.2 billion as of 31 December 2007.

An average total of 1.9 million shares were traded daily. This represents 0.7% of the Company's shares. An average of 39 million shares was traded monthly. During the year as a whole, 470 million shares, or 183% of the total number of shares, were traded, making Neste Oil one of the most traded stocks on the Nordic Exchange, Helsinki.

Neste Oil's share capital registered with the Company Register as of 31 December 2007 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 2007, the Finnish state owned 50.1% of outstanding shares, foreign institutions 26.3%, Finnish institutions 16.5%, and Finnish households 7.1%.

On 31 December 2007, the members of the Board of Directors, the President and CEO, and Deputy CEO owned a total of 112,468 shares, which corresponds to 0.04 % of the company's shares and voting rights. The members of the Supervisory Board owned no shares as of 31 December 2007.

Largest shareholders, by size of holding as of 31 December 2007

Shareholder	Shares	%
1. State of Finland	128,458,247	50.1
2. Ilmarinen Mutual Pension Insurance Company	6,010,676	2.3
3. Varma Mutual Pension Insurance Company	3,200,000	1.3
4. The Social Insurance Institution of Finland, KELA	2,648,424	1.0
5. The State Pension Fund	1,950,000	0.8
6. The City of Kurikka	1,550,875	0.6
7. OP-Delta Investment Fund	1,350,577	0.5
8. Etera Mutual Pension Insurance Company	1,323,800	0.5
9. Neste Oil Pension Fund	1,258,738	0.5
10. Fennia Mutual Pension Insurance Company	1,243,000	0.5
11. Tapiola Mutual Pension Insurance Company	1,040,794	0.4
12. Odin Norden	900,021	0.4
13. Sampo Finnish Equity Fund	663,118	0.3
14. Svenska Handelsbanken AB (publ), Branch Operation in Finland	568,247	0.2
15. Odin Förvaltnings AS	546,859	0.2
16. Nordea Pro Finland Fund	501,293	0.2
17. Alexander Management Oy	500,000	0.2
18. Nordea Fennia Fund	486,700	0.2
19. OP-Focus Non-UCITS Fund	424,450	0.2
20. FIM Fenno Fund	394,583	0.2
20 largest shareholders	155,020,402	60.4
Nominee registrations	65,576,036	25.6
Other	35,807,248	14.0
Total number of shares	256,403,686	100.0

Breakdown of share ownership as of 31 December 2007

By number of shares owned

No. of shares	No. of shareholders	% of shareholders	No. of shares	% of shares
1 – 100	21,101	37.4	1,160,355	0.5
101 – 500	26,222	46.4	6,241,866	2.4
501 – 1,000	5,111	9.1	3,799,793	1.5
1,001 – 5,000	3,425	6.1	6,914,303	2.7
5,001 – 10,000	282	0.5	2,020,620	0.8
10,001 – 50,000	215	0.4	4,617,968	1.8
50 001 – 100,000	37	0.1	2,804,363	1.1
100,001 – 500,000	51	0.1	10,321,490	4.0
over 500,000	23	0.0	218,522,928	85.2
Total	**56,467**	**100.0**	**256,403,686**	**100.0**
of which				
nominee registrations	20		65,576,036	25.6

By shareholder category	% of shares
State of Finland	50.1
Corporations	2.0
Financial and insurance institutions	4.1
Non-profit organizations	1.8
General government	8.6
Households	7.1
Non-Finnish shareholders	26.3
Total	**100.0**

Risk Management

In Neste Oil risk are defined in terms of the relative probability of an event occurring that could affect the company's goals and performance. Risks are managed across the Group. The Audit Committee of the Board of Directors monitors Group-wide risk management. The President & CEO is responsible for overall risk management policies and processes. Generally, risks are managed at source within divisions. Corporate Risk Management is responsible for managing and coordinating the enterprise risk management process, and Group Treasury is responsible for managing foreign exchange, interest rate, liquidity, and refinancing risks, working closely with divisions.

Strategic risks

Neste Oil faces a number of strategic risks that could have a major impact on the Group's performance and strategic targets. Strategic risks are typically related to developments in the world economy that might impact demand for the products that the company produces and sells. Delays in investment projects or unworkable technology might also pose a strategic risk for the company.

Neste Oil's growth strategy means that the company will enter new business areas and begin working with new partners. The various risks associated with expanding the company's business will require a greater focus on proactive risk management.

Operational risks

The Group faces various operational risks in its day-to-day businesses. The following covers the main operational risks. Market and financial risks, under IFRS standards, are discussed in Note 34 of the Financial Statements.

External and internal threats related to IT infrastructure and to Group-level applications are managed centrally. Security risks are managed by divisions as part of normal business management. Divisions also maintain business continuity procedures for crisis management.

In addition to preventive risk management measures, major hazard risks are covered by insurance policies to ensure that Neste Oil's operations can be maintained in all circumstances should any form of insurable loss occur. In the case of marine transportation, there are risks, which, if realized, may have a very high cost effect.

Continuous follow-up, assessment, and physical inspection related to tankers are essential parts of risk management in Neste Oil's shipping business. Fleet management activities of tanker ship owners are monitored and inspected as well. Risks in marine transport are managed and reduced by using well-built and well-maintained tankers in all oil deliveries.

Corporate Governance

The control and management of Neste Oil Corporation is divided between shareholders, the Supervisory Board, the Board of Directors and the President & Chief Executive Officer. Neste Oil's Supervisory Board is appointed by the General Meeting of Shareholders for a term that will end at the end of the next Annual General Meeting following the election. A person who has reached the age of 68 cannot be elected to the Supervisory Board.

The General Meeting of Shareholders also appoints the Board of Directors based on a proposal made by the AGM's Nomination Committee. The term of office of the Board of Directors will expire at the end of the next Annual General Meeting following its election. A person who has reached the age of 68 cannot be elected to the Board of Directors. Neste Oil's President & CEO is appointed and expelled by the Board of Directors.

Changes to the company's Articles of Association can be made at the General Meeting of Shareholder if supported by a majority of two-thirds of the votes cast and of the shares represented in the General Meeting of Shareholders.

Neste Oil's Annual General Meeting was held on Wednesday, 21 March 2007. At the meeting, the income statements and balance sheets of the parent company and the Group for 2006 were adopted, and the Supervisory Board, the Board of Directors, and the President and CEO were discharged from liability for the 2006 financial year. The Board of Directors' proposal regarding the distribution of profits for 2006 by paying a dividend of EUR 0.90 per share was approved.

In accordance with the proposal made by the AGM Nomination Committee, the AGM decided that the Board of Directors will comprise eight members, and the following were reelected: Mr. Timo Peltola as Chairman, Mr. Mikael von Frenckell as Vice Chairman, and Ms. Ainomaija Haarla, Ms. Nina Linander, Mr. Pekka Timonen, and Ms. Maarit Toivanen-Koivisto as members. The following new members were elected, also in accordance with the proposal made by the AGM Nomination Committee: Mr. Antti Tanskanen and Mr. Michiel A.M. Boersma.

In 2007, the Supervisory Board comprised of Klaus Hellberg (Chairman), Markku Laukkanen (Vice Chairman), Mikael Forss, Heidi Hautala, Satu Lähteenmäki, Marjo Matikainen-Kallström, Markus Mustajärvi, and Jutta Urpilainen.

Personnel

Neste Oil employed an average of 4,810 (4,678) employees in 2007. At the end of December, the company had 4,807 employees (Dec 2006: 4,740), of which 3,655 (Dec 2006: 3,506) worked in Finland.

Wages and salaries amounted to EUR 210 million in 2007 (196 million).

Health, safety, and the environment

No serious environmental accidents resulting in liability, or accidents resulting in significant interruptions to production at existing process units, occurred at Neste Oil's refineries or other production facilities in 2007. The Naantali refinery received a new environmental permit in late November.

The environmental emissions of Neste Oil operations remained at a low level throughout the year. Wastewater treatment plants at the refineries operated without interruption. The oil content of waterborne emissions was 0.13 g/ton of crude oil processed. This is less than 5% of the 3 g/ton recommended by the Baltic Marine Environment Protection Commission.

The current main indicator for safety performance used by Neste Oil – cumulative lost workday injury frequency (LWIF, number of cases per million hours worked) for all work done for the company, combining the company's own personnel and contractors – stood at 2.9 at the end of December 2007 (3.8), and the company achieved its combined LWIF target of less than 3.5 for 2007. The total recordable injury frequency (TRIF) was 5.7 (8.7). The target for this new key safety indicator is less than 5 for 2008.

Neste Oil participated in carbon dioxide (CO_2) emissions trading by buying and selling a minor number of December 2007 emission rights. The company has successfully fulfilled all the requirements related to carbon dioxide emissions in 2007. The verification of emissions for 2007 has taken place, and the company is able to report and surrender allowances equal to its total emissions in 2007.

The REACH (Registration, Evaluation and Authorization of Chemicals) regulation entered into force in the EU on 1 June 2007. The implementation period stretches over 11 years, of which the four first years are the most important for Neste Oil. Neste Oil has contributed to joint work carried out under the framework of the European oil companies' organization, Concawe, and the company's project for meeting REACH requirements has progressed according to plan.

Neste Oil retained or was selected for inclusion in several sustainability indexes during 2007. Neste Oil has been accepted into the Dow Jones Sustainability World Index. It was also awarded 'Best in Class' recognition for its social accountability by the Norwegian banking group, Storebrand, included in Innovest's Global 100 list of the world's most responsible companies, and featured in the Ethibel Pioneer Investment Register.

Research and development

Research and development focusing on both crude oil-based and renewable fuels is crucial in implementing Neste Oil's strategy. Neste Oil's R&D expenditure increased by 26% compared to 2006 and totaled EUR 28 million (22 million). The main R&D projects were related to extending the raw material base for renewable diesel.

Strategy update

Neste Oil continued to implement its clean fuel strategy in 2007. It will continue to review further investments in renewable diesel production abroad and in new conversion capacity at its refineries in Finland to increase diesel production. There are also good prospects for increasing base oil capacity and expanding Oil Retail's operation in the Baltic Rim.

Diesel Project

The new diesel production line at the Porvoo refinery, started up in June, was stopped for a planned maintenance shutdown at the end of September. The shutdown was prolonged because over 500 valves with material defects were identified and replaced. A leakage in the line delayed the restart. The line has been in production again since early December.

Over the long term, the company estimates that the new line will contribute an additional refining margin of more than USD 2 /bbl on its total capacity of approximately 100 million barrels a year.

NExBTL Renewable Diesel

Neste Oil's target to become the world's leading biodiesel producer will translate into future production volumes of millions of tons annually. The cornerstone of the strategy is the company's proprietary NExBTL technology, which produces a premium-quality renewable diesel fuel that clearly outperforms both the existing biodiesel products (FAME) and crude oil-based diesel products currently on the market. The fuel is based on a long-term R&D effort and can be produced from practically any vegetable oil or animal fat.

The first NExBTL plant at the Porvoo refinery was initially started up in July. The NExBTL technology is now proven on an industrial scale and planned production rates and targeted product qualities have been reached. However, various opportunities for improving the process and catalysts have been identified and some amendments have been made also to the Porvoo unit.

A second NExBTL plant at Porvoo is under construction at Porvoo and is now scheduled to be commissioned in 2009. The delay compared to the original plan has resulted from improvements based on learnings from the first unit. The capital cost of the second unit is estimated to exceed EUR 100 million. The plant will have the same capacity, 170,000 t/a, as the first unit.

Neste Oil announced in November that it will build a NExBTL plant in Singapore with an annual capacity of 800,000 tons of renewable diesel. The investment cost of the project will be EUR 550 million, and it is expected to be completed by the end of 2010.

Planning work on a project with the Austrian oil and gas group, OMV, to jointly build a NExBTL plant in Austria has continued, and the lengthy Environmental Impact Assessment process is still under way.

Neste Oil and Total decided in February 2007 to discontinue plans for a project to build a NExBTL plant in France, due to higher-than-expected costs.

Public discussion on the sustainability of biofuel feedstocks accelerated during 2007. Neste Oil has prioritized the importance of excellent sustainability throughout the entire value chain, from cultivation to logistics to refining and end use, and now has a palm oil traceability system in place. The company's policy is not to procure feedstock obtained from high-biodiversity land (forest with no significant human intervention) or land with a high carbon stock, such as tropical wetlands.

The company will continue to be active in R&D in the biofuels area, with the long-term aim of switching to alternative non-food feedstocks such as wood chips. As a demonstration, Neste Oil joined forces with Stora Enso in March to develop technology for producing new-generation biofuels from wood residues, and the two have decided to design and build a demonstration plant at Stora Enso's Varkaus Mill in Finland. The plant, owned on a 50/50 basis by the two companies, is expected to start up in 2009.

Base oils

The project with Bapco to build a 400,000 t/a base oil plant in Bahrain has proceeded and an investment decision is expected in 2008. Neste Oil's ownership will be 45%.

In late 2007, Neste Oil signed a Heads of Terms agreement with Takreer of Abu Dhabi and OMV of Austria to form a joint venture and build a base oil plant at Ruwais in Abu Dhabi. The joint venture will be 60% owned by Takreer and 20% by Neste Oil and OMV respectively. The planned facility will be capable of producing 500,000 t/a of base oils. The final investment decision will be made in 2009 following Front End Engineering Design (FEED), which is expected to commence by the second quarter of 2008.

Initially, Neste Oil will be responsible for marketing of the whole production of both new base oil facilities.

Oil Retail

Expansion of Neste Oil's station network will continue in the Baltic Rim area, where the focus will be on Northwest Russia.

Divestments

In February, Neste Oil closed its divestment of its 70% holding in Texas-based Eastex Crude Company for USD 15.5 million to Eastex Crude Holding Company, and announced the sale of its into-plane aviation fuels business at Riga International Airport to Statoil.

Events after the financial period

Neste Oil announced at the beginning of January 2008 that its subsidiary, Neste Jacobs, will acquire the Rintekno engineering company. Following the acquisition, Neste Jacobs will become the leading provider of engineering services for the chemical and biotechnology industries in the Nordic region, employing a total of some 750 people. The parties have agreed not to disclose the value of the transaction.

Outlook

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

Global oil demand forecasts were revised down at the beginning of 2008. Growth is still projected in Asia, but the biggest question mark overall continues to be the development of US demand amid fears of an economic slowdown.

Higher investment costs and a lack of engineering resources are likely to jeopardize some of the new refining capacity due to come on stream in the near future. This indicates that a favorable refining market will continue and that margins are likely to remain firm for complex refineries at least, given that there will be no major drop in demand for transportation fuels.

Gasoline margins have been seasonally depressed in January, and inventories are at normal levels. The gasoline market is expected to tighten towards the end of the first quarter as refiners switch to summer grade and the maintenance season kicks in.

Diesel margins are expected to remain at a good level, supported by demand growth as dieselization of the car fleet continues. Refinery turnarounds will also support the diesel market.

No full-scale maintenance turnarounds are scheduled for Neste Oil's refineries in 2008. The new diesel line should start to deliver as expected, despite that the line is due for maintenance during the year.

Demand for NExBTL Renewable Diesel is expected to remain healthy and the Porvoo plant should operate normally.

Oil Retail's volumes will continue to increase in the Baltic Rim, although some of the countries in the area might show slightly slower economic growth. Diesel demand is expected to increase in Finland.

The tanker freight market will remain challenging, while time-charter costs appear to be holding at exceptionally high levels. This is likely to put pressure on Shipping's earnings.

Subject to final investment decisions, the Group's capital expenditure is expected to be approximately EUR 500 million in 2008.

Dividend distribution proposal and the AGM

The Board of Directors will propose to the Annual General Meeting that Neste Oil should pay a dividend of EUR 1.00 per share for 2007, totaling EUR 256.4 million.

Key financial indicators

		2007	2006	2005
Income statement				
Sales	EUR million	12,103	12,734	9,974
Operating profit	EUR million	801	854	831
- of sales	%	6.6	6.7	8.3
Comparable operating profit	EUR million	626	597	565
Profit before income taxes	EUR million	763	841	823
- of sales	%	6.3	6.6	8.3
Profitability				
Return on equity (ROE)	%	25.6	34.3	51.3
Return on capital employed, pre-tax (ROCE)	%	26.2	31.9	37.0
Return on average capital employed, after tax (ROACE)	%	15.5	15.4	19.7
Financing and financial position				
Interest-bearing net debt	EUR million	755	722	796
Leverage ratio	%	23.7	25.6	33.0
Gearing	%	31.1	34.4	49.4
Equity-to-assets ratio	%	49.9	48.4	42.4
Other indicators				
Capital employed	EUR million	3,234	2,890	2,487
Capital expenditure and investments in shares	EUR million	334	535	668
- of sales	%	2.8	4.2	6.7
Research and development expenditure	EUR million	28	22	20
- of sales	%	0.2	0.2	0.2
Average number of personnel		4,810	4,678	4,528
Share-related key figures				
Earnings per share (EPS)	EUR	2.25	2.46	2.60
Equity per share	EUR	9.47	8.15	6.26
Cash flow per share	EUR	2.11	2.00	2.33
Price/earnings ratio (P/E)		10.71	9.36	9.18
Dividend per share	EUR	1.00 [1]	0.90	0.80
Dividend payout ratio	%	44.4 [1]	36.6	30.8
Dividend yield	%	4.1 [1]	3.9	3.4
Share prices				
At the end of the period	EUR	24.13	23.03	23.88
Average share price	EUR	25.48	25.19	22.16
Lowest share price	EUR	21.65	21.00	15.22
Highest share price	EUR	30.03	29.95	32.19
Market capitalization at the end of the period	EUR million	6,187	5,905	6,123
Trading volumes				
Number of shares traded	1,000	469,889	360,430	360,876
In relation to weighted average number of shares	%	183	141	141
Average number of shares		255,971,365	256,403,686	256,403,686
Number of shares at the end of the period		255,903,686	256,403,686	256,403,686

[1] Board of Directors proposal to the Annual General meeting.

Calculation of key financial indicators

Calculation of key financial indicators

Operating profit	=		Operating profit includes the revenue from the sale of goods and services, other income such as gain from sale of shares or non-financial assets, share of profits (loss) of associates and joint ventures, less losses from sale of shares or non-financial assets, as well as expenses related to production, marketing and selling activities, administration, depreciation, amortization, and impairment charges. Realized and unrealized gains or losses on oil and freight derivative contracts together with realized gains and losses from foreign currency and oil derivative contracts hedging cash flows of commercial sales and purchases that have been recycled in the income statement, are also included in operating profit.
Comparable operating profit	=		Operating profit -/+ inventory gains/losses -/+ gains/losses from sales of fixed assets and investments – unrealized change in fair value of oil and freight derivative contracts
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	$\frac{\text{Profit for the year (adjusted for inventory gains/losses, gains/losses from sales of shares and non-financial assets and unrealized gains/losses on oil and freight derivative contracts, net of tax) + minority interest + interest expenses and other financial expenses related to interest-bearing liabilities (net of taxes)}}{\text{Capital employed average}}$
Capital employed	=		Total assets - interest-free liabilities - deferred tax liabilities - provisions
Interest-bearing net debt	=		Interest-bearing liabilities - cash and cash equivalents
Leverage ratio, %	=	100 x	$\frac{\text{Interest-bearing net debt}}{\text{Interest bearing net debt + total equity}}$
Gearing, %	=	100 x	$\frac{\text{Interest-bearing net debt}}{\text{Total equity}}$
Equity-to-assets ratio, %	=	100 x	$\frac{\text{Total equity}}{\text{Total assets - advances received}}$
Return on net assets, %	=	100 x	$\frac{\text{Segment operating profit}}{\text{Average segment net assets}}$
Comparable return on net assets, %	=	100 x	$\frac{\text{Segment comparable operating profit}}{\text{Average segment net assets}}$
Segment net assets	=		Property, plant and equipment, intangible assets, investment in associates and joint ventures, pension assets, inventories and interest-free receivables and liabilities allocated to the business segment, provisions and pension liabilities
Research and development expenditure	=		Research and development expenditure comprise of the expenses of the Research & Technology unit serving all divisions of the group, as well as research and technology expenses incurred in divisions, which are included in the consolidated income statement. Depreciation and amortization are included in the figure. The expenses are presented as gross, before deducting grants received.

Calculation of key share ratios

Earnings per share (EPS)	=		$\frac{\text{Profit for the year attributable to the equity holders of the company}}{\text{Adjusted average number of shares during the period}}$
Equity per share	=		$\frac{\text{Shareholder's equity attributable to the equity holders of the company}}{\text{Adjusted average number of shares at the end of the period}}$
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)	=		$\frac{\text{Share price at the end of the period}}{\text{Earnings per share}}$
Dividend payout ratio, %	=	100 x	$\frac{\text{Dividend per share}}{\text{Earnings per share}}$
Dividend yield, %	=	100 x	$\frac{\text{Dividend per share}}{\text{Share price at the end of the period}}$
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

Consolidated income statement

MEUR	Note	1 Jan–31 Dec 2007	1 Jan–31 Dec 2006
Sales	3, 5	12,103	12,734
Other income	6	27	238
Share of profit (loss) of associates and joint ventures	17	39	39
Materials and services	7	-10,279	-11,183
Employee benefit costs	8	-256	-224
Depreciation, amortization and impairments	9	-195	-153
Other expenses	10	-638	-597
Operating profit		801	854
Financial income and expenses	11		
Financial income		8	8
Financial expenses		-40	-16
Exchange rate and fair value gains and losses		-6	-5
Total financial income and expenses		-38	-13
Profit before income taxes		763	841
Income tax expense	12	-183	-205
Profit for the year		580	636
Attributable to:			
Equity holders of the Company		577	631
Minority interest		3	5
		580	636
Earnings per share from profit attributable to the equity holders of the Company basic and diluted (in euro per share)	13	2.25	2.46

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

Consolidated balance sheet

MEUR	Note	31 Dec 2007	31 Dec 2006
ASSETS			
Non-current assets			
Intangible assets	16	41	38
Property, plant and equipment	15	2,436	2,310
Investments in associates and joint ventures	17	178	161
Non-current receivables	18, 19	3	4
Pension assets	28	81	73
Deferred tax assets	26	7	8
Derivative financial instruments	18, 23	22	22
Available-for-sale financial assets	18, 19	2	2
Total non-current assets		2,770	2,618
Current assets			
Inventories	20	968	697
Trade and other receivables	18, 21	955	808
Derivative financial instruments	18, 23	126	77
Cash and cash equivalents	22	52	62
Total current assets		2,101	1,644
Non-current assets classified as held for sale	4	-	78
Total assets		4,871	4,340
EQUITY			
Capital and reserves attributable to equity holders of the company	24		
Share capital		40	40
Other equity		2,383	2,049
Total		2,423	2,089
Minority interest		4	8
Total equity		2,427	2,097
LIABILITIES			
Non-current liabilities			
Interest-bearing liabilities	18, 25	662	516
Deferred tax liabilities	26	289	239
Provisions	27	8	12
Pension liabilities	28	11	12
Derivative financial instruments	18, 23	22	21
Other non-current liabilities	18, 25	5	4
Total non-current liabilities		997	804
Current liabilities			
Interest-bearing liabilities	18, 25	145	267
Current tax liabilities	18, 25	14	43
Derivative financial instruments	18, 23	77	38
Trade and other payables	18, 25	1,211	1,027
Total current liabilities		1,447	1,375
Liabilities directly associated with non-current assets classified as held for sale	4	-	64
Total liabilities		2,444	2,243
Total equity and liabilities		4,871	4,340

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

Consolidated cash flow statement

MEUR	Note	1 Jan–31 Dec 2007	1 Jan–31 Dec 2006
Cash flows from operating activities			
Profit for the year		580	636
Adjustments for			
Income tax	12	183	205
Share of profit (loss) of associates and joint ventures	17	-39	-39
Depreciation and amortization	9	195	153
Other non-cash income and expenses		-4	-2
Financial expenses-net	11	38	13
Profit/loss from disposal of fixed assets and shares	6	-6	-210
		947	756
Change in working capital			
Decrease (+)/increase (-) in trade and other receivables		-92	-96
Decrease (+)/increase (-) in inventories		-271	-111
Decrease (-)/increase (+) in trade and other payables		174	101
Change in working capital		-189	-106
		758	650
Interest and other finance cost paid		-29	-11
Dividends received		17	14
Realized foreign exchange gains and losses		-28	-10
Income taxes paid		-177	-131
		-217	-138
Net cash generated from operating activities		541	512
Cash flows from investing activities			
Purchases of property, plant and equipment	15	-321	-521
Purchases of intangible assets	16	-13	-5
Purchases of associates and joint ventures	17	0	-9
Proceeds from sale of subsidiaries, net of cash disposed	4	-5	113
Proceeds from sale of property, plant and equipment		14	77
Proceeds from sale of associates and joint ventures	17	0	8
Proceeds from sale of available-for-sale investments	19	0	80
Changes in non-current receivables		-22	20
Net cash used in investing activities		-347	-237
Cash flow before financing activities		194	275
Cash flows from financing activities			
Payment of (-) / proceeds from (+) current interest-bearing liabilities		-130	51
Proceeds from non-current interest-bearing liabilities		595	654
Repayments of non-current interest-bearing liabilities		-441	-776
Dividends paid to the equity holders of the company		-231	-205
Other financing activities		-4	-3
Net cash used in financing activities		-211	-279
Net decrease (–) / increase (+) in cash and cash equivalents		-17	-4
Cash and cash equivalents at beginning of the year		70	79
Exchange gains (+) / losses (–) on cash and cash equivalents		-1	-5
Cash and cash equivalents at end of the year	22	52	70

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

Consolidated statement of changes in equity

MEUR	Note	Attributable to equity holders of the Company: Share capital	Reserve fund	Fair value and other reserves	Translation differences	Retained earnings	Minority interest	Total equity
Total equity at 1 January 2006		40	9	-33	8	1,581	7	1,612
Dividend paid						-205		-205
Income and expenses recognized directly in equity								
Translation differences and other changes					-9	4		-5
Cash flow hedges								
recorded in equity, net of tax				63				63
transferred to income statement, net of tax				-7				-7
Net investment hedges, net of taxes					4			4
Share-based compensation				3				3
Available-for-sale investments								
amount recognized directly in equity, net of tax				63				63
amount removed from equity and recognized in income statement, net of tax				-63				-63
Change in minority							-4	-4
Items recognized directly in equity		-	-	59	-5	4	-4	54
Profit for the year						631	5	636
Total recognized income and expenses		-	-	-59	-5	635	1	690
Total equity at 31 December 2006	24	40	9	26	3	2,011	8	2,097
Total equity at 1 January 2007		40	9	26	3	2,011	8	2,097
Dividend paid						-231		-231
Treasury shares						-12		-12
Income and expenses recognized directly in equity								
Translation differences and other changes			1		-10	-3		-12
Cash flow hedges								
recorded in equity, net of tax				-30				-30
transferred to income statement, net of tax				43				43
Net investment hedges, net of taxes					-4			-4
Share-based compensation				2				2
Hedging reserves in associates and joint ventures				1				1
Change in minority							-7	-7
Items recognized directly in equity		-	1	16	-14	-3	-7	-7
Profit for the year						577	3	580
Total recognized income and expenses		-	1	16	-14	574	-4	573
Total equity at 31 December 2007	24	40	10	42	-11	2,342	4	2,427

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 domiciled in Espoo, Finland. The Company is listed on the Nordic Exchange, Helsinki.

Neste Oil Corporation and its subsidiaries (together referred to as the Neste Oil Group) is a refining and marketing company focused on advanced, clean traffic fuels. The Group's refineries and other production facilities, together with its network of service stations and other retail outlets in Finland and the Baltic Rim area, supply both domestic and export markets with gasoline, diesel fuel, aviation fuel, marine fuel, heating oil, heavy fuel oil, base oil, lubricant, traffic fuel component, solvent, liquefied petroleum gas, bitumen and NExBTL renewable diesel based on Neste Oil's proprietary technology. Neste Oil's supply and distribution chain includes a tanker fleet for carrying crude oil and other feedstock imports and refined product exports. As an oil refiner, Neste Oil is a leading manufacturer of environmentally benign petroleum products.

The Board of Directors has approved these consolidated financial statements for issue on 6 February 2008.

2. Summary of significant accounting policies

These consolidated financial statements have been 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 the income statement. The consolidated financial statements are presented in millions of euros unless otherwise stated.

IFRS 7 Financial instruments: Disclosures and the related amendment to IAS 1 Presentation of Financial Statements – Capital disclosures which are mandatory as of 1 January 2007, have been adopted by the Group as of 1 January 2006.

The following interpretations are mandatory for accounting periods beginning on or after 1 January 2007 but are not relevant to the Group's operations:

- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflation Economies
- IFRIC 8 Scope of IFRS 2
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment.

Certain new standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods. The Group has not adopted these requirements earlier:

- IFRS 8 Operating segments: As of January 1 2008, the Group's reporting segments are the five business divisions Oil Refining, Biodiesel, Specialty Products, Oil Retail and Shipping as well as Other segment consisting of Group administration, shared service functions as well as Research and Technology and Neste Jacobs. The Group is finalizing the analysis regarding the impact of the new standard on the quantitative segment information. The Group will apply the new standard from the financial period beginning 1 January 2008 onwards.
- IAS 1 Presentation of Financial Statements – Revised: The Group is investigating the impact of the revised standard on the presentation of financial statements. The Group will apply the new standard from the financial period beginning 1 January 2009 onwards.
- IAS 23 Borrowing Costs – Revised: The Group is investigating the impact of the revised standard on the current accounting principle regarding recognition of borrowing costs. The Group will apply the new standard from the financial period beginning 1 January 2009 onwards.

Certain new interpretations have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008. They are not expected to be relevant to the Group's operations:

- IFRIC 11 IFRS 2 – Group and Treasury Shares
- IFRIC 12 Service Concession Arrangements
- IFRIC 13 Customer Loyalty Programs
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

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. Such estimates include the expected useful lifetimes of tangible and intangible assets, the amount of income taxes recognized as expense and deferred tax assets or liabilities, actuarial assumptions applied in the calculation of defined benefit obligations, and assumptions made in the recognition of provisions. Actual results may differ from these estimates.

Consolidation

Subsidiaries

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

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the date of acquisition, 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 modified to ensure consistency with Group policies.

Associates and joint ventures

Associated companies are entities over which the Group has significant influence but not control, and generally involve a shareholding of between 20% and 50% of voting rights. 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 company or companies. The Group's interests in associates and joint ventures are accounted for by the equity method of accounting.

Identifiable assets acquired and liabilities and contingent liabilities assumed in the investment in associates and joint ventures are measured initially at their fair value at the date of acquisition. 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.

The Group's share of the post-acquisition profits or losses after tax of its associates and joint ventures 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 or joint venture equals or exceeds its interest in the associate or joint venture, 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 or joint venture.

Unrealized gains on transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Segment reporting

The Group's business segments are the primary format used for reporting segment information, while geographical segments are a secondary format. 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 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 of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates, 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 Group entities (none of which uses a hyperinflationary economy currency) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate quoted on the relevant balance sheet date;
- income and expenses 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);
- 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 booked to shareholders' equity. When a foreign operation is sold, exchange differences are recognized in the income statement as part of the gain or loss on the sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the entity in question and translated at the closing rate.

Revenue recognition

Revenue from the sale of goods is recorded in 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 services have been provided. Revenue is recorded for the 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. Excise taxes included in the retail price of petroleum products according to prevailing legislation in some countries are included in product sales. The corresponding amount is included in the purchase price of petroleum products and included in 'Materials and services' in the income statement.

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 that the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognized in the income statement in 'Other income' 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 expenses 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 criteria are that the borrowing costs incurred for the construction of a major initial investment, such as a new production facility or a new production line and that it will take more than 18 months to make the related asset operational.

Income taxes

The Group's income tax expenses include taxes of Group companies calculated on the basis of 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 taxes 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 the depreciation difference on property, plant and equipment, the fair valuation of derivative financial instruments, pension assets recognized in the balance sheet, 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 are in force 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 it relates to new products that are technically and commercially feasible. The majority of the Group's development expenditure does not meet the criteria for capitalization and are recognized as expenses as incurred.

Property, plant and equipment

Property, plant, and equipment mainly comprise oil refineries and other production plants and storage tanks, ships, and retail station network infrastructure and equipment. Property, plant, and equipment are stated at historical cost in the balance sheet, less depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items in question. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges related to foreign currency purchases of property, plant, and equipment. Assets acquired through the acquisition of a new subsidiary are stated at their fair value 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 are incurred.

Land areas are not depreciated. The bottom of crude oil rock inventory is included in other tangible assets and is 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 infrastructure and equipment	5–15 years
Other equipment and vehicles	3–15 years
Other tangible assets	20–40 years

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

Intangible assets

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

Computer software

Computer software licences are capitalized on the basis of the costs incurred to acquire and introduce the software in question. Costs are amortized over their estimated useful lives (three to five years). Costs associated with developing or maintaining computer software programs are recognized as an expense.

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).

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 or joint venture 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, using 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 amount.

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 any change in the probable amount of the provision, are reflected in the 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 to the extent that 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 an 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, and include derivative financial instruments, if they are 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 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, which are classified as non-current assets. Loans and receivables are included in 'Trade and other receivables' in the balance sheet.

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 the 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 a trade receivable is impaired. The amount of provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted the effective interest rate. The amount of the loss is recognized in the income statement within 'Other expenses'.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any other category. They are included in non-current assets unless management intends to dispose of the asset within 12 months of the balance sheet date. Gains or losses on the sale of available-for-sale financial assets are included in 'Other income' or 'Other expenses'.

Purchases and sales of financial assets are recognized on the date on which the Group commits to purchase or sell the asset known as the trade date. 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 derecognized 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.

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 measured reliably, 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 assets in '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 whether there is objective evidence that a financial asset or a group of financial assets is impaired at each balance sheet date.

Leases

Finance leases

Lease arrangements that transfer substantially all the risks and rewards related to a 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, as determined at the inception of the lease. Lease payments are 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 either cost or net realizable value, whichever is the lowest. 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. Inventories held for trading for profit purposes are measured at fair value less 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, and 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, and the amount of payment can be estimated reliably. 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 as net proceeds less any transaction costs incurred, and subsequently at amortized cost. Any difference between net proceeds and 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 IAS 39. Liabilities are included in non-current liabilities, except for items with maturities less than 12 months after the balance sheet date.

Employee benefits

Pension obligations

Neste Oil has a number of pension plans in accordance with local practices in the countries where it operates. These plans are generally funded through the 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 fall 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 in order to spread the cost over the service lives of employees. The defined benefit obligation is measured as present value of the estimated future cash flows, using interest rates of high-quality corporate bonds that have similar maturity terms to those 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 expected average remaining working lives of employees. Past-service costs are recognized immediately in the income statement. The interest cost is included in employee benefit expenses.

Share-based payments

Expenses related to share-based payments are recorded in the income statement and a respective liability is recognized in the balance sheet for share-based payments settled in cash. The liability recognized in the balance sheet is measured at fair value at each reporting date. For transactions settled in equity, an increase corresponding to the expense in the income statement is entered in shareholders' equity.

Derivative financial instruments and hedging activities

Derivative financial instruments are initially recognized at fair value on the date a 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 financial instrument is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivative financial instruments 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 34.

The effective portion of changes in the fair value of derivative financial instruments 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. 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 recognised 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.

Changes in the fair value of derivative financial instruments that are designated and qualify as fair value hedges are recorded in the income statement in 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 derivative financial instruments do not qualify for hedge accounting, any movement in fair value is recognized in the income statement.

Derivative financial instruments that do not qualify for hedge accounting

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

Definitions

Operating profit

Operating profit includes the revenue from the sale of goods and services, other income such as gains on sale of shares or non-financial assets, less losses from the sale of shares or non-financial assets, as well as expenses related to production, marketing, and selling activities, administration, depreciation, amortization, and impairment charges. Realized and unrealized gains or losses on oil and freight derivative contracts together with realized gains and losses from foreign currency and oil derivative contracts hedging cash flows of commercial sales and purchases that have been recycled in the income statement, are also included in the operating profit.

Comparable operating profit

Comparable operating profit is calculated by excluding inventory gains/losses, gains/losses from sales of fixed assets, and unrealized changes in the fair value of oil and freight derivative contracts from the reported operating profit.

Segment net assets

Segment net assets include property, plant and equipment, intangible assets, investment in associates and joint ventures, pension assets, inventories and interest-free receivables and liabilities allocated to the business segment as well as provisions and pension liabilities.

Return on net assets, %

Return on net assets is calculated by dividing segment operating profit with average segment net assets.

Comparable return on net assets, %

Comparable return on net assets is calculated by dividing segment comparable operating profit with average segment net assets.

3. Segment information

1. Business segments

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

- Oil Refining segment consisted of three divisions in 2007: Oil Refining, Specialty Products and Biodiesel. Oil Refining produces and sells gasoline, diesel fuel, light and heavy fuel oil, aviation fuel, and liquefied petroleum gas. Specialty Products produces and sells base oils and gasoline components. Biodiesel division produces and sells renewable NexBTL diesel based on Neste Oil's proprietary technology. The operations of Research and Techhnology and Neste Jacobs are reported under Oil Refining segment.
- Oil Retail segment markets petroleum products 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 and direct sales.
- 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.

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

All inter-segment transactions are on arm's length basis and are eliminated in consolidation. Segment operating profit include realized gains and losses from foreign currency and oil derivative contracts hedging cash flows of commercial sales and purchases that have been recycled in the income statement.

The 'other expenses' included in the income statement for each business segment 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 oil derivative positions
- Oil Retail: rents and other property costs and maintenance
- Shipping: time-charter fees, other operating costs of ships and maintenance.

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

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

2007	Oil Refining	Oil Retail	Shipping	Other	Eliminations	Group
External sales	8,482	3,424	196	1	-	12,103
Internal sales	1,443	11	198	20	-1,672	0
Total Sales	9,925	3,435	394	21	-1,672	12,103
Other income	18	4	8	10	-13	27
Share of profit of associates and joint ventures	39	-	-	-	-	39
Materials and services	-8,553	-3,168	-66	0	1,508	-10,279
Employee benefit costs	-168	-38	-33	-20	3	-256
Depreciation, amortization and impairments	-150	-27	-15	-3	-	-195
Other expenses	-357	-146	-258	-50	173	-638
Operating profit	754	60	30	-42	-1	801
Financial income and expense						-38
Profit before taxes						763
Income taxes						-183
Profit for the year						580
Comparable operating profit	582	59	28	-42	-1	626
Changes in the fair value of open oil and freight derivative positions	-6	-1	2	-	-	-5
Inventory gains/losses	174	-	-	-	-	174
Sales gains/losses	4	2	-	-	-	6
Operating profit	754	60	30	-42	-1	801
Capital expenditure	272	51	2	9	-	334
Segment operating assets	3,669	664	315	37	-180	4,505
Investment in associates and joint ventures	162	1	15	-	-	178
Deferred tax assets						7
Unallocated assets						181
Total assets	3,831	665	330	37	-180	4,871
Segment operating liabilities	1,159	284	33	18	-181	1,313
Deferred tax liabilities						289
Unallocated liabilities						842
Total liabilities	1,159	284	33	18	-181	2,444
Segment net assets	2,672	381	297	19	1	3,370
Return on net assets, %	28.9	17.4	9.9			
Comparable return on net assets, %	22.3	17.1	9.3			

2006	Oil Refining	Oil Retail	Shipping	Other	Eliminations	Group
External sales	9,321	3,261	150	2	-	12,734
Internal sales	1,447	19	143	14	-1,623	0
Total Sales	10,768	3,280	293	16	-1,623	12,734
Other income	107	76	58	9	-12	238
Share of profit of associates and joint ventures	39	-	-	-	-	39
Materials and services	-9,620	-3,029	-50	0	1,516	-11,183
Employee benefit costs	-146	-31	-32	-18	3	-224
Depreciation, amortization and impairments	-105	-27	-18	-3	-	-153
Other expenses	-372	-131	-173	-39	118	-597
Operating profit	671	138	78	-35	2	854
Financial income and expense						-13
Profit before taxes						841
Income taxes						-205
Profit for the year						636
Comparable operating profit	533	65	32	-35	2	597
Changes in the fair value of open oil and freight derivative positions	-7	1	-3	-	-	-9
Inventory gains/losses	56	-	-	-	-	56
Sales gains/losses	89	72	49	-	-	210
Operating profit	671	138	78	-35	2	854
Capital expenditure	478	44	10	3	-	535
Segment operating assets	3,261	568	308	21	-136	4,022
Investment in associates and joint ventures	145	1	15	-	-	161
Deferred tax assets						8
Unallocated assets						149
Total assets	3,406	569	323	21	-136	4,340
Segment operating liabilities	1,017	233	25	11	-135	1,151
Deferred tax liabilities						239
Unallocated liabilities						853
Total liabilities	1,017	233	25	11	-135	2,243
Segment net assets	2,389	336	298	10	-1	3,032
Return on net assets, %	29.9	37.2	25.0			
Comparable return on net assets, %	23.8	17.5	10.3			

2. 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.

2007	Finland	Other Nordic countries4)	Baltic rim5)	Other European countries	North and South America	Other countries	Eliminations	Group
Sales by destination1)	5,187	1,300	1,342	2,525	1,736	13	0	12,103
Total segment assets2)	4,112	178	288	51	112	6	-64	4,683
Capital expenditure3)	283	0	40	1	4	6	0	334

2006	Finland	Other Nordic countries4)	Baltic rim5)	Other European countries	North and South America	Other countries	Eliminations	Group
Sales by destination1)	4,964	1,094	963	2,294	3,343	76	0	12,734
Total segment assets2)	3,605	160	235	87	254	0	-158	4,183
Capital expenditure3)	494	0	33	0	8	0	0	535

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 is allocated based on where the assets are located.
4) "Other Nordic countries" include Sweden, Norway, Denmark and Iceland.

5) The Baltic Rim includes Estonia, Latvia, Lithuania, Russia and Poland. The Group's activities in this geographical area comprise mainly of retail activities in the mentioned countries. The business operations and the related risks are similar in each of the countries included in this geographical segment.

4. Disposed subsidiaries and non-current assets classified as held for sale

On 20 December 2006 the Group agreed to sell its 70% holding in its Texas-based subsidiary, Eastex Crude Company, to the other owner of the company. The sale was completed on 15 February 2007. The company was included in the Oil Refining segment and its sales consolidated to Neste Oil Group totaled EUR 151 million in 2007 (2006: EUR 1,838 million). The company's impact on the Group's or segment's results have been insignificant. The assets and liabilities of Eastex Crude Company have been presented under 'Non-current assets classified as held for sale' and 'Liabilities directly associated with non-current assets classified as held for sale' in the consolidated balance sheet as at 31 December 2006. The carrying amounts of Eastex Crude Company's balance sheet line items specified below are excluded from the notes specifying the line items of the consolidated balance sheet as at 31 December 2006.

Non-current assets and liabilities classified as held for sale 31 December 2006

Eastex crude company	Assets
Property, plant and equipment	9
Inventories	7
Trade and other receivables	54
Cash and cash equivalents	8
	78
	Liabilities
Interest-bearing liabilities	9
Trade and other payables	55
	64

Disposed subsidiaries

During the financial year 2006, the Group sold its 100% interest in its subsidiary Best Chain Ltd., which owns 73 service station properties. The sale was completed on 30 October 2006 and a capital gain amounting to EUR 66 million resulting from the transaction has been included in the consolidated financial statements.

	Eastex Crude Company 15 Feb 2007	Best Chain Ltd. 31 Oct 2006
Property, plant and equipment	10	39
Shares in subsidiaries and associates	-	2
Inventories	6	-
Trade and other receivables	32	0
Cash and cash equivalents	21	5
	69	46
Interest-bearing liabilities	8	0
Deferred tax liabilities	-	1
Trade and other payables	49	2
	57	3
Attributable goodwill	-	9
Gain on disposal	2	66
Total consideration	14	118
Net cash inflow arising from disposal		
Cash consideration received	14	118
Cash and cash equivalents disposed of	21	5
	-7	113

5. Analysis of sales by category

	2007	2006
Sale of goods	10,974	12,170
Revenue from services	259	211
Royalty income	2	2
Oil trading	843	328
Other	25	23
	12,103	12,734

Sale of goods include product sales from the Group's own refineries, other production facilities and retail stations as well as other sale of petroleum products, feedstock and rawmaterials. Excise taxes included in the retail selling price of finished oil products amounting to EUR 1,070 million (2006: EUR 999 million) are included in product sales. The corresponding amount is included in 'Materials and services', Note 7.

Revenue from product exchanges included in sale of goods amounted to EUR 177 million (2006: EUR 3 million).

Revenue from services mainly comprises revenue from the Shipping segment.

Oil trading include revenue from physical and derivative financial instrument trading activities conducted on international and regional markets by taking delivery of and selling petroleum products and raw materials within a short period of time for the purpose of generating a profit from short term fluctuations in product and raw material prices and margins. Trading mainly involves transactions based on the use of derivative financial instruments.

6. Other income

	2007	2006
Gain on sale of Ibn Zahr shares	-	84
Gain on sale of subsidiaries	3	66
Capital gains on disposal of other non-current assets	3	62
Rental income	3	4
Government grants	8	11
Other	10	11
	27	238

Government grants relate mainly to the Shipping segment, which is entitled to apply for certain grants based on Finnish legislation. EUR 5 million (2006: EUR 4 million) of the amount is included in 'Trade and other receivables' in the consolidated balance sheet. This amount relating to operations in the financial period ended 31 December are applied for and received during the following financial period. The Group believes that it has fullfilled all the conditions related to the grants recognized in the income statement.

7. Materials and services

	2007	2006
Change in product inventories	-94	-22
Materials and supplies		
Purchases	10,518	11,291
Change in inventories	-168	-105
External services	23	19
	10,279	11,183

Purchases include excise taxes included in the retail selling price of petroleum products amounting to EUR 1,070 million (2006: EUR 999 million). The corresponding amount is included in 'Sales', Note 5.

8. Employee benefit costs

	2007	2006
Wages, salaries	210	196
Social security costs	25	24
Pension costs-defined contribution plans	21	4
Pension costs-defined benefit plans	-8	-10
Other costs	8	10
	256	224

Detailed information concerning pension costs is included in Note 28, 'Retirement benefit obligations'.

Key management compensation is included in Note 30, 'Related party transactions'.

Number of personnel (average)	2007	2006
Oil Refining	2,724	2,793
Oil Retail	1,377	1,204
Shipping	509	515
Other	200	166
	4,810	4,678

9. Depreciation, amortization and impairment charges

	2007	2006
Depreciation of property, plant, and equipment		
Buildings and structures	47	43
Machinery and equipment	132	99
Other tangible assets	7	3
	186	145
Amortization of intangible assets	9	8
Depreciation, amortization, and impairment charges total	195	153

10. Other expenses

	2007	2006
Operating leases and other property costs	152	127
Freights relating to sales	114	122
Repairs and maintenance	108	84
Write-downs	0	23
Other	264	241
	638	597

Operating leases include rents for land, premises, machinery and equipment as well as time charter vessels.

Write-downs during the financial year 2006 comprise a write-down of trade receivables and inventories relating to the unclear bookings at Neste Canada Inc.

Other expenses include services, selling expenses, insurance premiums and unrealized changes in the fair value of open oil and freight derivative positions when negative.

Fees charged by the statutory auditor, EUR thousands	2007	2006
Audit fees	560	578
Other	75	152
	635	730

11. Financial income and expenses

	2007	2006
Financial income		
- Dividend income on available-for-sale investments	0	0
- Interest income from loans and receivables	8	7
- Other financial income	0	1
	8	8
Financial expenses		
- Interest expenses for financial liabilities at amortized cost	-37	-18
- Interest rate derivatives, hedge accounted	0	0
- Interest rate derivatives, non-hedge accounted	0	5
- Other financial expenses	-3	-3
	-40	-16
Exchange rate and fair value gains and losses		
- Loans and receivables	18	8
- Other	-3	-4
- Foreign exchange derivatives, non-hedge accounted	-21	-9
	-6	-5
Financial cost – net	-38	-13

Net gains/losses on derivative financial instruments included in operating profit	2007	2006
Oil and freight derivative contracts non-hedge accounted and hedge accounted	-126	11
Foreign exchange rate derivative contracts under hedge accounting	105	19
	-21	30

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

Aggregate exchange differences charged/credited to the income statement	2007	2006
Sales	-13	-10
Materials and services	18	19
	5	9

12. Income tax expense

The major components of tax expenses are:

	2007	2006
Current tax expense	137	150
Adjustments recognized for current tax of prior periods	-1	11
Change in deferred taxes	47	44
	183	205

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:

	2007	2006
Profit before tax	763	841
Hypothetical income tax calculated at Finnish tax rate 26% (2006: 26%)	-198	-219
Effect of different tax rates of foreign subsidiaries	-1	-2
Tax exempt income	6	19
Non-deductible expense	-1	-2
Taxes for prior years	1	-11
Net results of associated companies	10	10
Other	0	0
Tax charge in the consolidated income statement	-183	-205

The Group's effective income tax rate was 24.04% (2006: 24.34%). The effective tax rate is continually being slightly lower than the Finnish corporate tax rate of 26%. The share of profits of associates and joint ventures and tax-exempt capital gains decreased the effective tax rate. The main reason for the effective tax rate is the effect of Finnish on-going business operations.

13. Earnings per share

Basic and diluted earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the year. Since the Company has not granted any options, there is no dilution. The average number of shares during the financial period 2007 has been adjusted with treasury shares, 500,000 shares, as described in note 24.

	2007	2006
Profit attributable to equity holders of the Company	577	631
Weighted average number of ordinary shares in issue (thousands)	255,971	256,404
Earnings per share basic and diluted (euro per share)	2.25	2.46

14. Dividend per share

The dividends paid in 2007 were EUR 0.90 per share, totalling EUR 231 million and 2006 EUR 0.80 per share, totalling EUR 205 million. A dividend of EUR 1.00 per share will be proposed at the Annual General Meeting on 14 March 2008, corresponding to total dividends of EUR 256 million for 2007. This dividend is not reflected in the financial statements.

15. Property, plant and equipment

2007	Land	Buildings and constructions	Machinery and equipment	Other tangible assets	Assets under construction	Total
Gross carrying amount at 1 January 2007	51	1,115	1,931	92	728	3,917
Exchange differences	1	9	-2	-	-	8
Additions	15	201	661	17	-573	321
Disposals	0	-9	-13	-1	-7	-30
Reclassifications	-	1	2	2	-5	0
Gross carrying amount at 31 December 2007	67	1,317	2,579	110	143	4,216
Accumulated depreciation and impairment losses at 1 January 2007	-	570	1,002	35	-	1,607
Exchange differences	-	7	-1	-	-	6
Disposals	-	-8	-11	-	-	-19
Reclassifications	-	-	-	-	-	0
Depreciation for the period	-	47	132	7	-	186
Accumulated depreciation and impairment losses at 31 December 2007	-	616	1,122	42	-	1,780
Carrying amount at 1 January 2007	51	545	929	57	728	2,310
Carrying amount at 31 December 2007	67	701	1,457	68	143	2,436

2006	Land	Buildings and constructions	Machinery and equipment	Other tangible assets	Assets under construction	Total
Gross carrying amount at 1 January 2006	50	1,167	1,831	93	545	3,686
Exchange differences	-	-20	-4	-	-	-24
Additions	7	70	248	8	188	521
Disposals	-1	-16	-119	-7	-3	-146
Disposal of a subsidiary	-5	-86	-2	-3	-	-96
Reclassifications	-	2	1	1	-2	2
Reclassified as non-current asset held for sale	-	-2	-24	-	-	-26
Gross carrying amount at 31 December 2006	51	1,115	1,931	92	728	3,917
Accumulated depreciation and impairment losses at 1 January 2006	-	608	1,029	40	-	1,677
Exchange differences	-	-14	-3	-	-	-17
Disposals	-	-12	-106	-6	-	-124
Disposal of a subsidiary	-	-55	-1	-2	-	-58
Reclassifications	-	1	-	-	-	1
Depreciation for the period	-	43	99	3	-	145
On non-current assets reclassified as held for sale	-	-1	-16	-	-	-17
Accumulated depreciation and impairment losses at 31 December 2006	-	570	1,002	35	-	1,607
Carrying amount at 1 January 2006	50	559	802	53	545	2,009
Carrying amount at 31 December 2006	51	545	929	57	728	2,310

1. Finance leases

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

	2007	2006
Gross carrying amount	145	145
Accumulated depreciation	32	26
Carrying amount	113	119

2. Capitalized borrowing costs

Borrowing costs amounting to EUR 6 million (2006: EUR 20 million) were capitalized during the financial period related to the Porvoo Diesel investment, which was completed during the financial period and Biodiesel investment project in Singapore. They are included in 'Additions' of 'Buildings and structures' and 'Machinery and equipment' or 'Asset under construction'. The Group's average interest rate of borrowings for each quarter was applied as the capitalization rate, which resulted in average capitalization rate of 4.20% (2006: 3.78%).

16. Intangible assets

2007	Goodwill	Other intangible assets	Total
Gross carrying amount at 1 January 2007	2	107	109
Exchange differences	-	1	1
Additions	-	13	13
Disposals	-	-9	-9
Gross carrying amount at 31 December 2007	2	112	114
Accumulated depreciation and impairment losses at 1 January 2007	-	71	71
Exchange differences	-	0	0
Disposals	-	-7	-7
Depreciation for the period	-	9	9
Accumulated depreciation and impairment losses at 31 December 2007	-	73	73
Carrying amount at 1 January 2007	2	36	38
Carrying amount at 31 December 2007	2	39	41

2006	Goodwill	Other intangible assets	Total
Gross carrying amount at 1 January 2006	11	107	118
Exchange differences	-	-1	-1
Additions	-	5	5
Disposals	-	-1	-1
Disposal of a subsidiary	-9	-3	-12
Gross carrying amount at 31 December 2006	2	107	109
Accumulated depreciation and impairment losses at 1 January 2006	-	68	68
Exchange differences	-	-1	-1
Disposals	-	-1	-1
Disposal of a subsidiary	-	-3	-3
Depreciation for the period	-	8	8
Accumulated depreciation and impairment losses at 31 December 2006	-	71	71
Carrying amount at 1 January 2006	11	39	50
Carrying amount at 31 December 2006	2	36	38

Emission allowances

Neste Oil's Porvoo and Naantali refineries come under the European Union's greenhouse gas emission trading system, and were granted a total of 9.2 million tons emission allowances for the first three-year period, 2005–2007, in February 2005. 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 emission 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.

As at 31 December 2007, emission allowances were not reflected in Neste Oil's balance sheet, since the amount of emissions during the three-year period between 2005 and 2007 was slightly less than the amount of emission allowances received. The actual amount of CO_2 emissions in 2007 were 3.2 million tons (2006: 2.8 million tons). The Group has purchased and sold emission allowances for 25 thousand tons during the financial period ended 31 December 2007.

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, Biodiesel, Specialty Products, 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:

	2007	2006
Oil Refining	2	2
Oil Retail	0	0
	2	2

17. Investments in associates and joint ventures

1. Investments in associates

Carrying amount	2007	2006
At 1 January	2	5
Sales of associates	-	-3
At 31 December	2	2

Neste Oil divested its 25% stake in CanTerm Canadian Terminals Inc. on 20 December 2006. CanTerm Canadian Terminals Inc. had been included in the consolidated financial statements as an associated company until the divestment. A complete list of Group's associated companies, countries of incorporation, and interests held is disclosed in Note 31.

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

	2006
Assets	22
Liabilities	11
Sales	49
Profit/loss	0

The financial statements of the Group's associates are not published within the Group's reporting timetable. The summarized financial information presented above, therefore, is from the latest published financial statements of the associates concerned (2006).

2. Investments in joint ventures

Carrying amount	2007	2006
At 1 January	159	121
Share of profits of joint ventures	39	39
Investments in joint ventures during the financial period	0	9
Translation differences	-6	4
Hedging reserves in joint ventures	1	-
Dividends	-17	-14
At 31 December	176	159

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

	Country of incorporation	2007 % interest held	2006 % interest held
AB Nynäs Petroleum	Sweden	49.99	49.99
Glacia Ltd	Bermuda	50.00	50.00
Lacus Ltd	Bermuda	50.00	50.00
NSE Biofuels Oy Ltd	Finland	50.00	-
Terra Ltd	Bermuda	50.00	50.00

AB Nynäs Petroleum is a Swedish company that specializes in producing and marketing bitumen in Europe and naphthenics globally. The sales volumes, incl. various fuels produced as side products, amounted to 3.9 million tons in total in 2007. 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 the majority of the company's total share capital.

Nynäs Petroleum has been subject to legal proceedings by EU and Swedish competition authorities concerning alleged anticompetitive conduct. The European Comission imposed a fine of EUR 10.6 million in October 2007 in respect of the case in Spain and a fine of EUR 13.5 million in respect of the case in the Netherlands in August 2006 on Nynäs Petroleum.

Glacia Ltd is a joint venture company owned on a 50/50 basis by Neste Oil and Stena Maritime AG (part of the Stena Group) The company owns an Aframax-size crude tanker, which joined Neste Oil fleet in January 2007. Neste Oil has entered into a 10-year time charter contract with the joint venture for the vessel.

Terra Ltd and **Lacus Ltd** are two joint venture companies owned on a 50/50 basis by Neste Oil and Concordia Maritime AG (part of the Stena Group). Both companies own Panamax-size product tankers, which joined Neste Oil fleet in January and February 2007. Neste Oil has entered into a 10-year time charter contract with the joint ventures for the vessels.

NSE Biofuels Oy is an equally owned joint venture between Neste Oil and Stora Enso located in Varkaus, Finland. The purpose of the company is to build a demonstration plant for biowax production based on gasification of wood-based biomass. The target of the demonstration facility is to develop production process for future commercialization. The company was established during the financial period 2007.

Joint ventures have been consolidated using the equity method.

Summarized financial information in respect of the Group's joint ventures is set out below:

2007	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Sales	Profit/ loss
AB Nynäs Petroleum [1]	264	583	202	343	1,254	70
Glacia Ltd	42	2	36	2	5	0
Lacus Ltd	31	13	24	2	4	0
NSE Biofuels Oy Ltd	0	0	0	0	0	0
Terra Ltd	31	2	24	2	5	0

2006	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Sales	Profit/ loss
AB Nynäs Petroleum	258	483	213	256	1,939	76
Glacia Ltd	55	2	42	3	2	0
Lacus Ltd	13	0	13	0	0	0
Terra Ltd	13	0	13	0	0	0

[1] Based on August 2007 figures.

The financial statements of all the Group's joint ventures are not published within the Group's reporting timetable. The summarized financial information presented above concerning AB Nynäs Petroleum are from the latest published interim financial statements of the company. The share of profits of joint ventures for 2007 is consolidated based on the company's preliminary results.

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

2007 Balance sheet item	Financial assets/liabilities at fair value through income statement: Hedge accounting	Financial assets/liabilities at fair value through income statement: Non-hedge accounting	Loans and receiv-ables	Available-for-sale financial assets	Financial liabilities measured at amortized cost	Carrying amounts by balance sheet item	Fair value	Note
Non-current financial assets								
Non-current receivables	-	-	3	-	-	3	3	19
Derivative financial instruments	0	22	-	-	-	22	22	23
Available-for-sale financial assets	-	-	-	2	-	2	2	19
Current financial assets								
Trade and other receivables	-	-	955	-	-	955	955	21
Derivative financial instruments	48	78	-	-	-	126	126	23
Carrying amount by category	**48**	**100**	**958**	**2**	**-**	**1,108**	**1,108**	
Non-current financial liabilities								
Interest-bearing liabilities	-	-	-	-	662	662	661	25
Derivative financial instruments	6	16	-	-	-	22	22	23
Other non-current liabilities	-	-	-	-	5	5	5	25
Current financial liabilities								
Interest-bearing liabilities	-	-	-	-	145	145	145	25
Current tax liabilities	-	-	-	-	14	14	14	25
Derivative financial instruments	1	76	-	-	-	77	77	23
Trade and other payables	-	-	-	-	1,211	1,211	1,211	25
Carrying amount by category	**7**	**92**	**-**	**-**	**2,037**	**2,136**	**2,135**	

2006 Balance sheet item	Financial assets/liabilities at fair value through income statement: Hedge accounting	Financial assets/liabilities at fair value through income statement: Non-hedge accounting	Loans and receiv-ables	Available-for-sale financial assets	Financial liabilities measured at amortized cost	Carrying amounts by balance sheet item	Fair value	Note
Non-current financial assets								
Non-current receivables	-	-	4	-	-	4	4	19
Derivative financial instruments	-	22	-	-	-	22	22	23
Available-for-sale financial assets	-	-	-	2	-	2	2	19
Current financial assets								
Trade and other receivables	-	-	808	-	-	808	808	21
Derivative financial instruments	33	44	-	-	-	77	77	23
Carrying amount by category	**33**	**66**	**812**	**2**	**-**	**913**	**913**	
Non-current financial liabilities								
Interest-bearing liabilities	-	-	-	-	516	516	515	25
Derivative financial instruments	5	16	-	-		21	21	23
Other non-current liabilities	-	-	-	-	4	4	4	25
Current financial liabilities								
Interest-bearing liabilities	-	-	-	-	267	267	267	25
Current tax liabilities	-	-	-	-	43	43	43	25
Derivative financial instruments	1	37	-	-	-	38	38	23
Trade and other payables	-	-	-	-	1,027	1,027	1,027	25
Carrying amount by category	**6**	**53**	**-**	**-**	**1,857**	**1,916**	**1,915**	

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.

19. Non-current receivables and available-for-sale financial assets

Non-current receivables	Fair value 2007	Fair value 2006	Carrying amount 2007	Carrying amount 2006
Non-current interest-bearing receivables	2	3	2	3
Other non-current receivables	1	1	1	1
	3	4	3	4

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. The maximum exposure to credit risk at the reporting date is the carrying amount of the loan receivables.

Available-for-sale financial assets	2007	2006
At 1 January	2	17
Disposals	-	15
At 31 December	2	2
Investments in unlisted equity instruments	2	2
	2	2

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

Available-for-sale financial assets sold during the financial period ended 31 December 2006

The Group also sold its 10% interest in the Saudi European Petrochemical Company Ibn Zahr in a deal completed on 3 July 2006. The Group consolidated financial statements include a EUR 84 million gain on the sale of the minority share holding in 2006. The Group expects that the deferred consideration will be settled in cash during 2008.

Net cash inflow arising from disposal	2007	2006
Cash consideration received	-	80
Deferred consideration	-	19
	-	99

20. Inventories

	2007	2006
Materials and supplies	415	236
Work in progress	179	165
Finished products and goods	373	295
Other inventories	1	1
	968	697

Inventories measured at fair value, less selling expenses amounted to EUR 38 million as at 31 December 2007 (2006: EUR 15 million). Write downs of inventories amounted to EUR 0 million as at 31 December 2007 (2006: EUR 7 million).

21. Current trade and other receivables

	Fair value 2007	Fair value 2006	Carrying amount 2007	Carrying amount 2006
Trade receivables	833	709	833	709
Other receivables	63	52	63	52
Advances paid	9	4	9	4
Accrued income and prepaid expenses	50	43	50	43
	955	808	955	808

The carrying amounts of current receivables are reasonable approximations of their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of the trade and other receivables. Impairment of trade receivables amounted to EUR 0 million (2006: EUR 4 million).

22. Cash and cash equivalents

Cash and cash equivalents include the following:

	2007	2006
Cash at bank and in hand	46	62
Short term bank deposits	6	0
	52	62
Cash related to non-current assets classified as held for sale (Note 4)	-	8
	52	70

23. Derivative financial instruments

Nominal values of interest rate and currency derivative contracts and share forward contracts	2007			2006		
	Remaining maturities < 1 year	1–5 years	Total	Remaining maturities < 1 year	1–6 years	Total
Derivative financial instruments designated as cash flow hedges or hedges of net investment in foreign operations						
Interest rate swaps [1]	-	35	35	-	41	41
Forward foreign exchange contracts	484	-	484	640	-	640
Currency options						
- Purchased	353	-	353	290	-	290
- Written	188	-	188	274	-	274
	1,025	35	1,060	1,204	41	1,245
Derivative financial instruments designated as fair value hedges						
Interest rate swaps [1]	-	60	60	-	60	60
	-	60	60	-	60	60
Non-hedge accounting derivative financial instruments						
Interest rate swaps [1]	-	250	250	-	200	200
Forward foreign exchange contracts	705	-	705	352	-	352
Share forward contracts [2]	3	14	17	-	8	8
	708	264	972	352	208	560

[1] Interest rate swaps mature in 3–5 years (2006: 4–6 years).
[2] Share forward contracts relate to share based payments (Note 29) and they mature in 0–2 years (2006: 1–2 years).

Volumes of oil and freight derivative contracts	2007			2006		
	Volume million bbl Remaining maturities < 1 year	1–3 years	Total	Volume million bbl Remaining maturities < 1 year	1–3 years	Total
Oil derivative contracts designated as cash flow hedges						
Futures and forwards						
- Sales contracts	2	-	2	2	-	2
	2	-	2	2	-	2
Non-hedge accounting oil derivative contracts [3]						
Futures and forwards						
- Sales contracts	50	8	58	48	25	73
- Purchase contracts	47	8	55	42	29	71
	97	16	113	90	54	144
Non-hedge accounting freight derivative contracts [3]						
Futures and forwards						
- Sales contracts	8	-	8	4	-	4
- Purchase contracts	15	3	18	26	9	35
Options						
- Purchased	1	-	1	-	-	-
- Written	-	-	0	-	-	-
	24	3	27	30	9	39

[3] Oil and freight derivative contracts with non-hedge accounting status consists of trading derivative contracts and cash flow hedges without hedge accounting status.

Fair values of derivative financial instruments

Interest rate and currency derivative contracts and share forward contracts	Fair value 2007 Positive < 1 year	Fair value 2007 Positive 1–5 years	Fair value 2007 Negative < 1 year	Fair value 2007 Negative 1–5 years	Fair value 2006 Positive < 1 year	Fair value 2006 Positive 1–6 years	Fair value 2006 Negative < 1 year	Fair value 2006 Negative 1–6 years
Derivative financial instruments designated as cash flow hedges or hedges of net investment in foreign operations								
Interest rate swaps [1]	-	-	-	2	-	-	-	2
Forward foreign exchange contracts	33	-	-	-	23	-	1	-
Currency options								
- Purchased	12	-	-	-	4	-	-	-
- Written	1	-	-	-	5	-	-	-
	46	-	-	2	32	-	1	2
Derivative financial instruments designated as fair value hedges								
Interest rate swaps [1]	-	-	-	4	-	-	-	3
	-	-	-	4	-	-	-	3
Non-hedge accounting derivative financial instruments								
Interest rate swaps [1]	-	6	-	-	-	7	-	-
Forward foreign exchange contracts	4	-	2	-	2	-	1	-
Share forward contracts [2]	2	-	-	0	-	2	-	-
	6	6	2	0	2	9	1	-

1) Interest rate swaps mature in 3–5 years (2006: 4–6 years).
2) Share forward contracts relate to share based payments (Note 29) and they mature in 0–2 years (2006: 1–2 years).

Oil and freight derivative contracts	Fair value 2007 Positive < 1 year	Fair value 2007 Positive 1–3 years	Fair value 2007 Negative < 1 year	Fair value 2007 Negative 1–3 years	Fair value 2006 Positive < 1 year	Fair value 2006 Positive 1–3 years	Fair value 2006 Negative < 1 year	Fair value 2006 Negative 1–3 years
Oil derivative contracts designated as cash flow hedges								
Futures and forwards								
- Sales contracts	2	-	1	-	1	-	-	-
	2	-	1	-	1	-	-	-
Non-hedge accounting oil derivative contracts [3]								
Futures and forwards								
- Sales contracts	9	2	64	14	34	7	6	7
- Purchase contracts	61	14	10	2	7	6	28	8
	70	16	74	16	41	13	34	15
Non-hedge accounting freight derivative contracts [3]								
Futures and forwards								
- Purchase contracts	2	-	-	-	1	-	2	1
Options								
- Purchased	0	-	-	-	-	-	-	-
	2	-	-	-	1	-	2	1

3) Oil and freight derivative contracts with non-hedge accounting status consists of trading derivative contracts and cash flow hedges without hedge accounting status.

Balance sheet reconciliation	2007 Assets Current	2007 Assets Non-current	2007 Liabilities Current	2007 Liabilities Non-current	2006 Assets Current	2006 Assets Non-current	2006 Liabilities Current	2006 Liabilities Non-current
Derivative financial instruments	126	22	77	22	77	22	38	21

Fair value estimations

Derivative financial instruments are initially recognized and subsequently re-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 using a variety of methods and financial valuation techniques, and assumptions are based on market quotations on the relevant balance sheet date.

The 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 the income statement depending on whether they qualify for hedge accounting.

Foreign exchange forward contracts are measured using the market rates at the balance sheet date. The fair value of currency options are calculated using market rates at the balance sheet date and by using the Black and Scholes option valuation model. Changes in the fair value of foreign currency derivative contracts are reported either in equity or in income statement depending on whether they qualify for hedge accounting.

The fair value of exchange traded oil commodity futures and option contracts as well as exchange traded freight derivative contracts is determined using the forward exchange market quotations at the balance sheet date. The fair value of over-the-counter oil and freight derivative contracts is calculated using the net present value of the forward derivative contracts quoted market prices at the balance sheet date. Changes in the fair value of oil commodity derivative contracts are reported either in equity or in the income statement depending on whether they qualify for hedge accounting or not.

24. Equity

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 2007 totalled EUR 40,000,000, divided into 256,403,686 shares of equal value.

	Number of shares, 1000	Share capital, MEUR
Registered at 1 January 2006	256,404	40
Registered at 31 December 2006	256,404	40
Registered at 1 January 2007	256,404	40
Registered at 31 December 2007	256,404	40

Treasury shares

Neste Oil has entered into an agreement with a third party service provider concerning the administration of the new share-based management share performance arrangement for key management personnel. As part of the agreement, the service provider has purchased a total of 500,000 Neste Oil shares in February 2007 in order to hedge part of Neste Oil's cash flow risk in relation to the future payment of the rewards, which will take place partly in Neste Oil shares and partly in cash during 2010 and 2013. Despite the legal form of the hedging arrangement, it has been accounted for as if the share purchases had been conducted directly by Neste Oil, as required by IFRS 2, Share based payments and SIC-12, Consolidation – Special purpose entities. The consolidated balance sheet and the consolidated changes in total equity reflect the substance of the arrangement with a deduction amounting to EUR 12 million in equity. This amount represents the consideration paid for the shares by the third party service provider.

Other reserves

Reserve fund comprises of restricted reserves other than share capital.

Fair value and other reserves include the effective portion of the change in fair value of derivative financial instruments that are designated as and qualify for cash flow hedges, amounts recognized directly in equity concerning available-for-sale investments, and concerning equity settled share based payments, the amount corresponding to the expense recognized in the income statement.

Translation differences include exchange differences arising from the translation of the net investment in foreign entities on consolidation, change in the fair value of currency instruments designated as hedges of the net investment, and exchange differences resulting from the translation of income statement of foreign entities at the average exchange rates and balance sheet at the closing rates

25. Non-current and current liabilities

	Fair value		Carrying amount	
Non-current liabilities	**2007**	**2006**	**2007**	**2006**
Bonds	193	194	196	196
Loans from financial institutions	351	190	350	189
Pension loans	39	39	38	39
Finance lease liabilities	78	92	78	92
Other non-current liabilities	1	0	1	0
Accruals and deferred income	4	4	4	4
Non-current liabilities total	666	519	667	520
of which interest-bearing			662	516

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 employing market interest rates or market values at the balance sheet date. In 2006 liabilities associated with non-current assets classified as held for sale in the consolidated balance sheet included interest-bearing liabilities amounting to EUR 1 million.

Current liabilities	Fair value 2007	Fair value 2006	Carrying amount 2007	Carrying amount 2006
Loans from financial institutions	95	258	95	258
Finance lease liabilities	5	5	5	5
Advances received	2	6	2	6
Trade payables	767	683	767	683
Other current liabilities	416	280	416	280
Current tax liabilities	14	43	14	43
Accruals and deferred expenses	71	58	71	58
Current liabilities total	1,370	1,333	1,370	1,333
of which interest-bearing			145	267

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 employing market interest rates at the balance sheet date. In 2006 liabilities associated with non-current assets classified as held for sale in the consolidated balance sheet included interest-bearing liabilities amounting to EUR 8 million.

Finance lease liabilities

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

	2007 Minimum lease payments	Future finance charges	Present value of minimum lease payments	2006 Minimum lease payments	Future finance charges	Present value of minimum lease payments
Amounts payable under finance lease:						
Within one year	9	5	4	11	6	5
Between one and five years	67	14	53	50	24	26
More than 5 years	28	2	26	71	5	66
Total amounts payable	104	21	83	132	35	97

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 the spare part leasing agreement. The bareboat agreements covering the vessels include a call option to purchase the leased asset in the 10th and 11th year of the lease period at a value determined at the inception of the lease. Neste Oil has announced it will excercise call options. The 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 rents amounted to EUR 3 million (2006: EUR 3 million).

26. Deferred income taxes

The movement in deferred tax assets and liabilities during the year 2007:

	at 1 Jan 2007	Charged to Income Statement	Charged in Equity	Exchange rate differences and other changes	at 31 Dec 2007
Deferred tax assets					
Tax loss carried forward	3	-3	-	-	0
Provisions	4	-2	-	-	2
Other temporary differences	1	4	-	-	5
Total deferred tax assets	8	-1	-	-	7
Deferred tax liabilities					
Depreciation difference and untaxed reserves	167	44	-	-	211
Excess of book basis over tax basis of property, plant and equipment	24	-5	-	-	19
Pensions	19	2	-	-	21
Cash flow hedges	10	0	4	-	14
Finance leases	6	2	-	-	8
Capitalized interest	9	1	-	-	10
Other temporary differences	4	2	-	-	6
Total deferred tax liabilities	239	46	4	-	289

The movement in deferred tax assets and liabilities during the year 2006:

	at 1 Jan 2006	Charged to Income Statement	Charged in Equity	Exchange rate differences and other changes	at 31 Dec 2006
Deferred tax assets					
Tax loss carried forward	18	-15	-	-	3
Provisions	4	0	-	-	4
Other temporary differences	1	0	-	-	1
Total deferred tax assets	23	-15	-	-	8
Deferred tax liabilities					
Depreciation difference and untaxed reserves	147	20	-	-	167
Excess of book basis over tax basis of property, plant and equipment	26	-1	-	-1	24
Pensions	16	3	-	-	19
Cash flow hedges	-9	0	19	-	10
Finance leases	1	5	-	-	6
Capitalized interest	4	5	-	-	9
Other temporary differences	7	-3	-	-	4
Total deferred tax liabilities	192	29	19	-1	239

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 and liabilities in the same jurisdictions amounting to EUR 2 million (2006: EUR 2 million) have been netted in the balance sheet.

Deferred tax assets	**2007**	**2006**
Deferred tax asset to be recovered after more than 12 months	5	5
Deferred tax asset to be recovered within 12 months	2	3
	7	8
Deferred tax liabilities	**2007**	**2006**
Deferred tax liability to be recovered after more than 12 months	264	221
Deferred tax liability to be recovered within 12 months	25	18
	289	239

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.

The deferred tax liability on undistributed earnings of subsidiaries has not been recognized in the consolidated balance sheet because distribution of the earnings is controlled by 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.

27. Provisions

	Environmental provisions	Provision to return emission allowances	Other provisions	Total
At 1 January 2007	8	1	3	12
Charged to income statement				
Additional provisions	2	-	0	2
Reversed unused provisions	-5	-1	0	-6
At 31 December 2007	5	0	3	8

	2007	**2006**
Current provisions	0	1
Non-current provisions	8	11

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 as well as 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.

28. Retirement benefit obligations

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

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

Defined benefit pension plans

The amounts recognized in the income statement	2007	2006
Current service cost	14	13
Interest cost	27	25
Expected return on plan assets	-46	-47
Net actuarial gains and losses recognized during the year	-3	-1
Total included in personnel expenses (Note 8)	-8	-10

The amounts recognized in the balance sheet	2007	2006
Present value of funded obligations	704	623
Fair value of plan assets	-781	-759
	-77	-136
Unrecognized actuarial gains and losses	7	75
Net liability (+) / asset (-) in the balance sheet	-70	-61

The movement in the asset/liability recognized in the balance sheet	2007	2006
At the beginning of the period	-61	-50
Total expense charged in the income statement	-8	-10
Contributions paid	-1	-1
At the end of the period	-70	-61

Amounts recognized in the balance sheet	2007	2006
Defined benefit pension obligations	11	12
Defined benefit pension assets	-81	-73
Net asset (-) / liability (+)	-70	-61

Changes in the present value of the defined benefit obligation	2007	2006
Opening defined benefit obligation	623	566
Service cost	14	13
Interest cost	27	25
Net transfer from TyEL pooling	5	-
Actuarial losses	55	36
Benefits paid	-18	-17
Translation differences	-2	0
Closing defined benefit obligation	704	623

Changes in the fair value of plan assets	2007	2006
Opening fair value of plan assets	759	696
Expected return	46	47
Actuarial gains / losses	-10	32
Contributions by employer	1	1
Net transfer from TyEL pooling	5	-
Benefits paid	-18	-17
Translation differences	-2	0
Closing fair value of plan assets	781	759

Analysis of the fair value of plan assets at the balance sheet date	2007	2006
Equity instruments	419	381
Debt instruments	242	288
Property	3	44
Other assets	117	46
	781	759

The actual return on plan assets was EUR 36 million (2006: EUR 79 million).

Pension plan assets include the Parent Company's ordinary shares with a fair value of EUR 30 million (2006: EUR 29 million) and in 2006 a building occupied by the Group with a fair value of EUR 27 million.

The following table shows the time series of the present value of the funded defined benefit obligation and the fair value of the plan assets, as well as experience adjustments included in them.

As at 31 December	2007	2006	2005	2004
Present value of funded obligation	704	623	566	495
Fair value of plan assets	781	759	696	556
Deficit(+)/surplus(-)	-77	-136	-130	-61
Experience adjustments on plan assets	-10	32	87	38
Experience adjustments on plan liabilities	12	8	0	0

Contribution amounting to EUR 7 million are expected to be paid to the plan during 2008.

The principal actuarial assumptions used	2007	2006
Discount rate	4.5–5.5 %	4.5–5.2 %
Expected return on plan assets	4.5–6.25 %	4.0–6.25 %
Future salary increases	3.5–5.5 %	3.5–5.1 %
Future pension increases	2.1–3.5 %	1.9–3.1 %

29. Share-based payments

Management Performance Share Arrangement in force as of 1 January 2007

Neste Oil has a Management Performance Share Arrangement for senior management and other key personnel. The Board of directors established a new scheme in 2006, which was launched at the beginning of the financial period ending 31 December 2007. As at 31 December, 49 members of senior management or other key personnel were included in the arrangement. The arrangement has two three-year earning periods, starting in 2007 and 2010. Payments shall be made in 2010 and 2013, partly in the form of Company shares and partly in cash. The Board of Directors has made decisions concerning the personnel included in the scheme only for the first earnings period which started in 2007. If the maximum targets are reached during the first earnings period, the maximum amount of reward for senior management and other key personnel will equal the value of 360,000 Neste Oil shares, of which 329,000 shares were allocated as at 31 December 2007. The maximum reward for the members of the Neste Executive Team will equal the value of 149,000 shares, of which the maximum reward for the President & CEO will equal the value of 40,000 shares. The reward for the three-year earning period may not exceed each person's total fixed gross annual salary over three years. The sum paid out in cash will cover the relevant taxes and other similar payments.

The earnings criteria for the scheme include the development of Neste Oil's comparable operating profit and the Company's total shareholder value development, benchmarked against the international oil industry share index (FTSE Global Energy Total Return Index).

The scheme entails a non-transfer requirement for shares for one year from the end of the earning period, in other words, the duration of the scheme is four years. Even following this, the Company's senior executives must hold shares with a value equal to their gross annual salary. This ownership requirement covers shares received as part of the Management Performance Share Arrangement and is effective for the duration of senior executives' employment with the Group.

The following terms and the assumptions have been used in accounting for the performance share plan:

Grant dates and prices during the financial period	2007	
Grant dates	2 Jan. 2007	25 April 2007
Grant prices, euros	20.13	24.57
Share price as at grant date, euros	23.13	26.67

The grant price, i.e. fair value at grant date, has been determined as follows: grant price equals the share price as at grant date deducted by expected dividends payable during the three year earnings period 2007–2009.

Terms and assumptions used in calculating the value of the reward	2007
Beginning of earnings period	1 Jan. 2007
End of earnings period	31 Dec. 2009
End of restriction period	31 Dec. 2010
Maximum amount of shares to be rewarded	329,000
Adjustments to the amount of shares	-10,000
Maximum amount of shares to be rewarded outstanding	319,000
Number of participants at the end of the financial period	49
Share price at the end of the financial period, euros	24.13
Estimated rate of realizations of the earnings criteria, %	60%
Estimated termination rate before the end of the restriction period, %	10%

An estimate of the realization of the earnings criteria, 60%, as well as an estimate of the termination rate, 10% were made at grant date. The estimate regarding the total shareholder value development is based on Monte Carlo simulation, using Neste Oil's share and FTSE Global Energy total Return Index historical total shareholder return and volatilities. The estimated rate of realization regarding the development of Neste Oil's comparable operating profit is based on the most recent financial estimates and market analysis, which were available for the financial periods 2007–2009 at the grant date.

Management Performance Share Arrangement in force as at 31 December 2007 and during previous accounting periods

The previous Management Performance Share Arrangement was in force during the financial period ended 31 December 2007 and previous financial periods. The criteria used in respect of the previous scheme were based on each participant's performance and their success in meeting their personal targets, as well as the targets set for the Company's financial performance and success. Approximately 60 members participated in the arrangement.

The arrangement was 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 decided annually as to the inclusion of participants in commencing performance share plans. Each performance share plan begun with a three-year earning period, during which a participant accumulates 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. The maximum value in shares a participant could 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 was 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 number of shares granted after the three-year earning period (share participation) was based on the annual bonus percentages accumulated over those three years. In order to determine the number of shares, the participant's annual salary was multiplied by the cumulative annual bonus percentages, and this figure was divided by the grant price. 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 2002–2004 were converted from Fortum shares to Neste Oil shares in 2005. As at 31 December 2007, five separate plans were in place, which had started in 2002, 2003, 2004, 2005 and 2006. Concerning the 2002 and 2003 plans, the earnings periods ended on 31 December 2004 and 2005. In December 2006 the Board of Directors decided that no new plans will commence in 2007, and that the earnings period for all remaining plans would end as at 31 December 2006. As a result, the earnings period for the plans started in 2005 and 2006 were two years and one year respectively. The restriction period for the 2004, 2005 and 2006 plans is 2007–2009.The delivery of shares to the participants is estimated to take place during the first quarter of 2008, 2009 and 2010.

The members of Neste Executive Team have been granted share participations equivalent to a total number of 228,138 shares, of which 78,151 were granted to the President and CEO, during financial periods 2005, 2006 and 2007 as part of the above described scheme. 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.

The following terms and assumptions have been used in accounting for the performance share plan. The assumptions included in each column are those concerning the share participations granted during that financial period.

	2007	2006	2005
Grant date	19 Feb 2007	23 Feb 2006	11 Feb 2005
Grant price, euros	23.85	25.02	15.00
Estimated termination rate before the end of the restriction period, %	3%	3%	3%
Share price at the end of the financial period, euros	24.13	23.03	23.88
Number of share participations granted during the financial period (100%) [1]	358,789	177,174	217,047
Adjustments to the number of share participations granted initially (100%)	-21,016	-528	-
Number of shares delivered during the financial period (100%)	0	0	0
Total number of granted share participations outstanding as at 31 December (100%) [1]	731,466	393,693	217,047

[1] after deducting taxes and other charges payable by the participants the actual number of shares to be delivered to the participants will be approximately 50% of the granted amount.

The grant price for the purpose of determining the number of shares allocated as a share participation was the trade-weighted average price of the Company's share as quoted on Helsinki Exchange during the last five trading days preceding the grant date. The shares granted during the financial period ended 31 December 2005 were originally granted as shares of Fortum Corporation, since Neste Oil was part of Fortum Group at that time. These Fortum shares were converted into shares of Neste Oil Corporation when Neste Oil was spun off from the Fortum Group. The conversion was based on the share price of Fortum Corporation at the time of the spin off (11.58 euros) and the IPO selling price of the Neste Oil share (15 euros).

Accounting treatment

The performance share arrangements are accounted for as a share based transaction with cash alternative. The portion of the earned bonus (approximately 50%) for which the participants will receive shares of Neste Oil is accounted for as an equity settled transaction, and the portion of the earned bonus to be settled in cash to cover tax and other charges payable by the participants (approximately 50%), is accounted for as a cash settled transaction. The earned bonuses are entered into the income statement spread over the earnings period and restriction period. In respect of the equity settled portion, the amounts recognized in the income statement are accumulated in equity; and in respect of the cash settled portion, a respective liability is entered into the balance sheet. The liability is measured at fair value at each reporting date, and the respective change in the fair value is reflected in operating profit in the income statement.

The expense recognized in the income statement is specified in the following table.

	2007	2006
Expense recognized concerning the plans under earnings period	1	2
Expense recognized concerning the plans under restriction period	3	1
Total	4	3
Fair value measurement as at reporting date concerning the plans under restriction period	1	1
Total expense charged to the income statement	5	4
Change in the fair value of the hedging instrument	-1	-1
Net effect of share based payments in the income statement	4	3

The liability recognized in the balance sheet related to share based payments amounted to EUR 6 million (2006: EUR 4 million). The remaining amount of the expense to be recognized during the financial periods 2008, 2009 and 2010 amounted to EUR 7 million as at 31 December 2007. The actual amount may differ from this estimate.

Hedging

The Group hedges its exposure to the share price development during the time period between the grant date and the delivery date concerning both Performance Share Arrangements. The hedging arrangement concerning the new Management Performance Share Arrangement is accounted for as treasury shares and has been described in detail in Note 24.

The previous Management Performance Share Arrangement is hedged using a net cash settled share forward. The hedge covers both the equity settled and the cash settled portions of the earned bonus. The hedging instrument is measured at fair value at each reporting date and the change in the fair value of the hedging instrument is recognized in the income statement to offset the change in the fair value of the bonus liability. The nominal and fair value of the hedging instrument is disclosed in Note 23.

30. Related party transactions

The Group is controlled by the State of Finland, which owns 50.1 % of the Company's shares. The remaining 49.9 % of shares are widely held.

The group has a related party relationship with its subsidiaries, associates, joint ventures (Note 31) and with the members of the Board of Directors, the President and CEO and other members of the Neste Executive Team. The transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated during consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below. All transactions between Neste Oil and other companies owned by the State of Finland are on arm's length basis.

1. Transactions carried out with related parties

2007	Sales of goods and services	Purchases of goods and services	Receivables	Financial income and expense	Liabilities
Associates	0	8	0	0	1
Joint ventures	67	6	2	0	0
	67	14	2	0	1

2006	Sales of goods and services	Purchases of goods and services	Receivables	Financial income and expense	Liabilities
Associates	0	6	0	0	0
Joint ventures	59	6	2	1	2
	59	12	2	1	2

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

2. Key management compensation

	2007	2006
Salaries and other short-term employee benefits	3	3

Key management consists of the members of the Board of Directors, President and CEO and other members of the Neste Executive Team. There were no outstanding loan receivables from key management on 31 Dec 2007 or 31 Dec 2006.

The amounts of share participations granted to the members of the Neste Executive Team and the President and CEO based on Managment Performance Share Arrangements have been disclosed in Note 29, Share based payments.

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

EUR	2007	2006
Risto Rinne, President and CEO	774,154	719,743
Board of Directors		
Timo Peltola, chairman	62,500	64,500
Mikael von Frenckell, vice chairman	49,500	51,500
Michiel A. M. Boersma	32,500	0
Ainomaija Haarla	37,500	39,500
Kari Jordan	9,000	39,500
Juha Laaksonen	10,000	38,500
Nina Linander	42,500	42,500
Antti Tanskanen	24,500	0
Pekka Timonen	37,000	41,000
Maarit Toivanen-Koivisto	37,000	41,000
Board of Directors, all members total	342,000	358,000
Supervisory Board, all members total	62,000	63,000

Compensation to the Board of Directors include annual remuneration and meeting fee paid to each member of the Board for each meeting attended as well as for any meetings of the Board committees attended.

In the event the Company decides to give notice of termination to the President and Chief Executive Officer, he will be 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 salary.

31. Group companies on 31 December 2007

Subsidiaries	Group holding%	Country of incorporation
Kide Automaatit Oy	100.00%	Finland
Neste Canada Inc.	100.00%	Canada
Neste Crude Oil Inc.	100.00%	USA
Neste Eesti AS	100.00%	Estonia
Neste Jacobs Oy	60.00%	Finland
Neste LPG AB	100.00%	Sweden
Neste Markkinointi Oy	100.00%	Finland
Neste Oil AB	100.00%	Sweden
Neste Oil Bio Asset Management Oy[1]	100.00%	Finland
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 N.V.	100.00%	Belgium
Neste Oil Portugal S.A.	100.00%	Portugal
Neste Oil Services Inc.	100.00%	USA
Neste Oil Singapore Pte Ltd[2]	100.00%	Singapore
Neste Oil US, LLC	100.00%	USA
Neste Petroleum Inc.	100.00%	USA
Neste Polska Sp.z.oo	100.00%	Poland
Neste Shipping 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
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

Associated companies	Group holding%	Country of incorporation
Alberta Envirofuels Inc.	50.00%	Canada
Innogas Oy AB	50.00%	Finland
Nemarc Shipping Oy	50.00%	Finland
Neste Arabia Co. Ltd	48.00%	Saudi-Arabia
Oy Atlas-Öljy AB	40.00%	Finland
Porvoon Alueverkko Oy	33.33%	Finland
Repsol Producao de Electricidade e Calor, Ace	33.33%	Portugal
Svartså Vattenverk-Mustijoen Vesilaitos	40.00%	Finland
Tahkoluodon Polttoöljy Oy	31.50%	Finland
Tapaninkylän Liikekeskus Oy	40.03%	Finland
Vaskiluodon Kalliovarasto Oy	50.00%	Finland

Joint ventures	Group holding%	Country of incorporation
AB Nynäs Petroleum	49.99%	Sweden
Glacia Ltd	50.00%	Bermuda
Lacus Ltd	50.00%	Bermuda
NSE Biofuels Oy Ltd[2]	50.00%	Finland
Terra Ltd	50.00%	Bermuda

[1] Name change.
[2] Founded during the financial period.

32. Contingencies and commitments

Contingent liabilities	2007 Debt	2007 Value of collateral	2006 Debt	2006 Value of collateral
On own behalf				
For debt				
Pledges	1	4	4	8
Real estate mortgages	0	26	0	25
For other commitments				
Real estate mortgages	0	0	0	0
Other contingent liabilities	0	42	0	28
Total	1	72	4	61
On behalf of associates and joint ventures				
Guarantees	2	2	6	6
Other contingent liabilities	1	1	0	1
Total	3	3	6	7
On behalf of others				
Guarantees	12	12	6	6
Other contingent liabilities	0	0	0	1
Total	12	12	6	7
	16	87	16	75

Operating lease liabilities	2007	2006
Due within one year	108	117
Due between one and five years	183	191
Due later than five years	119	165
	410	473

Operating leases

Lease rental expenses amounting to EUR 137 million (2006: EUR 110 million) relating to the lease (under operating leases) of property, plant and equipment are included in the income statement in other expenses.

Commitments	2007	2006
Commitments for purchase of property, plant and equipment	88	44
Commitments for purchase of intangible assets	0	2
	88	46

Other contingent liabilities

Neste Oil Corporation has a collective contingent liability with Fortum Heat and Gas Oy related to liabilities of the demerged Fortum Oil and Gas Oy based on Chapter 17 Paragraph 16.6 of the Finnish Companies Act´s.

33. Disputes and potential litigations

The Group is involved as a claimant or defendant in certain potential legal disputes, whose outcomes are difficult to predict. Some of these relate to investment projects completed during the financial period, and include several counterparties.

34. Financial risk management

Risk management principles

A number of risk management strategies have been developed to address the impact of the risks related to Neste Oil's business activities. The Neste Oil Corporate Risk Management Policy, the updated umbrella policy document approved by the Board of Directors during the 2007 financial period, defines risk management principles for the risks threatening the strategic and operational targets of the Group and its divisions and functions. The policy also defines risk management structures, processes, and terminology for communicating and reporting risks and risk management.

The policy defines detailed principles covering the management of corporate and divisional strategic risks, operational risks, market risks, counterparty risks, legal risks, and risks involving human safety. The Corporate Risk Management Policy complements Neste Oil's other risk management principles and instructions. The Treasury Risk Management Policy and the Credit and Counterparty Risk Management Policy are also approved by the Board of Directors. Operational divisions, together with corporate and other functions, have their own principles and procedures related to risk management, approved by the President & Chief Executive Officer. The Board of Directors' Audit Committee regularly reviews and monitors financial risk management principles, policies, risk limits, and other risk management activities.

The management of financially related risks aims to reduce the volatility in earnings, the balance sheet, and cash flow, while securing effective and competitive financing for the Group.

Risk management organization

Risks are generally managed at source, within the Group's divisions. Corporate Risk Management is responsible for managing and coordinating the enterprise risk management process.

Neste Oil's Group Treasury is responsible for managing foreign exchange, interest rate, liquidity, and refinancing risks, and works in close cooperation with the Group's divisions. Group Treasury and Corporate Risk Management units are organized within Neste Oil's Finance function, headed by the Chief Financial Officer.

Credit and counterparty risk management is organized within Corporate Risk Management. Decisions on the creditworthiness of counterparties are taken at the relevant levels of the line organization, as well as the Credit Committee, which consists of divisional representatives, and Group Treasury and Corporate Risk Management.

Oil price risk management is organized in Oil Refining division's Risk Management unit, which manages hedging for the Group's refining margin, refinery inventory price risk, and various position transactions, including managing the price risk associated with the obligation to return emission allowances. The Risk Management unit also provides oil price hedging services to internal and external counterparties. Oil Refining's Trading & Supply unit, and other divisions to a smaller degree, enter into derivative contracts to limit the price risk associated with certain physical oil and freight contracts. Oil Refining's Trading & Supply unit together with the Shipping division enters into derivative transactions for trading purposes within consolidated risk limits.

Risk management process

Corporate Risk Management drives the risk management process and develops and reviews risk control processes. Divisional risk management supports the Group's businesses in managing the threats and opportunities linked to day-to-day business; and participates in corporate-level risk management identification and assessment, as well as management and control.

Neste Oil's risk management reporting is coordinated by the Chief Financial Officer. Major Group-level risks and risk management capability levels are reported to the Board of Directors, the Audit Committee, the President & Chief Executive Officer, and other corporate management four times a year. A report on the market and financing risks of divisions and the Group is included in the monthly management report.

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 given period are principally driven by the 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 own consumption of crude oil and other feedstocks and output of refined products, drive operational performance and cash flows in Oil Refining, which is Neste Oil's largest business division 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 using derivative financial instruments. The level of hedging depends on the forecast for the period in question and management's view of market conditions. The normal convention, however, is that the total refining margin for 10% of Neste Oil's refinery output volume over each rolling 12-month period will be hedged. Hedging transactions are targeted at the components of Neste Oil's total refining margin, based on its forecasted 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 financial 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 will remain exposed to some degree of basis risk. The normal levels of 10% 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 remains relatively constant over time, at approximately 70–80% of total inventory volumes, and is referred to as the 'base' inventory. This 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 its refineries 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. Due to the relatively constant level of base inventory, however, no significant cash risk is presented thereby. As a result, hedging operations related to price risk do not target the base inventory. Instead, Neste Oil's inventory risk management policies target inventories in excess of the 'base inventory' inasmuch as these stocks create cash flow risks depending on the relationships between feedstock purchases, refinery production, and refined petroleum product sales over any given period.

The amount of inventories in excess of base inventory that Neste Oil will seek to hedge at any given time depends on management's view as to the likely magnitude and duration of the excess inventory over base levels and general market conditions. In practice, however, the entire excess inventory position is typically hedged.

Note 23 summarizes the exposure to open positions of oil derivative contracts as of 31 December 2007 (2006).

2. Foreign exchange risk

As the pricing currency used in the oil industry is the 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, and in the Group'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 on a rolling basis, with forecasted net foreign currency cash flows for the first six months hedged 100% and the following six months hedged 50%. Deviations from this risk-neutral benchmark position are subject to separate approvals set by the Group Treasury Risk Policy. The Group's net exposure is managed through the use of forward contracts, swaps, and options. All transactions are made for hedging purposes and are hedge accounted for. The most important hedged currency is the U.S. dollar. Divisions are responsible for forecasting net foreign currency cash flows, while Group Treasury is responsible for implementing hedging transactions.

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. The principle is to hedge this balance sheet exposure fully using forward contracts and options. Open exposures are allowed based on risk limits set by the Group Treasury Risk Policy. The largest and most volatile item in terms of 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 linked to the U.S. dollar environment, the daily exposure of net working capital is hedged as part of the balance sheet hedge in order to neutralize the effect of volatility in euro/U.S. dollar exchange rate. During 2007, the range of daily balance sheet exposure fluctuated between approximately EUR 165 million and 445 million. Group Treasury is responsible for consolidating various balance sheet items and carrying out hedging transactions. Foreign exchange risk is estimated by measuring the impact of currency rate changes based on historical volatility. Stress testing is also carried out based on extreme market movements.

The table below shows the nominal values of the Group's interest-bearing debt by currency as of 31 December, in millions of euros.

Currency	2007	2006
EUR	715	687
USD	76	99
Other	16	6
	807	792

Note 23 summarizes the nominal and fair values of outstanding foreign exchange derivative contracts as of 31 December 2007 (2006).

Translation exposure

Group Treasury is responsible for managing Neste Oil's translation exposure. This consists of net investments in foreign subsidiaries, joint ventures, and associated companies. Although the main principle is to leave translation exposure unhedged, Neste Oil may seek to reduce the volatility in its consolidated shareholder's equity through hedging transactions. Forward contracts are used to hedge translation exposure. Any hedging decisions are made on a case-by-case basis by Group Treasury, based on 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 401 million as of 31 December 2007 (2006: EUR 342 million), and the exposures and hedging ratios are summarized in the following table. As at 31 December 2007 the Group had not hedged the translation exposure.

Group translation exposure EUR million	2007 Investment	Hedge	Hedge %	2006 Investment	Hedge	Hedge %
USD	37	-	0%	27	8	30%
SEK	124	-	0%	105	40	38%
CAD	73	-	0%	81	60	74%
PLN	20	-	0%	17	-	0%
RUB	56	-	0%	46	-	0%
EEK	40	-	0%	34	-	0%
LTL	26	-	0%	23	-	0%
Other	25	-	0%	9	-	0%
	401	-	0%	342	108	32%

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 expenses in the income statement. The risk-neutral benchmark duration for the debt portfolio is 12 months, and duration can vary between six and 36 months. Interest rate derivatives have been used to adjust the duration of the net debt portfolio. The Group's interest rate risk management is handled by Group Treasury. Note 23 summarizes the nominal and fair values of outstanding interest rate derivative contracts as of 31 December 2007 (2006).

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

Period in which repricing occurs	within 1 year	1 year– 5 years	Total
Financial instruments with floating interest rate			
Financial liabilities			
Bonds	80	-	80
Loans from financial institutions	489	-	489
Pension loans	38	-	38
Finance lease liabilities	83	-	83
Other	1	-	1
Effect of interest rate swaps	-225	225	0
Financial instruments with fixed interest rate			
Bonds	-	116	116
	466	341	807

4. Key sensitivities to market risks

Sensitivity of operating profit to market risks arising from the Group's operations

Due to the nature of its operations, the Group's financial performance is sensitive to the market risks described above. The following table details the approximate impact that movements in the Group's key price and currency exposures would have on its operating profit for 2008 (2007), based on assumptions regarding the Group's reference market and operating conditions, but excluding the impact of hedge transactions.

Approximate impact on operating profit, excluding hedges		2008	2007
10 % in the EUR/USD exchange rate	EUR million	+/– 100–125	+/– 100–125
USD 1.00/barrel in total refining margin	USD million	+/– 110	+/– 115
USD 1.00/barrel in crude oil price	USD million	+/– 10	+/– 10

Sensitivity to market risks arising from financial instruments as required by IFRS 7

The following analysis, required by IFRS 7, is intended to illustrate the sensitivity of the Group's profit for the year and equity to changes in oil prices, the EUR/USD exchange rate, and interest rates, resulting from financial instruments, such as financial assets and liabilities and derivative financial instruments, as defined by IFRS, included in the balance sheet as of 31 December 2007 (2006). Financial instruments affected by the above market risks include working capital items, such as trade and other receivables and trade and other payables, interest-bearing liabilities, deposits, cash and cash equivalents, and derivative financial instruments. When cash flow hedge accounting is applied, the change in the fair value of derivative financial instruments is assumed to be recorded fully in equity.

The following assumptions were made when calculating the sensitivity to the change in oil prices:

- the flat price variation for oil derivative contracts of crude oil and refined oil products is assumed to be +/– 10%
- the sensitivity related to oil derivative contracts held for hedging refinery oil inventory position is included; the underlying physical oil inventory position is excluded from the calculation, since inventory is not a financial instrument
- the sensitivity related to oil derivative contracts held for hedging future expected refining margin is included; the underlying expected refining margin position is excluded from the calculation
- the sensitivity related to oil derivative contracts for the price difference between various petroleum product qualities is excluded from the calculation, as the price variation of these contracts is assumed to be zero
- the sensitivity related to oil derivative contracts for the time spread of crude oil and petroleum products is excluded from the calculation, as the price variation of these contracts is assumed to be zero.

The following assumptions were made when calculating the sensitivity to changes in the EUR/USD exchange rate:

- the variation in EUR/USD-rate is assumed to be +/– 10%
- the position includes USD-denominated financial assets and liabilities, such as interest-bearing liabilities, deposits, trade and other receivables, liabilities, and cash and cash equivalents, as well as derivative financial instruments
- the position excludes USD-denominated future cash flows.

The following assumptions were applied when calculating the sensitivity to changes in interest rates:

- the variation of interest rate is assumed to be a 1% parallel shift in the interest rate curve
- the interest rate risk position includes interest-bearing liabilities, interest-bearing receivables, and interest rate swaps
- the income statement is affected by changes in the interest rates of floating-rate financial instruments, excluding those derivative financial instruments that are designated as and qualifying for cash flow hedges, which are recorded directly in equity.

The sensitivity analysis presented in the following table may not be representative, since the Group's exposure to market risks also arises from other balance sheet items than financial instruments, such as inventories. As the sensitivity analysis does not take into account future cash flows, which the Group hedges in significant volumes, it only reflects the change in fair value of hedging instruments. In addition, the size of the exposure sensitive to changes in the EUR/USD exchange rate varies significantly, so the position on the balance sheet date may not be representative for the financial period on average. Equity in the following table includes items recorded directly in equity, as well as those affecting equity through the income statement.

Sensitivity to market risks arising from financial instruments as required by IFRS 7		**2007** Income statement	Equity	**2006** Income statement	Equity
+/– 10% change in oil price	EUR million	–/+ 11	–/+ 11	–/+ 13	–/+ 13
+/– 10% change in EUR/USD exchange rate	EUR million	+41 / –50	+95 / –101	+24 / –29	+74 / –84
1% parallel shift in interest rates	EUR million	–/+ 3	–/+ 3	–/+ 3	–/+ 3

5. Hedge accounting

The Group uses foreign currency derivatives contracts 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 derivative contracts have been designated as hedges of forecasted transactions, e.g. cash flow hedges, net investment hedges, or as derivative financial instruments not meeting hedge accounting criteria. The Group mainly uses foreign exchange forward contracts and options as hedging instruments.

With the aim of securing a minimum refining margin per barrel, the Group hedges its refining margin using oil commodity derivative contracts. Certain oil commodity derivative contracts have been designated as hedges of forecasted transactions, e.g. cash flow hedges.

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

Cash flow hedges

The portion of the Group's foreign currency derivatives contracts, oil commodity derivative contracts hedging the refining margin, and interest rate swaps directly linked to underlying funding transactions that meet the qualifications for hedge accounting are designated as cash flow hedges. Under cash flow hedging, the Group has predetermined a portion of its estimated U.S. dollar sales and purchases for the next 12-month period, as well as a portion of interest expense cash flow between 2008 and 2013. The effective portion of the changes in the fair value of the derivative financial instruments 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. Back testing is conducted on a quarterly basis to review the effectiveness of hedging transactions.

Amounts accumulated in equity are recycled in the income statement within sales or finance income and expenses during the periods when the hedged item affects profit or loss, e.g. when a forecasted sale that is being hedged takes place. This is expected to take place within the next 12 months from the balance sheet date concerning estimated U.S. dollar sales and purchases. Movements in hedging reserve are presented in the statement of changes in equity.

Fair value hedges

Certain interest rate swaps are designated as fair value hedges. Changes in the fair value of the derivative financial instruments 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. The ineffective portion is also recognized in the income statement.

Items recognized in the income statement	**2007**	**2006**
- gain or loss on the hedging instrument	1	-2
- gain or loss on the hedged item	0	2

Hedges of net investments in foreign entities

Hedges of the 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.

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 Group 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 Group seeks to reduce liquidity and refinancing risks by maintaining a diversified maturity profile in its loan portfolio. Certain other limits have also been set to minimize liquidity and refinancing risks. The Group must always have access to unutilized, committed credit facilities to cover all loans maturing within the next 12 months and any potential forecasted negative cash flows after investment activities. Unutilized committed credit facilities must always amount to at least EUR 500 million. In addition, total short-term financing shall not account for more than 30% of the total interest-bearing liabilities.

The average loan maturity as of 31 December was 4.6 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 of 31 December 2007, the Company had cash and cash equivalents and committed, unutilized credit facilities totaling EUR 1,492 million at its disposal.

Cash and cash equivalents and committed unutilized credit facilities	**2007**	**2006**
Floating rate		
- cash and cash equivalents	52	70
- overdraft facilities, expiring within one year	60	97
- revolving multicurrency credit facility, expiring beyond one year	1,380	1,500
	1,492	1,667

As of 31 December 2007, the contractual maturity of interest-bearing liabilities was as follows:

	2008[1]	2009	2010	2011	2012	2013–	Total
Bonds and debentures	8	86	4	4	124	-	226
- less finance charges	8	6	4	4	4	-	26
Repayment of bonds and debentures	-	80	-	-	120	-	200
Loans from financial institutions	157	17	17	17	132	255	595
- less finance charges	18	17	17	17	12	25	106
Repayment of loans from financial institutions	139	0	0	0	120	230	489
Pension loans	2	2	2	2	2	40	50
- less finance charges[2]	2	2	2	2	2	2	12
Repayment of pension loans	-	-	-	-	-	38	38
Finance lease liabilities	10	10	9	8	8	64	109
- less finance charges	5	5	4	4	4	4	26
Repayment of finance lease liabilities	5	5	5	4	4	60	83
Other liabilities	1	0	0	0	0	0	1
- less finance charges	0	0	0	0	0	0	0
Repayment of other long-term liabilities	1	0	0	0	0	0	1
Interest rate swaps							
- less finance charges	-2	-2	2	1	-1	-	-2

1) Repayments in 2008 are included in current liabilities in the balance sheet.
2) While pension loan is a perpetual loan, finance charges in 2013 include payment only from one year.

Finance charges are primarily interest expenses. The contractual maturities of derivative financial instruments are included in Note 23.

As of 31 December 2006, the contractual maturity of interest-bearing liabilities was as follows:

	2007[1]	2008	2009	2010	2011	2012–	Total
Bonds and debentures	8	8	86	4	4	124	234
- less finance charges	8	8	6	4	4	4	34
Repayment of bonds and debentures	-	-	80	-	-	120	200
Loans from financial institutions	272	9	7	7	7	209	511
- less finance charges	7	7	7	7	7	19	54
Repayment of loans from financial institutions	265	2	0	0	0	190	457
Pension loans	2	2	2	2	2	41	51
- less finance charges[2]	2	2	2	2	2	2	12
Repayment of pension loans	-	-	-	-	-	39	39
Finance lease liabilities	11	10	10	11	10	80	132
- less finance charges	6	5	5	5	5	9	35
Repayment of finance lease liabilities	5	5	5	6	5	71	97
Other liabilities	5	0	0	0	0	0	5
- less finance charges	0	0	0	0	0	0	0
Repayment of other long-term liabilities	5	0	0	0	0	0	5
Interest rate swaps							
- less finance charges	-1	-1	-1	4	1	0	2

1) Repayments in 2007 are included in current liabilities in the balance sheet.
2) While pension loan is a perpetual loan, finance charges in 2012 include payment only from one year.

Credit and counterparty risk

Credit risk arises from the potential failure of a counterparty to meet its contractual payment obligations, and the amount of risk depends on the creditworthiness of the counterparty. In addition, counterparty risk arises in conjunction with cash investments and hedging instruments. The objective of credit and counterparty risk management is to minimize the losses incurred as a result of a counterparty not fulfilling its obligations. The management principles for credit and counterparty risk are covered in the Neste Oil Credit and Counterparty Risk Management Policy approved by the Board of Directors, and risk management is implemented through authority mandates across the organization.

The amount of risk is quantified as the expected loss to Neste Oil in the event of a default by a counterparty. Credit risk limits are set at the Group level, designated by different levels of authorization and delegated to Neste Oil's divisions. The latter are responsible for counterparty risk management within these limits. When determining the credit lines for sales contracts for oil deliveries, counterparties are screened and evaluated vis-à-vis their creditworthiness to decide whether an open credit line is acceptable or a collateral has to be posted. In the event that a collateral is required, the credit risk is evaluated based on a financial evaluation of the party posting the collateral. If appropriate in terms of the potential credit risk associated with a specific customer, advance payment is required before delivery of products or services.

The credit lines for counterparties are divided into two categories according to contract type: physical sales contracts and derivative contracts. Credit lines are restricted in terms of the time horizon associated with the payment and credit exposure risk. In determining counterparty credit limits, two levels of delegation are used: authority mandates to the rated counterparties by the general rating agencies and authority mandates related to other counterparties. Treasury reduces the Group's credit risk by executing transactions only with most creditworthy counterparties with approved counterparty risk limits. The minimum counterparty rating requirement by Treasury is BBB. For OTC (over-the-counter) derivative financial instrument contracts, Neste Oil has negotiated a framework agreement in the form of an ISDA (International Swaps and Derivatives Association, Inc.) agreement with the main counterparties.

As of the balance sheet date, there is no major concentration of credit risk in respect of trade receivables from any single counterparty or counterparties within a same group, as the Group has a large number of different customers and counterparties on international markets. As to the range of the counterparties, the most significant types are mainly large international oil companies and credit worthy financial institutions. The following table shows an analysis of trade receivables by age.

Analysis of trade receivables by age	**2007**	**2006**
Undue trade receivables	781	658
Trade receivables 1–30 days overdue	40	44
Trade receivables 31–60 days overdue	1	3
Trade receivables more than 60 days overdue	11	4
	833	709

Capital risk management

The Group's objective when managing capital is to secure an efficient capital structure that gives the Group access to capital markets at all times despite the volatile nature of the industry in which Neste Oil operates. Despite the fact that the Group does not have a public rating, the Group's target is to have a capital structure equivalent to that of other oil refining companies with a public investment grade rating. The capital structure of the Group is reviewed by the Board of Directors on a regular basis.

The Group monitors its capital on the basis of leverage ratio, the ratio of interest-bearing net debt to interest-bearing net debt plus total equity. Interest-bearing net debt is calculated as interest-bearing liabilities less cash and cash equivalents.

Over the cycle, the Group's leverage ratio is likely to fluctuate, and it is the Group's objective to maintain the leverage ratio within the range of 25–50%. The leverage ratio as of 31 December 2007 and 2006 was as follows:

	2007	**2006**
Total interest-bearing liabilities	807	792
Cash and cash equivalents	52	70
Interest-bearing net debt	755	722
Total equity	2,427	2,097
Interest-bearing net debt and total equity	3,182	2,819
Leverage ratio	23.7%	25.6%

35. Events after the balance sheet date

On 3 January 2008 Neste Oil announced that its subsidiary, Neste Jacobs, will acquire 90% of the shares of an engineering company Rintekno, which employs 230 people. Prior to this, Neste Jacobs already owned a 10% holding in the company. In the transaction, the company's main owner, BE&K Inc. of the US, and the Rintekno management will sell their shares to Neste Jacobs. The acquisition is not expected to have material impact on Neste Oil Group income statement or balance sheet.

Neste Jacobs and Rintekno have worked together for a number of years in connection with engineering of Neste Oil's investments projects. Most recent joint projects of Neste Jacobs and Rintekno include the new Diesel line at Neste Oil's Porvoo Refinery commissioned last year and the new NExBTL Renewable Diesel plant, also commissioned there last year.

Parent company income statement

MEUR	Note	1 Jan–31 Dec 2007	1 Jan–31 Dec 2006
Net sales	2	9,254	8,585
Change in product inventories and work in progress		90	30
Other operating income	3	18	146
Materials and services	4	-8,133	-7,439
Personnel expences	4	-144	-152
Depreciation, amortization and write-downs	8	-120	-94
Other operating expenses	4	-344	-435
Operating profit		621	641
Financial income and expenses	5	246	-4
Profit before extraordinary items		867	637
Extraordinary items	6	23	23
Profit before appropriations and taxes		890	660
Appropriations		-158	-80
Income tax expense	7	-111	-164
Profit for the year		621	416

Parent company balance sheet

MEUR	Note	31 Dec 2007	31 Dec 2006
ASSETS			
Fixed assets and other long-term investments	8, 9		
Intangible assets		22	21
Tangible assets		1,802	1,832
Shares in group companies		474	396
Shares in associated companies		1	15
Other shares		1	1
Interest-bearing receivables		181	92
Interest-free receivables		12	-
		2,493	2,357
Current assets			
Inventories	10	755	476
Trade receivables		740	688
Other receivables	11	91	95
Deferred tax assets		3	5
Cash and cash equivalents		10	20
		1,599	1,284
Total assets		4,092	3,641
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	12		
Share capital		40	40
Retained earnings		583	398
Profit for the year		621	416
		1,244	854
Accumulated appropriations	13	699	615
Provisions for liabilities and charges	14	12	18
Liabilities	15, 16		
Long-term liabilities			
Interest-bearing		819	528
Interest-free		6	6
		825	534
Short-term liabilities			
Interest-bearing		262	652
Interest-free		1,050	968
		1,312	1,620
Total equity and liabilities		4,092	3,641

Parent company cash flow statement

MEUR	1 Jan–31 Dec 2007	1 Jan–31 Dec 2006
Cash flows from operating activities		
Profit before extraordinary items	867	637
Depreciation, amortization and write-downs	120	94
Other non-cash income and expenses	-6	-22
Financial income and expenses	-246	4
Divesting activities, net	-2	-124
Operating cash flow before change in working capital	733	589
Change in working capital		
Decrease (+)/increase (-) in interest-free receivables	-41	-191
Decrease (+)/increase (-) in inventories	-283	-45
Decrease (-)/increase (+) in interest-free liabilities	169	97
Change in working capital	-155	-139
Cash generated from operations	578	450
Interest and other financial expenses paid, net	-47	-31
Dividends received	36	39
Income taxes paid	-153	-115
Realized foreign exchange gains and losses	-22	-11
Group contributions received, net	23	16
Net cash from operating activities	415	348
Cash flows from investing activities		
Capital expenditures	-250	-436
Proceeds from sales of fixed assets	6	67
Investments in shares in subsidiaries	-49	-189
Investments in shares in associated companies	-	-9
Proceeds from sales of shares in subsidiaries	2	45
Proceeds from sales of other shares [1]	-	80
Change in other investments, increase (-)/decrease (+)	-81	121
Net cash used in investing activities	-372	-321
Cash flow before financing activities	43	27
Cash flows from financing activities		
Proceeds from long-term liabilities	726	721
Payments of long-term liabilities	-436	-751
Change in short-term liabilities	-112	203
Dividends paid	-231	-205
Cash flow from financing activities	-53	-32
Net increase (+) / decrease (-) in cash and cash equivalents	-10	-5
Cash and cash equivalents at the beginning of the period	20	25
Cash and cash equivalents at the end of the period	10	20
Net increase (+) / decrease (-) in cash and cash equivalents	-10	-5

[1] EUR 19 million relating to the disposal of Saudi European Petrochemical Company Ibn Zahr has not been received at 31 December 2007.

Notes to the parent company financial statement

1. Accounting policies

The financial statements of Neste Oil Corporation (Parent company) are prepared in accordance with Finnish GAAP. The financial statements are presented in millions of euros unless otherwise stated.

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 financial instruments.

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 uses derivative financial instruments mainly to hedge oil price, foreign exchange and interest rate exposures.

Oil commodity derivative contracts 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 is closed with a similar instrument.

There are two different types of foreign exchange derivative contracts: hedges for future cash flow and hedges of balance sheet items. Gains or losses on derivative financial instrument that hedge future cash flows are recognised once the underlying income or expense occurs. Derivative financial instrument 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 recognised in the income statement. The interest element on all forward contracts is accrued. Option premiums are treated as advances paid or received until the option matures. Gains or losses for derivative financial instrument 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
Other equipment and vehicles	3–15 years
Other tangible assets	20–40 years
Intangible assets	3–10 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.

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 Naantali refinery has been reversed against the costs incurred in 2006. Costs for new shutdowns are not provided for.

2. Net sales

Net sales by segment	2007	2006
Oil Refining	9,239	8,442
Oil Retail	1	1
Shipping	-	294
Other	23	16
Eliminations	-9	-168
	9,254	8,585

Net sales by market area	2007	2006
Finland	4,212	3,994
Other Nordic countries	1,254	1,081
Baltic countries, Russia and Poland	450	189
Other European countries	2,285	2,167
North and South America	1,040	1,083
Other countries	13	71
	9,254	8,585

3. Other operating income

	2007	2006
Rental income	8	7
Gains on sales of other shares	2	84
Gains on sales of fixed assets	-	40
Government grants	1	11
Other	7	4
	18	146

4. Materials, services, staff costs and other operating expenses

	2007	2006
Materials and services		
Materials and supplies		
Purchases during the period	8,325	7,454
Change in inventories	-193	-15
External services	1	-
Personnel expenses		
Wages, salaries and remunerations	118	132
Indirect employee costs		
Pension costs	13	4
Other indirect employee costs	13	16
Other operating expenses		
Operating leases and other property costs	15	112
Freights relating to sales	118	59
Repairs and maintenance	73	74
Other	138	190
	8,621	8,026

Fees charged by the statutory auditor

EUR thousands	2007	2006
Audit fees	286	188
Other	74	80
	360	268

Salaries and remuneration

Key management compensations are presented in Note 30 in the Neste Oil Group consolidated financial statements.

Average number of employees	2007	2006
Oil Refining	2,071	2,035
Shipping	-	515
Other	199	166
	2,270	2,716

5. Financial income and expenses

Financial income and expenses	2007	2006
Income from other long-term investments		
Dividend income from Group companies	305	42
Interest income from Group companies	1	2
Other interest and financial income		
From Group companies	4	2
Other	4	3
Exchange rate differences	-14	-8
Interest expenses and other financial expenses		
To Group companies	-15	-11
Other	-39	-34
	246	-4

Total interest income and expenses	2007	2006
Interest income	9	7
Interest expenses	-52	-42
Net interest expenses	-43	-35

6. Extraordinary items

	2007	2006
Extraordinary income		
Group contributions	23	23

7. Income tax expense

	2007	2006
Taxes on regular business operations	105	158
Taxes on extraordinary items	6	6
	111	164
Taxes for the period	109	137
Taxes for previous periods	-1	9
Change in deferred tax assets	3	18
	111	164

8. Fixed assets and long-term investments

Change in acquisition cost 2007 Intangible assets	Goodwill	Other intangible assets	Total
Acquisition cost as of 1 January 2007	1	63	64
Increases	-	8	8
Decreases	-	-2	-2
Acquisition cost as of 31 December 2007	1	69	70
Accumulated depreciation, amortization and write-downs as of 1 January 2007	1	42	43
Accumulated depreciation, amortization and write-downs of decreases and transfers	-	-2	-2
Depreciation and amortization for the period	-	7	7
Accumulated depreciation, amortization and write-downs as of 31 December 2007	1	47	48
Balance sheet value as of 31 December 2007	-	22	22
Balance sheet value as of 31 December 2006	-	21	21

Tangible assets	Land areas	Buildings and structures	Machinery and equipment	Other tangible assets	Advances paid and construction in progress	Total
Acquisition cost as of 1 January 2007	12	746	1,457	69	700	2,984
Increases	10	177	636	4	-585	242
Decreases	-	-5	-7	-	-6	-18
Decrease through business transfer	-	-	-182	-	-1	-183
Transfer between categories	-	-	-	-	-	-
Acquisition cost as of 31 December 2007	22	918	1,904	73	108	3,025
Accumulated depreciation, amortization and write-downs as of 1 January 2007	-	351	810	22	-	1,183
Accumulated depreciation, amortization and write-downs of decreases and transfers	-	-5	-6	-	-	-11
Decrease through business transfer	-	-	-31	-	-	-31
Depreciation, amortization and write downs for the period	-	26	86	1	-	113
Accumulated depreciation, amortization and write-downs as of 31 December 2007	-	372	859	23	-	1,254
Revaluations	6	25				31
Balance sheet value as of 31 December 2007	28	571	1,045	50	108	1,802
Balance sheet value as of 31 December 2006	18	420	647	47	700	1,832
Balance sheet value of machinery and equipments used in production						1,001

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 2007	396	89	15	-	1	3	504
Increases	105	90	-	-	-	12	207
Decrease through business transfer	-	-	-14	-	-	-	-14
Decreases	-27	-	-	-	-	-1	-28
Acquisition cost as of 31 December 2007	474	179	1	-	1	14	669
Accumulated depreciation, amortization and write-downs as of 1 January 2007	-	-	-	-	-	-	-
Accumulated depreciation, amortization and write-downs of decreases and transfers	-	-	-	-	-	-	-
Accumulated depreciation, amortization and write-downs as of 31 December 2007	-	-	-	-	-	-	-
Balance sheet value as of 31 December 2007	474	179	1	-	1	14	669
Balance sheet value as of 31 December 2006	396	89	15	-	1	3	504

9. Revaluations

	Revaluations as of Jan 1	Increases	Decreases	Revaluations as of Dec 31
Land areas	6	-	-	6
Buildings	25	-	-	25
Total	31	-	-	31

Policies and principles for revaluations and evaluation methods

The revaluations are based on fair values at the moment of revaluation. Deferred taxes have not been booked on revaluations.

10. Inventories

	2007	2006
Raw materials and supplies	345	175
Work in progress	172	157
Products/finished goods	238	144
	755	476

Difference between replacement value and book value of inventories is EUR 76 million (2006: 17 million).

11. Short-term receivables

	2007	2006
Trade receivables	534	441
Receivables from Group companies		
Trade receivables	205	245
Other receivables	24	28
Accrued income and prepaid expenses	3	1
Total	232	274
Receivables from associated companies		
Trade receivables	-	2
Total	-	2
Other receivables	42	36
Accrued income and prepaid expenses	23	30
	831	783

Short-term accrued income and prepaid expenses	2007	2006
Accrued interest	4	1
Accrued taxes	15	3
Other	7	27
	26	31

12. Changes in shareholders' equity

	2007	2006
Share capital at 1 January	40	40
Share capital at 31 December	40	40
Retained earnings at 1 January	814	603
Dividends paid	-231	-205
Profit for the year	621	416
Retained earnings at 31 December	1,204	814
Distributable equity	1,204	814

13. Accumulated appropriations

	2007	2006
Accumulated depreciation above the plan	699	615

14. Provisions for liabilities and charges

	2007	2006
Provisions for pensions	10	10
Other provisions	2	8
	12	18

15. Liabilities

Long-term liabilities	2007	2006
Bonds	200	199
Loans from financial institutions	349	188
Pension loans	38	39
Liabilities to Group companies		
Other long-term liabilities	232	101
Liabilities to associated companies		
Advances received	-	-
Other long-term liabilities	-	1
Accruals and deferred income	6	6
	825	534

Short-term liabilities	2007	2006
Loans from financial institutions	120	256
Advances received	-	4
Trade payables	633	594
Liabilities to Group companies		
Trade payables	29	9
Other short-term liabilities	139	423
Accruals and deferred income	2	4
Total	170	436
Liabilities to associated companies		
Advances received	-	1
Trade payables	1	1
Total	1	2
Other short-term liabilities	342	244
Accruals and deferred income	46	84
	1,312	1,620

Interest-bearing and interest-free liabilities	2007	2006
Interest-bearing liabilities	1,081	1,180
Interest-free liabilities	1,056	974
	2,137	2,154

Interest-bearing liabilities due after five years	2007	2006
Bonds	-	120
Loans from financial institutions	230	187
Pension loans	38	39
Liabilities to Group companies	232	101
	500	447

Short-term accruals and deferred income	2007	2006
Salaries and indirect employee costs	34	33
Accrued interests	11	11
Accrued taxes	-	32
Other short-term accruals and deferred income	3	12
	48	88

16. Contingent liabilities

Collaterals and other undertakings on own behalf	2007 Debt	2007 Value of collateral	2006 Debt	2006 Value of collateral
Own debt secured by pledged assets				
Pension loans	1	2	2	2
Trade payables	-	2	-	3
	1	4	2	5
Own debt secured by real estate mortgages				
Trade payables	-	24	-	24
	-	24	-	24
Collaterals given on behalf of Group companies				
Real estate mortgages		2		2
		2		2
Collaterals total		30		31

Other contingent liabilities	2007	2006
Leasing liabilities		
Due within a year	6	115
Due after a year	18	327
	24	442
Other contingent liabilities given on own behalf	3	2
Other contingent liabilities given on behalf of Group companies		
Guarantees	284	131
Other contingent liabilities given on behalf of associated companies		
Guarantees	2	-
Other contingent liabilities given on behalf of others		
Guarantees	12	6
Other contingent liabilities total	325	581

17. Derivative financial instruments

Interest and currency derivative contracts and share forward contracts	2007 Contract or notional value	Fair value	Not recognized as an income	2006 Contract or notional value	Fair value	Not recognized as an income
Interest rate swaps	345	-	-	301	2	2
Forward foreign exchange contracts	1,283	33	32	992	23	23
Currency options						
Purchased	325	11	11	290	4	4
Written	175	1	1	274	5	5
Share forward contracts	17	2	2	8	2	2

Oil and freight derivative contracts	Volume 1000 bbl	Fair value	Not recognized as an income	Volume 1000 bbl	Fair value	Not recognized as an income
Sales contracts	57,252	-63	-63	79,094	30	30
Purchase contracts	52,594	63	63	106,226	-24	-22

The fair values of foreign exchange currency derivative contracts 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 contracts quoted market prices at the balance sheet date. Physical sales and purchase agreements within trading activities are treated as derivatives and reported in the 'Derivative financial instruments' table.

18. Shares and holdings

	Country of incorporation	No. of shares	Holding, %	Book value 31 Dec 2007 EUR thousands
Subsidiary shares				
Neste Eesti AS	Estonia	10,000	100.00	5,926
Neste Jacobs Oy	Finland	2,100	60.00	438
Neste Markkinointi Oy	Finland	210,560	100.00	47,567
Neste Oil Ab	Sweden	2,000,000	100.00	23,972
Neste Oil Bio Asset Management Oy	Finland	100	100.00	150
Neste Oil Ltd	Great Britain	500,100	100.00	1,793
Neste Oil N.V	Belgium	276,769	99.99	219,752
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	26,090	100.00	34,177
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 Shipping Oy	Finland	101	100.00	55,452
Neste St.Petersburg OOO	Russia	10	100.00	58,427
Tehokaasu Oy	Finland	7,200	100.00	3,900
				474,104
Associated companies				
Neste Arabia Co. Ltd	Saudi-Arabia	480	48.00	156
Porvoon Alueverkko Oy	Finland	40	33.33	7
Svartså Vattenverk-Mustijoen Vesilaitos	Finland	14	40.00	124
Tahkoluodon Polttoöljy Oy	Finland	630	31.50	490
Vaskiluodon Kalliovarasto Oy	Finland	330	50.00	17
				794
Other shares and holdings				
Ekokem Oy Ab	Finland	375	2.68	125
Fine Carbon Fund Ky	Finland	1		1
Finnish Measurement Systems FMS Oy	Finland	80	10.91	0
Nymex Holdings Inc	USA	2		-
Posintra Oy	Finland	50		17
				143
Real estate companies				
Asunto Oy Itätuulenkuja	Finland	224		395
Oy Kokonhalli Ab	Finland	55	20.00	93
				488
Telephone shares				
Kymen Puhelin Oy	Finland	1		-
Pietarsaaren Seudun Puhelin Oy	Finland	3		1
Pohjanmaan Puhelinosuuskunta PPO	Finland	1		-
Savonlinnan Puhelinosuuskunta SPY	Finland	1		1
				2
Connection fees				70
Total				**475,601**

Proposal for the distribution of earnings and signing of the review by the Board of Directors and the Financial Statements

The parent company's distributable equity as of 31 December 2007 stood at EUR 1,204 million. The Board of Directors proposes Neste Oil Corporation to pay a dividend of EUR 1.00 per share for 2007, totalling EUR 256 million, and that any remaining distributable funds to be allocated to retained earnings.

Espoo, 6 February 2008

Timo Peltola	Michiel A. M. Boersma	Mikael von Frenckell	Ainomaija Haarla
Nina Linander	Antti Tanskanen	Pekka Timonen	Maarit Toivanen-Koivisto

Risto Rinne
President and CEO

Auditors' report

To the shareholders of Neste Oil Corporation

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Neste Oil Corporation for the period 1 January – 31 December 2007. The Board of Directors and the President and CEO have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the parent company's financial statements, the report of the Board of Directors and the administration.

We conducted our 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 and the report of the Board of Directors are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements and in the report by the Board of Directors, 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 the administration is to examine whether the members of the Supervisory Board as well as of the Board of Directors and 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, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view, as defined in those standards and in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position.

Parent company's financial statements, report of the Board of Directors and administration

In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The parent company's financial statements give a true and fair view of the parent company's result of operations and of the financial position.

In our opinion the report of the Board of Directors has been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The report of the Board of Directors is consistent with the consolidated financial statements and the parent company's financial statements and gives a true and fair view, as defined in the Finnish Accounting Act, of the result of operations and of the financial position.

The consolidated financial statements and the parent company's 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 disposal of distributable funds is in compliance with the Companies' Act.

Espoo, 6 February 2008

Ernst & Young Oy
Authorised Public Accountants

Anna-Maija Simola
Authorised Public Accountant

Statement by the Supervisory Board

The Supervisory Board has today at its meeting reviewed Neste Oil Corporation's financial statements for the financial period ended 31 December 2007, including also consolidated financial statements, Review by the Board of Directors and the related Board of Directors' proposal on the distribution of the profit shown in the balance sheet, as well as the Auditor's report provided by the Company's Auditor. The Supervisory Board has no comments to make on these. The Supervisory Board recommends that the financial statements, including also the consolidated financial statements, can be adopted and concurs with the Board of Directors' proposal on the distribution of the profit shown in the balance sheet.

The Supervisory Board states that its instructions have been followed and that it has received adequate information form the Board of Directors and the Company's management.

Espoo, 7 February 2008

Klaus Hellberg	Markku Laukkanen	Mikael Forss	Heidi Hautala
Satu Lähteenmäki	Marjo Matikainen-Kallström	Markus Mustajärvi	Jutta Urpilainen

Quarterly segment information

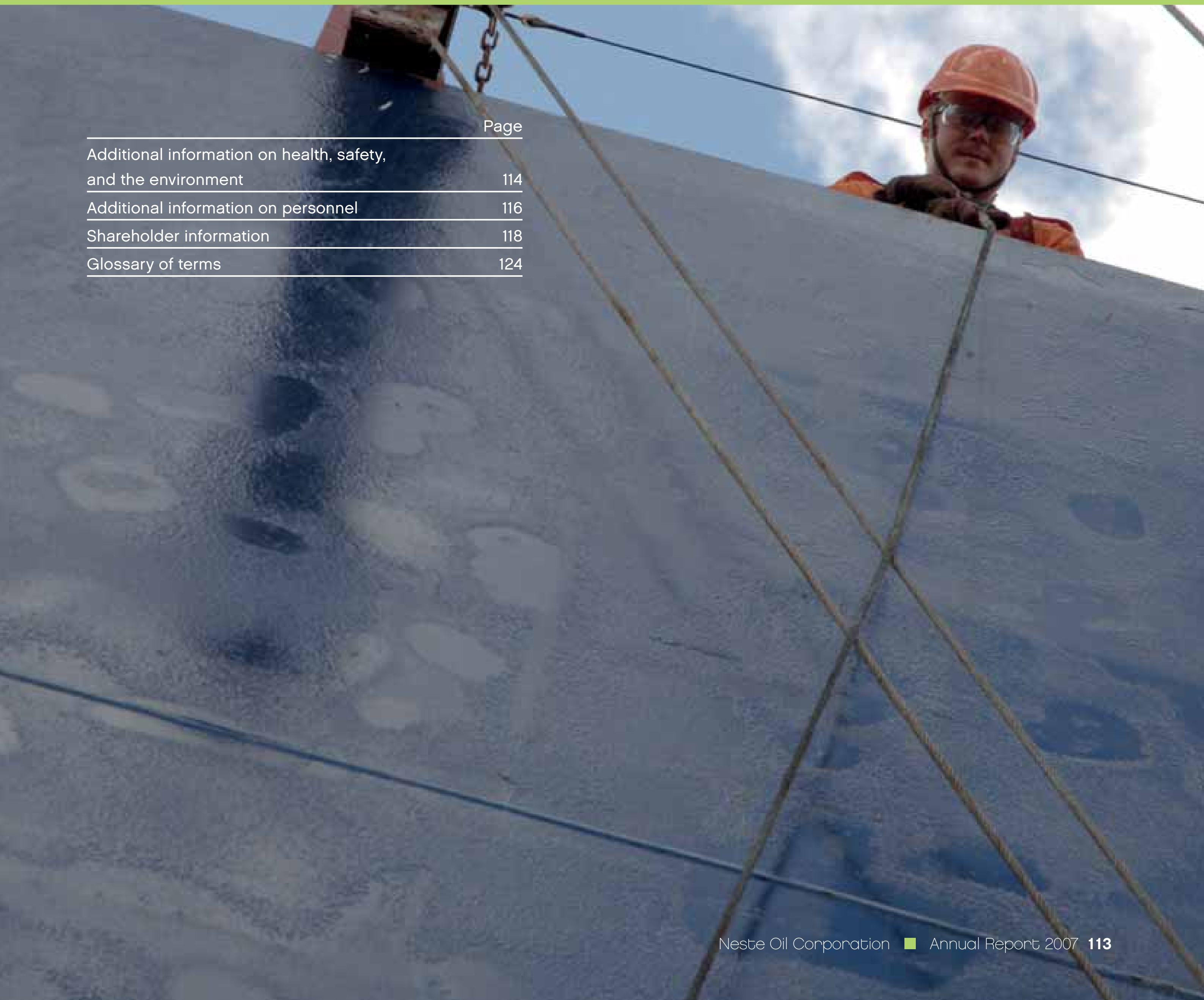
Quarterly sales MEUR	10–12/2007	7–9/2007	4–6/2007	1–3/2007
Oil Refining	2,740	2,310	2,516	1,782
Biodiesel	27	7	4	2
Specialty Products	138	164	181	166
Oil Retail	965	853	843	774
Shipping	87	82	115	110
Other	26	20	24	23
Eliminations	-522	-458	-476	-400
Total	3,461	2,978	3,207	2,457

Quarterly operating profit MEUR	10–12/2007	7–9/2007	4–6/2007	1–3/2007
Oil Refining	139	148	246	107
Biodiesel	2	-7	-4	-3
Specialty Products	10	34	47	31
Oil Retail	9	22	18	11
Shipping	-5	-4	16	23
Other	-9	-16	-6	-6
Eliminations	-3	3	-3	1
Total	143	180	314	164

Quarterly comparable operating profit MEUR	10–12/2007	7–9/2007	4–6/2007	1–3/2007
Oil Refining	85	125	168	106
Biodiesel	3	-6	-5	-5
Specialty Products	2	34	41	32
Oil Retail	10	21	17	11
Shipping	-4	-1	12	21
Other	-9	-17	-5	-8
Eliminations	-3	3	-3	1
Total	84	159	225	158

In accordance with the new segment structure.

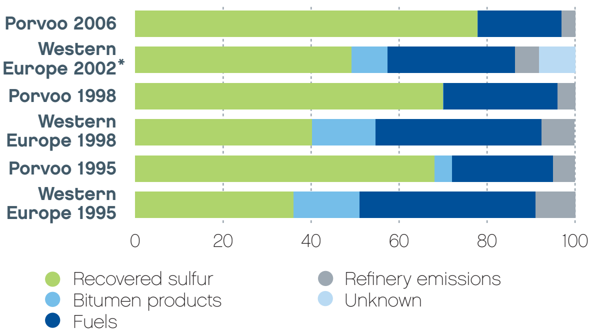
Additional information



Additional information on health, safety, and the environment

The Porvoo refinery's sulfur balance compared to the refinery average in Western Europe

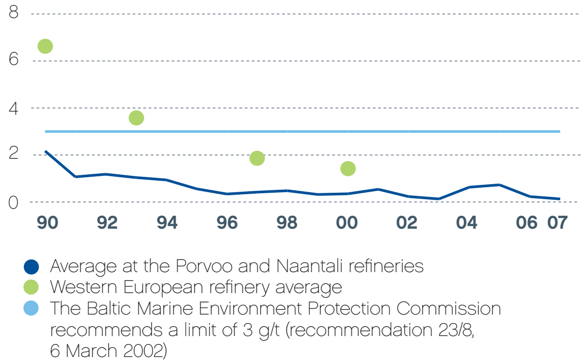
Ultimate destination of the sulfur in crude, %



Sources: Concawe and Neste Oil
* More recent European data is not available

Wastewater emissions at Neste Oil's refineries compared to Western European refineries

Oil discharged to the sea, 1990–2007 (g/ton of feedstock input)



Sources: Concawe and Neste Oil

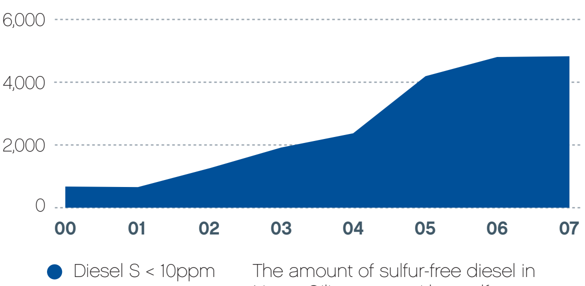
Building blocks of excellent performance and risk mitigation

- Sustainability principles for biofuels and supplier selection criteria 2006
- Systematic use of HSE expertise in business transactions 1998–
- Responsible Care 1992, certified management systems 1998
- Environmental Due Diligence 1998, internal HSE auditing 1990–, audit program 1990–
- Regulatory compliance, updated technology, maintenance and operations 1957–

- HSE liability review of the portfolio 2004–
- Act Safe 2006–
- HSE management system 1996
- Risk Analysis Manuals 1988, 1994
- Environmental policy 1984, EHS policy 1994, 1998, 1999, HSE policy 2005

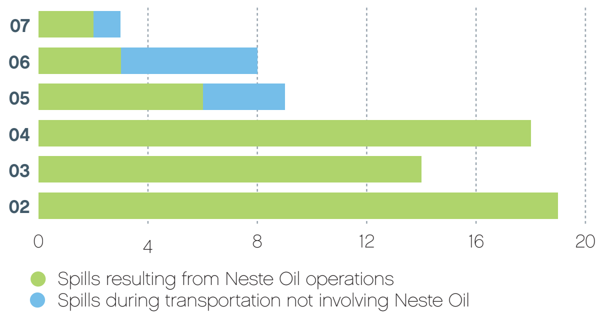
Amount of sulfur-free diesel output is growing

1,000 t



The amount of sulfur-free diesel in Neste Oil's output, with a sulfur content of less than 10 ppm, has steadily risen between 2000 and 2007.

Major spills, 2002–2007



A total of three cases involving Neste Oil occurred in 2007 in which over 500 liters or kilos of environmentally hazardous substances leaked into the environment. One of these took place during transportation, loading, or unloading and affected a transportation company employed by Neste Oil. All spilled material was cleaned up and no contamination remained in the soil or water. No damage resulted to the environment.

Neste Oil certificates

	Environment ISO 14001	Safety BS 8800, OHSAS 18001	Quality ISO 9001/9002
Porvoo and Naantali Refineries, Finland	✓	✓	✓
Oil Research & Technology, Finland			✓
Road Transport Management, Finland	✓	✓	✓
Neste Marketing, Lubricants, Finland	✓	✓	✓
Neste Oil N.V. Beringen, Belgium	✓	✓	✓
ETBE plant, Sines, Portugal	✓		✓
Tehokaasu, Finland	✓	✓	✓
Neste LPG, Sweden	✓		✓
AS Reola Gaas, Estonia			✓
Neste Marketing/Direct Sales, Finland	✓	✓	✓
Neste Marketing/Aviation Sales, Finland	✓	✓	✓
Neste St. Petersburg/Direct Sales & Supply	✓	✓	✓
Neste St. Petersburg, Terminal	✓	✓	✓
Neste Estonia, Retail, Direct Sales & Supply	✓	✓	✓
Neste Estonia, Terminal	✓	✓	✓
Neste Latvia, Retail	✓	✓	✓
Neste Latvia, Direct Sales & Supply	✓	✓	✓
Neste Latvia, Terminal	✓	✓	✓
Neste Lithuania, Retail, Direct Sales & Supply	✓	✓	✓
Neste Poland, Retail	✓	✓	✓
Neste Shipping	✓	*	✓
Neste Jacobs Oy			✓

* 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

Neste Oil refinery emissions, use of raw materials, and production

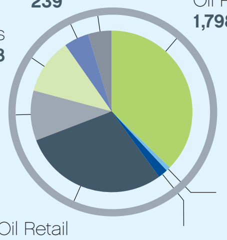
	Porvoo refinery 2007	Porvoo refinery 2006	Porvoo refinery 2005	Naantali refinery 2007	Naantali refinery 2006	Naantali refinery 2005
Emissions to air						
CO_2 (t/a)	2,763,950	2,496,213	2,278,000	411,044	324,616	398,765
VOC (t/a)	2,970	2,319	2,170	921	1,490	1,550
NO_x (t/a)	3,725	3,540	2,830	290	267	330
SO_2 (t/a)	5,008	4,540	4,870	1,625	1,319	1,600
Emissions to water						
Oil (t/a)	1.56	2.02	9.1	0.34	0.67	0.28
Chemical oxygen demand, COD (t/a)	359	476	913			
Waste						
Conventional waste (t/a)	20,180	6,888	7,506	1,195	2,348	1,819
Hazardous waste (t/a)	15,154 [1]	9,291 [1]	5,220 [1]	5,853 [1]	8,685 [1]	3,870 [1]
Raw materials						
Crude oil (t)	9,350,000	9,632,000	7,577,000	2,761,366	2,210,012	2,411,185
Other feedstocks for oil refining (t)	2,066,000	2,514,000	2,674,000	3,290	43,259	214,838
Production						
LPG (t)	357,000	379,000	344,000	27,184	15,015	30,825
Gasoline (t)	3,891,000	4,132,000	3,481,000	681,167	588,085	727,247
Diesel and light fuel oil (t)	5,713,000	5,610,000	4,885,000	1,070,306	817,421	925,740
Fuel oil (t)	755,000	1,260,000	990,000	308,441	245,421	321,569
Bitumens (t)	324,000	58,900	64,000	292,425	217,487	244,211
Sulfur (t)	84,000	63,000	54,000	14,051	8,898	12,954
Solvents (t/a)				225,310	188,170	222,656

[1] Includes oil-contaminated soil

Additional information on personnel

Personnel by segment, as of 31 December 2007

Total 4,807

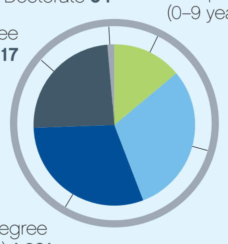


Key figures

	2007	2006
Average age	43.0	43.2
Average number of service years	15.0	15.0
Training expenditure, EUR	3,559,730	3,019,190

Key figures on personnel as of 31 December 2007

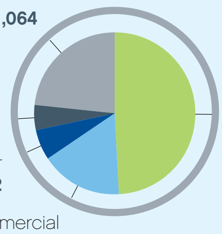
Educational level of permanent employees



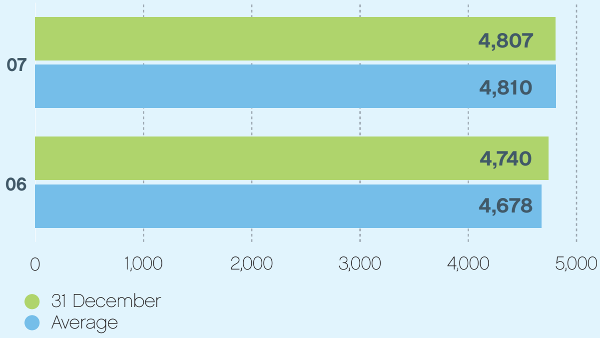
Personnel as of 31 December 2007

	2007	2006
Finland	3,655	3,506
Russia	837	704
US	16	208
Other countries	299	322
Total	4,807	4,740

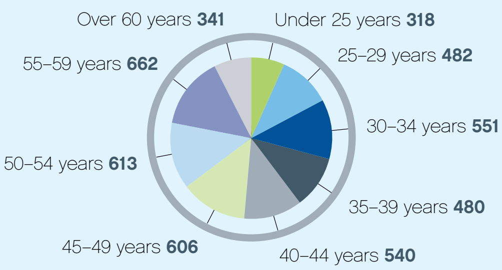
Educational field of permanent employees



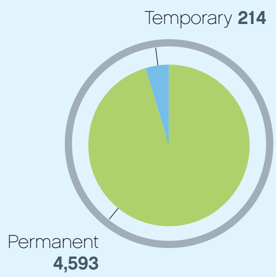
Number of employees



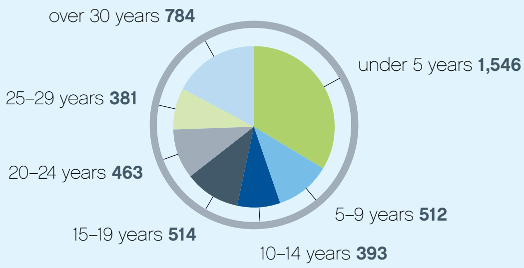
Breakdown by age of permanent employees



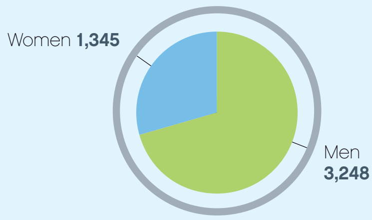
Breakdown by type of employment contract



Breakdown by service years of permanent employees



Gender ratio of permanent employees



Shareholder information

Share performance and trading

Neste Oil's stock closed 2007 at 5% above the price at the end of 2006, and started the year at EUR 23.15 on the first day of trading. The share price peaked at EUR 30.03 in April, and reached a low of EUR 21.65 in January, equivalent to a weighted average of EUR 25.48. The closing price at the end of the year was EUR 24.13, giving the company a market capitalization of EUR 6.2 billion.

The share price showed strong daily fluctuation during the year, and trading was brisk. Average daily trading amounted to some 1.9 million shares, or 0.7% of the company's shares, equivalent to EUR 47.9 million. The average monthly trading volume was 39 million shares, or EUR 998 million. During the year as a whole, 470 million shares were traded, accounting for 183% of the stock.

Trading

Neste Oil shares are listed on the Nordic Exchange, Helsinki under the trading code NES1V.HE. The ISIN code is FI0009013296 and trading takes place in euros (EUR).

Indexes

Neste Oil is included in the following indexes:

- OMX Helsinki 25
- OMXHPI
- Dow Jones EURO STOXX Oil & Gas
- Ethibel Sustainability Index

The Ethibel Sustainability Index evaluates companies worldwide on criteria based on their financial performance, environmental values, and internal and external social responsibility; and follows the industry weighting used in the S&P Global 1200 Index.

Neste Oil has also been selected for inclusion in the Dow Jones Sustainability World Index (DJSI), which includes over 300 companies from 24 countries, chosen because of their class-leading commitment to sustainable development.

Dividend

Neste Oil's dividend policy is to distribute a minimum of 33% of the year's underlying profits in dividends. Neste Oil's Board of Directors will propose a dividend of EUR 1.00 per share for 2007, representing 44% of the net result for the year.

The dividend for 2006 was EUR 0.90 per share, representing 37% of reported earnings per share.

Share capital

The Company's share capital registered with the Trade Register on 31 December 2007 was EUR 40,000,000, divided into one class of 256,403,686 shares. Shares are included in the Finnish book-entry securities system. Each share entitles a shareholder to one vote at the Annual General Meeting.

Share buyback and issue authorizations

The Board of Directors is not authorized to issue new 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.

Shareholders in 2007

As of the beginning of 2007, Neste Oil had 56,283 shareholders and 56,467 at the end of the year.

Annual General Meeting

Neste Oil Corporation's Annual General Meeting will be held on March 14, 2008 at 11.00 am EET at the Finnish National Opera, Helsinginkatu 58, Helsinki. Registration and the distribution of voting papers will begin at 10.00 am. Shareholders wishing to participate in the Annual General Meeting should inform the company by 4.00 pm on 7 March, 2008 at the latest, either by:

- Visiting the company's web site, www.nesteoil.com and following the instructions given there, or
- by sending an email to nesteoil.yhtiokokous@yhteyspalvelut.elisa.fi, or
- Fax, sent to +358 10 458 9596, or
- Phone, on +358 10 458 9595, or
- Letter, addressed to Neste Oil Corporation, Suvi Åkerblom, POB 95, FI-00095 Neste Oil.

Holders of proxies are requested to forward them when stating their wish to participate, ensuring that they reach the company by 4.00 pm on 7 March, 2008 at the latest.

Investor Relations

Neste Oil's Investor Relations observes the principles of providing accurate and timely information, commitment, transparency, accessibility, and equal treatment of all investors. To view Neste Oil's IR policy in its entirety, please visit the company's web site.

Reporting calendar for 2008

Neste Oil will publish interim reports in 2008 as follows:

- Interim Report for January–March 24 April 2008
- Interim Report for January–June 31 July 2008
- Interim Report for January–September 24 October 2008

Closed period

Neste Oil observes a closed period prior to the publication of its results. The duration of Neste Oil's closed period is always a minimum of four weeks. During this period, the company will not comment on non-disclosed developments or the prospects for its business in the quarter concerned, nor will company representatives meet analysts or investors, or take part in capital markets events.

Analysts following Neste Oil

The number of banks providing analyses of Neste Oil rose by two during 2007. As of the end of the year, 27 banks produced forecasts on Neste Oil. Contact details for the analysts concerned can be found in the Investors section of Neste Oil's website (www.nesteoil.com/investors).

Banks analyzing Neste Oil

- ABG Sundal Collier
- ABN Amro
- Carnegie
- Cheuvreux
- Citigroup
- Credit Suisse
- Deutsche Bank
- Enskilda Securities
- eQ Bank
- Evli Securities
- Exane BNP Paribas
- Glitnir
- Goldman Sachs
- Handelsbanken
- Natixis Securities
- JP Morgan
- Kaupthing
- Landsbank
- Lehman Brothers
- Mandatum
- Merrill Lynch
- Morgan Stanley
- Opstock
- Sociéte Générale
- Standard & Poor's
- UBS Warburg
- Öhman

Share information

	2007	2006
Earnings per share (EPS), EUR	2.25	2.46
Cash flow per share, EUR	2.11	2.00
Equity per share, EUR	9.47	8.15
Dividend per share, EUR	1.00 *	0.90
Dividend payout ratio, %	44.4 *	36.6
Dividend yield, %	4.1 *	3.9
P/E	10.71	9.36
Highest price traded, EUR	30.03	29.95
Lowest price traded, EUR	21.65	21.00
Average, volume-weighted, EUR	25.48	25.19
Year-end, EUR	24.13	23.03
Volume	469,889,183	360,429,946
Volume of shares outstanding, %	183	141
Turnover, EUR	11,974,392,564	9,083,849,168
Shares outstanding	256,403,686	256,403,686

* Board of Directors' proposal to the Annual General Meeting

Contact information

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Debt Investor and Banking Relations:

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Neste Oil's general e-mail address for investors is oilinvestors@nesteoil.com.

Investor services on the Internet

The Investors section of Neste Oil's website (www.nesteoil.com/investors) contains the information presented here, together with other IR-related information, including a real-time stock monitor, delayed by 15 minutes, a list of the Company's insiders and their holdings, extensive presentation material, current oil market information (incl. prices and refining margins updated weekly), as well as services such as forecasts prepared by analysts and a share yield calculator.

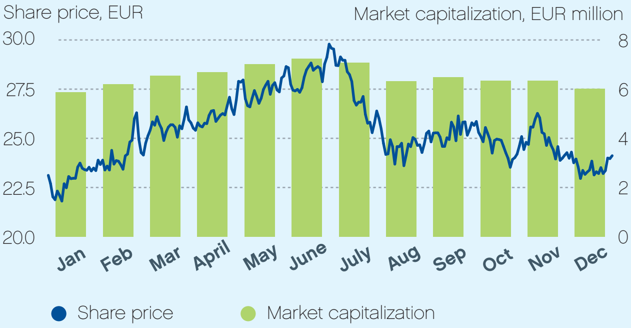
Largest shareholders, by size of holding as of 31 December 2007

		Shares	Holding %	Change
1.	State of Finland	128,458,247	50.1	0
2.	Ilmarinen Mutual Pension Insurance Company	6,010,676	2.3	737,226
3.	Varma Mutual Pension Insurance Company	3,200,000	1.3	460,000
4.	The Social Insurance Institution of Finland, KELA	2,648,424	1.0	0
5.	The State Pension Fund	1,950,000	0.8	50,000
6.	The City of Kurikka	1,550,875	0.6	0
7.	OP-Delta Investment Fund	1,350,577	0.5	270,000
8.	Etera Mutual Pension Insurance Company	1,323,800	0.5	215,930
9.	Neste Oil Pension Fund	1,258,738	0.5	0
10.	Fennia Mutual Pension Incurance Company	1,243,000	0.5	253,000
11.	Tapiola Mutual Pension Insurance Company	1,040,794	0.4	40,000
12.	Odin Norden	900,021	0.4	481,562
13.	Sampo Finnish Equity Fund	663,118	0.3	243,281
14.	Svenska Handelsbanken AB (publ.) Branch Operation in Finland	568,247	0.2	25,162
15.	Odin Förvaltnings AS	546,859	0.2	95,500
16.	Nordea Pro Finland Fund	501,293	0.2	234,568
17.	Alexander Management Oy	500,000	0.2	500,000
18.	Nordea Fennia Fund	486,700	0.2	114,875
19.	OP-Focus Non-UCITS Fund	424,450	0.2	220,000
20.	FIM Fenno Fund	394,583	0.2	–5,000
Total of 20 largest shareholders		155,020,402	60.4	
Nominee registrations		65,576,036	25.6	
Other		35,807,248	14.0	
Total shares		256,403,686	100.0	

Breakdown of share ownership on 31 December 2007

No. of shares owned	No. of share-holders	%	No. of shares	%
1 – 100	21,101	37.4	1,160,355	0.5
101 – 500	26,222	46.4	6,241,866	2.4
501 – 1,000	5,111	9.1	3,799,793	1.5
1,001 – 5,000	3,425	6.1	6,914,303	2.7
5 001 – 10,000	282	0.5	2,020,620	0.8
10,001 – 50,000	215	0.4	4,617,968	1.8
50,001 – 100,000	37	0,1	2,804,363	1.1
100,001 – 500,000	51	0.1	10,321,490	4.0
over 500,000	23	0.0	218,522,928	85.2
Total	56,467	100	256,403,686	100.0
of which nominee registrations	20		65,576,036	25.6

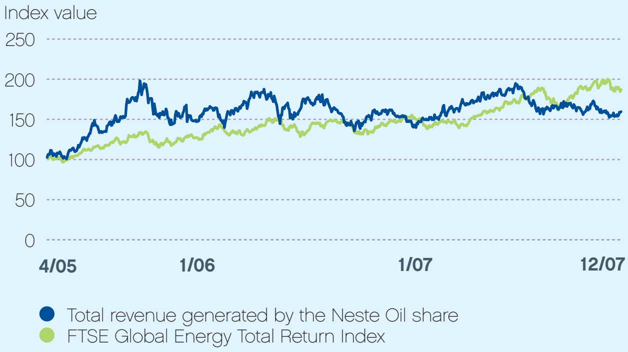
Share performance and market capitalization in 2007



Main Stock Exchange Releases in 2007

1.2. Aviation business in Latvia sold to Statoil
9.2. Financial statements for 2007
9.2. Board proposals to be put to the AGM
16.2. Sale of holding in Eastex Crude Company closed
26.2. Fire delays the commissioning of the new diesel line at Porvoo
16.3. Neste Oil and Stora Enso join forces in biofuel development
21.3. Decisions taken by the AGM
26.4. Interim Report for January–March
31.5. New diesel line and biodiesel plant at Porvoo inaugurated
3.8. Interim Report for January–June
29.8. Statutory employee negotiations started at the Laajasalo lubricants plant
27.9. Management and organizational changes
8.10. Faulty valves on the new diesel line
30.10. Interim Report for January–September
7.11. NExBTL Renewable Diesel wins top Cleantech Finland Award
21.11. Lubricant production agreement signed with Ashland
29.11. Longer-than-expected maintenance turnaround set to impact Neste Oil's result
30.11. Service station network to be revamped
30.11. NExBTL Renewable Diesel plant to be built in Singapore
17.12. Neste Oil sings heads of terms for a base oil plant in Abu Dhabi with Takreer and OMV

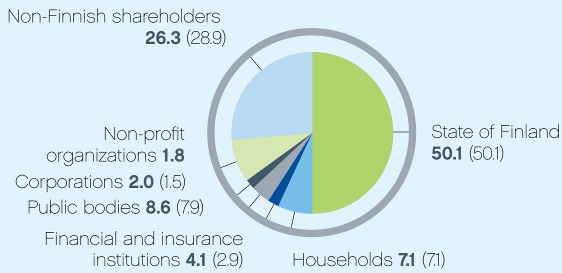
Shareholder's total return on their investment



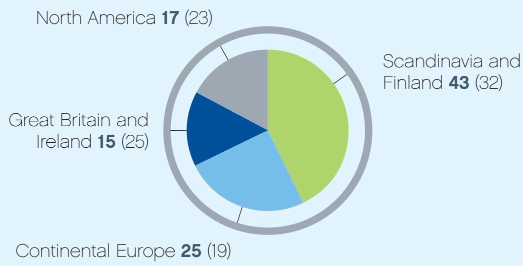
Shareholders as of 31 December 2007

%

By category

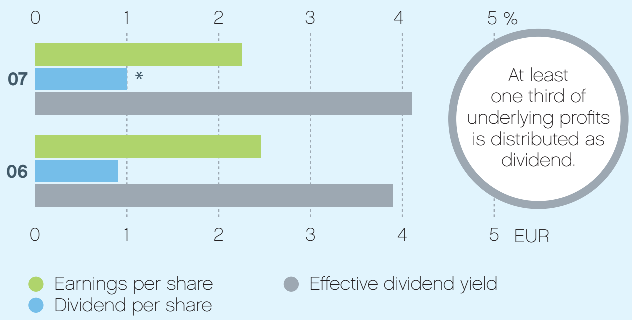


By geography *
(excluding the State of Finland)



* Neste Oil estimate

Earnings per share, dividend, and dividend yield



* Proposal by the Board of Directors to the Annual General Meeting

Earnings per share

	2007	2006
Profit attributable to the equity holders of the company, EUR million	577	631
Weighted average number of ordinary shares in issue, thousands	255,971	256,404
Earnings per share, basic and diluted, EUR	2.25	2.46

1940s

- Neste Oy founded to secure Finland's oil supply in 1948
- Neste acquires its first tanker from Norway and begins importing oil into Finland

1950s

- Finland's and Neste's first refinery commissioned at Naantali in 1957
- First cargo of crude oil arrives in Finland

1960s

- Decision taken to double refining capacity at Naantali
- Start-up of the Porvoo refinery

1970s

- Neste becomes Finland's largest company, with a central role in the country's bilateral trade with the Soviet Union
- Production of feedstock for plastics production starts, as do imports of natural gas
- Exploration and production operations begin in the North Sea
- Expansion of the Porvoo refinery completed, increasing refining capacity to 14–15 million t/a
- Neste becomes Finland's largest ship owner, acquiring three 250,000 dwt supertankers, the Jurmo, Jaarli, and Jatuli

1980s

- Neste expands its chemical business internationally
- Oil trading begins
- Kesoil, Finnoil, and Union service stations are taken over by Neste
- MTBE production begins in Saudi Arabia
- Plastics production starts at Porvoo

1990s

- Neste's exploration and production business expands in the North Sea and the Middle East
- First Neste service stations opened in the Baltic countries
- Plants producing the gasoline component, MTBE, are commissioned in Portugal, Canada, and Malaysia
- Base oil production starts in Belgium based on Neste's proprietary technology
- Neste is listed on the Helsinki Stock Exchange in 1995
- IVO and Neste merge to create Fortum in 1998

2000–

- Fortum begins preparations to spin off its oil business
- Neste Oil is listed on the Helsinki Stock Exchange in 2005
- Non-core businesses divested
- New diesel line and the world's first NExBTL Renewable Diesel plant are started up at Porvoo
- Work starts on building additional NExBTL plants at Porvoo and in Singapore

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.

Alkylate A premium gasoline component with a high octane number and excellent antiknock properties.

Barrel (b or bbl) A standard unit of crude oil measurement, equivalent to approx. 159 liters, 0.137 tons, or 0.159 m^3.

Base oil The main component in lubricant blends.

Biofuels Fuels produced from vegetable oil and other organic sources. Use of these fuels reduces greenhouse gas emissions (CO_2).

Biogasoline Gasoline that includes a biocomponent, typically ethanol or ETBE.

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.

Coker A processing unit that converts residual oil into gasoline, diesel or jet fuel, and petroleum coke.

Component A term used to describe the constituents used in producing fuels. Gasoline, for example, can comprise over 10 individual components.

Cracking A process in which heavy fractions are broken down into simpler molecules, either at high temperatures (thermal cracking) or with the help of catalysts and high pressure (catalytic cracking, hydrocracking). Cracking yield large volumes of hydrocarbons that can be used to produce gasoline and other light distillates.

Dwt, deadweight ton A unit of measurement referring to the total weight of a vessel, including cargo, fuel, fresh water, stores, and crew.

ERM Enterprise Risk Management – a systematic process designed to manage the opportunities, targets, risks, and threats associated with a company's strategy, annual planning, and operations.

ETBE (ethyl tert-butyl ether) A bioethanol-based gasoline component designed to enhance combustion and reduce tailpipe emissions.

Ethibel (www.ethibel.org) An independent consultancy agency that provides advice on socially responsible investment to financial institutions and manages a quality label and index awarded 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).

IPPC Integrated Pollution Prevention and Control.

ISO (International Organization for Standardization) ISO 9000/14000/18000 standards covering quality, the environment, and safety are widely used in industry.

Isomerate A gasoline component used to improve a fuel's octane rating.

Iso-octane A butane-based, high-octane and low vapor pressure component used in producing low-emission gasoline.

MTBE (methyl tert-butyl ether) An oxygenate designed to promote cleaner gasoline combustion.

NExBTL A renewable diesel fuel based on Neste Oil's proprietary technology that can use virtually any vegetable oil or animal fat. The first NExBTL production unit was completed at Porvoo in summer 2007.

Panamax A class of ship with the maximum dimensions that will fit through the locks of the Panama Canal.

PAO (polyalphaolefin) A synthetic base oil used in the production of premium-quality lubricants.

Polypropylene (PP) One of the most common types of plastics, used to produce freezer containers for example.

Ppm Parts per million, milligrams per kilo.

QSAR Quantitative Structure Activity Relationship – a computer modeling technique for evaluating the properties of structurally similar substances. Used to replace many animal tests.

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.

Sulfur-free fuel A fuel that contains less than 10 mg/kg (ppm) of sulfur.

Vacuum Gas Oil (VGO) Produced by vacuum distillation and used as a cracking feedstock.

VHVI (Very High Viscosity Index) A base oil used to produce premium-quality motor oils that contribute to reduced fuel consumption.