NESTE OIL

Annual Report 2008

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We share a common concern. That is why we act.









Neste Oil in brief

Neste Oil is a refining and marketing company, with a production focus on premium-quality, lower-emission traffic fuels and a growth strategy based on conventional refining and premium-quality renewable diesel fuel. Neste Oil is committed to world-class operational and financial performance, and is driven in all its operations by four core values: responsibility, cooperation, innovation, and excellence.

Neste Oil is listed on NASDAQ OMX Helsinki in the Energy sector under the trading code NES1V.HSE.

Neste Oil's strategic foundation

Key financial indicators

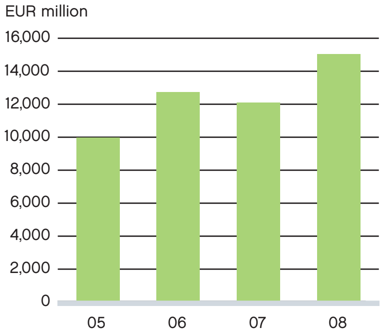
	2008	2007	Change, %
Income statement, EUR million			
Sales	**15,043**	12,103	24
Operating profit	**186**	801	-77
Comparable operating profit	**602**	626	-4
Profit before income taxes	**129**	763	-83
Profitability, %			
Return on equity (ROE)	**4.4**	25.6	-83
Return on capital employed, pre-tax (ROCE)	**6.1**	26.2	-77
Return on average capital employed, after tax (ROACE)	**13.1**	15.5	-15
Financing and financial position			
Total equity, EUR million	**2,179**	2,427	-10
Interest-bearing net debt, EUR million	**1,004**	755	33
Capital employed, EUR million	**3,237**	3,234	0
Equity-to-assets ratio, %	**46.3**	49.9	-7
Leverage ratio, %	**31.5**	23.7	33
Cash flow from operations, EUR million	**511**	541	-6
Share-related indicators			
Earnings per share (EPS), EUR	**0.38**	2.25	-83
Dividend per share, EUR	**0.80***	1.00	-20
Dividend payout ratio, %	**211.9***	44.4	377
Share price at the end of the year, EUR	**10.58**	24.13	-56
Average share price, EUR	**17.95**	25.48	-30
Highest share price, EUR	**24.90**	29.80	-17
Lowest share price, EUR	**9.47**	21.82	-56
Market capitalization at the end of the year, EUR million	**2,713**	6,187	-56
Other indicators			
Equity per share, EUR	**8.48**	9.47	-10
Capital expenditure and investments in shares, EUR million	**508**	334	52
Average number of personnel	**5,174**	4,810	8
R&D expenditure, EUR million	**37**	28	32
Refining margin, USD/bbl	**13.39**	10.46	28

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

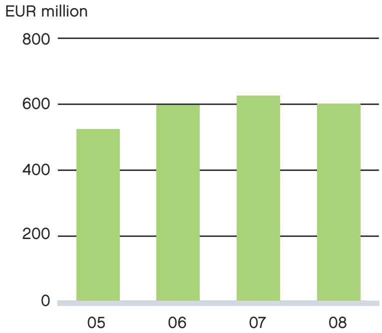
Divisions in brief

	Business
Oil Refining	Refining petroleum products and supplying them to wholesale customers.
Renewable Fuels	Producing and marketing premium-quality NExBTL renewable diesel.
Specialty Products	Producing, selling, and marketing base oils and gasoline components; and managing Neste Oil's holding in Nynas, a producer of bitumen and naphthenic specialty oils.
Oil Retail	Marketing petroleum products to end-users.
Shipping	Marine transportation of crude oil and petroleum products.

Sales

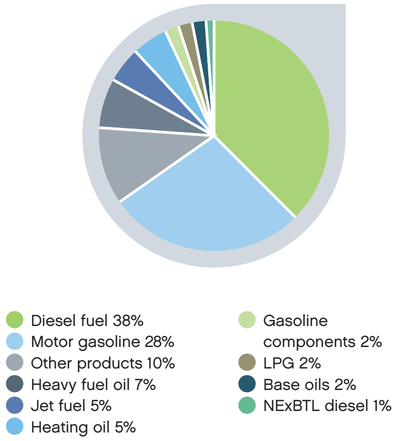


Comparable operating profit

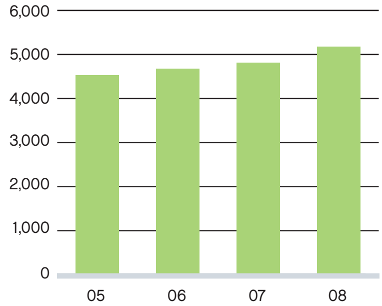


Sales by product (in-house production)

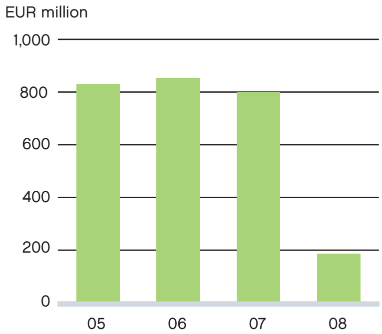
%



Personnel (average)

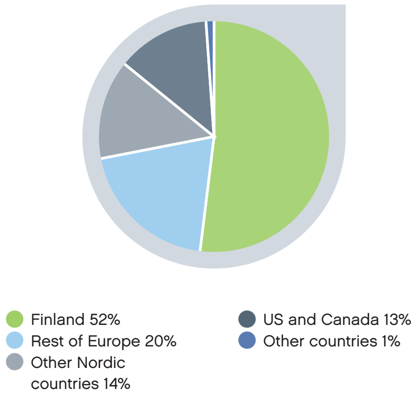


Operating profit



Sales by region (in-house production)

%



Main markets	Capacity	Strategic role	Strengths	Market position
Europe and North America.	Crude oil distilling capacity 260,000 bbl/d, refining capacity approx. 15 million t/a.	Growth business.	Complex refineries, high-quality, lower-emission traffic fuels, ability to use Russian crude and other feedstocks.	Leading producer of lower-emission traffic fuels in Northern Europe.
Europe.	Production capacity 170,000 t/a. New projects under way will result in approx. 2 million t/a of capacity by 2011.	Growth business.	Cutting-edge technology and product, growing capacity, and industry-leading operations based on sustainable raw materials procurement.	NExBTL is the lowest-emission renewable diesel on the market.
Europe and North America.	Production capacity 250,000 t/a of VHVI base oil, 60,000 t/a of polyalphaolefins, 260,000 t/a of iso-octane, and 160,000 t/a of ETBE.	Complementary business.	Technological and production expertise, broad product approval portfolio and partner network, and customer-focused operations.	Among the three leading suppliers worldwide in its segment.
Finland and the Baltic Rim.	Outlets: 887 in Finland, 286 in Russia, the Baltic countries, and Poland.	Support business.	High-quality traffic fuels, strong brand and market position, extensive network, and competitive unit costs.	Market leader in Finland, second-largest player in Estonia, Latvia, and the St. Petersburg region, third-largest in Lithuania.
The Baltic and the North Sea. Gasoline shipments to North America.	Fleet: 5 crude tankers and 24 product tankers.	Support business.	A safe and environmentally aware shipper, an expert in severe winter conditions, and a modern fleet.	One of the three leading tanker fleets in the Baltic.

The world's average temperature is expected to rise by 1.1-6.4 °C during the current century, a change that could be as large as that seen during the last ice age.* The need for energy in traffic and transportation is growing all the time, and mobility of people and goods will continue to be important. This is why we need to develop lower-emission fuels, if we are to slow the pace of climate change.

That is why we act.

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Read about the sustainability principles behind biofuels on Page

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The biggest challenges facing renewable fuels are linked to the raw material chain. Read about our unique system for tracing the origins of the palm oil we use on Page

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* IPCC 2001, 2007

1.1

The year in brief

Q1

January
Neste Jacobs acquired the engineering company, Rintekno. Neste celebrated its 60 years of operation and was reselected for inclusion in The Global 100, a list of the world's 100 most-responsible companies.

February
Neste Oil published its financial statements for 2007 and announced a comparable operating profit of EUR 626 million for the year, an increase of 5% on 2006. The Mt Stena Arctica was transferred to the Finnish flag.

March
The AGM decided to approve a dividend of EUR 1.00 per share. Finland's Supreme Court imposed a fine of EUR 500,000 on Neste Oil for damage to the environment caused by an oil leak in 2001. Previous judgements by the Turku Court of Appeal and the District Court of Turunseutu had rejected the prosecution's call for a fine.

Q2

April
Neste Oil published its first-quarter results, which showed a comparable operating profit of EUR 119 million. The Biodiesel Division was renamed Renewable Fuels. A trial started in Greater Helsinki using 100% NExBTL renewable diesel in city buses. A fire took place on the new diesel line at Porvoo.

May
A new biofuel, Neste Green diesel, was launched. Suitable for use with all diesel engines, Neste Green diesel contains a minimum of 10% NExBTL renewable diesel.

June
Neste Oil announced a series of major investments. An isomerization plant will be built at the Porvoo refinery; a NExBTL renewable diesel plant in Rotterdam; and a plant producing premium-quality base oil in Bahrain to be 45%-owned by Neste Oil. It was announced that coking problems had emerged with the new diesel line at Porvoo as a result of the rapid shutdown following the fire in April, and that they had resulted in operational difficulties.

Q3

July
Neste Oil announced a second-quarter comparable operating profit of EUR 181 million.

September
Neste Oil was selected for inclusion in the Dow Jones Sustainability World Index for the second time. The index acknowledges the companies that are most committed to the principles of sustainable development. The Board of Directors appointed Matti Lievonen as President & CEO with effect from 1 December 2008. Risto Rinne retired on 30 September 2008.

Q4

October
Neste Oil announced a comparable operating profit of EUR 199 million for the third quarter.

November
Neste Oil won Hart Energy's 2008 Global Energy and Environmental Excellence Award in Alternative Fuels. Ilkka Salonen was appointed CFO.

All of Neste Oil's stock exchange releases and press releases for 2008 can be found at www.nesteoil.com.

Financial overview

Although the rapid pace of developments in the global economy impacted demand for Neste Oil's petroleum products, the company's financial position remained stable, and Neste Oil is committed to moving ahead with its major investment program. Close to EUR 1.5 billion is to be spent on increasing NExBTL renewable diesel capacity.

Sales at the Neste Oil Group totaled EUR 15,043 million in 2008, compared to EUR 12,103 million in 2007.

The Group's comparable operating profit was EUR 602 million compared to EUR 626 million in 2007. The comparable operating profit was supported by a strong total refining margin and good profitability at Shipping, but was offset by the unfavorable USD/EUR exchange rate and weaker profits at Oil Retail and the joint venture company Nynas AB. Additional negative impact came in the form of exceptional costs, which totaled around EUR 55 million.

Operating profit under IFRS was EUR 186 million in 2008. The major decline from the EUR 801 million booked in 2007 is associated with inventory losses that accumulated in the second half of 2008 as oil prices softened rapidly.

Solid financial position

Investments totaled EUR 508 million in 2008 (334 million). Neste Oil's balance sheet remained healthy. The year-end equity-to-assets ratio was 46.3% (31 Dec 2007: 49.9%), the leverage ratio 31.5% (23.7%), and the gearing ratio 46.1% (31.1%).

The Group's liquidity remained strong. Cash and cash equivalents and committed, unutilized credit facilities amounted to EUR 1,536 million at the end of December (1,492 million). The company sees no major refinancing needs until 2012. Short-term financing needs will continue to be met by syndicated credits and overdraft facilities. There are no financial covenants in existing loan agreements.

Achievements and targets

Challenges in 2008	Achievements in 2008	Targets for 2009
• The fire in April on the diesel production line 4 at Porvoo and the subsequent shutdown of the line. The line was out of action for longer than expected because of subsequent coking problems.	• The diesel line was re-started successfully at the beginning of October. • Despite unscheduled and extended outages, the line made a positive contribution to increasing Neste Oil's refining margin.	• Trouble-free operations on the diesel production line 4 at Porvoo. • Ensure that the investment delivers a good return.
• Finalizing strategic investment decisions and implementing capital projects.	• Decisions were taken in June to build a NExBTL plant in Rotterdam and a base oil plant in Bahrain. • Construction work on projects already under way progressed as planned.	• Ensure that capital projects progress as planned. • Make the most benefit of lower investment costs.
• Promoting European legislation on renewable fuels and acceptance of the sustainably produced raw materials to produce them.	• Neste Oil's pioneering work and views were presented to a wide range of European politicians, officials, and nongovernmental organizations.	• Ensure that new legislation is fully taken account of in operations and reporting. • Secure Neste Oil's continued lead in responsible operations and advanced technology.

Financial targets

	2008	2007
Return on average capital employed after tax (ROACE) of at least 15% annually	**13.1%**	15.5%
Leverage ratio, 25–50%	**31.5%**	23.7%
Dividend equivalent to at least a third of underlying profits*	**51%**	53%

*Calculated on the basis of the comparable operating profit for the year

For details on the sensitivity analyses used by Neste Oil, see Page 66.

1.2

Dear shareholders,

Early 2009 has been dominated by the challenging situation that continues to face the world economy. Companies' ability to act responsibly – financially, socially, and environmentally – and to change where needed is put to the test in times like these.

A marketplace subject to increasingly strong swings and an operating environment in which changes are increasingly difficult to foresee are very much a feature of the situation today. We need to be able to adapt and react rapidly in times like these, and anticipate what could lie ahead where possible.

Anticipating the future calls for questioning existing ways of working and organizational structures, and replacing old solutions if they do not meet current needs, are holding back progress, or are an unnecessarily expensive way of operating. In line with this, we announced in February 2009 that we would revamp our organization. The new structure will come into force on 1 April 2009 and is presented on Page 14.

The reorganization is intended to enhance our potential to implement our strategy, cut costs, and secure our long-term profitability. We will also give greater emphasis to a customer focus and common practices and procedures in the future. I believe that the new organization and the approach it embodies are essential, given the increasingly international nature of our business.

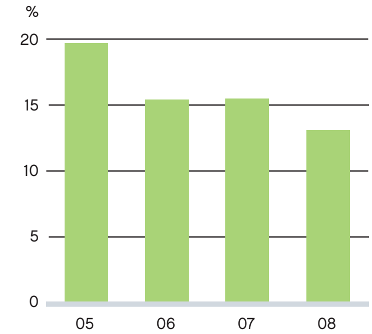
A challenging year

2008 was a challenging year in many respects. The year began with an ongoing upswing and ended in the beginnings of a recession. Neste Oil performed relatively well in these circumstances, and our comparable operating profit for 2008 remained at virtually the same level recorded in 2007. We did not achieve all our financial targets, however. While our leverage ratio was on-target, our return on average capital employed after tax of 13.1% was below-target. The Board of Directors will propose a dividend of EUR 0,80 per share for the year to the AGM, which reflects our confidence in the company and its future.

The oil market saw some dramatic developments during the year. Crude oil prices in US dollars have never risen as high as they did in July, and never have we seen such a rapid and sharp drop in them as we did after the summer. Prices fell from a peak of USD 147 a barrel to under USD 40 a barrel. It took two years and two months to reach those peak prices and only five months for them to drop back so dramatically.

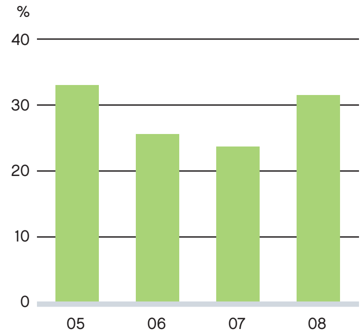
A similar trend has been seen in petroleum product prices, although fuel taxes reduced the extent of this in most countries. The downturn also made itself felt in raw material and product prices in the renewable fuels area, although demand for these fuels is continuing to rise. The drop in the price of crude and crude-based products reduced the relative competitive-

Return on average capital employed after tax (ROACE)



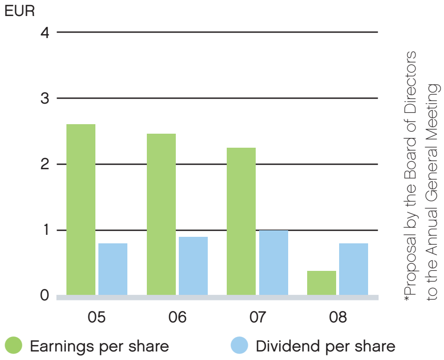
Target: minimum of 15% annually

Leverage ratio



Target: 25-50%

Earnings per share and dividend per share*



Target: payout ratio of at least one third of underlying profits

ness of renewable fuels, as they are based on more expensive raw materials. In terms of combating climate change, therefore, it was very important that the European Parliament decided in December, after much deliberation, to keep to its ambitious package of biofuel goals and establish the ground rules needed to rank the relative worth of different biofuels and the raw materials used to produce them in environmental terms. The decision only reinforces Neste Oil's belief in NExBTL renewable diesel and the major investments needed to produce it.

Ensuring the success of our major investments was one of our most important goals in 2008, and will continue to be one as we move ahead. Thanks to the changed economic situation, it is now possible to negotiate better terms for project contracts and make cost savings, and we have benefited from this.

Valuing our core business

The importance of a company's core business is particularly highlighted during tougher times. In the case of Neste Oil, this means focusing on the operational reliability of our refineries, above all. We have now built up sufficient experience, we believe, with the new units at Porvoo – the diesel production line 4 and the new NExBTL plant. Clear processes and the right know-how are essential for ensuring good availability. Expertise, however good, will never be sufficient on its own if plants are not maintained regularly. With this in mind, we will carry out turnarounds on a number of units at both our refineries in 2009 and continue our preparations for the major turnarounds planned for Porvoo in 2010 and Naantali in 2012.

Ensuring the success of our capital projects will be one of our most important goals in 2009.

Moving ahead with our strategy

Neste Oil updated its cleaner fuel strategy in 2006. Although this took place in an exceptionally strong market, subsequent critical analysis has not identified any significant need to change it. We will continue with implementing our strategy and the capital investment program it calls for. We will also continue with the isomerization unit at Porvoo, as this will enable us to convert more low-quality gasoline fractions into higher-quality, higher-added value components.

Our second NExBTL renewable diesel plant is due to be completed at Porvoo in 2009, and will benefit from the systems, in areas such as pre-treatment, that it will share with the NExBTL unit already operating there. The worldscale NExBTL plants being built in Singapore and Rotterdam are sister facilities, and our decision to phase their construction will enable us to benefit from the combined scale and similarity of the projects, and the experience built up in Singapore, which will come on stream first. Both projects are on schedule and on budget, and coming in at a lower-than-expected cost level.

In conclusion

Although I only took over as President & CEO as recently as in December 2008, I have already had the opportunity to experience the enthusiasm and innovative spirit typical of Neste Oil in many ways. This enthusiasm gives us an excellent foundation to weather even difficult market conditions, and we should foster this ability. Whether we are talking about plant operations, the implementation of capital projects, or the development of new products and services, one of the most important aspects of my job is to ensure that Neste Oil's resources and those of everyone working for us are focused on the right things and that we always monitor how well we perform.

I would like to thank everyone – our shareholders, our customers, our partners, and our personnel – for their contribution in 2008. Our journey will continue in 2009, bringing new and exciting developments. For all of us!

Matti Lievonen
President & CEO

1.3

Strategy

Neste Oil's vision is to be the world's leading supplier of lower-emission traffic fuels. Specialization and cutting-edge expertise are seen as central to the success of a small oil company like Neste Oil in the competitive international marketplace. The company continued to move ahead with implementing its strategy and investment program in 2008.

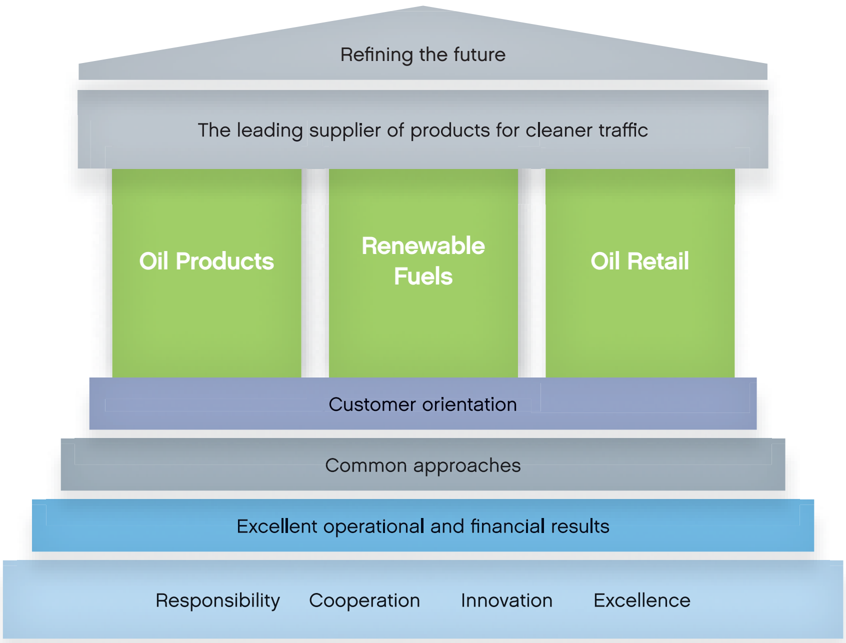
Neste Oil's strategy is based on its ability to use its unique refining expertise to produce premium-quality, lower-emission traffic fuels from a broad range of low-cost feedstocks. This strategy is seen as the best way of increasing shareholder value.

Growing by investing

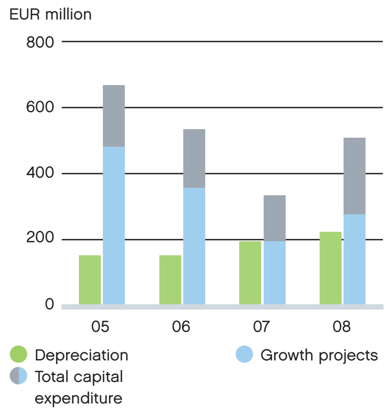
Neste Oil continued to move ahead with implementation of its cleaner fuel strategy in 2008. A decision was taken in June to build a world-scale 800,000 t/a NExBTL renewable diesel plant in Rotterdam; and follows a decision to build a similar-sized plant in Singapore. The company is also continuing with investments designed to further develop the capabilities of its existing refineries. The go-ahead for a new isomerization unit at Porvoo was given in June 2008. Neste Oil is also aiming to grow its base oil business, and a decision to build a new base oil plant in Bahrain was taken in June.

Against the background of an international economy that became significantly more turbulent in the latter half of 2008 and investment costs that continued to remain high, Neste Oil concluded that the conditions were not right for building a new refining unit at Naantali. Basic engineering on the project ended in September.

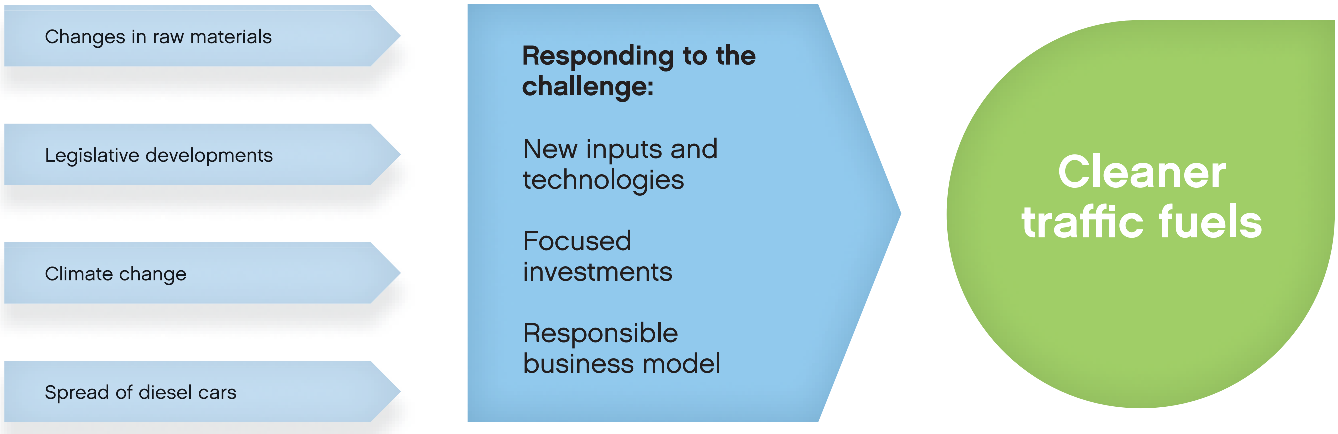
Progress is continuing as planned on capital projects already under way. The focus over the next few years will be on securing at least the rate of return specified for projects when they were given the go-ahead.



Investments



A changing business environment



Better products from heavier fractions

Recent years have seen Neste Oil investing in capacity designed to refine advanced, lower-emission traffic fuels from heavy crude fractions. This has enabled the company to benefit from the strong demand on the world market for middle distillates, such as diesel fuel.

Using its very extensive range of refining expertise and the advanced technology of its refineries, Neste Oil is able to produce high value-added products from lower-cost feedstocks. Middle distillate margins remained strong during 2008, despite larger-than-normal swings on the petroleum products market, which was also characterized by an oversupply of heavy fuel oil.

Becoming a leading biofuels supplier

The demand for biofuels capable of reducing greenhouse gas emissions and promoting sustainable development is growing rapidly around the world. A mix of statutory requirements and tax incentives is encouraging use of these fuels. The growing amount of energy required by traffic and transportation, and the need to combat climate change, represent major challenges – and ones that Neste Oil has responded to by investing heavily in R&D on NExBTL renewable diesel and the capacity to produce it.

The result of a long-term R&D effort, NExBTL renewable diesel is a higher-quality product than both crude oil-based diesel fuel and other biodiesels currently on the market. Vegetable oils and animal fat can be used to produce it. NExBTL renewable diesel can also be used at up to 100% content in all modern diesel engines, and is compatible with existing distribution and logistics systems.

Neste Oil's first NExBTL plant came on stream at Porvoo in 2007, and a second plant will be completed there in 2009. Large new NExBTL plants are being built in Singapore and Rotterdam and are scheduled to begin production early in the next decade.

The demand for biofuels to reduce greenhouse gas emissions and promote sustainable development is growing worldwide.

Future feedstocks and technologies

NExBTL renewable diesel is already the world's cleanest diesel fuel, and Neste Oil wants to continue to be a pioneer in future technologies. Continuous development work is under way on areas such as extending the feedstock base for renewable diesel and new types of process technologies. This work involves both Neste Oil's own experts and people from leading universities and research communities around the world.

More efficiency to the strategy implementation

Neste Oil is to reorganize its operations as of 1 April 2009 around three business areas and seven common functions. The new structure and organization are presented on Page 14.

The new matrix organization will enable the company to leverage the best practices and know-how of different business areas and functions for the benefit of the entire company.

The new business areas, which will also be the company's reporting segments, will be Oil Products, Renewable Fuels and Oil Retail.

The change is intended to give a more cost-efficient and customer-driven operating model, and one that will be better capable of implementing Neste Oil's strategy. The new model will also be better suited to an international operating environment and enable the company to ensure that new international units, such as the NExBTL renewable diesel plants under construction in Singapore and Rotterdam can be integrated into Neste Oil's operations and reporting effectively.

1.4

Industry overview

Swings in crude prices were exceptionally strong during 2008. Global demand for petroleum products slowed, and shifts in the world economy impacted the oil market. Demand for diesel fuel continued to grow in Europe, and diesel margins remained strong.

The price of crude rose to a record high during the summer, but dropped back during the fall by as much as 75%. Swings as large as USD 20/bbl in a single day were seen. Despite the drop in prices in the fall, the average crude price for the year as a whole marked a new high.

Demand for diesel fuel continued to increase more than that for other petroleum products. Gasoline consumption in the US fell back, while the use of corn-based ethanol increased, and saw the country's long-term gasoline shortfall decline. As the US accounts for as much as 40% of the global gasoline market, developments there have global repercussions. The use of ethanol in traffic fuel has increased the gasoline surplus typical of European refineries.

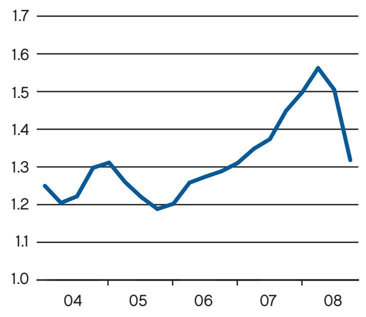
The global demand for petroleum products declined in 2008 by 0.3% compared to 2007 (+1.2%) according to the International Energy Agency (IAE) and totaled 85.8 million bbl/d (86.0 million bbl/d). Demand rose most in Southeast Asia, India, and the Middle East, and fell back in OECD countries. Growth was concentrated in countries with highly regulated or subsidized prices. The role of these measures was reduced towards the end of the year as a result of falling world market prices. The IEA estimated in January 2009 that demand during 2009 is likely to decline by 0.6%, resulting in a probable demand of 85.3 million bbl/d.

New pressures on refining margins

The demand for traffic fuels has been rising for some time. Refinery investments have largely been concentrated on meeting new quality requirements, however, rather than on increasing output, which has resulted in a shortage of capacity. Margins have remained strong for the last five years, although gasoline margins have fluctuated extensively.

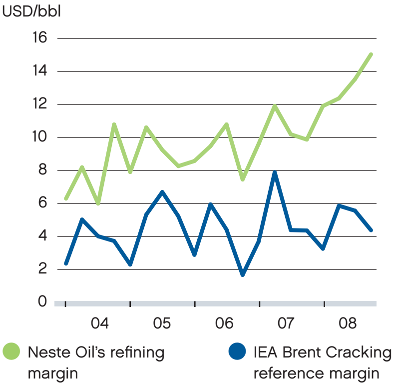
The rise in demand leveled off in the second half of 2008, however, as the impact of the financial crisis spread around the world from its epicenter in the US. 2008 was the first year in the last five to see more new refining capacity come on stream than called for by increased demand. A significant quantity of additional new capacity

USD/EUR exchange rate



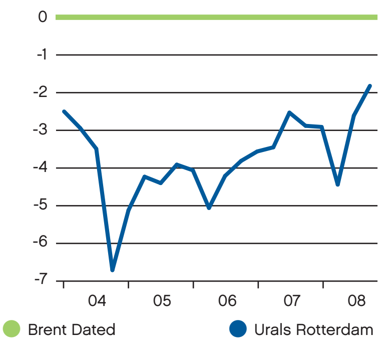
A weak dollar in comparison to the euro reduces the company's revenue, as Neste Oil reports its figures in euros.

Refining margin



The refining margin reflects the difference between the price paid for feedstocks and the revenue received from products.

Price differential between Urals and Brent crude



Neste Oil is able to benefit from this differential, as it can process an increasing amount of Russian crude.

is also under construction, most of which should be completed by the end of 2010. As demand is not expected to grow, this will result in excess new capacity. The high cost of investments and the tough financial situation, together with the sharp drop in new demand, is likely to see the postponement of a number of projects planned for upcoming years that have yet to start construction.

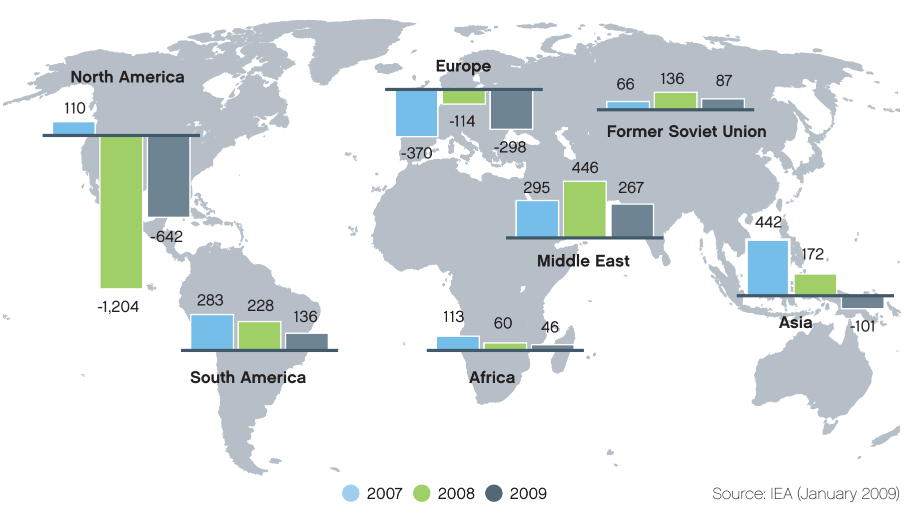
Softer demand was reflected in the low prices quoted for gasoline and naphtha compared to crude towards the end of the year in particular. Heavy fuel oil prices moved higher from the low level typical of the late summer. Actual refining margins recorded during the latter part of the year were very dependent on refiners' product yields. Refineries producing large volumes of gasoline achieved generally weak margins, while those primarily focused on middle distillates performed significantly better.

Higher crude prices

Despite the major drop in crude prices typical of final months of 2008, Brent traded at an average of USD 96.99/bbl in 2008, or 35% above 2007. The value of the dollar has strengthened as the price of crude has declined.

The price differential between different types of crude has narrowed somewhat from previous peak levels. Complex refineries have been able to benefit from their ability to use heavier, sourer crude, such as Russian Urals, which is typically cheaper than Brent from the North Sea.

Growth in global demand for petroleum products, 2007–2009



Source: IEA (January 2009)

Diesel growing in Europe

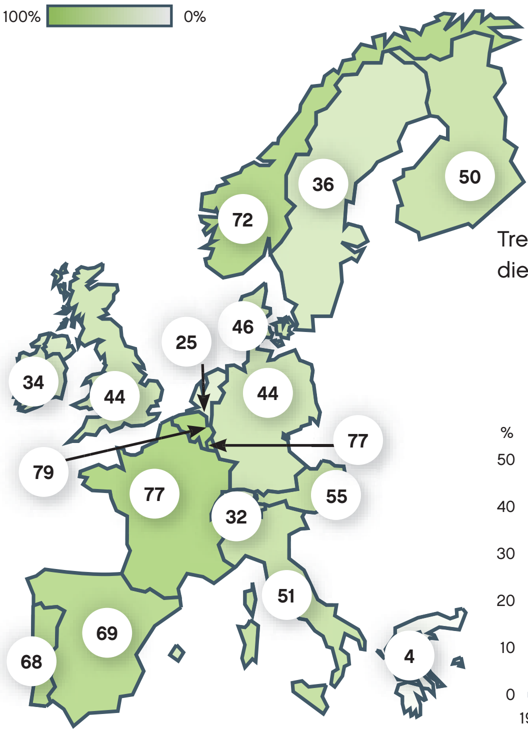
Demand for diesel fuel in Europe has grown rapidly in recent years, and this trend is expected to continue. As diesel cars already account for over 70% of new registrations in some countries, the potential for further growth is beginning to narrow, however. Consumption by commercial road traffic is likely to vary in line with local economic development.

The proportion of diesel cars in the Nordic countries has been relatively low historically, but tax changes in Sweden, Norway, and more recently in Finland have increased their popularity rapidly. Diesel cars accounted for 49.6% (20.3%) of new car registrations in Finland in 2008, following a tax change that came into force at the beginning of the year. The relative price advantage of diesel fuel compared to gasoline has narrowed, however, in Finland as elsewhere. In countries that tax fuels equally, such as Estonia, the retail price of diesel fuel is higher than that of gasoline.

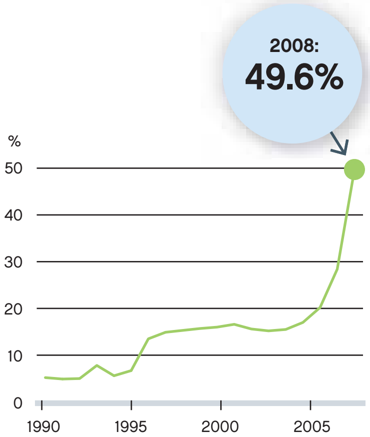
Europe's shortage of middles distillates is typically covered through imports of diesel from Russia and jet fuel from the Middle East. The sulfur content of heating oil, another middle distillate, was reduced to 0.1% in the EU as of the beginning of 2008. As a major proportion of Russian diesel does not meet this requirement and only a small proportion of middle distillate imports meet the EU diesel standard, the remainder

Diesel cars as a proportion of new registrations in 2008, %

Source: European Automobile Manufacturers' Association



Trend in new registrations of diesel cars in Finland, 1990–2008



The switch to a vehicle tax 50%-based on CO_2 emissions in Norway increased the proportion of diesel cars there to the third-highest in Europe.

Tax changes in Finland have been radical, but the price advantage enjoyed by diesel fuel has narrowed.

is used for heating purposes or further processed at European refineries. Virtually the only Russian source of EU-standard diesel fuel is a new diesel pipeline terminating at the Primorsk terminal north of St. Petersburg. The first stage of this new line has a capacity of 8.4 million t/a, but only around half of this was in use at the end of 2008.

Progress on biofuel legislation

Demand for diesel produced from renewables is continuing to grow. A number of countries have established national targets, requirements, and tax incentives covering biofuels aimed at increasing usage and combating climate change.

Legislation has been in place in Finland since the beginning of 2008 requiring all companies supplying traffic fuels to the local market to include a percentage of biofuel content. This was set at 2% in 2008 and to 4% in 2009 and 5.75% in 2010.

The EU directive on biofuels and renewable energy was approved in December 2008, and contains a binding target to increase the proportion of renewable energy used in traffic and transport in member states to 10% by 2020. The directive also includes sustainability criteria that a biofuel must comply with for it to be included in efforts aimed at achieving the 10% target.

The EU directive on biofuels and renewable energy was approved in December 2008.

The introduction of the directive will require further studies by the European Commission on the details of the criteria to be used and numerous practical details. This could take until the end of 2009.

Differences in quality and price between alternative biofuels

Rapeseed oil has been the main raw material used in producing conventional biodiesel to date, although other types of vegetable oil are being used to an increasing extent. There have been significant quality problems with first-generation products manufactured by transesterifaction, and demand for premium-quality renewable diesel has been better than for those products.

Although lower vegetable oil prices led to a drop in biofuel prices in the second half of 2008, the margins on premium-quality renewable fuels have remained good.

Meeting the targets and requirements placed on biofuels will call for a major increase in production. In addition to renewable diesel, it will be necessary to increase the use of ethanol in Europe, either as a direct blending component or in the form of ethyl ether, and increase imports of ethanol into the EU. The bulk of the ethanol currently used in Europe is blended into the gasoline pool in the form of ETBE. New technologies and raw materials are also the subject of extensive research.

New technology

Concerns about climate change and record-high traffic fuel prices in the late summer helped focus the attention of the authorities and consumers on alternative engine technologies. It seems that these high prices accelerated the development and adoption of new technology, and the sharp drop in prices in the latter part of the year is unlikely to have changed this, although it could slow the introduction of new alternatives.

Higher demand for petroleum products has largely been driven, historically, by traffic fuels, as replacing these with other forms of energy has proved particularly difficult. As other solutions are still not yet available on a large scale, the emphasis has been on making more efficient use of gasoline and diesel. The overwhelming advantage of petroleum products as traffic fuels has been their high energy content, and researchers are focusing increasing attention on technologies that could make better use of this energy. Hybrid cars, combining an electric engine with a gasoline- or diesel-powered engine, represent one such technology. Rechargeable electric cars could also become more widely used, especially in cities in developed countries where environmental problems are particularly acute. The price of such vehicles will need to drop significantly, however, as they are still high compared to conventional vehicles.

Good prospects for premium-quality base oil

The need to reduce the environmental emissions of vehicles and improve fuel efficiency is placing growing demands on lubricants. Better lubricants are being developed by base oil and lubricant manufacturers in collaboration with automotive

New engine technology on the way

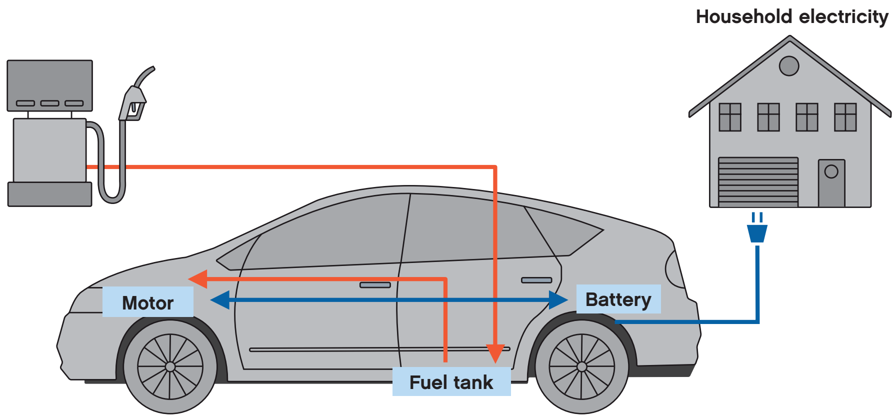
New vehicles powered by hybrid systems, electric engines, and hydrogen are beginning to gain ground. Hybrid vehicles include an electric engine and a gasoline- or diesel-powered engine, both of which are smaller than if they were the sole source of power, and make use of regenerative braking.

Diesel hybrids have been available on the Japanese market since the beginning of the 1990s, and gasoline hybrids in Japan and the US for around the last 10 years. The total number of hybrids on the road now is around 2 million. A number of manufacturers unveiled new hybrid models in 2008, designed primarily for use in congested urban areas. Fuel consumption can be a problem in highway use, when little or no regenerative brake energy is available. As a result, diesel hybrids are expected to become most popular in distribution vehicles and buses in large cities.

'Plug in' hybrids that can be charged from domestic electrical outlets are also being launched. The relative economy of these vehicles depends on how the electricity used is generated and how much it costs. These vehicles suffer from relatively poor battery efficiency, however, which limits their radius of operation.

Purely electrical vehicles face a number of other technical challenges. Heating and air-conditioning, for example, can reduce mileage significantly.

Hydrogen vehicles have been under development for many years. The only emission generated by their fuel cells when they are on the road is water vapor. Their overall emission level, however, is determined by how the hydrogen they use is produced. Fossil fuels or nuclear power are currently used. Price is also likely to be a major hurdle during the early introduction of these vehicles; an entirely new fuel distribution system will have to be created as well.



manufacturers to meet these challenges. This has been reflected in a growth in demand for premium-quality base oil, particularly in Europe and North America.

The bitumen market is expected to remain stable, based on the need to maintain and upkeep the road network. The market for naphthenic oils is expected to grow.

Popularity of unmanned stations increasing

Neste Oil increased its market share in Finland, and accounted for 27.4% (26.4%) of the country's retail gasoline sales and 41.8% (40.6%) of retail diesel sales. Gasoline and diesel volumes sold through the station network around the Baltic Rim rose by 4% and 12% respectively. The economic downturn reduced traffic fuel demand in the Baltic countries and Poland during the second half of 2008. Growth continued in the St.Petersburg region in Russia.

There are now three major players on the Finnish market, and outlets are gravitating towards full-service service stations, where sales of other retail products are also on the increase, and low-cost, unmanned stations. The popularity of the latter has grown, and this trend is likely to continue over the next few years.

Demand for LPG increased by 6%. The Finnish LPG market is strongly dependent on the capacity utilization rate of the iron and steel industry.

All heating oil sold in Finland from the beginning of 2009 onwards must include 2% bio content. Demand for heating oil increased by 0.2% in 2008 and is not expected to grow substantively in the future.

New specifications for bunker fuel

Competition has become tough on Shipping's main markets in the Baltic and the North Sea with the commissioning of extensive new tonnage. Overcapacity will be a factor in 2009, after which supply and demand is likely to gradually reach more of an equilibrium. Consolidation among companies in the field is expected to continue.

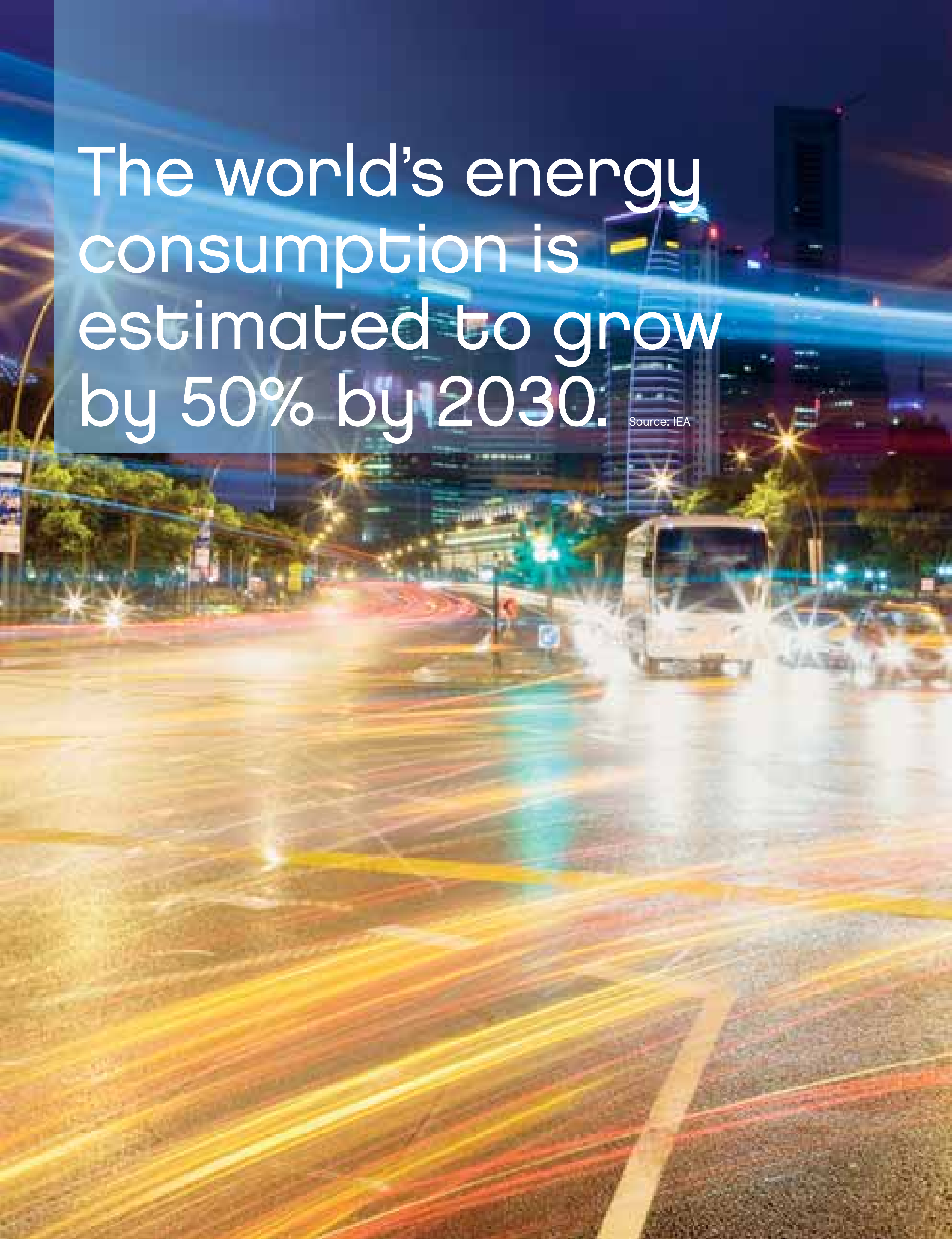
Large quantities of Russian crude continued to be shipped through the Baltic from Primorsk. An average of 65 tankers a month loaded cargo at Primorsk. A new product terminal was commissioned there in spring 2008, adding shipping volumes. During the second and third quarters of 2008 the Baltic and North Sea crude freight markets were stronger compared to 2007, due to fluctuation in the world market.

Under new bunker specifications set by the International Maritime Organization (IMO) in 2008, the sulfur content of fuel used by ships in the Baltic, the North Sea, and the English Channel will be cut from 1.5% today to 1.0% in July 2010, and to 0.1% as of the beginning of 2015.

From the beginning of 2009, all heating oil sold in Finland must include 2% bio content.

In practice, this will mean that low-sulfur diesel fuel will have to be blended with heavy fuel oil. In some cases, ships can be expected to shift to using diesel fuel.

New technology could also be used, such as flue gas scrubbers similar to those used at land-based power plants. Neste Oil is testing unit of this type on its ships.



The world's energy consumption is estimated to grow by 50% by 2030.

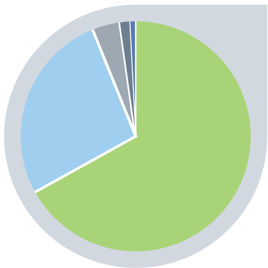
Source: IEA

Divisions

Neste Oil operated through five divisions in 2008. In line with corporate strategy, renewable fuels act as the company's growth driver. The Neste Oil organization will be restructured around three business areas at the beginning of April 2009.

Sales

EUR million (excluding internal sales)
Total: 15,043



Oil Refining 67%
Oil Retail 27%
Specialty Products 4%
Shipping 1%
Renewable Fuels 1%

Each division has represented its own reporting segment since the beginning of 2008.

2.1

New business areas

The Neste Oil organization was based on five divisions in 2008 – Oil Refining, Renewable Fuels, Specialty Products, Oil Retail, and Shipping – which also formed the company's reporting segments. This structure will change in April 2009.

Neste Oil's operations are to be reorganized into three business areas and seven common functions, and a new organizational structure reflecting this will be introduced as of 1 April 2009.

The change is intended to give a more cost-efficient and customer-driven operating model, and one that will be more capable of implementing the company's strategy and international expansion. The new model is a matrix organization and designed to leverage the best practices and know-how of business areas and functions for the benefit of the entire company.

Business areas and reporting segments

The new business areas will act as profit centers and will be responsible for their customers, products, and business development. The new business areas are as follows: Oil Products, Renewable Fuels, and Oil Retail. Activities outside these business areas will be grouped under Others.

Neste Oil's financial reporting will be based on these business areas from 28 April 2009 onwards when the Q1/2009 figures are announced. Comparative figures for 2008 will be published ahead of this.

The Specialty Products Division will be consolidated into the Oil Products business area. Shipping operations will be reported in connection with the business areas that use them, and the Shipping business incorporated into the Production & Logistics function.

Common functions

Neste Oil's new common functions will be responsible for the production operations and processes required by business areas, and for ensuring their efficiency. They will also be responsible for the cost efficiency, transparency, and harmonization of procedures across the company, and for overseeing the use and sufficiency of Neste Oil's resources.

The new common functions will be: Production & Logistics, Finance, Human Resources, HSE, Technology & Strategy, Communications, and Legal Affairs.

Senior management

The Neste Executive Board, under the President & CEO, will be responsible for overall management and for the implementation of the company's strategy and ensuring that operational targets are met.

The Neste Executive Management Board will comprise the President & CEO, business area executive vice presidents, the CFO, and the Senior Vice President, Production & Logistics, and will be responsible for leading and setting operational business targets and monitoring progress on achieving them.

New organization as of 1 April 2009

CEO
Matti Lievonen

Common functions	
Production & Logistics	Ilkka Poranen
Finance	Ilkka Salonen
Human Resources	Hannele Jakosuo-Jansson
HSE	Simo Honkanen
Technology & Strategy	Lars Peter Lindfors
Communications	Osmo Kammonen
Legal Affairs	Matti Hautakangas*

Business Areas		
Oil Products Matti Lehmus	**Renewable Fuels** Jarmo Honkamaa Deputy CEO	**Oil Retail** Sakari Toivola

*Secretary to the Neste Executive Board, not a member

Targets and achievements in 2008

	Targets for 2008	Actions and achievements 2008
Oil Refining	• Further enhance the safety of personnel and refining processes • Retain a strong position on the wholesale market in Finland and neighboring countries • Take decisions on new investments • High capacity utilization on the new diesel line	• Audits of process safety and the launch of development measures • Wholesale market share maintained at a good level in Finland • Approval given for a new isomerization unit at Porvoo • Completion of basic engineering on a new hydrocracking unit at Naantali
Renewable Fuels	• Start construction of the Singapore plant and continue work on the second NExBTL plant at Porvoo as planned • Expand the R&D effort on new feedstocks • Launch certified palm oil • Achieve good progress on the construction of a third-generation pilot plant at Varkaus • Move ahead on new capital projects	• Progress as planned on construction of the Singapore NExBTL plant and the second plant at Porvoo • Broad-based progress on R&D into new raw materials • Contract agreed for certified palm oil • Good progress achieved on construction of the new pilot plant at Varkaus • Decision taken to build a NExBTL plant in Rotterdam
Specialty Products	• Take a decision on a new base oil plant • Exploit the opportunities offered by seasonal demand for gasoline components • Build on existing strong performance in occupational safety	• Go-ahead given for a base oil project in Bahrain and the start of construction • Operational efficiency enhanced in response to a weaker gasoline market in the US • Excellent safety performance at all plants
Oil Retail	• Continue growing outside Finland • Secure safety during the revamp of the station network and in logistics operations • Roll out the new brand identity at outlets • Launch NExBTL renewable diesel on the retail market	• 15 new stations opened outside Finland in 2008 • Achieved a TRIF (Total Recordable Incident Frequency) figure of 4.4 (3.5) • Revamped a total of 260 outlets • Launch of Neste Green diesel
Shipping	• Improve operational efficiency • Better profit performance • Strong safety performance across all aspects of operations	• Very high fleet utilization rate • Improved safety performance • Good result thanks to internal efficiency, and better than the market average

2.2

Oil Refining

Oil Refining is Neste Oil's largest division, and produces and sells a comprehensive range of petroleum products, with a particular focus on low-emission traffic fuels. Neste Oil's two refineries, at Porvoo and Naantali, account for over 20% of the Nordic region's total crude oil refining capacity. The company is also one of the region's largest wholesale suppliers of petroleum products.

Neste Oil has defined Oil Refining as one of the key growth businesses in its strategy, alongside Renewable Fuels. Investments at existing refineries will drive the growth, which will be reinforced by a program of continuous operational improvement.

The oil refining's success is based on its expert refining capabilities, a proactive approach to introducing new technologies, and the ability to make use of a broad range of different types of crude oil and other feedstocks in developing and producing new, high-quality lower-emission traffic fuels.

The most important market factors affecting Oil Refining's performance are the differential between petroleum product and feedstock prices, the differential between light Brent crude from the North Sea and heavy Russian crude, and the USD/EUR exchange rate. Fluctuations in crude prices largely impact performance in the form of inventory gains and losses. Neste Oil monitors the impact of product/feedstock price differentials using the international IEA Brent Cracking reference refining margin.

Higher usage of Russian crude

Neste Oil imported a total of 15.7 million tons of crude oil and other feedstocks into Finland in 2008 (15.1 million tons). Some 81% (76%) of this was sourced from Russia and other countries of the former Soviet Union, and the remainder primarily from the North Sea. Other feedstocks mainly comprised middle distillates, gas oil, fuel oil, gasoline components, and LPG. The majority of imported volumes were delivered by sea, 86% (87%), and the remainder by rail, 14% (13%).

Neste Oil refined a total of 15.2 million tons (14.6 million tons) of crude and other feedstock in 2008, of which 12.4 million tons (11.8 million tons) were processed at Porvoo and 2.8 million tons (2.8 million tons) at Naantali.

Some 65% (60%) of output consisted of sulfur-free or low-sulfur traffic fuels. Crude distillation capacity utilization at the Porvoo refinery stood at 91.7% (94.6%) and 96.8% (96.5%) at the Naantali refinery.

Both refineries processed a record level of feedstock in 2008, and combined input exceeded 15 million tons for the first time ever. The Porvoo refinery has a crude oil

Divisional overview

Diesel demand expected to remain strong

Although Neste Oil's new diesel line at Porvoo encountered a number of problems in 2008, the year proved one of the best yet for the refinery and for the Naantali refinery.

Demand for petroleum products has declined. With the additional refining capacity scheduled to come on stream in the industry in 2009 and 2010, this is expected to be reflected in slightly weaker margins. Diesel margins will probably remain reasonably strong, however. Neste Oil is well-placed in this respect, as our production palette is focused on diesel and other middle distillates.

The Porvoo refinery is one of the most advanced in Europe and produces around 12 million tons of petroleum products a year.

We act.

The new diesel line at Porvoo has a capacity of over 1 million t/a.

Key figures

	2008	2007
Sales, EUR million	**12,030**	9,348
Operating profit, EUR million	**123**	640
Comparable operating profit, EUR million	**510**	484
Net assets, EUR million	**1,972**	2,165
Comparable return on nets assets (RONA), EUR million	**21.7**	22.7
Capital expenditure, EUR million	**132**	193
Total refining margin, USD/bbl	**13.39**	10.46

refining capacity of 206,000 bbl/d, and the Naantali refinery a capacity of 57,900 bbl/d.

Russian Export Blend accounted for 57% (51%) of feedstock input at Neste Oil's refineries in 2008.

Exports to Europe and North America

Neste Oil delivered a total of 7.5 million tons (8.1 million tons) of petroleum products to the Finnish market in 2008, giving the company an 89% (87%) share of the wholesale market.

Sales to other countries totaled 7.1 million tons (6.3 million tons), of which gasoline accounted for 2.4 million tons (2.4 million tons) and diesel fuel 2.9 million tons (2.1 million tons). North America, Sweden, and Germa-

Naantali refinery

- Commissioned in 1957
- Primarily produces traffic fuels and specialty products, such as bitumen, solvents, and small engine gasoline
- Thanks to its specialty product focus, Naantali's refining margin is higher than that of other refineries of similar size and complexity
- Crude oil refining capacity of an average of 58,000 bbl/d, equivalent to approx. 3 million t/a
- Over 1 million m³ of crude oil and petroleum product storage capacity
- Runs on heavy, sour crude input
- Employs approx. 400 people

Porvoo refinery

- Commissioned in 1965
- One of Europe's most advanced and versatile refineries
- Focused on producing premium-quality, low-emission traffic fuels
- Crude oil refining capacity of approx. 206,000 bbl/d, equivalent to some 12 million t/a
- 7 million m³ of crude oil and petroleum product storage capacity
- Finland's largest port, as measured in terms of volume of cargo throughput. Between 16 and 19 million tons of crude oil and petroleum products are discharged and loaded annually
- Employs approx. 1,200 people

ny were the company's biggest markets for gasoline exports, with the US and Canada accounting for 68% (57%). Sweden and Poland were the most important markets for diesel exports, and accounted for 71% (66%) of total diesel exports.

New isomerization unit for premium-quality gasoline

Oil Refining's growth-related investments have continued to focus on developing the company's existing refineries, both of which have the potential for further capacity to produce additional quantities of low-emission traffic fuels from heavy crude fractions.

A decision was taken in June to build a new, approximately EUR 80 million, 600,000 t/a isomerization unit at Porvoo, to enable the refinery to produce a higher proportion of high-octane, low vapor pressure gasoline. Construction will begin in 2009 and the unit is scheduled to come on stream at the beginning of 2011. Feedstock will be provided by both refineries.

A feasibility study on building additional conversion capacity at Naantali was completed. Given the uncertainty of the international economy and the high cost of capital investments, the company decided that the conditions were not right for an investment of this type, however.

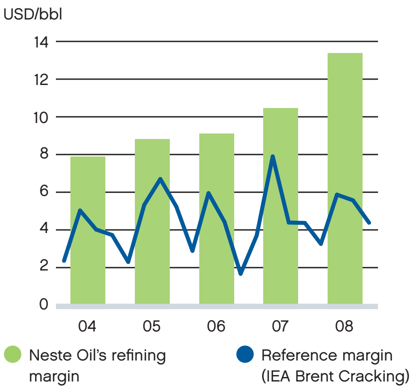
Major maintenance turnarounds every five to six years are one of the most important means of maintaining the operational reliability of Neste Oil's refineries. The next of these is planned for Porvoo in 2010, and planning and engineering for this commenced in 2008. The next major turnaround at Naantali is scheduled for 2012.

Sales and trading operations transferred to Geneva

Neste Oil decided to transfer sales and trading activities to Geneva, where a new dedicated company has been established and began operations at the beginning of 2009. This will be mainly responsible for the bulk of sales outside the Finnish and Swedish markets.

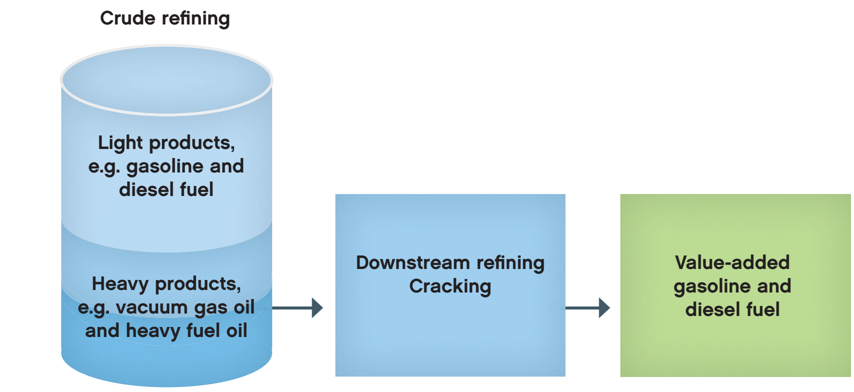
For the price differential between Urals and Brent and USD/EUR exchange rates, see Page 8.

Total refining margin



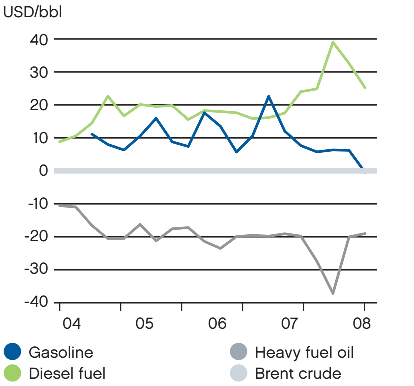
Neste Oil's refining margin exceeded IEA Brent Cracking significantly.

Investments in conversion capacity



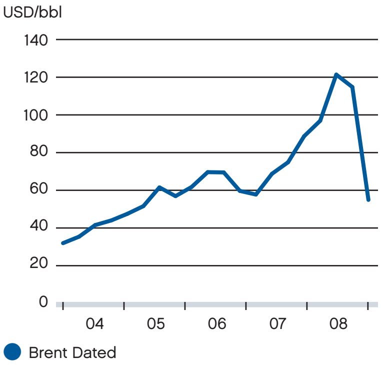
Heavy refining fractions are converted into value-added, low-emission traffic fuels.

Price trends for key petroleum products compared to crude oil



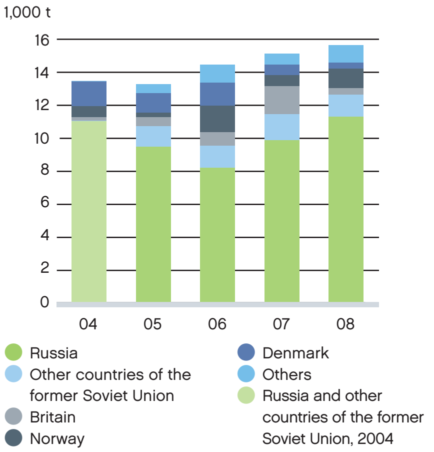
The price differential between different products favors investments in conversion capacity.

Crude oil price



Crude prices fluctuated exceptionally dramatically in 2008.

Crude oil and feedstock sources by region



New diesel line up and running for part of the year

2008 proved a disappointment in respect of the new diesel line commissioned at the Porvoo refinery in summer 2007, as it was on stream for only part of the year. Despite this, the line contributed to both enhanced output and profitability at the site, and helped Neste Oil record a record-high total refining margin of USD 13.39/bbl (10.46/bbl).

A fire at the beginning of April was a major factor in these problems, as it delayed the line's maintenance outage, which had been planned to start the same month, until the end of May. The line was restarted during the last week of the month. Coking problems resulting from the fire in April emerged, however, and the line was forced to operate at reduced capacity with a lighter-than-planned input. It proved impossible to remove the coke from the line while it was running and it was shut down for maintenance in August and September.

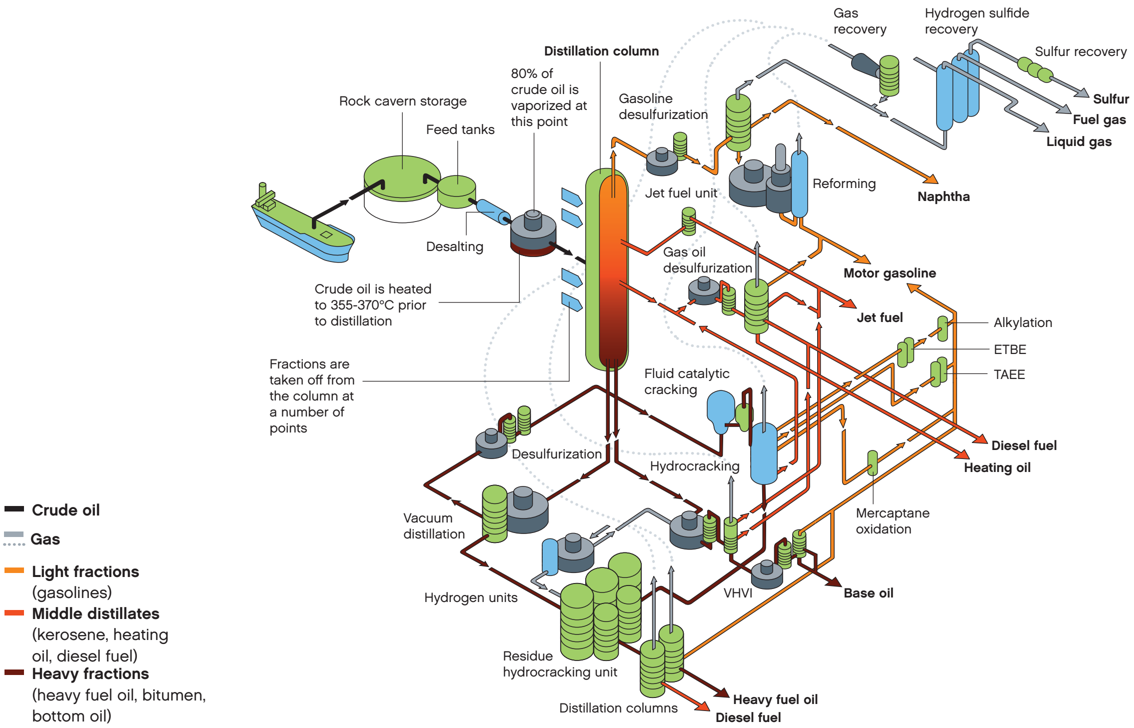
The new line has increased Neste Oil's overall diesel production capacity by over 1 million t/a. Capable of producing premium-quality sulfur-free diesel from heavy fuel oil, the line gives the refinery the potential to switch entirely to using heavier crude oil.

Production Line 4

- Commissioned in summer 2007
- Refines high-quality sulfur-free diesel from heavy fuel oil
- Capable of producing over 1 million t/a
- Capital costs totaled some EUR 750 million
- Will increase Neste Oil's refining margin by over USD 2/bbl*

* calculated on the basis of the company's annual total capacity of approx. 100 million barrels.

The refining process at the Porvoo refinery



2.3

Renewable Fuels

Renewable fuels is Neste Oil's fastest-growing business, and produces and sells premium-quality NExBTL renewable diesel based on the company's proprietary technology. A number of new NExBTL plants are currently under construction, and the company is continuing an active program of R&D on biofuels and raw materials suitable for biofuel usage.

The demand for biofuels is growing rapidly. Neste Oil is the first oil company to produce and market truly premium-quality renewable diesel fuel. Based on its own R&D, NExBTL renewable diesel is the cleanest diesel available. Neste Oil has set itself the target of becoming the world's leading producer of renewable diesel.

Production capacity set to increase

Worldwide demand for diesel fuel is expected to reach 750 million tons a year by 2015. Traffic biofuels currently account for approximately 1% of total global fuel production according to the International Energy Agency. Production capacity of conventional biodiesel and higher-quality renewable diesel in Europe totaled around 16 million tons in 2008. Consumption is projected to reach 13 million t/a in Europe by 2010.

Neste Oil has responded to this demand challenge by launching a major expansion of its own capacity. A plant commissioned at the Porvoo refinery in 2007 already produces around 170,000 t/a of NExBTL renewable diesel, and a second plant of equal size is due to be completed there in 2009.

Neste Oil decided to build an 800,000 t/a NExBTL plant in Singapore in November 2007, and followed this up in June 2008 with a decision to build a similar-sized plant in Rotterdam. Both plants are currently under construction and are due to come on stream in 2010 and 2011 respectively. These will be the world's largest renewable diesel facilities.

A technological pioneer

Neste Oil's NExBTL is a major Finnish innovation that has been extensively tested and in commercial production since 2007.

NExBTL renewable diesel offers a major reduction in both greenhouse gas and other harmful emissions. Measured over the product's entire life cycle, its greenhouse gas emissions are between 40% and 60% lower than those of fossil diesel, depending on the raw material used. Blended with conventional diesel, NExBTL reduces overall emission levels in line with the proportion blended.

NExBTL diesel's properties have been studied extensively with cars, trucks, and buses, and the results have all been very positive. In addition to lower greenhouse gas emissions, the fuel offers significantly lower particulate emissions than conventional diesel, as well as lower NO_x emissions than conventional biodiesel. A clear reduction in tailpipe aldehyde emissions confirms that NExBTL renewable diesel burns cleanly.

Neste Oil took part in an extensive test on diesel fuels produced from renewables in Alberta, Canada in 2008. The test was

Divisional overview

A year of building future growth

Neste Oil has a unique technology that is clearly ahead of anything else at the moment, and NExBTL renewable diesel is a tried and tested solution for meeting the biofuel legislation in place in many countries.

Very large volumes of renewable fuels will be called for in the next few years, and no one raw material or technology can meet this challenge alone. All current approaches will be needed, together with a number of new ones as well – which is why Neste Oil is working hard on finding and introducing new raw materials and new solutions.

The palm oil used by Neste Oil is produced in plantations in Malaysia like the one seen here. Cultivation and production abides by the principles of sustainable development.

We act.

Our premium-quality NExBTL renewable diesel capacity will total close to 2 million t/a in 2011.

Key figures

	2008	2007
Sales, EUR million	**116**	40
Operating profit, EUR million	**2**	–12
Comparable operating profit, EUR million	**2**	–13
Net assets, EUR million	**371**	142
Comparable return on net assets (RONA), %	**0.9**	–12.3
Capital expenditure, EUR million	**249**	69

designed to evaluate the performance of these fuels in cold weather. The project was primarily sponsored by the Canadian federal government, the provincial authorities in Alberta, and Shell Canada. The project included laboratory and field studies, and NExBTL renewable diesel performed exceptionally well in all the tests, confirming its excellent range of properties.

Using sustainably produced raw materials

Neste Oil has defined responsible and sustainable operations as its number-one priority in raw material procurement, together with ensuring that its suppliers commit to continuous development in their operations. Neste Oil knows the origin of the palm oil it uses in detail, and the ability to measure and reduce greenhouse emissions across the entire product life cycle is used as an important criterion in raw material procurement. The final decision is also affected by reliability, availability, and price. Neste Oil has actively promoted the adoption of an international certification system for palm oil production through the Roundtable on Sustainable Palm Oil (RSPO).

Suitable for all diesel engines

Neste Oil's NExBTL renewable diesel offers significantly better performance than traditional, first-generation biodiesel, and even better than that of the best fossil diesels.

NExBTL is both sulfur- and aromatics-free. Thanks to a high cetane number, it combusts efficiently, keeping engines clean. Its excellent cold weather perform-

NExBTL renewable diesel in brief

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

ance means that it can be used year-around even in cold climates, and its storage qualities are excellent.

NExBTL renewable diesel is compatible with all current diesel vehicles and logistics systems, keeping switching costs to a minimum. It can be used as such or blended with conventional diesel. Blending improves the technical properties of fuel and reduces emissions.

Leading the way in responsibility

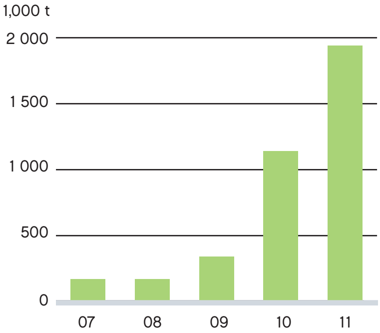
A total of some 40 million tons of palm oil were produced worldwide in 2008, of which Neste Oil used approximately 0.3%. Although a small user, the company knows the exact origin of the palm oil it uses. A thorough understanding of the product's entire life cycle and environmental impact is seen as the foundation of Neste Oil's renewable diesel operations.

Working with its palm oil suppliers, Neste Oil has developed a monitoring system to enable the origin of all the palm oil it uses to be traced and to understand the entire chain from plantation and cultivation through pressing and transportation all the way to a NExBTL plant. Neste Oil and its external auditors continuously monitor and report the efficacy of the system.

Neste Oil has set itself the target of becoming the world's leading producer of renewable diesel.

Neste Oil expects to receive its first batches of palm oil certified in line with the RSPO's certification system during 2009, and has committed itself to increasing the level of certified palm oil used as it becomes available.

Growth in NExBTL renewable diesel production, 2007–2011



Neste Oil is carrying out active research with over 20 international universities and research groups to develop and introduce new raw materials for biofuels. Raw materials studied include algae, microbes, and forest harvesting waste. The company aims to switch to fully non-food raw materials.

Greater responsibility through better regulation

Legislation work is under way in the EU to create a set of common ground rules for biofuel production. The goal is to establish sustainability criteria for production, as well as to define how much a product's greenhouse gas emissions over its entire life cycle need to be reduced for it to be classified as contributing to combating climate change.

A directive on biofuels and renewable energy was approved in December 2008, containing a binding target to increase the proportion of renewable energy in traffic and transport in member states to 10% by 2020. The directive also includes sustainability criteria that a biofuel must comply with for it to be included in efforts aimed at achieving the 10% target.

The introduction of the directive will require further studies by the European Commission on details of the criteria to be used, as well as numerous practical aspects. This could take until the end of 2009.

The negative aspects of biofuel production were debated extensively in 2008. On the other hand, production was seen as having positive effects in areas such as local economies. In line with its commitment to responsible business practices, Neste Oil has campaigned strongly for a common set of ground rules in the field to which all parties – governments, the international community, and other companies – should commit. Neste Oil has called for an end to all irresponsible land use. In addition to new legislation, strict monitoring processes need to be introduced. Neste Oil will continue to work through the RSPO and in cooperation with decision-makers, non-governmental organizations, and others to promote sustainable development.

Read more about responsibility on Pages 30–51.

Producing biofuels in accordance with the principles of sustainable development

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

Raw material suppliers

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

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

Production

- We use efficient production methods that comply with ISO and OHSAS environmental, health, safety, and quality standards.
- We continually improve the safety of our production operations.
- We develop our production technologies to enable the use of novel raw materials.

End-products

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

Better by bus – A unique public transport initiative

A number of public transport buses operated by Helsinki City Transport in Greater Helsinki switched to using 100% NExBTL renewable diesel in April 2008 as part of a joint initiative between VTT, the Helsinki Metropolitan Area Council, HKL, Proventia, and Neste Oil launched in 2007. The aim of the project is to improve air quality as well as to reasearch the use of advanced biofuels in urban areas. The trial was preceded by use of a NExBTL/fossil diesel blend.

The introduction of 100% NExBTL diesel has taken place in close cooperation with automotive manufacturer, Scania. The emissions reduction and long-term effects on bus engines of using NExBTL will be studied in detail to ensure that all the benefits of premium-quality renewable diesel are taken advantage of to benefit urban air quality.

Using NExBTL renewable diesel has a significant positive impact on emissions, as the fuel generates substantially less particulate and NO_x emissions than conventional diesel fuel. Test results show that NO_x emissions are cut by around 10% and particulate emissions by around 30% compared to fossil diesel. Greenhouse gas emissions as measured over the entire life cycle of the fuel are 40-60% lower than those of fossil diesel when the raw materials used to produce NExBTL diesel are themselves produced in accordance with sustainability principles. VTT Technical Research Centre of Finland is responsible for carrying out the extensive emission measurement program.

The three-year trial includes around 300 buses using a blend of approximately 30% NExBTL renewable diesel and 70% fossil diesel, and a small number of buses using 100% NExBTL diesel. The Finnish Ministry of Finance has granted a tax break on the NExBTL renewable diesel used in the trial until the end of 2010.

Differences between NExBTL and conventional biodiesel

NExBTL renewable diesel
- Can be blended up to 100% content
- Complies with the strictest quality standards
- Reduces tailpipe emissions
- Offers excellent storability
- Does not require any engine modifications

Conventional biodiesel
- Can only be used up to 5-7% content*
- Biofuel usage requirements cannot be met without compromising fuel quality specifications
- Increases NO_x emissions
- Must be used before a specific 'best before' date
- Can cause engine problems

* Maximum allowed under the European diesel standard

Emission reductions offered by NExBTL renewable diesel*

- 40-60% less greenhouse gas emissions
- 10% less NO_x
- 28% less fine particles
- Significantly lower levels of other pollutants
- Easier cold starts and less tailpipe soot

* Compared to fossil diesel
Sources: MAN, SAE

NExBTL production plants

Location	Capacity	Completed	Investment	Status
Porvoo	170,000 t/a	2007	EUR 100 millon	Operational
Porvoo	170,000 t/a	2009	Over EUR 100 million	Under construction
Singapore	800,000 t/a	2010	EUR 550 millon	Under construction
Rotterdam	800,000 t/a	2011	EUR 670 millon	Under construction

2.4

Specialty Products

Specialty Products produces and sells premium-quality base oils and traffic fuel components, and manages Neste Oil's interests in Nynas AB, a producer of naphthenic oils and bitumen. Neste Oil has targeted growth in premium-quality base oils, and is focusing on continuous development of its gasoline component business.

The base oils produced by Neste Oil are mainly used in the manufacture of high-quality motor lubricants. Tougher vehicle emissions legislation is increasing the demand for premium-quality base oils, as these are used to optimize lubricant performance, enabling the use of better catalytic converters and filters and reducing fuel consumption. Europe is currently Neste Oil's main market for base oils, but as production capacity increases it will be possible to grow the business in other key markets, such as North America and Asia.

A strong position on the base oil market

Neste Oil is one of the leading suppliers of premium-quality base oils in Europe and growing in importance globally. The company had an over 40% share of the wholesale market for VHVI base oils in Europe in 2008, and a close to 20% share of the global market. In addition to growing demand, the company's broad customer base and strong partnership network with additives producers and automotive manufacturers offer good growth opportunities for Neste Oil's base oil business. Neste Oil's products have been extensively approved by automotive manufacturers.

Demand for VHVI base oils rose in line with expectations in 2008 and production ran at full capacity; demand for PAO was stable. Although financial performance varied in line with swings in feedstock prices, the year was a successful one overall.

Growth through joint ventures

The capacity of the PAO plant at Beringen in Belgium was increased by 20% at the end of 2008, to 60,000 t/a. Neste Oil signed a joint venture agreement with the Bahrain Petroleum Company (BaPCo) and Bahrain's Oil and Gas Holding Company (OGHC) in June 2008; and the joint venture has started construction of a 400,000 t/a VHVI plant in Bahrain, scheduled to come on stream in 2011.

Neste Oil is also investigating other alternatives for increasing production. Negotiations are under way on building a 500,000 t/a VHVI plant in Abu Dhabi with the Abu Dhabi Oil Refining Company.

Components for lower-emission traffic fuels

Neste Oil produces traffic fuel components for use in its own products and for sale to other oil companies. Low vapor pressure iso-octane, for example, is used as a high-octane hydrocarbon component for blending ethanol with gasoline and offers very good environmental performance. Neste Oil produces iso-octane at a plant in Edmonton in Canada, output from which goes to refiners on the US West Coast and Canada.

Biocomponents for Europe

Ethanol is often blended into gasoline in the form of ethyl tert-butyl ether (ETBE). Recent research indicates that this process can reduce a refinery's CO_2 emissions.

Divisional overview

Tougher quality requirements are increasing base oil demand

Environmental and performance-related requirements are getting tougher all the time, which is seeing a growth in the market for premium-quality base oil. Neste Oil is currently building additional capacity in this area, and planning further major investment.

The market for gasoline components is a challenging one at the moment, and Neste Oil aims to ensure its competitiveness by making changes in areas such as feedstock sourcing.

In the case of Nynas, Neste Oil is committed to increasing the company's shareholder value, and expects Nynas to be able to continue to leverage its leading position as a bitumen producer and on the growing market for naphthenic base oil.

The premium-quality base oil produced at the Porvoo refinery is used in products such as high-quality motor lubricants.

We act.

The CO_2 emissions reduction achieved by the lubricants produced from our premium-quality base oil is equivalent to the emissions released by 1 million cars.

Key figures

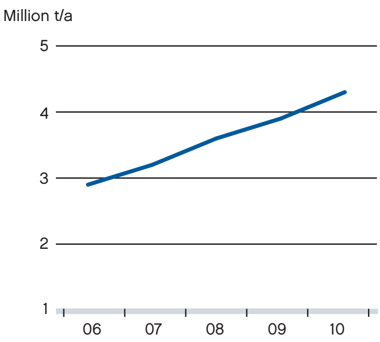
	2008	2007
Sales, EUR million	**591**	649
Operating profit, EUR million	**19**	122
Comparable operating profit, EUR million	**50**	109
Net assets, EUR million	**327**	324
Comparable return on net assets (RONA), %	**13.9**	32.9
Capital expenditure, EUR million	**30**	5

Neste Oil was one of the first refiners in Europe to begin ETBE production at its Porvoo refinery in spring 2004. Europe is the main market for Neste Oil's ETBE, and demand has been growing. ETBE's benefits include low vapor pressure and a high octane rating; it is also sulfur- and aromatics-free.

Naphthenic oil and bitumen from Nynas

Nynas is the European market leader in premium-quality naphthenic specialty oils, and one of Europe's leading bitumen producers. Tire manufacturers represent one of the company's major customer segments, and Nynas is working to produce increasingly environmentally benign products to meet their stricter requirements. Neste Oil owns 50% of Nynas. For further information, see www.nynas.com.

Demand for VHVI base oil



Demand for premium-quality base oil is growing rapidly.

Source: Lube / The European Lubricants Industry Magazine, Dec. 2008

Specialty Products' capacity

Base oils
- 250,000 t/a of capacity at Porvoo
- 60,000 t/a of capacity at Beringen in Belgium
- 400,000 t/a of capacity in Bahrain beginning in 2011 (Neste Oil's holding: 45%)
- Planned project: 500,000 t/a of capacity in Abu Dhabi (Neste Oil's holding: 20%)

Gasoline components
- 260,000 t/a of iso-octane capacity at Edmonton in Canada
- 50,000 t/a of ETBE capacity at Sines in Portugal

Nynas (50%-owned by Neste Oil)
- Three refineries in Sweden and Britain and holdings in other refineries
- Global leader in naphthenic oil
- Market leader in bitumen in the Nordic countries and Britain, and the third-largest in Western Europe.

2.5

Oil Retail

Oil Retail markets a comprehensive range of petroleum products through its own service station network and direct sales to companies and individuals. The division acts as Neste Oil's channel for bringing new, cleaner products to market.

Neste Oil increased its market share of the Finnish oil retail market in 2008, and accounted for 27.4% (26.4%) of the country's retail gasoline sales and 41.8% (40.6%) of retail diesel sales. Gasoline and diesel volumes sold through the station network around the Baltic Rim rose by 4% and 12% respectively.

Write-downs against receivables from one of the division's partners totaling EUR 15 million had a negative impact on the result. The division's total sales of traffic fuels decreased by 4% on the figure for 2007, and stood at 4.4 million m^3. Sales of diesel fuel fell by 2% on 2007, and gasoline sales fell by 1%.

LPG sales increased by 6% on 2007. Sales of heating oil rose by 0.2%.

A slowdown in sales

Neste Oil had a network of 887 stations in Finland as of the end of 2008. A business development and efficiency enhancement program ran throughout the year aimed at ensuring the continued competitiveness of the network in an increasingly tough market environment.

The company opened 15 new outlets outside Finland in 2008. Growth in these markets has slowed in line with the depressed prospects affecting the world economy; the economic downturn was most pronounced in Estonia and Latvia, and less so in Lithuania and Poland. Growth continued in Russia, however. As of the end of the year, Neste Oil had 286 stations outside Finland.

Launch of Neste Green diesel

Neste Oil launched a new biofuel on the Finnish market in May. Suitable for all diesel engines, Neste Green diesel is a premium-quality product that complies with the EN 590 standard. Offering cleaner combustion than conventional diesel, the fuel results in less carbon build-up. It also has a higher cetane number than conventional diesel, giving better cold start performance and generating lower emissions. For drivers, the fuel can be used exactly like regular diesel.

Neste Green diesel contains a minimum of 10% of NExBTL renewable diesel, which means that its particulate, carbon monoxide, and NO_x emissions are all lower than those of conventional diesel – giving a clear benefit in terms of air quality, particularly in urban areas. Its greenhouse gas emissions are also at least 5% lower than those of conventional diesel. The fuel has been well-received and sales performance has been encouraging.

New forecourt technology

The revamp of Neste Oil's station network continued in 2008 and is based around three station concepts: Neste Oil service stations, unmanned Neste Oil Express outlets, and Neste Oil Truck stations.

Forecourt pumps are also being modernized, with payment terminals integrated

Divisional overview

Operational efficiency is important

Neste Oil has a leading position on the Finnish market, and retaining this into the future will be important. This strength in the marketplace, together with the new operating models being introduced, will benefit the company as the economic downturn or swings in crude oil prices result in changes in demand. Growth will probably continue in Neste Oil's developing markets when economic prospects there improve.

Keeping costs in check and operations efficient will be important. Particular attention will be given to ensuring that costs per liter of product sold are reduced.

The new technology being introduced at forecourts is both safer and more user-friendly.

We act.

We sell Neste Oil's low-emission traffic fuels through a network of almost 900 outlets across Finland.

into pumps. Neste Oil has been one of the first to introduce terminals capable of accepting chip-based cards. The latter will make payments more secure, as fake cards are rejected. A total of 260 outlets were revamped in 2008, and the entire network will have been revamped by 2011.

The new Neste Oil Express outlets have proved particularly successful, and sales at these sites have increased. An increasing proportion of payments for fuel at manned stations are also now being made using pumpside terminals.

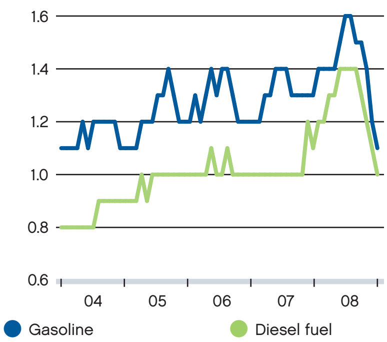
A more competitive lubricants business

Production of Neste Oil lubricants and automotive chemicals at Laajasalo in Helsinki, Finland ended in 2008, and lubricants are now produced by Ashland Valvoline in the Netherlands. Neste Oil has signed three new partnership agreements to secure the future competitiveness of its lubricants and automotive chemicals business covering the packaging, transport, and storage of the two product families.

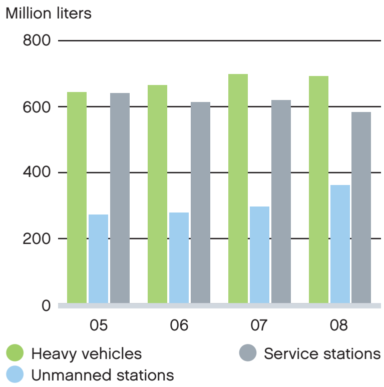
Key figures

	2008	2007
Sales, EUR million	4,073	3,435
Operating profit, EUR million	25	60
Comparable operating profit, EUR million	22	59
Net assets, EUR million	351	381
Comparable return on net assets (RONA), %	6.0	17.1
Capital expenditure, EUR million	63	51
Total sales, 1,000 m^3	4,353	4,519

Average retail prices for gasoline and diesel fuel in Finland



Breakdown of Neste Oil's fuel sales



Unmanned stations are becoming increasingly popular.

2.6

Shipping

Shipping carries over 40 million tons of crude oil, petroleum products, and chemicals a year. Operations are mainly concentrated in the Baltic, the North Sea, and the North Atlantic. The fleet recorded a capacity utilization factor of 96.3% in 2008.

Shipping's flexible marine transportation, and its ability to adapt to changing market needs, provides an important element of support for Neste Oil's overall strategy. Reliable, on-time deliveries ensure that customers receive their feedstocks and products precisely when they expect and need them.

Shipping's main area of operation is Northwest Europe. Crude oil shipments are focused on the Baltic and the North Sea, while product and chemical cargoes mainly go to ports in Northwest Europe and along the Finnish coast. Fuels, primarily gasoline, go to the US and Canada. Freight rates for crude oil and products, the fleet's capacity utilization, and the price of bunker fuel play an important part in determining Shipping's financial performance.

An exceptionally good year

Shipping's profitability clearly improved in 2008. A high fleet utilization rate of 96.3% and unusually high freight rates contributed to this. Greater use was made of capacity on return voyages, with outward shipments of gasoline to the US, for example, balanced by return shipments of diesel fuel.

Fuel consumption and CO_2 emissions were both reduced through the adoption of a lower basic speed of 13.5 knots and by issuing more detailed instructions on bunker usage. Both measures cut costs and benefited the environment.

A challenging market situation

Crude oil freight rates in the North Sea averaged 179 Aframax Worldscale points in 2008. Competitive pressure in the Baltic has increased as a result of the additional tonnage now operational there. Shipping's strong experience-driven reputation, good customer relationships, and ability to adapt to and operate in a wide variety of situations and environments all help to reinforce competitiveness on a challenging market.

Oil flows from Russia's Primorsk terminal totaled an average of 74 million tons in 2008. A new product terminal was opened at Primorsk in spring 2008, and product shipments totaled 1.5 million tons during the year. An average of 65 ships a month were loaded at the terminal in 2008.

A dynamic fleet

The Mt Stena Arctica was transferred to the Finnish register in February 2008, becoming the largest ship to fly the Finnish flag. Through measures like this, Shipping is helping to support the skill base of Finnish mariners and strengthen the competitiveness of the Finnish merchant marine.

The Neste Oil fleet comprised a total of 29 tankers as of the end of 2008. The average age of the company's own vessels was around 3 years, and that of time-chartered vessels around 6 years – giving an overall average age of around 5 years. All of Shipping's vessels feature a double hull and are registered under the highest ice classes in the Finnish-Swedish classification system.

Shipping in brief in 2008

- 5 crude oil tankers
- 24 product tankers
- 3 tugs
- 2 push barges
- 3,741 port calls
- Over 43 million tons of freight carried
- 1.2 million dwt of tonnage

Divisional overview

Good fleet utilization ensured a good result

2008 was a successful year for Shipping, and saw the highest freight rates ever during the summer. Neste Oil's excellent fleet utilization rate was also an important factor in making the year a profitable one.

The shipping market will continue to be a challenging one, however, as a result of overcapacity. Further ice-strengthened capacity is due to come on to the market in 2009, and consolidation in the sector is expected to continue. Over the longer term, supply and demand are likely to become better balanced.

Shipping's Arctic expertise goes all the way back to 1948.

We act.

All of our 30 tankers are ice-strengthened and feature a double hull.

Key figures

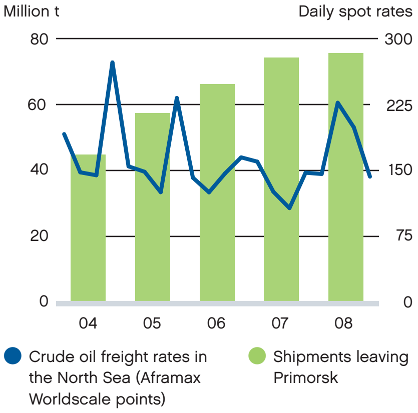
	2008	2007
Sales, EUR million	**437**	394
Operating profit, EUR million	**54**	30
Comparable operating profit, EUR million	**55**	28
Net assets, EUR million	**272**	297
Comparable return on net assets (RONA), %	**19.2**	9.3
Capital expenditure, EUR million	**3**	2
Total cargo carried, million t	**43.1**	40.6
Fleet utilization rate, %	**96.3**	94.1

Safety a key priority

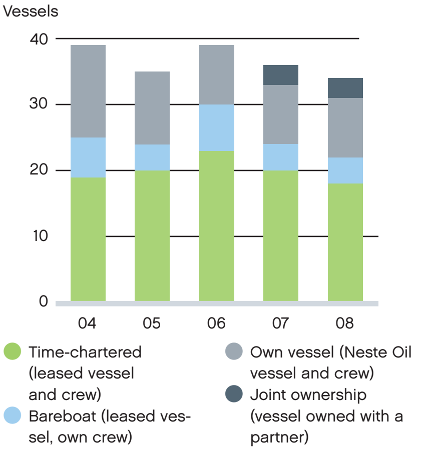
Safety is a key priority in all aspects of Shipping's operations. All tankers displacing over 40,000 dwt are accompanied in and out of port at Porvoo and Naantali by escort tugs. Simulator and other specialist training is provided on an ongoing basis to crew members to maintain a high level of onboard skills. Expertise in navigating in harsh winter conditions and use of the appropriate tonnage are essential for ensuring reliable and safe operations in Northern waters.

Shipping has regularly received recognition for its exemplary safety performance in surveys carried out by Port State Control (Paris Mou), and Finnish vessels always rank high in their safety statistics.

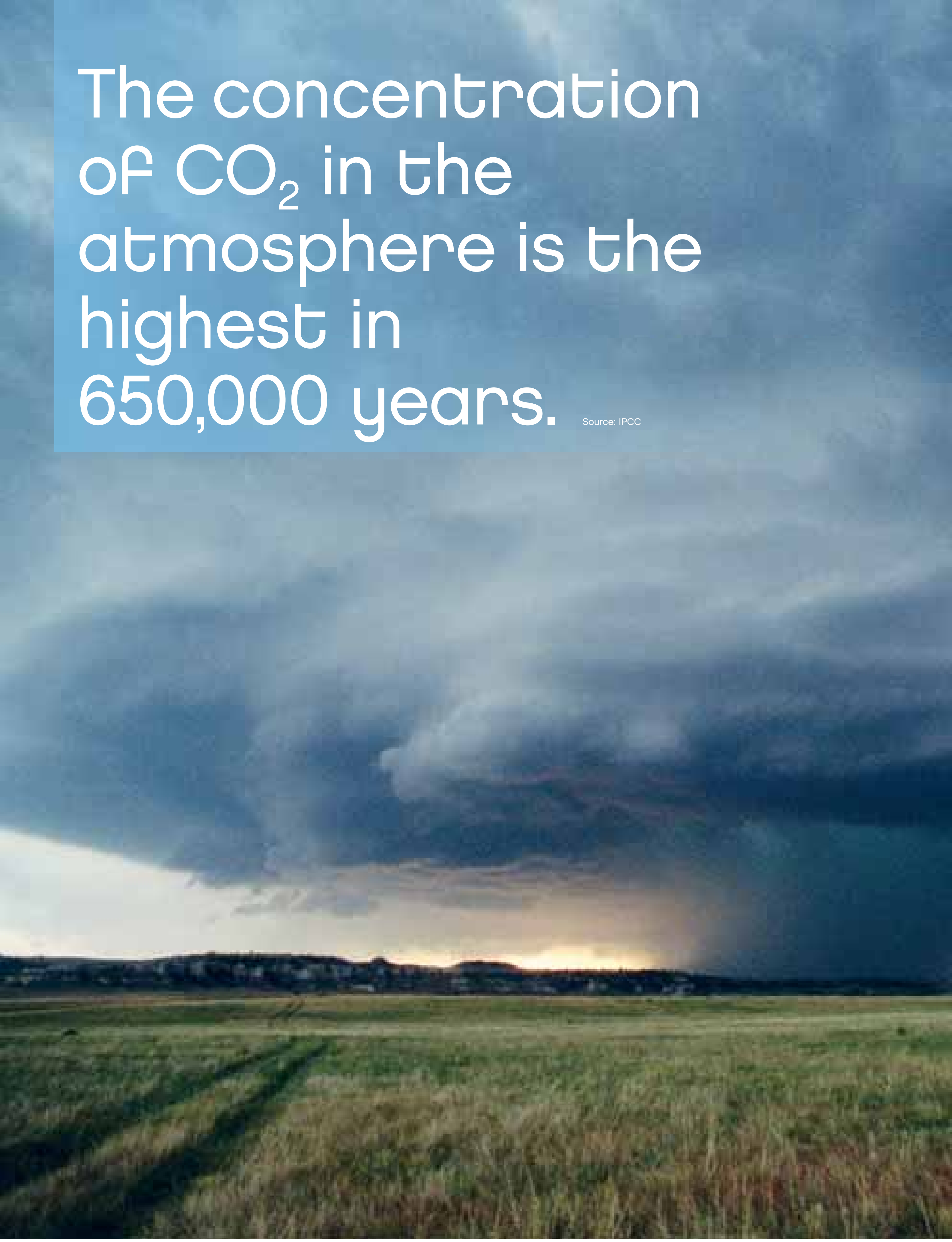
Freight rate trends in the North Sea and shipments leaving Primorsk



Structure of the Neste Oil fleet



Time chartering offers fleet flexibility.



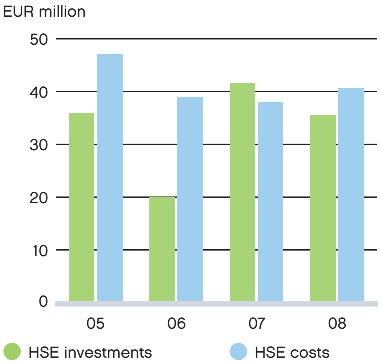
The concentration of CO_2 in the atmosphere is the highest in 650,000 years.

Source: IPCC

Responsibility

Responsibility is an important part of Neste Oil's clean fuels-based strategy. In line with our commitment to helping people travel and transport goods with less impact on the environment – today and into the future – we observe the principles of sustainable development in all aspects of our worldwide operations.

Neste Oil's HSE costs and investments



HSE = Health, safety, and the environment

3.1

Our approach to responsibility

Responsibility is a key issue in Neste Oil's management system and one of the company's four core values. We strive for stable and responsible operations, whether in terms of smooth-running processes, high standards of occupational safety, or minimizing environmental impact.

Stakeholders and stakeholder interaction

Stakeholder	Interaction	Evaluation
Customers	Daily interaction, customer support, customer events and seminars, fairs and other events, customer feedback, stakeholder magazine, website, extranets	Customer satisfaction studies, brand research
Personnel	Quarterly results meetings and other internal information meetings, performance reviews, employee committees, corporate Intranet, employee magazine, initiative system, remuneration system, training	Employee satisfaction studies, initiative system, systems designed to encourage employees to develop their skills and expertise, brand research
Owners and investors	Meetings with investors and analysts, daily interaction, capital market days, fairs and events, AGM, press conferences, Annual Report, stock exchange and press releases, website	Brand research IR communications studies and benchmarking
Suppliers of products and services	Daily interaction, supplier meetings and events, purchasing systems, trade fairs and events, stakeholder magazine, website, extranets	Audits, supplier reviews
Society	Cooperation with the authorities and official reporting at international, national, and local level, open door days, refinery visits, refinery publications, website, press releases	Brand research, local studies, direct feedback
Organizations	Memberships, working groups, other forms of cooperation, regular contacts, reports, website	Direct feedback
Universities and research institutions	Joint R&D projects, participation in projects, sponsorship and other support, internships and diploma thesis opportunities for students, website	Direct feedback
Media	Regular contacts, stock exchange and press releases, Annual Report, background briefings, interviews, visits, website, image bank	Brand research, communications studies, media monitoring, reporting benchmarking, direct feedback
Students and job applicants	Recruitment fairs, recruitment section at www.nesteoil.com, student events, refinery visits, visits to schools and universities, cooperation with Finland's Youth Academy	Employer profile studies

Neste Oil's sustainability policy

- We are socially responsible, environmentally sound, and economically viable.
- All our actions are safe for us, our neighbors, contractors, customers, and the environment.
- We act responsibly in society and respect human rights wherever we operate.
- We provide our customers with products that help tackle sustainability issues such as global climate change and improving local air quality.
- We are committed to engaging with our stakeholders and participating in multi-stakeholder initiatives to help develop more sustainable solutions.
- We use natural resources responsibly and are actively working towards a more sustainable supply chain.

Neste Oil observes the OECD's recommendations for multinational companies and its recommendations on good corporate governance; and operates in accordance with the UN Charter on Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work.

Reporting principles

We develop our responsibility-related reporting in line with accounting legislation and other developments. While we monitor the reporting guidelines published by the Global Reporting Initiative (GRI), we do not implement the GRI approach systematically. Our goal is to present the fundamental factors, targets, and risks associated with our operations and our products as they affect our stakeholders.

Our reporting covers all operations over which Neste Oil has immediate control.

We observe IFRS accounting practice in our financial reporting. While the sustainability indicators published to complement our financial statements have not been audited or confirmed by a third party, we have reviewed the quality and extent of the environmental information we provide with an outside consultant. The environmental costs and responsibilities presented are based on Finnish accounting legislation. We have used internal means to confirm the quality and reliability of the information given.

Results of responsibility-related initiatives

Targets for 2008	Actions and achievements	Targets for 2009
Environmental responsibility		
Compliance with all official HSE-related permits and requirements	• Compliance with permits and requirements followed systematically, no major deviations	Compliance with all official HSE-related permits and requirements
Smaller number of uncontained major spills than in 2007	• Unchanged from 2007. Neste Executive Team reviewed the divisional targets and actions	Smaller number of uncontained major spills than in 2008
Evaluate all Neste Oil's biofeedstock suppliers against the company's supplier selection criteria	• Achieved	Evaluate all Neste Oil's biofeedstock suppliers against the company's supplier selection criteria
Audit program covering the company's biofeedstock suppliers	• Achieved	Continue the audit program that gives particular emphasis to reviewing corrective actions
Achieve a reduction of 320,000 tons of greenhouse gases through the use of NExBTL renewable diesel compared to those generated by high-quality conventional diesel	• Greenhouse gas emissions reduced by 160,000 tons	Achieve a reduction of 320,000 tons of greenhouse gases through the use of NExBTL renewable diesel compared to those generated by high-quality conventional diesel
Social responsibility		
Achieve a total recordable incident frequency (TRIF) of under 5 per million hours worked	• 5.2	Achieve a total recordable incident frequency (TRIF) of under 4 per million hours worked
Achieve a lost work incident frequency (LWIF) of under 3 per million hours worked	• 3.2	Achieve a lost work incident frequency (LWIF) of under 2 per million hours worked
Promote a strategy- and value-driven leadership development model	• 436 people took part in the "Leading for the future" leadership and management skills program • Average feedback from training was 4.09 on a scale of 1 to 5	Develop management training programs further and ensure that they are implemented successfully
Develop a gender-neutral working environment in accordance with an annually updated plan	• Equality of pay was promoted through separate equality payments and by working to keep pay grades up-to-date • In addition to a Group-level plan, divisions have drawn up and implemented their own equality plans	Ensure that equality of pay continues to be prioritized, and work to increase the number of women in different positions and among interns and diploma students
Improve employees' wellbeing at work	• Well-being development project • More effective sick leave reporting • Comprehensive work-related well-being examinations • Sick leave: 3.74% • Satisfaction index 65.0	Communicate the results of the well-being development project and launch new measures and courses on the basis of its results
Strengthen the image of the chemical industry and Neste Oil as employers	• Cooperation with Finland's Youth Academy • Decision to support a school chemistry class • A recruitment section launched at www.nesteoil.com • Summer internships offered to around 300 young people • Training and diploma thesis places offered to around 100 students	Strengthen Neste Oil's profile as an employer in Finland and other countries, and promote the general perception of the chemical industry
Financial responsibility		
Return on average capital employed after tax (ROACE) of at least 15%	• 13.1%	Return on average capital employed after tax (ROACE) of at least 15%
Leverage ratio of 25-50%	• 31.5%	Leverage ratio of 25–50%
Distribute a dividend equivalent to at least one third of underlying profits*	• 51%	Distribute a dividend equivalent to at least one third of underlying profits*
Responsible corporate citizen		
Retain Neste Oil's position in three corporate responsibility studies	• Achieved - Neste Oil reached 73% in the Dow Jones Sustainability Index	Retain Neste Oil's position in four corporate responsibility studies and improve the company's performance in the Dow Jones Sustainability Index

* Based on the comparable operating profit for the year.

3.2

Financial responsibility

A financially responsible company contributes to the overall prosperity of society. A competitive and profitable business benefits a company's shareholders, its employees and partners, and society as a whole.

Neste Oil is committed to profitable growth and increasing shareholder value. Providing good conditions and competitive pay for employees, supplying customers with quality products and services, and working effectively with stakeholders are all essential to achieve this. Neste Oil believes in the importance of acting responsibly in all areas of its business.

Neste Oil's operations make a valuable contribution to the economy of the areas, regions, and countries in which it operates.

Cleaner traffic fuels

Neste Oil creates added value for its customers by supplying a range of products and services that meet their needs and their expectations. To ensure that it can continue to serve them in the best possible way into the future, Neste Oil carries out long-term R&D and makes major investments in its business. Neste Oil's direct customers include other oil companies, companies, and consumers. Revenue from customers in 2008 totaled EUR 15,043 million (12,103 million). Sales per employee totaled EUR 2.91 million (2.52 million).

Neste Oil offers a solid source of business to numerous suppliers and subcontractors. The company paid EUR 14,376 million (10,916 million) to suppliers of goods and services in 2008, equivalent to 96.0% of its revenues. Payments related to the purchase of crude oil and other feedstocks accounted for the single largest item: EUR 13,519 million (10,352 million).

The bulk of feedstocks used came from Russia (72%); smaller volumes were sourced e.g. from other countries of the former Soviet Union, Britain, Norway, Denmark, and Malaysia.

Rewarding people for a job well done

Neste Oil employed an average of 5,174 (4,810) personnel in 14 countries in 2008. Total salaries, wages, and remunerations, excluding social benefits, amounted to EUR 251 million (210 million), equivalent to 1.67% (1.74%) of net sales. This figure includes performance-related pay, bonuses, and vacation pay.

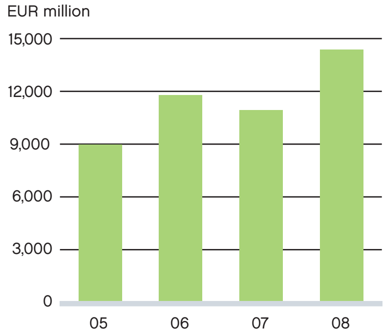
Social benefits paid totaled EUR 64 million (46 million) and included pension and social insurance and unemployment and disability payments. Salaries and wages, other remuneration, and social benefits totaled EUR 315 million (256 million).

Neste Oil observes the requirements of local employment legislation and employment contracts in all the countries in which it operates. Salaries are set on the basis of people's responsibilities and training in the light of local pay scales. Although legislation and other regulations set minimum pay levels, actual salaries and wages are typically higher. The ultimate sum paid is determined by local conditions, the nature of a person's responsibilities, their capabilities, and their performance. Around 84% of employees come within the scope of a bonus or incentive scheme.

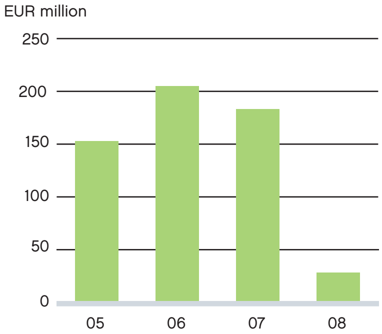
An attractive dividend for shareholders

Neste Oil had 66,859 shareholders as of the end of 2008. Shareholders benefit from their holdings through dividends and possible increases in the share price. The Finnish State owned 50.1% of shares, international shareholders 20.6%, Finnish institutions 19.5%, and individual Finnish shareholders 9.8%.

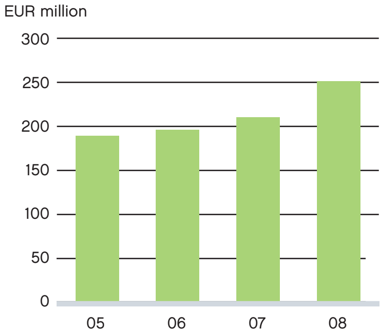
Products, materials, and services purchased



Income tax



Salaries and wages



Neste Oil's policy is to distribute a minimum of one third of its underlying profit in the form of an annual dividend. The company paid a dividend of EUR 1.00 per share on its 2007 result in spring 2008, equivalent to EUR 256 million. The Board of Directors

A competitive, profitable business is essential for financially responsible operations.

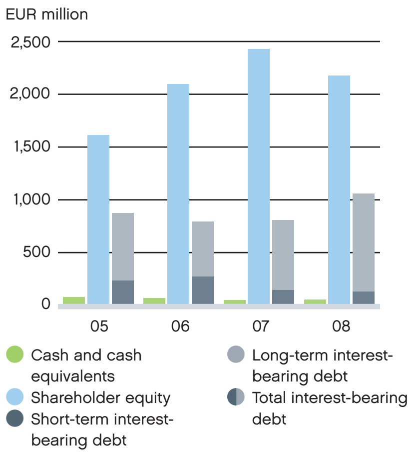
proposes that a dividend of EUR 0.80 per share be paid for 2008, or a total of EUR 205 million. Neste Oil's share on the NASDAQ OMX Helsinki fell by 52% during 2008, and the company's market capitalization as of the end of the year stood at EUR 2.7 billion, or 56% less than at the end of 2007.

Tax revenue for society

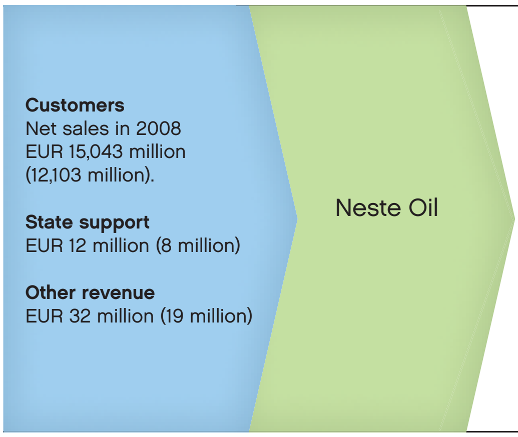
Corporate taxes represent an important source of income to government. Neste Oil paid a total of EUR 28 million of tax on its result in 2008 (183 million). Central and local government also benefit from the income tax personnel pay on their salaries and wages. Environmental taxes and fees, such as oil pollution fees and oil waste duties, amounted to EUR 9 million (8 million). As a fuel wholesaler, Neste Oil collected a total of EUR 1,857 million in fuel taxes and security of supply fees paid for by end-users in fuel prices (1,664 million).

Neste Oil received EUR 12 million (8 million) in financial support from the public sector in 2008, mainly in the form of funds for R&D projects.

Capital structure



Generating financial added value for stakeholders



EUR million	2008	2007
Suppliers of products and services		
Purchases of crude oil and other refinery feedstocks	**13,519**	10,352
Other	**857**	564
Personnel		
Salaries and wages	**251**	210
Social benefits	**64**	46
Owners and financial community		
Dividends	**205***	256
Interest and financing costs	**70**	40
Public sector and society		
Income tax	**28**	183
Fuel taxes and security of supply fees	**1,857**	1,664
Environmental taxes and fees	**9**	8
Charity and sponsorship	**1**	1

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

3.3

Environmental responsibility

Our strategy underpins our approach to environmental responsibility. We have been a pioneer of lower-emission traffic fuels for many years, and environmental issues are prioritized throughout product development work. A growing proportion of production is based on renewable feedstocks and new technologies.

The oil industry has a major impact on shaping the world's biodiversity, throughout the product chain, from crude production through logistics and product manufacture to end-product use.

A large proportion of the impact Neste Oil's own operations have on the environment is concentrated in refining and end-product use, and is linked to the energy and natural resources the company uses and the emissions it generates.

Innovations for combating climate change

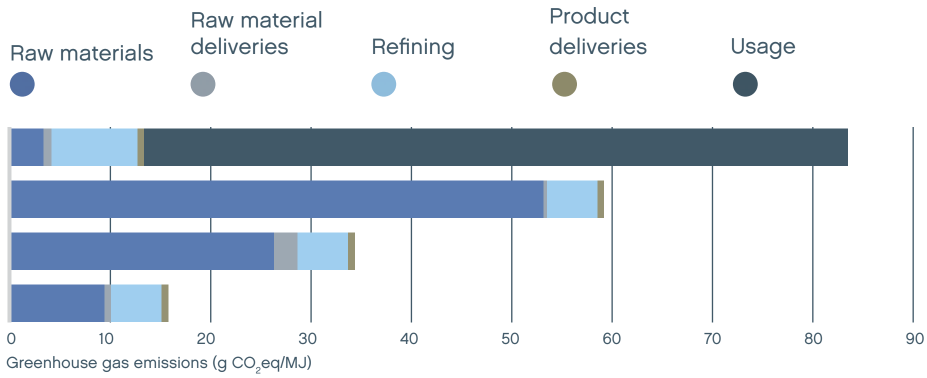
NExBTL renewable diesel is Neste Oil's most important contribution to efforts to combat climate change. Produced using Neste Oil proprietary technology, NExBTL is the world's cleanest diesel fuel and can be used in all modern diesel engines.

The greenhouse gas emissions of NExBTL renewable diesel produced from sustainable raw materials, as measured over the fuel's entire life cycle, are 40-60% less than those of fossil diesel. The main challenge associated with the fuel is the availability of responsibly produced raw material inputs – which is why Neste Oil is working to identify and develop new alternatives that do not compete with food production and do not require the use of additional farming land (see Page 45).

Neste Oil's base oil, used in lubricants, also makes a valuable contribution to the environment. Being able to increase oil change intervals from 5,000 kilometers to 50,000 kilometers is a definite advantage in terms of sustainable development – and is made possible using the premium-quality base oil produced by Neste Oil.

High-octane, low vapor pressure gasoline components, such as Neste Oil's isooctane, enable ethanol to be blended into

Greenhouse gas emissions generated during the product chain NExBTL renewable diesel compared to fossil diesel



* EU directive on promoting the use of energy from renewable sources 17.12.2008.

Source: Nikander (2008)

• The majority of the greenhouse gas emissions generated by renewable fuels are released during cultivation and refining of the raw materials used in producing them. While usage of these fuels generates CO_2 emissions, this does not add fossil carbon to the CO_2 in the atmosphere, which is why emissions from renewable fuels are not included in the balance figures for the production chain.

• The majority of the emissions generated by fossil diesel refined from crude oil are generated during usage, when the carbon contained in the crude is released into the atmosphere in the form of CO_2.

Loading oil palm fruit onto a truck before sending it to be pressed.

We act.

We are working with over 20 research institutes worldwide to identify and develop new renewable raw materials.

gasoline, and make their own contribution to combating climate change. These components also promote efficient combustion and reduce tailpipe emissions.

Neste Oil also offers a range of advanced technologies for producing lower-emission products to other companies.

Environmental impact of raw materials

In terms of the raw materials it uses, Neste Oil's potential to make a positive environmental contribution differs significantly between crude oil and renewables.

Monitoring crude oil production is challenging

The international trade in crude is concentrated in a few major centers without any direct contact with the areas where it is produced. Buyers typically know only the country of origin when buying crude in Rotterdam, for example, and its technical properties. Establishing the origin of the Russian Export Blend crude that Neste Oil uses in large quantities is equally challenging. The oil loaded at the Primorsk terminal arrives from various areas across Russia via a pipeline network stretching thousands of kilometers. The situation is slightly clearer in respect of the feedstocks that Neste Oil imports by rail, as we generally know the areas from which this originates.

Sources of renewables are well-known

As part of its strategy, Neste Oil is committed to extending its feedstock base. Although palm oil and other types of vegetable oil, together with animal fat, currently provide a good basis for producing renewable fuels, they will be joined by new alternatives in the future. Neste Oil currently uses the bulk of its R&D funds on developing new feedstocks, and is working with over 20 universities and research institutes internationally on a range of different alternatives. Neste Oil has already tested jatropha, a non-food oil plant, and is developing techniques for making use of forest harvesting waste and algae.

We know significantly more about the origin of the renewable raw materials we use than we do about our crude oil – thanks in large part to the unique monitoring system that we have developed that enables us to trace the origin of our palm oil all the way back to the plantation. The use of segregated handling and transport guarantees that we are not supplied with material that does not meet sustainability criteria. The effectiveness of the system was confirmed by a third-party audit in 2008.

The animal fat that we use comes from two Finnish plants that both have a well-monitored procurement chain. Our rapeseed oil comes from a Finnish supplier.

Neste Oil is involved in promoting the sustainable production of renewable raw materials through organizations such as the Roundtable on Sustainable Palm Oil (RSPO) and the Roundtable on Responsible Soy.

Protecting biodiversity

Neste Oil is committed to efforts aimed at halting the destruction of rainforest and the reduction of biodiversity, and irresponsible land use. The company has been an active promoter of common ground rules covering the raw materials used in producing biofuels that governments, the international community, and all those in the industry can abide by.

Recycling CO_2

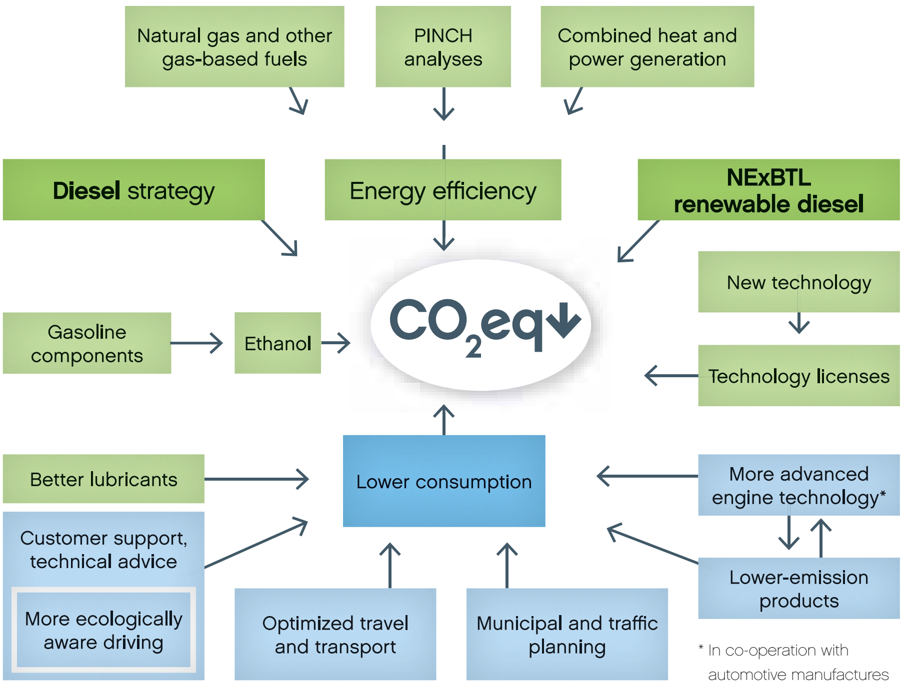
The carbon dioxide generated by the hydrogen plant supplying the new diesel line and other units at the Porvoo refinery is recovered and fed to a storage facility operated by AGA, which supplies the gas to industrial customers. Over 100,000 t/a of CO_2 are recovered in this way. There is some uncertainly over how the European emissions trading system will treat this gas, however, and a large proportion of it could require an official allowance, even though it is not released into the atmosphere.

Neste Oil joined an International Sustainability and Carbon Certification (ISCC) trial in Germany in 2008 aimed at establishing the sustainability of segregated palm oil, improving the accuracy of greenhouse gas calculations, and defining product chain ownership. The project uses a German-based international certification system and will end in 2009.

Greater price turbulence has developed on the international food market recently, and has largely resulted from increased consumption, changes in what people eat, higher energy prices, poor harvests in major producer countries, speculators moving into the food market – and, to a lesser extent, by the use of materials in the food chain as energy. While committed to increasing its output of renewable fuels, Neste Oil aims to exit the food chain.

For more on future raw materials, see Page 45.
For more on NExBTL renewable diesel, see Page 20-23. For more on palm oil certification, see www.rspo.org.

How we combat climate change



Production-related environmental impact

Environmental emissions at Neste Oil's production plants in 2008 were largely at the low levels seen in previous years. Emissions remained within environmental permit limits for the major part. Extensive work has been done at all sites to prevent pollution of the soil, groundwater, and waterways; and systematic cleanups have been carried out to eliminate past problems. Environmental performance is monitored on a regular basis.

Energy and natural resource usage

Neste Oil's Porvoo refinery is a major user of energy and natural resources. Electricity, steam, and heat are generated at the site in a modern combined cycle power plant fired on natural gas and fuel oil. Electricity is supplied to the majority of the companies in the Kilpilahti industrial area.

In contrast to the majority of European refiners, which continue to use more polluting liquid fuels, Neste Oil fires only gaseous fuels in its refinery furnaces.

Neste Oil used 7.9 million m³ of water in its processes in 2008 and 1,172 million m³ of cooling water.

Wastewater is processed in highly-efficient treatment plants featuring mechanical, chemical, and biological treatment processes. Activated carbon filtering is used with certain effluent streams, particularly those coming from petrochemical production.

13.5 million tons less in CO_2 emissions

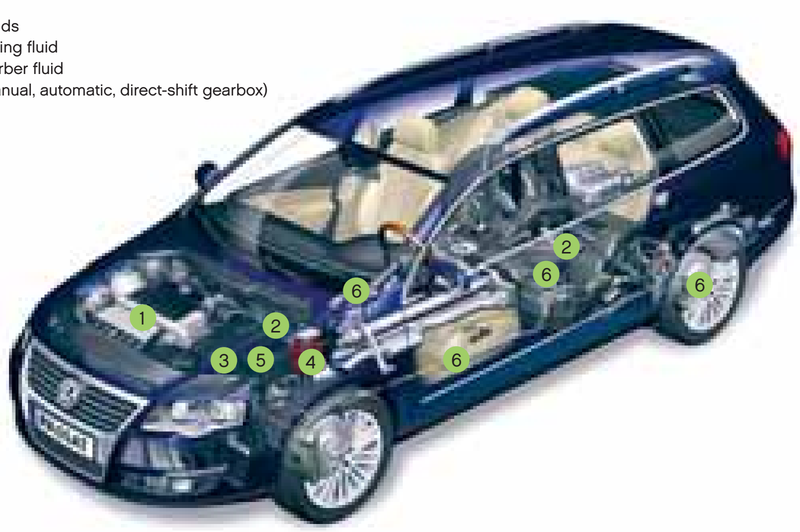
Lubricants produced from premium-quality base oil offer a number of benefits, including reducing the friction between engine and transmission components and friction-related wear. This can result in fuel savings of 1-2% compared to poorer-quality lubricants. Motor oils produced from premium-quality base oil also offer a significantly longer oil change interval.

If all the investments currently planned are implemented, Neste Oil will produce 1.2 million t/a of premium-quality base oil in the future. This will generate, in theory, a reduction of 13.5 million t/a in CO_2 emissions, when taking mileage, average lubricant consumption, and the fuel savings resulting from the use of Neste Oil's base oil into account.

It is theoretically possible for Neste Oil's current base oil output (250,000 t/a) to achieve a reduction in CO_2 emissions equivalent to the mileage driven by around 1 million cars annually.

Application areas for premium-quality base oils

1 Engine oil
2 Driveline fluids
3 Power steering fluid
4 Shock absorber fluid
5 Gear oil (manual, automatic, direct-shift gearbox)
6 Greases



Clean diesel fuel from harvesting waste

Neste Oil and Stora Enso are working together to develop a new generation of biofuel production technology based on using wood-based biomass to help reduce the use of fossil fuels and reduce greenhouse gas emissions. A joint venture pilot plant has been designed and is being built at Stora Enso's mill in Varkaus as the first stage of the project. Biowax produced by the process can be refined into commercial fuel at Neste Oil's Porvoo refinery.

Neste Oil's and Stora Enso's pilot plant will process a range of forest harvesting waste and mill by-products, such as branches, stumps, bark, sawdust, and cutter chips. The advantage of the cellulose-based process lies in the fact that it does not add to the CO_2 burden put on the climate as it makes use of the natural cycle that binds carbon to wood.

The overall sustainability of the process is further reinforced by its efficiency. The energy generated by the process can be used in the form of electricity and as steam and district heat by the adjacent paper mill and the local municipality.

Stora Enso will be responsible for supplying the biomass, which must be dried before gasification. The resulting syngas will then be processed via a synthesis to produce biowax. The latter will be transported to Porvoo for refining into premium-grade renewable diesel fuel.

The plant's gasifier is already operational, and the second stage of the project, a synthesis plant, will be commissioned in 2009.

Improving the way natural resources are used

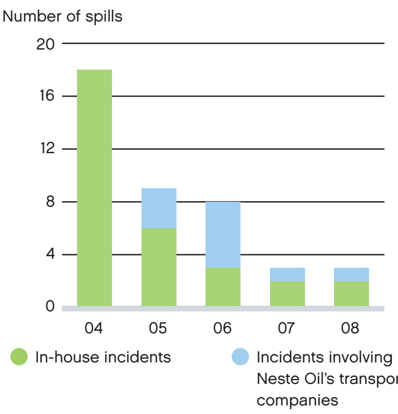
Using natural resources efficiently is an integral part of environmental responsibility. In the case of Neste Oil, this means things like:

- continually improving energy efficiency, using the Solomon Associates' Energy Intensity Index (EII)
- sourcing inputs responsibly and working through organizations such as the Roundtable on Sustainable Palm Oil (RSPO), the Roundtable on Responsible Soy (RTRS), and the Roundtable on Sustainable Biofuels (RSB)
- participating in research and benchmarking carried out by the Conservation of Clean Air and Water in Europe organization (CONCAWE)
- developing better products and processes with a lower level of climate impact, and
- using responsibly produced services and utilities; in Finland, for example, Neste Oil only buys carbon-free 'Norppa' electricity.

Low level of airborne emissions

Neste Oil's airborne emissions in 2008 remained at the levels seen in recent years. Details on the company's material balance can be found on Page 43 and on refinery emissions on Page 42.

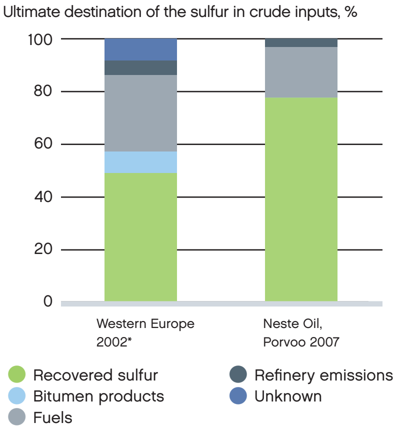
Major spills



A total of three cases involving Neste Oil occurred in 2008 in which over 500 liters or kilos of environmentally hazardous substances leaked into the environment. One of these took place during transportation and affected a transportation company employed by Neste Oil. All spilled material was cleaned up and no contamination remained in the soil or water. No damage resulted to the environment.

CO_2 emissions have increased at the Porvoo refinery following the completion of the hydrogenation plant that forms part of the new diesel line there. The plant's overall impact has been neutral, however, as the hydrogen content of crude-based end-products has risen and their relative carbon content dropped.

The Porvoo refinery's sulfur balance compared to the Western European refinery average



* More recent European data is not yet available
Sources: CONCAWE and Neste Oil

Waterborne emissions

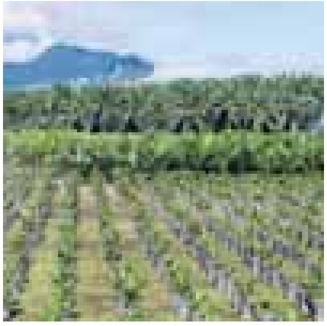
Wastewater treatment systems at both refineries operated excellently throughout the year. Oil emissions, at 0.1 grams per ton of crude input, were less than 3.5% of the 3 g/t target set by the Baltic Marine Environmental Protection Commission.

The Porvoo and Naantali refineries have had a voluntary groundwater monitoring program in place since 1995, and its work is continuing. Soil contaminants have not been found off-site.

Ensuring that palm oil is a truly sustainable raw material

Neste Oil knows the origin and history of the palm oil that it uses in great detail. Working with its suppliers, Neste Oil has developed a monitoring system that can trace its palm oil from the plantation and the cultivation methods used there, through pressing and transportation, all the way to a NExBTL plant. The system and its reports are regularly audited by third-party experts.

Plantations
Plantations follow the sustainable development principles established by the RSPO. Palm oil destined for Neste Oil is segregated to ensure that it can be fully traced throughout the supply chain.



Saplings
Oil palm saplings are grown in nurseries alongside plantations.

Cultivation
Saplings are planted when they are around one year old. The cultivation methods used ensure healthy growth and that palms can be harvested for around 25 years.

Sustainably produced palm oil

Neste Oil has studied and tested a wide variety of renewable raw materials, and the flexibility of its renewable diesel technology means that it can produce consistent premium-quality fuel from a mix of inputs. Responsible production methods, availability, and price are given priority when procuring raw materials for renewable diesel usage. Sustainably produced palm oil has proved a good raw material in terms of all three criteria, and has an excellent greenhouse gas emissions balance compared to many other raw materials.

Neste Oil has worked hard to ensure that the palm oil it uses is produced responsibly and to develop common ground rules for all those in the industry.

In 2005
- Neste Oil applied for membership of the Roundtable on Sustainable Palm Oil

In 2006
- Neste Oil was the first oil company to join the RSPO
- created a set of responsible terms and conditions for negotiations with potential suppliers
- organized internal training on sustainability issues
- initiated public discussion via the company's stakeholder magazine on sustainability issues related to palm oil
- carried out its first inspections of plantations and oil mills

In 2007
- Neste Oil confirmed its sustainability development principles covering biofuels
- consolidated criteria used for selecting raw material suppliers
- commissioned a third-party expert audit of its suppliers' production chain
- started up its first NExBTL plant at Porvoo
- took part in the annual meeting of the RSPO that approved the organization's criteria and principles covering sustainable cultivation methods
- committed the company to using solely RSPO-certified palm oil immediately sufficient volumes become available
- joined the Roundtable on Sustainable Biofuels
- developed and introduced a unique system for tracing its palm oil supply chain, the first of its type anywhere in the energy sector

In 2008
- Neste Oil produced an assessment of the greenhouse gas and energy intensity of its product chain and a new type of modular life cycle analysis method for biofuels
- committed the company to an international alliance calling for a ban on the felling of rainforest
- took an active part in national and international debate on biofuels and communicated information on NExBTL technology to the EU as part of the latter's legislative work in the field
- planned a number of projects in Southeast Asia designed to promote local biodiversity and protect local rainforests
- commissioned an impartial third-party audit of the traceability of its raw material supply chain
- took an active part in further developing the palm oil certification system.

Continuous monitoring

Neste Oil has monitored its impact on the environment for over 20 years, and the data from this work confirms that a major reduction has taken place and provides a solid base of information for understanding the nature of the impact involved. The environmental performance of the company's production sites is excellent today.

Monitoring takes places on a continuous basis:

- air quality is monitored by measuring ambient concentrations of sulfur dioxide, reduced sulfur compounds, NO_x, and ozone
- the impact of airborne emissions are monitored using bioindicators to analyze how pollutants affect the incidence and nature of lichen on the bark of pine trees in the area
- seawater quality and sediment composition are monitored, together with local fisheries
- groundwater and surface water quality at refineries is monitored regularly
- plant noise is measured regularly at locations most subject to this type of impact

Broad-based environmental monitoring around Neste Oil's refineries has been carried out since the 1970s. Emissions have fallen steadily, and the quality of the environment around the Porvoo site, for example, is well on the way to returning to the conditions that existed prior to the building of the site – as reflected in the growing incidence of sensitive plants such as lichens in the surrounding forest.

Harvesting
During harvesting, the bunches of ripe fruit are cut and transported to a pressing plant. Fruit are segregated to ensure traceability.

Pressing
The fruit are removed and pressed mechanically to release the oil they contain. This is piped to tanks to await transport. Waste is recycled as fertilizer.

Transportation
Neste Oil's palm oil is shipped by sea in sealed tanks to Europe.

Refining
Palm oil is refined in a dedicated plant at the Porvoo refinery into premium-quality NExBTL renewable diesel.

Recognizing environmental risks
Neste Oil has reviewed the health, safety, and environmental impact of its operations in detail and the risks associated with potential major accidents – and used this data to create an action program that is updated annually. Together with other companies based in the Kilpilahti area at Porvoo, Neste Oil has also commissioned a separate analysis of how the risks associated with major accidents should be prepared for, and its results were used in zoning new areas in 2008, for example.

Exercises covering crisis management and communications during major accidents are carried out at least once annually.

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

Major incidents in 2008
The following incidents were reported in 2008:

- 4 fires
- 3 oil leaks
- 54 lost workday injuries

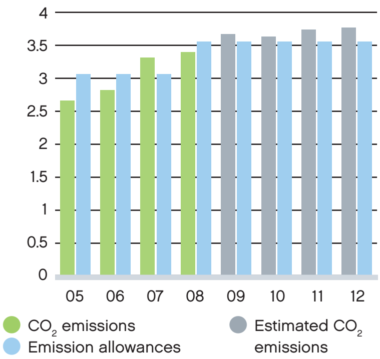
None of these resulted in environmental pollution. The fire in April on the new diesel line at Porvoo and the shutdown that followed did impact the company's result for 2008, however.

In addition to the cases mentioned above, a number of smaller incidents also occurred. All incidents, however small, are reported, and the reasons behind them investigated and corrective measures taken immediately where appropriate.

Information on incidents is communicated in writing to people living nearby, the authorities, contractors, and the media.

Oil leak at Naantali in 2001 results in a fine
Finland's Supreme Court fined Neste Oil EUR 500,000 in March 2008 for environmental damage related to the leak of an estimated 300 m^3 of oil at the Naantali refinery in December 2001. The majority of the oil remained within the site's protective basins, although some three cubic meters spilled over and soaked through the ground into the sea.

Neste Oil's CO_2 emissions and emission allowances
Million tons of CO_2 annually



The company will acquire emissions allowances between 2008 and 2012 to match the level of its emissions.

Ways to cut greenhouse gas emissions

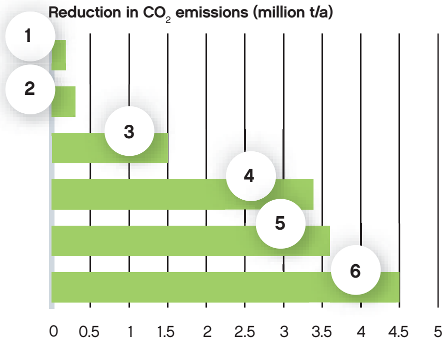
What if?

1. Energy usage at Neste Oil's refineries would be reduced by 5%
2. The energy efficiency in the use of Neste Oil's fuels would be improved by 1%
3. The energy efficiency in the use of Neste Oil's fuels would be improved by 5%

Calculatory reduction in greenhouse gas emissions when

4. The base oil produced by Neste Oil today reduces average fuel consumption by 1%
5. The combined output of Neste Oil's NExBTL renewable diesel plants at Porvoo, Singapore, and Rotterdam, when they are all fully operational, will replace fossil diesel and generate emission reductions over the product life cycle
6. Base oil from the new plant being built by Neste Oil and its partners in Bahrain will reduce average vehicle fuel consumption by 1%

Reduction in CO_2 emissions (million t/a)



Neste Oil's refinery emissions, feedstocks, and products

	Porvoo refinery			Naantali refinery		
	2008	2007	2006	**2008**	2007	2006
Emissions to air						
CO_2 (t/a)	**2,985,657**	2,763,950	2,496,213	**417,042**	411,044	324,616
VOC (t/a)	**2,669**	2,970	2,319	**920**	921	1,490
NO_x (t/a)	**3,508**	3,725	3,540	**343**	290	267
SO_2 (t/a)	**5,302**	5,345	4,540	**1,424**	1,625	1,319
Emissions to water						
Oil (t/a)	**1.06**	1.56	2.02	**0.50**	0.34	0,67
Chemical oxygen demand, COD (t/a)	**259**	359	476	**138**	82.4	290.2
Waste						
Ordinary waste (t/a)	**13,534**	20,180	6,888	**1,114**	1,195	2,348
Hazardous waste (t/a)	**20,499***	15,154*	9,291*	**3,150***	5,853*	8,685*
Feedstocks						
Crude oil (t/a)	**9,410,000**	9,350,000	9,632,000	**2,771,453**	2,761,366	2,210,012
Other feedstocks (t/a)	**2,990,000**	2,066,000	2,514,000	**910**	3,290	43,259
Products						
LPG (t/a)	**400,400**	357,000	379,000	**27,167**	27,184	15,015
Gasoline (t/a)	**3,767,000**	3,891,000	4,132,000	**657,988**	681,167	588,085
Diesel fuel and heating oil (t/a)	**6,133,400**	5,713,000	5,610,000	**1,066,998**	1,070,306	817,421
Heavy fuel oil (t/a)	**866,000**	755,000	1,260,000	**312,799**	308,441	245,421
Bitumen (t/a)	**386,000**	324,000	58,900	**331,410**	292,425	217,487
Sulfur (t/a)	**143,500**	84,000	63,000	**15,743**	14,051	8,898
Solvents (t/a)				**216,295**	225,310	188,170

* Includes contaminated soil

Previous judgments by the Turku Court of Appeal and the District Court of Turunseutu had rejected the prosecution's call for a fine.

Tougher permit limits

Environmental (IPPC) permits are required for the operations of Neste Oil's refineries. The permit granted to the Naantali refinery in November 2007 sets tough requirements in respect of the volume of permitted emissions, environmental measures, and official reporting. In December 2008, the Vaasa Administrative Court issued its findings on the environmental permit issued to the Porvoo refinery in 2006. Neste Oil decided to appeal the verdict to the Supreme Administrative Court.

Both refineries took the necessary actions in 2008 required under the terms of European emissions trading regulations.

The new measures called for under Europe's Registration, Evaluation and Authorization of Chemicals (REACH) regulatory framework, which came into force in June 2007, were introduced by Neste Oil's REACH team in respect of registering chemicals imported and produced by the company. Preregistration was completed by the end of November 2008.

Third-party audits

Neste Oil's operations are covered by a comprehensive management system that also extends to the requirements contained in environmental, health, safety, and quality standards. In-house audits are carried out to check the effectiveness of this system, together with annual impartial third-party audits. Separate internal HSE audits continued in 2008.

Neste Oil has monitored the environmental impact of its operations systematically for over 20 years.

An environmental and safety audit of Neste Oil's joint venture, Nynas AB, was carried out in 2008 as part of the company's continuous improvement efforts. The environmental section of the audit covered all of Nynas' operations, including its four refineries, five affiliate refineries, and 18 terminals. The section of the audit focusing on process safety and fire protection concentrated on the four main refineries. Nynas has implemented the audit findings into its operational and investment plans for 2009-2011. Environmental audits were also carried out at two storage facilities leased for trading purposes, and a set of leasing guidelines produced.

Progress on Responsible Care

Neste Oil is committed to the international chemical industry's Responsible Care (RC) program, aimed at improving health, safety, and environmental performance. The company reports its emissions, accidents, and progress as part of national RC reporting annually. Neste Oil is 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.

During 2008, Neste Oil concentrated its RC-related work on employee and process safety and developing its product liability and transport safety capabilities. All the drivers used by the company's contract transport companies received additional training.

Environmental impact of logistics

Road-based deliveries of Neste Oil's petroleum products are handled by a fleet of 150 tanker trucks owned by private companies and painted in Neste Oil colors. These carry over 3 million tons of products annually. Particular attention has been given to safe driving practices that anticipate road and traffic conditions, and 400 drivers have received training in this area. This has resulted in an approximately 2 l/100 km reduction in fuel consumption and an equivalent reduction in CO_2 emissions.

Distribution routes and cargo volumes are carefully optimized to be as efficient as possible. Vehicles are kept up-to-date and feature the latest Euro 3 and Euro 4 engines.

Shipping carries tens of millions of tons of crude, petroleum products, and

Neste Oil was involved in the following joint initiatives in 2008

- Responsible Care
- Responsible Care Global Charter
- Roundtable on Sustainable Palm Oil
- Roundtable on Responsible Biofuels
- Roundtable on Responsible Soy

Neste Oil's material balance, 2008

NESTE OIL

Feedstocks[1]
- 15,200,000 tons, of which crude oil totaled 12,180,000 tons

Additional energy inputs
- Electricity: 1,225,000 MWh
- Oil: 60,700 tons
- Natural gas: 2,080,000 Nm^3

Waste[2]
- Ordinary waste: 3,140 tons
- Hazardous waste: 12,300 tons
- Recycled waste: 13,400 tons
- Wastewater[3]: 9,182,000 m^3

Airborne emissions
- VOC: 4,860 tons
- NO_x: 16,700 tons
- SO_2: 13,300 tons
- CO_2: 4,000,000 tons

(production and shipping)

Products
- Petroleum products 14,279,000 tons
- Other products 261,000 tons

Services
- Marine shipments 40,071,000 tons 4,315,000 kms
- Road shipments 3,068,000 tons 25,354,000 kms

1) Raw materials include primary and secondary raw materials 2) Waste figures do not include waste generated by the service station network 3) Refinery effluent contained 1.6 tons of oil

chemicals by sea annually. All ships are ice-strengthened and double-hulled, and escort tugs are used to accompany large tankers in and out of harbor. The bulk of the crude oil used at the company's refineries comes from Russia and is delivered by sea.

The adoption of a new basic speed of 13.5 knots and the issuing of detailed guidelines on bunker fuels resulted in a reduction in fuel consumption and CO_2 and other emissions, together with cost savings. Neste Oil is also testing flue gas scrubber technology to reduce SO_2 emissions.

Shipments of feedstocks and products by sea can result in the spread of non-indigenous marine species, through things such as bilge water. Shipping has worked with the authorities to study and clarify the implications of this problem.

Environmental impact of end-use

Neste Oil makes its biggest contribution to combating climate change through its products. The latter generate more than 10 times the emissions released during refining and transportation, which makes the potential for reductions much greater. The more energy-efficient product usage is, the lower the level of greenhouse gas emissions will be. Savings can bring a relative CO_2 reduction running into millions of tons.

Acting to reduce local and global emissions

Emissions released through the usage of petroleum products impact air quality and contribute to a reduction in biodiversity. This is particularly true of nitrogen and sulfur oxides. Improving product quality and thereby promoting the introduction of new and better engine technology can help improve air quality, particularly in urban areas, and reduce health and environmental problems. While it has proved possible to reduce the growth in traffic emissions in many European countries in recent years, traffic remains a central negative factor in terms of air quality.

Neste Oil refines an increasing volume of higher-quality traffic fuels from crude oil, and modern engines need less of these fuels to travel further. Lower usage benefits drivers, air quality, and the environment generally, as the bulk of a fuel's emissions over its entire life cycle are released when it is used.

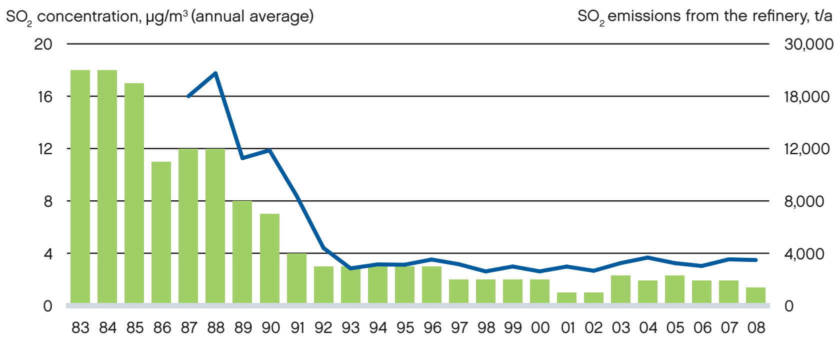
Neste Green diesel, launched in 2008, contains a minimum of 10% NExBTL renewable diesel and cuts tailpipe emissions and enhances urban air quality. Combating climate change calls for rapid action and more sustainable products like this that make a positive contribution.

New bio heating oil in Finland

Neste Oil launched a new heating oil containing 2% NExBTL in Finland in January 2009. Suitable for use in all modern oil-fired heating systems, it offers excellent efficiency and lower emissions.

Adding a renewable component to heating oil is yet another way of responding to the climate challenge. The 2% biocomponent content of the new fuel could reduce consumption of conventional oil on a national scale by the equivalent of the oil used by 10,000 family homes.

SO_2 concentrations around the Porvoo refinery



- SO_2 emissions from the refinery
- SO_2 concentrations at the Mustajoki measurement station, around five kilometers from the refinery

The limit value for SO_2 to protect the ecosystem has been set at 20 µg/m^3 (VnA 711/2001).

3.4

Research & Technology

Neste Oil's Research & Technology Unit develops products and product-related services, refining processes, and catalysts – and ensures that fuels perform as expected.

High quality and environmental expertise have been a feature of the products and technologies developed by Neste Oil for many years. Research is primarily focused on developing lower-emission traffic fuels and the process technologies and feedstocks needed to produce them.

Neste Oil is working increasingly closely with leading research institutes in a variety of fields. In the case of renewable raw materials, this involves partners at over 20 universities and institutes worldwide.

Neste Oil has developed a number of industry-leading technologies, including NExBTL, for producing renewable diesel, NExOCTANE, for producing iso-octane, and NExETHERS, for producing ethers such as TAME and ETBE.

An increasingly important role

The role of R&D projects has grown significantly in recent years. This has been reflected in the number of personnel in the Research & Technology Unit, which rose by around 12% in 2008; the unit has also strengthened its expertise in key areas of expertise and its focus on the company's growth businesses. R&D expenditure in 2008 totaled EUR 37.1 million, an increase of a third on 2007 (28.4 million). The role of R&D is expected to continue growing over the next few years.

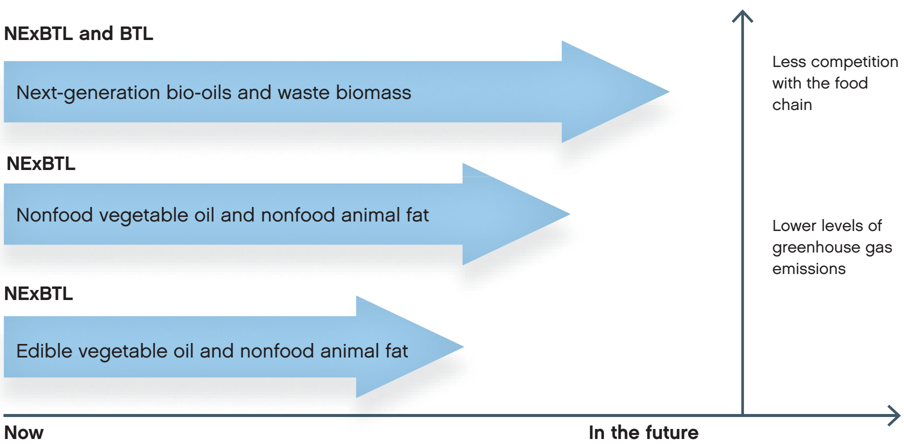
Key areas covered by R&D projects in 2008 included:

- technical support and ongoing process development for the new diesel line at Porvoo
- new renewable raw materials
- NExBTL technology
- biomass-to-liquid (BLT) technology for producing fuels from wood-based biomass.

New feedstocks and technologies

Around 75% of total expenditure on R&D projects is currently devoted to developing new renewable raw materials and refining technologies that can process them. Expenditure in this area rose by over 50% in 2008, and totaled EUR 18 million (11.5 million).

Raw material today and in the future

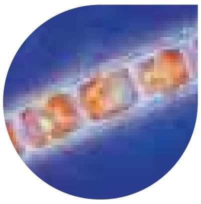


Quality engineering services for the chemicals and biotechnology industries from Neste Jacobs

High-quality engineering resources are essential for implementing the capital projects typical of the oil and chemicals industries and developing the new technologies they use. Neste Jacobs is the leading provider of these services for oil, chemicals, and biotechnology companies in the Nordic region today – and extended its operations in 2008 with the acquisitions of Rintekno, a Finnish engineering consultancy.

Neste Jacobs offers engineering services both to Neste Oil and other oil, gas, and chemical companies, and has close to 50 years of experience in a wide range of projects in Europe, North America, and the Middle East. Neste Oil owns 60% of the company and Jacobs Engineering Group, Inc of the US, 40%. The company currently employs around 800 people.

R&D progressing on new raw materials

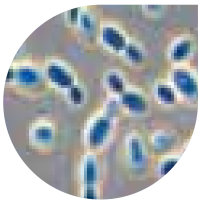


Algae

Microalgae produce sugars, lipids, and proteins from CO_2, water, and nutrients using photosynthesis. Tens of thousands of different species exist, and can be found wherever water and light is available. Although these unicellular organisms can divide as often as several times a day, they normally double their biomass in one to three days.

Microalgae are seen as the origin of the world's crude oil, and most species produce intracellular lipids. Under favorable conditions, microalgae can produce lipids year-round, and offer a dramatically higher production potential than oil plants.

Microalgae can be grown in seawater and on land unsuitable for cultivation, and can make use of the nutrients contained in wastewater, for example. As they also bind CO_2, they offer a number of exciting possibilities in helping us meet tomorrow's energy needs.



Other microbes

As heterotrophic organisms, microbes are unable to synthesize organic compounds themselves and need to feed on organic material, such as sugars, to multiply. Especially interesting examples in this category for Neste Oil are bacteria, yeasts, and fungi.

These types of microbes are capable of storing large quantities of lipids in their cells, typically over 50% of their mass. They produce lipids and multiply very rapidly, typically achieving maturity in a couple of days to a week.

Oil-producing microbes can be grown in conventional bioreactors of the type used in the brewing and biotechnology industries. Researchers are looking for suitable sustainable nutrients that are both cost-effective and available in sufficiently large volumes to maintain industrial-scale production. Agricultural and industrial byproducts represent a possibility here.

Jatropha

The jatropha family includes around 150 plants, shrubs, and trees, all of which contain seeds with a high oil content. Most jatropha plants are toxic to man and unsuitable for food use.

Jatropha typically grows on poor land, including sandy soil, and in areas that are unsuitable for normal cultivation or are classified as wasteland. Jatropha is used to prevent erosion and desertification, for example, and needs a minimal amount of fertilizer or care. As the plant is also normally free of disease, pesticides are not required either.

Oil typically accounts for around a third of the weight of jatropha seeds. A hectare of jatropha can yield two to five tons of oil and four tons of pressing waste. The latter can be used as fuel or fertilizer. Plants begin producing seeds during the second year after planting and can live around 50 years.

Algae and other microbes can already be produced on a laboratory scale. The real challenge is to increase production to an industrial level, to millions of tonnes per year. There are many unresolved issues, which is why much research is focused on this.

Neste Oil-developed technologies are used worldwide

3.5

Social responsibility

Neste Oil abides by the principles of sustainable development everywhere it operates. The company is committed to developing better supply chain management and to offering its personnel an interesting, challenging, and safe workplace.

Neste Oil employs around 5,200 people and provides indirect employment to many more working for its suppliers in Finland and elsewhere. A responsible approach to business means that all of Neste Oil's own employees, together with those in its supply chain, need to be committed to the principles of sustainable development. It also requires open and positive cooperation with other stakeholders as well.

Human and labor rights

Neste Oil promotes the principles contained in the central articles of the United Nations' Declaration of Human Rights and the policies of the International Labour Organization (ILO). These international agreements form the foundation for the company's principles and practices in respect of human and labor rights.

Neste Oil offers its personnel a healthy and safe environment to develop their skills and capabilities. All forms of harassment and discrimination, together with child labor, forced labor, and other forms of exploitation are strictly forbidden. Employees are allowed to organize among themselves and belong to associations. All forms of punishment are forbidden.

Human and labor rights are also linked to Neste Oil's raw material procurement. We recognize the economic and cultural needs of native populations, their traditional way of life, and their legal entitlement to their land.

Neste Oil's human and labor rights principles also cover the company's raw materials suppliers and are part of the minimum requirements that suppliers are expected to comply with.

Cooperation

Employees are represented in many of Neste Oil's organizational bodies, both at Group and unit level; and an open dialogue between management and employee representatives is encouraged.

Three employee representatives attend meetings of the Supervisory Board, one from each of the company's main employee groups. The Management-Employee Group reviews topical issues affecting all personnel. Group-level work in this area is aimed at promoting positive cooperation between employees and management. Divisional-level activities are shaped by divisional and local needs. Typical subjects that can come up for discussion include major changes in responsibilities or practices affecting personnel.

Neste Oil's internal Communications Committee provides support for internal communications and is designed to act as a forum for discussing communications principles and how communications can be developed. Employees elect seven of the committee's representatives, and management three. Quarterly briefings on Neste Oil's performance and operations are held at Group level for all personnel. Numerous other communications channels are used to keep people up-to-date. The Employee Profit-Sharing Fund is managed by personnel; and employee representatives also sit on the Boards of the Pension Fund and the Insurance Fund.

Management system

Neste Oil updated its management system in 2008. The system's policies, principles, and guidelines cover a wide range of day-to-day operations and are designed to encourage everyone to contribute to the company's success.

The management system covers Neste Oil's key management principles, processes, and practices. The company's mission, vision, strategy, and values are an integral part of Neste Oil's management philosophy and approach to practical management issues. The key procedures and tools needed by managers in their day-to-day work are included in the system, as are leaders' competence areas and management development programs.

A responsible supply chain

The service providers, suppliers, and contractors used by Neste Oil play a major role in determining how successfully the company's sustainable development principles are implemented in practice. Neste Oil provides regular training for its partners and actively emphasizes the importance of a responsible mindset.

Responsible operations are a central criterion when selecting new partners. Compliance with the following minimum requirements is essential:

Environmental responsibility
- comprehensive environmental management covering all aspects of operations

Employee rights
- a ban on racial, sexual, and other forms of discrimination
- a ban on the use of forced and slave labor
- a ban on the use of child labor
- a ban on the use of punishment
- the freedom to organize

We act.

Neste Oil was reselected in 2008 and 2009 for The Global 100, a list of the world's 100 most sustainable companies.

- effective work-related health and safety management
- clear guidelines on working hours
- clear guidelines on subcontracting.

Neste Oil uses internal and impartial third-party audits to ensure that its suppliers meet these minimum requirements on a systematic basis.

Preventing financial misconduct

Neste Oil has principles in place to prevent and deal with cases of financial misconduct. These cover misuse of assets, systems, or a person's position within the company aimed at benefiting one or more people either directly or indirectly. Regulations cover areas including:

- fraudulent financial reporting
- unauthorized use of company assets
- income or assets acquired fraudulently or illegally
- evading costs or responsibilities fraudulently or illegally
- generating unnecessary costs in a fraudulent or illegal way

Regulations also include principles covering how supply, purchase, and service contracts should be negotiated and the company's policy on receiving gifts. Guidelines are similarly provided for managing and dealing with abuse and misconduct.

The prime focus is on preventing abuse and misconduct occurring. Identifying and evaluating risks in this area is an ongoing part of operations. No cases of financial misconduct appeared in 2008.

If Neste Oil employees notice a case of misconduct or suspect misconduct is taking place, they are required to inform the company immediately.

Stakeholder cooperation

Neste Oil has defined its key stakeholder groups in accordance with the needs and nature of its businesses. A major part of activities in this area is currently linked to renewable fuels, and Neste Oil has been an active participant in national and international debate on the subject.

Neste Oil is committed to positive and open cooperation with all its stakeholders, including those at local level, which can include local government, employees' families, neighbors, schools, colleges, the media, and local organizations. Thousands of people visit the company's refineries annually.

An extensive brand study is carried out annually to review stakeholders' perceptions, together with numerous smaller studies. Feedback is received from a variety of other sources, including the company's Web site and via customer service and communications personnel.

Working for a better society

Neste Oil supported equipment purchases by the Children's Department of Jorvi Hospital in Espoo through the Association of Friends of University Children's Hospitals in 2008. Work with Finland's Youth Academy concentrated on supporting school-based and leisure activities.

Recipients of donations included the Finnish Mental Health Association for work with children and young people, and Non-Fighting Generation to help prevent violence among young people.

Neste Oil's involvement with the WWF's Operation Mermaid has been aimed at helping improve the state of the Baltic and promote protection of habitats and endangered species in and around the sea. Neste Oil has equipped and trained volunteer oil spill cleanup teams.

Human resources

Successful international expansion calls for expertise, common ways of working, and developing a dynamic organization culture. All of Neste Oil's activities are grounded in the company's core values of responsibility, cooperation, innovation, and excellence.

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

A more international workplace

As Neste Oil expands internationally, greater emphasis will need to be placed on understanding and respecting a wider range of different cultural backgrounds, and establishing new ways of working. Growth projects will also offer personnel new opportunities for developing their business skills. A growing international presence will impact virtually everyone's responsibilities and workplaces. An average of 5,174 people were employed in 2008, of which 77% were based in Finland. At the end of the year 57 people were on overseas assignments.

Training for a more international and more multicultural Neste Oil was organized in 2008, and HR management processes and capabilities developed to meet the growing needs of the company's operations. New international recruitment tools have also been developed to ensure access to the best resources on the international labor market.

Good progress on equal opportunities

Neste Oil is committed to offering its employees comprehensive equality of opportunity, and makes use of an annually updated equal opportunities plan to make this happen. Neste Oil believes in paying people the same for the same or comparable work, regardless of gender. The company is aiming to increase the number of positions employing men and women equally from 11% to 20% by 2010. The practical measures linked to the targets set out in the equal opportunities plan are monitored closely.

A review of differences in men's and women's salaries and wages in 2008 showed that a good level of equality has been achieved. Some equality supplements were added to salaries to improve performance in this area during the year. People's awareness of the responsibilities associated with specific jobs has been promoted to help ensure fairer remuneration for everyone.

Supporting performance-based management

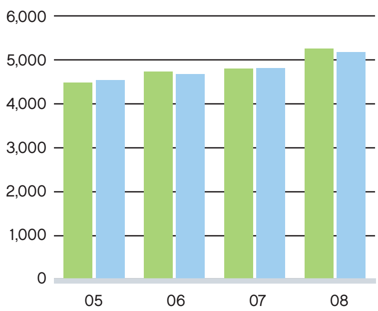
Management resulting in profitable performance is a priority at Neste Oil. Performance discussions between managers and their team members are a key part of performance-based management across Neste Oil, and support day-to-day work and help people achieve goals and develop in their careers.

Every employee is responsible for his or her performance, development, and career; and every manager for supporting their team members to perform at their best and develop their capabilities. A systematic approach is used to review the skills and development of the company's staff and ensure that the company has access to the key know-how and resources it needs.

Key figures

	2008	2007
Average age	**42.6**	43.0
Average length of time with the company	**14.3**	15.0
Training expenditure, EUR	**3,980,000**	3,559,730

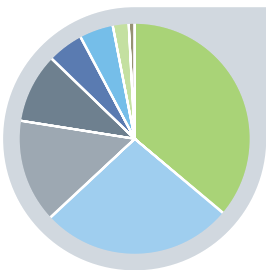
Personnel



As of the end of the year
Average

Personnel by segment, as of 31 December 2008

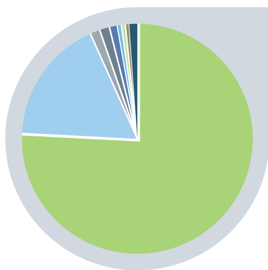
Total: 5,174



Oil Refining 36%
Oil Retail 27%
Neste Jacobs 14%
Shipping 10%
Corporate functions 5%
Research & Technology 5%
Specialty Products 2%
Renewable Fuels 1%

Personnel by country, as of 31 December 2008

Total: 5,174



Finland 77%
Russia 16%
Latvia 1%
Estonia 1%
Belgium 1%
Sweden 1%
Lithuania 1%
Poland 1%
Other 1%

Job rotation and new opportunities

Personnel at Neste Oil are encouraged to benefit from the challenges that project work and job rotation can offer. Elina Harlin, for example, is currently working on refining processes, but her expertise goes much wider, thanks to job rotation.

Elina joined the company as a trainee during her studies for an M.Sc. in Engineering, and she spent her first summer running trials at the Technology Center. She became a full-time researcher in 1990.

The development projects she is now working on are focused on new types of processes and improving the operations of existing ones. The biggest of these are linked to the new diesel line at Porvoo and NExBTL production. She acts as project manager on one project, a research associate on two others, and a specialist on a couple of others. Previously, she has also worked as a production engineer.

"I remember saying I was interested in job rotation at one of my performance discussions, and I got a call some time later about an opening. Over the years since then, I've had the chance to develop my skills both in my core work and through what job rotation has brought. My responsibilities have become increasingly challenging over the years, and I've had the chance to take part in some very different types of projects."

Elina has also taken the opportunity to continue her studies, and took leave to be a researcher at the Helsinki University of Technology for a time, returning to continue and complete her Ph.D. studies at Neste Oil in 2001.

"My project work offers me variety and new areas of interest, and I like the atmosphere at Neste Oil."

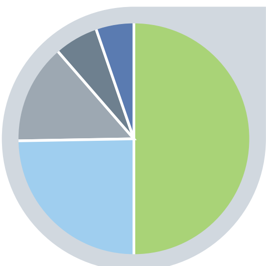
Particular attention has been given to developing managerial and leadership skills over the last couple of years. The 'Leading for the future' program has been designed to promote implementation of the company's strategy, strengthen Neste Oil's corporate culture and the adoption of best practices, and give managers a broader range of capabilities to succeed in their jobs. A total of 436 people took part in management training in 2008.

Encouraging personal development

A strong competence base is one of Neste Oil's key success factors, and the company is very much committed to promoting and developing people's ability to learn by doing. Job rotation, project work, acting as internal training coordinators, and helping familiarize new employees with their jobs are all examples of ways in which people can develop themselves. Personnel are encouraged to extend their capabilities and share their knowledge with their colleagues. A total of 450 job rotations took place in the company during 2008.

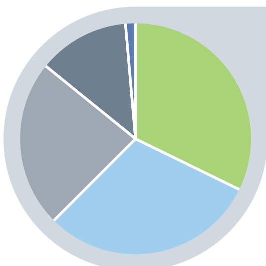
Neste Oil offers a wide range of training for all personnel. Personnel are also encouraged to participate in training offered by outside organizations and self-study. Employees at production sites have the opportunity to improve their skills by studying for professional qualifications or by taking courses in a range of areas.

Educational background of permanent employees as of 31 December 2008



- Technical and natural sciences 50%
- Commercial and law 14%
- Social sciences and humanities 6%
- Logistics and transport 5%
- Other 25%

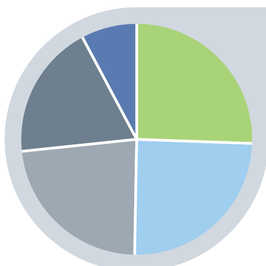
Educational level of permanent employees as of 31 December 2008



- College degree 32%
- Vocational qualification 30%
- University degree 23%
- Compulsory education 17%
- Doctorate 1%

Breakdown by age of permanent employees as of 31 December 2008

Average 42.6 years



- Under 30 19%
- 30–39 23%
- 40–49 25%
- 50–59 26%
- Over 60 8%

Encouraging personnel to promote everyone's well-being

- well-being development project, to continue in 2009
- comprehensive occupational health care
- commitment to an open corporate culture that encourages people to give of their best
- in-house sports and exercise facilities, leisure clubs, and vacation accommodation
- annual personnel survey.

Neste Oil's values

Neste Oil announced its four core values in spring 2006. Discussions around these continued in teams and departments in 2007, aimed at ensuring that the company's values are reflected in day-to-day operations and become part of everyday life. Progress on the development plans established then took place in numerous areas during 2008.

Responsibility
Cooperation
Innovation
Excellence

Competitive benefits

Neste Oil offers its personnel a range of valuable benefits, including:

- sickness and insurance cover
- a Personnel Fund (see Page 58)
- in-house occupational health care
- bonuses and incentives (see Page 58)
- training programs
- transport to and from work at refineries.

Personnel are offered the opportunity to make their own contribution to their workplace, and feedback and ideas are systematically sought through employee studies, the employee initiative system, and other means.

A good image benefits recruitment

Neste Oil's personnel numbers are expected to rise over the next few years as the company expands. New talent will be needed for growth projects and to replace people retiring. To ensure access to the best possible people, Neste Oil launched an employer image enhancement project towards the end of 2007 as part of the company's strategic HR plan. A long-term plan was drawn up in 2008 to communicate Neste Oil's strengths and reinforce its image as an employer.

Key measures taken in this area in 2008 included an advertising campaign, the production of new presentation material for managers and personnel, joint projects with colleges and universities, and the launch of a recruitment website (www.nesteoil-careerpaths.com).

Very satisfied employees

Personnel surveys covering the entire organization are carried out regularly. A total of 81% of personnel replied to the 2008 survey, and feedback again proved very positive. Although the general economic situation and the uncertainty surrounding it were reflected in the results, they confirmed that Neste Oil's employer profile, the internal flow of information, and communications continue to be clear strengths compared to comparable Finnish companies. Neste Oil is seen as a solid employer, with committed employees. Employee satisfaction is reflected in the low level of personnel turnover, which was approx. 2% in 2008, excluding retirees.

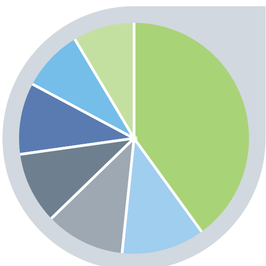
Improvements in the organization of duties and responsibilities, an increased focus on personal development, and better leadership and management were highlighted as the biggest improvements seen by employees in the 2008 study. Areas that could benefit from further development included flexibility and participation in decision-making.

Well-being is an important driver

Neste Oil launched a development project focused on well-being at work in 2008 and aimed at promoting employees' health and working abilities and developing leadership skills. The project is intended to establish what well-being at work means for Neste Oil, agree common Group-level policies, and identify various development areas and yardsticks. A large number of employees were involved, representative of different parts of the Neste Oil organization.

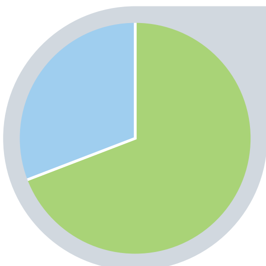
Particular emphasis in 2008 was given to how best to manage people of different ages, promoting physical exercise as a factor in people's well-being at work, and the importance of preventing people becoming mentally and physically exhausted. Training for managers and supervisors emphasized the role of good management as a key contributor to a positive sense of well-being and winning the commitment of employees.

Length of employment of permanent employees as of 31 December 2008



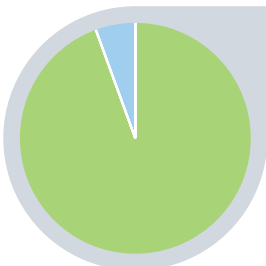
Less than 5 years 40%
5–9 years 12%
10–14 years 10%
15–19 years 10%
20–24 years 11%
25–29 years 9%
More than 30 years 9%

Gender ratio of permanent employees as of 31 December 2008



Men 69%
Women 31%

Type of employment contract as of 31 December 2008



Permanent 94%
Temporary 6%

Safety

Continuously working to enhance safety is an important part of management at Neste Oil. The company is committed to zero accidents. Poor safety performance impacts financial performance, either in the form of additional expenses or lost revenue, while good safety performance contributes to better employee well-being and competitiveness.

Neste Oil employs a safety management system embracing all divisions and corporate functions to monitor and develop safety-related issues. Systematically improving safety attitudes and safe behavior involves both the company's own personnel and those of service providers and contractors. Neste Oil is working to further enhance the safety of its production processes and reduce operational incidents.

A number of major safety training programs have been developed to enhance performance, and safety training is an integral part of the induction of new employees and manager responsibilities. HSEQ (Health, Safety, Environment, Quality) training is a requirement for all contractor personnel. Refresher courses are arranged where necessary.

Site inspection circuits, near miss reporting, and learning from past incidents also play a part in safety work. The risks associated with upcoming work are always reviewed in advance, and all incidents, however small, are logged.

Neste Oil recorded a total of 3.2 lost workday injuries per million hours worked in 2008, compared to an average of 18.1 in the Finnish chemical industry in 2007.

Occupational safety is highlighted at all sites, including this one in Singapore.

Using audits to monitor performance

Neste Oil had an OFIR (Occupational Illness Frequency Rate) of 0.64 in 2008, equivalent to 0.64 cases per million hours worked. This compares to an average of 2.7 in Finnish industry in 2005. A total of six cases of work-related disease were approved for compensation in 2008.

Regular audits are carried out to promote better occupational health and safety.

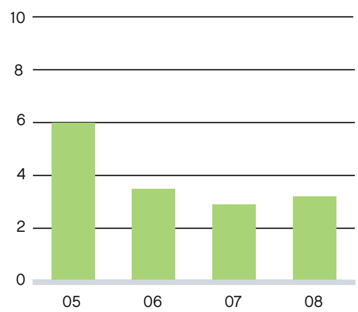
- Group-level audits since 1992
- Division-level audits
- Unit-level audits covering 100% of employees.

Corporate security is important

The Corporate Security Unit is responsible for helping ensure the uninterrupted operations of Neste Oil's businesses and enabling the company to recover rapidly in the event of a problem situation. The unit monitors the international security situation constantly and works with the authorities and security companies to protect personnel and the company's assets.

Lost Workday Injury Frequency (LWIF)

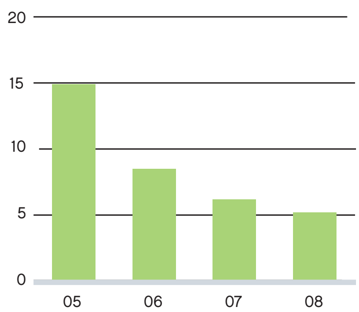
per million hours worked



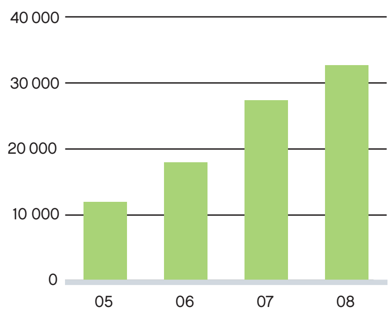
The LWIF for the Finnish chemical industry as a whole was 18.1 in 2007.

Total Recordable Incident Frequency (TRIF)

per million hours worked

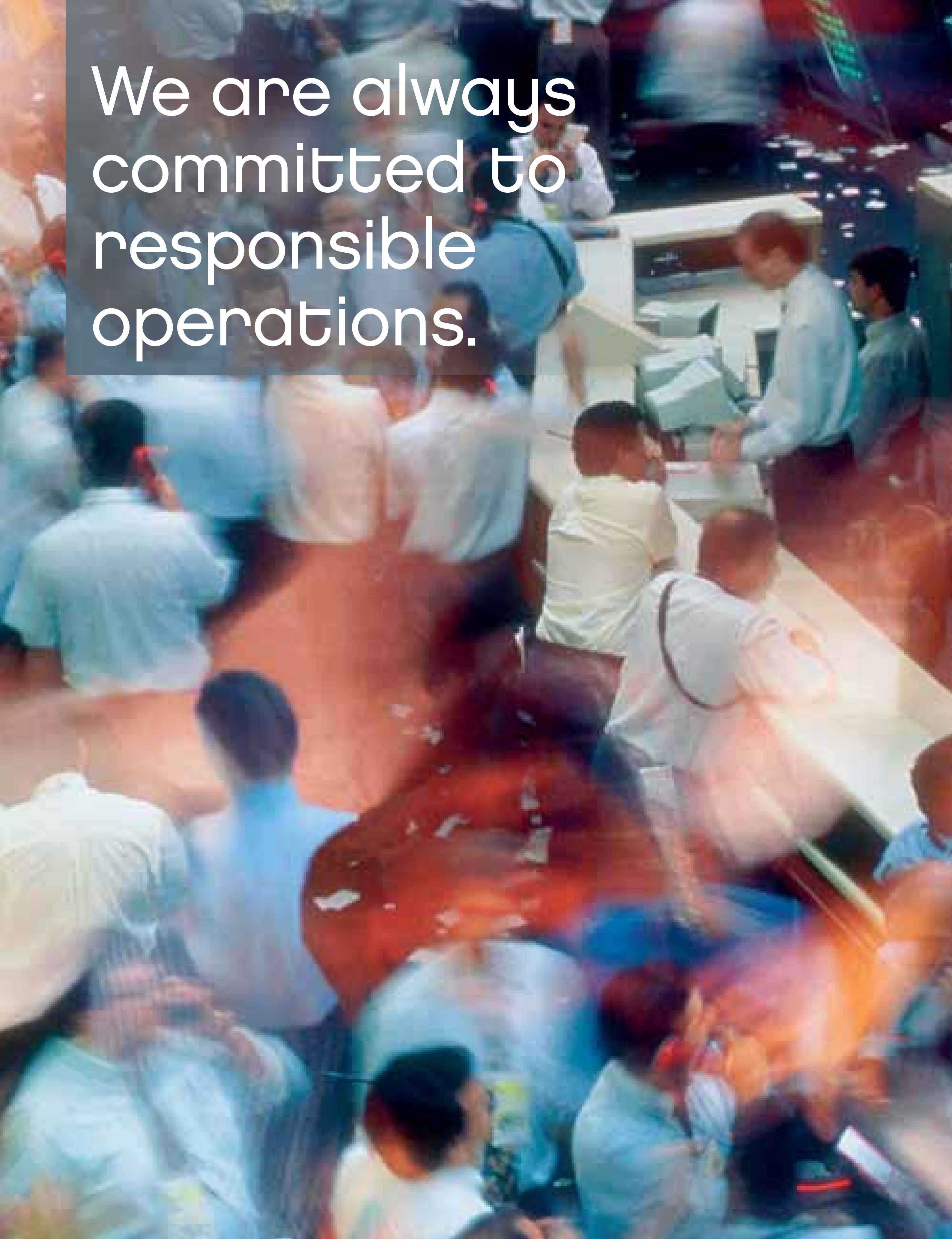


Observation tours



Managers and supervisors discuss safety issues with field personnel regularly during observation tours.

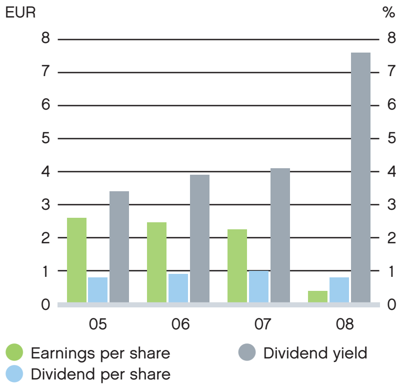
We are always committed to responsible operations.



Governance & Shares and shareholders

We believe in implementing best practices and promoting performance-driven management, and abiding by the law and the principles embodied in our management system. We are committed to high standards of corporate governance and responsibility in all of our operations worldwide.

Earnings per share, dividend*, and dividend yield



* As proposed by the Board of Directors

At least one third of underlying profits are distributed in the form of dividends.

4.1

Governance principles

Neste Oil is listed on NASDAQ OMX Helsinki and is headquartered in Espoo, Finland. The company complies with the principles of good corporate governance laid out e.g. in the Finnish Companies Act and the company's Articles of Association.

Neste Oil abides by the principles of good corporate governance within the framework of Finland's Companies Act, its own Articles of Association, and the Governance Code covering listed companies in Finland, as it is introduced. Neste Oil diverges from the recommendations of the latter in that the proposals covering the members of the Board of Directors and the remuneration paid to the Board presented to the Annual General Meeting are drafted by the AGM Nomination Committee rather than a Board committee.

Neste Oil issues financial statement bulletins and interim reports on its financial performance in accordance with Finnish legislation, 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 the Annual General Meeting of Shareholders (AGM), the Supervisory Board, the Board of Directors and its two Committees, and the President & Chief Executive Officer.

The Neste Executive Team (NET) assists the President & CEO 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 & CEO or the Board of Directors for decision. Neste Oil has one official auditor, chosen by shareholders at the AGM.

Annual General Meeting

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

Shareholders at the Annual General Meeting take decisions on matters such as:

- the adoption of the Financial Statements
- the distribution of profit for the year detailed in the Balance Sheet
- discharging the members of the Supervisory Board, the Board of Directors, and the President & CEO from liability
- the election and remuneration of the members of the Supervisory Board, the Board of Directors, and the auditor.

We abide by responsible principles and good corporate governance.

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 shares of the company.

Under 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 as decided by the Board of Directors, or in another verifiable manner.

The 2008 AGM

The 2008 Annual General Meeting was held on Friday, 14 March. At the meeting, the income statements and balance sheets of the Parent Company and the Group for 2007 were adopted, and the Supervisory Board, the Board of Directors, and the President & CEO were discharged from liability for 2007. The Board of Directors' proposal on the distribution of profits for 2007 by paying a dividend of EUR 1.00 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 (19.3.2008) were entitled to a dividend. In addition, decisions were made regarding the members of the Board of Directors and the Supervisory Board and their remuneration, and an auditor was elected.

Nomination Committee

The AGM appointed a Nomination Committee comprising the Chairman of the Board as an expert member, and representatives of the Company's three largest shareholders holding the largest number of votes associated with all the Company's shares on the first day of November preceding the AGM. The Chairman of the Board of Directors was responsible for convening the committee, and the committee for electing its chairman.

Duties

The Nomination Committee was responsible for drafting proposals for the following AGM on the following:

- the number of members of the Board of Directors
- the members of the Board
- the remuneration to be paid to the Chairman, Vice Chairman, and members of the Board.

The Nomination Committee was required to present its proposal to the Board of Directors by February 1 prior to the next AGM at the latest.

Membership in 2008

The Nomination Committee comprised Jarmo Väisänen of the Prime Minister's Office, Timo Ritakallio of the Ilmarinen Mutual Pension Insurance Company, and Risto Murto of the Varma Mutual Pension Insurance Company. Timo Peltola, Chairman of Neste Oil's Board of Directors, acted as the Committee's expert member. The Nomination Committee met twice and made its proposal concerning Board members and the remuneration payable to them on 30 January 2009.

Supervisory Board

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 AGM. 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 14 March 2008 and will end at the Annual General Meeting to be held in the first half of 2009, are as follows:
Heidi Hautala, (Chairman), born 1955, Member of the Finnish Parliament
Hannes Manninen, (Vice Chairman), born 1946, Member of the Finnish Parliament
Esko Ahonen, born 1955, Member of the Finnish Parliament
Mikael Forss, born 1954, Director, Social Insurance Institution of Finland
Timo Heinonen, born 1975, Member of the Finnish Parliament
Markus Mustajärvi, born 1963, Member of the Finnish Parliament
Jutta Urpilainen, born 1975, Member of the Finnish Parliament
Anne-Mari Virolainen, born 1965, Member of the Finnish Parliament

Anne-Mari Virolainen owned 125 Neste Oil shares as of 31 December 2008. No other members of the Supervisory Board owned Neste Oil shares as of the end of the year. Members of the Supervisory Board are not included in Neste Oil's incentive or pension schemes.

Area of responsibility

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 specified location. With 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.

Duties

- overseeing the administration of the Company by the Board of Directors and the President & CEO
- submitting a statement on the Financial Statements, Review by the Board of Directors, and the Auditors' Report to the AGM.

Meetings in 2008

The Supervisory Board convened five times in 2008, and the average attendance rate was 85%. Meetings covered subjects such as the Company's interim reports and financial statements and business plans.

Supervisory Board remuneration, EUR/month

	2008	2007
Chairman	1,000	1,000
Vice Chairman	600	600
Members	500	500
Attendance fee/meeting	200	200

Board of Directors

Under 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 AGM. A person who has reached the age of 68 cannot be elected. 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 14 March 2008. The Board consists of eight members, all of who are independent, with the exception of Markku Tapio, who represents the Company's majority shareholder. To be considered independent, a Board member may not have any material relationship with the Company other than Board membership and may not be dependent on any of the company's major shareholders.

Area of responsibility

The Board shall meet as frequently as necessary, with 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, and shall discuss its review after the end of each fiscal year at the latest.

Duties

The Board of Directors:

- is responsible for the administration and appropriate organization of the operations of the Neste Oil Group in compliance with the relevant legislation and regulations, the Company's Articles of Association, and instructions provided by the Annual General Meeting and the Supervisory Board
- is responsible for the strategic development of Neste Oil and for supervising and steering its business.
- decides on Neste Oil's key operating principles
- confirms the annual business 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 Neste Oil's organizational and operational structure at senior management level
- determines the Company's dividend policy to be followed when making proposal regarding dividends to the AGM.

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 www.nesteoil.com.

Meetings in 2008

The Board convened 11 times in 2008, and the attendance rate at meetings was 100% on average. Details on Board's members can be found on Pages 60-61.

Board Committees

The Board has established an Audit Committee and a Personnel and Remuneration Committee, both of which have four members. A quorum exists when more than two members, 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 the 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. Each Committee conducts an annual self-evaluation of its performance and submits a report to the Board.

A competitive and profitable business benefits society as a whole.

Audit Committee

Under its Charter, the Committee shall consist of a minimum of three Board 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.

Duties in 2008

The Audit Committee:

- oversees the Company's finances, financial reporting, risk management, and internal auditing
- assists the Board's monitoring of the financial position and reporting of the Company and the Board's control function
- 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, and
- evaluates the Company's compliance with laws and regulations.

Meetings in 2008

The Audit Committee comprised Nina Linander (Chair), Antti Tanskanen, Markku Tapio (as of 14 March 2008), Maarit Toivanen-Koivisto, as well as Pekka Timonen, whose membership of the Board and the Audit Committee ended on 14 March 2008. The Committee convened four times, and the average attendance rate was 100%. In addition to its normal duties in 2008, the Committee focused on monitoring risk management and the development of the risk management function.

Personnel and Remuneration Committee

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

Duties

The Personnel and Remuneration Committee:

- prepares the appointments of key executive personnel and makes proposals to the Board on compensation and incentive systems for key personnel
- 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 the performance of the President & CEO and the members of the Neste Executive Team.

Meetings in 2008

The Personnel and Remuneration Committee comprised Timo Peltola (Chair), Michiel Boersma, Mikael von Frenckell, and Ainomaija Haarla. The Committee convened five times, and the average attendance rate was 100%. The Committee's main focus was on selecting a new President & CEO and Chief Financial Officer and other appointments, and on establishing and developing guidelines for the remuneration of senior executives.

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.

Board of Directors, 31 December 2008

	Born	Member since	Position	Independent	Personnel and Remuneration Committee	Audit Committee	Attendance at meetings: Board	Attendance at meetings: Comittees
Timo Peltola	1946	2005	Chairman	✓	✓		100%	100%
Mikael von Frenckell	1947	2005	Vice Chairman	✓	✓		100%	100%
Michiel Boersma	1947	2007	Member	✓	✓		100%	100%
Ainomaija Haarla	1953	2005	Member	✓	✓		100%	100%
Nina Linander	1959	2005	Member	✓		✓	100%	100%
Antti Tanskanen	1946	2007	Member	✓		✓	100%	100%
Markku Tapio*	1948	2008	Member			✓	100%	100%
Maarit Toivanen-Koivisto	1954	2005	Member	✓		✓	100%	100%

* Board member since 14 March 2008, when Pekka Timonen left Neste Oil's Board of Directors.

Shareholdings and remuneration of the Board of Directors as of 31 December 2008

	Shareholdings as of 31 December 2008	2007	Change	Annual remuneration, EUR 2008	2007
Timo Peltola	6,250	1,250	+5,000	66,000	55,000
Mikael von Frenckell	100,000	100,000	-	49,200	42,000
Michiel Boersma	2,500	-	+2,500	35,400	30,000
Ainomaija Haarla	2,200	1,700	+500	35,400	30,000
Nina Linander	1,100	1,100	-	35,400	30,000
Antti Tanskanen	-	-	-	35,400	30,000
Markku Tapio	-	-	-	35,400	-
Maarit Toivanen-Koivisto	6,032	2,500	3,532	35,400	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 600 per meeting is made for attendance and for committee meetings attended by a Board member. It is paid in double for the members living outside Finland.
Regularly updated data can be consulted at www.nesteoil.com/investors.

Shareholdings and share incentives of the Neste Executive Team as of 31 December 2008

Name	Born	Position	NET member since	Shares as of 31 December 2008	2007	Change	Share participations from the closed share arrangement* 2008
Matti Lievonen	1958	President and CEO	2008	-	-	-	-
Jarmo Honkamaa	1956	Deputy CEO	2004	9,821	5,937	+3,884	25,520
Jorma Haavisto	1954	EVP, Oil Refining	2007	2,732	-	+2,732	10,656
Kimmo Rahkamo	1962	EVP, Specialty Products	2004	6,494	4,000	+2,494	15,672
Sakari Toivola	1953	EVP, Oil Retail	2007	300	-	+300	-
Risto Näsi	1957	EVP, Shipping	2004	3,506	-	+3,506	16,022
Hannele Jakosuo-Jansson	1966	SVP, HR	2006	-	-	-	7,627
Osmo Kammonen	1959	SVP, Communications	2004	500	500	-	16,382
Juha-Pekka Kekäläinen	1962	SVP, Development	2004	3,047	900	+2,147	13,917

Information on shareholdings cover Neste Oil shares directly, through organizations in which those concerned have a controlling interest, and in their capacity as trustees.
* Refers to the total number of shares those concerned have been confirmed as being entitled to under the share programs that began in 2003, 2004, 2005 and 2006 under the Management Performance Share Arrangement. 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 2003 program will be distributed in spring 2009, and those covered by the 2004, 2005 and 2006 programs in spring 2010.
Regularly updated data can be consulted at www.nesteoil.com/investors.

Remuneration paid to the President & CEO and NET members, EUR

	2008 Salaries and benefits	Performance bonuses	Total	2007 Total
President and CEO	515,873.28	96,741.41	612,614.69	774,154.18
Other NET members	1,500,345.78	262,251.12	1,762,596.90	1,856,208.93

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

President & CEO	33,330
Other NET members	104,500
Total	137,830

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

The President & CEO is appointed by the Board of Directors, which 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 an annual performance-based bonus (see Incentive Programs). In the event that the Company decides to give notice of termination, the President & CEO is entitled to his or her salary during his or her period of notice and a severance payment equaling 12 months' salary. The retirement age of the President & CEO is 60 years, and the pension paid is 60% of retirement salary.

Changes in 2008

Neste Oil Corporation's Board of Directors appointed Matti Lievonen as the Company's new President & CEO on 3 September 2008, and he took up the position on 1 December 2008. The previous President & CEO, Risto Rinne, retired for health reasons on 1 October 2008. More details on the President & CEO can be found on Pages 62–63.

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. Members are appointed by the Board of Directors. In 2008 NET consisted of the President & CEO, five divisional executive vice presidents, and the heads of Communications, Corporate Development, and Human Resources, and the CFO. The NET meets regularly, on average once a month. Members 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 some cases, 12 months salary. The retirement age of NET members is 60-62 years.

Meetings in 2008

The Neste Executive Team comprised 10 members and met 12 times in 2008. Two members, the President & CEO and the CFO, changed during the year.

New organization as of 1 April 2009

Neste Oil's organization will change on 1 April 2009. Details of the new organization can be found on Page 14. Details on members of the new Neste Executive Board can be found on Pages 62-63.

Compensation and incentive programs

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

Short-term incentive bonuses

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

Bonus payments in 2008

The average performance bonus paid to personnel in 2008 for 2007 was 8,1% of employees' annual average salary, and totaled EUR 11.6 million.

Management performance share arrangement

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

The Board of Directors established a new scheme in 2006 that was launched at the beginning of 2007 and includes some 50 key personnel. This has two three-year earning periods, starting in 2007 and 2010. Payments shall be made in 2010 and 2013, partly in the form of Company shares and partly in cash. If the maximum targets are reached during the first earning period, the maximum reward for key personnel shall equal the value of 360,000 Neste Oil shares. The maximum reward for the President & CEO that took over on 1 December 2008 in respect of the first earning period shall equal the value of 13,300 shares. In addition, the previous President & CEO is entitled to a maximum of 26,667 shares in respect of the first earning period.

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

The criteria for the incentive system include the development of Neste Oil's comparable operating profit and the Company's share price development as 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. Following this, the Company's senior executives are still required hold shares with a value equal to their gross annual salary. This ownership requirement covers shares received as part of the Management Performance Share Arrangement and is effective for the duration of senior executives' employment with Neste Oil.

Neste Oil's Personnel Fund

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

Personnel employed under both permanent and fixed-term employment contracts are members of the Personnel Fund. Membership begins after an uninterrupted period of six months of employment, and ends once a member has received his or her share of the Fund in full.

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

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

Payments in 2008

Neste Oil paid a total of EUR 2,1 million in profit-sharing earnings for 2007 into the Fund in 2008.

Pension schemes

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

The Neste Oil Pension Fund provides additional pension benefits, in addition to the statutory pension, to people who joined the company before 1994. The most important additional benefit is the opportunity to retire at the age of 60, and covers women and men who select a reduced pension.

Auditor

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

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

Fees charged by the statutory auditor EUR 1,000

	2008	2007
Audit fees	**786**	560
Other	**1,022**	75
Total	**1,808**	635

Internal audit

The Internal Audit Unit is an independent corporate function and its operations are based on international professional standards covering internal audits and rules of ethics.

Duties

The Internal Audit Unit:

- provides objective assurance and consultation services designed to add value and improve the Company's operations
- assists the organization in evaluating and improving the effectiveness of risk management, financial control, and governance processes
- audits the operations of Neste Oil's refineries, subsidiaries, and other units on a regular basis, and
- carries out assignments requested by management or the Board of Directors' Audit Committee.

Our values are responsibility, cooperation, innovation, and excellence.

The roles, responsibilities, and authorities of Internal Audit are covered in the Internal Audit Charter. Together with an annual operating plan, it is approved by the Board of Directors' Audit Committee.

Internal Audit reports to the Board's Audit Committee and administratively to the President & CEO. Internal Audit is a staff function without any direct authority over the activities it reviews.

Insider guidelines

Neste Oil complies with the Insider Guidelines of the Helsinki exchanges established on 2 June 2008. The Company has also approved its own Guidelines for Insiders, which are stricter in some areas. The Company's closed window (see below), for example, exceeds minimum NASDAQ OMX Helsinki requirements.

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

The members of the Board of Directors and the Supervisory Board, the President & CEO, the Company's main responsible 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. A public register is maintained in the insider register system of

Euroclear Finland Oy
P.O. Box 1110, FI-00101 Helsinki and
Urho Kekkosen katu 5 C, Helsinki.
Telephone: +358 (0)20 770 6000,
fax: +358 (0)20 770 6658,
e-mail: info.finland@euroclear.eu,
www.ncsd.eu.

The Company has also designated certain other executives, as well as certain individuals responsible for the Company's finances, financial reporting, and communications, who receive inside information on a regular basis due to their position or duties, as permanent Company-specific insiders. Permanent insiders may not trade in any Company securities during the period from the closing date of an interim or annual accounting period to the date of publication of the interim or annual report for that period. The minimum period concerned is always 28 days prior to the publication of an interim or annual report ('closed window'). The publication dates of interim and annual reports are shown in the financial calendar at www.nesteoil.com.

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 maintained by the Company's Legal Department.

4.2

Board of Directors as of 31 December 2008

Mikael von Frenckell,
Timo Peltola, Ainomaija Haarla,
and Michiel Boersma.

Timo Peltola

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

Mikael von Frenckell

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

Michiel Boersma

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

Ainomaija Haarla

D.Sc. (Tech.), MBA.
Independent member.
Born in 1953. President and Chief Executive Officer, Technology Academy Foundation. Chairman of the Board of Korona Invest Oy, and a member of the Boards of Altia Oyj and TKK Executive School of Business Oy. Former Managing Director of ProConsilium Ltd, Vice President, Strategic Development at UPM-Kymmene Corporation and Vice President, Corporate Marketing, Metso Corporation. Member of Neste Oil's Personnel and Remuneration Committee.

Nina Linander, Markku Tapio, Maarit Toivanen-Koivisto, and Antti Tanskanen.

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

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

Markku Tapio
M.Sc. (Econ.).
Non-independent member.
Born 1948. Senior Financial Counselor at the Prime Minister's Office, Ownership Steering Department. Member of the Board of Directors of VR-Group Ltd. Member of Neste Oil's Audit Committee.

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

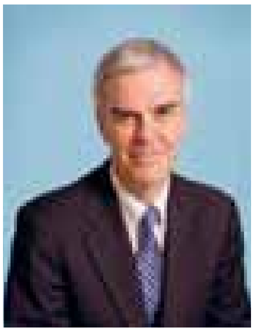
4.3

Members of Neste Executive Board as of 1 April 2009


Matti Lievonen


Jarmo Honkamaa


Matti Lehmus

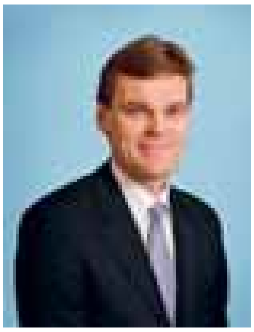

Sakari Toivola


Simo Honkanen


Hannele Jakosuo-Jansson


Osmo Kammonen


Lars Peter Lindfors


Ilkka Poranen


Ilkka Salonen


Matti Hautakangas

Matti Lievonen

President & CEO, Chairman of the Neste Executive Board

Born 1958. B.Sc. (Eng.). Joined the company on 1 December 2008. Served as President of the Fine and Speciality Papers Division at UPM-Kymmene Corporation, and in a number of other senior positions at UPM, between 1986 and 2008, and was with ABB earlier. Member of UPM-Kymmene's Executive Board between 2002 and 2008. Vice Chairman of CEPIFINE and a member of the Supervisory Board of Ilmarinen Mutual Pension Insurance Company.

Jarmo Honkamaa

Deputy CEO, Executive Vice President, Renewable Fuels

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

Matti Lehmus

Executive Vice President, Oil Products

Born 1974. M.Sc. (Eng.) and MBA. Joined the company in 1997. Currently responsible for the Base Oils business in Specialty Products Division since 2007. Previously served as Vice President in the Oil Refining Business Development (2007) and Gasoline Exports and Trading Manager (2004–2007) in the Oil Refining Division.

Sakari Toivola

Executive Vice President, Oil Retail

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

Simo Honkanen

Senior Vice President, HSE

Born 1958. M.Sc. (Econ.). Joined the company in 2006. Currently responsible for marketing and stakeholder relations in the Renewable Fuels Division (2008–). Served previously as Vice President, New Ventures in the Components Division (2006–2007) and prior to that as Strategy Director in Shell Finland, Marketing Director Retail in Shell Benelux and France, and in several other managerial positions in Shell Sweden and Shell Finland (1985–2005).

Hannele Jakosuo-Jansson

Senior Vice President, Human Resources

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

Osmo Kammonen

Senior Vice President, Communications

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

Lars Peter Lindfors

Senior Vice President, Technology and Strategy

Born 1964. D.Sc. (Chemical Engineering) and MBA. Joined the company in 2007. Currently responsible for the company's Research and Technology Unit. Served previously as Executive Vice President, Renewal and Development at Perstorp (2004–2007), Executive Vice President, R&T&D at Perstorp (2001–2004) and prior to that at Neste (1989–2001) as e.g. R&D Manager.

Ilkka Poranen

Senior Vice President, Production and Logistics

Born 1960. M.Sc. (Eng.). Joined the company in 1985. Currently responsible for the Corporate Safety function since 2007. Previously served as Vice President, Base Oils (1997–2007) and as Plant Manager at the Porvoo Refinery (1986–1997).

Ilkka Salonen

Chief Financial Officer

Born in 1965. M.Sc. (Econ.). Joined the company in 2009. Currently responsible for the Group's financial management and for investor relations, risk management, corporate IT, and coordinating procurement. Served as Chief Financial Officer at Pohjola Bank and the OKO Group.

Matti Hautakangas*

General Counsel and Secretary to the Neste Executive Board and the Board of Directors and the Supervisory Board.

Born in 1963. M.Sc. (Laws). Joined the company in 2003. Currently 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 Board.

At the end of 2008, the members of Neste Executive Team were Matti Lievonen, Jarmo Honkamaa, Jorma Haavisto, Kimmo Rahkamo, Sakari Toivola, Risto Näsi, Hannele Jakosuo-Jansson, Osmo Kammonen, and Juha-Pekka Kekäläinen.

4.4

Shares and shareholders

Share capital

The Company's share capital registered with the Trade Register on 31 December 2008 totaled EUR 40,000,000, divided into one class of 256,403,686 shares. Shares are included in the Finnish book-entry securities system. Each share entitles a shareholder to one vote at the Annual General Meeting.

Share registration

Neste Oil's shares are included in the book-entry securities systems maintained by Euroclear Finland Oy. The latter is also the official keeper of Neste Oil's list of shareholders.

Trading information

Neste Oil shares are traded on NASDAQ OMX Helsinki under the trading code NES1VH.E. The ISIN code is FI0009013296 and trading takes places in euros (EUR).

Indexes

Neste Oil is included in the following indexes:

- OMX Helsinki 25
- OMXHPI
- Dow Jones EURO STOXX Oil & Gas
- Dow Jones Sustainability Index
- Ethibel Sustainability Index.

The Ethibel Sustainability Index evaluates companies worldwide on criteria based on their financial performance, environmental values, and internal and external social responsibility, and follows the industry weighting used in the S&P Global 1200 Index. For more information, see www.ethibel.org.

Neste Oil is also included in the Dow Jones Sustainability Index (DJSI), which includes 300 companies from 24 countries, chosen because of their class-leading commitment to sustainable development. For further information, see www.sustainability-index.com.

Share performance and trading

Neste Oil's stock closed 2008 at 52% below the price at the end of 2007. The share price started the year at EUR 24.00 and peaked at EUR 24.90 in January. It reached a low of EUR 9.47 in November, equivalent to a weighted average of EUR 17.95. The closing price at the end of the year was EUR 10.58, giving the company a market capitalization on December 31 of EUR 2.7 billion.

The share price showed strong daily fluctuation during the year and trading was brisk. Average daily trading amounted to some 1.5 million shares, or 0.5% of the company's shares, equivalent to EUR 27.1 million. The average monthly trading volume was 32 million shares, or EUR 571 million. During the year as a whole, 382 million shares were traded, accounting for 149% of the stock.

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 buy-back program in place, and the Board is not authorized to buy back company shares.

Dividend

Neste Oil's dividend policy is to distribute at least one third of its underlying profit for the year in the form of a dividend. At the Annual General Meeting in 2009, the Board of Directors will propose a dividend of EUR 0,80 per share for 2008, representing 212% of reported earnings per share. The dividend for 2007 was EUR 1.00 per share, representing 44% of reported earnings per share.

Shareholders

Neste Oil had 56,467 shareholders as of the beginning of 2008 and 66,859 as of the end of the year.

For more on shares held by senior management, see Page 57. For more on incentive schemes, see Pages 58–59.

Largest shareholders by size of holding as of 31 December 2008

		Shares	Holding, %	Change
1.	State of Finland	128,458,247	50.1	0
2.	Ilmarinen Mutual Pension Insurance Company	8,333,590	3.3	2,322,914
3.	Varma Mutual Pension Insurance Company	3,329,163	1.3	129,163
4.	The Social Insurance Institution of Finland, KELA	2,648,424	1.0	0
5.	The State Pension Fund	2,395,000	0.9	445,000
6.	OP-Delta Fund	1,783,995	0.7	433,418
7.	The City of Kurikka	1,550,875	0.6	0
8.	Etera Mutual Pension Insurance Company	1,414,500	0.6	90,700
9.	Neste Oil Pension Fund	1,258,738	0.5	0
10.	Odin Norden	1,239,554	0.5	339,533
11.	OP-Focus Non-UCITS Fund	624,450	0.2	200,000
12.	Svenska Handelsbanken AB (publ)	616,677	0.2	48,430
13.	Mutual Fund Evli Select	614,281	0.2	226,581
14.	Mandatum Life Insurance Company Ltd.	598,336	0.2	396,399
15.	Danske Fund Finnish Institutional Equity	563,418	0.2	-99,700
16.	Nordea Life Assurance Finland Ltd.	557,112	0.2	239,752
17.	OP-Finland Value Fund	530,000	0.2	300,000
18.	Alfred Berg mutual funds	528,127	0.2	223,460
19.	Odin Förvaltnings AS	501,859	0.2	-45,000
20.	Alexander Management Oy	500,000	0.2	0
Total of 20 largest shareholders		158,046,346	61.6	
Nominee registrations		49,911,035	19.5	
Other shareholders		48,446,305	18.9	
Total shares		256,403,686	100.0	

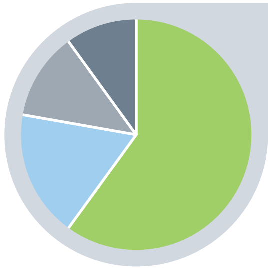
IR activities in 2008

The goal of Neste Oil's investor relations (IR) work is to ensure that investors can form an accurate and appropriately detailed picture of the company's current and future business and financial position. The company meets institutional and private investors on a regular basis in Europe, North America, and Asia.

Senior managers and IR personnel met investors at around 300 meetings in 2008. Regular contacts were also maintained with analysts and brokers. Senior managers took part in six conferences in Europe in 2008. Refinery visits were arranged in Finland, where the company also took part in events organized for private investors.

Shareholders by region*

(excluding the Finnish State)



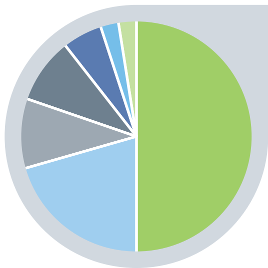
Scandinavia and Finland 60%
Continental Europe 18%
Great Britain and Ireland 12%
North America 10%

* Neste Oil estimate

Breakdown of share ownership as of 31 December 2008

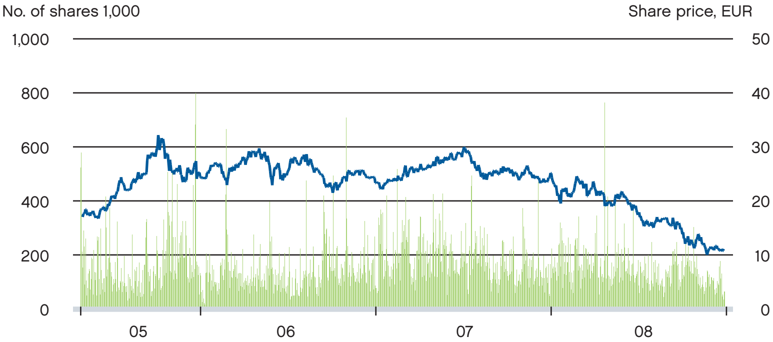
No. of shares owned	No. of shareholders	%	No. of shares	%
1 – 100	24,099	36.0	1,359,937	0.5
101 – 500	30,085	45.0	7,426,836	2.9
501 – 1 000	6,899	10.3	5,208,872	2.0
1 001 – 5 000	4,920	7.4	10,001,571	3.9
5 001 – 10 000	456	0.7	3,300,306	1.3
10 001 – 50 000	275	0.4	5,600,944	2.2
50 001 – 100 000	39	0.1	2,827,004	1.1
100 001 – 500 000	62	0.1	14,271,574	5.6
over 500,000	24	0.0	206,406,642	80.5
Total	66,859	100.0	256,403,686	100.0
Of which nominee registrations	20		49,911,035	19.5

Shareholders by category



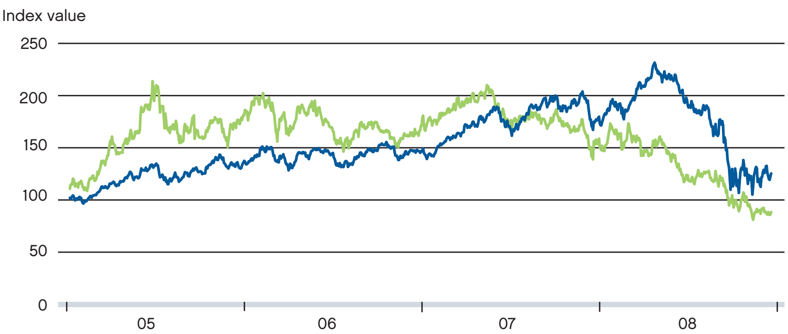
State of Finland 50.1%
Non-Finnish shareholders 20.6%
Households 9.8%
General goverment 9.2%
Financial and insurance companies 5.5%
Non-profit organizations 2.4%
Corporations 2.4%

Share performance and trading



Shares traded
Share price

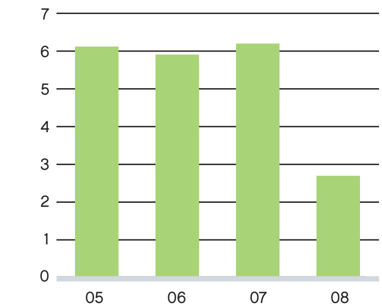
Shareholders' total return on their investment



Total revenue generated by Neste Oil shares
FTSE Global Energy Total Return Index

Market capitalization on NASDAQ OMX Helsinki, 2005–2008

EUR, billion



4.5

Risk management

Neste Oil encounters numerous risks as part of its business operations, linked to the state of the world economy, developments in the oil industry, and changes in the company's overall operating environment. How well we manage the risks related to our strategic actions impacts how successful we are in maintaining our corporate reputation. A comprehensive enterprise risk management process is used to manage these risks.

Risk management is a central part of Neste Oil's management system, and its importance will only grow as the company moves ahead with its major projects and as turbulence continues in the global economy.

Neste Oil's risk management policy

- We emphasize the importance of being aware of risks, assessing them, and managing them proactively
- Our objective is to increase our ability to take risks within predefined accepted limits
- We prioritize effective risk management, particularly in respect of corporate reputation, investments, market volatility, safety, and the environment
- Risk management is integrated into normal routines and management practices, and is covered by a defined structure of roles and responsibilities.

Role and goal of risk management

Neste Oil's enterprise risk management process aims to recognize and evaluate the risks affecting the company's strategic and business goals and operational targets systematically, and report on them appropriately. Risks are defined in terms of the relative probability of an event occurring that could affect the company's goals, and are measured and monitored on the basis of their impact and probability. The main means to be used for managing risks are also defined. Monitoring the impact of changes in the company's markets, businesses, and other factors on earnings potential is intended to support the organization achieve its targets.

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

The success of major capital projects calls for very effective risk management from start to finish.

As our strategy is mainly implemented through capital projects, ensuring their success calls for effective risk management from start to finish. Capital project-related risk management is aimed at helping secure a good business result and reducing and managing risks during the execution of projects.

Risk management strategies

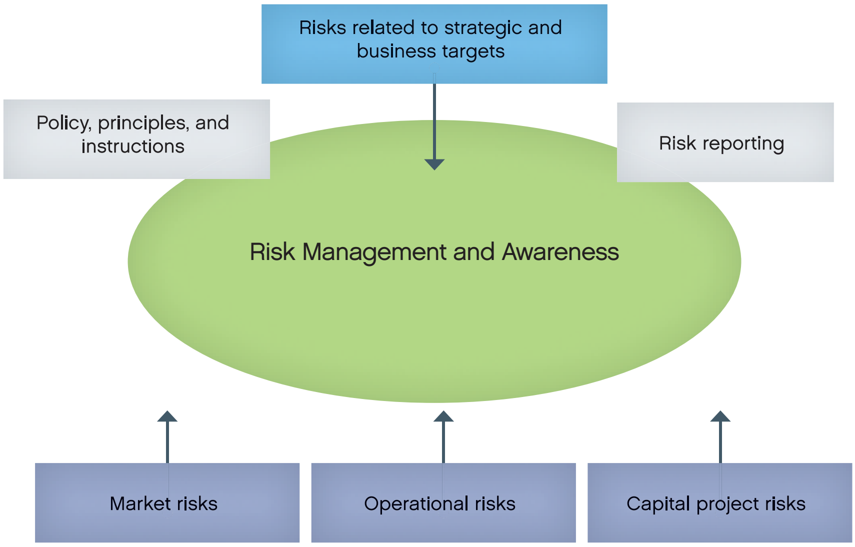
Neste Oil aims to limit the impact of risks on its operations through a range of risk management strategies. The Corporate Risk Management Policy and Principles approved by the Board of Directors define the risk management principles to be used for managing the risks associated with the strategic and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

Information on general Group-wide risks and risk management-related measures is contained in a risk database. Corporate policy and principles also include detailed

Sensitivity analysis

Impact of the following changes on operating profit in 2009, excluding hedges	
10% change in the EUR/USD exchange rate	+/- EUR 100–120 million
Change of USD 1.00/bbl in total refining margin	+/- USD 110 million
Change of USD 1.00/bbl in crude oil prices	+/- USD 10 million
Change of 10 Worldscale points in crude freight rates	+/- USD 10 million

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



guidelines on areas such as the management of corporate and divisional strategic risks, market risks, such as credit and counterparty risks, operational risks, such as safety-related risks, and legal liability.

The Corporate Risk Management Policy, together with other risk management principles and guidelines, cover the entire company. The Board is responsible for approving Neste Oil's Treasury Risk Management Policy and Credit and Counterparty Risk Management Policy. Divisions and corporate and other functions also have their own principles, instructions, and procedures related to risk management, approved by the President & CEO.

Multiple levels of risk management

The Board's Audit Committee is responsible for reviewing the quality, adequacy, and effectiveness of Neste Oil's risk management. Corporate Risk Management coordinates the risk management process, and develops and reviews risk-monitoring processes. Divisions, Communication, Treasury, Legal Affairs, Taxation, Safety, HSE, Corporate Security, IT, and HR are all involved. Divisions are responsible for managing the risks associated with their operations, and contribute to overall work in this area. Divisional and corporate function 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 President & CEO, and other corporate management twice a year. Divisions report on their market and financing-related risks to senior management as part of monthly marketing reporting. Open market exposure in trading operations is monitored and reported to the relevant business management on a daily basis.

Integrating enterprise risk management principles and guidelines into normal work routines and management in Neste Oil's divisions and corporate functions is continuing. Increasing people's awareness of risks and opportunities, together with the use of efficient and proactive risk management, is seen as of utmost importance.

Continuous development of the company's risk management capabilities requires ongoing monitoring, regular reviews, self-assessment, learning from past experience, and benchmarking. Special attention is given to managing the risks associated with areas, businesses, and functions affected by the current turmoil in the world economy and its impact on the supply and demand balance of the products that the company produces and sells, as well as its implications for the company's capital projects. Areas to be developed include risk management related to capital project management and business continuity planning.

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

Strategic risks
- Changes in the world economy and demand for petroleum products
- Risks related to new businesses and market factors associated with the Group's strategy
- Risks associated with delays in investments
- Reputation-related risks

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

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

Further information on the management policies covering these risks can be found In the Review by the Board of Directors beginning on Page 69 and in the Notes to the financial statements on Pages 87–94.

5.

Financial Statements

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 2008

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Review by the Board of Directors

Neste Oil's comparable operating profit was EUR 602 million in 2008, compared to EUR 626 million in 2007. The company's IFRS operating profit and other IFRS numbers were weaker compared to the previous year as a result of inventory losses during the second half of the year. The Board of Directors proposes a dividend of EUR 0.80, totaling EUR 205 million.

Figures in parentheses refer to the full-year financial statements for 2007, unless otherwise stated.

The Group's full-year results

Sales at the Neste Oil Group totaled EUR 15,043 million in 2008, compared to EUR 12,103 million in 2007.

The comparable operating profit of EUR 602 million was supported by a stronger total refining margin and good profitability at Shipping, but this was offset by unfavorable US dollar hedging and weaker profits at Oil Retail and the joint venture company Nynas. Additional negative impact came in the form of exceptional costs, which totaled around EUR 55 million.

Oil Refining's full-year comparable operating profit was EUR 510 million (484 million), Renewable Fuels' EUR 2 million (-13 million), Specialty Products' EUR 50 million (109 million), Oil Retail's EUR 22 million (59 million), and Shipping's EUR 55 million (28 million).

Profits from associated companies and joint ventures totaled EUR 13 million (39 million).

Operating profit under IFRS was EUR 186 million in 2008. The major decline from the EUR 801 million booked in 2007 is associated with inventory losses that cumulated in the second half of 2008 as oil prices softened rapidly. Under IFRS, inventories are accounted under the first-in, first-out (FIFO) principle and valued at the lower of cost or net realizable value. Inventory gains and losses are excluded in the comparable operating profit, which is a better way to asses the company's operating results in a volatile oil price environment. Inventory losses totaled EUR 453 million in 2008, compared to a profit of 174 million in 2007.

The full-year profit before taxes was EUR 129 million (763 million) and effective tax rate was 21.8% (24.0%). Profit for 2008 totaled EUR 101 million (580 million), and earnings per share were EUR 0.38 (2.25).

Given the capital-intensive nature of its business, Neste Oil uses return on average capital employed after tax (ROACE) as its primary financial target. ROACE calculation is based on comparable operating profit. At the end of December, the rolling twelve-month ROACE was 13.1% (2007 financial year: 15.5%).

Group key figures, MEUR

	2008	2007
Comparable operating profit	602	626
- inventory gains/losses	-453	174
- changes in the fair value of open oil derivatives	24	-5
- capital gains/losses	13	6
Operating profit	186	801

Sales	2008	2007
Oil Refining	12,030	9,348
Renewable Fuels	116	40
Specialty Products	591	649
Oil Retail	4,073	3,435
Shipping	437	394
Others	143	93
Eliminations	-2,347	-1,856
Total	15,043	12,103

Operating profit	2008	2007
Oil Refining	123	640
Renewable Fuels	2	-12
Specialty Products	19	122
Oil Retail	25	60
Shipping	54	30
Others	-42	-37
Eliminations	5	-2
Total	186	801

Comparable operating profit	2008	2007
Oil Refining	510	484
Renewable Fuels	2	-13
Specialty Products	50	109
Oil Retail	22	59
Shipping	55	28
Others	-42	-39
Eliminations	5	-2
Total	602	626

Capital expenditure and financing

Investments totaled EUR 508 million in 2008 compared to EUR 334 million in 2007. Oil Refining's capital spending was EUR 132 million (193 million), Renewable Fuels' EUR 249 million (69 million), Specialty Products' EUR 30 million (5 million), Oil Retail's EUR 63 million (51 million), and Shipping's EUR 3 million (2 million). Investments in the Other segment totaled EUR 31 million (14 million). Depreciation in 2008 was EUR 223 million (195 million).

The Group's interest-bearing net debt was EUR 1,004 million at the end of the year (31 Dec 2007: EUR 755). Net financial expenses between January and December were EUR 57 million (38 million). The average interest rate of borrowings at the end of 2008 was 4.0%, and the average maturity 4.4 years.

Net cash from operating activities between January and December was EUR 512 million (541 million). Neste Oil's balance sheet remained healthy during 2008. The year-end equity-to-assets ratio was 46.3% (31 Dec 2007: 49.9%), the leverage ratio 31.5% (31 Dec 2007: 23.7%, and the gearing ratio 46.1% (31 Dec 2007: 31.1%).

The Group's liquidity remained strong. Cash and cash equivalents and committed, unutilized credit facilities amounted to EUR 1,536 million at the end of December (31 Dec 2007: 1,492 million). The company sees no major refinancing needs until 2012. Short-term financing will continue to be met by revolving credit and overdraft facilities. There are no financial covenants in existing loan agreements.

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

Main events during the reporting period

Strategy implementation

Neste Oil continued to implement its clean fuel strategy in 2008. In line with this, the company's current capital projects consist of new plants designed to increase production of renewable diesel and high-quality base oil. The company is also investing in an isomerization unit to improve gasoline quality.

Strategic projects

Neste Oil announced on 13 June that it will build an 800,000 t/a plant to produce NExBTL renewable diesel in Rotterdam in the Netherlands. Construction started immediately and the facility is scheduled to be completed in 2011. The total cost of the investment was projected to be EUR 670 million. Construction of a similar-sized renewable diesel plant in Singapore proceeded according to the plan in 2008, scheduled to be in operation at the end of 2010. At the end of the year, Neste Oil and OMV decided to discontinue planning of a jointly owned NExBTL diesel plant in Austria.

On 16 June, Neste Oil and Bahrain's Oil & Gas Holding Company (OGHC) and the Bahrain Petroleum Company (Bapco) announced that they will establish a joint venture known as the Bahrain Base Oil Company to build a high-quality lubricant base oil plant in Bahrain. The plant will have an annual capacity of 400,000 tons of VHVI (Very High Viscosity Index) base oil for use in blending top-tier lubricants. Completion is scheduled for the end of 2011. Neste Oil's share of the JV is 45% and an estimated share of the investment cost is EUR 115–135 million.

Neste Oil announced on 4 June that it would build a new isomerization unit, costing approximately EUR 80 million, at its Porvoo refinery. The new unit will be capable of processing 600,000 t/a of lower-value gasoline fractions into higher-value, premium-quality gasoline, and will increase the refinery's total gasoline output by 200,000 t/a. Construction of the new unit will begin in 2009, and it is scheduled to come on stream in 2011.

Other events

The latest addition to the Porvoo refinery, Production Line 4, suffered from operational constraints between early April and early October. This resulted in lower-than-planned diesel output and a lower refining margin.

Neste Oil announced on 3 January 2008 that its subsidiary, Neste Jacobs, would acquire the engineering company, Rintekno. Following the acquisition, Neste Jacobs became the leading provider of engineering services for the chemical and biotechnology industries in the Nordic region, employing a total of some 800 people.

Neste Oil announced on 1 April 2008 that the disagreement relating to the final financial settlement for the mechanical installation work on Production Line 4 at the Porvoo refinery had been put before the Court of Arbitration. Neste Oil's claims against YIT Industrial and Network Services initially amounted to around EUR 36 million and mainly comprise damages based on the delay to the contract. In September, Neste Oil clarified its claims as totaling some EUR 107 million. YIT has lodged counter claims against Neste Oil for an amount of around EUR 25 million. Both parties contest each other's claims.

Neste Oil commercially launched a new renewable diesel, Neste Green diesel, in Finland at the beginning of May. Neste Green diesel contains at least 10% renewable fuel in the form of the company's unique NExBTL component. Distribution of the new fuel has initially been concentrated in Greater Helsinki.

Market overview

Crude oil prices were very volatile in 2008. Prices continued to rise in the first half of the year and Brent Dated recorded an all-time high of USD 144/bbl in July. Good demand, especially in China and India, and concerns about the long-term supply-demand balance drove the market up. As the global financial crisis escalated, however, prices started to decline sharply. Simultaneously, concerns about a recession resulted in reduced demand forecasts. Although OPEC announced production cuts to support the market, crude prices kept falling until finally stabilizing in December, when Brent Dated leveled at around USD 40/bbl. Brent Dated averaged USD 97/bbl (73) during the year as a whole.

The price differential between heavy and light crude was also volatile, widening during the first few months of 2008 but narrowing as crude oil prices fell. Demand for heavier crude improved due to new conversion capacity and good marine bunker demand. The average differential between Urals and Brent Dated in 2008 was USD -2.95 /bbl (-3.10).

Refining margins were slightly lower compared to 2007, and were mainly driven by middle distillates, as gasoline demand suffered from high prices. Margins peaked in September, when hurricanes forced refineries to shut down in the US Gulf. The international reference refining margin for complex refineries in Northwest Europe, IEA Brent Cracking, averaged USD 4.74 /bbl (5.09) in 2008.

Gasoline margins collapsed compared to 2007. Record high pump prices and increasing ethanol blending eroded demand significantly in the US, resulting in growing inventories. Low demand continued through the US driving season, and margins were even negative in July. After the hurricanes in September, inventories fell considerably and margins improved, but as the economic situation worsened, the outlook for gasoline remained very negative and margins fell again, virtually to zero.

Boosted by increasing demand, middle distillate margins, which were already strong, improved further in 2008, especially during the second quarter. High prices and the worsening economic outlook did not affect demand, which even improved when supply was disrupted by refinery outages. At the end of the year, after holding up so long, demand for middle distillates eventually started to show signs of suffering from the economic recession and margins decreased.

Fuel oil margins remained negative throughout 2008, but improved in the second half as crude oil prices declined. High-sulfur fuel oil was temporarily strong due to low Russian exports and very good bunker demand.

The European Union's Renewable Energy Directive was approved in December 2008. The directive includes a binding renewable fuel target of 10% in traffic and transportation usage in member states by 2010, together with sustainability criteria for biofuels. Implementation of the directive still requires consultation, which is estimated to last until the second half of 2009.

Demand for gasoline fell on the Finnish retail market by approximately 5% in 2008. Diesel demand increased, but growth decreased to approximately 2% as the economical situation worsened. The downturn in the Baltic economies was reflected in reduced demand for transportation fuels; in the St. Petersburg region, demand still grew but at a slower rate.

Unlike expected, Shipping freight rates were higher in 2008 than in 2007. North Sea crude freight rates increased by 32% and in the Baltic rates by 22%.

Key drivers

	2008	2007
IEA Brent cracking margin, USD/bbl	4.74	5.09
Total refining margin, USD/bbl	13.39	10.46
Urals-Brent price differential, USD/bbl	-2.95	-3.10
Brent dated crude oil, USD/bbl	96.99	72.52
USD/EUR exchange rate	1.47	1.37
Crude freights, Aframax WS points	179	136

Production and sales

Several records were broken at Neste Oil's refineries in 2008, including total annual production and total input at both refineries, which exceeded 15 million tons for the first time. Diesel output reached an all-time high, although the new diesel line operated at only approximately 60% of its annual nameplate capacity. Neste Oil refined a total of 15.2 million tons (14.6 million) of crude oil and feedstocks in 2008, of which 12.4 million tons (11.8 million) at Porvoo. The Naantali refinery processed 2.8 million tons (2.8 million).

The Naantali refinery operated at virtually full crude distillation capacity in 2008 and reached a utilization rate of 97% (97%). At Porvoo, utilization rate was lower at 92% (95%) due to problems with the new diesel line.

The proportion of Russian Export Blend (REB) in Neste Oil's total refinery input rose to 57% (51%).

The proportion of diesel in Neste Oil's sales structure in 2008 increased to nearly 40%, while gasoline and heavy fuel oil declined. The additional diesel volumes were mostly sold in Europe, resulting in 25% higher sales volumes there. Growth was also seen in sales to North America.

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

	2008	%	2007	%
Motor gasolines	4,056	28	4,384	31
Gasoline components	253	2	357	2
Diesel fuel	5,583	38	5,137	36
Jet fuel	658	5	729	5
Base oils	278	2	304	2
Heating oil	763	5	764	5
Heavy fuel oil	981	7	1,097	8
LPG	340	2	317	2
NExBTL renewable diesel	94	1	28	0
Other products	1,565	11	1,215	8
Total	14,571	100	14,332	100

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

	2008	%	2007	%
Finland	7,537	52	8,053	56
Other Nordic countries	2,056	14	2,059	14
Other Europe	3,028	20	2,399	16
USA & Canada	1,857	13	1,703	12
Other countries	94	1	118	1
Total	14,571	100	14,332	100

Segment reviews

In 2008, Neste Oil's businesses were grouped into six reporting segments: Oil Refining, Renewable Fuels, Specialty Products, Oil Retail, Shipping, and Other. The former Biodiesel division was renamed Renewable Fuels in April 2008.

Oil Refining

Key figures

	2008	2007
Sales, MEUR	12,030	9,348
Operating profit, MEUR	123	640
Comparable operating profit, MEUR	510	484
Capital expenditure, MEUR	132	193
Total refining margin USD/bbl	13.39	10.46

Oil Refining's full-year comparable operating profit was EUR 510 million (484 million). Neste Oil's total refining margin increased to USD 13.39 /bbl in 2008, compared to USD 10.46 /bbl in 2007. The total refining margin was boosted by strong diesel and middle distillates margins. The US dollar, write-downs and unscheduled maintenance costs had a negative impact.

Oil Refining's operating profit according to IFRS was EUR 123 million (640 million). Full-year inventory losses totaled EUR 422 million, compared to an inventory profit of EUR 161 million in 2007.

Oil Refining's comparable return on net assets was 21.7% (22.7%) in 2008.

Renewable Fuels

Key figures

	2008	2007
Sales, MEUR	116	40
Operating profit, MEUR	2	-12
Comparable operating profit, MEUR	2	-13
Capital expenditure, MEUR	249	69

Renewable Fuels' full-year comparable operating profit was EUR 2 million (-13 million), thanks to the first NExBTL plant being operational at Porvoo for part of the year. Higher costs were related to growth projects and R&D.

The full-year comparable return on net assets of Renewable Fuels was 0.9% (-12.3%).

Specialty Products

Key figures

	2008	2007
Sales, MEUR	591	649
Operating profit, MEUR	19	122
Comparable operating profit, MEUR	50	109
Capital expenditure, MEUR	30	5

The full-year comparable operating profit of Specialty Products stood at EUR 50 million (109 million). Weaker profit performance resulted from lower profits at Neste Oil's joint venture, Nynas AB, volatile base oil margins, and continued weak demand for gasoline components.

Specialty Products' full-year comparable return on net assets was 13.9% (32.9%).

Oil Retail

Key figures

	2008	2007
Sales, MEUR	4,073	3,435
Operating profit, MEUR	25	60
Comparable operating profit, MEUR	22	59
Capital expenditure, MEUR	63	51
Total sales volume*, 1,000 m3	4,353	4,519
- gasoline station sales, 1,000 m3	1,479	1,457
- diesel station sales, 1,000 m3	1,406	1,329
- heating oil, 1,000 m3	759	763
- heavy fuel oil, 1,000 m3	356	473

*includes both station and terminal sales

Oil Retail's comparable operating profit declined to EUR 22 million in 2008 (59 million). The majority of this resulted from a EUR 15 million write-down on receivables as well as EUR 10 million inventory losses.

Sales volumes of gasoline fell in the Finnish market, while diesel sales volume increased by approximately 5%. The company's market share in both products increased. Margins were as tight as in 2007. Oil Retail continued implementation of the project designed to enhance its profitability and position in the Finnish market. The planned decrease in the number of personnel in Finland is 35% during the period 2008-2011. This target is intended to be met without terminations. Revamping of the Finnish station network proceeded according to plan in 2008 and will be completed in 2011.

Volume growth in the Baltic Rim network totaled 7%, thanks to increasing sales at unmanned stations. Margins in the Baltic Rim were roughly unchanged year-on-year with some modest strengthening being seen in the last quarter. The downturn in the economic situation towards the end of the year had a negative impact on demand for, and volumes of, lubricants and LPG.

As of the end of 2008, Neste Oil had 887 (899) stations in Finland and 286 (271) in the Baltic Rim.

Oil Retail's comparable return on net assets was 6.0% (17.1%) in 2008.

Shipping

Key figures

	2008	2007
Sales, MEUR	437	394
Operating profit, MEUR	54	30
Comparable operating profit, MEUR	55	28
Capital expenditure, MEUR	3	2
Fleet utilization rate, %	96	94

Shipping's comparable operating profit totaled EUR 55 million in 2008 (28 million). Average freight rates were significantly higher in 2008 than in 2007. Shipping's operations ran smoothly throughout 2008, which is seen in the very high fleet utilization rate.

Shipping's comparable return on net assets was 19.2% (9.3%) in 2008.

Shares, share trading, and ownership

Neste Oil's share price closed 2008 at EUR 10.58, which is 52% lower compared to the end of 2007, and roughly in line with the European refining sector in general. At its highest during 2008, the share price reached EUR 24.90, while at its lowest the price stood at EUR 9.47, with the weighted average for the year coming in at EUR 17.95. Market capitalization was EUR 2.7 billion as of 31 December 2008.

An average total of 1.5 million shares were traded daily. This represents 0.5% of the Company's shares. An average of 32 million shares was traded monthly. During the year as a whole, 382 million shares, or 149% of the total number of shares, were traded.

Neste Oil's share capital registered with the Company Register as of 31 December 2008 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 2008, the Finnish State owned 50.1% of outstanding shares, foreign institutions 20.6%, Finnish institutions 19.5%, and Finnish households 9.8%.

On 31 December 2008, the members of the Board of Directors, the President and CEO, and Deputy CEO owned a total of 128,059 shares, which corresponds to 0.05 % of the company's shares and voting rights. The members of the Supervisory Board owned 125 shares as of 31 December 2008.

Largest shareholders as of 31 December 2008

Shareholder	Shares	Holding, %
State of Finland	128,458,247	50.1
Ilmarinen Mutual Pension Insurance Company	8,333,590	3.3
Varma Mutual Pension Insurance Company	3,329,163	1.3
The Social Insurance Institution of Finland, KELA	2,648,424	1.0
The State Pension Fund	2,395,000	0.9
OP-Delta Fund	1,783,995	0.7
The City of Kurikka	1,550,875	0.6
Etera Mutual Pension Insurance Company	1,414,500	0.6
Neste Oil Pension Fund	1,258,738	0.5
Odin Norden	1,239,554	0.5
OP-Focus Non-UCITS Fund	624,450	0.2
Svenska Handelsbanken AB (publ), Branch Operation in Finland	616,677	0.2
Mutual Fund Evli Select	614,281	0.2
Mandatum Life Insurance Company Ltd.	598,336	0.2
Danske Fund Finnish Institutional Equity	563,418	0.2
Nordea Life Assurance Finland Ltd.	557,112	0.2
OP-Finland Value Fund	530,000	0.2
Alfred Berg mutual funds	528,127	0.2
Odin Förvaltnings AS	501,859	0.2
Alexander Management Oy	500,000	0.2
20 largest shareholders	158,046,346	61.6
Nominee registrations	49,911,035	19.5
Other	48,446,305	18.9
Total number of shares	256,403,686	100.0

Breakdown of share ownership as of 31 December 2008

By number of shares owned

No. of shares	No. of shareholders	% of shareholders	No. of shares	% of shares
1 – 100	24,099	36.0	1,359,937	0.5
101 – 500	30,085	45.0	7,426,836	2.9
501 – 1,000	6,899	10.3	5,208,872	2.0
1,001 – 5,000	4,920	7.4	10,001,571	3.9
5,001 – 10,000	456	0.7	3,300,306	1.3
10,001 – 50,000	275	0.4	5,600,944	2.2
50,001 – 100,000	39	0.1	2,827,004	1.1
100,001 – 500,000	62	0.1	14,271,574	5.6
over 500,000	24	0.0	206,406,642	80.5
Total	66,859	100.0	256,403,686	100.0
Of which nominee registrations	20		49,911,035	19.5

By shareholder category

	% of shares
State of Finland	50.1
Corporations	2.4
Financial and insurance companies	5.5
Non-profit organizations	2.4
General Government	9.2
Households	9.8
Non-Finnish shareholders	20.6
Total	100.0

Corporate Governance

The control and management of Neste Oil Corporation is divided between shareholders, the Supervisory Board, the Board of Directors and its two Committees, 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 election. A person who has reached the age of 68 cannot be elected to the Supervisory Board.

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

Changes to the company's Articles of Association can be made at the General Meeting of Shareholder based on a proposal by the Board of Directors.

Neste Oil's Annual General Meeting was held on Wednesday, 14 March 2008. At the meeting, the income statements and balance sheets of the parent company and the Group for 2007 were adopted, and the Supervisory Board, the Board of Directors, and the President and CEO were discharged from liability for the

2007 financial year. The Board of Directors' proposal regarding the distribution of profits for 2007 by paying a dividend of EUR 1.00 per share was approved.

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

In 2008, the Supervisory Board comprised of Ms. Heidi Hautala (Chairman), Mr. Hannes Manninen (Vice Chairman), Mr. Esko Ahonen, Mr. Mikael Forss, Mr. Timo Heinonen, Mr. Markus Mustajärvi, Ms. Jutta Urpilainen, and Ms. Anne-Mari Virolainen. Members are all Finnish Members of Parliament, with the exception of Mr. Mikael Forss, who is a Director at the Social Insurance Institution of Finland.

Changes in senior management

President & CEO Risto Rinne retired as of 1 October 2008 after more than 30 years of service with the company. Mr. Matti Lievonen was appointed the new President & CEO and joined the company on 1 December.

The Chief Financial Officer, Petri Pentti, left Neste Oil at the end of September, and Mr. Ilkka Salonen was appointed CFO in November, joining Neste Oil in January 2009.

Personnel

Neste Oil employed an average of 5,174 (4,810) employees in 2008. At the end of December, the company had 5,262 employees (Dec 2007: 4,807). Wages and salaries paid by the company totaled EUR 251 million in 2008 (210 million).

Health, safety, and the environment

No serious environmental accidents resulting in liability occurred at Neste Oil's refineries or other production facilities in 2008. The environmental emissions of Neste Oil operations remained low throughout the year. Wastewater treatment plants at the refineries operated very well. The oil content of waterborne emissions was 0.1 g/ton of crude oil processed. This is less than 3.5% of the 3 g/ton maximum emission recommendation by the Baltic Marine Environment Protection Commission.

Finland's Supreme Court fined Neste Oil EUR 500,000 for damage caused to the environment as a result of an oil leak in 2001. The Turku Court of Appeal and the Turunseutu District Court had previously rejected the prosecution's call for a fine against the company.

The main indicator for safety performance used by Neste Oil – cumulative total recordable injury frequency (TRIF, number of cases per million hours worked) for all work done for the company, combining the company's own personnel and contractors – stood at 5.2 (5.8) at the end of December 2008. The target for 2008 was less than 5. The cumulative number of lost workday injuries was 54 at the end of December, resulting in a LWIF of 3.2 (2.9). The target is below 3.

Neste Oil has successfully fulfilled all the requirements related to carbon dioxide emissions in 2008. The verification of emissions for 2008 is scheduled, and the company is able to report and surrender allowances equal to its total emissions in 2008. The company has received emission rights for 3.6 million tons of CO2 emissions a year between 2008 and 2012, and will need to acquire rights from the market to cover expected future emissions.

The REACH (Registration, Evaluation and Authorization of Chemicals) regulation came into force in the EU on 1 June 2007. 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. The company successfully preregistered the substances it uses and produces in compliance with the deadline at end of November 2008.

Neste Oil retained its position in or was selected for inclusion in a number of sustainability indexes during 2008. It was again included in the Dow Jones Sustainability World Index, which features 320 companies from 24 countries that excel in their commitment to a more sustainable future. Neste Oil has been awarded 'Best in Class' recognition for its social accountability by the Norwegian banking group, Storebrand, included twice in Innovest's Global 100 list of the world's most responsible companies, and featured in the Ethibel Pioneer Investment Register.

Research and development

Research and development focusing on both crude oil-based and renewable fuels is crucial in implementing Neste Oil's strategy. Neste Oil's R&D expenditure increased by 32% compared to 2007 and totaled EUR 37 million (28 million). The main R&D projects were related to extending the raw material and technological base for renewable fuels.

Events after the reporting period

Neste Oil announced on 5 February 2009 that it will reorganize its operations around three business areas and seven common functions, and will introduce a new organization reflecting this on 1 April 2009. The new business areas will act as profit centers and will be responsible for their customers, products, and business development. The new business areas are as follows: Oil Products, Renewable Fuels, and Oil Retail. Activities outside these business areas will be grouped under Others. The new common functions will be: Production & Logistics, Finance, Human Resources, HSE, Technology & Strategy, Communications, and Legal Affairs.

The Specialty Products Division will be amalgamated into the Oil Products business area. Shipping operations will be reported in connection with the business areas that use them, and the Shipping business incorporated into Production & Logistics.

Neste Oil's financial reporting will be based on these business areas from 28 April 2009 onwards when the Q1/2009 figures are announced. Comparative figures for 2008 will be published before that in April.

The new common functions will be: Production & Logistics, Finance, Human Resources, HSSE, Technology & Strategy, Communications, and Legal Affairs.

After these changes, the Neste Executive Board will comprise the following members: Matti Lievonen, President & CEO; Matti

Lehmus, Executive Vice President, Oil Products; Jarmo Honkamaa, Executive Vice President, Renewable Fuels, Deputy CEO; Sakari Toivola, Executive Vice President, Oil Retail; Ilkka Poranen, Senior Vice President, Production & Logistics; Ilkka Salonen, CFO; Hannele Jakosuo-Jansson, Senior Vice President, Human Resources, Simo Honkanen, Senior Vice President, HSE; Osmo Kammonen, Senior Vice President, Communications; Lars Peter Lindfors, Senior Vice President, Technology & Strategy; Matti Hautakangas*, General Counsel.

*Secretary to the Neste Executive Board, not a member

The Neste Executive Management Board will comprise the President & CEO, business area executive vice presidents, the CFO, and the Senior Vice President, Production & Logistics.

Potential short-term and long-term risks

The oil market has been very volatile. Oil refiners are exposed to a variety of political and economic trends and events, as well as natural phenomena that affect the short- and long-term supply of and demand for the products that they produce and sell.

The largest uncertainty in the foreseeable future relates to the continued slowdown of the world economy, which is likely to reduce the demand for petroleum products and gasoline in particular. The problems on the international financial market have also increased uncertainties. As a consequence, managing customer receivables risks has become even more important. Sudden and unplanned outages at Neste Oil's production units or facilities continue to represent a short-term risk.

Rapid and large changes in feedstock and product prices may lead to significant inventory gains or losses, or change in working capital. These may have a material impact on the company's IFRS operating profit and net cash from operations.

Over the longer term, access to funding and rising capital costs, as well as challenges in procuring and developing new competitive and reasonably priced raw materials, may impact the company's growth plans.

The implementation of biofuel legislation in the EU and other key market areas may influence the speed at which the demand for these fuels develops.

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.

Risk management

Risk management is a central part of Neste Oil's management system, and its importance will only grow as the company moves ahead with its major projects and as turbulence continues in the global economy. Neste Oil aims to limit the impact of risks on its operations through a range of risk management strategies. The Corporate Risk Management Policy and Principles approved by the Board of Directors are the framework for managing the risks associated with the strategic and operational targets of the Group and its divisions and functions. In addition, divisions and corporate functions also have their own specific principles, instructions, and procedures related to risk management, approved by the President & CEO.

Risk management in the area of strategic and operational management aims at recognizing, assessing and prioritizing risks continuously, and managing them proactively.

For more detailed information on Neste Oil's risks and risk management, please refer to the note 3 of Financial Statements for 2008 and Corporate Governance section of the company's website.

Outlook for 2009

The outlook for the global economy is depressed, and this is reflected in oil demand forecasts, which have been revised down. The International Energy Agency (IEA) estimated in January that global oil demand will continue to decrease in 2009. The decrease in OECD countries is expected to be 2.5%.

Demand for gasoline, together with gasoline margins, looks likely to be very weak throughout 2009. Diesel and other middle distillates are expected to be the strongest part of the barrel and practically the only positive contributors to refining margins. Continued lower economical activity, however, is likely to put pressure on diesel margins as well.

Demand for base oils is likely to be weaker than in previous years, due to an anticipated decline in demand for lubricants.

Demand for all products is forecast to decrease in Oil Retail. Devaluation of local currencies may out pressure on Baltic Rim operations.

Operational performance at Neste Oil's refineries, including the NExBTL plant, should be better than during 2008. A planned two-month maintenance and process improvement shutdown will be carried out on Production Line 4 during the second quarter to enhance the line's productivity.

Shipping's fleet utilization rate is expected to remain high and operations smooth.

The Group will address its fixed costs and maintenance expenditure to secure cash flow.

The Group's investments are estimated to be around EUR 950 million in 2009 (508 million in 2008), of which maintenance investments will account for around EUR 180 million (218 million in 2008), productivity investments around EUR 60 million (14 million in 2008) and strategic investments around EUR 710 million (276 million in 2008).

Dividend distribution proposal

The Board of Directors will propose to the Annual General Meeting that Neste Oil should pay a dividend of EUR 0.80 per share for 2008, totaling EUR 205 million.

Key financial indicators

		2008	2007	2006
Income statement				
Sales	EUR million	15,043	12,103	12,734
Operating profit	EUR million	186	801	854
- of sales	%	1.2	6.6	6.7
Comparable operating profit	EUR million	602	626	597
Profit before income taxes	EUR million	129	763	841
- of sales	%	0.9	6.3	6.6
Profitability				
Return on equity (ROE)	%	4.4	25.6	34.3
Return on capital employed, pre-tax (ROCE)	%	6.1	26.2	31.9
Return on average capital employed, after tax (ROACE)	%	13.1	15.5	15.4
Financing and financial position				
Interest-bearing net debt	EUR million	1,004	755	722
Leverage ratio	%	31.5	23.7	25.6
Gearing	%	46.1	31.1	34.4
Equity-to-assets ratio	%	46.3	49.9	48.4
Other indicators				
Capital employed	EUR million	3,237	3,234	2,890
Capital expenditure and acquisition of subsidiary	EUR million	508	334	535
- of sales	%	3.4	2.8	4.2
Research and development expenditure	EUR million	37	28	22
- of sales	%	0.2	0.2	0.2
Average number of personnel		5,174	4,810	4,678
Share-related indicators				
Earnings per share (EPS)	EUR	0.38	2.25	2.46
Equity per share	EUR	8.48	9.47	8.15
Cash flow per share	EUR	2.00	2.11	2.00
Price/earnings ratio (P/E)		28.03	10.71	9.36
Dividend per share	EUR	0.80 [1)]	1.00	0.90
Dividend payout ratio	%	211.9 [1)]	44.4	36.6
Dividend yield	%	7.6 [1)]	4.1	3.9
Share prices				
At the end of the period	EUR	10.58	24.13	23.03
Average share price	EUR	17.95	25.48	25.19
Lowest share price	EUR	9.47	21.82	21.16
Highest share price	EUR	24.90	29.80	29.55
Market capitalization at the end of the period	EUR million	2,713	6,187	5,905
Trading volumes				
Number of shares traded	1,000	381,525	469,889	360,430
In relation to weighted average number of shares	%	149	183	141
Average number of shares		255,903,686	255,971,365	256,403,686
Number of shares at the end of the period		255,903,686	255,903,686	256,403,686

[1)] Board of Directors' proposal to the Annual General Meeting

Calculation of key financial indicators

Calculation of key financial indicators

Operating profit	=	Operating profit includes the revenue from the sale of goods and services, other income such as gain from sale of shares or non-financial assets, share of profit (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 sale of shares and non-financial assets - unrealized change in fair value of oil and freight derivative contracts
Return on equity, (ROE)%	=	$100 \times \frac{\text{Profit before taxes - taxes}}{\text{Total equity average}}$
Return on capital employed, pre-tax (ROCE) %	=	$100 \times \frac{\text{Profit before taxes + interest and other financial expenses}}{\text{Capital employed average}}$
Return on average capital employed, after-tax (ROACE) %	=	$100 \times \frac{\text{Profit for the period (adjusted for inventory gains/losses, gains/losses from sale of shares and non-financial assets and unrealized gains/losses on oil and freight derivative contracts, net of tax) + minority interest + interest expenses and other financial expenses related to interest-bearing liabilities (net of tax)}}{\text{Capital employed average}}$
Capital employed	=	Total assets - interest-free liabilities - deferred tax liabilities - provisions
Interest-bearing net debt	=	Interest-bearing liabilities - cash and cash equivalents
Leverage ratio, %	=	$100 \times \frac{\text{Interest-bearing net debt}}{\text{Interest bearing net debt + total equity}}$
Gearing, %	=	$100 \times \frac{\text{Interest-bearing net debt}}{\text{Total equity}}$
Equity-to-assets ratio, %	=	$100 \times \frac{\text{Total equity}}{\text{Total assets - advances received}}$
Return on net assets, %	=	$100 \times \frac{\text{Segment operating profit}}{\text{Average segment net assets}}$
Comparable return on net assets, %	=	$100 \times \frac{\text{Segment comparable operating profit}}{\text{Average segment net assets}}$
Segment net assets	=	Property, plant and equipment, intangible assets, investment in associates and joint ventures, pension assets, inventories and interest-free receivables and liabilities allocated to the business segment, provisions and pension liabilities
Research and development expenditure	=	Research and development expenditure comprise of the expenses of the Research & Technology unit serving all divisions of the Group, as well as research and technology expenses incurred in divisions, which are included in the consolidated income statement. Depreciation and amortization are included in the figure. The expenses are presented as gross, before deducting grants received.

Calculation of share-related indicators

Earnings per share (EPS)	=	$\frac{\text{Profit for the period attributable to the equity holders of the company}}{\text{Adjusted average number of shares during the period}}$
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, %	=	$100 \times \frac{\text{Dividend per share}}{\text{Earnings per share}}$
Dividend yield, %	=	$100 \times \frac{\text{Dividend per share}}{\text{Share price at the end of the period}}$
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 2008	1 Jan–31 Dec 2007
Sales	4,6	15,043	12,103
Other income	7	44	27
Share of profit (loss) of associates and joint ventures	18	13	39
Materials and services	8	-13,657	-10,279
Employee benefit costs	9	-315	-256
Depreciation, amortization and impairments	10	-223	-195
Other expenses	11	-719	-638
Operating profit		186	801
Financial income and expenses	12		
Financial income		8	8
Financial expenses		-70	-40
Exchange rate and fair value gains and losses		5	-6
Total financial income and expenses		-57	-38
Profit before income taxes		129	763
Income tax expense	13	-28	-183
Profit for the period		101	580
Attributable to:			
Equity holders of the Company		97	577
Minority interest		4	3
		101	580
Earnings per share from profit attributable to the equity holders of the Company basic and diluted (in euro per share)	14	0.38	2.25

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

Consolidated balance sheet

MEUR	Note	31 Dec 2008	31 Dec 2007
ASSETS			
Non-current assets			
Intangible assets	17	51	41
Property, plant and equipment	16	2,675	2,436
Investments in associates and joint ventures	18	152	178
Non-current receivables	19,20	13	3
Pension assets	29	105	81
Deferred tax assets	27	16	7
Derivative financial instruments	19,24	16	22
Available-for-sale financial assets	19,20	1	2
Total non-current assets		3,029	2,770
Current assets			
Inventories	21	637	968
Trade and other receivables	19,22	786	955
Derivative financial instruments	19,24	213	126
Cash and cash equivalents	23	55	52
Total current assets		1,691	2,101
Total assets		4,720	4,871
EQUITY			
Capital and reserves attributable to equity holders of the company	25		
Share capital		40	40
Other equity		2,131	2,383
Total		2,171	2,423
Minority interest		8	4
Total equity		2,179	2,427
LIABILITIES			
Non-current liabilities			
Interest-bearing liabilities	19,26	926	662
Deferred tax liabilities	27	297	289
Provisions	28	24	8
Pension liabilities	29	12	11
Derivative financial instruments	19,24	32	22
Other non-current liabilities	19,26	3	5
Total non-current liabilities		1,294	997
Current liabilities			
Interest-bearing liabilities	19,26	133	145
Current tax liabilities	19,26	1	14
Derivative financial instruments	19,24	197	77
Trade and other payables	19,26	916	1,211
Total current liabilities		1,247	1,447
Total liabilities		2,541	2,444
Total equity and liabilities		4,720	4,871

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

Consolidated cash flow statement

MEUR	Note	1 Jan–31 Dec 2008	1 Jan–31 Dec 2007
Cash flows from operating activities			
Profit for the period		101	580
Adjustments for			
Income tax	13	28	183
Share of profit (loss) of associates and joint ventures	18	-13	-39
Depreciation and amortization	10	223	195
Other non-cash income and expenses		-6	-4
Financial expenses - net	12	57	38
Profit/loss from disposal of fixed assets and shares	7	-12	-6
		378	947
Change in working capital			
Decrease (+)/increase (-) in trade and other receivables		232	-92
Decrease (+)/increase (-) in inventories		324	-271
Decrease (-)/increase (+) in trade and other payables		-308	174
Change in working capital		248	-189
		626	758
Interest and other finance cost paid		-50	-35
Interest income received		7	6
Dividends received		19	17
Realized foreign exchange gains and losses		-5	-28
Income taxes paid		-85	-177
		-114	-217
Net cash generated from operating activities		512	541
Cash flows from investing activities			
Purchases of property, plant and equipment	16	-487	-321
Purchases of intangible assets	17	-10	-13
Purchases of subsidiaries, net of cash acquired	5	-10	-
Purchases of associates and joint ventures	18	-1	-
Proceeds from sale of subsidiaries, net of cash disposed		-	-5
Proceeds from sale of property, plant and equipment		9	14
Proceeds from sale of of other shares		12	0
Changes in non-current receivables		-8	-22
Net cash used in investing activities		-495	-347
Cash flow before financing activities		17	194
Cash flows from financing activities			
Payment of (-) / proceeds from (+) current interest-bearing liabilities		-91	-130
Proceeds from non-current interest-bearing liabilities		1,453	595
Repayments of non-current interest-bearing liabilities		-1,117	-441
Dividends paid to the equity holders of the company		-256	-231
Other financing activities		-1	-4
Net cash used in financing activities		-12	-211
Net decrease (-)/increase (+) in cash and cash equivalents		5	-17
Cash and cash equivalents at beginning of the period		52	70
Exchange gains (+)/losses (-) on cash and cash equivalents		-2	-1
Cash and cash equivalents at end of the period	23	55	52

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

Consolidated statement of changes in equity

		Attributable to equity holders of the Company					Minority interest	Total equity
MEUR	Note	Share capital	Reserve fund	Fair value and other reserves	Translation differences	Retained earnings		
Total equity at 1 January 2007		40	9	26	3	2,011	8	2,097
Dividend paid						-231		-231
Treasury shares						-12		-12
Income and expenses recognized directly in equity								
Translation differences and other changes			1		-10	-3		-12
Cash flow hedges								
recorded in equity, net of tax				56				56
transferred to income statement, net of tax				-43				-43
Net investment hedges, net of tax					-4			-4
Share-based compensation				2				2
Hedging reserves in associates and joint ventures				1				1
Change in minority							-7	-7
Items recognized directly in equity		-	1	16	-14	-3	-7	-7
Profit for the period						577	3	580
Total recognized income and expenses		-	1	16	-14	574	-4	573
Total equity at 31 December 2007	25	40	10	42	-11	2,342	4	2,427
Total equity at 1 January 2008		40	10	42	-11	2,342	4	2,427
Dividend paid						-256		-256
Income and expenses recognized directly in equity								
Translation differences and other changes			0		-43	-1		-44
Cash flow hedges								
recorded in equity, net of tax				-23				-23
transferred to income statement, net of tax				-25				-25
Net investment hedges, net of tax					0			0
Share-based compensation				0				0
Hedging reserves in associates and joint ventures				-1				-1
Change in minority							0	0
Items recognized directly in equity		-	0	-49	-43	-1	0	-93
Profit for the period						97	4	101
Total recognized income and expenses		-	0	-49	-43	96	4	8
Total equity at 31 December 2008	25	40	10	-7	-54	2,182	8	2,179

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 NASDAQ OMX Helsinki.

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

The Board of Directors has approved these consolidated financial statements for issue on 4 February 2009.

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 IFRS 8 Operating Segments as of 1 January 2008. The Group's reporting segments are the five business divisions Oil Refining, Renewable Fuels, Specialty Products, Oil Retail and Shipping as well as Other segment consisting of Group administration, shared service functions as well as Research and Technology and Neste Jacobs Group.

The following interpretations or amendments to existing standards are mandatory for accounting periods beginning on or after 1 January 2008 but are not relevant to the Group's operations:

- IFRIC 11 IFRS 2 - Group and Treasury Shares
- IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- Amendments to IAS 39 and IFRS 7: Reclassification of Financial Instruments.

The following amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009:

- IAS 1 Presentation of Financial Statements - Revised: The Group is investigating the impact of the revised standard on the presentation of financial statements. The Group will apply the new standard from the financial period beginning 1 January 2009 onwards.
- IAS 23 Borrowing Costs - Revised: The Group does not expect to experience a major change in the amount of capitalized interest cost as a result of application of the revised standard. The Group will apply the new standard from the financial period beginning 1 January 2009 onwards.

Certain new interpretations or amendments to existing standard have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009. They are not expected to be relevant to the Group's operations:

- IFRIC 13 Customer Loyalty Programs
- Amendment to IFRS 2 Share based payments: Vesting Conditions and Cancellations
- Annual improvements.

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 or valuation of receivables. 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 reportable segments of the Group are presented in line with the Company's internal organizational and reporting structure adopted as of 1 January 2008. These divisions also represent the reporting segments.

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') or the functional currency of the Group. 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. Where forward sale and purchase contracts for crude oil or oil products have been determined to be for trading purposes, the associated sales and purchases are reported net within sales whether or not physical delivery has occurred. 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.

Note 2 continues →

Borrowing costs

Borrowing costs are recognized as expenses in the period in which they are incurred, except if they are directly attributable to the construction of an asset that meets the determined criteria, in which case they are capitalized as part of the cost of that asset. These criteria are that the borrowing costs incurred for the construction of a major initial investment, such as a new production facility or a new production line and that it will take more than 18 months to make the related asset operational.

Income taxes

The Group's income tax expenses include taxes of Group companies calculated on the basis of the taxable profit for the period, with adjustments for previous periods, as well as the change in deferred income taxes. For items recognized directly in equity, the income tax effect is similarly recognized.

Deferred income taxes are stated using the balance sheet liability method, to reflect the net tax effect of temporary differences between the financial reporting and tax bases of assets and liabilities. The main temporary differences arise from the depreciation difference on property, plant and equipment, the fair valuation of derivative financial instruments, pension assets recognized in the balance sheet, provisions 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. The same principle is applied to the costs incurred for compulsory periodic docking of ships. 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 amortized on a straight-line method over expected useful lives. Intangible assets comprise the following:

Computer software

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

Trademarks and licences

Trademarks and licences have a definite useful life and are carried at cost less accumulated amortization. They are amortized over their estimated useful lives (three to ten years).

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisition of subsidiaries is included in 'intangible assets'. Goodwill on acquisitions of associates is included in 'investments in associates'. Separately recognized goodwill is tested annually for impairment and carried at cost, less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing, using those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Emission allowances

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

A provision is recognized to cover the obligation to return emission allowances if 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 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.

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.

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'.

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 shortest.

Note 2 continues

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 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

A provision is 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 3.

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 in the periods when the hedged item affects the income statement, e.g. for example when a forecasted sale, that is being hedged, takes place. The gain or loss relating to the effective portion of the foreign exchange derivative contracts hedging of the future

USD-sales are recorded within sales. When the forecast transaction that is being hedged results in the recognition of a non-financial asset, for example property, plant and equipment, the gain or loss is included in the cost of the asset. The amounts are ultimately recognized in depreciation in the income statement. Interest element of interest rate swaps hedging variable rate interest-bearing liabilities is recognized in the income statement within 'financial expenses', and the change in fair value of the hedging instrument is accumulated in equity. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

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

Derivative financial instruments that do not qualify for hedge accounting

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

Definitions

Operating profit

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

Comparable operating profit

Comparable operating profit is calculated by excluding inventory gains/losses, gains/losses from sale of shares and non-financial 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. Financial risk management

Risk management principles

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

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

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

Risk management organization

Risks are generally managed at source, within the Group's divisions. Corporate Risk Management is responsible for managing and coordinating the enterprise risk management process.

Neste Oil's Group Treasury is responsible for managing foreign exchange, interest rate, liquidity, and refinancing risks, and works in close cooperation with the Group's divisions. Group Treasury and Corporate Risk Management units are organized within Neste Oil's Finance function, headed by the Chief Financial Officer.

Credit and counterparty risk management is organized within Corporate Risk Management. Decisions on the creditworthiness of counterparties are taken at the relevant levels of the line organization, as well as the Credit Committee, which consists of divisional representatives, and Group Treasury and Corporate Risk Management.

Note 3 continues →

Oil price risk management is organized in Oil Refining division's Risk Management unit, which manages hedging for the Group's refining margin, refinery inventory price risk, and various position transactions, including managing the price risk associated with the obligation to return emission allowances. The Risk Management unit also provides oil price hedging services to internal and external counterparties. Oil Refining's Supply, Sales and Trading unit, and other divisions to a smaller degree, enter into derivative contracts to limit the price risk associated with certain physical oil and freight contracts. Oil Refining's Supply, Sales and Trading unit together with the Shipping division enters into derivative transactions for trading purposes within consolidated risk limits.

Risk management process

Corporate Risk Management drives the risk management process and develops and reviews risk control processes. Divisional risk management supports the Group's businesses in managing the threats and opportunities linked to day-to-day business; and participates in corporate-level risk management identification and assessment, as well as management and control.

Neste Oil's risk management reporting is coordinated by the Chief Financial Officer. Major Group-level risks and risk management capability levels are reported to the Board of Directors, the Audit Committee, the President & Chief Executive Officer, and other corporate management two 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 feedstock, 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 feedstock. These factors, combined with Neste Oil's own consumption of crude oil and other feedstock and output of refined products, drive operational performance and cash flows in Oil Refining, which is Neste Oil's largest business division in terms of sales, profits, and net assets.

As the total refining margin is an important determinant of Oil Refining earnings, its fluctuations constitute a significant risk. With the aim of securing a minimum margin per barrel, Neste Oil hedges its refining margin using derivative financial instruments. The level of hedging depends on the forecast for the period in question and management's view of market conditions. The normal convention, however, is that up to 10% of the total refining margin 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.

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. 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 2008 (2007).

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) as well as the equity of non-euro zone subsidiaries (referred to as translation exposure).

Transaction exposure

In general, all divisions hedge their transaction exposure related to highly probable future cash flows. Net foreign currency cash flows are forecasted over a maximum of 12-month period on a rolling basis depending on the hedged item, and hedged 100% for the first six months and 50% for the following six months. Deviations from this risk-neutral benchmark position are subject to separate approvals set by the Group Treasury Risk Policy. The most important hedged currency is the U.S. dollar. The Group's net exposure is managed through the use of forward contracts, swaps, and options. All transactions are made for hedging purposes and the majority are also hedge accounted for. 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, net working capital, 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 feedstock 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 EUR/USD exchange rate. During 2008, the range of daily balance sheet exposure fluctuated between approximately EUR 185 million and 861 million. Group Treasury is responsible for consolidating various balance sheet items and carrying out hedging transactions. Foreign exchange risk is estimated by measuring the impact of currency rate changes based on historical volatility.

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

Currency	2008	2007
EUR	974	715
USD	72	76
Other	13	16
	1,059	807

Note 24 summarizes the nominal and fair values of outstanding foreign exchange derivative contracts as of 31 December 2008 (2007).

Translation exposure

Group Treasury is responsible for managing Neste Oil's translation exposure. This consists of net investments in foreign subsidiaries, joint ventures, and associated companies. Although the main principle is to leave translation exposure unhedged, Neste Oil may seek to reduce the volatility in equity in the consolidated balance sheet 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 424 million as of 31 December 2008 (2007: EUR 401 million), and the exposures and hedging ratios are summarized in the following table. As at 31 December 2008 or 2007 the Group had not hedged the translation exposure.

Group translation exposure

	2008			2007		
EUR million	Investment	Hedge	Hedge %	Investment	Hedge	Hedge %
USD	57	-	0%	37	-	0%
SEK	125	-	0%	124	-	0%
CAD	70	-	0%	73	-	0%
PLN	16	-	0%	20	-	0%
RUB	62	-	0%	56	-	0%
EEK	46	-	0%	40	-	0%
LTL	29	-	0%	26	-	0%
Other	19	-	0%	25	-	0%
	424	-	0%	401	-	0%

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 2008 (2007).

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

Period in which repricing occurs	within 1 year	1 year - 5 years	Total
Financial instruments with floating interest rate			
Financial liabilities			
Bonds	80		80
Loans from financial institutions	756		756
Pension loans	20		20
Finance lease liabilities	83		83
Effect of interest rate swaps	-355	355	0
Financial instruments with fixed interest rate			
Bonds		120	120
Total	584	475	1,059

Note 3 continues

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 2009 (2008), 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

		2009	2008
10% in the EUR/USD exchange rate	EUR million	+/- 100–120	**+/- 100–125**
USD 1.00/barrel in total refining margin	USD million	+/- 110	**+/- 110**
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 period 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 2008 (2007). Financial instruments affected by the above market risks include working capital items, such as trade and other receivables and trade and other payables, interest-bearing liabilities, deposits, cash and cash equivalents, and derivative financial instruments. When cash flow hedge accounting is applied, the change in the fair value of derivative financial instruments is assumed to be recorded fully in equity.

The following assumptions were made when calculating the sensitivity to the change in oil prices:

- the flat price variation for oil derivative contracts of crude oil and refined oil products is assumed to be +/- 10%
- the sensitivity related to oil derivative contracts held for hedging refinery oil inventory position is included; the underlying physical oil inventory position is excluded from the calculation, since inventory is not a financial instrument
- the sensitivity related to oil derivative contracts held for hedging expected future refining margin is included; the underlying expected refining margin position is excluded from the calculation
- the sensitivity related to oil derivative contracts for the price difference between various petroleum product qualities is excluded from the calculation, as the price variation of these contracts is assumed to be zero
- the sensitivity related to oil derivative contracts for the time spread of crude oil and petroleum products is excluded from the calculation, as the price variation of these contracts is assumed to be zero.

The following assumptions were made when calculating the sensitivity to changes in the EUR/USD exchange rate:

- the variation in EUR/USD-rate is assumed to be +/- 10%
- the position includes USD-denominated financial assets and liabilities, such as interest-bearing liabilities, deposits, trade and other receivables, liabilities, and cash and cash equivalents, as well as derivative financial instruments
- the position excludes USD-denominated future cash flows.

The following assumptions were applied when calculating the sensitivity to changes in interest rates:

- the variation of interest rate is assumed to be a 1% parallel shift in the interest rate curve
- the interest rate risk position includes interest-bearing liabilities, interest-bearing receivables, and interest rate swaps
- the income statement is affected by changes in the interest rates of floating-rate financial instruments, excluding those derivative financial instruments that are designated as and qualifying for cash flow hedges, which are recorded directly in equity.

The sensitivity analysis presented in the following table may not be representative, since the Group's exposure to market risks also arises from other balance sheet items than financial instruments, such as inventories. As the sensitivity analysis does not take into account future cash flows, which the Group hedges in significant volumes, it only reflects the change in fair value of hedging instruments. In addition, the size of the exposure sensitive to changes in the EUR/USD exchange rate varies significantly, so the position on the balance sheet date may not be representative for the financial period on average. Equity in the following table includes items recorded directly in equity. Items affecting the income statement are not included in equity.

Sensitivity to market risks arising from financial instruments as required by IFRS 7

		2008		2007	
		Income statement	Equity	Income statement	Equity
+/- 10% change in oil price	EUR million	-/+ 11	0	-/+ 11	0
+/- 10% change in EUR/USD exchange rate	EUR million	+20 / -17	+43 / -54	+41 / -50	+55 / -51
1% parallel shift in interest rates	EUR million	+/- 4	+/- 4	+/- 3	+/- 3

5. Hedge accounting

The Group uses foreign currency derivative 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 uses foreign exchange forward contracts and options as hedging instruments.

With the aim of securing a minimum refining margin per barrel, the Group hedges its refining margin using oil commodity derivative contracts. Certain oil commodity derivative contracts have been designated as hedges of forecasted transactions, e.g. cash flow hedges. The Group uses oil commodity forward contracts for hedging purposes.

The Group uses interest rate derivatives to reduce the volatility of interest expenses in the income statement and by adjusting 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

Derivative financial contracts that meet the qualifications for hedge accounting are designated as cash flow hedges. Such contracts are foreign currency derivatives contracts hedging USD-sales or capital expenditure denominated in foreign currencies for the next twelve months, oil commodity derivative contracts hedging the refining margin for the next twelve months, and interest rate swaps directly linked to underlying funding transactions maturing 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. In 2008 and 2007 the ineffective portion has been immaterial. 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 in the periods when the hedged item affects the income statement, e.g. for example when a forecasted sale, that is being hedged, takes place. The gain or loss relating to the effective portion of the foreign exchange derivative contracts hedging of the future USD-sales are recorded within sales. This is expected to take place within the next 12 months from the balance sheet date. When the forecast transaction that is being hedged results in the recognition of a non-financial asset, for example property, plant and equipment, the gain or loss is included in the cost of the asset. The amounts are ultimately recognized in depreciation in the income statement. Interest element of interest rate swaps hedging variable rate interest-bearing liabilities is recognized in the income statement within finance costs, and the change in fair value of the hedging instrument is accumulated in equity. 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

	2008	2007
- gain or loss on the hedging instrument	4	1
- gain or loss on the hedged item	-4	0

Hedges of net investments in foreign entities

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

Liquidity and refinancing risks

Liquidity and refinancing risk is defined as the amount by which earnings and/or cash flows are affected as a result of the Group not being able to secure sufficient financing. Neste Oil's principal source of liquidity is expected to be cash generated from operations. In addition, the Group seeks to reduce liquidity and refinancing risks by maintaining a diversified maturity profile in its loan portfolio. Certain other limits have also been set to minimize liquidity and refinancing risks. The Group must always have access to unutilized, committed credit facilities to cover all loans maturing within the next 12 months and any potential forecasted negative cash flows after investment activities. Unutilized committed credit facilities must always amount to at least EUR 500 million. In addition, total short-term financing shall not account for more than 30% of the total interest-bearing liabilities.

The average loan maturity as of 31 December was 4.4 years. The most important financing programs in place are:

- Revolving multicurrency credit facility (committed), EUR 1,500 million
- Overdraft facilities (committed), EUR 150 million
- Revolving credit facility (committed), EUR 75 million
- Domestic commercial paper program (uncommitted), EUR 400 million.

As of 31 December 2008, the Company had cash and cash equivalents and committed, unutilized credit facilities totaling EUR 1,536 million at its disposal.

Note 3 continues →

Cash and cash equivalents and committed unutilized credit facilities

	2008	2007
Floating rate		
– cash and cash equivalents	55	52
– overdraft facilities, expiring within one year	146	60
– revolving credit facilities, expiring beyond one year	1,335	1,380
	1,536	1,492

As of 31 December 2008, the contractual maturity of interest-bearing liabilities was as follows:

	2009 [1]	2010	2011	2012	2013	2014-	Total
Bonds and debentures	86	4	4	124	-	-	218
- less finance charges	6	4	4	4	-	-	18
Repayment of bonds and debentures	80	-	-	120	-	-	200
Loans from financial institutions	87	37	41	275	227	259	926
- less finance charges	39	33	33	27	19	17	168
Repayment of loans from financial institutions	48	4	8	248	208	242	758
Pension loans	1	1	1	1	1	21	26
- less finance charges [2]	1	1	1	1	1	1	6
Repayment of pension loans	-	-	-	-	-	20	20
Finance lease liabilities	9	9	7	8	39	28	100
- less finance charges	4	3	3	3	3	1	17
Repayment of finance lease liabilities	5	6	4	5	36	27	83
Interest rate swaps							
- less finance charges	-4	0	-1	-2	-1	-	-8

[1] Repayments in 2009 are included in current liabilities in the balance sheet.
[2] While pension loan is a perpetual loan, finance charges in 2014 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 2007, the contractual maturity of interest-bearing liabilities was as follows:

	2008 [1]	2009	2010	2011	2012	2013-	Total
Bonds and debentures	8	86	4	4	124	-	226
- less finance charges	8	6	4	4	4	-	26
Repayment of bonds and debentures	-	80	-	-	120	-	200
Loans from financial institutions	157	17	17	17	132	255	595
- less finance charges	18	17	17	17	12	25	106
Repayment of loans from financial institutions	139	-	-	-	120	230	489
Pension loans	2	2	2	2	2	40	50
- less finance charges [2]	2	2	2	2	2	2	12
Repayment of pension loans	-	-	-	-	-	38	38
Finance lease liabilities	10	10	9	8	8	64	109
- less finance charges	5	5	4	4	4	4	26
Repayment of finance lease liabilities	5	5	5	4	4	60	83
Other liabilities	1	-	-	-	-	-	1
- less finance charges	0	-	-	-	-	-	0
Repayment of other long-term liabilities	1	-	-	-	-	-	1
Interest rate swaps							
- less finance charges	-2	-2	2	1	-1	-	-2

[1] Repayments in 2008 are included in current liabilities in the balance sheet.
[2] While pension loan is a perpetual loan, finance charges in 2013 include payment only from one year.

Credit and counterparty risk

Credit and counterparty risk arises from sales, hedging and trading transactions as well as from cash investments. The risk arises from the potential failure of a counterparty to meet its contractual payment obligations, and the risk depends on the creditworthiness of the counterparty as well as the amount of the exposure. 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 Principles 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 or other credit enhancements such as letter of credit, bank guarantee or parent company guarantee have to be posted. In the event that a collateral is required, the credit risk is evaluated based on a financial evaluation of the party posting the collateral. If appropriate in terms of the potential credit risk associated with a specific customer, advance payment is required before delivery of products or services.

The credit lines for counterparties are divided into two categories according to contract type: physical sales contracts and derivative contracts. Credit lines are restricted in terms of the time horizon associated with the payment and credit exposure risk. In determining counterparty credit limits, two levels of delegation are used: authority mandates to the rated counterparties by the general rating agencies and authority mandates related to other counterparties. 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 concerning oil commodity, currency and interest rate derivative financial instruments. These contracts permit netting and allow for termination of the contract on the occurrence of certain events of defaults. Some of these agreements concerning commodity derivatives include Credit Support Annexes with the aim of reducing credit and counterparty risk by requiring margin call deposits in the form of cash or letter of credit for balances exceeding the mutually agreed limit.

Note 3 continues →

Group Treasury reduces credit risk by executing transactions only with counterparties with approved counterparty risk limits. All counterparties are rated with the minimum counterparty credit rating requirement being BBB (S&P). Foreign subsidiaries may have bank accounts in unrated financial institutions. In order to decrease credit risk associated with local banks used by subsidiaries in foreign countries, the subsidiaries are required to deposit their excess cash balances with the Group Treasury on an ongoing basis.

As to counterparty risk management vis-à-vis insurance companies for Neste Oil Group, the minimum credit rating requirement for the insurers and/or reinsurers is A- (S&P).

As of the balance sheet date, there was no major concentration of credit risk in respect of trade receivables from any single counterparty or counterparties within a same group, as the Group has a large number of different customers and counterparties on international markets. As to the range of the counterparties, the most significant types are mainly large international oil companies and financial institutions. However, the Group's exposure to unexpected credit losses within one reporting segment may increase with the concentration of credit risk through a number of counterparties operating in the same industry sector or geographical area, which may be adversely affected by changes in economic, political or other conditions. Also, balances due from a single counterparty with open credit line may amount to EUR 10 million due to the nature of the business, where cargoes including large volumes of refined oil products, for example 35,000 tons, are sold as one transaction. For this example, oil product price is based on a crude oil price of USD 40/barrel representing the price level prevailing at the turn of the financial period 2008/2009.

In order to further reduce credit and counterparty risk, the Group has intensified the application of the Credit and Counterparty Risk Management Principles during the financial period 2008. The Group has for example enhanced the ongoing screening of open credit lines and assessed the impact of the financial market conditions to the Group's counterparties with regard to the associated credit risk by taking into account all available information about counterparties, their financial situation and business activities.

Vis-à-vis counterparties to the contracts comprising the derivative financial instruments receivables exposure as at 31 December 2008, 58% of the counterparties or their parent companies related to commodity derivative contracts have investment grade rating from Standard & Poor's, Moody's or Fitch. Respectively, Group Treasury had an exposure for currency and interest rate derivative contracts with banks, of which all have investment grade rating.

The following table shows an analysis of trade receivables by age. 39% of the trade receivables portfolio exposure are from counterparties having investment grade rating. Of the exposure from the counterparties not having credit rating, 64% consists of trade receivables from a large number of retail corporate and private customers. With respect to undue trade receivables, there were no indications as of 31 December 2008 that the counterparties would not meet their obligations.

Analysis of trade receivables by age

	2008	2007
Undue trade receivables	529	781
Trade receivables 1–30 days overdue	34	40
Trade receivables 31–60 days overdue	2	1
Trade receivables more than 60 days overdue	9	11
	574	833

Capital risk management

The Group's objective when managing capital is to secure an efficient capital structure that gives the Group access to capital markets at all times despite the volatile nature of the industry in which Neste Oil operates. Despite the fact that the Group does not have a public rating, the Group's target is to have a capital structure equivalent to that of other oil refining companies with a public investment grade rating. The capital structure of the Group is reviewed by the Board of Directors on a regular basis.

The Group monitors its capital on the basis of leverage ratio, the ratio of interest-bearing net debt to interest-bearing net debt plus total equity. Interest-bearing net debt is calculated as interest-bearing liabilities less cash and cash equivalents.

Over the cycle, the Group's leverage ratio is likely to fluctuate, and it is the Group's objective to maintain the leverage ratio within the range of 25-50%. The leverage ratio as of 31 December 2008 and 2007 was as follows:

	2008	2007
Total interest-bearing liabilities	1,059	807
Cash and cash equivalents	55	52
Interest-bearing net debt	1,004	755
Total equity	2,179	2,427
Interest-bearing net debt and total equity	3,183	3,182
Leverage ratio	31.5%	23.7%

4. Segment information

Operating segments

Neste Oil's reportable segments are the five business divisions Oil Refining, Renewable Fuels, Specialty Products, Oil Retail, Shipping as well as Other segment. The segments produce and sell different products and services for different customer groups using different delivery chanels.

- Oil Refining produces and sells gasoline, diesel fuel, light and heavy fuel oil, aviation fuel, and liquefied petroleum gas to domestic and international wholesale markets.
- Renewable Fuels segment produces and sells NExBTL renewable diesel based on Neste Oil's proprietary technology to domestic and international wholesale markets.
- Specialty Products produces and sells base oils and gasoline components.
- Oil Retail segment markets and sells petroleum products and associated services directly to end-users, of which the most important are private motorists, industry, transport companies, farmers, and heating oil customers. Traffic fuels are marketed through Neste Oil's own service station network and direct sales.
- Shipping segment operates a tanker fleet, which carries crude oil, petroleum products, and chemicals for the Group and other customers.
- Other segment includes Group administration, shared service functions as well as Research and Technology and Neste Jacobs Group.

Reporting segments presented above don't include any segments which are formed from aggregating two or more smaller segments.

The segments' operating results are measured based on comparable operating profit and return on comparable net assets. The accounting policies of the segments are the same as those for the Group, as described in 'Summary of significant accounting policies'. All inter-segment transactions are on arm's length basis and are eliminated in consolidation. Segment operating profit include realized gains and losses from foreign currency and oil derivative contracts hedging cash flows of commercial sales and purchases that have been recycled in the income statement. The 'other expenses' included in the income statement for each business segment includes the following major items in the order of significance:

- Oil Refining: maintenance, freights, rents, and other property costs and insurance premiums, change in the fair value of open oil derivative positions
- Renewable Fuels: project costs, planning and consultancy costs and maintenance
- Specialty Products: freights and maintenance
- Oil Retail: rents and other property costs and maintenance
- Shipping: time-charter fees, operating costs of ships and maintenance.

Segment operating assets and liabilities comprise of assets and liabilities utilized in the segments' business operations. Assets consist primarily of property, plant and equipment, intangible assets, investment in associates and joint ventures, pension assets, inventories and receivables. They exclude deferred taxes, interest-bearing receivables, and derivative financial instruments designated as hedges of forecasted future cash flows. Segment operating liabilities comprise operating liabilities, pension liabilities, and provisions; and exclude items such as current and deferred taxes, interest-bearing liabilities, and derivative financial instruments designated as hedges of forecasted future cash flows.

Group's customer structure in 2008 and 2007 did not result in any major concentration in any given geographical or business area.

Note 4 continues

2008	Oil Refining	Renewable Fuels	Specialty Products	Oil Retail	Shipping	Other	Eliminations	Group
External sales	10,035	97	585	4,065	206	55	-	15,043
Internal sales	1,995	19	6	8	231	88	-2,347	0
Total sales	12,030	116	591	4,073	437	143	-2,347	15,043
Other income	20	-	2	4	12	23	-17	44
Share of profit of associates and joint ventures	-	-	13	-	-	-	-	13
Materials and services	-11,295	-67	-500	-3,819	-89	-18	2,131	-13,657
Employee benefit costs	-123	-7	-9	-41	-38	-105	8	-315
Depreciation, amortization and impairments	-143	-7	-17	-31	-15	-10	-	-223
Other expenses	-366	-33	-61	-161	-253	-75	230	-719
Operating profit	123	2	19	25	54	-42	5	186
Financial income and expense								-57
Profit before taxes								129
Income taxes								-28
Profit for the period								101
Comparable operating profit	510	2	50	22	55	-42	5	602
Changes in the fair value of open oil and freight derivative positions	23	-	-	2	-1	-	-	24
Inventory gains/losses	-422	-	-31	-	-	-	-	-453
Sales gains/losses	12	-	-	1	-	-	-	13
Operating profit	123	2	19	25	54	-42	5	186
Capital expenditure and investments in shares	132	249	30	63	3	31	-	508
Segment operating assets	2,848	439	212	567	294	131	-173	4,318
Investment in associates and joint ventures	0	1	135	1	15	-	-	152
Deferred tax assets								16
Unallocated assets								234
Total assets	2,848	440	347	568	309	131	-173	4,720
Segment operating liabilities	876	69	20	217	37	65	-177	1,107
Deferred tax liabilities								297
Unallocated liabilities								1,137
Total liabilities	876	69	20	217	37	65	-177	2,541
Segment net assets	1,972	371	327	351	272	66	4	3,363
Return on net assets, %	5.2	0.9	5.3	6.8	18.8			
Comparable return on net assets, %	21.7	0.9	13.9	6.0	19.2			

2007	Oil Refining	Renewable Fuels	Specialty Products	Oil Retail	Shipping	Other	Eliminations	Group
External sales	7,762	36	641	3,424	196	44	-	12,103
Internal sales	1,586	4	8	11	198	49	-1,856	0
Total sales	9,348	40	649	3,435	394	93	-1,856	12,103
Other income	9	-	1	4	8	18	-13	27
Share of profit of associates and joint ventures	-	-	39	-	-	-	-	39
Materials and services	-8,186	-22	-499	-3,168	-66	-21	1,683	-10,279
Employee benefit costs	-114	-4	-8	-38	-33	-61	2	-256
Depreciation, amortization and impairments	-126	-5	-13	-27	-15	-9	-	-195
Other expenses	-291	-21	-47	-146	-258	-57	182	-638
Operating profit	640	-12	122	60	30	-37	-2	801
Financial income and expense								-38
Profit before taxes								763
Income taxes								-183
Profit for the period								580
Comparable operating profit	484	-13	109	59	28	-39	-2	626
Changes in the fair value of open oil and freight derivative positions	-7	1	-	-1	2	-	-	-5
Inventory gains/losses	161	-	13	-	-	-	-	174
Sales gains/losses	2	-	-	2	-	2	-	6
Operating profit	640	-12	122	60	30	-37	-2	801
Capital expenditure	193	69	5	51	2	14	-	334
Segment operating assets	3,244	173	198	664	315	101	-190	4,505
Investment in associates and joint ventures	0	-	162	1	15	-	-	178
Deferred tax assets								7
Unallocated assets								181
Total assets	3,244	173	360	665	330	101	-190	4,871
Segment operating liabilities	1,079	31	36	284	33	42	-192	1,313
Deferred tax liabilities								289
Unallocated liabilities								842
Total liabilities	1,079	31	36	284	33	42	-192	2,444
Segment net assets	2,165	142	324	381	297	59	2	3,370
Return on net assets, %	30.1	-11.4	36.8	17.4	9.9			
Comparable return on net assets, %	22.7	-12.3	32.9	17.1	9.3			

Note 4 continues

Geographical information

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 information of the Group's sales by geographical area, irrespective of the origin of the goods or services, and non-current assets and capital expenditure by geographical area.

Sales are allocated based on the country in which the customer is located. Non-current assets and capital expenditure are allocated based on where the assets are located. Non-current assets comprise of intangible assets, property, plant and equipment and investments in associates and joint ventures. 'Other Nordic countries' include Sweden, Norway, Denmark and Iceland. '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.

2008	Finland	Other Nordic countries	Baltic rim	Other European countries	North and South America	Other countries	Elimi-nations	Group
Sales by destination	6,446	1,396	1,986	3,395	1,779	41	0	15,043
Non-current assets	2,390	137	166	50	37	98	0	2,878
Capital expenditure	384	0	25	5	14	80	0	508

2007	Finland	Other Nordic countries	Baltic rim	Other European countries	North and South America	Other countries	Elimi-nations	Group
Sales by destination	5,187	1,300	1,342	2,525	1,736	13	0	12,103
Non-current assets	2,257	165	177	10	41	5	0	2,655
Capital expenditure	283	0	40	1	4	6	0	334

5. Acquisitions and disposals of subsidiaries

Acquired subsidiaries

Neste Jacobs, subsidiary of Neste Oil Group, acquired 90% of the shares of an engineering company, Rintekno, which employs 230 people. The acquisition was closed on 29 February 2008. Prior to this, Neste Jacobs already owned 10% of the company. Rintekno is an engineering company specialized in engineering services for oil refining, chemicals and biopharma industries. Neste Jacobs and Rintekno have worked together for a number of years in connection with engineering of Neste Oil's investment projects.

On consolidation, intangible assets related to order backlog, customer relationships and trade name have been recognized at fair value in the balance sheet. Total amount recognized is EUR 1 million and the assets are depreciated during their expected life time, in 1-5 years. Goodwill recognized in the consolidated balance sheet is attributable to the experienced and capable personnel employed by Rintekno Group and to synergies achieved in engineering projects due to Rintekno's previous experience as a subcontractor in Neste Oil's major investment projects.

The profit of Rintekno Group included in the Neste Oil consolidated income statement 1 January – 31 December 2008 is immaterial. Also, management estimates that Rintekno Group's effect on Neste Oil's consolidated sales or profit for the period would have been immaterial as at 31 December 2008, had the acquisition taken place on 1 January 2008.

Assets and liabilities of Rintekno Group

2008	Acquired fair value	Acquired book value
Intangible assets	1	0
Property, plant and equipment	1	1
Trade and other receivables	5	5
Cash and cash equivalents	6	6
Total assets	13	12
Trade and other payables	5	5
Pension liabilities	1	1
Total liabilities	6	6
Acquired net assets	7	6
Purchase consideration		16
Direct costs related to the acquisition		0
Goodwill		9
Purchase consideration settled in cash		16
Direct costs related to the acquisition		0
Cash and cash equivalents in Rintekno Group		-6
Cash outflow on acquisition		10

No acquisitions took place in 2007.

Disposed subsidiaries

During the financial period 2008 there were no disposals of subsidiaries. In 2007, the Group sold its subsidiary Eastex Crude Company to the other owner of the company. The sale was completed on 15 February 2007. The company was included in the Oil Refining segment and its sales consolidated to Neste Oil Group totaled EUR 151 million in 2007. The company's impact on the Group's or segment's results have been insignificant.

Net cash inflow arising from disposal

	Eastex Crude Company 15 Feb 2007
Cash consideration received	14
Cash and cash equivalents disposed of	21
	-7

6. Analysis of sales by category

	2008	2007
Sale of goods	14,715	11,817
Revenue from services	285	259
Royalty income	1	2
Other	42	25
	15,043	12,103

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, raw materials and oil trading. Excise taxes included in the retail selling price of finished oil products amounting to EUR 1,213 million (2007: EUR 1,070 million) are included in product sales. The corresponding amount is included in 'Materials and services', Note 8.

Oil trading included in Sale of goods comprise of 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.

Revenue from services mainly comprises revenue from the Shipping segment and Neste Jacobs included in Other segment.

Revenue from product exchanges included in 'Sale of goods' amounted to EUR 126 million (2007: EUR 177 million).

7. Other income

	2008	2007
Gain on sale of subsidiaries	-	3
Capital gains on disposal of other non-current assets	12	3
Rental income	4	3
Government grants	12	8
Other	16	10
	44	27

Government grants relate mainly to the Shipping segment, which is entitled to apply for certain grants based on Finnish legislation. EUR 9 million (2007: EUR 5 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

	2008	2007
Change in product inventories	115	-94
Materials and supplies		
Purchases	13,328	10,518
Change in inventories	195	-168
External services	19	23
	13,657	10,279

Purchases include excise taxes included in the retail selling price of petroleum products amounting to EUR 1,213 million (2007: EUR 1,070 million). The corresponding amount is included in 'Sales', Note 6.

9. Employee benefit costs

	2008	2007
Wages, salaries	251	210
Social security costs	24	25
Pension costs-defined contribution plans	28	21
Pension costs-defined benefit plans	2	-8
Other costs	10	8
	315	256

Detailed information concerning pension costs is included in Note 29, ' Retirement benefit obligations'.
Key management compensation is included in Note 31, 'Related party transactions'.

Number of personnel (average)

	2008	2007
Oil Refining	1,881	1,864
Renewable Fuels	42	29
Specialty Products	102	93
Oil Retail	1,392	1,377
Shipping	505	509
Other	1,252	938
	5,174	4,810

10. Depreciation, amortization and impairment charges

	2008	2007
Depreciation of property, plant, and equipment		
Buildings and structures	51	47
Machinery and equipment	152	132
Other tangible assets	10	7
	213	186
Amortization of intangible assets	10	9
Depreciation, amortization and impairment charges total	223	195

11. Other expenses

	2008	2007
Operating leases and other property costs	149	152
Freights relating to sales	108	114
Repairs and maintenance	124	108
Other	338	264
	719	638

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

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

Fees charged by the statutory auditor, EUR thousands

	2008	2007
Audit fees	786	560
Auditor's mandatory opinions	19	3
Tax advisory	157	17
Other advisory services	846	55
	1,808	635

12. Financial income and expenses

	2008	2007
Financial income		
- Dividend income on available-for-sale investments	0	0
- Interest income from loans and receivables	8	8
- Other financial income	0	0
	8	8
Financial expenses		
- Interest expenses for financial liabilities at amortized cost	-53	-37
- Interest rate derivatives, hedge accounted	0	0
- Interest rate derivatives, non-hedge accounted	-14	0
- Other financial expenses	-3	-3
	-70	-40
Exchange rate and fair value gains and losses		
- Loans and receivables	-12	18
- Other	3	-3
- Foreign exchange derivatives, non-hedge accounted	14	-21
	5	-6
Financial cost - net	-57	-38

Net gains/losses on financial instruments included in operating profit

	2008	2007
Foreign exchange rate and oil derivative financial instruments designated as cash flow hedges	34	58
Non-hedge accounted foreign exchange rate, oil and freight derivative instruments	-11	-81
	23	-23

Net gains/losses include realized and unrealized gains and losses on derivative financial instruments. Finacial instruments held for trading purposes incude also the net result of physical trading transactions for those contracts that meet the criteria specified in IAS 39.5-6. Non-hedge accounted derivative financial instruments include net result of transactions entered into for hedging purposes amounting to EUR 10 million (2007: EUR -85 million), and transactions entered into for trading purposes amounting to EUR -21 million (2007: EUR 4 million).

Aggregate exchange differences charged/credited to the income statement

	2008	2007
Sales	29	-13
Materials and services	-12	18
	17	5

13. Income tax expense

The major components of tax expenses are:

	2008	2007
Current tax expense	15	137
Adjustments recognized for current tax of prior periods	-3	-1
Change in deferred taxes	16	47
	28	183

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:

	2008	2007
Profit before tax	129	763
Hypothetical income tax calculated at Finnish tax rate 26% (2007: 26%)	-34	-198
Effect of different tax rates of foreign subsidiaries	-1	-1
Tax exempt income	4	6
Non-deductible expense	-2	-1
Taxes for previous periods	3	1
Net results of associated companies	3	10
Other	-1	0
Tax charge in the consolidated income statement	-28	-183

The Group's effective income tax rate was 21.79% (2007: 24.04%). The effective tax rate is continually being slightly lower than the Finnish corporate tax rate of 26%. The share of profits of associates and joint ventures and tax-exempt capital gains decreased the effective tax rate. The main reason for the effective tax rate is the effect of Finnish on-going business operations.

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 Company has not granted any options, there is no dilution. The average number of shares has been adjusted with treasury shares, 500,000 shares, as described in note 25.

	2008	2007
Profit attributable to equity holders of the Company	97	577
Weighted average number of ordinary shares in issue (thousands)	255,904	255,971
Earnings per share basic and diluted (euro per share)	0.38	2.25

15. Dividend per share

The dividends paid in 2008 were EUR 1.00 per share, totalling EUR 256 million and 2007 EUR 0.90 per share, totalling EUR 231 million. A dividend of EUR 0.80 per share will be proposed at the Annual General Meeting on 3 April 2009, corresponding to total dividends of EUR 205 million for 2008. This dividend is not reflected in the financial statements.

16. Property, plant and equipment

2008	Land	Buildings and constructions	Machinery and equipment	Other tangible assets	Assets under construction	Total
Gross carrying amount at 1 January 2008	67	1,317	2,579	110	143	4,216
Exchange differences	-3	-41	-7	-1	-3	-55
Additions	6	88	100	5	288	487
Acquisition of subsidiaries	-	-	2	-	-	2
Disposals	-1	-6	-21	0	-8	-36
Reclassifications	0	-6	2	1	-3	-6
Gross carrying amount at 31 December 2008	69	1,352	2,655	115	417	4,608
Accumulated depreciation and impairment losses at 1 January 2008	-	616	1,122	42	-	1,780
Exchange differences	-	-28	-4	0	-	-32
Disposals	-	-6	-16	0	-	-22
Reclassifications	-	-6	0	-	-	-6
Depreciation for the period	-	51	152	10	-	213
Accumulated depreciation and impairment losses at 31 December 2008	-	627	1,254	52	-	1,933
Carrying amount at 1 January 2008	67	701	1,457	68	143	2,436
Carrying amount at 31 December 2008	69	725	1,401	63	417	2,675

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

Finance leases

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

	2008	2007
Gross carrying amount	145	145
Accumulated depreciation	38	32
Carrying amount	107	113

Capitalized borrowing costs

Borrowing costs amounting to EUR 2 million (2007: EUR 6 million) were capitalized during the financial period related to the Renewable Fuels investment projects in Singapore and Rotterdam (2007: Porvoo Diesel Production line). They are included in 'Assets under construction'. The Group's average interest rate of borrowings for each quarter was applied as the capitalization rate, which resulted in average capitalization rate of 4.00% (2007: 4.20%).

17. Intangible assets

2008	Goodwill	Other intangible assets	Total
Gross carrying amount at 1 January 2008	2	112	114
Exchange differences	-	-1	-1
Additions	9	10	19
Disposals	-	-8	-8
Reclassifications	-	6	6
Gross carrying amount at 31 December 2008	11	119	130
Accumulated amortization and impairment losses at 1 January 2008	-	73	73
Exchange differences	-	-2	-2
Disposals	-	-8	-8
Reclassifications	-	6	6
Amortization for the period	-	10	10
Accumulated amortization and impairment losses at 31 December 2008	-	79	79
Carrying amount at 1 January 2008	2	39	41
Carrying amount at 31 December 2008	11	40	51

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

Note 17 continues →

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 16.1 million tons emission allowances for the period 2008–2012. 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 2008 emission allowances were reflected in the balance sheet of Neste Oil in provisions amounting to EUR 3 million. This amount represents the estimated obligation to purchase emission allowances. The actual amount of CO_2 emissions in 2008 were 3.4 million tons (2007: 3.2 million tons). The Group has neither purchased nor sold emission allowances during the financial period ended 31 December 2008 (2007: purchased 25 thousand tons). The Group has exchanged an immaterial amount of emission allowances to Certified Emission Reduction (CER) during the financial period ended 31 December 2008.

Impairment test of goodwill

Goodwill is allocated to the Group's cash-generating units (CGU's), which are identified as the Group's operating segments, Oil Refining, Renewable Fuels, Specialty Products, Oil Retail, Shipping and Neste Jacobs sub-group within Other segment.

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

	2008	2007
Oil Refining	2	2
Other	9	-
	11	2

The recoverable amount of a cash-generating unit is determined based on value-in-use calculations. These calculations use cash flow projections based on financial plans approved by the management covering a period of three years. The key assumptions used for the plans in Neste Jacobs are the demand and the price level for engineering services within oil refining, chemicals and biopharma industries, as well as the billability rate.

Cash flows beyond the period are extrapolated for Neste Jacobs Group using a negative nominal growth rate. The negative nominal growth rate is due to goodwill being attributable to the experienced and capable personnel employed by the acquired Rintekno Group. The negative growth rate takes into account the potential turnover of personnel. The discount rate used is 9.5%, representing the WACC specified for the division in question after tax, which is adjusted by tax effects in connection with the test. The WACC formula inputs are risk-free rate of return, market risk premium, industry-specific beta factor, target capital structure, borrowing cost and country risks.

The key assumptions used in the impairment test in Neste Jacobs are the billability rate affecting the EBITDA, and the discount rate. A reasonably possible change in the key assumptions would not create a situation in which the carrying amounts of the cash generating units would exceed their recoverable amounts.

18. Investments in associates and joint ventures

Investments in associates

	2008	2007
Carrying amount		
At 1 January	2	2
At 31 December	2	2

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:

	2007
Assets	13
Liabilities	11
Sales	55
Profit/loss	0

The financial statements of the Group's associates are not published within the Group's reporting timetable. The summarized financial information presented above, therefore, is from the latest published financial statements of the associates concerned (2007).

Investments in joint ventures

	2008	2007
Carrying amount		
At 1 January	176	159
Share of profits of joint ventures	13	39
Investments in joint ventures during the financial period	1	0
Translation differences	-20	-6
Hedging reserves in joint ventures	-1	1
Dividends	-19	-17
At 31 December	150	176

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

	Country of incorporation	2008 % interest held	2007 % interest held
Glacia Ltd	Bermuda	50.00	50.00
Lacus Ltd	Bermuda	50.00	50.00
NSE Biofuels Oy Ltd	Finland	50.00	50.00
Nynas AB	Sweden	49.99	49.99
Terra Ltd	Bermuda	50.00	50.00

Note 18 continues

Nynas AB (formerly 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 3.7 million tons in total in 2008. The remaining 50.01% of the shares of Nynas is owned by a subsidiary of a Venezuelan oil company, Petroleos de Venezuela S.A. Nynas AB is governed as a 50/50 owned joint venture, although the other party owns the majority of the company's total share capital.

Glacia Ltd is a joint venture company owned on a 50/50 basis by Neste Oil and Stena Maritime AG (part of the Stena Group). The company owns an Aframax-size crude tanker, which joined the Neste Oil fleet in January 2007. Neste Oil has entered into a 10-year time charter contract with the joint venture for the vessel of which 8 years remain.

Terra Ltd and Lacus Ltd are two joint venture companies owned on a 50/50 basis by Neste Oil and Concordia Maritime AG (part of the Stena Group). Both companies own Panamax-size product tankers, which joined the Neste Oil fleet in January and February 2007. Neste Oil has entered into a 10-year time charter contract with the joint ventures for the vessels of which 8 years remain.

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

Joint ventures have been consolidated using the equity method.

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

2008	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Sales	Profit/loss
Glacia Ltd	46	4	36	2	5	1
Lacus Ltd	31	3	24	2	5	1
NSE Biofuels Oy Ltd	15	9	18	5	0	0
Nynas AB [1]	274	935	242	588	1,658	65
Terra Ltd	31	3	24	2	5	1

2007	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Sales	Profit/loss
Glacia Ltd	42	2	36	2	5	0
Lacus Ltd	31	13	24	2	4	0
NSE Biofuels Oy Ltd	0	0	0	0	0	0
Nynas AB	256	552	215	279	2,016	84
Terra Ltd	31	2	24	2	5	0

[1] Based on August 2008 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 Nynas AB are from the latest published interim financial statements of the company. The share of profits of joint ventures for 2008 is consolidated based on the company's preliminary results for the financial period.

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

2008 Balance sheet item	Financial assets/liabilities at fair value through income statement: Hedge accounting	Non-hedge accounting	Loans and receiv-ables	Available-for-sale financial assets	Financial liabilities measured at amortized cost	Carrying amounts by balance sheet item	Fair value	Note
Non-current financial assets								
Non-current receivables	-	-	13	-	-	13	13	20
Derivative financial instruments	-	16	-	-	-	16	16	24
Available-for-sale financial assets	-	-	-	1	-	1	1	20
Current financial assets								
Trade and other receivables	-	-	786	-	-	786	786	22
Derivative financial instruments	13	200	-	-	-	213	213	24
Carrying amount by category	13	216	799	1	-	1,029	1,029	
Non-current financial liabilities								
Interest-bearing liabilities	-	-	-	-	926	926	925	26
Derivative financial instruments	5	27	-	-	-	32	32	24
Other non-current liabilities	-	-	-	-	3	3	3	26
Current financial liabilities								
Interest-bearing liabilities	-	-	-	-	133	133	133	26
Current tax liabilities	-	-	-	-	1	1	1	26
Derivative financial instruments	37	160	-	-	-	197	197	24
Trade and other payables	-	-	-	-	916	916	916	26
Carrying amount by category	42	187	-	-	1,979	2,208	2,207	

2007 Balance sheet item	Financial assets/liabilities at fair value through income statement: Hedge accounting	Non-hedge accounting	Loans and receiv-ables	Available-for-sale financial assets	Financial liabilities measured at amortized cost	Carrying amounts by balance sheet item	Fair value	Note
Non-current financial assets								
Non-current receivables	-	-	3	-	-	3	3	20
Derivative financial instruments	-	22	-	-	-	22	22	24
Available-for-sale financial assets	-	-	-	2	-	2	2	20
Current financial assets								
Trade and other receivables	-	-	955	-	-	955	955	22
Derivative financial instruments	48	78	-	-	-	126	126	24
Carrying amount by category	48	100	958	2	-	1,108	1,108	
Non-current financial liabilities								
Interest-bearing liabilities	-	-	-	-	662	662	661	26
Derivative financial instruments	6	16	-	-	-	22	22	24
Other non-current liabilities	-	-	-	-	5	5	5	26
Current financial liabilities								
Interest-bearing liabilities	-	-	-	-	145	145	145	26
Current tax liabilities	-	-	-	-	14	14	14	26
Derivative financial instruments	1	76	-	-	-	77	77	24
Trade and other payables	-	-	-	-	1,211	1,211	1,211	26
Carrying amount by category	7	92	-	-	2,037	2,136	2,135	

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

Non-current receivables

	Fair value		Carrying amount	
	2008	2007	2008	2007
Non-current interest-bearing receivables	12	2	12	2
Other non-current receivables	1	1	1	1
	13	3	13	3

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 the discounted cash flow method, applying the market interest rate at the balance sheet date. The maximum exposure to credit risk at the reporting date is the carrying amount of the loan receivables.

Available-for-sale financial assets

	2008	2007
At 1 January	2	2
Disposals	-1	-
At 31 December	1	2
Investments in unlisted equity instruments	1	2
	1	2

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

21. Inventories

	2008	2007
Materials and supplies	237	415
Work in progress	206	179
Finished products and goods	193	373
Other inventories	1	1
	637	968

Inventories held for trading purposes are measured at fair value, less selling expenses. They amounted to EUR 17 million as at 31 December 2008 (2007: EUR 38 million). Write downs of inventories amounted to EUR 43 million as at 31 December 2008 (2007: EUR 0 million).

22. Current trade and other receivables

	Fair value		Carrying amount	
	2008	2007	2008	2007
Trade receivables	574	833	574	833
Other receivables	85	63	85	63
Advances paid	16	9	16	9
Accrued income and prepaid expenses	111	50	111	50
	786	955	786	955

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 18 million (2007: EUR 0 million).

Analysis of trade receivables by age is presented in Note 3, Financial risk management, section 'credit and counterparty risk'.

23. Cash and cash equivalents

Cash and cash equivalents include the following:

	2008	2007
Cash at bank and in hand	54	46
Short term bank deposits	1	6
	55	52

The maximum exposure to credit risk at the reporting date is the carrying amount of the cash and cash equivalents.

24. Derivative financial instruments

Nominal values of interest rate and currency derivative contracts and share forward contracts

	2008 Remaining maturities			2007 Remaining maturities		
	< 1 year	1–5 years	Total	< 1 year	1–5 years	Total
Derivative financial instruments designated as cash flow hedges						
Interest rate swaps [1]	-	35	35	-	35	35
Forward foreign exchange contracts	604	-	604	484	-	484
Currency options						
- Purchased	336	-	336	353	-	353
- Written	256	-	256	188	-	188
	1,196	35	1,231	1,025	35	1,060
Derivative financial instruments designated as fair value hedges						
Interest rate swaps [1]	-	60	60	-	60	60
	-	60	60	-	60	60
Non-hedge accounting derivative financial instruments						
Interest rate swaps [1]	-	380	380	-	250	250
Forward foreign exchange contracts	777	-	777	705	-	705
Share forward contracts [2]	5	9	14	3	14	17
	782	389	1,171	708	264	972

[1] Interest rate swaps mature in 5 years (2007: 3–5 years).

[2] Share forward contracts relate to share based payments (Note 30) and they mature in 0–2 years (2007: 0–2 years).

Volumes of oil and freight derivative contracts

	2008 Volume million bbl Remaining maturities			2007 Volume million bbl Remaining maturities		
	< 1 year	1–2 years	Total	< 1 year	1–2 years	Total
Oil derivative contracts designated as cash flow hedges						
Futures and forwards						
- Sales contracts	-	-	-	2	-	2
	-	-	-	2	-	2
Non-hedge accounting oil derivative contracts [3]						
Futures and forwards						
- Sales contracts	26	1	27	50	8	58
- Purchase contracts	19	1	20	47	8	55
Options						
- Purchased	-	1	1	-	-	-
- Written	-	1	1	-	-	-
	45	4	49	97	16	113
Non-hedge accounting freight derivative contracts [3]						
Futures and forwards						
- Sales contracts	1	-	1	8	-	8
- Purchase contracts	12	-	12	15	3	18
Options						
- Purchased	-	-	-	1	-	1
- Written	-	-	-	-	-	-
	13	-	13	24	3	27

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

Note 24 continues

Fair values of derivative financial instruments

Interest rate and currency derivative contracts and share forward contracts	Fair value 2008 Positive < 1 year	Fair value 2008 Positive 1–5 years	Fair value 2008 Negative < 1 year	Fair value 2008 Negative 1–5 years	Fair value 2007 Positive < 1 year	Fair value 2007 Positive 1–5 years	Fair value 2007 Negative < 1 year	Fair value 2007 Negative 1–5 years
Derivative financial instruments designated as cash flow hedges								
Interest rate swaps [1]	-	-	-	4	-	-	-	2
Forward foreign exchange contracts	12	-	20	-	33	-	-	-
Currency options								
- Purchased	1	-	6	-	12	-	-	-
- Written	0	-	11	-	1	-	-	-
	13	-	37	4	46	-	-	2
Derivative financial instruments designated as fair value hedges								
Interest rate swaps [1]	-	-	-	-	-	-	-	4
	-	-	-	-	-	-	-	4
Non-hedge accounting derivative financial instruments								
Interest rate swaps [1]	-	-	-	8	-	6	-	-
Forward foreign exchange contracts	28	-	3	-	4	-	2	-
Share forward contracts [2]	-	-	3	5	2	-	-	0
	28	-	6	13	6	6	2	0

[1] Interest rate swaps mature in 5 years (2007: 3–5 years).
[2] Share forward contracts relate to share based payments (Note 30) and they mature in 0–2 years (2007: 0–2 years).

Oil and freight derivative contracts	Fair value 2008 Positive < 1 year	Fair value 2008 Positive 1–2 years	Fair value 2008 Negative < 1 year	Fair value 2008 Negative 1–2 years	Fair value 2007 Positive < 1 year	Fair value 2007 Positive 1–3 years	Fair value 2007 Negative < 1 year	Fair value 2007 Negative 1–3 years
Oil derivative contracts designated as cash flow hedges								
Futures and forwards								
- Sales contracts	-	-	-	-	2	-	1	-
	-	-	-	-	2	-	1	-
Non-hedge accounting oil derivative contracts [3]								
Futures and forwards								
- Sales contracts	169	4	8	-	9	2	64	14
- Purchase contracts	3	-	137	3	61	14	10	2
Options								
- Purchased	-	-	-	12	-	-	-	-
- Written	-	12	-	-	-	-	-	-
	172	16	145	15	70	16	74	16
Non-hedge accounting freight derivative contracts [3]								
Futures and forwards								
- Purchase contracts	-	-	9	-	2	-	-	-
Options								
- Purchased	-	-	-	-	0	-	-	-
	-	-	9	-	2	-	-	-

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

	2008				2007			
	Assets		Liabilities		Assets		Liabilities	
Balance sheet reconciliation	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Derivative financial instruments	213	16	197	32	126	22	77	18

Fair value estimations

Derivative financial instruments are initially recognized and subsequently re-measured at their fair values i.e. 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 is determined using the forward exchange market quotations as per 30 December 2008. Due to the early closing of the exchanges (ICE Futures Europe and NYMEX, New York Merchantile Exchange) and low liquidity of the market as at the balance sheet date, those quotations were not regarded as representative. Thus, the quotations of the last normal trading day of the financial period were used in the fair value calculations. 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 as per 30 December 2008. 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.

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 2008 totalled EUR 40,000,000, divided into 256,403,686 shares of equal value.

	Number of shares, 1000	Share capital MEUR
Registered at 1 January 2007	256,404	40
Registered at 31 December 2007	256,404	40
Registered at 1 January 2008	256,404	40
Registered at 31 December 2008	256,404	40

Note 25 continues

Treasury shares

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

Other reserves

Reserve fund comprises of restricted reserves other than share capital.

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

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

26. Non-current and current liabilities

	Fair value		Carrying amount	
Non-current liabilities	2008	2007	2008	2007
Bonds	115	193	120	196
Loans from financial institutions	712	351	708	350
Pension loans	20	39	20	38
Finance lease liabilities	78	78	78	78
Other non-current liabilities	1	1	1	1
Accruals and deferred income	2	4	2	4
Non-current liabilities total	928	666	929	667
of which interest-bearing			926	662

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 the discounted cash flow method employing market interest rates or market values at the balance sheet date.

	Fair value		Carrying amount	
Current liabilities	2008	2007	2008	2007
Bonds	80	-	80	-
Loans from financial institutions	43	95	43	95
Finance lease liabilities	5	5	5	5
Advances received	15	2	15	2
Trade payables	496	767	496	767
Other current liabilities	327	416	327	416
Current tax liabilities	1	14	1	14
Accruals and deferred expenses	83	71	83	71
Current liabilities total	1,050	1,370	1,050	1,370
of which interest-bearing			133	145

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 the discounted cash flow method employing market interest rates at the balance sheet date.

The future minimum lease payments of finance lease liabilities and their present value in the balance sheet

	2008			2007		
	Minimum lease payments	Future finance charges	Present value of minimum-lease payments	Minimum lease payments	Future finance charges	Present value of minimum lease payments
Amounts payable under finance lease:						
Within one year	10	5	5	9	5	4
Between one and five years	85	7	78	67	14	53
More than 5 years	-	-	-	28	2	26
Total amounts payable	95	12	83	104	21	83

Finance lease liabilities relate to Shipping segment and arise from bareboat agreements on crude oil tankers Tempera and Mastera delivered in 2002 and 2003, escort tugs Ukko and Ahti delivered in 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 call options to purchase the leased assets in the 10th and 11th year of the lease period at a value determined at the inception of the lease. Neste Oil has announced it will exercise the call options. The spare part leasing agreement includes a call option to purchase the leased asset at termination of the agreement at a value determined at the inception of the lease. The option prices stated in the agreements are used as the residual values for the leased assets. Minimum lease payments in each agreement include these option prices as terminal payments. Contingent rents amounted to EUR 2 million (2007: EUR 3 million).

27. Deferred income taxes

The movement in deferred tax assets and liabilities during 2008:

	at 1 Jan 2008	Charged to Income Statement	Charged in Equity	Exchange rate differences and other changes	at 31 Dec 2008
Deferred tax assets					
Tax loss carried forward	0	1	-	-	1
Provisions	2	1	-	-	3
Other temporary differences	5	7	-	-	12
Total deferred tax assets	7	9	-	-	16
Deferred tax liabilities					
Depreciation difference and untaxed reserves	211	29	-	-	240
Excess of book basis over tax basis of property, plant and equipment	19	-5	-	-	14
Pensions	21	6	-	-	27
Cash flow hedges	14	-10	-16	-	-12
Finance leases	8	-1	-	-	7
Capitalized interest	10	0	-	-	10
Other temporary differences	6	6	-1	-	11
Total deferred tax liabilities	289	25	-17	-	297

Note 27 continues

The movement in deferred tax assets and liabilities during 2007:

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

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 13 million (2007: EUR 2 million) have been netted in the balance sheet.

Deferred tax assets

	2008	2007
Deferred tax asset to be recovered after more than 12 months	**10**	5
Deferred tax asset to be recovered within 12 months	**6**	2
	16	7

Deferred tax liabilities

	2008	2007
Deferred tax liability to be recovered after more than 12 months	**290**	264
Deferred tax liability to be recovered within 12 months	**7**	25
	297	289

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 emission allowances	Restructuring provisions	Other provisions	Total
At 1 January 2008	5	-	-	3	8
Charged to income statement					
Additional provisions	3	3	9	2	17
Amounts used during the period	-1	-	-	0	-1
At 31 December 2008	7	3	9	5	24

	2008	2007
Current provisions	16	0
Non-current provisions	8	8
	24	8

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

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

The Finnish TyEL plan is a statutory earnings-related plan, funded largely on a pay-as-you-go basis, although there is an element of advance funding. The benefits provided under TyEL are old age pensions, disability pensions, unemployment pensions, and survivors' pensions. The Group's voluntary pension plan grants additional pension benefits in excess of statutory benefits. The fund provides old age pensions, disability pensions, survivors' pensions, and funeral grants. The voluntary pension fund has been closed since 1 January 1994.

Defined benefit pension plans

Amounts recognized in the income statement

	2008	2007
Current service cost	17	14
Interest cost	31	27
Expected return on plan assets	-46	-46
Net actuarial gains and losses recognized during the period	0	-3
Total included in personnel expenses (Note 9)	2	-8

Amounts recognized in the balance sheet

	2008	2007
Present value of funded obligations	627	704
Fair value of plan assets	-601	-781
	26	-77
Unrecognized actuarial gains and losses	-119	7
Net liability (+) / asset (-)	-93	-70

Note 29 continues

Movement in the net pension asset/liability recognized in the balance sheet

	2008	2007
At the beginning of the period	-70	-61
Total expense charged in the income statement	2	-8
Contributions paid	-25	-1
At the end of the period	-93	-70

Amounts recognized in the balance sheet

	2008	2007
Defined benefit pension obligations	12	11
Defined benefit pension assets	-105	-81
Net asset (-) / liability (+)	-93	-70

Changes in the present value of the defined benefit obligation

	2008	2007
Opening defined benefit obligation	704	623
Service cost	17	14
Interest cost	31	27
Net transfer from TyEL pooling	1	5
Actuarial gains / losses	-101	55
Benefits paid	-21	-18
Translation differences	-4	-2
Closing defined benefit obligation	627	704

Changes in the fair value of plan assets

	2008	2007
Opening fair value of plan assets	781	759
Expected return on plan assets	46	46
Actuarial losses	-227	-10
Contributions by employer	25	1
Net transfer from TyEL pooling	1	5
Benefits paid	-21	-18
Translation differences	-4	-2
Closing fair value of plan assets	601	781

Analysis of the fair value of plan assets at the balance sheet date

	2008	2007
Equity instruments	235	419
Debt instruments	212	242
Property	77	3
Other assets	77	117
	601	781

The actual return on plan assets was EUR -181 million (2007: EUR 36 million).

Pension plan assets include the Parent Company's ordinary shares with a fair value of EUR 13 million (2007: EUR 30 million) and in 2008 buildings occupied by the Group with a fair value of EUR 61 million.

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

As at 31 December

	2008	2007	2006	2005	2004
Present value of funded obligation	627	704	623	566	495
Fair value of plan assets	601	781	759	696	556
Deficit (+) / surplus (-)	26	-77	-136	-130	-61
Experience adjustments on plan assets	-225	-10	32	87	38
Experience adjustments on plan liabilities	0	12	8	0	0

Contributions amounting to EUR 10 million are expected to be paid to the plan during 2009.

The principal actuarial assumptions used

Finland

	2008	2007
Discount rate	5.5%	4.5%
Expected return on plan assets	5.0–6.25%	5.0–6.25%
Future salary increases	3.5%	3.5%
Future pension increases	2.1–2.7%	2.1–2.7%

Other countries

	2008	2007
Discount rate	6.0–6.6%	5.5%
Expected return on plan assets	4.5–5.9%	4.5%
Future salary increases	2.0–5.3%	2.0–5.5%
Future pension increases	3.3%	3.5%

The expected return on plan assets is based on the weighted long term return for each class of plan assets, namely equity instruments, debt instruments and investment property. The returns are based on projections and estimations from external sources.

30. Share-based payments

Management Performance Share Arrangement in force as of 1 January 2007

Neste Oil has a Management Performance Share Arrangement for senior management and other key personnel. The Board of directors established a new scheme in 2006, which was launched at the beginning of the financial period ending 31 December 2007. As at 31 December 2008, 49 members of senior management or other key personnel were included in the arrangement. The arrangement has two three-year earning periods, starting in 2007 and 2010. Payments shall be made in 2010 and 2013, partly in the form of Company shares and partly in cash. The Board of Directors has made decisions concerning the personnel included in the scheme only for the first earnings period which started in 2007. If the maximum targets are reached during the first earnings period, the maximum amount of reward for senior management and other key personnel will equal the value of 360,000 Neste Oil shares, of which 353,033 shares were allocated as at 31 December 2008. The maximum reward for the members of the Neste Executive Team will equal the value of 137,830 shares, of which the maximum reward for the President & CEO will equal the value of 33,330 shares. The reward for the three-year earning period may not exceed each person's total fixed gross annual salary over three years. The sum paid out in cash will cover the relevant taxes and other similar payments.

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

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

Note 30 continues →

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

Grant dates and prices during the financial period 2008

Grant dates	2 Jan 2008	23 April 2008	1 Dec 2008
Grant prices, euros	22.80	19.50	10.44
Share price as at grant date, euros	24.90	20.60	11.54

Grant dates and prices during the financial period 2007

Grant dates	2 Jan 2007	25 April 2007
Grant prices, euros	20.13	24.57
Share price as at grant date, euros	23.13	26.67

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

Term of the plan

Beginning of earnings period	1 Jan 2007
End of earnings period	31 Dec 2009
End of restriction period	31 Dec 2010

Assumptions used in calculating the value of the reward

	2008	2007
Amount of granted shares at the beginning of the period, maximum reward	319,000	0
Amount of shares granted during the period, maximum reward	62,363	329,000
Adjustments to the amount of shares	-28,330	-10,000
Amount of granted shares at the end of the period, maximum reward	353,033	319,000
Number of participants at the end of the financial period	49	49
Share price at the end of the financial period, euros	10.58	24.13
Estimated rate of realization of the earnings criteria, %	58%	60%
Estimated termination rate before the end of the restriction period, %	10%	10%

An estimate of the realization of the earnings criteria, 58% (2007: 60%), as well as an estimate of the termination rate, 10% (2007 10%) were made at grant date. The estimate regarding the total shareholder value development is based on Monte Carlo simulation, using Neste Oil's share and FTSE Global Energy Total Return Index historical total shareholder return and volatilities. The estimated rate of realization regarding the development of Neste Oil's comparable operating profit is based on the most recent financial estimates and market analysis, which were available for the financial periods 2007–2009 at the grant date.

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

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

The arrangement was divided into individual performance share plans, with a new plan being introduced annually and each plan having a duration of approximately six years. The Board decided annually as to the inclusion of participants in commencing performance share plans. Each performance share plan begun with a three-year earning period, during which a participant accumulates annual bonus percentages, followed by a three-year restriction period, at the end of which a participant received a pre-determined number of Neste Oil shares. The maximum value in shares a participant could be granted after the first three years was equal to one year's salary (incl. fringe benefits). The actual final value of each share plan was always dependent on the performance of Neste Oil and each individual during the earning period, as well as the Neste Oil share price development over the course of the restriction period.

The number of shares granted after the three-year earning period (share participation) was based on the annual bonus percentages accumulated over those three years. In order to determine the number of shares, the participant's annual salary was multiplied by the cumulative annual bonus percentages, and this figure was divided by the grant price. The number of shares granted under each annual share plan was adjusted during the restriction period by potential dividends paid up until the share delivery, which takes place at the end of the restriction period. After deducting taxes and other charges payable by the participants the final number of shares will be diminished to approximately 50% of the granted number. The first plan began in 2002, when Neste Oil was part of Fortum Group. The shares earned during 2002-2004 were converted from Fortum shares to Neste Oil shares in 2005.

As at 31 December 2008, four separate plans were in place, which had started in 2003, 2004, 2005 and 2006. Concerning the 2003 plan, the earnings period ended on 31 December 2005. In December 2006 the Board of Directors decided that no new plans will commence in 2007, and that the earnings period for all remaining plans would end as at 31 December 2006. As a result, the earnings period for the plans started in 2005 and 2006 were two years and one year respectively. The restriction period for the 2004, 2005 and 2006 plans is 2007–2009. As at 31 December 2008 the members of Neste Executive Team had been granted share participations equivalent to a total number of 105,796 shares as part of the above described scheme.

The first delivery of shares to the participants took place in February 2008, and a reward equaling the gross amount of 205,899 shares, or EUR 4 million, was paid. The net amount shares delivered to the participants totaled 110,219 shares and the rest of the reward was paid in cash to cover taxes and other charges payable by the participants. The fair value of the share as at delivery date was 20.39 euros. The members of Neste Executive Team received a reward equaling the gross amount of 48,654 shares.

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

	2008	2007	2006	2005
Grant date	-	19 Feb 2007	23 Feb 2006	11 Feb 2005
Grant price, euros	-	23.85	25.02	15.00
Estimated termination rate before the end of the restriction period, %	**3%**	3%	3%	3%
Share price at the end of the financial period, euros	**10.58**	24.13	23.03	23.88
Number of share participations at the beginning of the period	**731,466**	393,693	217,047	0
Number of share participations granted during the period	-	358,789	177,174	217,047
Adjustments to the number of share participations granted initially	**-11,213**	-21,016	-528	-
Number of shares delivered during the period	**-205,899**	0	0	0
Total number of granted share participations outstanding at the end of the period	**514,354**	731,466	393,693	217,047

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 amounts presented in the table above.

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

Note 30 continues

Accounting treatment

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

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

	2008	2007
Expense recognized in the income statement	4	4
Change in fair value of the liability recognized in the balance sheet	-5	1
Total expense charged to the income statement	-1	5
Change in fair value of the hedging instrument	10	-1
Net effect of share based payments in the income statement	9	4

The liability recognized in the balance sheet related to share based payments amounted to EUR 2 million (2007: EUR 6 million). The remaining amount of the expense to be recognized during the financial periods 2008, 2009 and 2010 amounted to EUR 3 million as at 31 December 2008. The actual amount may differ from this estimate.

Hedging

The Group hedges its exposure to the share price development during the time period between the grant date and the delivery date concerning both Performance Share Arrangements. The hedging arrangement concerning the new Management Performance Share Arrangement is accounted for as treasury shares and has been described in detail in Note 25.

The previous Management Performance Share Arrangement is hedged using a net cash settled share forward. The hedge covers both the equity settled and the cash settled portions of the earned bonus. The hedging instrument is measured at fair value at each reporting date and the change in the fair value of the hedging instrument is recognized in the income statement to offset the change in the fair value of the bonus liability. The nominal and fair value of the hedging instrument is disclosed in Note 24.

31. Related party transactions

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

The group has a related party relationship with its subsidiaries, associates, joint ventures (Note 32) and with the members of the Board of Directors, the President and CEO and other members of the Neste Executive Team. Parent company of the Group is Neste Oil Corporation. 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 controlled by the State of Finland are on an arm's length basis.

Transactions carried out with related parties

2008	Sales of goods and services	Purchases of goods and services	Receivables	Financial income and expense	Liabilities
Associates	0	9	0	0	1
Joint ventures	100	1	13	0	0
	100	10	13	0	1

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

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

Key management compensation

	2008	2007
Salaries and other short-term employee benefits	3	3
Share-based payments	1	-
	4	3

Key management consists of the members of the Board of Directors, President and CEO and other members of the Neste Executive Team. There were no outstanding loan receivables from key management on 31 Dec 2008 or 31 Dec 2007.

The amounts of share participations granted to the members of the Neste Executive Team and the President and CEO based on Managment Performance Share Arrangements have been disclosed in Note 30, Share based payments.

Note 31 continues

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

	2008	2007
Matti Lievonen, President and CEO as of 1 December 2008	50,040	-
Risto Rinne, President and CEO until 30 September 2008	562,575	774,154
Board of Directors		
Timo Peltola, chairman	75,050	62,500
Mikael von Frenckell, vice chairman	59,200	49,500
Michiel A. M. Boersma	56,450	32,500
Ainomaija Haarla	45,850	37,500
Kari Jordan	-	9,000
Juha Laaksonen	-	10,000
Nina Linander	51,650	42,500
Antti Tanskanen	43,450	24,500
Markku Tapio	34,950	-
Pekka Timonen	8,500	37,000
Maarit Toivanen-Koivisto	43,450	37,000
Board of Directors, all members total	418,550	342,000
Supervisory Board, all members total	61,600	62,000

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

In the event the Company decides to give notice of termination to the President and Chief Executive Officer, he will be entitled to compensation equalling 24 months' salary. The retirement age of the President and CEO is 60, and the pension paid is 60% of his salary.

32. Group companies on 31 December 2008

Subsidiaries	Group holding%	Country of incorporation
Kide Automaatit Oy	100.00%	Finland
Kotka Control Oy [3]	100.00%	Finland
Neste Canada Inc.	100.00%	Canada
Neste Crude Oil Inc.	100.00%	USA
Neste Eesti AS	100.00%	Estonia
Neste Jacobs Oy	60.00%	Finland
Neste LPG AB	100.00%	Sweden
Neste Markkinointi Oy	100.00%	Finland
Neste Oil AB	100.00%	Sweden
Neste Oil 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 Netherlands B.V [2]	100.00%	The Netherlands
Neste Oil N.V.	100.00%	Belgium
Neste Oil Portugal S.A.	100.00%	Portugal
Neste Oil Renewable Fuels Oy [1]	100.00%	Finland
Neste Oil Services Inc.	100.00%	USA
Neste Oil Singapore Pte Ltd	100.00%	Singapore

Subsidiaries	Group holding%	Country of incorporation
Neste Oil (Suisse) S.A. [2]	100.00%	Switzerland
Neste Oil US Inc. [1]	100.00%	USA
Neste Petroleum Inc.	100.00%	USA
Neste Polska Sp.z.oo	100.00%	Poland
Neste Shipping Oy	100.00%	Finland
Neste St. Petersburg OOO	100.00%	Russia
Neste Trading (U.S.A.) Inc.	100.00%	USA
Neste USA, L.L.C.	100.00%	USA
Reola Gaas AS	93.85%	Estonia
Rintekno Oy [3]	100.00%	Finland
Rintekno AB [3]	100.00%	Sweden
SIA Neste Latvija	100.00%	Latvia
SIA Saskidrinata Naftas Gaze	100.00%	Latvia
Systecon Inc. [3]	100.00%	USA
Systecon Oy [3]	100.00%	Finland
Turun Sähkösuunnittelu Oy [3]	100.00%	Finland
UAB Neste Lietuva	100.00%	Lithuania
US Active Oy	100.00%	Finland

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

Joint ventures	Group holding%	Country of incorporation
Glacia Ltd	50.00%	Bermuda
Lacus Ltd	50.00%	Bermuda
NSE Biofuels Oy Ltd	50.00%	Finland
Nynas AB [1]	49.99%	Sweden
Terra Ltd	50.00%	Bermuda

[1] Name change during the financial period
[2] Founded during the financial period
[3] Acquired during the financial period

33. Contingencies and commitments

Contingent liabilities

	2008		2007	
	Debt	Value of collateral	Debt	Value of collateral
On own behalf for debt				
Pledged assets	-	-	1	2
Total	-	-	1	2
On own behalf for commitments				
Real estate mortgages		26		26
Pledged assets		3		2
Other contingent liabilities		37		42
Total		66		70
On behalf of associates and joint ventures				
Guarantees		5		2
Other contingent liabilities		2		1
Total		7		3
On behalf of others				
Guarantees		12		12
Total		12		12
	-	85	1	87

Operating lease liabilities

	2008	2007
Due within one year	106	108
Due between one and five years	262	183
Due later than five years	465	119
	833	410

Operating leases

Lease rental expenses amounting to EUR 132 million (2007: EUR 137 million) relating to the lease (under operating leases) of property, plant and equipment are included in the income statement in other expenses.

Commitments

	2008	2007
Commitments for purchase of property, plant and equipment	540	88
Commitments for purchase of intangible assets	0	0
	540	88

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 (30 April 2004) based on Chapter 17 Paragraph 16.6 of the Finnish Companies Act.

34. Disputes and potential litigations

Some Group companies are involved in legal proceedings or disputes incidental to their business. In management's opinion, the outcome of these cases is not likely to have material effect on Group's financial position. The Group is also involved as a claimant or defendant in certain potential legal disputes, whose outcomes are difficult to predict.

Neste Oil has clarified its claims against YIT Industrial and Network Services to total some EUR 107 million in a contract dispute that was put before the Court of Arbitration in April 2008. Neste Oil's claims against YIT consist of damages based on contract delays, now specified at approximately EUR 38.5 million, and damages valued at some EUR 68.5 million resulting from subsequent lost production. The dispute between Neste Oil and YIT relates to disagreements related to the final financial settlement of mechanical installation work on diesel production line 4, which was completed and came on stream at Neste Oil's Porvoo oil refinery in the summer of 2007. YIT has lodged counter-claims against Neste Oil totaling some EUR 25 million, primarily based on work carried out under the contract and the additional costs incurred due to the prolongation of the project. Both parties contest each other's claims.

35. Events after the balance sheet date

The Group will reorganize its operations around three business areas and seven common functions, and will introduce a new organization reflecting this on 1 April 2009. The new business areas will act as profit centers and will be responsible for their customers, products, and business development. The new business areas are as follows: Oil Products, Renewable Fuels, and Oil Retail. Activities outside these business areas will be grouped under Others. The new common functions will be: Production & Logistics, Finance, Human Resources, HSE, Technology & Strategy, Communications, and Legal Affairs.

The Specialty Products Division will be amalgamated into the Oil Products business area. Shipping operations will be reported in connection with the business areas that use them, and the Shipping business incorporated into Production & Logistics.

Neste Oil's financial reporting will be based on these business areas.

Parent company income statement

MEUR	Note	1 Jan–31 Dec 2008	1 Jan–31 Dec 2007
Net sales	2	12,398	9,254
Change in product inventories and work in progress		-99	90
Other operating income	3	31	18
Materials and services	4	-11,499	-8,133
Personnel expenses	5	-173	-144
Depreciation, amortization and write-downs	6	-136	-120
Other operating expenses	7	-420	-344
Operating profit		102	621
Financial income and expenses	8	-4	246
Profit before extraordinary items		98	867
Extraordinary items	9	19	23
Profit before appropriations and taxes		117	890
Appropriations	10	-89	-158
Income tax expense	11	1	-111
Profit for the year		29	621

Parent company balance sheet

MEUR	Note	31 Dec 2008	31 Dec 2007
ASSETS			
Fixed assets and other long-term investments	12,13		
Intangible assets		21	22
Tangible assets		1,723	1,802
Other long-term investments			
Shares in group companies		888	474
Shares in associated companies		1	1
Other shares and holdings		253	194
		2,886	2,493
Current assets			
Inventories	14	444	755
Long-term receivables	15	4	3
Short-term receivables	16	713	831
Cash and cash equivalents		6	10
		1,167	1,599
Total assets		4,053	4,092
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	17		
Share capital		40	40
Retained earnings		947	583
Profit for the year		29	621
		1,016	1,244
Accumulated appropriations	18	773	699
Provisions for liabilities and charges	19	18	12
Liabilities	20		
Long-term liabilities		1,209	825
Short-term liabilities		1,037	1,312
		2,246	2,137
Total equity and liabilities		4,053	4,092

Parent company cash flow statement

MEUR	1 Jan–31 Dec 2008	1 Jan–31 Dec 2007
Cash flows from operating activities		
Profit before extraordinary items	98	867
Depreciation, amortization and write-downs	136	120
Other non-cash income and expenses	10	-6
Financial income and expenses	4	-246
Divesting activities, net	-12	-2
Operating cash flow before change in working capital	236	733
Change in working capital		
Decrease (+) / increase (-) in interest-free receivables	156	-41
Decrease (+) / increase (-) in inventories	292	-283
Decrease (-) / increase (+) in interest-free liabilities	-276	169
Change in working capital	172	-155
Cash generated from operations	408	578
Interest and other financial expenses paid, net	-50	-47
Dividends received	39	36
Income taxes paid	-54	-153
Realized foreign exchange gains and losses	-5	-22
Group contributions received, net	23	23
Net cash from operating activities	361	415
Cash flows from investing activities		
Capital expenditure	-217	-250
Proceeds from sale of fixed assets	5	6
Investments in shares in subsidiaries	-300	-49
Proceeds from sale of shares in subsidiaries	-	2
Proceeds from sale of other shares	12	-
Change in other investments, increase (-)/decrease (+)	-1	-81
Net cash used in investing activities	-501	-372
Cash flow before financing activities	-140	43
Cash flows from financing activities		
Proceeds from long-term liabilities	1,573	726
Payments of long-term liabilities	-1,108	-436
Change in short-term liabilities	-72	-112
Dividends paid	-257	-231
Cash flow from financing activities	136	-53
Net increase (+) / decrease (-) in cash and cash equivalents	-4	-10
Cash and cash equivalents at the beginning of the period	10	20
Cash and cash equivalents at the end of the period	6	10
Net increase (+) / decrease (-) in cash and cash equivalents	-4	-10

Notes to the parent company financial statements

1. Accounting policies

The financial statements of Neste Oil Corporation (Parent company) are prepared in accordance with Finnish GAAP. The financial statements are presented in millions of euros unless otherwise stated.

Net sales

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

Other operating income

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

Foreign currency items

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

Derivative financial instruments

Neste Oil uses derivative financial instruments mainly to hedge oil price, foreign exchange and interest rate exposures.

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

There are two different types of foreign exchange derivative contracts: hedges for future cash flow and hedges of balance sheet items. Gains or losses on derivative financial instrument that hedge future cash flows are recognized once the underlying income or expense occurs. Derivative financial instruments used to hedge balance sheet items e.g. bank accounts, loans or receivables are valued employing the exchange rate quoted on the balance sheet date, and gains or losses are recognized in the income statement. The interest element on all forward contracts is accrued. Option premiums are treated as advances paid or received until the option matures.

Gains or losses for derivative financial instrument used to hedge the interest rate risk exposure are accrued over the period to maturity and are recognized as an adjustment to the interest income or expense of the underlying liabilities.

Fixed assets and depreciation

The balance sheet value of fixed assets consists of historical costs less depreciation according to plan and other possible write-offs, plus revaluation permitted by local regulations. Fixed assets are depreciated using straight-line depreciation based on the expected useful life of the asset. Land areas are not depreciated. The depreciation is based on the following expected useful lives:

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

Inventories

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

Research and development

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

Pension expenses

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

Extraordinary items

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

Deferred taxes

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

Provisions

Foreseeable future expenses and losses that have no corresponding revenue and which Neste Oil Corporation is committed or obliged to settle, and whose monetary value can reasonably be assessed, are entered as expenses in the income statement and included as provisions in the balance sheet. These items include expenses relating to the pension liabilities, guarantee obligations, expenses relating to the future clean-up of proven environmental damage and obligation to return emission allowances. Provisions are recorded based on management estimates of the future obligation.

2. Net sales

Net sales by segment

	2008	2007
Oil Refining	12,127	8,982
Renewable Fuels	69	39
Specialty Products	356	373
Oil Retail	1	1
Other	42	23
Eliminations	-197	-164
	12,398	9,254

Net sales by market area

	2008	2007
Finland	5,376	4,212
Other Nordic countries	1,374	1,254
Baltic countries, Russia and Poland	816	450
Other European countries	3,434	2,285
North and South America	1,357	1,040
Other countries	41	13
	12,398	9,254

3. Other operating income

	2008	2007
Rental income	9	8
Gains on sale of subsidiaries	-	2
Gains on sale of other shares	12	-
Government grants	3	1
Other	7	7
	31	18

4. Materials and services

	2008	2007
Materials and supplies		
Purchases during the period	11,305	8,325
Change in inventories	193	-193
	11,498	8,132
External services	1	1
	11,499	8,133

5. Staff costs

	2008	2007
Wages, salaries and remunerations	127	118
Indirect employee costs		
Pension costs	34	13
Other indirect employee costs	12	13
	173	144

Salaries and remuneration

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

Average number of employees

	2008	2007
Oil Refining	1,847	1,799
Renewable Fuels	-	26
Specialty Products	30	22
Other	504	423
	2,381	2,270

6. Depreciation, amortization and write-downs

	2008	2007
Depreciation according to plan	135	118
Write-offs	1	2
	136	120

7. Other operating expenses

	2008	2007
Operating leases and other property costs	18	15
Freights relating to sales	138	118
Repairs and maintenance	89	73
Other	175	138
	420	344
Other operating expenses include write-offs and losses on sales of tangible assets	3	0

Fees charged by the statutory auditor, EUR thousands

	2008	2007
Audit fees	289	286
Auditor's mandatory opinions	4	-
Tax advisory	133	-
Other advisory services	839	74
	1,265	360

8. Financial income and expenses

	2008	2007
Dividend income		
From Group companies	39	305
Dividend income total	39	305
Interest income from long-term loans and receivables		
From Group companies	2	1
Interest income from long-term loans and receivables total	2	1
Other interest and financial income		
From Group companies	4	4
Other	3	4
Other interest and financial income total	7	8
Interest expenses and other financial expenses		
To Group companies	-13	-15
Other	-52	-39
Interest expenses and other financial expenses total	-65	-54
Exchange rate differences	13	-14
Financial income and expenses total	-4	246

Total interest income and expenses

	2008	2007
Interest income	9	9
Interest expenses	-62	-52
Net interest expenses	-53	-43

9. Extraordinary items

	2008	2007
Extraordinary income		
Group contributions	19	23

10. Appropriations

Change in depreciation difference

	2008	2007
Difference between depreciation according to plan and depreciation in taxation	-89	-158

11. Income tax expense

	2008	2007
Income taxes on regular business operations	-4	102
Income taxes on extraordinary items	5	6
Change in deferred tax assets	-2	3
	-1	111

12. Fixed assets and long-term investments

Change in acquisition cost 2008

Intangible assets	Goodwill	Other intangible assets	Total
Acquisition cost as of 1 January 2008	1	68	69
Increases	-	6	6
Decreases	-	-2	-2
Acquisition cost as of 31 December 2008	1	72	73
Accumulated depreciation, amortization and write-downs as of 1 January 2008	1	46	47
Accumulated depreciation, amortization and write-downs of decreases and transfers	-	-2	-2
Depreciation and amortization for the period	-	7	7
Accumulated depreciation, amortization and write-downs as of 31 December 2008	1	51	52
Balance sheet value as of 31 December 2008	-	21	21
Balance sheet value as of 31 December 2007	-	22	22

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 2008	22	918	1,904	73	109	3,026
Increases	3	59	59	3	86	210
Decreases	-	-2	-7	0	-7	-16
Decrease through business transfer	-	-41	-53	0	-65	-159
Acquisition cost as of 31 December 2008	25	934	1,903	76	123	3,061
Accumulated depreciation, amortization and write-downs as of 1 January 2008	0	371	859	24	-	1,254
Accumulated depreciation, amortization and write-downs of decreases and transfers	-	-2	-7	0	-	-9
Decrease through business transfer	-	-2	-4	0	-	-6
Depreciation, amortization and write downs for the period	-	28	100	2	-	130
Accumulated depreciation, amortization and write-downs as of 31 December 2008	0	395	948	26	-	1,369
Revaluations	6	25	-	-	-	31
Balance sheet value as of 31 December 2008	31	564	955	50	123	1,723
Balance sheet value as of 31 December 2007	28	571	1,045	49	109	1,802
Balance sheet value of machinery and equipments used in production						910

Note 12 continues

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 2008	474	179	1	0	1	14	669
Increases	414	60	-	0	0	-	474
Decreases	-	-	-	0	-1	0	-1
Acquisition cost as of 31 December 2008	888	239	1	0	0	14	1,142
Accumulated depreciation, amortization and write-downs as of 1 January 2008	-	-	-	0	0	0	0
Accumulated depreciation, amortization and write-downs of decreases and transfers	-	-	-	-	0	-	0
Accumulated depreciation, amortization and write-downs as of 31 December 2008	-	-	-	0	0	0	0
Balance sheet value as of 31 December 2008	888	239	1	0	0	14	1,142
Balance sheet value as of 31 December 2007	474	179	1	0	1	14	669

Interest-bearing and interest-free receivables	2008	2007
Interest-bearing receivables	226	181
Interest-free receivables	27	12
	253	193

13. Revaluations

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

Policies and principles for revaluations and evaluation methods

The revaluations are based on fair values at the moment of revaluation.
Deferred taxes have not been booked on revaluations.

14. Inventories

	2008	2007
Raw materials and supplies	163	345
Work in progress	202	172
Products/finished goods	79	238
	444	755
Replacement value of inventories	444	831
Book value of inventories	444	755
Difference	0	76

15. Long-term receivables

	2008	2007
Deferred tax assets	4	3

16. Short-term receivables

	2008	2007
Trade receivables	337	534
Receivables from Group companies		
Trade receivables	197	205
Other receivables	19	24
Accrued income and prepaid expenses	2	3
Total	218	232
Receivables from associated companies		
Trade receivables	1	0
Total	1	0
Other receivables	53	42
Accrued income and prepaid expenses	104	23
	713	831

Short-term accrued income and prepaid expenses

	2008	2007
Accrued interest	5	4
Accrued taxes	69	15
Other	32	7
	106	26

17. Changes in shareholders' equity

	2008	2007
Share capital at 1 January	40	40
Share capital at 31 December	40	40
Retained earnings at 1 January	1,204	814
Dividends paid	-257	-231
Profit for the year	29	621
Retained earnings at 31 December	976	1,204
Distributable equity	976	1,204

18. Accumulated appropriations

	2008	2007
Depreciation difference	773	699

19. Provisions for liabilities and charges

	Provision for pensions	Provision for environment	Other provision	Total
Provisions as of 1 January 2008	10	1	1	12
Increase	-	5	1	6
Provisions as of 31 December 2008	10	6	2	18

20. Liabilities

Long-term liabilities

	2008	2007
Bonds	120	200
Loans from financial institutions	709	349
Pension loans	20	38
Liabilities to Group companies		
Other long-term liabilities	355	232
Accruals and deferred income	5	6
	1,209	825

Interest-bearing liabilities due after five years

	2008	2007
Loans from financial institutions	242	230
Pension loans	20	38
Liabilities to Group companies	355	232
	617	500

Short-term liabilities

	2008	2007
Bonds	80	-
Loans from financial institutions	34	120
Advances received	8	0
Trade payables	372	633
Liabilities to Group companies		
Advances received	1	0
Trade payables	29	29
Other short-term liabilities	157	139
Accruals and deferred income	13	2
Total	200	170
Liabilities to associated companies		
Trade payables	5	1
Total	5	1
Other short-term liabilities	286	342
Accruals and deferred income	52	46
	1,037	1,312

Short-term accruals and deferred income

	2008	2007
Salaries and indirect employee costs	35	34
Accrued interests	16	11
Other short-term accruals and deferred income	15	3
	66	48

Interest-bearing and interest-free liabilities

	2008	2007
Long-term liabilities		
Interest-bearing liabilities	1,204	819
Interest-free liabilities	5	6
	1,209	825
Short-term liabilities		
Interest-bearing liabilities	272	262
Interest-free liabilities	765	1,050
	1,037	1,312

21. Contingent liabilities

Collaterals and other undertakings on own behalf

	2008		2007	
	Debt	Value of collateral	Debt	Value of collateral
Own debt secured by pledged assets				
Pension loans	-	-	1	2
Collaterals total	-	-	1	2

Contingent liabilities

	2008	2007
Operating lease liabilities		
Due within a year	7	6
Due after a year	18	18
	25	24
Contingent liabilities given on own behalf		
Real estate mortgages	24	24
Pledged assets	3	2
Other contingent liabilities	2	2
	29	28
Contingent liabilities given on behalf of Group companies		
Real estate mortgages	2	2
Guarantees	277	284
	279	286
Contingent liabilities given on behalf of associated companies		
Guarantees	4	2
	4	2
Contingent liabilities given on behalf of others		
Guarantees	12	12
	12	12
Contingent liabilities total	349	352

22. Derivative financial instruments

Interest and currency derivative contracts and share forward contracts

	2008			2007		
	Contract or notional value	Fair value	Not recognized as an income	Contract or notional value	Fair value	Not recognized as an income
Interest rate swaps	475	-13	-13	345	-	-
Forward foreign exchange contracts	1,607	21	20	1,283	33	32
Currency options						
Purchased	303	5	5	325	11	11
Written	236	-15	-15	175	1	1
Share forward contracts	14	-8	-8	17	2	2

Oil and freight derivative contracts

	2008			2007		
	Volume 1000 bbl	Fair value	Not recognized as an income	Volume 1000 bbl	Fair value	Not recognized as an income
Sales contracts	27,848	176	176	57,252	-63	-63
Purchase contracts	21,704	-149	-147	52,594	63	63

The fair values of foreign exchange currency derivative contracts are based on market values at the balance sheet date. The fair values of interest rate swaps are the present values of the estimated future cash flows and the fair values of currency options are calculated with option valuation model.

The fair value of exchange traded oil commodity futures and option contracts are based on the forward exchange market quotations at the balance sheet date. The fair value of over-the-counter oil commodity derivative contracts is based on the net present value of the forward contracts quoted market prices at the balance sheet date. Physical sales and purchase agreements within trading activities are treated as derivatives and reported in the 'Derivative financial instruments' table.

23. Other contingent liabilities

Real estate investments

The Group is obliged to adjust VAT deductions made from real estate investments finished during 2008 if the taxable utilization of real estate will decrease during a 10 years control period.

24. Shares and holdings

	Country of incorporation	No. of shares	Holding, %	Book value 31 Dec 2008 EUR thousands
Subsidiary shares				
Neste Eesti AS	Estonia	10,000	100.00	5,926
Neste Jacobs Oy	Finland	2,100	60.00	438
Neste Markkinointi Oy	Finland	210,560	100.00	51,467
Neste Oil (Suisse) S.A.	Switzerland	200	100.00	62
Neste Oil Ab	Sweden	2,000,000	100.00	23,972
Neste Oil BR Ltd	Belarus	1	100.00	-
Neste Oil Components Finance B.V.	The Netherlands	40	100.00	22
Neste Oil Finance B.V.	The Netherlands	26,090	100.00	34,177
Neste Oil Holding (USA) Inc	USA	1,000	100.00	18,428
Neste Oil Insurance Ltd	Guernsey	7,000,000	100.00	3,000
Neste Oil Ltd	Great Britain	500,100	100.00	1,793
Neste Oil N.V	Belgium	2,227,960	99.99	519,752
Neste Oil US Inc.	USA	1,000	100.00	1,100
Neste Renewable Fuels Oy	Finland	200	100.00	113,581
Neste Shipping Oy	Finland	101	100.00	55,452
Neste St.Petersburg OOO	Russia	10	100.00	58,427
				887,597
Associated companies				
Neste Arabia Co. Ltd	Saudi-Arabia	480	48.00	156
Porvoon Alueverkko Oy	Finland	40	33.33	7
Svartså Vattenverk-Mustijoen Vesilaitos	Finland	14	40.00	124
Tahkoluodon Polttoöljy Oy	Finland	630	31.50	490
Vaskiluodon Kalliovarasto Oy	Finland	330	50.00	17
				794
Other shares and holdings				
Cleen Oy	Finland	100		100
Ekokem Oy Ab	Finland	375	2.68	125
Fine Carbon Fund Ky	Finland	1		1
Finnish Measurement Systems FMS Oy	Finland	80	10.91	-
Nordic Carbon Fund ky	Finland	1		1
Posintra Oy	Finland	190		34
				261
Real estate companies				
Oy Kokonhalli Ab	Finland	55	20.00	93
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
Others	Finland			6
Connection fees				70
Total				888,823

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 2008 stood at EUR 976 million. The Board of Directors proposes Neste Oil Corporation to pay a dividend of EUR 0.80 per share for 2008, totalling EUR 205 million, and that any remaining distributable funds be allocated to retained earnings.

Espoo, 4 February 2009

Timo Peltola   Michiel A. M. Boersma   Mikael von Frenckell   Ainomaija Haarla

Nina Linander   Antti Tanskanen   Markku Tapio   Maarit Toivanen-Koivisto

Matti Lievonen
President and CEO

Auditor's report

To the Annual General Meeting 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 financial period 1.1.–31.12.2008. The financial statements comprise the consolidated balance sheet, income statement, cash flow statement, statement of changes in equity and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

The responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the financial statements and the report of the Board of Directors and for the fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the fair presentation of the parent company's financial statements and the report of the Board of Directors in accordance with laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's responsibility

Our responsibility is to perform an audit in accordance with good auditing practice in Finland, and to express an opinion on the parent company's financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. Good auditing practice requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements and the report of the Board of Directors are free from material misstatement and whether the members of the Supervisory Board as well as of the Board of Directors and the Managing Director of the parent company have complied with the Limited Liability Companies Act.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

The audit was performed in accordance with good auditing practice in Finland. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the company's financial statements and the report of the Board of Directors

In our opinion, the financial statements, together with the consolidated financial statements included therein, and the report of the Board of Directors give a true and fair view of the financial performance and financial position of the company in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

We recommend that the financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown at the balance sheet is in compliance with the Limited Liability Companies Act. We recommend that the Members of the Supervisory Board and the Board of Directors as well as the Managing Director of the parent company should be discharged from liability for the financial period audited by us.

Espoo, February 4, 2009

Ernst & Young Oy
Authorized Public Accountant Firm

Anna-Maija Simola
Authorized Public Accountant

Statement by the Supervisory Board

The Supervisory Board has today at its meeting reviewed Neste Oil Corporation's financial statements for the financial period ended 31 December 2008, including also consolidated financial statements, Review by the Board of Directors and the related Board of Directors' proposal on the distribution of the profit shown in the balance sheet, as well as the Auditor's report provided by the Company's Auditor. The Supervisory Board has no comments to make on these. The Supervisory Board recommends that the financial statements, including also the consolidated financial statements, can be adopted and concurs with the Board of Directors' proposal on the distribution of the profit shown in the balance sheet.

The Supervisory Board states that it has received adequate information from the Board of Directors and the Company's management.

Espoo, 5 February 2009

Heidi Hautala	Hannes Manninen	Esko Ahonen	Mikael Forss
Timo Heinonen	Markus Mustajärvi	Jutta Urpilainen	Anne-Mari Virolainen

Quarterly segment information

Sales

MEUR	10–12/2008	7–9/2008	4–6/2008	1–3/2008	10–12/2007	7–9/2007	4–6/2007	1–3/2007
Oil Refining	2,097	3,763	3,624	2,546	2,740	2,310	2,516	1,782
Renewable Fuels	20	27	46	23	27	7	4	2
Specialty Products	112	149	164	166	138	164	181	166
Oil Retail	915	1132	1078	948	965	853	843	774
Shipping	100	114	123	100	87	82	115	110
Other	43	36	33	31	26	20	24	23
Eliminations	-482	-700	-648	-517	-522	-458	-476	-400
Total	2,805	4,521	4,420	3,297	3,461	2,978	3,207	2,457

Operating profit

MEUR	10–12/2008	7–9/2008	4–6/2008	1–3/2008	10–12/2007	7–9/2007	4–6/2007	1–3/2007
Oil Refining	-292	-2	231	186	139	148	246	107
Renewable Fuels	-9	-2	12	1	2	-7	-4	-3
Specialty Products	-37	23	28	5	10	34	47	31
Oil Retail	-6	9	11	11	9	22	18	11
Shipping	2	22	23	7	-5	-4	16	23
Other	-12	-7	-14	-9	-9	-16	-6	-6
Eliminations	2	1	-1	3	-3	3	-3	1
Total	-352	44	290	204	143	180	314	164

Comparable Operating Profit

MEUR	10–12/2008	7–9/2008	4–6/2008	1–3/2008	10–12/2007	7–9/2007	4–6/2007	1–3/2007
Oil Refining	131	149	133	97	85	125	168	106
Renewable Fuels	-10	-3	13	2	3	-6	-5	-5
Specialty Products	-6	29	19	8	2	34	41	32
Oil Retail	-5	7	11	9	10	21	17	11
Shipping	3	23	20	9	-4	-1	12	21
Other	-12	-7	-14	-9	-9	-17	-5	-8
Eliminations	2	1	-1	3	-3	3	-3	1
Total	103	199	181	119	84	159	225	158

6.

Information for shareholders

Annual General Meeting

Neste Oil Corporation's Annual General Meeting will be held on Friday, 3 April 2009 at 11.00 am EET in the Congress Wing of the Helsinki Fair Centre, Messuaukio 1, FI-00520 Helsinki. Registration and the distribution of voting papers will begin at 10.00 am.

Shareholders wishing to participate in the Annual General Meeting should inform the company by 4.00 pm on 27 March 2009 at the latest by:

- visiting www.nesteoil.com and following the instructions given there, or
- sending an email to nesteoil.yhtiokokous@yhteyspalvelut.elisa.fi, or
- phoning +358 (0)10 458 9595, or
- writing to Neste Oil Corporation, Marja Telenius, POB 95, FI-00095 Neste Oil.

Holders of proxies are requested to forward them when stating their wish to participate, ensuring that they reach the company by 4.00 pm on 27 March 2009 at the latest.

AGM and dividend payment in 2009

24 March	AGM record date
3 April	AGM
8 April	Dividend payment record date
17 April	Dividend payable.

Dividend

The Board of Directors will propose to the AGM that a dividend of EUR 0.80 per share shall be paid for the financial year ending 31 December 2008.

Investor relations

Neste Oil's Investor Relations observes the principles of providing accurate and timely information, commitment, transparency, accessibility, and equal treatment of all investors. To view Neste Oil's IR policy in its entirety, see www.nesteoil.com.

Annual Report for 2008

The Annual Report will be published in Finnish and English, and will be posted to all those requesting a copy. The Annual Report will also be available in PDF format at www.nesteoil.com.

Interim reports in 2009

- Interim Report for January – March: 28 April 2009
- Interim Report for January – June: 30 July 2009
- Interim Report for January – September: 29 October 2009

Interim reports are published in Finnish and English and can be downloaded from www.nesteoil.com in PDF format.

Stock exchange releases

Stock exchange releases are available in Finnish and English immediately after publication at www.nesteoil.com. Anyone wanting to be placed on the email distribution list for releases can find a form for this purpose at www.nesteoil.com.

Closed period

Neste Oil observes a closed period ('closed window') prior to the publication of its results lasting a minimum of four weeks. During this period, the company will not comment on non-disclosed developments or the prospects for its business in the quarter concerned, nor will company representatives meet analysts or investors, or take part in capital markets events.

Analysts following Neste Oil

The number of banks providing analyses of Neste Oil reduced by four during 2008. As of the end of the year, 23 banks produced forecasts on Neste Oil.

Banks following Neste Oil

- Bernstein Research
- Carnegie
- Cheuvreux
- Citigroup
- Credit Suisse
- Danske Bank
- Deutsche Bank
- Enskilda Securities
- eQ Bank
- Evli Securities
- Exane BNP Paribas
- FIM
- Goldman Sachs
- Handelsbanken
- JP Morgan
- Merrill Lynch
- Morgan Stanley
- Natixsis Securities
- Pohjola
- Sofia Bank
- Standard & Poor's
- UBS
- Öhman

Contact information for the analysts following Neste Oil at the organizations listed above can be found at the company's website.

Contact information

Investor Relations:

Ilkka Salonen, CFO,
tel. +358 (0)10 458 11
ilkka.salonen@nesteoil.com

Juha Rouhiainen, IR Manager,
tel. +358 (0)10 458 11
juha.rouhiainen@nesteoil.com

Sauli Saumala, IR Officer,
tel. +358 (0)10 458 11
sauli.saumala@nesteoil.com

Neste Oil's general e-mail address for investors is oilinvestors@nesteoil.com.

Investor services on the Internet

The Investors section of Neste Oil's website (www.nesteoil.com/investors) contains the information presented here, together with other IR-related information, including a real-time stock monitor, delayed by 15 minutes, a list of the company's insiders and their holdings, extensive presentation material, current oil market information, such as prices and refining margins updated weekly, as well as services such as analyst forecasts and a share yield calculator.

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 component with a high octane number and excellent antiknock properties.

Barrel (b or bbl) A standard unit of crude oil measurement, equivalent to 42 gallons and approx. 159 liters, 0.137 tons, or 0.159 m^3.

Base oil The main component in lubricant blends.

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

Biogasoline Gasoline that includes a biocomponent, typically ethanol or ETBE.

Bitumen The bottom product of crude oil vacuum distillation; solid or semi-solid at room temperature.

Brent Light crude oil from the North Sea, named after one of the region's largest fields.

Catalysis A phenomenon that takes places on the surface of a catalyst in which a chemical reaction is accelerated without the catalyst itself being consumed.

Catalyst A substance used to accelerate a chemical reaction that does not take part in the reaction itself.

Coker A processing unit that converts residual oil into gasoline, diesel, or jet fuel, and petroleum coke.

Component A term used to describe the constituents used in producing fuels. Gasoline, for example, can comprise over 10 individual components.

Cracking A process in which heavy fractions are broken down into simpler molecules, either at high temperatures (thermal cracking) or with the help of catalysts and high pressure (catalytic cracking, hydrocracking). Cracking yields large volumes of hydrocarbons that can be used to produce gasoline and other light distillates.

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

ERM Enterprise Risk Management – a systematic process designed to manage the opportunities, goals, risks, and threats associated with a company's strategy, annual planning, and operations.

Esterification A process in which alcohol and acid react to produce ether and water.

ETBE Ethyl Tert-Butyl Ether – a bioethanol-based gasoline component designed to enhance combustion and reduce tailpipe emissions.

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

EtOH Ethanol.

FAME Fatty Acid Methyl Ester – conventional biodiesel produced by esterification.

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 the 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. 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 component used to improve a fuel's octane rating.

Isomerization A reaction that modifies the structure and property of a hydrocarbon without changing its molecular weight.

Iso-octane A high-octane, low vapor pressure hydrocarbon component used in producing low-emission gasoline. Produced from butane.

LWIF Lost Workday Injury Frequency – the number of accidents resulting in absences from work per million hours worked. The figure includes both Neste Oil's own personnel and those of its contractors and subcontractors.

Middle distillate A distillate with a distillation range of 180-350 °C. Middle distillates typically refer to products such as kerosene, heating oil, and diesel fuel.

MTBE Methyl Tert-Butyl Ether – an oxygenate designed to promote cleaner gasoline combustion.

Naphthenic specialty oils Oils produced from base oil containing a high proportion of cyclic hydrocarbon fractions and used in certain specialty applications.

NExBTL A renewable diesel fuel based on Neste Oil's proprietary technology that can be produced from virtually any vegetable oil or animal fat. The first NExBTL production unit was completed at Porvoo in summer 2007.

Panamax A class of ship with the maximum dimensions that will fit through the locks of the Panama Canal.

PAO Polyalphaolefin – a synthetic base oil used in the production of premium-quality lubricants.

Pinch analysis A method used to optimize energy usage.

Polypropylene (PP) One of the most common types of plastics, used to produce freezer containers for example.

Ppm Parts per million, milligrams per kilo.

QSAR Quantitative Structure Activity Relationship – a computer modeling technique for evaluating the properties of structurally similar substances. Used to replace many animal tests.

RC Responsible Care – a voluntary environment, health, and safety program developed and promoted by the international chemical industry.

Refining margin The difference in value between the products produced by a refinery and the cost of the feedstocks and operations used to produce them.

Russian Export Blend (REB) A blend that contains crude oil from a number of fields connected to the Russian pipeline network.

Specification A detailed, officially recognized requirement, typically used to specify a product's target performance.

Sulfur-free fuel A fuel that contains less than 10 mg/kg (ppm) of sulfur.

TRIF Total Recordable Incident Frequency – the number of incidents requiring medical attention per million hours worked. The figure includes both Neste Oil's own personnel and those of its contractors and subcontractors.

Urals Rotterdam The spot price quoted in Rotterdam for Russian crude oil loaded in the Baltic.

Vacuum Gas Oil VGO – produced by vacuum distillation and used as a cracking feedstock.

VHVI Very High Viscosity Index – a base oil used to produce premium-quality motor oils that contribute to reduced fuel consumption.

Consept, graphic design and layout: Miltton Oy, Photographs: Neste Oil, Anu Akkanen, Ismo Henttonen and Getty Images, Translation: Peter Herring, Printing: Libris Oy, Helsinki 2009

Neste Oil Corporation
Keilaranta 21
P.O. Box 95
00095 NESTE OIL, Finland
Tel: +358 10 458 11
www.nesteoil.com

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