MORE SHARE-HOLDER VALUE

Annual Report 2006

NESTE OIL

Neste Oil updated its clean fuel strategy in 2006, introducing a more ambitious focus on growth. The Oil Refining and Biodiesel divisions will drive this growth, and the Group's other businesses will also play an important part. Our aim is to grow our shareholder value by leveraging our extensive expertise in developing, producing, and selling premium-quality fuels.

Contents

About the Annual Report

This is Neste Oil Corporation's second Annual Report. As the company became a listed company in spring 2005, complete IFRS financial information is only available for 2005 and 2006.

Neste Oil has four divisions, divided into three segments. Up until the end of 2006, the Components business reported as one of the segments in Oil Refining. Since the beginning of 2007, gasoline and lubricant components operations have formed part of Oil Refining, and the biodiesel business now forms its own division. This change reflects Neste Oil's updated strategy based on growth in its core oil refining and premium-quality biodiesel businesses. The change in organization has not affected segment reporting.

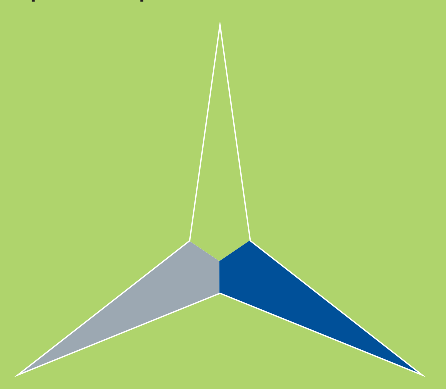
This Annual Report largely follows the divisional organization current in 2007, as it best reflects the company's operations and long-term goals. The old organization is only referred to when necessary, as in the case of financial statements.

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 in brief

As a refining and marketing company, Neste Oil focuses on high-quality fuels for cleaner traffic. The company's strategy is based on developing its traditional strengths in oil 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 Helsinki Stock Exchange (NES1V. GICS sector: Energy).

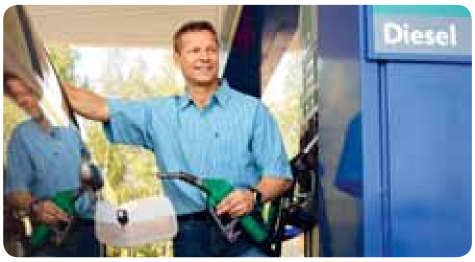


Four divisions

Oil Refining

Biodiesel

Oil Retail



Shipping

Business Producing petroleum products and supplying them to corporate customers.

Main markets Europe and North America.

Refining capacity 250,000 bbl/d, total production 14 million t/a.

Competitive environment Numerous competitors on a market where prices closely reflect supply and demand.

Strategic role Growth business.

Strengths Complex refineries and other units, advanced refining expertise, clean products.

Business Producing and marketing renewables-based NExBTL diesel.

Main markets Europe, possible opportunities in North America and Asia.

Production capacity 170,000 t/a in summer 2007, 340,000 t/a as of the end of 2008. Additional plants planned.

Competitive environment A fast-growing market where a majority of production is based on first-generation technology.

Neste Oil's NExBTL Renewable Diesel is the first second-generation product on the market.

Strategic role Growth business.

Strengths A premium-quality product based on proprietary technology that is the first in its class worldwide.

Main 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 Finland (887), Estonia (37), Latvia (38), Lithuania (34), St. Petersburg region (40), Poland (89).

Competitive environment Market leader on Finland's highly competitive market, the second-largest player in Estonia, Latvia, and St. Petersburg, the third-largest in Lithuania, and a growing international force in urban centers in Poland.

Strategic role Support business.

Strengths Market leader in Finland and growth business around the Baltic Rim; customer-driven business; strong brand.

Main business Marine shipments of crude oil and petroleum products.

Main markets The Baltic and the North Sea. Gasoline shipments also to North America.

Fleet 7 crude tankers and 23 product tankers.

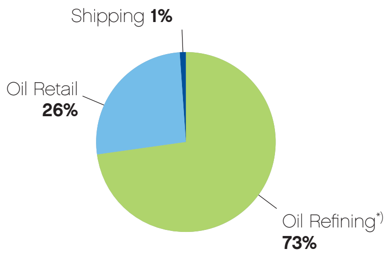
Competitive environment Increasingly tough competition in the Baltic following the growing availability of ice-strengthened tonnage.

Strategic role Support business.

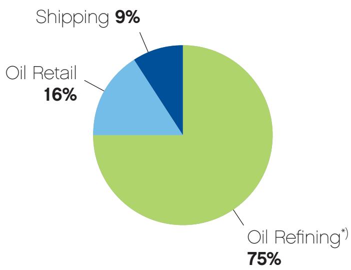
Strengths Extensive expertise and experience in extreme winter conditions; a modern fleet; flexibility.

Key figures by segment for 2006

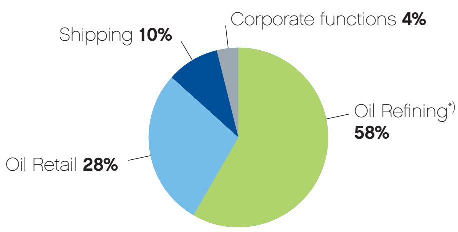
Sales EUR million (Int. sales eliminated)
Group total 12,734



Operating profit EUR million
Group total 854



Permanent personnel (%)
Group total 4,545



*) Includes the Oil Refining and Biodiesel divisions.

Neste Oil in 2006

Neste Oil updated its cleaner fuel strategy in fall 2006. The continued solid profitability recorded in 2006 and the Group's strong balance sheet will provide a good foundation on which to move ahead into the future. The Board has proposed a dividend of EUR 0.90 a share for 2006.

The most important investments currently under way – the Diesel project and Neste Oil's first biodiesel plant, both at Porvoo – have progressed well. The new diesel line is to be commissioned in the first quarter of 2007, and biodiesel production will start in summer 2007.

Oil Retail continued developing its customer-driven strategy and seeking major growth outside Finland. Shipping continued to adapt to a changing market, and progressed with its fleet modernization program.

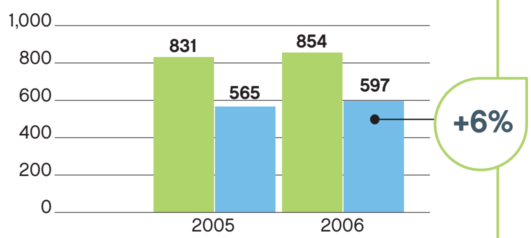
Neste Oil also continued to divest non-core businesses in 2006.

Key financial indicators

	2006	2005	Change, %
Income statement, EUR million			
Sales	12,734	9,974	28
Operating profit	854	831	3
Comparable operating profit	597	565	6
Profit before income tax	841	823	2
Profitability, %			
Return on equity (ROE)	34.3	51.3	
Return on capital employed, pre-tax (ROCE)	31.9	37.0	
Return on average capital employed, after tax (ROACE)	15.4	19.7	
Financing and financial position			
Interest-bearing net debt, EUR million	722	796	-9
Gearing, %	48.4	42.4	
Leverage ratio, %	25.6	33.0	
Cash flow from operations, EUR million	512	596	-14
Share-related indicators			
Earnings per share (EPS), EUR	2.46	2.60	-5
Dividend per share, EUR	0.90*)	0.80	13
Dividend/earnings per share, %	37*)	31	
Share price at the end of the year, EUR	23.03	23.88	-4
Average share price, EUR	25.19	23.10	9
Highest share price, EUR	29.95	32.19	-7
Lowest share price, EUR	21.00	15.22	38
Market capitalization at the end of the year, EUR million	5,905	6,123	-4
Other indicators			
Capital employed, EUR million	2,890	2,487	16
Investments, EUR million	535	668	-20
Average number of personnel	4,678	4,528	3
R&D expenditure, EUR million	8	8	0
Refining margin, USD/bbl	9.11	8.82	3

*) Proposal by the Board of Directors.

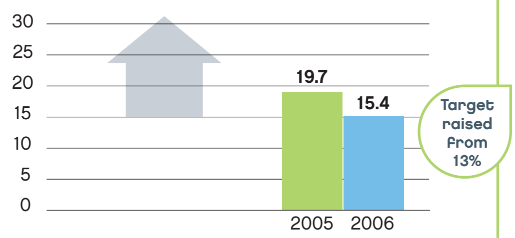
Operating profit and comparable operating profit*) EUR million



Operating profit Comparable operating profit

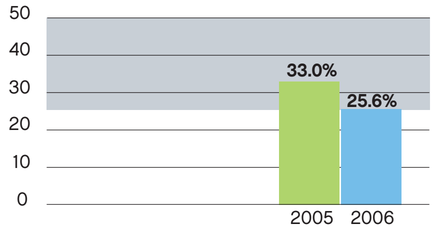
*) Comparable operating profit is calculated by subtracting inventory gains/losses, gains/loses from sales of fixed assets, and unrealized changes in the fair value of oil and freight derivatives from the reported operating profit.

Return on average capital employed, after tax (ROACE) %



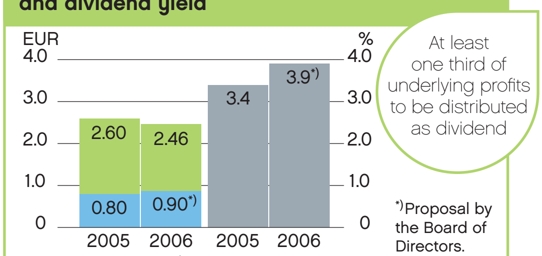
Annual ROACE target of at least 15%

Leverage ratio %



Target: 25–50%

Earnings per share, dividend, and dividend yield



*) Proposal by the Board of Directors.

Earnings per share
Dividend
Effective dividend yield

Dear Reader,

2006 was an interesting year for Neste Oil in many ways. We revised our strategy to focus on greater growth, and continued work on the most important investments in our history. To fund our future growth, we also divested a number of non-core businesses and assets. We continued to record strong performance in terms of profitability, as we have done for a number of years.

The Board proposes paying a dividend of EUR 0.90 per share for 2006, equivalent to EUR 231 million or 55% of our underlying profits, and in line with our policy of paying out at least one-third in dividends.

Investing in growth

Summer 2007 will mark the 50th anniversary of the start of oil refining by Neste Oil's predecessor, Neste. Since then, we have become one of Europe's leading oil refiners, thanks to our expert personnel and our commitment to continuous improvement. Our Porvoo refinery, in particular, is one of the most advanced refineries in Northern Europe. Our smaller refinery at Naantali, which came on stream first, is also in great shape.

Our major investment in a new diesel production line at Porvoo was the most important reason for Neste Oil to go public a couple of years ago. We achieved mechanical completion of the project at the end of 2006, and we expect the new line to begin production soon after this Annual Report is published.

The new line will refine heavy fuel oil into value-added diesel fuel. Due to a number of improvements that we made to the unit's production process during construction, and increases in the cost of steel and engineering work, together with a worldwide shortage of engineers and inspectors, the project incurred significant additional costs. We expect the plant to give us such a performance edge, however, that we did not want to compromise on the facility's quality or schedule.

Our second major investment project involves the construction of the first NExBTL Renewable Diesel plant at the Porvoo refinery. This has progressed according to plan, and demand for premium-quality biodiesel appears to be even stronger today than when we launched the project. As a result, we decided in November 2006 to build a second, identical plant at Porvoo. Our next biodiesel investments will most probably be made elsewhere, closer to larger markets.

Making the most of our feedstocks

Neste Oil's strategy has focused on high-quality, cleaner traffic fuels since the 1990s. As feedstocks account for around 90% of the ex-refinery price of petroleum products, the more successfully a refiner can produce premium products from lower-cost, more 'difficult' inputs, the better. Doing this efficiently calls for highly advanced refining expertise and technology.

Thanks to the new, cutting-edge refining technology at its heart, our new diesel line will give us this type of competitive advantage. The new line will enable us to switch over completely to using heavier, sourer – and cheaper – crude during 2007, should this be appropriate.

The problem with these types of crude is that refining them normally results in excessive volumes of heavy fuel oil, which commands a lower price than the crude used to produce it. The new line will enable us to sidestep this problem and convert heavy fuel oil into premium-quality diesel fuel.

A similar raw material challenge faces refiners in producing biofuels. Thanks to our proprietary NExBTL diesel production technology, however, we can use virtually any vegetable oil or animal fat – in other words, the lowest-cost feedstock available – to produce biodiesel. In addition, the quality of our NExBTL Renewable Diesel is excellent, and even better than that of crude oil-based diesel.

Vegetable oil and animal fat are likely to prove insufficient sources of feedstock over the long term, however, if the world really does want to replace mineral-based fuels with renewable-based ones, as it seems to. As a result, we are investing in research and new technologies that will enable the feedstock pool for biodiesel production to be extended to an even larger variety of biomass, such as wood, peat, or even waste. It will take years, however, before these technologies are ready for commercial production. Until then, Neste Oil's premium-quality NExBTL Renewable Diesel fuel will be available from summer 2007 onwards.

Towards an even stronger company

We are committed to investing several billions of euros in growth in oil refining and biodiesel over the next 10 years. We

will continue to develop our existing refineries, and plan to build a number of new biodiesel facilities. We also expect good growth in base oils, used in premium-quality lubricants. This business has performed well for us, and is an area where we have a lot of technological expertise and a strong market position in Europe.

Our two other divisions – Shipping, a specialist in carrying crude and products, and Oil Retail, with a wide network of outlets in Finland, Estonia, Latvia, Lithuania, Poland, and the St. Petersburg region – will also continue to play an important role in supporting our operations.

Our most important task in 2007 will be to get our new plants up and running successfully and generating good capacity utilization figures. We also aim to pay particular attention in all our business operations to solid profitability and operational excellence, to ensure that we can stand comparison with the best companies in the industry. Systematic improvement of our safety performance will continue to be an integral part of this work.

I would like to thank the personnel of Neste Oil and our subsidiaries for their valuable contribution in 2006; and our shareholders, financiers, customers, and other partners for the trust that they have shown in Neste Oil. Our aim, as always, is to deliver on that trust every step of the way.

Risto Rinne
President & CEO

GROWTH CONTINUES

GREATER SHAREHOLDER VALUE

PROPRIETARY KNOW-HOW

CLEANER PRODUCTS

Growth strategy focused on cleaner fuels

Neste Oil updated its strategy in fall 2006, and announced its decision to seek significant growth from oil refining and premium-quality biodiesel, and its aim to be the leading producer of biodiesel globally. Neste Oil sees the foundation of its strategy as being based on its ability to use its unique refining competence to produce high-quality, lower-emission fuels from a wide range of cost-effective raw material inputs.

Becoming the world's leading biodiesel producer

Neste Oil's development work to produce high-quality renewable diesel began several years ago, and has resulted in a superior technology capable of producing premium diesel very flexibly from virtually any vegetable oil or animal fat. Neste Oil's NExBTL diesel outperforms any vegetable- or crude-based diesel fuel currently available. The company will continue its research and development work on renewable diesel to be the leader in future technologies.

Cleaner and better products from crude oil

The completion of a new diesel production line at the Porvoo refinery will add value to Neste Oil's refining operations and enable the company to refine a larger number of high-end products from heavier, sourer, and lower-cost crude. Investments aimed at developing the company's existing refineries will continue. Significant growth potential has also been identified in premium-quality gasoline components and lubricant base oils.


NESTE

MOVING FORWARD WITH KEY PROJECTS AND AN UPDATED STRATEGY

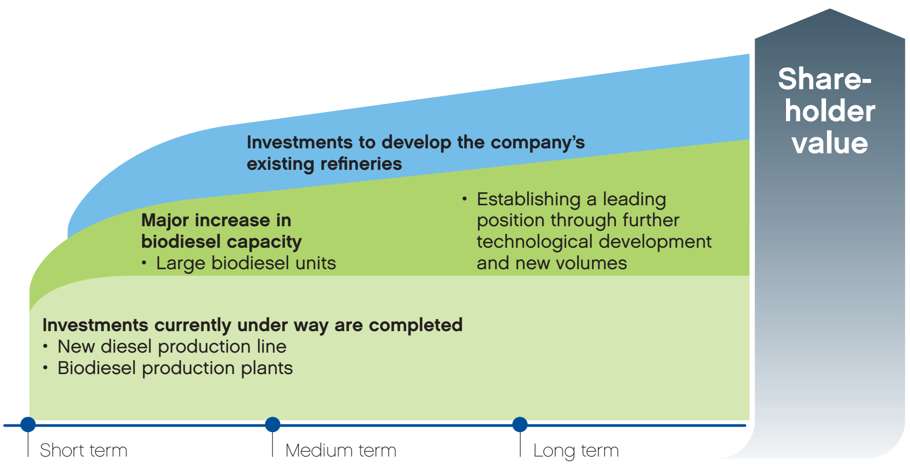
Neste Oil moved forward with two key strategic projects – the construction of a new diesel production line and a new biodiesel plant – in 2006, and updated its cleaner traffic fuels strategy. Neste Oil is determined and financially committed to driving ahead through major growth projects in its core businesses. The company will invest several billions of euros in these types of projects over the next 10 years; and believes that its strategy offers the best avenue for leveraging its expertise. Implementing the company's strategy will also see the sale of non-core businesses or assets.

Increased shareholder value

Neste Oil's strategy aims to achieve significant growth in oil refining and in the production of premium-quality renewable diesel. This growth strategy is a logical continuation of the company's long-standing cleaner traffic fuel strategy, and is believed to be the best way forward for increasing shareholder value.

The updated strategy reflects the global shortage of high-quality traffic fuels, especially diesel fuel, and the surplus of heavy fuel oil, that is expected to continue over the next few years. This offers a number of attractive opportunities for investing in advanced refining capacity to convert heavy products into lower-emission traffic fuels, particular diesel fuel in Europe, where diesel vehicles are becoming increasingly popular.

Growing as a producer of cleaner traffic fuels will generate new shareholder value



Financial targets

- Return on Average Capital Employed (ROACE) after taxes of at least 15% a year over the cycle
- Target leverage range of 25–50%
- Dividend payout ratio of at least one third of underlying profits

Diesel project enters the final stretch

The new diesel production line due to be commissioned at the Porvoo refinery in spring 2007 is an excellent example of a profitable investment in advanced new refining capacity. The new line will raise refining efficiency at Porvoo and improve the company's financial result and cash flow significantly. The line is expected to increase Neste Oil's refining margin by more than USD 2/bbl on an annual output of 100 million barrels.

The new line will enable Neste Oil to refine larger volumes of lower-cost heavier and sourer crude into value-added diesel fuel, and virtually eliminate lower-value heavy fuel oil from the refining chain. The new line will also improve Neste Oil's overall flexibility significantly, as it will enable the company's refineries to process virtually any type of crude oil currently available.

Cutting-edge technology for renewable diesel

The demand for biofuels that promote sustainable development and reduce greenhouse gas emissions is growing rapidly around the world. Demand in Europe has been further boosted as a result of an EU directive that calls for 5.75% of traffic fuels to be bio-based by 2010. Many European countries have introduced tax incentives and mandatory obligations as a result. As a forerunner in biofuels, Neste Oil is well placed to produce high-quality products for this growing market.

Neste Oil began development work to produce renewable diesel several years ago, and this has given the company a head start, as it now has the technology to produce high-end renewable diesel very flexibly from virtually any vegetable oil or animal fat.

Neste Oil's NExBTL diesel features higher quality than diesel refined from crude and the biodiesels currently on the market. The product can be used in existing diesel engines in any blend or as such, and can be sold through existing distribution channels.

Neste Oil will commission its first NExBTL diesel plant at Porvoo in summer 2007, and a second there towards the end of 2008, and intends expanding production by building further plants in other markets, either alone or in cooperation with its partners. Some of these plants could have a capacity in excess of 1 million t/a.

Investments totaled approximately EUR 1.2 billion in 2005–2006 EUR million

	2006	2005
Diesel project	250	361
Other Oil Refining	172	216
Biodiesel	56	12
Oil Retail	44	48
Shipping	10	24
Total	535	668

Emphasis on R&D

Neste Oil's clean fuel strategy is largely based on its own in-house development work, which has given the company a valuable competitive advantage in the marketplace. Increasing demand for high-quality biodiesel will call for extending the range of raw material inputs that can be used to produce it, and Neste Oil intends expanding its efforts to leverage a broader raw material base and developing even more advanced technologies.

A strong divisional organization

Oil Refining and Biodiesel will be the engines of the Group's strategic growth. Promising growth potential has also been identified in premium-quality gasoline components and lubricant base oils, developed largely on the basis of in-house R&D work; and Neste Oil is already the leader on the European commercial lubricant component market.

Shipping and Oil Retail provide Neste Oil with the support it needs for its growth strategy. Shipping transports raw materials and end-products, while Oil Retail markets and sells fuels through its network of Neste stations and other outlets. A valuable competitive advantage in implementing capital projects is provided by the company's majority holding in engineering specialist, Neste Jacobs, which has over 40 years of experience in major refining-related projects.

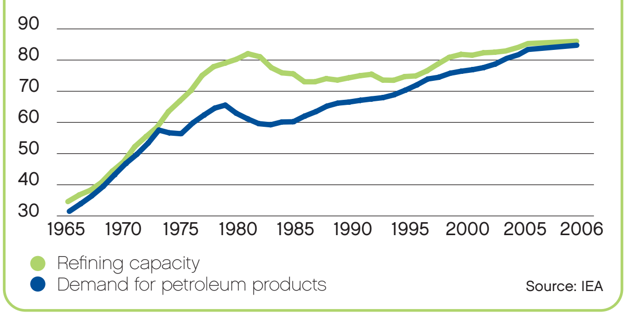
Major asset sales, 2005–2006

Company	Holding, %	Date	Purchaser	Price	Capital gain	Business
Eastex Crude Company	70	Dec 2006	Eastex Crude Holding Company	USD 15.5 million	'A few million euros'	Crude oil transport and sales in Texas and Louisiana
CanTerm Canadian Terminals, Inc.	25	Dec 2006	Olco Petroleum Inc.	Not disclosed	Not disclosed	Terminal operations in Quebec and Montreal, and distribution in Ontario
Best Chain Ltd.	100	Oct 2006	Delek Real Estate	EUR 118 million	EUR 65 million	Traffic station properties
Saudi European Petrochemical Company Ibn Zahr	10	Mar 2006	Saudi Basic Industries Corp	USD 120 million	EUR 85 million	Polypropylene and MTBE production
SeverTEK OAO	50	Nov 2005	OAO Lukoil	USD 321.5 million	EUR 141 million	Oil production in northwest Russia
Pikoil Oy	50	Sep 2005	Ruokakesko	Not disclosed	Not disclosed	Retailing at Neste stations

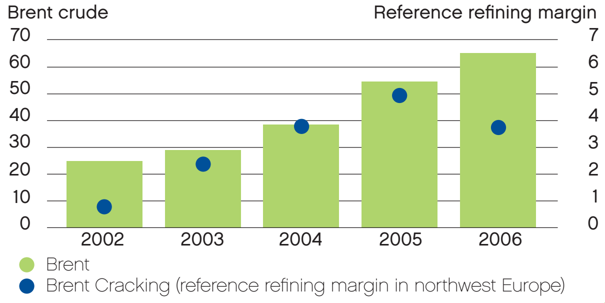
Market-driven opportunities

Slower growth in demand for petroleum products, the increasingly strong position of diesel as a traffic fuel in Europe, and the progress made in promoting the use of biofuels in many countries were among the key industry trends in 2006.

Growth in demand for petroleum products vs. refining capacity million bbl/d



High crude prices support refining margins
USD/bbl, annual average



Global demand for petroleum products in 2006 grew by 0.9% on 2005 according to the International Energy Agency (IEA), and stood at 84.4 million barrels a day. Demand in 2005 totaled 83.5 million bbl/d, an increase of 1.4% on 2004. Demand picked up in Asia and North America in 2006, while overall demand in Europe showed little change compared to the past few years. In January 2007, the IEA expected growth to be approximately 1.6%, or 1.4 million barrels a day, in 2007.

Tight refining capacity situation

The demand for traffic fuels, mainly gasoline and diesel fuel, has been on the rise for some years, and has resulted in a shortage of refining capacity and kept refining margins strong. Crude refining capacity increased by 1 million bbl/d in 2006, and further new capacity is under construction; the majority of this is not expected to come on-stream over the next few years, however. The crucial factors will be how demand develops by the turn of the decade and the extent to which capital projects already announced are actually implemented. The steep escalation in the cost of new process units and the lack of engineering resources represent major obstacles to future investments.

High crude prices support refining margins

Crude prices continued to rise in 2006, and Brent averaged USD 65.14 /bbl, an increase of 19% on the average in 2005. High crude prices have pushed up the refining margins of refiners with advanced capacity by widening the differential between the prices commanded by light and heavy products. The larger the price differential, the more profitable it is to use heavier input to produce high-value gasoline and diesel fuel.

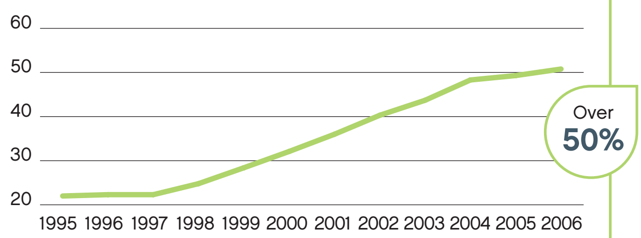
Diesel gaining a stronger foothold in Europe

The demand for diesel fuel has seen rapid growth in Europe over the past few years, and the same trend is expected to continue. More than half of all new cars in many major countries in Europe are now diesel-powered, and in some countries diesel vehicles now account for 70% of new registrations. The popularity of diesel cars has been spurred by their excellent performance and fuel efficiency, which have improved faster than those of gasoline-powered vehicles.

Diesel fuel has been imported from Russia and Asia to alleviate the diesel shortage in Europe up until now, but increasing demand for diesel in these areas is likely to reduce imports into Europe in the near future.

The use of diesel in heavy vehicles is expected to gain in popularity in the United States, where the sulfur content of diesel for cars and trucks was reduced in 2006. Diesel is not expected to threaten the dominance of gasoline, however, which will continue to see increased demand, at least in the foreseeable future.

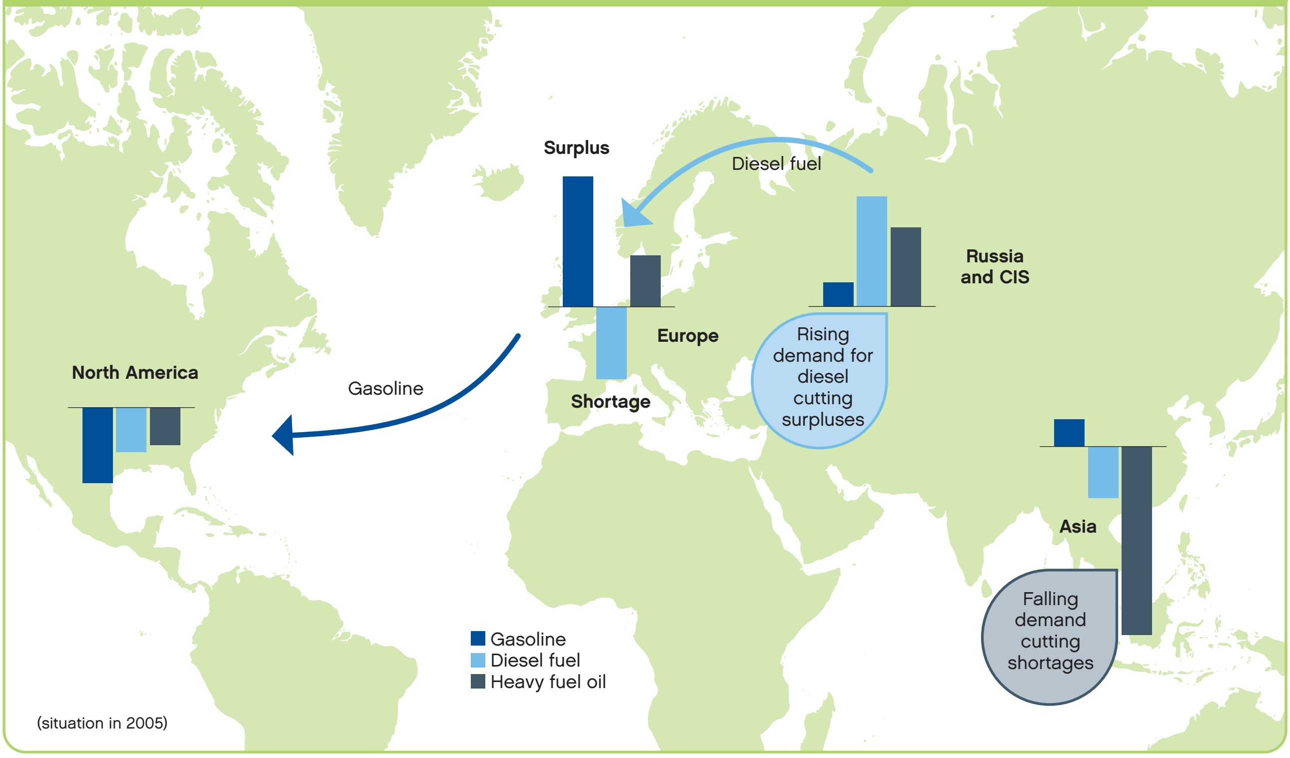
Popularity of diesel cars on the increase in Europe %



Number of diesel vehicles as a proportion of new cars in Western Europe (EU-15 + Iceland, Switzerland, and Norway)

Source: European Automobile Manufacturers Association

Demand and supply imbalances provide opportunities for refining companies; diesel to Europe, gasoline to the US



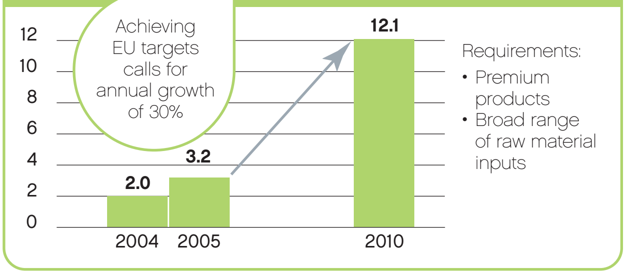
Rapid growth in the market for biofuels

Biofuels attracted increased prominence in 2006, both in the oil business and public debate. There are three main reasons for the growing use of biofuels. They are seen as playing a significant role in helping prevent climate change, as offering a useful way of reducing our dependency on imported crude oil, and as providing local agriculture with valuable new opportunities.

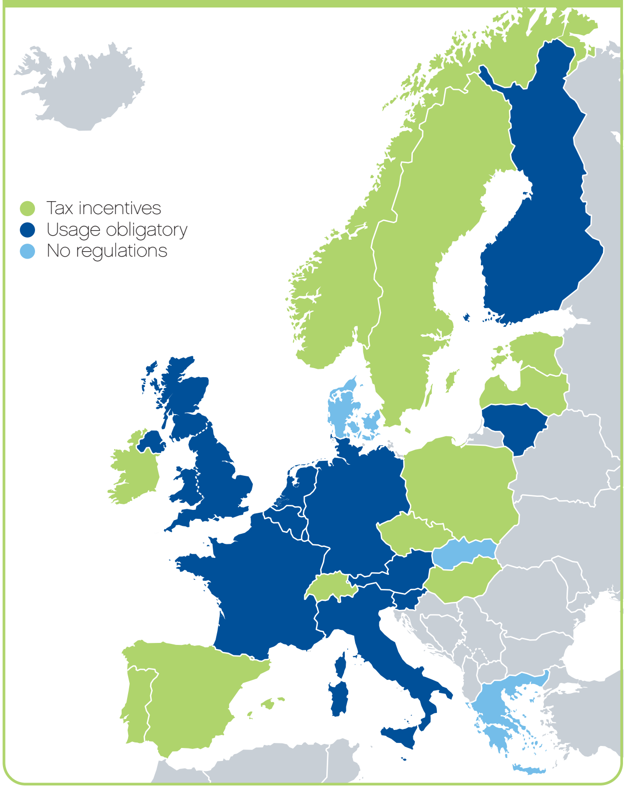
These reasons all feature in the EU's biofuel directive, and member states moved ahead rapidly during 2006 to comply with its targets.

Given the popularity of diesel fuel in Europe, particular attention has been given to biodiesel in the region. Until now, biodiesel has been produced almost exclusively from rapeseed oil, and products have underperformed in terms of quality. In the future, biodiesel will need to meet the requirements of the automotive industry more closely, and increasing production volumes will call for expanding the raw material base.

Projected growth of the biodiesel market in Europe
million t



Progress of biofuel legislation in Western Europe by 2008



Retail operations growing around the Baltic

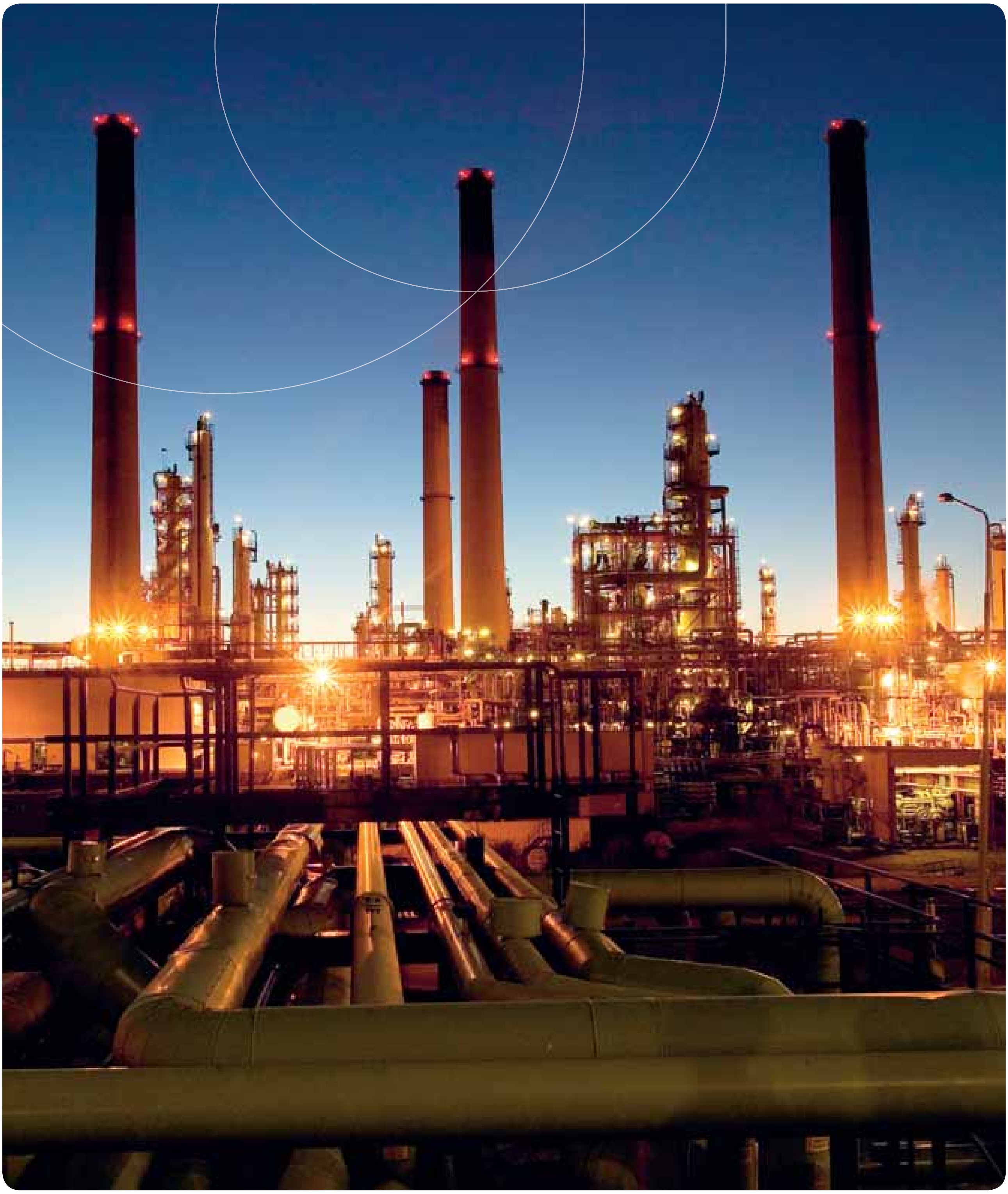
The oil retail market in Finland continues to be characterized by very tough competition, and overall consumption has fallen somewhat in recent years. Oil companies have continued to compete very fiercely for market share, despite this drop, and competition has degenerated into a virtual price war at times. Further consolidation took place in 2006, with SOK's acquisition of Esso stations in Finland from ExxonMobil, selling some of them on to ST1 Holding, and Lukoil's acquisition of ConocoPhillips' JET outlets.

Demand for traffic fuels in the St. Petersburg region in Russia has continued to climb in recent years, with growth focused on premium brand products.

Demand is also increasing in Estonia, Latvia, and Lithuania, albeit more slowly than in Russia. In Poland, retail growth has been concentrated in and around the country's major centers of population.

Increased tanker capacity in the Baltic

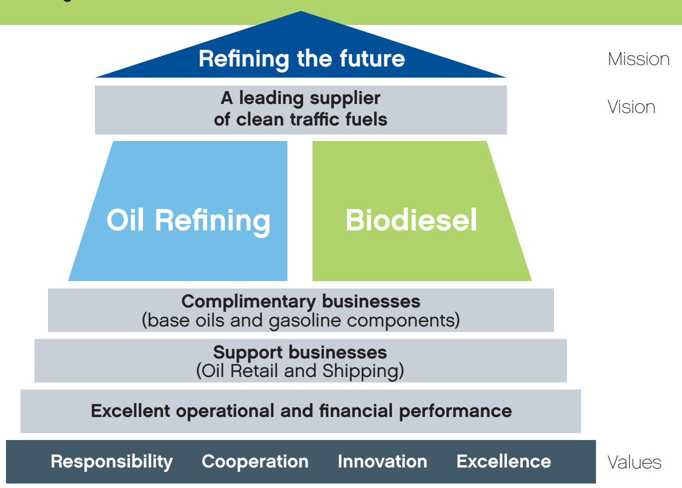
Increased levels of oil shipments have made the Baltic the world's fastest-growing marine transport market. Exports of crude oil from Russia, particularly through the Primorsk terminal north of St. Petersburg, have risen rapidly, and over 60 million tons of crude were transported via the terminal in 2006. Primorsk was opened in 2003 and the rapid rise in exports flows there stretched capacity to the limit until 2005, pushing freight rates up, especially during the winter, when there was a shortage of ice-strengthened tankers. Capacity has been added rapidly since then, and led to occasional oversupply, which has been reflected in depressed freight rates; and the record-high winter rates typical of a few years ago have not been seen recently. A similar pattern has not been seen in marine shipments of petroleum products, and freight rates in this segment have remained healthy.



DIVISIONAL OVERVIEW

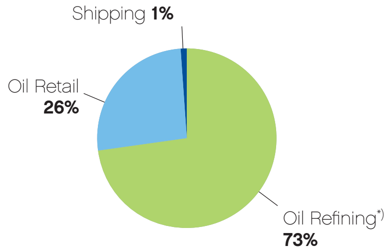
	Targets for 2006	Actions and achievements	Targets for 2007
Oil Refining 	• Complete new diesel production line. • Improve operations and productivity. • Secure strong wholesale position on key markets.	• Mechanical completion of the new diesel line achieved and commissioning started at the end of the year. • Strong position retained on key markets. • Numerous production records set at Porvoo, major maintenance shutdown at Naantali. • Feasibility studies on new investments.	• Startup of new diesel line, and sale of output. • Decisions on new refinery investments. • Decision on increasing base oil capacity. • Improve safety and productivity.
Biodiesel 	• Build Neste Oil's first production plant at Porvoo. • Clarify the strategy of the business and organize raw material sourcing. • Clarify the potential for building capacity in various markets.	• Good progress on the first plant, and a decision to build a second in November. • Sourcing principles confirmed and contract signed to use Finnish animal fat. • Letter of intent signed with OMV to build a joint plant in Austria.	• Start production at Porvoo and begin selling output. • Decision on investments in plants outside of Finland. • Further studies on expanding the production base and opening up new markets for NExBTL diesel.
Oil Retail 	• Retain market position in Finland. • Grow around the Baltic. • Clarify divisional strategy.	• Market share of 26.2% in gasoline in Finland and 40.9% in diesel fuel. • Total sales rose by 7.5%, mainly outside Finland. • Customer-driven strategy largely finalized. • Bio-era started with the launch of bio-gasoline in Finland. • Traffic station properties divested.	• Enhance operational profitability and productivity. • Continue to grow outside Finland. • Launch Neste Oil's renewables-based NExBTL diesel on the retail market.
Shipping 	• Retain market position in the Baltic. • Modernize the fleet in line with market needs.	• Market leadership retained in the Baltic. • Three tankers sold and additional time-chartered capacity acquired. • Preparation of incorporation of the Shipping business.	• Adapt to changes in the market. • Ensure availability of new vessels and incorporate them into the fleet. • Prepare for raw material and product shipments associated with the NExBTL diesel launch.

Growth based on two key divisions

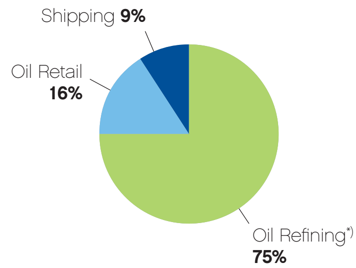


Key figures by segment for 2006

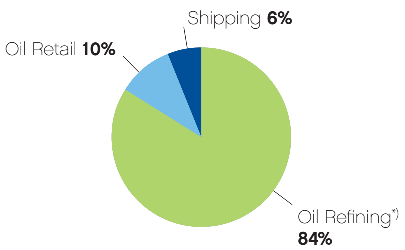
Sales EUR million (Int. sales eliminated)
group total 12,734



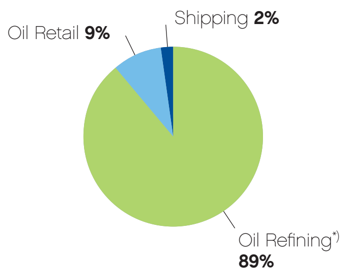
Operating profit EUR million
group total 854



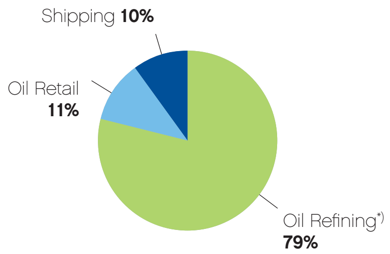
Comparable operating profit EUR million
group total 597



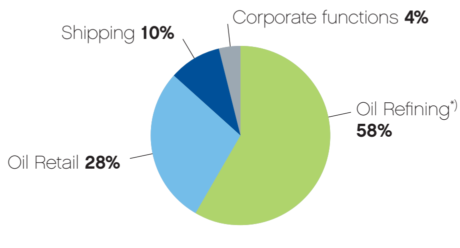
Investments EUR million
group total 535



Net assets EUR million
group total 3,032



Permanent personnel %
group total 4,545 persons



*) Includes the Oil Refining and Biodiesel divisions.

Oil Refining continues to grow

Key figures*)

	2006	2005	Change, %
Sales, EUR million	**10,768**	8,150	32
Operating profit, EUR million	**671**	570	18
Comparable operating profit, EUR million	**533**	446	20
Net assets, EUR million	**2,389**	1,889	26
Return on net assets (RONA, %)	**29.9**	34.7	-
Capital expenditure, EUR million	**478**	589	-19
Total refining margin, USD/bbl	**9.11**	8.82	3

*) Segment reporting includes the Oil Refining and Biodiesel divisions

The Oil Refining Division produces and markets all the major petroleum products, with a particular focus on low-emission traffic fuels. Neste Oil's refineries in Porvoo and Naantali account for over 20% of total refining capacity in the Nordic region.

Advanced refining expertise, a mindset driven by new technologies, and the capability to use a wide range of crude oil inputs and other feedstocks lie at the heart of Oil Refining's success. These factors are central to enabling Neste Oil to develop and launch new, cleaner high-quality traffic fuels.

New production line on stream

Oil Refining is Neste Oil's largest business area and has been defined as a key growth area for the future alongside Biodiesel. Growth will be driven by investments at the company's existing refineries and continued operational improvements. Oil Refining's major achievement in 2006 was the completion of construction of a new diesel production line at the Porvoo refinery and the start of the commissioning process. A total of EUR 250 million was invested in the project during 2006. The line is expected to enter production in March 2007. The new line involved major changes at the refinery and will have a major impact on the whole division.

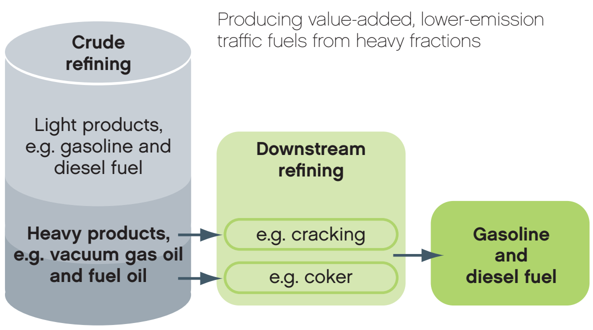
Ongoing refinery development

Other investments will focus on enhancing the overall capabilities of the Porvoo and Naantali refineries. This could

New diesel production line at Porvoo

- On stream in the first quarter of 2007
- Refines heavy fuel oil into sulfur-free diesel fuel
- Capacity of over 1 million tons a year
- Offers the potential to switch over completely to heavier, sourer crude
- Capital costs over EUR 700 million
- Will increase Neste Oil's refining margin by over USD 2 /bbl

Refinery investments focused on conversion capacity



include adding more refining capacity to further improve the refineries' ability to convert the heavy fractions generated during refining into value-added traffic fuels. The focus here would primarily be on sulfur-free diesel fuel, which is in short supply on the European market. Heavy fractions suitable as feedstocks could include heavy fuel oil or vacuum gas oil (VGO), as the supply of both currently exceeds demand and their price remains below that of crude. Sourcing this type of feedstock from the merchant market would also enable Neste Oil to build larger process units than if feedstock was sourced completely in-house.

Scheduled maintenance shutdowns carried out every five to six years play an important part in maintaining the ongoing reliability of Neste Oil's refineries. The most recent of these took place at the Naantali refinery in fall 2006. In addition to regular service and maintenance work, this included a number of investments designed to improve the reliability, productivity, and safety of the refinery over the next six years. The next major maintenance outages will take place at Porvoo in 2010, and at Naantali in 2011.

Procurement and production

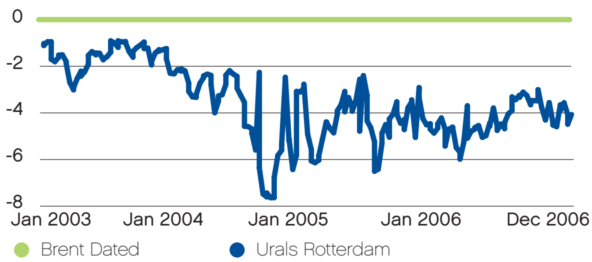
Neste Oil imported a total of 14.5 million tons (10.8 million) of crude oil and other feedstocks in 2006. Some 66% (80%) of this came from Russia and the other countries of the former Soviet Union, and the remainder from the North Sea. In addition to crude, other feedstocks included middle distillates, gas oil, fuel oil, gasoline components, and LPG.

The majority of refinery feedstock – 87% (90%) – was supplied by sea and 13% (10%) by rail. Neste Oil refined a total of 13.8 million tons (12.9 million) of crude oil. Sulfur-free or low-sulfur traffic fuels accounted for 66% (65%) of product output. Crude distillation capacity utilization at the Porvoo refinery was 100% (89.2%), while that at Naantali was 82.5% (96.1%), as a result of the maintenance shutdown in the fall.

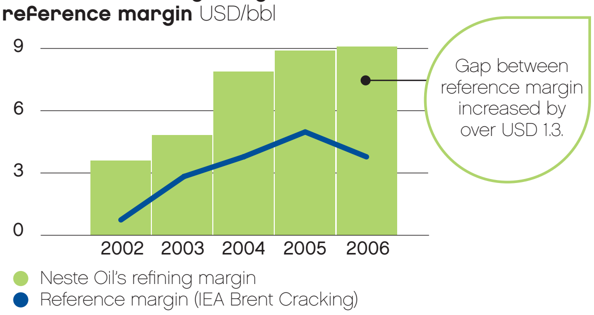
Approximately 43% (47%) of total refinery input comprised heavier, sourer Russian crude.

Market analysis in 2006

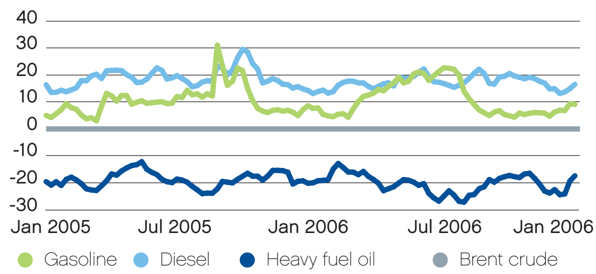
Neste Oil benefits from the price difference between Russian and Brent crude oil USD/barrel, weekly average



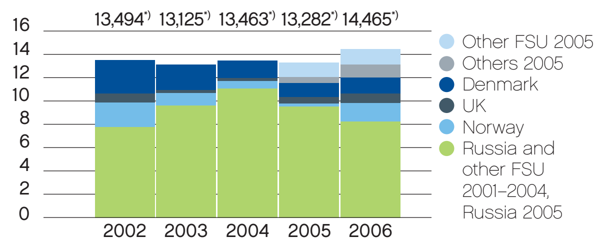
Neste Oil's refining margin has exceeded the reference margin USD/bbl



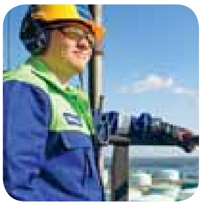
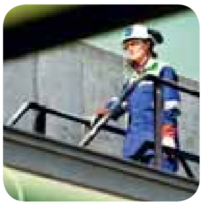
Price differences of petroleum products support investments in conversion capacity USD/barrel, weekly average



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



*) Total supply


Sales

A total of 8.1 million tons of products were delivered to customers in Finland in 2006 (7.5 million); and Neste Oil had a 84% (77%) share of the Finnish wholesale market for petroleum products.

Exports totaled 6.0 million tons (5.6 million), with gasoline accounting for 2.5 million tons (2.4 million) and diesel fuel for 2.1 million tons (1.8 million). The most important export markets for gasoline included North America, Sweden, and Germany. The United States and Canada accounted for 42% (42%) of Neste Oil's gasoline exports. The key export markets for diesel fuel were Sweden and Great Britain.

Growth from high-quality components

Neste Oil's gasoline components and lubricant base oil businesses were transferred to the Oil Refining Division as of the beginning of 2007. Both areas have been identified as potential growth businesses alongside the company's core oil refining operations. Given the increasingly tough quality requirements associated with traffic fuels, the growing demand for high-octane and low vapor pressure components offers exciting opportunities for success in this area.

These components include iso-octane, alkylate, and isomerate, as well as ethanol-based ETBE. The withdrawal of MTBE from the US market offers a number of opportunities for iso-octane. In Europe, increasingly large amounts of ethanol are being blended into gasoline, and ETBE represents an excellent component for this type of product. Neste Oil's technological expertise and refinery investment program provide a strong foundation for growing the company's components business.

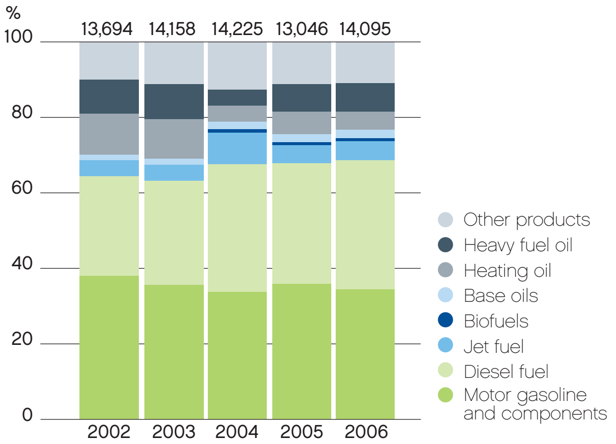
Strong demand for premium base oils

The ever-tougher quality expectations associated with lubricants are driving the demand for base oils. Demand is focused on premium sulfur-free products, an area where Neste Oil is currently a key player on the European market and has a strong position globally.

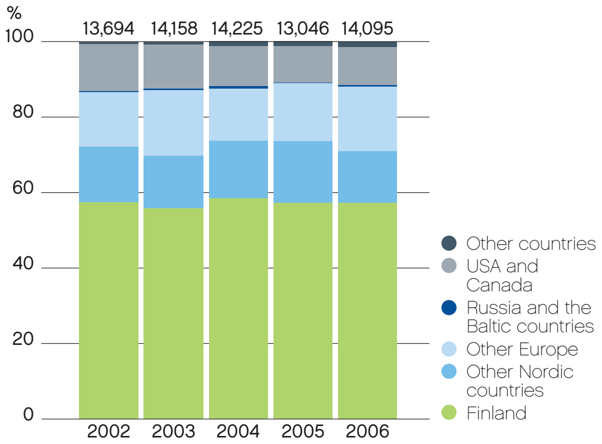
In addition to a strong market position, the high quality of Neste Oil's products, the very positive reception given to the company's products by automotive manufacturers, and a wide customer base all contribute to creating good prospects for the base oil business.

Neste Oil's sales from in-house production

By product category 1,000 t



By market area 1,000 t



The market for EHVI base oil in 2006 was very strong, and Neste Oil was able to take advantage of the increased capacity that came on stream at the Porvoo refinery in the fall of 2005. Overall, 2006 was the best year to date for Neste Oil's EHVI business.

Demand for base oil is expected to continue to exceed capacity over the next few years. Neste Oil is continuing to investigate the potential for further increasing its base oil capacity, through synergies with other investments at the company's own refineries and those of its partners.

Good outlook for Nynäs

2006 was a record year for Nynäs Petroleum, Neste Oil's joint venture (holding 50%), in terms of profitability and production. Nynäs is one of Europe's leading producers and marketers of high-quality bitumen and a global leader in napthenic specialty oils. The company aims to grow its production capacity of napthenics, demand for which is on the increase in the tire industry, for example. In the bitumen business, Nynäs will focus on strengthening its leading position on the European market.

Neste Oil's production

Porvoo refinery

- Began operations in 1965
- One of Europe's most advanced and complex refineries
- Output focused on high-quality, low-emission traffic fuels
- Crude oil refining capacity of approx. 196,000 bbl/d. Output of approx. 11 million t/a
- 7 million m^3 of crude and petroleum product storage capacity
- Largest harbor in Finland in terms of cargo volume. Between 16 and 19 million tons of crude and petroleum products pass through the harbor every year
- New diesel line will increase diesel production by over 1 million t/a
- Personnel number approx. 1,200

Naantali refinery

- Began operations in 1957
- Key products include traffic fuels and specialties such as bitumen, solvents, and small engine gasoline
- Thanks to its product specialization, Naantali's refining margin is higher than that of comparable complex refineries of similar size
- Average crude refining capacity of 54,000 bbl/d. Output of approx. 3 million t/a
- Over 1 million m^3 of crude and petroleum product storage capacity
- Uses solely heavier, sourer crude
- Personnel number approx. 400

Other production
t/a

product	location	capacity
PAO base oil	Beringen, Belgium	50,000
EHVI base oil	Porvoo, Finland	250,000
ETBE	Porvoo, Finland	85,000
ETBE	Sines, Portugal	50,000
Iso-octane	Edmonton, Canada	530,000*)

*) Neste Oil's share of output: 50%

Through its 50% holding in Nynäs Petroleum, Neste Oil also has a stake in four specialty refineries producing bitumen and naphthenic specialty oils in Sweden and Britain. Neste Oil is also responsible for marketing the output of Borealis' ETBE plant in Stenungsund in Sweden (40,000 t/a).

Biodiesel – at the core of the growth strategy

The Biodiesel Division produces and markets high-quality, renewable NExBTL diesel based on Neste Oil's proprietary technology. Neste Oil's objective is to become the world's leading manufacturer of renewable diesel – a target that will mean both multimillion-ton output and technology leadership.

Neste Oil formed a new Biodiesel Division at the beginning of 2007 to drive its biodiesel-based growth strategy, and produce and market premium-quality NExBTL diesel for an expanding market. Neste Oil will be one of the first producers and marketers of this type of fuel globally.

First production plants at Porvoo

Neste Oil is building two production plants at the Porvoo refinery to produce high-quality NExBTL diesel from vegetable oil and animal fat. Construction of the first plant, the first of its type anywhere, began in early 2005 and has progressed according to schedule. Production is slated to start up in summer 2007, and will total some 170,000 tons annually. A decision to build a second plant of the same capacity was taken in November 2006. This plant will be commissioned in late 2008.

The process used at both plants is based on Neste Oil's proprietary NExBTL technology. Neste Oil plans to build a number of NExBTL plants in various markets over the next few years, either alone or in cooperation with partners. In addition, the company is increasing its R&D on biofuels to make even greater use of renewable raw materials.

In recognition of its development work on high-quality renewable diesel, Neste Oil was granted Finland's Chemical Industry Innovation Award in 2006, as well as the World Refining Association's 'Biofuels Technology Innovation of the Year Award 2006'.

Potential to use a broad range of inputs

Neste Oil's renewable diesel production technology can make flexible use of a number of raw materials, enabling NExBTL diesel to be produced from almost any type of vegetable oil or animal fat. This is in sharp contrast to conventional biodiesel, which depends on a narrow range of raw materials, typically rapeseed oil.

Neste Oil is committed to selecting the raw materials it uses from reliable, sustainable suppliers based on availability and price. Procurement of raw materials follows the company's sustainability principles. Neste Oil expects its suppliers to be committed to the principles of sustainable production, and will audit contractual compliance. NExBTL technology also enables the use of vegetable oil grades that are unsuitable for food use.

The animal fat used in biodiesel production is generally unsuitable for food use. Neste Oil has signed a purchase agreement covering the purchase of animal fat in Finland.

Excellent fuel properties

NExBTL diesel can be used in existing diesel vehicles without any modification, and can be distributed through existing logistics systems. It can be used as such, or as a blending component in conventional diesel fuels to improve their technical and environmental performance. The use of NExBTL diesel does not affect fuel consumption.

The properties of Neste Oil's biodiesel are clearly superior to those of previous biodiesels, and even better than those of the best current diesel fuels based on crude oil. NExBTL diesel contains no sulfur or aromatics, generates low emissions, and offers excellent performance at low temperatures. It also has excellent storage characteristics and low water solubility.

NExBTL diesel in a nutshell

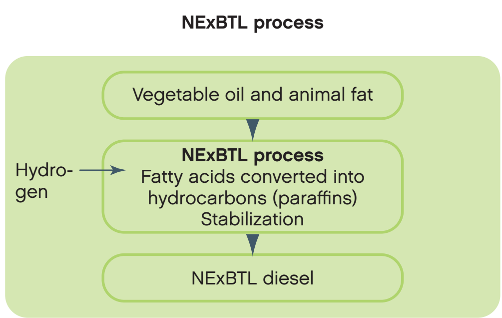
- Neste Oil's proprietary renewable diesel fuel
- Can use a flexible mix of both vegetable oil and animal fat
- Excellent fuel properties that meet the highest requirements of automotive manufacturers
- Can be used as a blending component in conventional diesel fuel
- Available from summer 2007

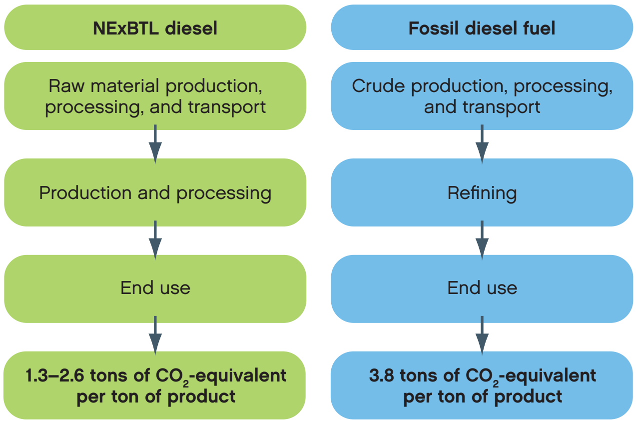
NExBTL diesel contributes to a significant reduction in tailpipe emissions compared to fossil diesel

Nitrogen oxides (NO_x)	-7...-20%
Particulates	-17...-46%
Hydrocarbons	-45...-55%
Carbon monoxide	-45...-55%

Source: heavy duty engine and vehicle tests by VTT, MAN, and Scania

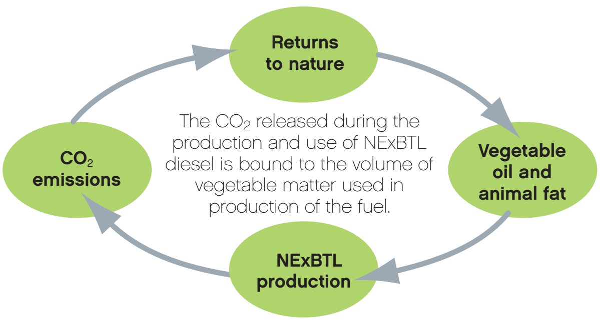
Greenhouse gas emissions of NExBTL diesel are significantly lower than those of fossil-based diesel fuel





The greenhouse gas emissions of NExBTL diesel over the product's entire life cycle have been calculated as **40–60% lower** than those of fossil-based diesel fuel. Greenhouse gas emissions can be reduced significantly in raw material production.

NExBTL CO_2 cycle



The first second-generation biodiesel

	First generation 2000	Second generation NExBTL 2007	Third generation ≈ 2015
Raw material	Rapeseed oil	Vegetable oil and animal fat	Biomass
Technology	Esterization	Hydrogenation	Gasification and Fischer-Tropsch
End-product	Esterized biodiesel	Bio-hydrocarbon	Bio-hydrocarbon

NExBTL production plants

Location	Capacity	Ownership	On stream	Investment	Status
Porvoo	170,000 t/a	100%	summer 2007	EUR 100 million	Commissioning
Porvoo	170,000 t/a	100%	end 2008	EUR 100 million	Under construction
Schwechat, Austria	approx. 200,000 t/a	Owned with OMW	2009	Not decided	Feasibility study

Lower emissions

NExBTL diesel helps reduce fossil carbon dioxide emissions. The greenhouse gas emissions of NExBTL diesel, calculated over the entire life span of the product, are 40 to 60% lower than those produced by fossil diesel fuel.

When blended with conventional diesel fuel, NExBTL diesel helps reduce both regulated and non-regulated emissions. The level of reduction depends on the blending ratio.

Extensive research on NExBTL has been carried out, including emission measurements by international automotive manufacturers and VTT Technical Research Centre of Finland on both cars and trucks. The results of these tests have been extremely positive, and have shown that particulate emissions are significantly lower than those typical of conventional diesel fuel. The lower aldehyde content of the tailpipe emissions of engines using NExBTL indicates that the combustion process associated with the fuel is very efficient.

A number of municipal authorities have expressed interest in using NExBTL diesel to improve air quality. In fall 2006, Neste Oil signed a letter of understanding with Helsinki City Transport and the Helsinki Metropolitan Area Council covering the extensive trial use of NExBTL to power buses and waste disposal trucks throughout Greater Helsinki. The trial will start in fall 2007 and forms part of efforts to reduce urban emissions and promote the use of biofuels on the road in the region.

Oil Retail focuses on the customer

Key figures

	2006	2005	Change, %
Sales, EUR million	**3,280**	2,931	12
Operating profit, EUR million	**138**	45	207
Comparable operating profit, EUR million	**65**	46	41
Net assets, EUR million	**336**	375	-10
Return on net assets (RONA, %)	**37.2**	13.2	-
Capital expenditure, EUR million	**44**	47	-6
Product sales volume, 1,000 m^3	**4,424**	4,115	8

Oil Retail plays an important role providing a direct link with end-users and offering Neste Oil a channel for launching new products. In Finland, the division has prioritized developing its customer relationship management and improving the overall quality and efficiency of its operations, while elsewhere the focus is on expansion.

Oil Retail sells a full range of major petroleum products through its own Neste station network and direct sales to businesses and private customers. As of the end of 2006, the station network covered a total of 1,125 (1,099) outlets in Finland and around the Baltic in Estonia, Latvia, Lithuania, Poland, and the St. Petersburg region in Russia. In addition to an extensive network, the division's strengths include a continuous commitment to developing customer relationship management and a strong brand.

A new approach

Oil Retail updated its strategy in 2006 as part of the Group's growth strategy. The division's priority focus areas will be innovation, profitability, and growth. Understanding the customer represents the underlying principle behind the division's strategy, and is seen as a key competitive asset in the retail arena. Determined work to promote a more customer-oriented approach began in 2004, and measures taken since then have included reorganization of the divisional management system.

Oil Retail's customer promise launched in the spring – 'The more you demand, the better for us' – crystallizes this new approach. The more customers expect of Neste Oil in terms of products and services, the better the company will be able to differentiate itself from its competitors. Oil Retail aims to offer its customer the best products as flexibly and as smoothly as possible. This guiding principle underpins all aspects of operations, from supply to sales and delivery. Development work has already generated results in areas such as electronic services, and more than 20% of non-commercial heating customers today order their oil over the Internet.

In line with the principle of continued improvement, Finnish operations were certified to the ISO 9001, ISO 14001, and OHSAS 18001 standards in 2006.

Sales up around the Baltic Rim

Oil Retail's sales rose by 7.5% on 2005, to 4.4 million cubic meters; and Neste Oil retained its market leadership in Finland, accounting for 26.2% of gasoline sales (27.2%) and 40.9% of diesel sales (40.6%). Neste Oil's market share in the Baltic region developed positively. Gasoline sales rose by 22% and diesel sales by 27%, driven by increased demand and extended network.

Oil Retail's growth in the Baltic is further supported by efficient logistics, in which the company's own terminals play a key role.

Changes in the station network

Neste Oil had a total of 887 stations in Finland as of the end of 2006, 37 of which were unmanned, low-cost NEX stations. The NEX network, launched in 2005, has expanded as planned, and will continue to be developed. A quality and sales development program was initiated at dealer-owned stations. Scheduled to continue until the end of 2007, this is aimed at ensuring sustained competitiveness in an increasingly competitive marketplace.

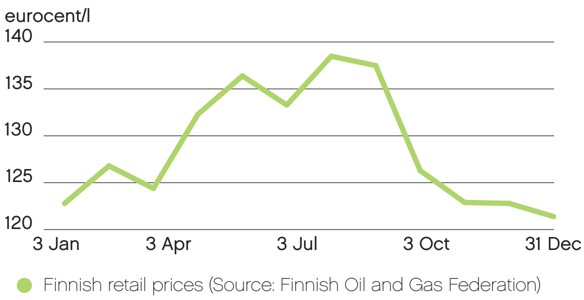
Outside Finland, Neste Oil opened 28 new outlets, the majority in Poland and northwest Russia. Good growth potential exists to expand the station network in northwest Russia in particular.

Optimization of the station network and generating a better return on capital employed represent key elements in Oil Retail's strategic platform. To improve the division's return on capital, 73 service station properties were sold to a capital investor in fall 2006.

Start of the biofuel era

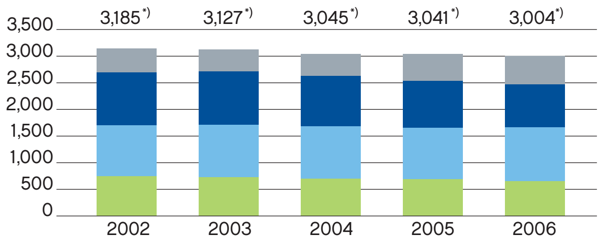
Neste Oil was the first supplier in Finland to launch 98-octane biogasoline, in April 2006, marking the beginning of the biofuel era at Neste service stations. Biogasoline contains 2–5% ethanol or ethanol-based components. Futura 98 biogasoline complies with all existing statutory requirements and is ideal for all types of gasoline-powered vehicle, as fuel consumption, engine power, and other performance characteristics are unaffected. Neste Oil was the first company in Finland to launch biogasoline, underlining its pioneering position on the Finnish market. Biofuel will continue to be an important area in 2007, as it will see the introduction of Neste Oil's groundbreaking NExBTL diesel.

Development of gasoline retail prices in Finland in 2006

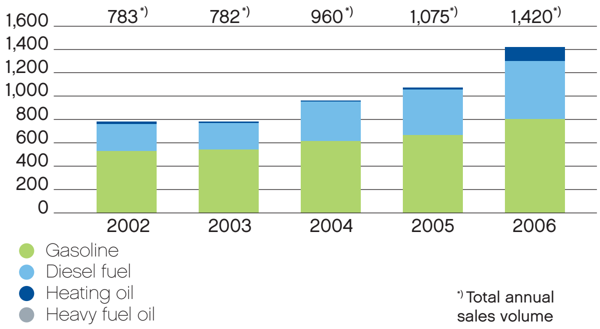


Retail sales increased by 7.5% in 2006

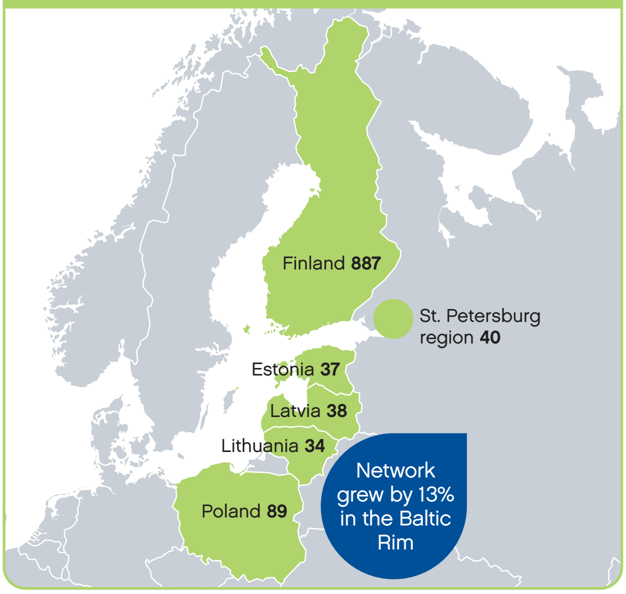
Sales in Finland have stayed quite stable
1,000 m³



Sales around the Baltic Rim increased by 32%
1,000 m³



Neste Oil's station network as of 31 Dec 2006
outlets



Shipping – supporting the business through flexible logistics

Key figures

	2006	2005	Change, %
Sales, EUR million	**293**	352	-17
Operating profit, EUR million	**78**	87	-10
Comparable operating profit, EUR million	**32**	85	-62
Net assets, EUR million	**298**	326	-9
Return on net assets (RONA, %)	**25.0**	26.7	-
Capital expenditure, EUR million	**10**	24	-58
Deliveries total, million of tons	**34.4**	40.2	-14
Fleet utilization rate, %	**94**	92	-

Shipping plays an important role for Neste Oil in guaranteeing flexible transportation for the company's raw material inputs and products. Shipping's tankers deliver raw materials to Neste Oil's refineries and transport petroleum products to customers around the world.

Flexible logistics plays an important role in Neste Oil's operations. The location of the company's refineries in northern Europe places high demands on shipping capabilities during the long winter months. Flexibility is also important in taking advantage of changing opportunities in a range of different markets. Owning all the vessels in its fleet is not a key priority for Neste Oil; what is important is the ability to guarantee the availability of capacity when it is needed. Profitability is gained from using larger vessels for larger cargoes.

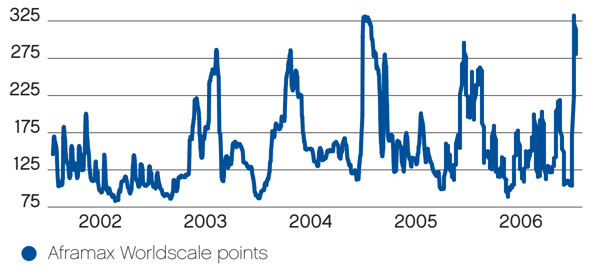
Experience is a clear advantage

Shipping's competitive strengths include its extensive knowledge and understanding of the business and the environment in which Neste Oil operates, as well as a long track record in marine transport in challenging conditions. This experience allows the fleet to guarantee uninterrupted, on-time deliveries year round, and provide reliable customer service. Highly skilled personnel and one of the world's largest ice-strengthened fleets ensure safe and reliable operations whatever the weather. High levels of winter navigation skills are maintained through ongoing crew training.

Shipping's fleet modernization program and overall development is managed in line with the needs of customers and the operating environment. To ensure maximum safety, Neste Oil only uses tankers with a double hull or a double bottom, and uses escort tugs in the approaches to the company's refineries. All vessels in Shipping's fleet are registered to the highest Finnish-Swedish ice-class.

Neste Oil's high standards of safety were confirmed recently by an official inspection by the Port State Control (Paris MoU), which concluded that Finnish ships were the world's safest in 2006. Neste Shipping made an important contribution to the results.

The development of freight rates in the North Sea
day rates





Rapid growth in Baltic traffic

The Baltic market is currently the fastest-growing in the marine transportation business. Higher traffic volumes have increased the number of ice-strengthened tankers available, which has led to a tighter market. Growing Russian crude exports has been the major driver in this development, which has been reflected in traffic at the Primorsk oil terminal, northwest of St. Petersburg. According to this data, crude shipments out of Primorsk currently total approximately 65 million tons a year.

Fleet modernization continues

The fleet replacement program continued in 2006 in response to changing market needs. Neste Oil sold three vessels during the year: the Natura, the Tervi, and the Palva. Cooperation agreements with a number of shipping companies have given Shipping access to new vessels; and Neste Oil has also acquired a 50% holding in the Stena Arctica crude oil tanker under an agreement with Stena Bulk.

A joint venture between Neste Oil and Concordia Maritime of Sweden has two 75,000-dwt Panamax tankers under construction, to be time-chartered by Neste Oil in 2007. The vessels, named the Stena Poseidon and the Palva, will be used for gasoline deliveries to North America.

Better competitive edge

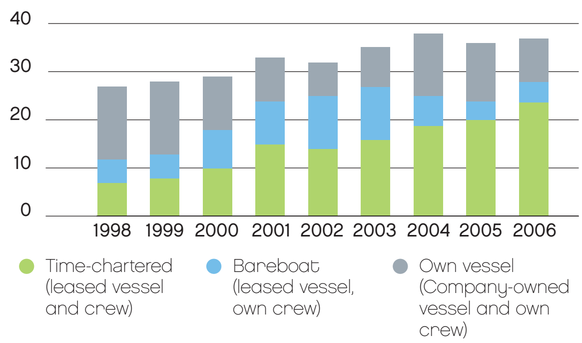
Neste Oil incorporated the Shipping Division as of the beginning of 2007. This is in preparation for the reform of tonnage-based taxation in Finland, designed to improve the competitiveness of the Finnish maritime industry. Incorporation will enable Neste Shipping to switch to net registered tonnage-based taxation as and when it is introduced. This will improve Shipping's competitiveness compared to international shipping companies.

Neste Oil's fleet as of the end of 2006

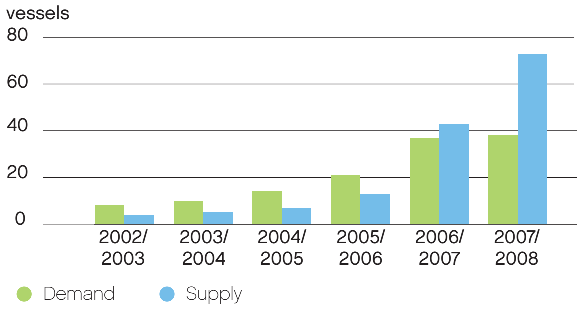
7	crude oil tankers
23	product oil tankers (6 company-owned)
3	escort tugs (1 company-owned)
2	combined push-barges (both company-owned)

The fleet totals approx. 1.4 million deadweight tons of capacity. On average, the fleet in 2006 was less than 2 years old overall, and time-chartered vessels were less than six years old. The European average is around 10 years.

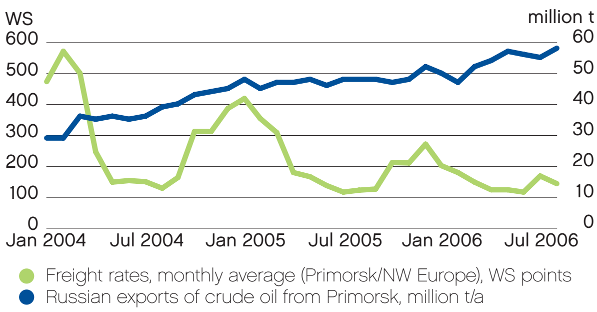
Time chartering brings valuable flexibility to fleet management vessels



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

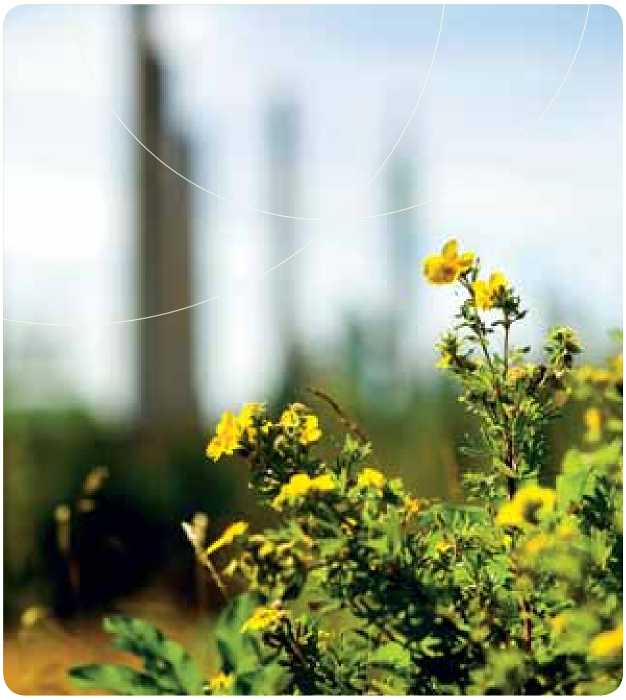


Primorsk has generated additional traffic, but freight rates have fallen as a result of stiff competition



The importance of being accountable

Neste Oil believes that companies should behave responsibly to succeed in business and maintain the trust of their customers and partners – and has highlighted responsibility as one of its core values.



Corporate responsibility supports the company's cleaner traffic-based growth strategy. The challenge is to demonstrate that responsibility is important for all aspects of the company's operations, in terms of personnel, society, and the environment.

Social responsibility

Neste Oil strives to be a reliable employer and partner. Improving occupational safety and ensuring profitable performance will make Neste Oil a safe and attractive workplace into the future. Neste Oil recognizes its commitment and responsibilities in respect of its partners, and expects others to act responsibly as well. This includes companies that supply the raw materials Neste Oil uses in biofuel production, which are expected to be committed to the principles of sustainable development in the same way as Neste Oil is.

Neste Oil follows the recommendations covering the operations of multinational companies issued by the OECD, as well as recommendations on good corporate governance. The company also 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 people's human rights, discrimination, forced labor, and the use of child labor. Neste Oil abides by these requirements in its own operations and expects its partners to do the same.

Environmental responsibility

Neste Oil aims to develop its environmental management and contribute to reducing the impact of traffic on the environment on a continuous basis, with the objective of generating the smallest possible amount of negative impact on the environment and society as a whole.

In terms of products, Neste Oil focuses on cleaner traffic fuels and complying with or exceeding all fuel-related emission limits. Being a pioneer means prioritizing the environmental benefits of new products as they are developed. Neste Oil's strategic commitment to major growth as a producer of biodiesel presents the company with a broad range of challenges. In respect of new raw materials for this type of fuel, 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.

Broad financial impact

Neste Oil sees its updated strategy as the best means not only to grow the company's shareholder value long term, but also to meet its other financial obligations. The company and its operations have a broad financial impact, extending from its owners and personnel through the taxes the company pays to society as a whole. Neste Oil also sponsors a number of events and organizations.

Making a long-term contribution

The market for petroleum products is a global one. Being able to take advantage of changes in the marketplace rapidly offers Neste Oil some valuable opportunities, as its history shows. Neste Oil has been a forerunner in improving product quality, for example, and in investing in the environment – to the benefit both of the environment and customers. A responsible approach to business will guarantee long-term success, and help the company manage the risks typical of the oil industry effectively.

Responsible Care

Neste Oil invests in biofuels R&D to find new ways of making better use of renewable raw materials. The company is committed to sourcing its raw material inputs responsibly and in line with the principles of sustainable development, and complies with strict safety regulations throughout the logistics chain.

Neste Oil is committed to the international chemical industry's Responsible Care (RC) program as a means of improving health, safety, and environmental performance industry-wide. Neste Oil 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.

The REACH (Registration, Evaluation and Authorization of Chemicals) project launched at Neste Oil involved studying the requirements of the EU's REACH regulatory framework on chemicals and producing a summary of the relevant substances and products used by the company. Approximately 50 substances Neste Oil uses require registration, and some 1,100 substances used are covered by REACH. The new regulatory framework will come into force in June 2007. Under this, Neste Oil will be required to carry out an extended safety evaluation of the substances it uses and provide information on their safe usage. In preparation for REACH, Neste Oil has commissioned a QSAR model to assess the chemical and biological impact of the substances in question. This advanced tool has produced promising results, and helped achieve one of REACH's objectives, to reduce the need for animal testing.

A verification of carbon dioxide emissions was conducted at Neste Oil's Porvoo and Naantali refineries in early 2006 as required under emission trading legislation. Emissions at Porvoo were shown to be lower than those permitted under the emissions allowances granted to the facility. This results from the fact that the allowances granted to the new diesel production line due to come on stream in 2007 have been spread across the entire emissions trading period between 2005 and 2007. Neste Oil purchased a small number of emissions allowance futures on a trial basis in early 2006 to cover the additional need for allowances when the new production line is operational.

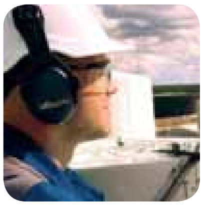
The Porvoo refinery received a new environmental permit in October 2006. This sets out conditions on the amount and reporting of emissions, and stipulates how the refinery's environmental protection activities and official reporting procedures should be organized.

HSE investments

Neste Oil's HSE investments totaled EUR 20 million in 2006 (36 million), equivalent to 4% of the company's overall capital expenditure. All projects aimed primarily at enhancing safety and environmental performance are classified as HSE

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 the 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.



investments, while only the HSE content of other projects is included. Neste Oil does not expect to have any HSE investment needs in the near future that would affect its financial performance.

HSE costs are monitored on a systematic basis. HSE operating expenses in 2006 amounted to approximately EUR 39 million (47 million), and covered areas such as the prevention of air and soil pollution, wastewater treatment, waste disposal, and fire protection.

Act Safe

Neste Oil launched the Act Safe project in February 2006, aimed at making Neste Oil a safer place to work. The project will see the development of an integrated safety management system covering all Neste Oil's businesses and support functions. Approximately 100 Neste Oil personnel are involved in the project.

Act Safe is intended to promote safety thinking and make operations safer for personnel, the local community, partners, customers, and the environment. Measures will include minimizing safety risks and employing the best technology and services. The project is based on the principle of zero tolerance and the belief that all accidents and damage can be prevented, and that safety is an integral part of a successful business.

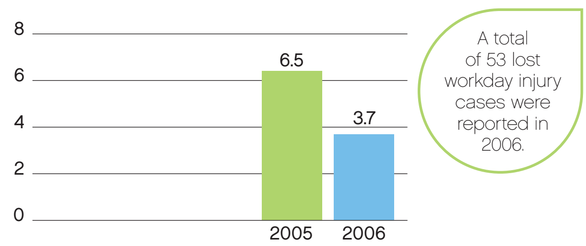
Lost workday injury frequency (LWIF) is the most important indicator of occupational safety, and indicates the number of accidents resulting in employee absence per one million hours worked. An LWIF figure of 3.7 (6.5) was recorded in 2006, and a total of 53 accidents occurred. The targeted LWIF for the year was below 4.0.

Management plays a key role in Neste Oil's corporate security, in organizing corporate security procedures, assigning responsibilities, and continuously developing these areas. Corporate security includes the efficient management and development of data security, emergencies, incidents, and safe travel. Safety and security are important considerations when recruiting new personnel and selecting service suppliers.

Neste Oil's integrated management system covers all operational activities, and complies with all environmental, health, safety, and quality standards. In-house audits and annual audits by independent authorities are carried out to ensure that systems are functioning as expected. Separate HSE audits continued in 2006. All operations under the company's direct control have now been audited, and follow-up audits will be carried out every three to five years.

Lost workday injury frequency in 2005–2006

injury frequency, cases/million working hours (LWIF)



Environmental impact

Neste Oil's refineries at Porvoo and Naantali use cost-efficient modern methods to refine crude oil and other feedstocks into high-quality traffic and heating fuels with a minimal level of impact on the environment.

The company has reviewed its health, safety, and environmental impact, including the risk of major accidents at its facilities, and used this information to produce an action plan, which is revised annually.

The main environmental impact of the company's refineries involves airborne and waterborne emissions and waste. The extensive storage and handling of flammable and hazardous chemicals involved in Neste Oil's operations constitute the company's major safety risks.

No serious environmental accidents resulting in liability, or accidents resulting in significant interruptions to production, occurred in 2006. Significant reductions in emissions have been achieved, and these remained largely within the limits specified in official permits. The risk of damage to the environment is low.

Environmental monitoring

The impact of operations on the environment is regularly monitored at Neste Oil's production facilities and in their immediate vicinity, in respect of air quality and water systems, the soil, surface and groundwater, and noise. Monitoring complies with the requirements of the relevant environmental protection legislation and other statutory requirements. Monitoring is carried out by Neste Oil's HSE organization or third-party service providers.

A good year for the environment

Neste Oil's environmental emissions in 2006 were largely at the low level recorded in 2005. Airborne emissions were somewhat lower, due to the maintenance shutdown at the Naantali refinery. The biggest improvement was made in wastewater treatment, which turned in problem-free operations throughout the year. Oil emissions of 0.23 gram per ton of crude oil refined are less than a tenth of the 3 g/t target set by the Baltic Marine Environment Protection Commission.

See more on HSE on pages 104–105.

Financial impact

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

Neste Oil's direct customers include other oil companies and corporate customers, as well as individual consumers. Revenue from customers in 2006 totaled EUR 12,734 million (9,974 million). Of this, 93%, or EUR 11,780 million (8,977 million), was compensated for suppliers of goods and services, with payments related to the purchase of crude oil and other feedstocks accounting for the largest single item, EUR 11,186 million (8,543 million).

Neste Oil employed an average of 4,678 (4,528) personnel in 11 countries in 2006, and total wages and salaries, remunerations, and social benefits amounted to EUR 224 million (223 million).

As of the end of 2006, Neste Oil had 56,283 shareholders. The Finnish State owned 50.1% of shares, international shareholders 28.9%, Finnish institutions 13.9%, and Finnish households 7.1%. The company paid a dividend of EUR 0.80 per share for 2005, equivalent to EUR 205 million, in spring 2006. The Board of Directors proposes that a dividend of EUR 0.90 per share be paid for 2006, or a total of EUR 231 million. Neste Oil's share price on the Helsinki Stock Exchange fell by 4% during 2006.

Neste Oil's income taxes amounted to EUR 205 million (153 million) in 2006. In addition, society benefited 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 (7 million).

Neste Oil made various donations to selected charities in Finland in 2006, including the Christmas Spirit Appeal. The company also sponsors various environmental campaigns and sports and cultural events, of which the WWF's Operation Mermaid, the Millennium Technology Award, the Neste Oil Rally, the Espoo Blues ice hockey team, the Naantali Music Festival, and the Avanti! Summer Sounds Music Festival in Porvoo, are the most important.

Direct financial impact in 2005–2006

Customers
Net sales
EUR 12,734 million
(9,974 million)

Neste Oil

EUR million	**2006**	**2005**
Suppliers of products and services		
Purchases of crude oil and other feedstocks used in refining	**11,186**	8,543
Other	**594**	434
Personnel		
Salaries and wages	**196**	189
Social benefits	**28**	34
Investors		
Dividends	**231**	205
Interest and financial costs	**16**	29
Public sector/society		
Income tax	**205**	153
Environmental taxes and fees	**8**	7
Charity and sponsorship	**1**	1

Personnel are the key to success

A strong organizational culture and dedicated personnel have a key part to play in helping Neste Oil achieve its goals. The Group's success is based on the skills and expertise of its personnel, and their drive to work together. Shared values provide a central foundation here.

Leading by example

Neste Oil identified the management competences that it believes will help the company reach its goals, in summer 2006. Strengthening managerial skills in six areas has been prioritized: trend-setting, financial performance, interpersonal skills, cooperation, innovation, and empowerment. These competence areas are important in day-to-day management, when selecting managers, in management development work, appraisals, deciding incentives, and promoting the benefits of job rotation.

A Manager Feedback Toolbox was introduced in October 2006, specially designed for Neste Oil and based on these competence areas. This focuses on helping managers identify their strengths and potential development areas as the basis for their future personal development.

Getting the message across

More than 350 Neste Oil managers participated in a series of one-day events in fall 2006 focusing on the company's updated strategy, values and success factors, managerial competence areas, and management development. These events were part of the Leading for the Future program, which provides a general leadership and management framework for HR development. The program is intended to promote strategy deployment by developing the Group's leadership and management capabilities, strengthening Neste Oil's corporate culture and best practices, and providing people in managerial positions with the tools they need to help them succeed in their work. Managerial feedback and follow-up are part of the leadership and managerial development program.

Equality is a basic requirement

Equality of opportunity is one of the essential basic requirements for a fair, thriving, and productive work environment. Neste Oil prioritizes equality on a systematic basis to ensure that gender is not a factor in recruitment, salary levels or reward systems, or career development or career opportunities. All positions in the company are open

Values guide our actions

Neste Oil announced a set of corporate values in the early summer of 2006. The process that led up to this was launched in fall 2005 with a personnel value survey, which served as the foundation for teams, groups of employee representatives, and company management to begin work on outlining a set of values for Neste Oil. The Board of Directors approved responsibility, cooperation, innovation, and excellence as Neste Oil's four core values in spring 2006.

Internal events were held at the company's major locations in the early summer to launch these values; and value discussions will continue in 2007.

to both men and women. A positive approach to equality will give Neste Oil a valuable asset in the competition for the most talented people.

Neste Oil prepared an equal opportunities plan based on Finnish legislation in the field in the spring of 2006, and was recognized for its progress with an award by Finland's Ombudsman for Equality in November. Employer and employee representatives participated in developing the plan, which covers all of Neste Oil's Finnish companies.

The Group's Finnish subsidiaries – Neste Jacobs Oy, Neste Markkinointi Oy, and Tehokaasu Oy – have also carried out their own equality reviews and drawn up their own plans. The Group's Human Resources Unit is responsible for monitoring equality-related issues and reports to the Neste Executive Team annually. Personnel also receive information on the progress of the plan annually.

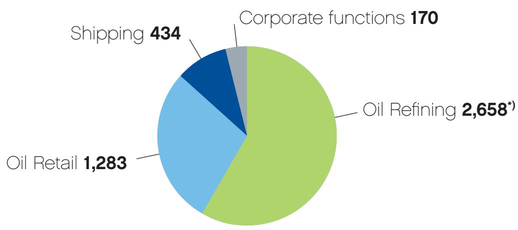
A new generation

Neste Oil is experiencing a major change of generation among its personnel, as the baby-boomer generation approaches retirement age, in the same way as many other Finnish companies. A total of 87 Neste Oil personnel retired in 2006; and some 1 000 Neste Oil personnel are expected to retire over the next five years. The company recruited 544 new employees in 2006, either to replace retiring personnel or for new positions.

Long-term HR planning is designed to ensure that the Group will have access to the skills and competences required by its business strategies. In 2006, some 300 students from various educational institutions worked at Neste Oil locations.

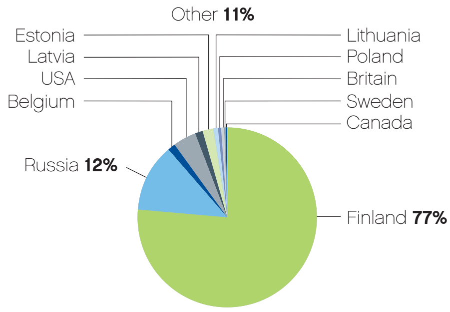
In-house recruitment is the priority method of recruitment at Neste Oil. Job rotation enhances people's skills and motivation, and opens up new career opportunities. Neste Oil offers a wide range of challenging assignments, and encourages continued competence and career development.

Permanent personnel by segment, as of 31 Dec 2006
total 4,545



*)Includes Oil Refining and Biodiesel

Personnel by country, as of 31 Dec 2006
total (average) 4,678



Appraisal discussions provide valuable support

Performance reviews and appraisal discussions are held every year to help personnel achieve their goals and improve in their work. Discussions covering performance and objectives take place at the turn of the year, and those involving personal development mainly in the early fall. Performance reviews cover virtually all personnel. Those in 2006 paid particular attention to the company's values and ways of promoting safety in day-to-day work as part of people's personal development.

See more on Personnel on pages 106–107.

Comprehensive risk management

Neste Oil needs to take a number of risks into account in its business, associated with developments in both the world economy and the oil industry. An enterprise risk management (ERM) development program was launched in 2006 – to create a comprehensive framework for risk management and integrate risk management practices into normal routines and practices across the Group. The program is designed to assess the risks facing the company's strategic, business, and operational targets, and report on them as needed. Neste Oil's main risk management policies and principles have also been reviewed and updated as part of the program.

Roles and objectives

Risks are defined in the ERM process in terms of the relative probability of events or developments occurring that could have an impact on the Group's targets, with a focus on identifying their likely consequences should they occur. Risk management aims to increase Neste Oil's ability to take risks within accepted limits and support units in achieving their targets by monitoring the impact of changes in the Group's markets, businesses, and other factors on earnings potential.

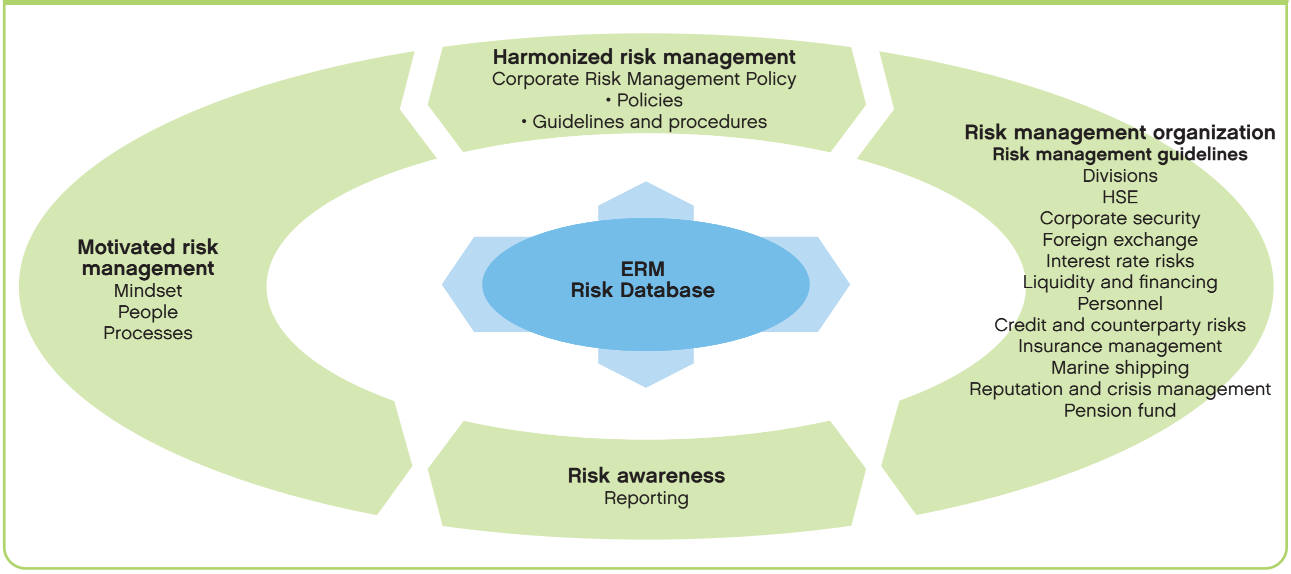
The management of financial risks focuses on reducing the Group's exposure to volatility affecting earnings, the balance sheet, and cash flow, while helping secure effective and competitive financing. In respect of strategic and operational risk management, the emphasis is on ensuring that Neste Oil is always aware of its risks, assessing and prioritizing them on a consistent basis, and managing them proactively.

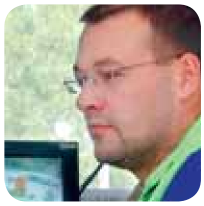
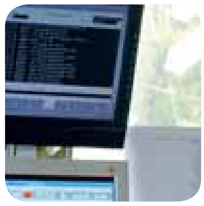
Risk management principles

Neste Oil aims to limit the impact of risks on its operations through a range of risk management strategies. The Board of Directors has approved an updated Corporate Risk Management Policy defining 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 the ERM risk database. The policy also includes detailed guidelines covering areas such as the management of corporate and divisional strategic risks, operational risks, market risks, counterparty risks, legal liability, and safety-related risks.

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

Risk management model



functions also have their own policies, principles, and procedures related to risk management, approved by the Chief Financial Officer.

Risk management process

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

Corporate Risk Management drives the risk management process, and develops and reviews risk-monitoring processes. Neste Oil's divisions are responsible for managing the risks associated with their operations, and contribute to the Group's 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 four times a year. Divisions report on their market and financing-related risks to senior management as part of monthly management reporting.

Sensitivity analysis

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

The table below details the approximate impact that movements in Neste Oil's key price and currency exposures could have on its operating profit for 2007, based on assumptions regarding the company's reference market and operating conditions, but excluding the impact of hedge transactions.

Key sensitivities for 2007

Approximate impact on operating profit excluding hedges	
10% change in the EUR/USD exchange rate	+/- EUR 100–125 million
Change of USD 1.00 /bbl in total refining margin	+/- USD 115 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.

In addition to key sensitivities, the following risks have also been identified

Strategic risks

- Risks related to the development of the world economy, which might impact the demand for products
- Risks related to delays in investment projects or unworkable technology
- Risks related to entering new business areas and working with new partners as part of the Group's growth strategy

Market and financial risks

- Inventory risks
- Freight rate risks
- Emissions obligations price risks
- Interest rate risks
- Liquidity and refinancing risks
- Counterparty risks

Operational risks

- IT security risks
- Corporate security risks
- Hazard risks
- Risks in marine transportation

Further information on the management policies of these risks can be found on pages 48–49 and 82–88.

Challenges for risk management

Developing enterprise risk management is a continuous process. As Neste Oil moves forward, the focus will be on incorporating risk management principles and guidelines into the normal daily work of divisions and corporate functions, and thereby supporting the achievement of the Group's strategic and business targets. Continuous monitoring, regular reviews, self-assessment, and benchmarking are an integral part of the continuous development of the Group's risk management capabilities. One of the main focus areas will be business continuity management.

Governance principles

Neste Oil is listed on the Helsinki Stock Exchange, 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.

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. **www.nesteoil.com/investors/corporate governance**

The Neste 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 auditor, appointed by shareholders at the Annual General Meeting.

Annual General Meeting

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

At the Annual General Meeting, shareholders make decisions on matters such as adoption of the Financial Statements covering the adoption of Consolidated Financial Statements and on the distribution of the profit for the year shown in the Balance Sheet, the amount of dividend to be paid, granting of discharge from liability to the members of the Supervisory Board, the Board of Directors, and the President & Chief Executive Officer, 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.
www.nesteoil.com/investors/corporategovernance

The 2006 Annual General Meeting was held on Wednesday, 22 March. At the meeting, the income statements and balance sheets of the Parent Company and the Group for 2005 were adopted, and the Supervisory Board, the Board of Directors, and the President and CEO were discharged from liability for 2005. The Board of Directors' proposal regarding the distribution of profits for 2005 by paying a dividend of EUR 0.80 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 (27 March 2006) 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

At the proposal of the Finnish Government representative in the form of the Ministry of Trade and Industry, a decision was made at the Annual General Meeting to establish a Nomination Committee to prepare proposals on the composition and remuneration of the Company's Board of Directors for the next Annual General Meeting. The Nomination Committee comprised 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 lay 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 did not wish to exercise his right to appoint a member, this right was to be transferred to the next largest shareholder. The Company's largest shareholders were 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 was required under Finnish securities legislation, as part of the flagging requirement, to notify the authorities of certain changes in the size of his holdings, should have been combined and treated as a single holding if the shareholder concerned informed the Company's Board of Directors of his wish that this should be done in writing by 31 October 2006 at the latest.

The Chairman of the Company's Board of Directors convened the Committee, and the Committee's members appointed a Chairman from among themselves. The Nomination Committee was to present their proposal to the Company's Board of Directors by 1 February prior to the AGM at the latest.

In 2006, the Nomination Committee comprised Markku Tapio of the Ministry of Trade and Industry, Harri Sailas of the Ilmarinen Mutual Pension Insurance Company, and Jorma Huuhtanen of the Social Insurance Institution of Finland. Timo Peltola, Chairman of the Board of Directors, acted as the Committee's expert member. The Nomination Committee made a proposal concerning Board members and the remuneration payable to them on 30 January 2007.

Supervisory Board

The Supervisory Board is responsible for overseeing the administration of the Company and submitting statement on the financial statements and the auditors' report to the Annual General Meeting. Furthermore, it may offer instructions to the Board of Directors in matters of wide import or principle.

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 March 22, 2006 and whose term will end at the Annual General Meeting to be held on 21 March 2007, are:

Klaus Hellberg, (Chairman), born 1945, Member of the Finnish Parliament
Markku Laukkanen, (Vice Chairman), born 1950, Member of the Finnish Parliament
Mikael Forss, born 1954, Director, Social Insurance Institution of Finland
Heidi Hautala, born 1955, Member of the Finnish Parliament
Satu Lähteenmäki, born 1956, Professor, Turku School of Economics and Business Administration
Markus Mustajärvi, born 1963, Member of the Finnish Parliament
Juhani Sjöblom, born 1949, Member of the Finnish Parliament
Jutta Urpilainen, born 1975, Member of the Finnish Parliament

As of the end of 2006, 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.

Remuneration of the Supervisory Board
EUR per month

	2006	2005
Chairman	1,000	1,000
Vice Chairman	600	600
Members	500	500
Meeting 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 2006, and the average attendance rate was 85%.

Board of Directors

The Board of Directors is responsible for the administration and appropriate arrangement 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 strategy of the 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 Executive Team's and the Neste Oil Group's organizational and operational structure at senior management level; and defines the Company's dividend policy, based on which a proposal regarding dividends 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, **www.nesteoil.com/investors/corporategovernance**

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 at 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 other material relationship with the Company

Board of Directors as of 31 Dec 2006

Name	Born	Member since	Position	Independent	Personnel and Remuneration Committee	Audit Committee	Attendance at meetings Board	Committees
Timo Peltola	1946	2005	Chairman	✓	Chairman		14/14	6/6
Mikael von Frenckell	1947	2005	Vice Chairman	✓	✓		14/14	6/6
Ainomaija Haarla	1953	2005	Member	✓	✓		14/14	6/6
Kari Jordan	1956	2005	Member	✓		✓	14/14	5/6
Juha Laaksonen	1952	2005	Member		✓		13/14	6/6
Nina Linander	1959	2005	Member	✓		Chairman	14/14	6/6
Pekka Timonen	1960	2005	Member			✓	14/14	6/6
Maarit Toivanen-Koivisto	1954	2005	Member	✓		✓	14/14	6/6

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 22 March 2006. The Board consists of eight members, all of who are independent, with the exception of Juha Laaksonen, who is employed by Neste Oil's former parent company, and Pekka Timonen, who is employed by 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 14 times in 2006, and the attendance rate at meetings was 99% 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 of 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 2006, the Audit Committee comprised Nina Linander (Chair), Kari Jordan, Pekka Timonen, and Maarit Toivanen-Koivisto. The Committee convened six times, and the average attendance rate was 95.8%.

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 schemes for key personnel. Accordingly, it prepares and proposes to the Board the appointments of the President & CEO and the members of the Neste Executive Team, and the terms and conditions of their employment, and monitors and evaluates their performance. The Personnel and Remuneration

Shareholdings and remuneration of the Board of Directors on 31 Dec

Name	Shares as of 31 Dec 2006	2005	Change	Remuneration/a 2006*)	2005
Timo Peltola	1,250	250	+1,000	55,000	55,000
Mikael von Frenckell	100,000	25,000	+75,000	42,000	42,000
Ainomaija Haarla	1,500	-	+1,500	30,000	30,000
Kari Jordan	225	225	-	30,000	30,000
Juha Laaksonen	5,000	5,000	-	30,000	30,000
Nina Linander	1,100	-	+1,100	30,000	30,000
Pekka Timonen	-	-	-	30,000	30,000
Maarit Toivanen-Koivisto	3,750	3,750	-	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 found at **www.nesteoil.com/investors**

Committee consists of the Chairman of the Board and at least two non-executive members of the Board.

In 2006, the Personnel and Remuneration Committee comprised Timo Peltola (Chair), Mikael von Frenckell, Ainomaija Haarla, and Juha Laaksonen. The Committee convened six times, and the average attendance rate was 100%.

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 below). In the event the Company decides to give notice of termination, the President & CEO is entitled to severance pay equaling 24 months' salary. The retirement age of the President & CEO is 60 years, and the pension paid is 66% of remuneration for the fiscal year preceding retirement.

Neste Executive Team (NET)

The Neste Executive Team (NET) assists the President & CEO in Company management and in the deployment of the Company's strategic and operational goals. NET members

Remuneration paid to the President & CEO and NET
EUR

	2006 Salaries and benefits	Performance bonuses	Total	2005 Total
President & CEO	551,900	167,843	719,743	578,250
Other NET members	1,240,669	429,211	1,669,880	1,536,689

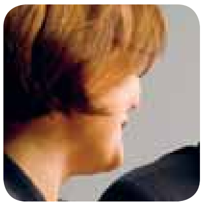
Shareholdings and share incentives of the Neste Executive Team as of 31 Dec 2006

	Born	Position	Member since	Shares as of 31 Dec 2006	2005	Change	Share incentives*) 2006	2005	Total
Risto Rinne	1949	President & CEO	2004	137	137	-	21,219	16,477	37,696
Jarmo Honkamaa	1956	Division Head	2004	5,937	5,937	-	8,503	7,741	16,244
Kimmo Rahkamo	1962	Division Head	2004	4,000	4,000	-	5,007	4,931	9,938
Matti Peitso	1952	Division Head	2004	25	25	-	6,023	9,111	15,134
Risto Näsi	1957	Division Head	2004	-	5,000	-5,000	5,647	7,004	12,651
Hannele Jakosuo-Jansson	1966	SVP, HR	2006	-	-	-	1,033	-	1,033
Osmo Kammonen	1959	SVP, Communications	2004	500	500	-	2,586	-	2,586
Juha-Pekka Kekäläinen	1962	SVP, Development	2004	900	50	+850	4,190	4,246	8,436
Petri Pentti	1962	CFO	2004	500	500	-	3,013	-	3,013

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.

*)Share incentives refer to the number of shares those concerned have been confirmed as being entitled to under the share programs that began in 2002 and 2003 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.

Regularly updated data can be found at **www.nesteoil.com/investors**



are appointed by the Board of Directors. The NET currently consists of the President & CEO, four divisional executive vice presidents, and the heads of Communications, Corporate Development, Finance (CFO), and Human Resources.

The NET meets regularly, on average once a month.

The members of the Neste Executive Team receive a base salary and are eligible for an annual performance-based bonus. In addition, all members are entitled to fringe benefits. 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 the Neste Executive Team is 60 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 its 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 2006, the average performance bonus paid to personnel for 2005 was 9% of employees' annual salary on average.

In 2006, a new short-term incentive program was developed. The performance-driven program took effect from 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, which was launched at the beginning of 2007. Approximately 50 key personnel are 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. If the maximum targets are reached during the first earning period, the maximum amount of reward for key personnel will equal the value of 360,000 Neste Oil shares. 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 payable.

The criteria for the incentive system 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 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 the Group.

The previous share incentive scheme was in force in 2006, and a description of this can be found in Note 30 to the financial statements. The criteria used in respect of the previous long-term incentive program 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.

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.

Group 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.

The profit-sharing bonuses that the Group pays 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 included in the Group have arranged a statutory pension under the Finnish TEL pension system in the Neste Oil Pension Fund. The pensions of seamen are insured in the Seamen's Pension Fund, and the pension of those in forest, construction, and harbor work is insured by Etera Mutual Pension Insurance Company. Retirement age is 63 to 68 years.

The Neste Oil Pension fund provides additional pension benefits in addition to statutory pension to persons who have joined the Company before 1994. The most important additional benefits are an overall pension of 66% (statutory 60%) and a reduced retirement age of 60 for women and some men.

Auditor

The Annual General Meeting elects one 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 election.

PricewaterhouseCoopers Oy was re-elected as Neste Oil's auditors in 2006, with Markku Marjomaa, certified public accountant, as auditor.

Payments made to the Company's auditor
EUR thousand

	2006	2005
Auditing fees	578	343
Other	152	294
Total	730	637

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. In its work, 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 Helsinki Stock Exchange. The Company has also approved its own Guidelines for Insiders, which are stricter than the minimum requirements of the HEX Insider Guidelines in some areas. For example, the Company's closed window (see below) exceeds the minimum requirements set out under the HEX Insider Guidelines.

The Company's Guidelines for Insiders are regularly updated and are available for consultation by 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 auditor, and the members of the Neste 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. 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 reports and Financial Statements bulletin are included in the financial calendar at **www.nesteoil.com/investors**

Individuals who participate in the development and preparation of projects that involve inside 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.
www.nesteoil.com/investors/corporategovernance

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@apk.fi, **www.apk.fi**.

Board of Directors on 31 December 2006

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.), and a member of the Boards of TeliaSonera AB and SAS AB. Chairman of the Supervisory Board of Ilmarinen Mutual Pension Insurance Company. 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. Member of the Board of Tamro Plc. Member of Neste Oil's Personnel and Remuneration Committee.

Juha Laaksonen

B.Sc. (Econ.). Non-independent member.

Born in 1952. Chief Financial Officer of Fortum Corporation. Member of the Board of Directors of Teollisuuden Voima Oy, and a member of the Supervisory Boards of the Tapiola Mutual Insurance Company and Kemijoki Oy. Member of Neste Oil's Personnel and Remuneration Committee.

Ainomaija Haarla

D.Sc.(Tech.), MBA. Independent member.

Born in 1953. Vice President in the Corporate Strategy Department of UPM-Kymmene Corporation. Previously Vice President of Corporate Marketing in Metso Corporation. Member of the Board of Korona Invest Oy. Member of the Executive Advisory Board of TKK MBA Programs. Member of Neste Oil's Personnel and Remuneration Committee.

Nina Linander

M.Sc. (Econ.), MBA. Independent member.

Born in 1959. Partner of Stanton Chase International AB. Member of the Board of Stanton Chase International AB, Opcon AB and Specialfastigheter AB. Former Group Treasurer of AB Electrolux and Director, Product Area Electricity, of Vattenfall AB. Chair of Neste Oil's Audit Committee.

Kari Jordan

B.Sc. (Econ). Independent member.

Born in 1956. President and CEO and Vice Chairman of the Board of the Metsäliitto Group. Vice Chairman of the Board of Finnair Plc and a member of the Board of Julius Tallberg-Kiinteistöt Oyj, and a member of the Supervisory Board of the Finnish Cultural Foundation. Member of Neste Oil's Audit Committee.

Pekka Timonen

LL.D. Non-independent member.

Born in 1960. Chief Counsellor for state ownership policy at the Finnish Ministry of Trade and Industry, and a 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 a member of the Board of Onvest Oy, and Chairman of the Board of the Onninen Group. Member of the Supervisory Board of the Finnish Fair Corporation. Member of the Board of Central Chamber of Commerce of Finland. Member of Neste Oil's Audit Committee.

Information on ownership of Neste Oil shares can be found on page 37.

<<< Timo Peltola
<< Mikael von Frenckell
< Ainomaija Haarla

<< Kari Jordan
< Nina Linander

<<< Juha Laaksonen
<< Pekka Timonen
< Maarit Toivanen-Koivisto

Neste Executive Team on 31 December 2006

<<< Risto Rinne
<< Jarmo Honkamaa
< Kimmo Rahkamo

<<<< Matti Hautakangas
<<< Hannele Jakosuo-Jansson
<< Osmo Kammonen
< Matti Peitso

<<< Juha-Pekka Kekäläinen
<< Petri Pentti
< Risto Näsi

Risto Rinne

President & CEO, Chairman of the Neste Executive Team

Born in 1949. M.Sc. (Eng.). Employed by the company since 1975. President & CEO since 2004. Previous positions include President of Oil Refining; Head of Corporate Planning; Vice President, Naantali refinery; as well as other duties at the Porvoo and Naantali refineries. Chairman of the Board of Directors of both the Finnish Oil and Gas Federation and the Chemicals Industry Federation of Finland. Member of the Board of Directors of EUROPIA (European Petroleum Industry Association), and a member of the Board of The Confederation of Finnish Industries.

Jarmo Honkamaa

Executive Vice President, Oil Refining

Born in 1956. M.Sc. (Eng.), M.Sc. (Laws). Employed by the company since 1987. Responsible for oil refining (Porvoo and Naantali Refineries), base oils, gasoline components, term sales, trading & supply, and Neste Oil's holding in AB Nynäs Petroleum. Served as 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.

Kimmo Rahkamo

Executive Vice President, Biodiesel

Born in 1962. M.Sc. (Eng.). Employed by the company since 1990. Responsible for the production, marketing, and sale of NExBTL diesel. Served as Vice President, Supply, Oil Refining (2001–2004), General Manager of Neste Canada Inc. (1999–2001), and General Manager of Neste Petroleum Inc. (1997–1999).

Matti Peitso

Executive Vice President, Oil Retail

Born in 1952. M.Sc. (Econ.). Employed by the company since 1980. Has been responsible for oil retailing in Finland, the Baltic Rim, direct sales, and LPG since 2001. Served previously in various executive positions. Member of the Board of Directors of the Finnish Oil and Gas Federation and the Board of Directors of Luottokunta Oy.

Risto Näsi

Executive Vice President, Shipping

Born in 1957. M.Sc. (Eng.). Employed by the company since 1983. Has been responsible for the Group's shipping business since 2004. Previously Vice President, Components (1999–2003). Chairman of the Board of the Finnish Shipowners' Association.

Hannele Jakosuo-Jansson

Senior Vice President, Human Resources

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

Osmo Kammonen

Senior Vice President, Communications

Born in 1959. M.Sc. (Laws). Employed by the company since 2004. Responsible for the Group's internal and external communications, as well as corporate image. Served as Senior Vice President, Corporate Communications and Investor Relations at Elcoteq Network Corporation (1996–2004).

Juha-Pekka Kekäläinen

Senior Vice President, Corporate Development

Born in 1962. M.Sc. (Eng.). Employed by the company since 1987. Responsible for the Group's strategic and structural development, business environment and market analysis, coordinating business development as well as research and development. 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.). Employed by the company since 2004. Responsible for the Group's financial management, 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), trained on the bench. Employed by the company since 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 Executive Team.

Information on ownership of Neste Oil shares can found on page 37.

Neste Oil Corporation

Consolidated financial statements in accordance with International Financial Reporting Standards

Parent company financial statements in accordance with Finnish Gaap

For the period 1 January to 31 December 2006

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Review by the Board of Directors

Neste Oil continued to deliver solid performance in 2006. Both reported and comparable operating profit exceeded the corresponding figures for 2005, despite lower reference refining margins especially in the fourth quarter. The company reduced its net debt by 10%, which brought the leverage ratio down to 25.6% from 33.0% in 2005. The Board proposes a dividend of EUR 0.90 per share, equivalent to 37% of earnings per share.

Figures in parentheses refer to the full-year financial statements for 2005, unless otherwise stated.

The Group's full-year performance

Neste Oil's sales increased 28% to EUR 12,734 million in 2006, compared to EUR 9,974 million in 2005.

The Group achieved an operating profit of EUR 854 million (831 million), which represents an increase of 2.7% compared to 2005. This includes EUR 210 million gain on sales of assets (150 million) and an inventory gain of EUR 56 million (127 million).

The full-year comparable operating profit increased by 5.7% to EUR 597 million (565 million), thanks mainly to higher volumes, stronger refining margin, and improved base-oil profitability in Oil Refining. Retail operations in the Baltic Rim as well as improved profitability of Neste Oil's joint venture Nynäs Petroleum also made a positive contribution.

The comparable operating profit includes a write-down on trade receivables and inventories amounting to EUR 23 million in the accounts of Neste Canada, Inc; and a negative item of EUR 7 million from a fine imposed on Nynäs Petroleum by the European Commission.

Oil Refining recorded a comparable operating profit of EUR 533 million (446 million), Oil Retail EUR 65 million (46 million), and Shipping EUR 32 million (85 million).

Profits from associated companies and joint ventures totaled EUR 39 million (40 million).

The Group's profit before taxes amounted to EUR 841 million (823 million).

Taxes for the period were EUR 205 million (153 million), and the effective tax rate was 24.3% (18.5%).

Net profit for 2006 totaled EUR 636 million (670 million) and earnings per share, EUR 2.46 (2.60).

Given the capital-intensive and cyclical nature of its business, Neste Oil uses return on average capital employed after tax (ROACE%) as its primary financial indicator. At the end of December, the rolling twelve-month ROACE was 15.4% (financial period 2005: 19.7%).

Group key figures MEUR

	2006	2005
Comparable operating profit	597	565
- changes in the fair value of open oil derivative positions	-9	-11
- inventory gains	56	127
- gains from sales of fixed assets	210	150
Operating profit	854	831

Sales

	2006	2005
Oil Refining	10,768	8,150
Oil Retail	3,280	2,931
Shipping	293	352
Other	16	10
Eliminations	-1,623	-1,469
Total	12,734	9,974

Operating profit

	2006	2005
Oil Refining	671	570
Oil Retail	138	45
Shipping	78	87
Other	-35	129
Eliminations	2	0
Total	854	831

Comparable operating profit

	2006	2005
Oil Refining	533	446
Oil Retail	65	46
Shipping	32	85
Other	-35	-12
Eliminations	2	0
Total	597	565

Capital expenditure

2006 was another year of heavy capital spending in the Neste Oil Group. Investments totaled EUR 535 million (668 million), of which EUR 250 million went on the Diesel project and EUR 56 million on the biodiesel plant at Porvoo. Oil Refining's other investments accounted for EUR 172 million, Oil Retail EUR 44 million, and Shipping EUR 10 million.

Depreciation in 2006 was EUR 153 million (153 million).

Financing

Neste Oil's financial position improved in 2006. Interest-bearing net debt decreased by EUR 74 million to EUR 722 million by the end of the year, compared to EUR 796 million at the end of 2005. Net financial expenses between January and December were EUR 13 million (8 million).

The average interest rate of borrowings at the end of 2006 was 4.1%, and the average maturity 4.3 years.

Net cash from operating activities between January and December was EUR 512 million (596 million). The reduction in this figure compared to 2005 is largely explained by the higher level of working capital resulting from higher inventories at the end of the year compared to the end of 2005.

Good profitability and asset disposals strengthened Neste Oil's balance sheet during 2006. The year-end equity-to-assets ratio was 48.4% (31 Dec 2005: 42.4%), the gearing ratio 34.4% (31 Dec 2005: 49.4%), and the leverage ratio 25.6% (31 Dec 2005: 33.0%).

The Group's liquidity remained healthy. Cash and cash equivalents and committed, unutilized credit facilities amounted to EUR 1,667 million at the end of December (31 Dec 2005: 1,429 million).

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

In January 2006, Neste Oil signed a EUR 150 million, 8-year loan agreement with the European Investment Bank, which was used to finance the Diesel project.

Market overview

Crude oil prices continued to increase in 2006 from the record levels seen in 2005. Prices remained strong through the year and, supported by hurricane expectations in the US, reached new records in July and August. Brent Dated recorded an all-time high of USD 78.69 /bbl in early August. Prices stabilized at around USD 57 /bbl in October. A production cut agreed by OPEC in November, together with increasing refinery runs and stronger Asian demand, led to a tighter crude market and kept prices up. In 2006, Brent Dated averaged USD 65.14 /bbl (54.52).

The price difference between heavy and light crude remained volatile, widening in the first months of the year but decreasing from May onwards. The average differential between Urals and Brent Dated in 2006 was USD -4.28 /bbl (-4.42).

Reference refining margins were lower compared to 2005, but still above long-term averages. The international reference refining margin for complex refineries in North West Europe, IEA Brent Cracking, averaged USD 3.73 /bbl (4.98). High product inventories at the beginning of the fourth quarter weakened the supply-demand balance, and strong crude prices since mid-November reduced margins further.

Gasoline prices rose steadily during the first half of 2006, pushed up by US hurricane expectations, but fell back in July and August. The market slowly recovered during the fourth quarter after being exceptionally weak during the fall. US inventories declined as shutdowns and refinery problems cut gasoline production. Seasonally good US demand also contributed to a tighter market.

The middle distillate market was less volatile. Exceptionally warm weather in the Northern Hemisphere during the last months of 2006 reduced heating oil demand and the gasoil margin gradually declined. The diesel fuel market remained healthy, due to good demand and occasional supply disruptions caused by refinery shutdowns.

The fuel oil market remained weak throughout the year, mainly due to low demand and large high-sulfur heavy fuel oil exports from Russia. Warm weather also kept utility demand for low-sulfur heavy fuel oil poor in the fourth quarter.

Strong demand for high-quality lubricant base oils, such as EHVI (Enhanced High Viscosity Index), continued and was reflected in healthy margins and strong profitability.

Consolidation and competition for market share continued on the oil retail market in Finland. Demand for traffic fuels continued to grow in the Baltic Rim area.

Increased competition and exceptionally warm weather reduced crude freight rates about 30% on the Baltic market in 2006. North Sea freight rates averaged some 10% lower compared to 2005.

Key market drivers

	2006	2005
IEA Brent cracking margin, USD/bbl	3.73	4.98
Neste Oil's refining margin, USD/bbl	9.11	8.82
Urals - Brent price differential, USD/bbl	-4.28	-4.42
Brent dated crude oil, USD/bbl	65.14	54.52
Crude freight rates, Aframax WS points	145	164

Segment reviews

Neste Oil's businesses are grouped into four segments: Oil Refining, Oil Retail, Shipping, and Other. The Components business was included in Oil Refining during 2006.

Oil Refining

Oil Refining recorded a full-year operating profit of EUR 671 million (570 million), and a comparable operating profit of EUR 533 million (446 million), an increase of 19.5% from 2005.

Neste Oil's refining margin increased to USD 9.11 /bbl in 2006, compared to USD 8.82 /bbl in 2005. The reference refining margin (IEA Brent cracking), however, was lower on average than in 2005, at USD 3.73 /bbl in 2006 and 4.98 /bbl in 2005. Neste Oil's higher margin resulted from better productivity and increased volumes, especially at the Porvoo refinery, and a strong contribution from base oils margins. Nynäs Petroleum's good profitability also had a positive impact on Oil Refining's figures.

Oil Refining's return on net assets (RONA) in 2006 was 29.9% (34.7%). Comparable return on net assets was 23.8% (27.1%).

Oil Refining's key figures

	2006	2005
Sales, MEUR	10,768	8,150
Operating profit, MEUR	671	570
Comparable operating profit, MEUR	533	446
Capital expenditure, MEUR	478	589
Total refining margin USD/bbl	9.11	8.82

Production

Neste Oil refined a total of 13.8 million tons (12.9 million) in 2006, of which 11.6 million tons (10.3 million) at Porvoo. The Naantali refinery processed 2.2 million tons (2.6 million), the reduction on 2005 resulting from a major maintenance shutdown in the fall. Crude distillation capacity utilization at the Porvoo refinery was 100.0% (89.2%), while the maintenance shutdown at Naantali pushed its rate down to 82.5% (96.1%).

In 2006, 43% of total refinery input comprised heavier Russian Export Blend (47%).

Sales

Sales volumes in Finland totaled 8.1 million tons in 2006 (7.5 million), and export volumes 6.0 million tons (5.6 million).

Neste Oil's wholesale market share of key petroleum products in Finland rose compared to 2005 and averaged 84% in 2006 (77%).

2006 was a record-breaking year for sales of high-quality lubricant base oils, such as EHVI (Enhanced High Viscosity Index). Demand for these products grew continuously and this was reflected in high volumes and strong margins.

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

By product category

	2006	2005
Motor gasoline and components	4,856	4,673
Diesel fuel	4,821	4,183
Jet fuel	702	608
Biofuels	118	111
Base oils	302	274
Heating oil	684	791
Heavy fuel oil	1,069	946
Other products	1,543	1,460
Total	14,095	13,046

By market area

	2006	2005
Finland	8,083	7,455
Other Nordic countries	1,906	2,135
Other Europe	2,420	2,000
Russia & the Baltic countries	53	29
USA & Canada	1,417	1,246
Other countries	216	181
Total	14,095	13,046

Oil Retail

Oil Retail's operating profit in 2006, EUR 138 million (45 million), was positively impacted by gains from sales of assets. The segment's full-year comparable operating profit was EUR 65 million (46 million), thanks to increased volumes and healthy margins in the Baltic Rim area and improved performance in Finland.

Oil Retail's return on net assets (RONA) in 2006 was 37.2% (13.2%). Comparable return on net assets was 17.5% (13.5%).

Oil Retail's key figures

	2006	2005
Sales, MEUR	3,280	2,931
Operating profit, MEUR	138	45
Comparable operating profit, MEUR	65	46
Capital expenditure, MEUR	44	47
Product sales volume, 1,000 m^3	4,424	4,115

Neste Oil's retail market share in Finland was 26.2% (27.2%) in gasoline and 40.9% (40.6%) in diesel fuel. At the end of 2006, Neste Oil had 887 stations in Finland, of which 37 were net-price NEX stations.

The company opened 28 new stations outside Finland in 2006, in response to growing demand. Neste Oil had 40 stations in Russia, 37 in Estonia, 38 in Latvia, 34 in Lithuania, and 89 in Poland at the end of 2006. Sales volumes increased by 32% in the Baltic Rim area.

Sales of heating oil decreased in Finland as a result of very warm weather during the second half of the year.

Improved sales were recorded in all of Oil Retail's other businesses in 2006, including aviation, LPG, and lubricants.

Shipping

Shipping posted a full-year operating profit of EUR 78 million for 2006 (EUR 87 million) and a comparable operating profit of EUR 32 million (85 million). These figures were negatively impacted by lower crude freight prices and volumes compared to 2005.

Shipping's return on net assets (RONA) was 25.0% (26.7%) in 2006. Comparable return on net assets was 10.3% (26.1%).

Shipping's key figures

	2006	2005
Sales, MEUR	293	352
Operating profit, MEUR	78	87
Comparable operating profit, MEUR	32	85
Capital expenditure, MEUR	10	24
Deliveries total, millions of tons	34.4	40.2
Fleet utilization rate, %	94	92

Shipping's total cargo capacity was 1.0 million tons in 2006 (1.3 million), and the fleet carried a total of 34.4 million tons (40.2 million). Crude shipments stood at 19.8 million tons (22.8 million) and product shipments at 14.6 million tons (17.4 million).

Volumes were lower due to disposal of older or non-ice-classed vessels and timing of new deliveries of 1A and 1A Super ice-classed vessels.

North Sea crude freight rates for the year as a whole averaged 145 Worldscale points (164). Crude freight rates from Primorsk averaged some 35% lower in 2006 compared to 2005, resulting from reduced ice premiums.

Average product freight prices were also lower than 2005, when they peaked in the wake of the hurricanes in the US Gulf.

Shipping continued to renew its fleet during 2006 and divested three tankers and time-chartered new vessels. At the end of 2006, Neste Oil's fleet comprised 7 crude tankers and 23 product tankers.

Corporate restructuring

As part of the implementation of Neste Oil's growth strategy, the biodiesel business was separated from Components division and established as a division in its own right from the beginning of 2007. The Components Division has ceased to exist, and the lubricant base oils and gasoline components businesses are now included in the Oil Refining Division. This restructuring will have no impact on segment reporting structure.

The Shipping division was incorporated as of 1 January 2007. The new company, known as Neste Shipping Oy, is 100%-owned by Neste Oil, and all of Shipping's personnel have transferred to the new company. The spin-off has been carried out to enable Neste Oil's Shipping business to take maximum advantage of the benefits that are expected to become available as and when Finland changes its shipping-related taxation policy. These changes are aimed at improving the competitiveness of the Finnish maritime sector.

Shares, share trading, and ownership

Neste Oil's share price was down by 4% in 2006 compared to the end of 2005. At its highest during 2006, the share price reached EUR 29.95, while at its lowest the price stood at EUR 21.00, with the weighted average for the year coming in at EUR 25.19. The share price closed the year at EUR 23.03 or 53.5% above the subscription price in April 2005, giving the company a market capitalization of EUR 5.9 billion as of 31 December 2006.

The share price was volatile during the course of the year, and trading was strong. A total of 1.4 million shares were traded on average daily, equivalent in value to EUR 36 million. This represents 0.5% of the Company's shares. An average of 30 million shares were traded monthly, equivalent in value to EUR 757 million. During the year as a whole, 360 million shares, or 141% of the total number of shares, were traded, making Neste Oil one of the most traded stocks on the Helsinki Stock Exchange.

Neste Oil's share capital registered with the Company Register as of 31 December 2006 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 2006, the Finnish state owned 50.1% of outstanding shares, foreign institutions 28.9%, Finnish institutions 13.9%, and Finnish households 7.1%.

Neste Oil's Articles of Association contains a redemption clause under which a shareholder whose holding in the Company, alone or together with certain other shareholders, reaches or increases above either 33 1/3% or 50% of the shares or the voting rights attached to the shares of the Company is required to purchase the shares of all other shareholders who request such purchase. A full description of the redemption clause is in paragraph 15 of the Articles of Association. The Board has proposed to the AGM that this clause be removed.

Risk management

Risks are defined in Neste Oil as the chance of something happening that will have an impact on the company's performance and targets. A development program for enterprise risk management (ERM) was established in the Group in 2006, with an emphasis to create a framework for enterprise risk management and to commence implementation of the risk management practices. The program includes systematic and uniform identification, assessment as well as reporting of risks threatening the strategic, business and operational targets of the Group. The main risk management policies and principles were reviewed and updated, as well.

Risk management organization

Risks are managed in different parts of the Group. The Audit Committee of the Board of Directors monitors the Group-wide risk management. President & CEO is responsible for overall risk management policies and processes in the Group. Generally, risks are managed at their source within the operating divisions. Corporate Risk Management is responsible for managing and coordinating the enterprise risk management process, and the Group Treasury is responsible for managing the foreign exchange, interest rate, liquidity and refinancing risks, working closely with the Divisions.

Strategic risks

Neste Oil faces strategic risks that could have a great impact on the Group's performance and strategic targets. Strategic risks are typically related to the development of the world economy, which might impact on the demand for 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 into new business areas and will engage in business relationship with new partners. Different types of risks related to growing business require more focus on managing them, as proactively as appropriate.

Operational risks

The Group faces various operational risks in its day-to-day businesses. What follows is a description of the main operational risks. Market and financial risks are, under IFRS standards, discussed in the Note 35 of the Financial Statements.

External and internal threats for IT infrastructure as well as for corporate level applications are centrally managed. Risks posed by IT systems are minimized through instructions, principles and services with business units responsible for assessing risks and requirements related to IT services and divisional applications. Security risks are managed by the divisions as part of normal business management. The 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 marine transportation there are risks which, when realized, may have very high cost effect. Continuous follow-up, assessment as well as physical inspection related to the tankers are of the essence in risk management in Neste Oil's marine transportation. The fleet management activities of the tankers' ship owners are monitored and inspected, as well. Risks in marine transport are managed and reduced by using tankers in top condition 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.

General Meeting of Shareholders also appoints the Board of Directors based on a proposal made by the Shareholders' 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 in the General Meeting of Shareholders, 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, 22 March 2006. At the meeting, the income statements and balance sheets of the parent company and the Group for 2005 were adopted, and the Supervisory Board, the Board of Directors, and the President and CEO were discharged from liability for the financial period 2005. The Board of Directors' proposal regarding the distribution of profits for 2005 by paying a dividend of EUR 0.80 per share was approved. In addition, all members of the Board of Directors and the Supervisory Board were re-elected for a further term in office.

In 2006, the members of the Supervisory Board were Klaus Hellberg (Chairman), Markku Laukkanen (Vice Chairman), Mikael Forss, Heidi Hautala, Satu Lähteenmäki, Markus Mustajärvi, Juhani Sjöblom, and Jutta Urpilainen.

The Board of Directors comprised Timo Peltola (Chairman), Mikael von Frenckell (Vice Chairman), Ainomaija Haarla, Kari Jordan, Juha Laaksonen, Nina Linander, Pekka Timonen, and Maarit Toivanen-Koivisto.

Long-term incentive program

The Board of Directors announced a new share-based incentive plan for Neste Oil's key personnel. This includes two three-year earning periods, which will start in 2007 and 2010, with benefits payable partly in company shares and partly in cash in 2010 and 2013. The maximum amount payable for each three-year earning period, however, will be a person's accumulated fixed gross annual salary for three years. The proportion to be paid in cash will cover the relevant taxes and tax-related costs. The maximum amount of total rewards in the first program will be equivalent in value to 360,000 Neste Oil shares.

The triggers for paying an incentive will be the development of Neste Oil's comparable operating profit and the total shareholder return of Neste Oil's share against an international oil industry share index (FTSE Global Energy Total Return Index).

The plan prohibits the transfer of shares within one year from the end of the earning period, i.e. the length of the plan is four years for each lot of shares. The company's senior management will be required to own shares equivalent in value to their annual gross salary. This obligation to own shares relates to shares earned from these incentive programs, and will be valid as long as service or employment in the Group continues.

Personnel

Neste Oil employed an average of 4,678 (4,528) employees in 2006. At the end of December, Neste Oil had 4,740 employees (Dec 2005: 4,486), of which 3,506 (Dec 2005: 3,447) worked in Finland.

Health, safety, and the environment

No serious environmental accidents resulting in liability, or accidents resulting in significant interruptions to production, occurred in 2006 at Neste Oil's refineries and other production facilities. The Porvoo refinery received a new environmental permit in late October 2006.

Neste Oil's environmental emissions in 2006 were largely at the low level recorded in 2005. Airborne emissions were somewhat lower, due to the maintenance shutdown at the Naantali refinery. The biggest improvement was made in wastewater treatment, which turned in problem-free operations throughout the year. Oil emissions of 0.23 gram per ton of crude oil refined are less than a tenth of the 3 g/t target set by the Baltic Marine Environment Protection Commission.

The 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 3.7 at the end of December 2006 (6.5), and the company achieved its combined LWIF target of less than 4.0 for 2006.

The company established a corporate-wide 'Act Safe' project in 2006 that will focus on enhancing safety management and culture to improve safety performance to a level comparable with world-class safety performers.

Neste Oil participated in carbon dioxide (CO_2) emissions trading in the second quarter by buying a small number of December 2007 emission rights futures. The company has successfully fulfilled all the requirements related to carbon dioxide emissions in 2006. All the required steps needed to verify and report emissions for 2006 have been taken, and the company is able to surrender allowances equal to its total emissions in 2006.

Under the new regulatory framework for chemicals approved by the European Commission and known as REACH (Registration, Evaluation and Authorization of Chemicals), enterprises that manufacture or import more than one ton of chemical substances a year will be required to register such chemical substances in a central database. Neste Oil 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. Plans have been made for starting implementation of REACH, which will come into force on 1 June 2007.

In March 2006, Neste Oil was selected for inclusion in the Ethibel Pioneer Investment Register. The Ethibel Investment Register is used as the basis for Socially Responsible Investment (SRI) products by a growing number of European banks, fund managers, and institutional investors based on two main aspects of corporate social responsibility: sustainable development and stakeholder involvement.

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 was EUR 8 million in 2006 (8 million). This is expected to grow in the coming years. The core R&D projects were related to process development of cracking heavy end of feedstocks to diesel and to enlarge raw material base for renewable diesel.

Strategy implementation and investment projects

Neste Oil announced its decision to extend its clean fuel strategy and target making the company the world's leading biodiesel producer, in September 2006. Oil refining will remain Neste Oil's core business, however, and the company is currently reviewing alternatives to continue investments in new conversion capacity at its existing refineries following the completion of the new diesel production line at the Porvoo refinery (Diesel Project). The foundation of Neste Oil's strategy will remain based on the company's ability to use its unique refining know-how to produce high-quality fuels for cleaner traffic from a variety of lower-cost raw materials. Neste Oil expects to invest several billion euros in growth projects over the next 10 years.

Diesel Project

Mechanical completion of the Diesel Project was achieved in December. Commissioning phase is under way, and the new production line is expected to be in operation at the end of the first quarter of 2007.

The project represents a total investment of over EUR 700 million. The profitability of the new line is expected to be good, and Neste Oil expects it to contribute an additional refining margin of more than USD 2 /bbl on its total annual output of approximately 100 million barrels.

The new diesel line will increase Neste Oil's annual production capacity of sulfur-free diesel by over 1 million tons a year, and reduce production of heavy fuel oil. The Porvoo refinery will also be able to switch completely to using heavier, sourer crude input.

NExBTL Renewable Diesel

Neste Oil's aim 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 fuel that clearly outperforms both the existing biodiesel products 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.

Neste Oil plans to build a number of NExBTL diesel production facilities in various market areas, either alone or with partners, over the next few years. In addition, the company will be active in research and development in the biofuels area, with the long-term aim of utilizing wider range of renewable raw materials.

The construction of the first plant at the Porvoo refinery has proceeded as planned, and the facility is due to enter production in summer 2007. The plant will have an annual production capacity of 170,000 tons of NExBTL diesel.

Neste Oil decided in November to build a second NExBTL plant at Porvoo, with a capital cost of around EUR 100 million. The plant will have the same capacity, 170,000 t/a, as the first unit. This unit is scheduled to be commissioned at the end of 2008.

In March, Neste Oil and the Austrian oil and gas group, OMV, announced that they are negotiating to jointly build a large-scale plant to produce NExBTL diesel. The 200,000 t/a facility will be located at OMV's Schwechat oil refinery in Austria, with production beginning in 2009.

Divestments in 2006

As part of ongoing efforts to focus on its core businesses, Neste Oil continued to divest non-core assets and businesses in 2006. Capital gains from asset sales totaled EUR 210 million (150 million).

The major divestments included 73 service station properties in Finland, 10% holding in the Saudi European Petrochemical Company Ibn Zahr, 25% stake in CanTerm Canadian Terminals Inc., and petroleum products direct sales distribution business in Ontario, Canada.

In December, the company decided to divest its 70% holding in Texas-based Eastex Crude Company for USD 15.5 million. Neste Oil expects to book a capital gain of a few million dollars on the sale. The transaction is expected to be closed in the first quarter of 2007.

Events after the reporting period

In February a decision was made to discontinue the planned joint venture biodiesel project with Total due to higher-than-expected investment costs at Total's Dunkirk refinery in France.

Also in February, Neste Oil signed an agreement with Statoil to sell its into-plane aviation fuels business at the Riga International Airport. The value of the transaction was not disclosed.

Outlook

The key market drivers of Neste Oil's financial performance are international refining margins, the price differential between Russian Export Blend (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.

In January 2007, the International Energy Agency (IEA) predicted demand growth for petroleum products to be 1.4 mbbl/d in 2007, compared to 0.9 mbbl/d in 2006. Global refining capacity is not expected to keep up with the demand during the next few years. This is likely to keep utilization rates of complex refineries high.

Neste Oil's new diesel production line is expected to be on-stream around the end of the first quarter. The unit is expected to improve Neste Oil's result already in 2007, despite the start-up costs and gradual volume increase during the first half.

The first NExBTL diesel plant will be commissioned during the second quarter. Neste Oil's Retail business is preparing to launch NExBTL diesel sales during the third quarter. Biofuels legislation is being applied in most European countries and majority of the countries have decided upon mandatory use of biocomponents in traffic fuels. Market growth and price differentials between various fatty acids support Neste Oil's renewable-based NExBTL business.

Oil Retail's margins in Finland recovered slightly during the second half of 2006, and are expected to maintain this level in 2007. However, the impacts of the recent market consolidation in the Finnish oil retail market remain to be seen. Sales volumes and margins in the Baltic Rim are expected to remain good.

Lack of ice premiums and an increased ice-classed capacity on the Baltic market will continue to put pressure on freight rates although some recovery has been seen recently.

The Group's capital expenditure is expected to be somewhat over EUR 300 million in 2007.

Key financial indicators

		2006	2005	2004[1]
Income statement				
Sales	EUR million	12,734	9,974	5,454
Operating profit	EUR million	854	831	518
- of sales	%	6.7	8.3	9.5
Comparable operating profit	EUR million	597	565	420
Profit before income taxes	EUR million	841	823	109
- of sales	%	6.6	8.3	2.0
Profitability				
Return on equity (ROE)	%	34.3	51.3	19.7[2) 3)]
Return on capital employed, pre-tax (ROCE)	%	31.9	37.0	40.3[3)]
Return on average capital employed, after tax (ROACE)	%	15.4	19.7	-
Financing and financial position				
Interest-bearing net debt	EUR million	722	796	969
Leverage ratio	%	25.6	33.0	49.3
Gearing	%	34.4	49.4	97.0
Equity-to-assets ratio	%	48.4	42.4	32.2
Other indicators				
Capital employed	EUR million	2,890	2,487	2,151
Capital expenditure and investments in shares	EUR million	535	668	229
- of sales	%	4.2	6.7	4.2
Research and development expenditure	EUR million	8	8	10
- of sales	%	0.1	0.1	0.2
Average number of personnel		4,678	4,528	4,296
Share-related key figures				
Earnings per share (EPS)	EUR	2.46	2.60	1.60
Equity per share	EUR	8.15	6.26	3.87
Cash flow per share	EUR	2.00	2.33	2.19
Price/earnings ratio (P/E)		9.36	9.18	N/A
Dividend per share[4)]	EUR	0.90	0.80	-
Dividend payout ratio[4)]	%	36.6	30.8	-
Dividend yield[4)]	%	3.9	3.4	-
Share prices				
At the end of the period	EUR	23.03	23.88	N/A
Average share price	EUR	25.19	22.16	N/A
Lowest share price	EUR	21.00	15.22	N/A
Highest share price	EUR	29.95	32.19	N/A
Market capitalization at the end of the period	EUR million	5,905	6,123	N/A
Trading volumes				
Number of shares traded	1,000	360,430	360,876	N/A
In relation to weighted average number of shares	%	141	141	N/A
Number of shares		256,403,686	256,403,686	256,403,686

1) The financial period was eight months, from 1 May to 31 December 2004
2) The figure for 2004 includes the group contribution paid to the former parent company, Fortum Corporation.
3) The ROCE % and ROE % reported for the 2004 have been calculated by annualizing the May–December 2004 results.
4) Board of Directors proposal to the Annual General meeting.

Calculation of key figures

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	$\frac{\text{Profit for the year (adjusted for inventory gains/losses, gains/losses from sales of fixed assets and investments and unrealized gains/losses on oil and freight derivative contracts, net of tax) + minority interest + interest expenses and other financial expenses related to interest-bearing liabilities (net of taxes)}}{\text{Capital employed average}}$
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

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 2006	1 Jan–31 Dec 2005
Sales	3, 6	12,734	9,974
Other income	7	238	170
Share of profit (loss) of associates and joint ventures		39	40
Materials and services	8	-11,183	-8,443
Employee benefit costs	9	-224	-223
Depreciation, amortization and impairment charges	10	-153	-153
Other expenses	11	-597	-534
Operating profit		854	831
Financial income and expenses	12		
Financial income		8	26
Financial expenses		-16	-29
Exchange rate and fair value gains and losses		-5	-5
Total financial income and expenses		-13	-8
Profit before income taxes		841	823
Income tax expense	13	-205	-153
Profit for the year		636	670
Attributable to:			
Equity holders of the Company		631	667
Minority interest		5	3
		636	670
Earnings per share from profit attributable to the equity holders of the Company basic and diluted (in euro per share)	14	2.46	2.60

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

Consolidated balance sheet

MEUR	Note	31 Dec 2006	31 Dec 2005
ASSETS			
Non-current assets			
Intangible assets	17	38	50
Property, plant and equipment	16	2,310	2,009
Investments in associates and joint ventures	18	161	126
Long-term interest-bearing receivables	19, 20	3	17
Pension assets	29	73	63
Deferred tax assets	27	8	23
Derivative financial instruments	19, 24	22	7
Other financial assets	19, 20	3	17
Total non-current assets		2,618	2,312
Current assets			
Inventories	21	697	601
Trade and other receivables	19, 22	808	765
Derivative financial instruments	19, 24	77	72
Cash and cash equivalents	23	62	79
Total current assets		1,644	1,517
Non-current assets classified as held for sale	4	78	0
Total assets		4,340	3,829
EQUITY			
Capital and reserves attributable to equity holders of the company	25		
Share capital		40	40
Other equity		2,049	1,565
Total		2,089	1,605
Minority interest		8	7
Total equity		2,097	1,612
LIABILITIES			
Non-current liabilities			
Borrowings	19, 26	516	635
Deferred tax liabilities	27	239	192
Provisions	28	12	14
Pension liabilities	29	12	13
Derivative financial instruments	19, 24	21	10
Other non-current liabilities	19, 26	4	14
Total non-current liabilities		804	878
Current liabilities			
Borrowings	19, 26	267	240
Current tax liabilities	19, 26	43	6
Derivative financial instruments	19, 24	38	104
Trade and other payables	19, 26	1,027	989
Total current liabilities		1,375	1,339
Liabilities directly associated with non-current assets classified as held for sale	4	64	0
Total liabilities		2,243	2,217
Total equity and liabilities		4,340	3,829

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

Consolidated cash flow statement

MEUR	Note	1 Jan–31 Dec 2006	1 Jan–31 Dec 2005
Cash flows from operating activities			
Profit for the year		636	670
Adjustments for			
Income tax	13	205	153
Share of profit (loss) of associates and joint ventures	18	-39	-40
Depreciation and amortization	10	153	153
Other non-cash income and expenses		-2	-11
Financial expenses – net	12	13	8
Profit/loss from disposal of fixed assets and shares	7	-210	-150
		756	783
Change in working capital			
Decrease (+)/increase (-) in trade and other receivables		-96	-165
Decrease (+)/increase (-) in inventories		-111	-177
Decrease (-)/increase (+) in trade and other payables		101	296
Change in working capital		-106	-46
		650	737
Interest and other finance cost paid		-11	-1
Dividends received		14	22
Realized foreign exchange gains and losses		-10	-23
Income taxes paid		-131	-139
		-138	-141
Net cash generated from operating activities		512	596
Cash flows from investing activities			
Purchases of property, plant and equipment	16	-521	-635
Purchases of intangible assets	17	-5	-29
Purchases of associates/joint ventures	18	-9	-4
Proceeds from sale of subsidiaries, net of cash disposed	5	113	0
Proceeds from sale of property, plant and equipment		77	14
Proceeds from sale of associates/joint ventures	18	8	193
Proceeds from sale of available-for-sale investments	20	80	0
Changes in long-term receivables		20	43
Net cash used in investing activities		-237	-418
Cash flow before financing activities		275	178
Cash flows from financing activities			
Payment of (-)/proceeds from (+) short-term borrowings		51	-215
Proceeds from long-term liabilities		654	735
Repayments of long-term liabilities		-776	-804
Dividends paid to the equity holders of the company		-205	0
Other financing activities		-3	-2
Net cash used in financing activities		-279	-286
Net (-) decrease/(+) increase in cash and cash equivalents		-4	-108
Cash and cash equivalents at beginning of the year		79	184
Exchange (+) gains/(-) losses on cash and cash equivalents		-5	3
Cash and cash equivalents at end of the year	23	70	79

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					Minority interest	Total equity
		Share capital	Reserve fund	Fair value and other reserves	Translation differences	Retained earnings		
Total equity at 1 January 2005		40	9	34	-4	914	5	998
Dividend paid								0
Income and expenses recognized directly in equity								
Translation differences					21			21
Cash flow hedges								
recorded in equity, net of tax				-48				-48
transferred to income statement, net of tax				-19				-19
Net investment hedges, net of taxes					-9			-9
Change in minority							-1	-1
Items recognized directly in equity		0	0	-67	12	0	-1	-56
Profit for the year						667	3	670
Total recognized income and expenses		0	0	-67	12	667	2	614
Total equity at 31 December 2005	25	40	9	-33	8	1,581	7	1,612
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		0	0	59	-5	4	-4	54
Profit for the year						631	5	636
Total recognized income and expenses		0	0	59	-5	635	1	690
Total equity at 31 December 2006	25	40	9	26	3	2,011	8	2,097

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 Helsinki Stock Exchange.

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 and bitumen. 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 8 February 2007.

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.

The Group has adopted the standard IFRS 7 Financial Instruments: Disclosures and the related amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures as of 1 January, 2006.

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Groups operations:

- IFRS 6 Exploration for and Evaluation of Mineral Resources
- Amendments to IAS 39 Financial instruments: Recognition and Measurement
- Amendment to IAS 21 The effect of Changes in Foreign Exchange Rates
- IFRIC 4 Determining whether an Arrangement contains a Lease
- IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

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 2007 or later periods. The Group has not adopted these requirements earlier:

- IFRS 8 Operating Segments: The Group is investigating the impact of the new standard on the disclosed segment information. 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 2007. They are not expected to be relevant to the Group's operations:

- IFRIC 7 Financial Reporting in Hyperinflationary Economies
- IFRIC 8 Scope of IFRS 2
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment
- IFRIC 11 IFRS 2-Group and Treasury Shares
- IFRIC 12 Service Concession Arrangements.

IFRIC 10, IFRIC 11 and IFRIC 12 are still subject to EU endorsement.

Use of estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. 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 (a) the borrowing costs incurred for the construction of an investment that exceeds EUR 100 million, that (b) it will take more than 18 months to make the related asset operational, and (c) that it is an initial investment.

Income taxes

The Group's income tax 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, 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 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 35.

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.

The Group applies hedge accounting to certain oil commodity derivative contracts used for hedging forecasted future cash flows as of 1 January 2006. Oil commodity derivative contracts designed to hedge refining margin that have been entered into from 1 January 2006 onwards are designated as hedges of forecasted future cash flows.

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. As of 1 January 2006, the Group's share of the profit or loss of associates and joint ventures is included in the operating profit shown in the income statement. The comparative figures for the consolidated income statement and segment information for 2005 have been restated accordingly.

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 two divisions in 2006: Oil Refining and Components. Oil Refining produces and sells gasoline, diesel fuel, light and heavy fuel oil, aviation fuel, and liquefied petroleum gas. Components division included biodiesel, base oil and gasoline components businesses. As of 1 January 2007 the Biodiesel business has formed an own division and base oil and gasoline components businesses were transferred to Oil Refining division.
- 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 direct sales and Neste Oil's own service station network.
- Shipping segment operates a tanker fleet, which carries crude oil, petroleum products, and chemicals for the Group and other customers.
- Other segment includes Group administration and shared service functions. In 2005, other segment included share of profits of SeverTEK, a crude oil producing company, the shares of which were sold in November 2005

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

2006	Oil Refining	Oil Retail	Shipping	Other	Eliminations	Group
External sales	9,321	3,261	150	2	0	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	0	0	0	0	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	0	-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
Capital expenditure	478	44	10	3	0	535
Segment assets	3,261	568	308	21	-136	4,022
Investment in associates and joint ventures	145	1	15	0	0	161
Deferred tax assets	0	0	0	0	0	8
Unallocated assets	0	0	0	0	0	149
Total assets	3,406	569	323	21	-136	4,340
Segment liabilities	1,017	233	25	11	-135	1,151
Deferred tax liabilities	0	0	0	0	0	239
Unallocated liabilities	0	0	0	0	0	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			

2005	Oil Refining	Oil Retail	Shipping	Other	Eliminations	Group
External sales	6,894	2,850	229	1	0	9,974
Internal sales	1,256	81	123	9	-1,469	0
Total sales	8,150	2,931	352	10	-1,469	9,974
Other income	11	6	12	149	-8	170
Share of profit of associates and joint ventures	24	-3	0	19	0	40
Materials and services	-7,076	-2,701	-45	0	1,379	-8,443
Employee benefit costs	-147	-29	-34	-13	0	-223
Depreciation, amortization and impairments	-101	-28	-22	-2	0	-153
Other expenses	-291	-131	-176	-34	98	-534
Operating profit	570	45	87	129	0	831
Financial income and expense						-8
Profit before taxes						823
Income taxes						-153
Profit for the period						670
Comparable operating profit	446	46	85	-12	0	565
Capital expenditure	589	47	24	8	0	668
Segment assets	2,721	612	347	22	-158	3,544
Investment in associates and joint ventures	118	2	6	0	0	126
Deferred tax assets	0	0	0	0	0	23
Unallocated assets	0	0	0	0	0	136
Total assets	2,839	614	353	22	-158	3,829
Segment liabilities	950	239	27	16	-154	1,078
Deferred tax liabilities	0	0	0	0	0	192
Unallocated liabilities	0	0	0	0	0	947
Total liabilities	950	239	27	16	-154	2,217
Segment net assets	1,889	375	326	6	-4	2,592
Return on net assets, %	34.7	13.2	26.7			
Comparable return on net assets, %	27.1	13.5	26.1			

All inter-segment transactions are on arms 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 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 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.

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.

2006	Finland	Other Nordic countries[4)]	Baltic rim[5)]	Other European countries	North and South America	Other countries	Eliminations	Group
Sales by destination[1)]	4,964	1,094	963	2,294	3,343	76	0	12,734
Total segment assets[2)]	3,605	160	235	87	254	0	-158	4,183
Capital expenditure[3)]	494	0	33	0	8	0	0	535

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

[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] In "Other Nordic countries" are included Sweden, Norway and Denmark.
[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 in this geographical area and the related risks are similar in each of the countries included in the segment.

4. Non-current assets classified as held for sale

The Group agreed on 20 December 2006 to sell its 70% holding in its Texas-based subsidiary, Eastex Crude Company, to the other owner of the company. The sale is expected to be completed during the first quarter of 2007. The company is included in the Oil Refining segment and its sales totalled EUR 1,838 million in 2006. 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. The agreed selling price exceeds the carrying amount of the net investment related to Eastex Crude Company in the consolidated balance sheet, so the assets have been measured at their carrying amounts. The major classes of assets and liabilities of Eastex Crude Company are shown in the following table. 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.

Eastex Crude Company	2006
Property, plant and equipment	9
Inventories	7
Trade and other receivables	54
Cash and cash equivalents	8
Total	78
Borrowings	9
Trade and other payables	55
Total	64

5. 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.

	31 Oct 2006
Property, plant and equipment	39
Shares in subsidiaries and associates	2
Cash and cash equivalents	5
Total	46
Deferred tax liabilities	1
Trade and other payables	2
Total	3
Attributable goodwill	9
Gain on disposal	66
Total consideration	118

Net cash inflow arising from disposal	31 Oct 2006
Cash consideration received	118
Cash and cash equivalents disposed of	5
	113

6. Analysis of sales by category

	2006	2005
Sale of goods	12,328	9,339
Revenue from services	211	273
Royalty income	2	1
Oil trading	170	345
Other	23	16
	12,734	9,974

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 999 million (2005: EUR 980 million) are included in product sales. The corresponding amount is included in 'Materials and services', Note 8.

Revenue from product exchanges included in sale of goods amounted to EUR 3 million (2005: EUR 52 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.

7. Other income

	2006	2005
Gain on sale of Ibn Zahr shares	84	-
Gain on sale of Best Chain shares	66	-
Gain on sale of SeverTEK shares	-	141
Capital gains on disposal of other non-current assets	62	10
Rental income	4	4
Government grants	11	10
Other	11	5
	238	170

Government grants relate mainly to the Shipping segment, which is entitled to apply for certain grants based on Finnish legislation. EUR 4 million (2005: EUR 7 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.

8. Materials and services

	2006	2005
Change in product inventories	-22	-122
Materials and supplies		
Purchases	11,291	8,594
Change in inventories	-105	-51
External services	19	22
	11,183	8,443

Purchases include excise taxes included in the retail selling price of petroleum products amounting to EUR 999 million (2005: EUR 980 million. The corresponding amount is included in 'Sales', Note 6.

9. Employee benefit costs

	2006	2005
Wages, salaries	196	189
Social security costs	24	21
Pension costs-defined contribution plans	4	11
Pension costs-defined benefit plans	-10	-8
Other costs	10	10
	224	223

Key management compensation is included in Note 31, 'Related party transactions'.

Personnel (average)	2006	2005
Oil Refining	2,793	2,720
Oil Retail	1,204	1,124
Shipping	515	545
Oil Other	166	139
	4,678	4,528

10. Depreciation, amortization and impairment charges

	2006	2005
Depreciation of property, plant, and equipment		
Buildings and structures	43	44
Machinery and equipment	99	97
Other tangible assets	3	3
	145	144
Amortization of intangible assets	8	8
Impairment of property, plant, and equipment		
Other tangible assets	0	1
	0	1
Depreciation, amortization, and impairment charges total	153	153

11. Other expenses

	2006	2005
Operating leases and other property costs	127	115
Freights relating to sales	122	112
Repairs and maintenance	84	74
Write-downs	23	0
Other	241	233
	597	534

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

Write-downs comprise a write-down of trade receivables and inventories relating to the unclear bookings at Neste Canada Inc., which the Group announced in September 2006.

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

12. Financial income and expenses

	2006	2005
Financial income		
- Dividend income on available-for-sale investments	0	10
- Interest income from loans and receivables	7	16
- Other financial income	1	0
	8	26
Financial expenses		
- Interest expenses for financial liabilities at amortized cost	-18	-26
- Interest rate derivatives, hedge accounted	0	-2
- Interest rate derivatives, non-hedge accounted	5	1
- Other financial expenses	-3	-2
	-16	-29
Exchange rate and fair value gains and losses		
- Loans and receivables	8	4
- Other	-4	7
- Foreign exchange derivatives, non-hedge accounted	-9	-16
	-5	-5
Financial cost - net	-13	-8

Net gains/losses on derivative financial instruments included in operating profit	2006	2005
Oil and freight derivative contracts non-hedge accounted and hedge accounted	11	-25
Foreign exchange rate derivative contracts under hedge accounting	19	-58
	30	-83

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

Aggregate exchange differences charged/ credited to the income statement	2006	2005
Sales	-10	16
Materials and services	19	-10
	9	6

13. Income tax expense

The major components of tax expenses are:

	2006	2005
Current tax expense	150	138
Adjustments recognized for current tax of prior periods	11	0
Change in deferred taxes	44	15
	205	153

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:

	2006	2005
Profit before tax	841	823
Hypothetical income tax calculated at Finnish tax rate 26% (2005: 26%)	-219	-214
Effect of different tax rates of foreign subsidiaries	-2	0
Tax exempt income	19	53
Non-deductible expense	-2	-1
Taxes for prior years	-11	0
Net results of associated companies	10	10
Other	0	-1
Tax charge in the consolidated income statement	-205	-153

The Group's effective income tax rate was 24.34% (2005: 18.54%). The effective tax rate is slightly lower than the Finnish corporate tax rate of 26%. The Group's effective tax rate results from the following reasons: the effect of Finnish on-going business operations, tax-exempt capital gains as well as fully taxable capital gains incurred in 2006.

14. 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 number of outstanding shares has not changed and the Company has not granted any options, there is no dilution.

	2006	2005
Profit attributable to equity holders of the Company	631	667
Weighted average number of ordinary shares in issue (thousands)	256,404	256,404
Earnings per share basic and diluted (euro per share)	2.46	2.60

15. Dividend per share

The dividends paid in 2006 were EUR 0.80 per share, totalling EUR 205 million. No dividend was paid in 2005. A dividend of EUR 0.90 per share will be proposed at the Annual General Meeting on 21 March 2007, corresponding to total dividends of EUR 231 million for 2006. This dividend is not reflected in the financial statements.

16. Property, plant and equipment

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	0	-20	-4	0	0	-24
Additions	7	70	248	8	188	521
Disposals	-1	-16	-119	-7	-3	-146
Disposal of a subsidiary	-5	-86	-2	-3	0	-96
Reclassifications	0	2	1	1	-2	2
Reclassified as non current asset held for sale	0	-2	-24	0	0	-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	0	608	1,029	40	-	1,677
Exchange differences	0	-14	-3	0	-	-17
Disposals	0	-12	-106	-6	-	-124
Disposal of a subsidiary	0	-55	-1	-2	-	-58
Reclassifications	0	1	0	0	-	1
Depreciation for the period	0	43	99	3	-	145
Impairment charges	0	0	0	0	-	0
On non current assets reclassified as held for sale	0	-1	-16	0	-	-17
Accumulated depreciation and impairment losses at 31 December 2006	0	570	1,002	35	0	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

2005	Land	Buildings and constructions	Machinery and equipment	Other tangible assets	Assets under construction	Total
Gross carrying amount at 1 January 2005	42	1,054	1,683	86	241	3,106
Exchange differences	0	36	4	0	1	41
Additions	9	80	234	7	305	635
Disposals	-1	-6	-91	0	-2	-100
Reclassifications	0	3	1	0	0	4
Gross carrying amount at 31 December 2005	50	1,167	1,831	93	545	3,686
Accumulated depreciation and impairment losses at 1 January 2005	0	545	1,014	37	-	1,596
Exchange differences	0	22	4	0	-	26
Disposals	0	-3	-86	0	-	-89
Reclassifications	0	0	0	-1	-	-1
Depreciation for the period	0	44	97	3	-	144
Impairment charges	0	0	0	1	-	1
Accumulated depreciation and impairment losses at 31 December 2005	0	608	1,029	40	-	1,677
Carrying amount at 1 January 2005	42	509	669	49	241	1,510
Carrying amount at 31 December 2005	50	559	802	53	545	2,009

1. Finance leases

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

	2006	2005
Gross carrying amount	145	145
Accumulated depreciation	26	19
Carrying amount	119	126

2. Capitalized borrowing costs

Borrowing costs amounting to EUR 20 million (2005: EUR 9 million) were capitalized during the financial period related to the Porvoo Diesel investment. They are included in 'Additions' of buildings and structures and machinery and equipment. The Group's average interest rate of borrowings for each quarter was applied as the capitalization rate, which resulted in average capitalization rate of 3.78% (2005: 3.74%).

17. Intangible assets

2006	Goodwill	Other intangible assets	Total
Gross carrying amount at 1 January 2006	11	107	118
Exchange differences	0	-1	-1
Additions	0	5	5
Disposals	0	-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	0	68	68
Exchange differences	0	-1	-1
Disposals	0	-1	-1
Disposal of a subsidiary	0	-3	-3
Depreciation for the period	0	8	8
Accumulated depreciation and impairment losses at 31 December 2006	0	71	71
Carrying amount at 1 January 2006	11	39	50
Carrying amount at 31 December 2006	2	36	38

2005	Goodwill	Other intangible assets	Total
Gross carrying amount at 1 January 2005	11	74	85
Exchange differences	0	1	1
Additions	0	29	29
Disposals	0	0	0
Reclassifications	0	3	3
Gross carrying amount at 31 December 2005	11	107	118
Accumulated depreciation and impairment losses at 1 January 2005	0	55	55
Exchange differences	0	1	1
Disposals	0	0	0
Reclassifications	0	4	4
Depreciation for the period	0	8	8
Accumulated depreciation and impairment losses at 31 December 2005	0	68	68
Carrying amount at 1 January 2005	11	19	30
Carrying amount at 31 December 2005	11	39	50

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 tonnes 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 2006, emission allowances were reflected in Neste Oil's balance sheet under provisions (Note 28), since the amount of emissions during the three-year period between 2005 and 2007 is estimated to exceed the amount of emission allowances received. The actual amount of CO_2 emissions in 2006 were 2.8 million tonnes (2005: 2.7 million tonnes). The Group has not purchased or sold emission allowances during the financial years ended 31 December 2006 or 2005.

Impairment test of goodwill

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

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

	2006	2005
Oil Refining	2	2
Oli Retail	0	9
	2	11

18. Investments in associates and joint ventures

1. Investments in associates

Carrying amount	2006	2005
At 1 January	5	7
Sales of associates	-3	-2
At 31 December	2	5

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 32.

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

	2005
Assets	35
Liabilities	22
Sales	61
Profit/loss	1

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 (2005).

2. Investments in joint ventures

Carrying amount	2006	2005
At 1 January	121	133
Share of profits of joint ventures	39	40
Investments in joint ventures during the financial period	9	4
Sales of joint ventures	0	-41
Translation differences	4	-3
Dividends	-14	-12
At 31 December	159	121

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

	Country of incorporation	2006 % interest held	2005 % interest held
AB Nynäs Petroleum	Sweden	49.99	49.99
Glacia Ltd	Bermuda	50.00	-
Lacus Ltd	Bermuda	50.00	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 3.2 million tons in total in 2006. 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 13.5 million on Nynäs Petroleum in respect of the case in the Netherlands in August 2006.

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) and established to acquire an Aframax-size crude tanker. Neste Oil has entered into a 10-year time charter contract with the joint venture for the acquired 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) to acquire two Panamax-size tankers from the Brodosplit shipyard in Croatia. Neste Oil has entered into a 10-year time charter contract with the joint ventures for the acquired vessels.

Joint ventures have been consolidated using the equity method.

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

2006	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Sales	Profit/loss
AB Nynäs Petroleum [1)	247	639	134	491	1,272	41
Glacia Ltd	55	2	42	3	2	0
Lacus Ltd	13	0	13	0	0	0
Terra Ltd	13	0	13	0	0	0

2005	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Sales	Profit/loss
AB Nynäs Petroleum	247	450	126	352	1,473	55
Lacus Ltd	6	0	6	0	0	0
Terra Ltd	6	0	6	0	0	0

1) Based on August 2006 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 2006 is consolidated based on the company's preliminary results.

The Group's capital commitments disclosed in Note 33 include EUR 0 million (2005: EUR 2 million) related to the Group's joint ventures.

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

2006 Balance sheet item	Financial assets/liabilities at fair value through income statement	Loans and receivables	Available-for-sale financial assets	Financial liabilities measured at amortized cost	Carrying amounts by balance sheet item	Fair value	Note
Non-current financial assets							
Long-term interest-bearing receivables		3			3	3	20
Derivative financial instruments	22				22	22	24
Other financial assets		1	2		3	3	20
Current financial assets							
Trade and other receivables		808			808	808	22
Derivative financial instruments	77				77	77	24
Carrying amount by category	**99**	**812**	**2**	**0**	**913**	**913**	
Non-current financial liabilities							
Borrowings				516	516	515	26
Derivative financial instruments	21				21	21	24
Other non-current liabilities				4	4	4	26
Current financial liabilities							
Borrowings				267	267	267	26
Current tax liabilities				43	43	43	26
Derivative financial instruments	38				38	38	24
Trade and other payables				1,027	1,027	1,027	26
Carrying amount by category	**59**	**0**	**0**	**1,857**	**1,916**	**1,915**	

2005 Balance sheet item	Financial assets/liabilities at fair value through income statement	Loans and receivables	Available-for-sale financial assets	Financial liabilities measured at amortized cost	Carrying amounts by balance sheet item	Fair value	Note
Non-current financial assets							
Long-term interest-bearing receivables		17			17	16	20
Derivative financial instruments	7				7	7	24
Other financial assets			17		17	17	20
Current financial assets							
Trade and other receivables		765			765	765	22
Derivative financial instruments	72				72	72	24
Carrying amount by category	**79**	**782**	**17**	**0**	**878**	**877**	
Non-current financial liabilities							
Borrowings				635	635	636	26
Derivative financial instruments	10				10	10	24
Other non-current liabilities				14	14	14	26
Current financial liabilities							
Borrowings				240	240	240	26
Current tax liabilities				6	6	6	26
Derivative financial instruments	104				104	104	24
Trade and other payables				989	989	989	26
Carrying amount by category	**114**	**0**	**0**	**1,884**	**1,998**	**1,999**	

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.

20. Other financial assets

Available-for-sale financial assets	2006	2005
At 1 January	17	18
Disposals	15	1
At 31 December	2	17
Investments in unlisted equity instruments	2	17
	2	17

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

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.

Net cash inflow arising from disposal	2006	2005
Cash consideration received	80	-
Deferred consideration	19	-
	99	-

The Group expects that the deferred consideration will be settled in cash during 2007.

Other long-term receivables	Fair value 2006	Fair value 2005	Carrying amount 2006	Carrying amount 2005
Long-term interest-bearing receivables	3	14	3	15
Other financial assets	1	2	1	2
	4	16	4	17

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.

21. Inventories

	2006	2005
Materials and supplies	236	211
Work in progress	165	118
Finished products and goods	295	253
Other inventories	1	19
	697	601

Inventories measured at fair value, less selling expenses amounted to EUR 15 million as at 31 December 2006 (2005: EUR 0 million).

22. Current trade and other receivables

	Fair value 2006	Fair value 2005	Carrying amount 2006	Carrying amount 2005
Trade receivables	709	662	709	662
Other receivables	52	53	52	53
Advances paid	4	20	4	20
Accrued income and prepaid expenses	43	30	43	30
	808	765	808	765

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 4 million (2005: EUR 2 million).

23. Cash and cash equivalents

Cash and cash equivalents include the following:

	2006	2005
Cash at bank and in hand	62	78
Short term bank deposits	0	1
	62	79
Cash related to non-current assets classified as held for sale (Note 4)	8	-
	70	79

24. Derivative financial instruments

Nominal values of interest rate and currency derivative contracts and share forward contracts	**2006**			**2005**		
	Remaining maturities < 1 year	**1–6 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]		41	41		48	48
Forward foreign exchange contracts	640		640	672		672
Currency options						
- Purchased	290		290	835		835
- Written	274		274	835		835
Total	1,204	41	1,245	2,342	48	2,390
Derivative financial instruments designated as fair value hedges						
Interest rate swaps[1]		60	60		60	60
Total	0	60	60	0	60	60
Non-hedging derivative financial instruments						
Interest rate swaps[1]		200	200		200	200
Forward foreign exchange contracts	352		352	270		270
Share forward contracts[2]		8	8		3	3
Total	352	208	560	270	203	473

[1] Interest rate swaps mature in 4–6 years.
[2] Share forward contracts relate to share based payments (Note 30) and they mature in 1–2 years.

Volumes of oil and freight derivative contracts	**2006**			**2005**		
	Volume 1,000 bbl Remaining maturities < 1 year	**1–3 years**	**Total**	**Volume 1,000 bbl Remaining maturities < 1 year**	**1–3 years**	**Total**
Oil derivative contracts designated as cash flow hedges						
Futures and forwards						
- Sales contracts	2,489		2,489			0
Total	2,489	0	2,489	0	0	0
Non-hedging oil and freight derivative contracts[3]						
Futures and forwards						
- Sales contracts	52,096	24,509	76,605	47,333	7,163	54,496
- Purchase contracts	68,251	38,088	106,339	72,398	27,490	99,888
Options						
- Purchased	0	0	0	5,654	1,250	6,904
- Written	0	0	0	5,289	300	5,589
Total	120,347	62,597	182,944	130,674	36,203	166,877

[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 2006 Positive < 1 year	Fair value 2006 Positive 1–6 years	Fair value 2006 Negative < 1 year	Fair value 2006 Negative 1–6 years	Fair value 2005 Positive < 1 year	Fair value 2005 Positive 1–6 years	Fair value 2005 Negative < 1 year	Fair value 2005 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				3
Forward foreign exchange contracts	23		1		0		27	
Currency options								
- Purchased	4		0		0		17	
- Written	5				4		7	
Total	32	0	1	2	4	0	51	3
Derivative financial instruments designated as fair value hedges								
Interest rate swaps [1]				3				1
Total	0	0	0	3	0	0	0	1
Non-hedging derivative financial instruments								
Interest rate swaps [1]		7				1		
Forward foreign exchange contracts	2		1		2		2	
Share forward contracts [2]		2		0				
Total	2	9	1	0	2	1	2	0

[1] Interest rate swaps mature in 4–6 years.
[2] Share forward contracts relate to share based payments (Note 30) and they mature in 1–2 years. The fair value of share forward contract as at 31 December 2005, EUR 2 million, was presented netted with the liability arising from share based payments in the balance sheet for 31 December 2005.

Oil and freight derivative contracts	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	Fair value 2005 Positive < 1 year	Fair value 2005 Positive 1–3 years	Fair value 2005 Negative < 1 year	Fair value 2005 Negative 1–3 years
Oil derivative contracts designated as cash flow hedges								
Futures and forwards								
- Sales contracts	1	0	0	0	0	0	0	0
Total	1	0	0	0	0	0	0	0
Non-hedging oil and freight derivative contracts [3]								
Futures and forwards								
- Sales contracts	34	7	7	6	45	1	22	4
- Purchase contracts	8	6	29	10	17	5	25	2
Options								
- Purchased					1		3	
- Written					3		1	
Total	42	13	36	16	66	6	51	6

[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	2006 Assets Current	2006 Assets Non-current	2006 Liabilities Current	2006 Liabilities Non-current	2005 Assets Current	2005 Assets Non-current	2005 Liabilities Current	2005 Liabilities Non-current
Derivative financial instruments	77	22	38	21	72	7	104	10

Fair value estimations

Derivative financial instruments are initially and subsequently measured at their fair values e.g. at the amount which could be used if willing parties would make transactions at the balance sheet date. The fair values are determined 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.

25. 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 2006 totalled EUR 40,000,000, divided into 256,403,686 shares of equal value.

MEUR	Number of shares, 1,000	Share capital
Registered at 1 January 2005	256,404	40
Registered at 31 December 2005	256,404	40
Registered at 1 January 2006	256,404	40
Registered at 31 December 2006	256,404	40

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.

26. Non-current and current liabilities

Non-current liabilities	Fair value 2006	2005	Carrying amount 2006	2005
Bonds	194	199	196	198
Loans from financial institutions	190	289	189	289
Pension loans	39	40	39	40
Finance lease liabilities	92	107	92	107
Other long-term liabilities	4	7	4	7
Accruals and deferred income	0	8	0	8
Non-current liabilities total	519	650	520	649
of which interest-bearing			516	635

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. Liabilities associated with non-current assets classified as held for sale in the consolidated balance sheet include interest-bearing liabilities amounting to EUR 1 million.

Current liabilities	Fair value 2006	2005	Carrying amount 2006	2005
Loans from financial institutions	258	211	258	211
Finance lease liabilities	5	5	5	5
Advances received	6	27	6	27
Trade payables	683	625	683	625
Other short-term liabilities	280	300	280	300
Current tax liabilities	43	6	43	6
Accruals and deferred expenses	58	61	58	61
Current liabilities total	1,333	1,235	1,333	1,235
of which interest-bearing			267	240

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. Liabilities associated with non-current assets classified as held for sale in the consolidated balance sheet include interest-bearing liabilities amounting to EUR 8 million.

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

	2006 Minimum lease payments	Future finance charges	Present value of minimum lease payments	2005 Minimum lease payments	Future finance charges	Present value of minimum lease payments
Amounts payable under finance lease:						
Within one year	11	6	5	10	5	5
Between one and five years	50	24	26	50	21	29
More than 5 years	71	5	66	86	8	78
Total amounts payable	132	35	97	146	34	112

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. 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 3.1 million (2005: EUR 1.6 million).

27. Deferred income taxes

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	0	0	3
Provisions	4	0	0	0	4
Other temporary differences	1	0	0	0	1
Total deferred tax assets	23	-15	0	0	8
Deferred tax liabilities					
Depreciation difference and untaxed reserves	147	20	0	0	167
Excess of book basis over tax basis of property, plant and equipment	26	-1	0	-1	24
Pensions	16	3	0	0	19
Cash flow hedges	-9	0	19	0	10
Other temporary differences	12	7	0	0	19
Total deferred tax liabilities	192	29	19	-1	239

The movement in deferred tax assets and liabilities during the year 2005:

	at 1 Jan 2005	Charged to income statement	Charged in equity	Exchange rate differences and other changes	at 31 Dec 2005
Deferred tax assets					
Tax loss carried forward	12	6	0	0	18
Provisions	4	0	0	0	4
Effects of consolidations and eliminations	1	-1	0	0	0
Other temporary differences	0	1	0	0	1
Total deferred tax assets	17	6	0	0	23
Deferred tax liabilities					
Depreciation difference and untaxed reserves	140	7	0	0	147
Excess of book basis over tax basis of property, plant and equipment	14	12	0	0	26
Pensions	12	4	0	0	16
Cash flow hedges	10	3	-22	0	-9
Other temporary differences	17	-5	0	0	12
Total deferred tax liabilities	193	21	-22	0	192

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 (2005: EUR 11 million) have been netted in the balance sheet..

Deferred tax assets	2006	2005
Deferred tax asset to be recovered after more than 12 months	5	13
Deferred tax asset to be recovered within 12 months	3	10
	8	23

Deferred tax liabilities	2006	2005
Deferred tax liability to be recovered after more than 12 months	221	192
Deferred tax liability to be recovered within 12 months	18	0
	239	192

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.

28. Provisions

	Environmental provisions	Provision to return mission allowances	Other provisions	Total
At 1 January 2006	9	3	2	14
Charged to income statement				
Additional provisions	0	0	1	1
Used during the year	-1	0	0	-1
Reversed unused provisions	0	-2	0	-2
At 31 December 2006	8	1	3	12

	2006	2005
Current provisions	1	1
Non-current provisions	11	13

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.

29. Retirement benefit obligations

Defined benefit pension plans

The amounts recognized in the balance sheet	**2006**	**2005**
Present value of funded obligations	623	566
Fair value of plan assets	-759	-696
	-136	-130
Unrecognized actuarial gains and losses	75	80
Unrecognized past service cost	0	0
Liability (+)/asset (-) in the balance sheet	-61	-50

The amounts recognized in the income statement	**2006**	**2005**
Current service cost	13	10
Interest cost	25	24
Expected return on plan assets	-47	-38
Net actuarial gains and losses recognised during the year	-1	0
Increase in obligation	0	2
TEL-adjustment	0	-6
Total included in personnel expenses (Note 9)	-10	-8

The actual return on plan assets was EUR 79 million (2005: EUR 128 million).

The movement in the asset/liability recognized in the balance sheet	**2006**	**2005**
At the beginning of the period	-50	-34
Total expense charged in the income statement	-10	-8
Contributions paid	-1	-8
At the end of the period	-61	-50
Defined benefit pension obligations	12	13
Defined benefit pension assets	-73	-63
Net asset (-)/liability (+)	-61	-50

Changes in the present value of the defined benefit obligation	**2006**	**2005**
Opening defined benefit obligation	566	495
Service cost	13	10
Interest cost	25	24
Increase in obligation	0	2
New pension plans	0	17
Actuarial losses	36	34
Benefits paid	-17	-16
Closing defined benefit obligation	623	566

Changes in the fair value of plan assets	**2006**	**2005**
Opening fair value of plan assets	696	556
Expected return	47	38
Actuarial gains	32	87
Contributions by employer	1	7
TEL-adjustment	0	6
New pension plans	0	18
Benefits paid	-17	-16
Closing fair value of plan assets	759	696

Analysis of the fair value of plan assets at the balance sheet date	**2006**	**2005**
Equity instruments	381	354
Debt instruments	288	275
Property	44	60
Other assets	46	7
	759	696

Pension plan assets include the Parent Company's ordinary shares with a fair value of EUR 29 million (2005: EUR 30 million) and a buildings occupied by the Group with a fair value of EUR 27 million (2005: EUR 29 million).

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

Contribution amounting to EUR 0 million are expected to be paid to the plan during 2007.

The principal actuarial assumptions used	**2006**	**2005**
Discount rate	4.5–5.2%	4.5–5.0%
Expected return on plan assets	4.0–6.25%	4.5–7.5%
Future salary increases	3.5–5.1%	3.5–5.0%
Future pension increases	1.9–3.1%	1.3–3.0%

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

The Finnish TEL plans 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 TEL are old age pensions, disability pensions, unemployment pensions, and survivors' pensions. The Group's voluntary pension plan grants additional pension benefits in excess of statutory benefits. The fund provides old age pensions, disability pensions, survivors' pensions, and funeral grants. The voluntary pension fund has been closed since 1995.

30. Share-based payments

The Board of Directors of Neste Oil decided in 2006 to launch a new share-based long-term incentive plan for key management personnel effective as of January 2007. The following description concerns the old management performance share arrangement in place during the financial period ended 31 December 2006 and previous financial periods.

During the financial period, the Group had a long-term management performance share arrangement in place for the key members of top management. As at 31 December 2006, approximately 60 members participated in the arrangement. The number of shares that may be acquired for the participants in the incentive scheme was based on long-term incentive bonuses and the annual salary of each participant. The criteria for the long-term incentive bonuses were based on people's performance and success in reaching the personal goals set for them, and on the Group's financial performance and success in reaching its goals.

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 begins 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.

Before delivering the shares to the participant, the company deducts all taxes and other charges payable by the participant, and the participant receives the remaining portion (in Finland currently approximately 50%) of the value in shares. The maximum value in shares a participant can be granted after the first three years is equal to one year's salary (incl. fringe benefits). The actual final value of each share plan is always dependent on the performance of Neste Oil and each individual during the earning period, as well as the Neste Oil share price development over the course of the restriction period.

The number of shares granted after the three-year earning period (share participation) is based on the annual bonus percentages accumulated over those three years. In order to determine the number of shares, the participant's annual salary is multiplied by the cumulative annual bonus percentages, and this figure is divided by the 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 where converted from Fortum shares to Neste Oil shares in 2005. As at 31 December 2006, 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 have ended on 31 December 2004 and 2005. The delivery of shares to the participants is estimated to take place in the spring 2008 and 2009.

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 will end as at 31 December 2006. As a result, the earnings period for the plans started in 2005 and 2006 will be two years and one year respectively. The restriction period for the 2004, 2005 and 2006 plans is 2007–2009.

The performance share arrangement is 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 and related social charges are entered in 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.

Hedging

The Group hedges its exposure to the share price development during the restriction period in relation to the granted shares 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 24.

The following assumptions have been applied in accounting for the performance share plan:

	2006	2005
Grant date	23 Feb 2006	11 Feb 2005
Grant price, euros	25.02	15.00
Share price at reporting date, euros	23.03	23.88
Number of shares granted during the financial period (100%)[1]	177,174	217,047
Adjustments to the number of shares granted initially (100%)	-528	-
Total number of granted shares outstanding as at 31 December (100%)[1]	393,693	217,047
Estimated termination rate before the end of the restriction period, %	3	3

[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 is the trade-weighted average price of the Company's share as quoted on Helsinki Exchage during the last five trading days preceeding 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 was converted into shares of Neste Oil Corporation when Neste Oil was spunn off from the Fortum Group. The conversion was based on the share price of Fortum Corporation at the time of the spinn off (11.58 euros) and the IPO selling price of the Neste Oil share (15 euros).

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

	2006	2005
Expense recognized concerning the plans under earnings period	2	2
Expense recognized concerning the plans under restriction period	1	1
Total	3	3
Fair value measurement as at reporting date concerning the plans under restriction period	1	2
Total expense charged to the income statement	4	5
Change in the fair value of the hedging instrument	-1	-2
Net effect of share based payments in the income statement	3	3

The liability recognized in the balance sheet related to share based payments amounted to EUR 4 million (2005: EUR 4 million). The remaining amount of the expense to be recognized during the financial periods 2007, 2008 and 2009 amounted to EUR 7 million as at 31 December 2006. The actual amount may differ from this estimate.

The performance share arrangement was accounted for as a cash settled share based payment in the financial statements for the financial period ended 31 December 2005. The total expense charged to the income would have been EUR 4 million and the net effect of share based payments in the income statement would have been EUR 2 million, had the arrangement been accounted for as partly equity settled. The change in the accounting principle has been reflected in the cumulative income statement and balance sheet figures reported for the financial period ended 31 December 2006. Due to the immaterial effect of the change in accounting principle the comparative figures have not been restated.

31. Related party transactions

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

The group has a related party relationship with subsidiaries, associates, joint ventures (Note 32) and with its directors and executive officers. The transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated 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 Finnish State are on arms length basis.

1. Transactions carried out with related parties

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

2005	Sales of goods and services	Purchases of goods and services	Receivables	Financial income and expense	Liabilities
Associates	3	9	2	0	3
Joint ventures	59	4	0	10	0
	62	13	2	10	3

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

	2006	2005
Salaries and other short-term employee benefits	3	2

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 December 2006 or 31 December 2005.

The members of Neste Executive Team have been granted share participations equivalent to a total number of 106,731 shares (of which 37,696 were granted to the President and CEO) during financial periods 2005 and 2006 as part of the long term management performance share arrangement described in Note 30. The number of share participations will be adjusted during the restriction period by potential dividends paid up until the share delivery. After deducting taxes and other charges payable by the participants the final number of shares will be diminished to approximately 50% of the granted number. These shares will be delivered to the recipients in 2008 and 2009.

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

EUR	2006	2005
Risto Rinne, President and CEO	719,743	578,250
Board of Directors		
Timo Peltola, chairman	64,500	44,750
Mikael von Frenckell, vice chairman	51,500	35,500
Ainomaija Haarla	39,500	26,500
Kari Jordan	39,500	26,500
Juha Laaksonen	38,500	26,500
Nina Linander	42,500	26,500
Pekka Timonen	41,000	26,500
Maarit Toivanen-Koivisto	41,000	26,500
Board of Directors, all members total	358,000	239,250
Supervisory Board, all members total	63,000	45,200

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 2005, the term of the Board began in April 2005 and the remuneration was adjusted accordingly from the annual amounts resolved by the Annual General Meeting.

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 remuneration for the fiscal year immediately prior to retirement.

32. Group companies on 31 December 2006

Subsidiary	Group holding, %	Country of incorporation
Eastex Crude Company Partnership	70.00	USA
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	66.00	Finland
Neste LPG AB	100.00	Sweden
Neste Markkinointi Oy	100.00	Finland
Neste Oil AB	100.00	Sweden
Neste Oil BR Ltd	100.00	Belarus
Neste Oil Components Finance B.V	100.00	The Netherlands
Neste Oil Finance B.V	100.00	The Netherlands
Neste Oil Holding (U.S.A.) Inc.	100.00	USA
Neste Oil Insurance Ltd	100.00	Guernsey
Neste Oil Ltd	100.00	Great Britain
Neste Oil Markets Oy	100.00	Finland
Neste Oil N.V.	100.00	Belgium
Neste Oil Portugal S.A.	100.00	Portugal
Neste Oil Services Inc.	100.00	USA
Neste Oil US, LLC	100.00	USA
Neste Petroleum Inc.	100.00	USA
Neste Polska Sp.z.oo	100.00	Poland
Neste Production Russia Oy	100.00	Finland
Neste Shipping Oy[1]	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 company	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[2]	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 venture	Group holding, %	Country of incorporation
AB Nynäs Petroleum	49.99	Sweden
Glacia Ltd[1]	50.00	Bermuda
Lacus Ltd	50.00	Bermuda
Terra Ltd	50.00	Bermuda

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

33. Contingencies and commitments

Contingent liabilities	2006 Debt	2006 Value of collateral	2005 Debt	2005 Value of collateral
On own behalf				
For debt				
Pledges	4	8	3	5
Real estate mortgages	0	25	1	28
For other commitments				
Real estate mortgages	0	0	0	1
Other contingent liabilities	0	28	0	16
Total	4	61	4	50
On behalf of associated companies and joint ventures				
Guarantees	6	6	0	10
Other contingent liabilities	0	1	0	3
Total	6	7	0	13
On behalf of others				
Guarantees	6	6	0	1
Other contingent liabilities	0	1	0	0
Total	6	7	0	1
	16	75	4	64

Operating lease liabilities	2006	2005
Due within one year	117	73
Due between one and five years	191	58
Due in more than five years	165	60
	473	191

Operating leases

Lease rental expenses amounting to EUR 110 million (2005: EUR 92 million) relating to the lease (under operating leases) of property, plant and equipment are included in the income statement in other expenses.

Commitments	2006	2005
Commitments for purchase of property, plant and equipment[1]	44	95
Commitments for purchase of intangible assets	2	2
	46	97

[1] The amount includes EUR 0 million (2005: EUR 2 million) that relates to the joint venture Terra Ltd. Please see Note 18 for more information on the joint venture.

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.

34. Events after the balance sheet date

On 6 February 2007 Neste Oil announced that Neste Oil and Total have decided to discontinue their project to build a plant to produce diesel fuel from renewable materials at a Total refinery in France. Feasibility studies on the project, which was originally announced in summer 2005, have shown that building the plant at Dunkirk would have proven too expensive. The announcement has no effect on the financial statements for the period ended 31 December 2006, as no assets relating to the project have been included in the balance sheet, and no material expenses related to the project are expected to be recognized after the balance sheet date. Neste Oil's other biodiesel projects continue as planned

35. 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 umbrella policy document approved by the Board of Directors during the 2006 financial year, 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 policies and steering documents. 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 policies, 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 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'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 enters into oil derivative contracts to limit the price risk associated with certain physical oil contracts; and 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 refining, which is Neste Oil's largest business segment in terms of sales, profits, and net assets.

As the total refining margin is an important determinant of oil refining earnings, its fluctuations constitute a significant risk. With the aim of securing a minimum margin per barrel, Neste Oil hedges its refining margin 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 24 summarizes the exposure to open positions of oil derivative contracts as of 31 December 2006 (2005).

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 2006, the range of daily balance sheet exposure fluctuated between approximately EUR 115 million and 550 million. Group Treasury is responsible for consolidating various balance sheet items and carrying out hedging transactions.

The table below shows the nominal values of the Group's interest-bearing debt by currency as of 31 December, in millions of euro.

Currency	2006	2005
EUR	687	732
USD	99	122
Other	6	21
	792	875

Note 24 summarizes the nominal and fair values of outstanding foreign exchange derivative contracts as of 31 December 2006 (2005).

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

Translation exposure

Neste Oil's Group Treasury is responsible for managing Neste Oil's translation exposure. This consists of net investments in foreign subsidiaries, 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 342 million as of 31 December 2006 (2005: EUR 324 million), and the exposures and hedging ratios are summarized in the following table.

Group translation exposure	2006			2005		
EUR million	Investment	Hedge	Hedge %	Investment	Hedge	Hedge %
USD	27	8	30	37	9	23
SEK	105	40	38	84	67	80
CAD	81	60	74	89	66	74
PLN	17	0	0	15	8	53
GBP	3	0	0	2	2	92
Other	109	0	0	97	0	0
	342	108	32	324	152	47

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 24 summarizes the nominal and fair values of outstanding interest rate derivative contracts as of 31 December 2006 (2005).

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	more than 5 years	Total
Financial instruments with floating interest rate				
Financial liabilities				
Bonds	80			80
Loans from financial institutions	455			455
Pension loans	39			39
Finance lease liabilities	97			97
Other	5			5
Effect of interest rate swaps	-301	200	101	0
Financial instruments with fixed interest rate				
Bonds			116	116
Total	375	200	217	792

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

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 2007 (2006), 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		2007	2006
10% in the EUR/USD exchange rate	EUR million	+/- 100–125	+/- 80–100
USD 1.00/barrel in total refining margin	USD million	+/- 115	+/- 100
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 2006 (2005). Financial instruments affected by the above market risks include working capital items, such as trade and other receivables and trade and other payables, borrowings, 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 borrowings, 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 borrowings, 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		2006 Income statement	Equity	2005 Income statement	Equity
+/-10% change in oil price	EUR million	-/+ 13	-/+ 13	-/+ 8	-/+ 8
+/-10% change in EUR/USD exchange rate	EUR million	+24 / -29	+74 / -84	+16 / -20	+72 / -94
1% parallel shift in interest rates	EUR million	-/+ 2	-/+ 2	-/+ 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. As of 1 January 2006, 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 US dollar sales and purchases for the next 12-month period, as well as a portion of interest expense cash flow between 2007 and 2012. 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 US 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	2006	2005
- gain or loss on the hedging instrument	-2	-1
- gain or loss on the hedged item	2	1

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.

The average loan maturity as of 31 December was 4.3 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 2006, the Company had cash and cash equivalents and committed, unutilized credit facilities totaling EUR 1,667 million at its disposal.

Cash and cash equivalents and committed unutilized credit facilities	2006	2005
Floating rate		
– cash and cash equivalents	70	79
– overdraft facilities, expiring within one year	97	100
– revolving multicurrency credit facility, expiring beyond one year	1,500	1,250
	1,667	1,429

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	0	0	80	0	0	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	0	0	0	0	0	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.

Finance charges are primarily interest expenses. The contractual maturities of derivative financial instruments are included in Note 24.

As of 31 December 2005, the contractual maturity of interest-bearing liabilities was as follows:

	2006[1]	2007	2008	2009	2010	2011–	Total
Bonds and debentures	6	6	6	86	4	128	236
- less finance charges	6	6	6	6	4	8	36
Repayment of bonds and debentures	0	0	0	80	0	120	200
Loans from financial institutions	220	10	8	8	251	45	542
- less finance charges	9	8	8	8	1	5	39
Repayment of loans from financial institutions	211	2	0	0	250	40	503
Pension loans	2	2	2	2	2	42	52
- less finance charges[2]	2	2	2	2	2	2	12
Repayment of pension loans	0	0	0	0	0	40	40
Finance lease liabilities	10	10	11	10	9	95	145
- less finance charges	5	5	5	4	3	12	34
Repayment of finance lease liabilities	5	5	6	6	6	83	111
Other liabilities	24	0	1	0	0	0	25
- less finance charges	0	0	0	0	0	0	0
Repayment of other long-term liabilities	24	0	1	0	0	0	25
Interest rate swaps							
- less finance charges	1	1	1	1	5	0	9

1) Repayments in 2006 are included in current liabilities in the balance sheet
2) While pension loan is a perpetual loan, finance charges in 2011 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 oil and freight 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 concentration of credit risk in respect of trade receivables, as the Group has a large number of different customers and counterparties on international markets. The following table shows an analysis of trade receivable by age.

Analysis of trade receivables by age	2006	2005
Undue trade receivables	658	553
Trade receivables 1–30 days overdue	44	65
Trade receivables 31–60 days overdue	3	25
Trade receivables more than 60 days overdue	4	19
Total	709	662

Capital risk management

The Group's objective when managing capital is to secure an efficient capital structure that gives the Group's 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 borrowings 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 2006 and 2005 was as follows:

	2006	2005
Total borrowings	792	875
Cash and cash equivalents	70	79
Interest-bearing net debt	722	796
Total equity	2,097	1,612
Interest-bearing net debt and total equity	2,819	2,408
Leverage ratio	25.6%	33.0%

Parent company income statement

MEUR	Note	1 Jan-31 Dec 2006	1 Jan-31 Dec 2005
Net sales	2	8,585	6,509
Change in product inventories and work in progress		30	107
Other operating income	3	146	24
Materials and services	4	-7,439	-5,449
Personnel expences	4	-152	-159
Depreciation, amortization and write-downs	8	-94	-91
Other operating expenses	4	-435	-411
Operating profit		641	530
Financial income and expenses	5	-4	30
Profit before extraordinary items		637	560
Extraordinary items	6	23	16
Profit before appropriations and taxes		660	576
Appropriations		-80	-30
Income tax expense	7	-164	-128
Profit for the year		416	418

Parent company balance sheet

MEUR	Note	31 Dec 2006	31 Dec 2005
ASSETS			
Fixed assets and other long-term investments	8, 9		
Intangible assets		21	23
Tangible assets		1,832	1,514
Shares in group companies		396	226
Shares in associated companies		15	7
Other shares		1	15
Interest-bearing receivables		92	203
		2,357	1,988
Current assets			
Inventories	10	476	431
Trade receivables		688	493
Other receivables	11	95	78
Deferred tax assets		5	24
Cash and cash equivalents		20	25
Total assets		3,641	3,039
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	12		
Share capital		40	40
Retained earnings		398	185
Profit for the year		416	418
		854	643
Accumulated appropriations	13	615	535
Provisions for liabilities and charges	14	18	37
Liabilities	15, 16		
Long-term liabilities			
Interest-bearing		528	558
Interest-free		6	4
		534	562
Short-term liabilities			
Interest-bearing		652	451
Interest-free		968	811
		1,620	1,262
Total equity and liabilities		3,641	3,039

Parent company cash flow statement

MEUR	1 Jan-31 Dec 2006	1 Jan-31 Dec 2005
Cash flows from operating activities		
Profit before extraordinary items	637	560
Depreciation, amortization and write-downs	94	91
Other non-cash income and expenses	-22	-32
Financial income and expenses	4	-30
Divesting activities, net	-124	-5
Operating cash flow before change in working capital	589	584
Change in working capital		
Decrease (+)/increase (-) in interest-free trade and other receivables	-191	-88
Decrease (+)/increase (-) in inventories	-45	-137
Decrease (-)/increase (+) in interest-free liabilities	97	247
Change in working capital	-139	22
Cash generated from operations	450	606
Interest and other financial expenses paid, net	-31	-4
Dividends received	39	55
Income taxes paid	-115	-126
Realized foreign exchange gains and losses	-11	-24
Group contributions received, net	16	2
Net cash from operating activities	348	509
Cash flows from investing activities		
Capital expenditures	-436	-542
Proceeds from sales of fixed assets	67	11
Investments in shares in subsidiaries[1]	-189	-1
Investments in shares in associated companies	-9	-4
Proceeds from sales of shares in subsidiaries	45	-
Proceeds from sales of other shares[2]	80	-
Change in other investments, increase (-)/decrease (+)	121	43
Net cash used in investing activities	-321	-493
Cash flow before financing activities	27	16
Cash flows from financing activities		
Proceeds from long-term liabilities	721	762
Payments of long-term liabilities	-751	-782
Change in short-term liabilities	203	25
Dividends paid	-205	-
Cash flow from financing activities	-32	5
Net increase (+)/decrease (-) in cash and cash equivalents	-5	21
Cash and cash equivalents at the beginning of the period	25	4
Cash and cash equivalents at the end of the period	20	25
Net increase (+)/decrease (-) in cash and cash equivalents	-5	21

1) EUR 27 million relating to investment in Neste Oil NV shares has not been paid at 31 December 2006.
2) EUR 19 million relating to the disposal of Saudi European Petrochemical Company Ibn Zahr has not been received at 31 December 2006.

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.

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 three different types of foreign exchange derivative contracts: hedges for future cash flow, hedges of balance sheet items and derivative financial instruments held for trading purposes. 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. Foreign exchange gains on trading deals are booked only at maturity, but losses are recognized immediately. The interest element on all forward contracts is accrued. Option premiums are treated as advances paid or received until the option matures, and any losses on options entered into other than hedging purposes are entered as an expense in the income statement.

Gains or losses for 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
Marine fleet	15–20 years
Other equipment and vehicles	3–15 years
Other tangible assets	20–40 years
Intangible assets	5–10 years

Inventories

Inventories have been valued on the FIFO principle at the lower of direct acquisition cost or market value, taking into account the impact of possible hedging operations.

Research and development

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

Pension expenses

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

Extraordinary items

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

Deferred taxes

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

Provisions

Foreseeable future expenses and losses that have no corresponding revenue and which Neste Oil Corporation is committed or obliged to settle, and whose monetary value can reasonably be assessed, are entered as expenses in the income statement and included as provisions in the balance sheet. These items include expenses relating to the pension liabilities, guarantee obligations, expenses relating to the future clean-up of proven environmental damage and obligation to return emission allowances. Provisions are recorded based on management estimates of the future obligation. The shutdown provision concerning Porvoo refinery has been reversed against the costs incurred in 2005 and the shutdown provision concerning Naantali refinery has been reversed in 2006. Costs for new shutdowns are not provided for.

2. Net sales

Net sales by segment	2006	2005
Oil Refining	8,442	6,281
Oil Retail	1	25
Shipping	294	350
Other	16	11
Eliminations	-168	-158
Total	8,585	6,509

Net sales by market area	2006	2005
Finland	3,994	3,349
Other Nordic countries	1,081	978
Baltic States, Russia and Poland	189	70
Other European countries	2,167	1,363
North and South America	1,083	721
Other countries	71	28
Total	8,585	6,509

3. Other operating income

	2006	2005
Rental income	7	7
Gains on sales of other shares	84	0
Gains on sales of fixed assets	40	5
Government grants	11	10
Other	4	2
Total	146	24

4. Other operating expenses

Other operating expenses	2006	2005
Materials and services		
Materials and supplies		
Purchases during the period	7,454	5,478
Change in inventories	-15	-29
External services	0	0
Personnel expenses		
Wages, salaries and remunerations	132	130
Indirect employee costs		
Pension costs	4	16
Other indirect employee costs	16	13
Other operating expenses	435	411
Total	8,026	6,019

Salaries and remuneration

Key management compensations are presented in Note 31 in the Neste Oil Group consolidated financial statements.

Average number of employees	2006	2005
Oil Refining	2,035	1,987
Oil Retail	0	14
Shipping	515	545
Other	166	135
Total	2,716	2,681

5. Financial income and expenses

Financial income and expenses	2006	2005
Income from other long-term investments		
Dividend income from Group companies	42	44
Interest income from Group companies	2	14
Dividend income from others	0	10
Other interest and financial income		
From Group companies	2	3
Other	3	2
Exchange rate differences	-8	-6
Interest expenses and other financial expenses		
To Group companies	-11	-11
Other	-34	-26
Total	-4	30

Total interest income and expenses	2006	2005
Interest income	7	19
Interest expenses	-42	-35
Net interest expenses	-35	-16

6. Extraordinary items

	2006	2005
Extraordinary income		
Group contributions	23	17
Extraordinary expenses		
Group contributions	0	-1
Total	23	16

7. Income tax expense

	2006	2005
Taxes on regular business operations	158	124
Taxes on extraordinary items	6	4
Total	164	128
Taxes for the period	137	124
Taxes for the previous periods	9	1
Change in deferred tax assets	18	3
Total	164	128

8. Fixed assets and long-term investments

Change in acquisition cost 2006

Intangible assets	Goodwill	Other intangible assets	Total
Acquisition cost as of 1 January 2006	1	60	61
Increases	-	4	4
Decreases	-	-1	-1
Acquisition cost as of 31 December 2006	1	63	64
Accumulated depreciation, amortization and write-downs as of 1 January 2006	1	37	38
Accumulated depreciation, amortization and write-downs of decreases and transfers	0	-1	-1
Depreciation and amortization for the period	0	6	6
Accumulated depreciation, amortization and write-downs as of 31 December 2006	1	42	43
Balance sheet value as of 31 December 2006	0	21	21
Balance sheet value as of 31 December 2005	0	23	23

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 2006	12	695	1,359	63	527	2,656
Increases	0	58	193	6	175	432
Decreases	0	-7	-95	0	-2	-104
Transfer between categories	-	0	0	0	-	0
Acquisition cost as of 31 December 2006	12	746	1,457	69	700	2,984
Accumulated depreciation, amortization and write-downs as of 1 January 2006	0	334	818	21	-	1,173
Accumulated depreciation, amortization and write-downs of decreases and transfers	-	-4	-74	0	-	-78
Depreciation, amortization and write downs for the period	0	21	66	1	-	88
Accumulated depreciation, amortization and write-downs as of 31 December 2006	0	351	810	22	-	1,183
Revaluations	6	25				31
Balance sheet value as of 31 December 2006	18	420	647	47	700	1,832
Balance sheet value as of 31 December 2005	18	386	541	42	527	1,514
Balance sheet value of machinery and equipments used in production						455

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 2006	226	198	7	1	15	4	451
Increases	216	46	9	0	1	0	272
Decreases	-46	-155	-1	-1	-15	-1	-219
Acquisition cost as of 31 December 2006	396	89	15	0	1	3	504
Accumulated depreciation, amortization and write-downs as of 1 January 2006	-	-	-	-	0	0	0
Accumulated depreciation, amortization and write-downs of decreases and transfers	-	-	-	-	0	0	0
Accumulated depreciation, amortization and write-downs as of 31 December 2006	-	-	-	-	0	0	0
Balance sheet value as of 31 December 2006	396	89	15	0	1	3	504
Balance sheet value as of 31 December 2005	226	198	7	1	15	4	451

9. Revaluations

	Revaluations as of Jan 1	Increases	Decreases	Revaluations as of Dec 31
Land areas	6	0	0	6
Buildings	25	0	0	25
Total	31	0	0	31

Policies and principles for revaluations and evaluation methods

The revaluations are based on fair values at the moment of revaluation.

10. Inventories

	2006	2005
Raw materials and supplies	175	172
Work in progress	157	113
Products/finished goods	144	146
Total	476	431

Difference between replacement value and book value of inventories is EUR 17 million (2005: EUR 34 million)

11. Short-term receivables

	2006	2005
Trade receivables	441	320
Receivables from Group companies		
Trade receivables	245	173
Other receivables	28	17
Accrued income and prepaid expenses	1	2
Total	274	192
Receivables from associated companies		
Trade receivables	2	0
Total	2	0
Other receivables	36	38
Accrued income and prepaid expenses	30	21
Total	783	571

Short-term accrued income and prepaid expenses	2006	2005
Accrued interest	1	3
Accrued taxes	3	2
Other	27	18
Total	31	23

12. Changes in shareholders' equity

	2006	2005
Share capital at 1 January	40	40
Share capital at 31 December	40	40
Retained earnings at 1 January	603	185
Dividends paid	-205	0
Profit for the year	416	418
Retained earnings at 31 December	814	603
Distributable equity	814	603

13. Accumulated appropriations

	2006	2005
Accumulated depreciation above the plan	615	535

14. Provisions for liabilities and charges

	2006	2005
Provisions for pensions	10	10
Provisions for planned refinery maintenance and upgrade shutdown	0	16
Other provisions	8	11
Total	18	37

15. Liabilities

Long-term liabilities	2006	2005
Bonds	199	199
Loans from financial institutions	188	288
Pension loans	39	40
Liabilities to Group companies		
Other long-term liabilities	101	30
Liabilities to associated companies		
Advances received	0	1
Other long-term liabilities	1	1
Accruals and deferred income	6	3
Total	534	562

Short-term liabilities	2006	2005
Loans from financial institutions	256	190
Advances received	4	24
Trade payables	594	487
Liabilities to Group companies		
Trade payables	9	8
Other short-term liabilities	423	240
Accruals and deferred income	4	1
Total	436	249
Liabilities to associated companies		
Advances received	1	1
Trade payables	1	1
Total	2	2
Other short-term liabilities	244	260
Accruals and deferred income	84	50
Total	1,620	1,262

Interest-bearing and interest-free liabilities	2006	2005
Interest-bearing liabilities	1,180	1,009
Interest-free liabilities	974	815
Total	2,154	1,824

Interest- bearing liabilities due after five years	2006	2005
Bonds	120	120
Loans from financial institutions	187	40
Pension loans	39	40
Liabilities to Group companies	101	30
Total	447	230

Short-term accruals and deferred income	2006	2005
Salaries and indirect employee costs	33	35
Accrued interests	11	6
Accrued taxes	32	1
Other short-term accruals and deferred income	12	9
Total	88	51

16. Contingent liabilities

Collaterals and other undertakings on own behalf	2006 Debt	2006 Value of collateral	2005 Debt	2005 Value of collateral
Own debt secured by pledged assets				
Pension loans	2	2	3	3
Trade payables	0	3	0	2
Total	2	5	3	5
Own debt secured by real estate mortgages				
Loans from financial institutions	0	0	1	2
Trade payables	0	24	0	23
Total	0	24	1	25
Total	2	29	4	30
Collaterals given on behalf of Group companies				
Real estate mortgages		2		2
Total		2		2
Collaterals total		31		32

Other contingent liabilities	2006	2005
Leasing liabilities		
Due within a year	115	71
Due after a year	327	129
Total	442	200
Other contingent liabilities given on own behalf	2	1
Other contingent liabilities given on behalf of Group companies		
Guarantees	131	157
Other contingent liabilities given on behalf of others		
Guarantees	6	0
Other contingent liabilities total	581	358

17. Derivative financial instruments

Interest and currency derivative contracts and share forward contracts	2006 Contract or notional value	Fair value	Not recognized as an income	2005 Contract or notional value	Fair value	Not recognized as an income
Interest rate swaps	301	2	2	308	-3	-3
Forward foreign exchange contracts	992	23	23	942	-27	-24
Currency options						
Purchased	290	4	4	835	-17	-17
Written	274	5	5	835	-3	-3
Share forward contracts	8	2	2	3	2	2

Oil and freight derivative contracts	Volume 1,000 bbl	Fair value	Not recognized as an income	Volume 1,000 bbl	Fair value	Not recognized as an income
Sales contracts	79,094	30	30	45,665	20	20
Purchase contracts	106,226	-24	-22	92,101	-6	-6
Options						
Purchased	0	0	0	6,905	-2	-2
Written	0	0	0	5,589	2	2

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 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.

Other contingent liabilities

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

18. Shares and shareholders

Quotation and trading of shares

Neste Oil's shares are listed for trading on the Helsinki Stock Exchange. At its highest during 2006, the share price reached EUR 29.95, while at its lowest the price stood at EUR 21.00, with the average for the year coming in at EUR 25.19. The share price closed the year at EUR 23.03, giving the company a market capitalization of EUR 5,905 million as of 31 December.

Share buyback and issue authorizations

The Board of Directors is not authorized to issue new Company shares or other securities. The Company does not have a share buyback program in place and the Board is not authorized to buy back Company shares.

Management shareholding

On 31 December 2006, the members of Board Directors and the President and CEO owned a total of 112,962 shares, which corresponds to 0,04 % of the company's shares and voting rights. The members of the Supervisory Board owned no shares as per 31 December 2006.

Shareholders on 31 December 2006

Shareholder	No. of shares	Holding, %
Finnish State	128,458,247	50.10
Ilmarinen Mutual Pension Insurance Company	5,273,450	2.06
Varma Mutual Pension Insurance Company	2,740,000	1.07
Social Insurance Institution of Finland	2,648,424	1.03
The State Pension Fund	1,900,000	0.74
The City of Kurikka	1,550,875	0.60
Neste Oil Pension Fund	1,258,738	0.49
Etera Mutual Pension Insurance Company	1,107,870	0.43
OP-Delta Investment Fund	1,080,577	0.42
Tapiola Mutual Pension Insurance Company	1,000,794	0.39
Fennia Mutual Pension Insurance Company	990,000	0.39
Svenska Handelsbanken AB	543,085	0.21
Odin Förvaltnings AS	451,359	0.18
Sampo Finnish Equity Fund	419,837	0.16
Odin Norden	418,459	0.16
FIM Fenno Fund	399,583	0.16
Mutual Fund Evli Select	377,700	0.15
Nordea Fennia Fund	371,825	0.15
Finnish National Fund for Research and Development	343,325	0.13
ABN Amro Finland Investment Fund	295,000	0.12
20 largest shareholders	**151,629,148**	**59.1**
Nominee registrations	72,986,215	28.5
Other	31,788,323	12.4
Total number of shares	**256,403,686**	**100.0**

Breakdown of share ownership on 31 December 2006

By number of shares owned

No. of shares	No. of shareholders	% of shareholders	No. of shares	% of shares
1–100	20,881	37.1	1,154,938	0.5
101–500	26,577	47.2	6,297,951	2.5
501–1,000	4,936	8.8	3,662,496	1.4
1,001–5,000	3,308	5.9	6,663,178	2.6
5,001–10,000	283	0.5	2,005,485	0.8
10,001–50,000	201	0.4	4,137,737	1.6
50,001–100,000	39	0.1	2,793,312	1.1
100,001–500,000	42	0.1	9,234,925	3.6
over 500,000	16	0.0	220,453,664	86.0
Total	**56,283**	**100.0**	**256,403,686**	**100.0**
of which nominee registrations	19		72,986,215	28.5

By shareholder category	% of shares
Finnish State	50.1
Corporations	1.6
Financial and insurance institutions	2.9
Non-profit organizations	1.5
General Government	7.9
Households	7.1
Non-Finnish shareholders	28.9
Total	100.0

19. Shares and holdings

	Country of incorporation	No. of shares	Holding, %	Book value 31 Dec 2006 EUR 1,000
Subsidiary shares				
Neste Eesti AS	Estonia	10,000	100.00	5,926
Neste Jacobs Oy	Finland	2,310	66.00	482
Neste Markkinointi Oy	Finland	210,560	100.00	47,567
Neste Oil Ab	Sweden	2,000,000	100.00	23,972
Neste Oil Ltd	Great Britain	500,100	100.00	1,793
Neste Oil N.V	Belgium	60,388	99.99	170,562
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	61,177
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	1	100.00	3
Neste St.Petersburg OOO	Russia	10	100.00	58,427
Tehokaasu Oy	Finland	7,200	100.00	3,900
				396,359
Associated companies				
Glacia Ltd	Bermuda	6,000	50.00	5,993
Lacus Ltd	Bermuda	6,000	50.00	4,316
Nemarc Shipping Oy	Finland	2,000	50.00	33
Neste Arabia Co. Ltd	Saudi-Arabia	480	48.00	156
Porvoon Alueverkko Oy	Finland	40	33.33	7
Svartså Vattenverk-Mustijoen Vesilaitos	Finland	14	40.00	124
Tahkoluodon Polttoöljy Oy	Finland	630	31.50	490
Terra Ltd	Bermuda	6,000	50.00	4,356
Vaskiluodon Kalliovarasto Oy	Finland	330	50.00	17
				15,492
Other shares and holdings				
Cristal Ltd	Great Britain	1		0
Ekokem Oy Ab	Finland	375	2.68	125
Finnish Measurement Systems FMS Oy	Finland	80	10.91	0
Nymex Holdings Inc	USA	2		-
Posintra Oy	Finland	50		17
				142
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		0
Pietarsaaren Seudun Puhelin Oy	Finland	3		1
Pohjanmaan Puhelinosuuskunta PPO	Finland	1		-
Savonlinnan Puhelinosuuskunta SPY	Finland	1		1
				2
Connection fees				70
Total				**412,553**

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 2006 stood at EUR 814 million. The Board of Directors proposes Neste Oil Corporation to pay a dividend of EUR 0.90 per share for 2006, totalling EUR 231 million, and that any remaining distributable funds to be allocated to retained earnings.

Espoo, 8 February 2007

Timo Peltola	Mikael von Frenckell	Ainomaija Haarla	Kari Jordan
Juha Laaksonen	Nina Linander	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 2006. 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, report of the Board of Directors and 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 of 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, 8 February 2007

PricewaterhouseCoopers Oy
Authorised Public Accountants

Markku Marjomaa
Authorised Public Accountant

Statement by the Supervisory Board

The Supervisory Board has today at its meetng reviewed Neste Oil Corporation's financial statements for the financial period ended 31 December 2006, including also consolidated financial statements, Review by the Board of Directors and the related Board of Directors' proposal concerning 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 9 February 2007

Klaus Hellberg	Markku Laukkanen	Mikael Forss	Heidi Hautala
Satu Lähteenmäki	Markus Mustajärvi	Juhani Sjöblom	Jutta Urpilainen

Quarterly segment information

Quarterly sales MEUR	10–12/2006	7–9/2006	4–6/2006	1–3/2006	10–12/2005	7–9/2005	4–6/2005	1–3/2005
Oil Refining	2,431	2,973	3,056	2,308	2,282	2,111	2,135	1,622
Oil Retail	810	841	817	812	782	834	695	620
Shipping	73	65	69	86	93	69	87	103
Other	4	4	5	3	2	4	3	1
Eliminations	-362	-419	-429	-413	-407	-433	-343	-286
Total	2,956	3,464	3,518	2,796	2,752	2,585	2,577	2,060

Quarterly operating profit MEUR	10–12/2006	7–9/2006	4–6/2006	1–3/2006	10–12/2005	7–9/2005	4–6/2005	1–3/2005
Oil Refining	81	227	234	129	135	109	203	123
Oil Retail	85	23	17	13	11	17	20	-3
Shipping	9	11	38	20	31	3	19	34
Other	-9	-8	-9	-9	136	4	-5	-6
Eliminations	1	1	0	0	-1	4	-2	-1
Total	167	254	280	153	312	137	235	147

Quarterly comparable operating profit MEUR	10–12/2006	7–9/2006	4–6/2006	1–3/2006	10–12/2005	7–9/2005	4–6/2005	1–3/2005
Oil Refining	78	183	178	94	85	93	177	91
Oil Retail	16	22	15	12	7	18	11	10
Shipping	1	4	5	22	28	2	20	35
Other	-9	-8	-9	-9	-5	4	-5	-6
Eliminations	1	1	0	0	-1	4	-2	-1
Total	87	202	189	119	114	121	201	129

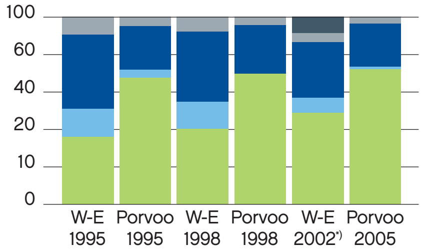
Additional information

Additional information on health, safety, and the environment

Building blocks of excellent HSE performance and risk mitigation

- HSE liability review of the portfolio 2004
- Sustainability principles for biofuels and principles for suppliers 2006
- Step Change for Safety 2003–
- Systematic use of HSE expertise in business interactions 1998–
- HSE management system 1996
- Responsible Care 1992, certified management systems 1998
- Risk Analysis Manuals 1988, 1994
- Environmental Due Diligence 1998, internal HSE auditing 1990–, audit program 1990–
- Environmental policy 1984, EHS policy 1994, 1998, 1999, HSE policy 2005
- Regulatory compliance, updated technology, maintenance and operations 1957–

The sulfur balance of the Porvoo refinery compared to the Western European average
the fate of sulfur in the crude, %

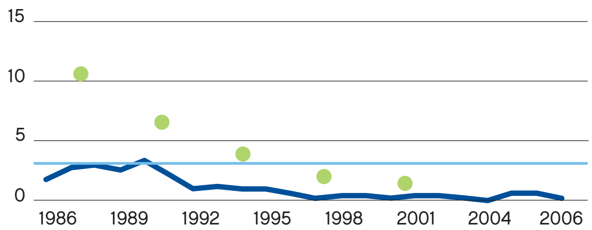


Source: Concawe and Neste Oil

*) No recent European data available

- Unknown
- Refinery emissions
- Fuels
- Bitumen products
- Recovered sulfur

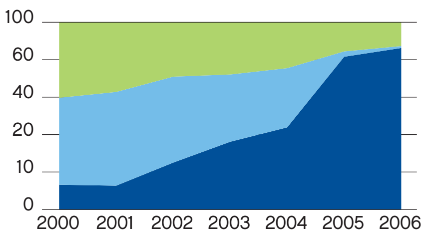
Waste water discharge at Neste Oil's refineries
oil discharge (g)/feedstock input (ton)



- The average of the Porvoo and Naantali refineries
- The average in Western Europe
- 3 g/t, Recommendation 23/8 (6/03/2002) of the Baltic Marine Environment Protection Commission

Source: Concawe and Neste Oil

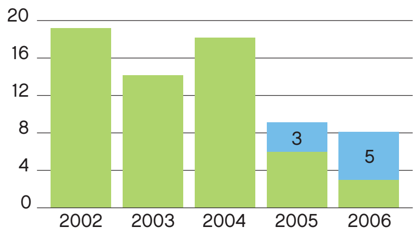
More sulfur-free diesel %



The proportion of low-sulfur (S < 50 ppm) and sulfur-free (S < 10 ppm) diesel fuel has risen steadily in Neste Oil's middle distillate production in 2000–2006.

- Gasoil
- Diesel S < 50ppm
- Diesel S < 10ppm

Uncontained major spills, 2001–2006



- Spills that occurred in Neste Oil's own activities
- Spills that occurred as part of transportation companies' activities

In 2006, a total of 8 cases were registered in Neste Oil's operations, in which more than 500 litres or kilos of environmentally hazardous substances leaked into the environment. Of these cases, 5 took place in connection with load transfer or unloading by transportation companies acting as Neste Oil's contractors. Most of the cases were heavy fuel oil or bunker oil leaks. All the spilled material was cleaned up and no contamination remained in the soil or the sea. The incidents did not result in any environmental impact.

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 2004	2005	2006	Naantali refinery 2004	2005	2006
Emissions to air						
CO_2 (t/a)	2,450,000	2,278,000	**2,496,213**	399,844	398,765	**324,616**
VOC (t/a)	2,290	2,170	**2,319**	1,700	1,550	**1,490**
NO_x (t/a)	3,780	2,830	**3,540**	333	330	**267**
SO_2 (t/a)	5,500	4,870	**4,540**	1,535	1,600	**1,319**
Emissions to water						
Oil (t/a)	7.9	9.1	**2.02**	0.65	0.28	**0.67**
Chemical oxygen demand, COD (t/a)	888	913	**476**			
Waste						
Conventional waste (t/a)	4,990	7,506	**6,888**	1,006	1,819	**2,348**
Hazardous waste (t/a)	6,730[1]	5,220[1]	**9,291**[1]	9,142[1]	3,870[1]	**8,685**[1]
Raw materials						
Crude oil (t)	8,612,000	7,577,000	**9,632,000**	2,366,243	2,411,185	**2,210,012**
Other raw materials for oil refining (t)	2,470,000	2,674,000	**2,514,000**	178,841	214,838	**43,259**
Production						
LPG (t/a)	315,000	344,000	**379,000**	34,187	30,825	**15,015**
Gasoline (t/a)	3,814,000	3,481,000	**4,132,000**	699,914	727,247	**588,085**
Diesel and light fuel oil (t)	5,222,000	4,885,000	**5,610,000**	940,105	925,740	**817,421**
Fuel oil (t)	1,157,000	990,000	**1,260,000**	287,595	321,569	**245,421**
Bitumens (t)	81,300	64,000	**58,900**	270,082	244,211	**217,487**
Sulfur (t)	62,000	54,000	**63,000**	12,590	12,954	**8,898**
Solvents (t/a))				159,837	222,656	**188,170**

1) Includes oil-contaminated soil

Additional Information on personnel

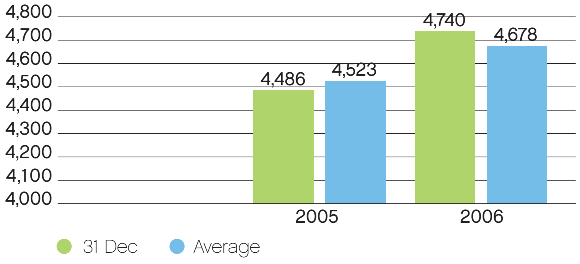
Key figures, 31 Dec

	2006	2005
Average age	43.2	43.8
Average service years	15.0	14.5
HR development investments, EUR	3,019,190	2,778,916

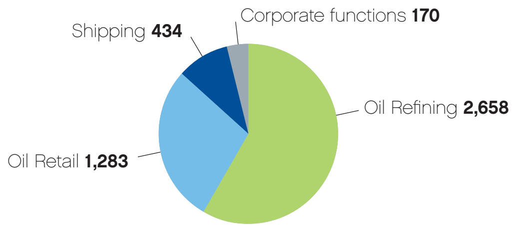
Number of personnel, 31 Dec

	2006	2005
Finland	3,506	3,447
Russia	704	520
USA	208	190
Other countries	322	329
Total	4,740	4,486

Number of employees

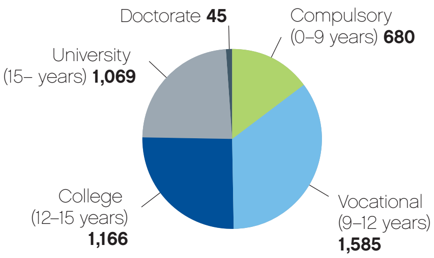


Personnel by segments, 31 Dec 2006
permanent personnel

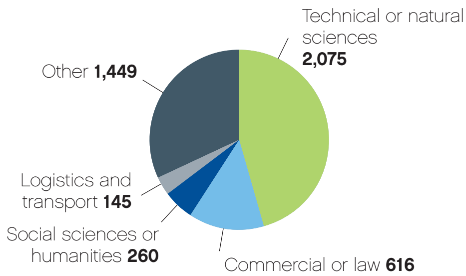


Key figures on personnel 31 Dec 2006

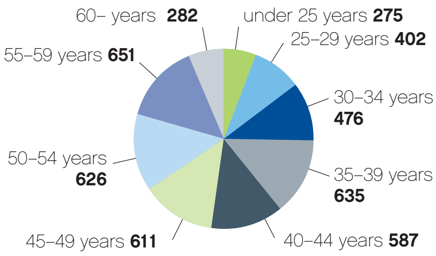
Educational level



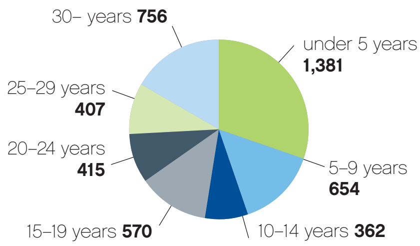
Educational field



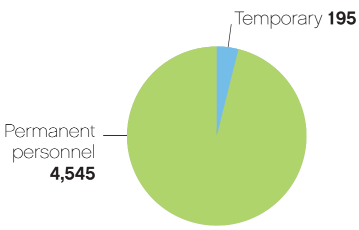
Breakdown by age



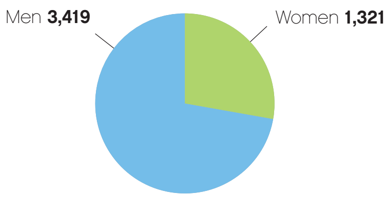
Breakdown by service years



Breakdown by employment



Gender ratio



Shareholder Information

Information on shares

Share performance and trading

Neste Oil's stock closed 2006 at just under 4% below the price at the end of 2005. The share price peaked at EUR 29.95, and reached a low of EUR 21.00. The weighted average price was EUR 25.19. The closing price at the end of the year was EUR 23.03, which was 54% higher than the IPO subscription price. The company's market capitalization on December 31 stood at EUR 5.9 billion.

The share price showed strong daily fluctuation during the year. Share trading was also very active throughout the year. Average daily trading amounted to 1.4 million shares, or EUR 36 million. This represents 0.5% of the company's shares. The average monthly trading volume was 30 million shares, or EUR 757 million. During the year as a whole, 360 million shares were traded, accounting for 141% of the stock, and making Neste Oil's share one of the most traded shares on the Helsinki Stock Exchange.

Trading

Neste Oil shares are listed on the Helsinki Stock Exchange under the trading code NES1V. The ISIN code is FI0009013296, and trading takes place in euros (EUR).

Indices

Neste Oil is included in the following indices:
- OMX Helsinki 25
- OMXHPI
- Dow Jones EURO STOXX Oil & Gas

The company is also included in the Ethibel Sustainability Index. Neste Oil was selected for the Ethibel Pioneer Investment Register in 2006. The Ethibel Sustainability Index assesses companies globally with criteria based on financial peformance, environmental values, as well as external and internal social responsibility. The index is designed to approximate the sector weights on the S&P Global 1,200.

Dividend

Neste Oil's dividend policy is to distribute at least one-third of the year's underlying profits in dividends.

At the Annual General Meeting, Neste Oil's Board of Directors will propose a dividend of EUR 0.90 per share for 2006, representing 37% of the earnings per share.

The dividend for 2005 was EUR 0.80 per share, representing 31% of reported earnings per share.

Information on share, earnings per share, and dividend

Share information

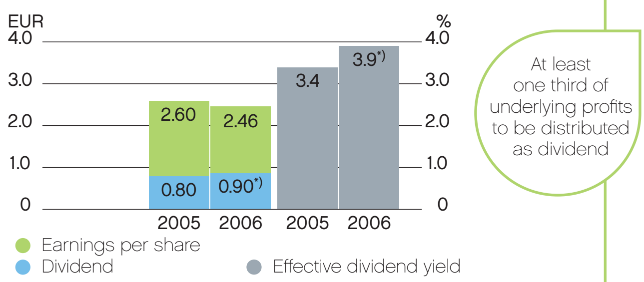
	2006	2005
Earnings per share, EUR	2.46	2.60
Cash flow per share, EUR	2.00	2.33
Equity per share, EUR	8.15	6.26
Dividend per share, EUR	0.90*)	0.80
Dividend/earnings per share, %	37*)	31
Dividend yield, %	3.9*)	3.4
P/E	9.36	9.18
Highest price traded, EUR	29.95	32.19
Lowest price traded, EUR	21.00	15.22
Average, volume-weighted, EUR	25.19	23.10
Year-end, EUR	23.03	23.88
Trading volume	360,429,946	360,875,915
Trading volume of shares outstanding, %	141	141
Turnover, EUR	9,083,849,168	7,996,247,749
Shares outstanding	256,403,686	256,403,686

*) Based on Board's proposal

Earnings per share

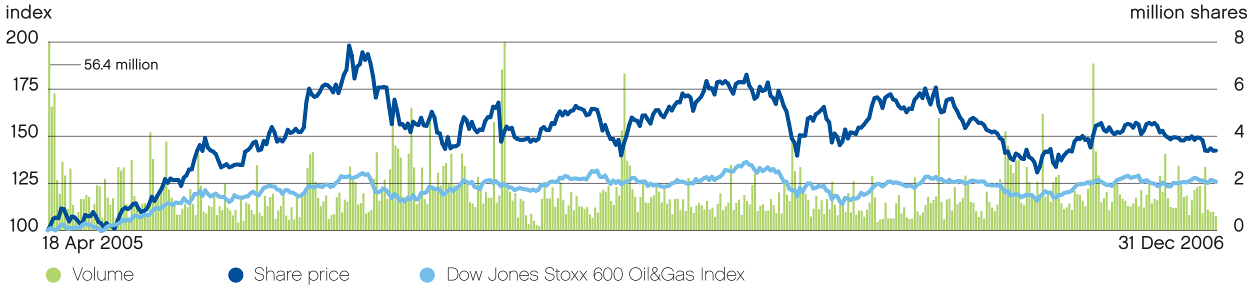
	2006	2005
Profit attributable to the equity holders of the company	631	667
Weighted average number of ordinary shares in issue (thousands)	256,404	256,404
Earnings per share, basic and diluted (euro per share)	2.46	2.60

Earnings per share, dividend, and dividend yield



*) Proposal by the Board of Directors.

Share price development, index, and trading volume



Share capital

The Company's share capital registered with the Trade Register on 31 December 2006 was EUR 40 million, 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.

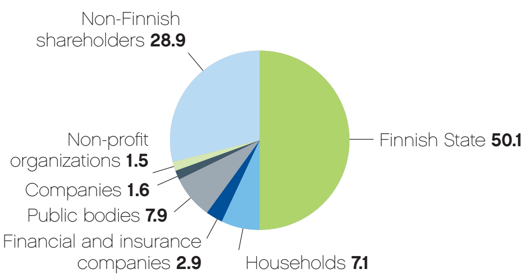
Shareholders in 2006

As of the beginning of 2006, Neste Oil had 52,555 shareholders, and 56,283 at the end of the year.

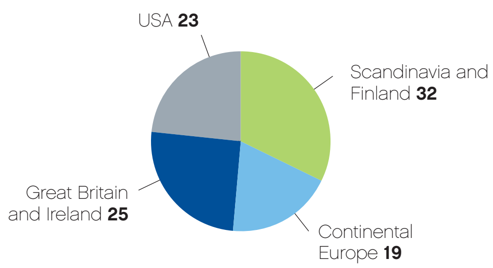
Shareholders by type, as of 31 Dec 2006

%

By sector



By country[*)] (Finnish State excluded)



*) Neste Oil's assessment

Largest shareholders, by size of holding as of 31 Dec 2006

	Shares	Holding, %	Change
1. State of Finland	128,458,247	50.10	0
2. Ilmarinen Mutual Pension Insurance Company	5,273,450	2.06	1,807,650
3. Varma Mutual Pension Insurance Company	2,740,000	1.07	1,870,000
4. The Social Insurance Institution of Finland, KELA	2,648,424	1.03	0
5. The State Pension Fund	1,900,000	0.74	400,000
6. The City of Kurikka	1,550,875	0.60	0
7. Neste Oil Pension Fund	1,258,738	0.49	0
8. Etera Mutual Pension Insurance Company	1,107,870	0.43	180,400
9. OP-Delta Fund	1,080,577	0.42	-4,800
10. Tapiola Mutual Pension Insurance Company	1,000,794	0.39	771,750
11. Mutual Insurance Company Pension-Fennia	990,000	0.39	100,000
12. Svenska Handelsbanken AB (publ)	543,085	0.21	308,445
13. Odin Forvaltnings AS	451,359	0.18	451,359
14. Sampo Finnish Equity Fund	419,837	0.16	157,162
15. Odin Norden	418,459	0.16	418,459
16. FIM Fenno Fund	399,583	0.16	349,183
17. Mutual Fund Evli Select	377,700	0.15	297,700
18. Nordea Fennia Fund	371,825	0.15	49,900
19. The Finnish National Fund for Research and Development Sitra	343,325	0.13	40,800
20. ABN Amro Finland Investment Fund	295,000	0.12	1,250
Total of 20 largest shareholders	151,629,148	59.14	
Nominee Registrations	72,986,215	28.47	
Total shares	256,403,686	100.00	

Annual General Meeting

Neste Oil Corporation's Annual General Meeting will be held in the Congress Wing of the Helsinki Fair Centre, Messuaukio 1, FI-00520 Helsinki, at 2.00 p.m. on 21 March 2007. Registration and the distribution of voting papers will begin at 1.00 p.m.

Shareholders wishing to participate in the Annual General Meeting should inform the company by 4.00 p.m. on 14 March 2007 at the latest, either by:

- Letter, addressed to Neste Oil Corporation, Suvi Åkerblom, POB 95, FI-00095 Neste Oil, or
- Fax, sent to +358 10 458 9596, or
- Email, sent to nesteoilyhtiokokous@elisa.fi, or
- Via the company's web site, www.nesteoil.com, following the instructions given there, or
- Phone, on +358 10 458 9595.

Letters of proxy should be forwarded to the company when registering to attend, and must reach the Company by 4.00 p.m. on 14 March 2007 at the latest.

Investor Relations

IR principles

Neste Oil's Investor Relations observe 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.

Neste Oil's main announcements in 2006

4 Jan Neste Oil signs a EUR 150 million loan agreement with the European Investment Bank

30 Jan Shareholders' Nomination Committee to propose the re-election of Neste Oil's Board of Directors

15 Feb Invitation to Neste Oil Corporation's Annual General Meeting

15 Feb Successful first year for Neste Oil

14 Mar Neste Oil publishes its Annual report for 2005

22 Mar Resolutions taken by Neste Oil's Annual General Meeting

22 Mar Committees of Neste Oil's Board of Directors

26 Mar Neste Oil sells its 10% stake in Ibn Zahr for USD 120 million

27 Apr Neste Oil reports a comparable operating profit of EUR 119 million for Q1

3 Jul Ibn Zahr transaction closed

3 Aug Neste Oil reports a comparable operating profit of EUR 189 million for Q2

24 Aug Major maintenance shutdown at the Naantali refinery to begin on 31 August

18 Sep Neste Oil to book a EUR 19 million write-down in its Canadian subsidiary

27 Sep Neste Oil announces its aim to become the world's leading biodiesel producer

16 Oct Neste Oils sells service station properties for EUR 118 million

17 Oct Neste Oil's financial reporting in 2007 announced

20 Oct Neste Oil's biodiesel to cut public transport emissions in Greater Helsinki

23 Oct Neste Oil's Board of Directors approved a long-term incentive plan for key personnel

24 Oct Neste Oil reports a comparable operating profit of EUR 202 million for Q3

30 Oct Neste Oil closes sales of 73 service station sites

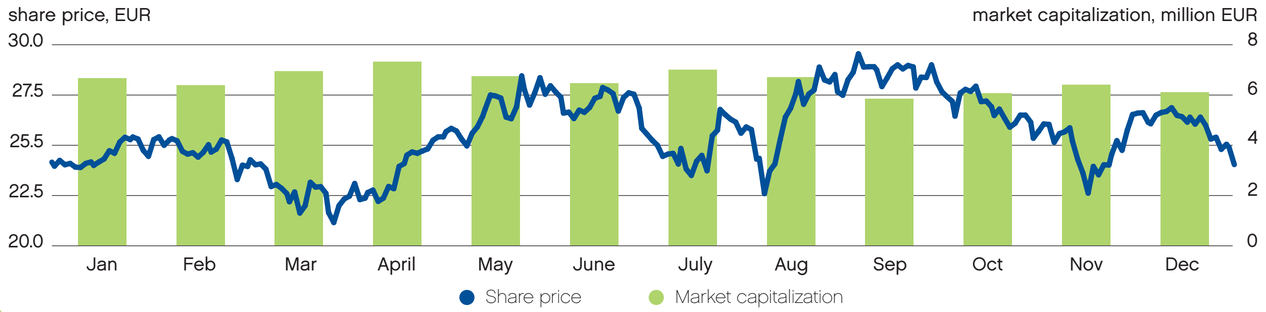
17 Nov Neste Oil's Nomination Committee appointed

30 Nov Neste to build a second biodiesel plant at Porvoo

20 Dec Neste Oil divested small non-core assets in Canada

20 Dec Neste Oil to sell its holding in Eastex Crude Company

Share price trend and market capitalization in 2006



Reporting calendar for 2007	
Neste Oil will publish interim reports in 2007 as follows:	
Interim Report for January – March	26 April 2007
Interim Report for January – June	3 August 2007
Interim Report for January – September	30 October 2007

Closed period

Neste Oil observes a closed period prior to the publication of its results. 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. The duration of Neste Oil's closed period is always a minimum of four weeks.

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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 contains the information presented here, together with other IR-related information, including a stock monitor, delayed by 15 minutes, a list of the Company's insiders and their holdings, an extensive collection of 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.
www.nesteoil.com/investors

Analysts following Neste Oil

The number of banks providing analyses of Neste Oil rose by 2 during 2006. As of the end of the year, 25 banks produced forecasts on Neste Oil.

Banks analyzing Neste Oil	
ABG Sundal Collier	IXIS Securities
ABN Amro	Kaupthing
Carnegie	Mandatum
Cheuvreaux	JP Morgan
Citigroup	Merrill Lynch
Credit Suisse	Lehman Brothers
Deutsche Bank	Morgan Stanley
Enskilda Securities	Opstock
eQ Bank	Sociéte Générale
Evli	Standard & Poor's
FIM	UBS Warburg
Goldman Sachs	Öhman Securities
Handelsbanken	

Contact details for the analysts concerned at the institutions above can be found in the Investors section of Neste Oil's website. **www.nesteoil.com/investors**

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 blending component with high octane number and exceptional 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. bbl/d = barrels per day, mbbl/d = million barrels per day.

Base oil The main component in lubricant blends.

Biofuels Fuels produced from vegetable oils and other organic sources. Use of these fuels reduces greenhouse gas emissions (CO_2).

Biogasoline Gasoline that includes a couple of percent of biocomponent, usually ethanol.

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 where heavy fractions are broken down into simpler molecules either in high temperatures (thermal cracking) or by using catalysts and heavy pressures (catalytic cracking, hydrocracking). Cracking processes yield great amount of hydrocarbons that can be used to produce traffic fuels.

Dwt, deadweight ton A unit of measurement referring to the total weight of a vessel, including cargo, fuel, fresh water, stores, and crew.

EHVI (Enhanced High Viscosity Index) A base oil used in producing high-quality motor oils that contribute to lower fuel consumption.

ERM Enterprise Risk Management, a systematic way of working starting from strategy and annual planning covering operations, projects, investments, mergers and divestments and other operative business functions as well as mind set and communication model in decision making, for managing the opportunities, threats, targets and risks of the business.

ETBE (ethyl tert-butyl ether) A bioethanol-based gasoline component designed to enhance combustion and reduce exhaust emissions.

Ethibel (www.ethibel.org) is an independent consultancy agency that provides advice on socially responsible investment to financial institutions and manages a quality label and index, issued to European banks and brokers offering ethical products and funds.

Feedstocks Crude oil, condensate, components, and other materials used by refineries and other facilities as their raw material input.

Fossil fuels Fuels originating from organic material laid down millions of years ago, including oil, coal, and natural gas.

Gallon The US gallon (3.8 liters) is a standard unit of measurement used in the oil industry. The imperial gallon is slightly larger, equivalent to 4.5 liters.

HSE An abbreviation of Health, Safety, and the Environment.

Hydrocracker A unit used to 'crack' heavy hydrocarbons at high pressure and high temperature in the presence of hydrogen, to produce fractions for premium-quality fuels.

IEA Brent Cracking A reference refining margin used by Neste Oil that refers to the typical margin achieved by refineries in northern Europe using Brent crude oil. Calculated by the International Energy Agency (IEA).

ISO (International Organization for Standardization) ISO 9000/14000/18000 standards covering quality, the environment, and safety are widely used in industry.

Isomerate A gasoline blending component for improving the octane rating and controlling the vapor pressure.

Iso-octane A butane-based, high-octane component used in producing low-emission gasoline.

MTBE (methyl tert-butyl ether) An oxygen-rich component designed to promote cleaner gasoline combustion.

NExBTL Neste Oil's renewable diesel, based on the company's proprietary technology. NexBTL production is a highly flexible process that can use virtually any vegetable oil and animal fats. The first NExBTL production unit will be complete at Porvoo in summer 2007.

Panamax Maximum dimensions of a ship that will fit through the locks of the Panama Canal.

PAO (polyalphaolefin) A synthetic base oil used in the production of premium-quality lubricants.

Ppm Parts per million, milligrams per kilo.

Polypropylene (PP) One of the most common type of plastic, and used to produce freezer containers, for example.

QSAR Quantitative Structure Activity Relationship, Computer modelling method for evaluating properties of structurally similar chemicals. Replaces partially 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.

VGO Vacuum Gas Oil Feedstock for cracking units, derived from vacuum distillation.

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refining the future

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