

Pro Motion

The world is in continuous motion, and we need to be too. We offer sustainable solutions that enable people to move with a clear conscience.

NESTE OIL

Annual Report 2011

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Neste Oil in brief

Neste Oil Corporation is a refining and marketing company concentrating on low-emission, high-quality traffic fuels. The company produces a comprehensive range of major petroleum products and is the world's leading supplier of renewable diesel. The company has operations in 15 countries. Neste Oil had net sales of EUR 15.4 billion in 2011 and employs around 5,000 people. Neste Oil's share is listed on NASDAQ OMX Helsinki in the Energy sector under the trading code NES1V.HE.

Message from the President & CEO, Matti Lievonen

I believe that advanced refiners such as Neste Oil will be well-placed to weather today's challenges.



[Read CEO's review >](#)

All of Neste Oil's operations are driven by its four core values: responsibility, cooperation, innovation, and excellence.

Neste Oil's market position

Oil Products	1. on the home markets
Base Oils in Group III	2. in Europe 3. globally
Renewable Fuels	1. globally in high-quality renewable diesel
Oil Retail	1. in Finland 2. in the St. Petersburg area, Russia 2. in Estonia and Latvia 3. in Lithuania 7. in Poland

Case: Strategy dialogue

Neste Oil carried out an extensive strategy dialogue during 2011, which generated over 7,000 ideas from a total of approx. 1,000 employees.



Business areas in brief

	Oil Products and Renewables	Oil Retail
Business	Sales of petroleum and renewable products to wholesale customers	Sales of petroleum products to end-users
Main markets	Europe and North America	Finland and the Baltic Rim
Capacity	<ul style="list-style-type: none"> Oil Products: 15 million t/a NExBTL renewable diesel: 2 million t/a 	<ul style="list-style-type: none"> 819 outlets in Finland 326 outlets in Russia, the Baltic countries, and Poland
Strategic role	<ul style="list-style-type: none"> To maximize the cash flow provided by the sales of the products Neste Oil refines To generate profitable growth on the growing market for premium-quality base oil and renewable fuels 	<ul style="list-style-type: none"> To act as a marketing channel for Neste Oil's products To maximize the cash flow generated by product sales To leverage the market potential in the countries around the Baltic
Strengths	<ul style="list-style-type: none"> High-quality products Ability to use Russian crude and other feedstocks NExBTL technology developed by Neste Oil Possibility to use a flexible mix of sustainably produced renewable raw materials 	<ul style="list-style-type: none"> High-quality traffic fuels Strong brand and market position Extensive station network Competitive unit costs
Market position	<ul style="list-style-type: none"> Oil Products: 1. on Neste Oil's home markets Base Oils (Group III): 2. in Europe, 3. globally High-quality renewable diesel: 1. globally 	<ul style="list-style-type: none"> 1. in Finland 2. in the St Petersburg area, Russia 2. in Estonia 2. in Latvia 3. in Lithuania 7. in Poland



CEO's Review 2011

2011 was a year very much linked to the implementation of our cleaner traffic strategy. Profitable growth and efficient production are also some of the key goals that we have set ourselves between 2010 and 2013. During 2011, we completed our major investment program aimed at achieving a significant increase in both our NExBTL renewable diesel and base oil capacity. We also took some important steps forward in improving our overall efficiency and productivity.

The recovery of the world economy, geopolitical tensions in oil-producing countries, and fears about a worsening of the Eurozone crisis towards the end of the year were the most important factors shaping the global oil market in 2011. Uncertainty over the likely development of the world economy overshadowed market prospects at the beginning of 2012, as did the expectation that Europe, in particular, was heading for a short-term recession or worse. New oil refining capacity is also expected to come on stream during the year. I believe, however, that advanced refiners such as Neste Oil will be well-placed to weather these and other challenges.

The ramp-up of Neste Oil's renewable fuels business was particularly prominent in 2011, and the future looks positive in this area, as our premium-quality NExBTL renewable diesel more than meets the requirements expected of tomorrow's fuels. Demand for biodiesel is expected to grow by a total of 1.6 million tons in Europe and North America in 2012, equivalent to the combined capacity of our new refineries in Rotterdam and Singapore. Legislation on renewable fuels has progressed, but there is still a lot more to do in this area in 2012 and later. I am, nevertheless, happy to report that sales volumes of NExBTL renewable diesel developed positively towards the end of last year, and we aim to continue building on this momentum during 2012.

In terms of our financial targets, our leverage ratio matched our target level, but we failed to achieve our long-term return on capital employed target. The Board of Directors will propose paying a dividend of EUR 0.35 a share to the Annual General Meeting.

Sustainability is central to our operating principles and our core values. It is also a fundamental part of our strategic focus on developing and supplying premium-quality, cleaner products. I am proud to report in this respect that Neste Oil was recently selected for inclusion in The Global 100 list of the world's most sustainable companies for the sixth year in succession. We were ranked 19th, which I believe is an excellent achievement against such tough international competition. Good examples of the continued progress that we are making in the area of sustainability are the ISCC certificates that we have secured for

all our NExBTL plants and our good safety performance in 2011. Both achievements were the result of a lot of systematic and positive work. Although our safety performance in 2011 was our best-ever, we must be careful not to fall into the trap of resting on our laurels, as ensuring that Neste Oil remains a safe workplace will require our ongoing vigilance. And although our safety performance was excellent compared to other Finnish companies, we still have some way to go to attain the safety levels achieved by the very best internationally. Which is why we will be continuing to focus on safety in the years to come.

We launched five internal Value Creation Programs during 2011 to leverage the implementation of our strategy – Profitable Growth, Productivity, Renewables Feedstock, Customer Focus, and Winning Culture – and these highlight the themes that we will be focusing on over the next few years.

We at Neste Oil are committed to becoming a better company and ensuring our future success by being better. This commitment includes making a significant investment in R&D. The major achievements that we have made in R&D recently include our work on microbial oil research, where Neste Oil is now at the cutting edge internationally. We have also not compromised on organizational or HR development work, as we see this as an important investment in our future.

We achieved a lot in 2011, and I would like to thank our personnel, our customers, our suppliers, our shareholders, and all our partners for the contribution they made. What we achieved was the outcome of excellent collaboration between everyone involved, and I hope this will continue during 2012.

Matti Lievonen
President & CEO

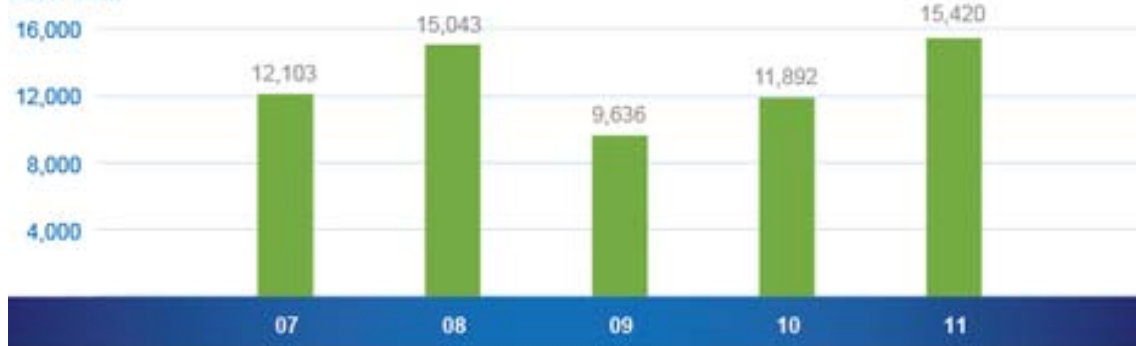
Key figures

	2011	2010	Change, %
Income statement, EUR million			
Revenue	15,420	11,892	29.67
Operating profit	273	323	-15.48
Comparable operating profit	156	240	-35.00
Profit before income tax	206	296	-30.41
Profitability, %			
Return on equity (ROE)	6.6	9.9	-33.33
Return on capital employed, pre-tax (ROCE)	5.9	7.7	-23.38
Return on average capital employed, after tax (ROACE)	2.6	4.6	-43.48
Financing and financial position			
Total equity, EUR million	2,467	2,426	1.69
Interest-bearing net debt, EUR million	2,080	1,801	15.49
Capital employed, EUR million	4,850	4,607	5.27
Equity-to-assets ratio, %	34.0	36.5	-6.85
Leverage ratio, %	45.7	42.6	7.28
Net cash from operating activities, EUR million	197	1,105	-82.17
Share-related indicators			
Earnings per share (EPS), EUR	0.62	0.89	-30.34
Dividend per share, EUR	0.35*	0.35	0.00
Dividend payout ratio, %	56.5*	39.2	44.13
Share price at the end of the year, EUR	7.81	11.95	-34.64
Average share price, EUR	10.22	11.86	-13.83
Highest share price, EUR	14.70	13.77	6.75
Lowest share price, EUR	6.19	10.45	-40.77
Market capitalization at the end of the period, EUR million	2,003	3,064	-34.63
Other indicators			
Equity per share, EUR	9.58	9.43	1.59
Investments, EUR million	364	943	-61.40
Average number of personnel	4,926	5,030	-2.07
R&D expenditure, EUR million	42	41	2.44
Refining margin, USD/bbl	8.48	8.14	4.18
Total Recordable Injury Frequency per million hours worked (TRIF)	2.3	4.7	-51.06

* Board of Directors' proposal to the Annual General Meeting

Revenue

EUR million

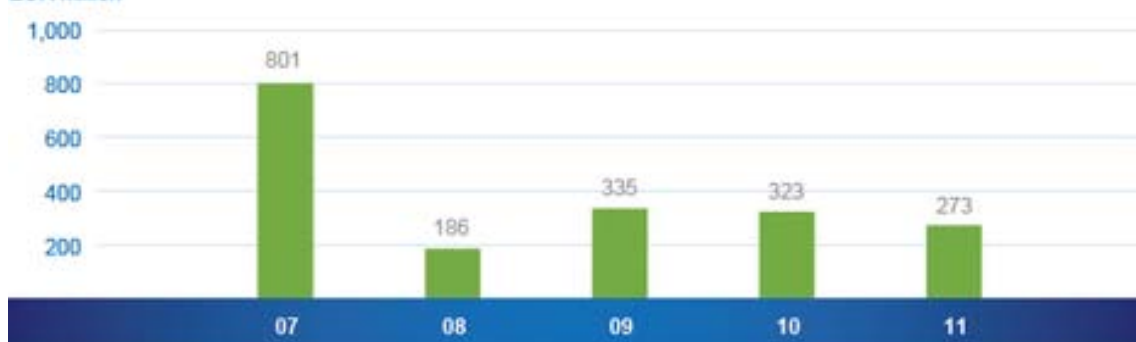


Personnel (average)



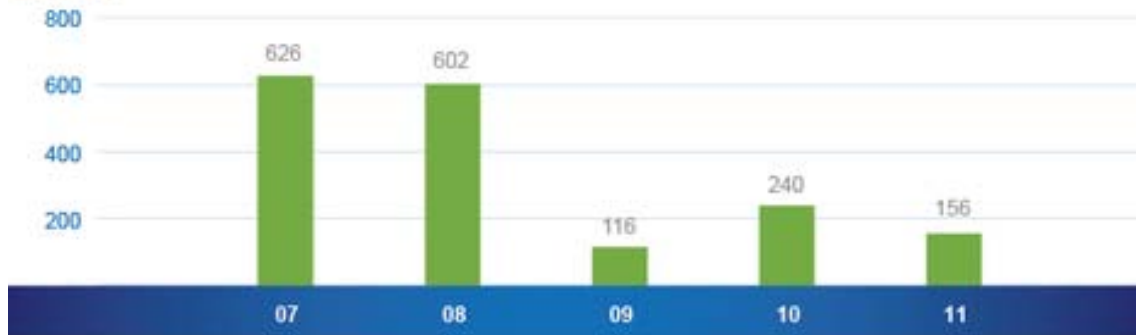
Operating profit

EUR million

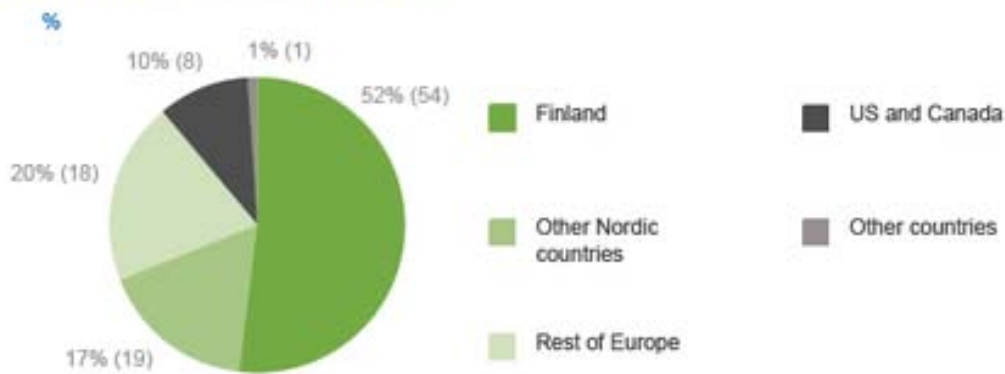


Comparable operating profit

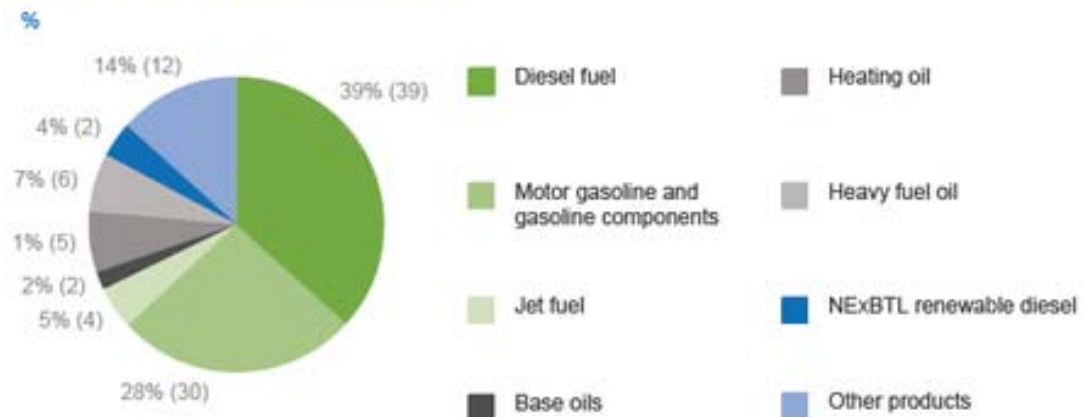
EUR million



Sales by region (in-house production)



Sales by product (in-house production)



Strategy

Neste Oil's goal is to be the preferred partner in cleaner traffic fuel solutions. These are essential in helping meet the growing amount of energy needed in traffic and transport as sustainably as possible. The premium-quality fuels developed by Neste Oil, with their smaller environmental footprint, open up excellent potential for cleaner traffic and transport. In addition, Neste Oil's R&D on renewable raw materials and refining technologies for these materials makes a valuable contribution to global efforts aimed at reducing the world's dependence on crude oil.

Neste Oil's long experience in developing cleaner fuels, together with its unique refining and technological expertise and sustainable business model, provide a small company in international oil industry terms with a solid foundation for implementing its strategy.

Business area strategies

Neste Oil's two business areas – Oil Products & Renewables and Oil Retail – support the implementation of the company's strategy, together with efficient operations coordinated by its Production and Logistics function.

The strategic role of [Oil Products and Renewables](#) is to maximize the cash flow provided by the products Neste Oil refines and generate profitable growth on the growing market for premium-quality base oil and renewable fuels.

The strategic role of [Oil Retail](#) is to act as a marketing channel for Neste Oil's products and maximize the cash flow generated by product sales and leverage market potential in the countries around the Baltic.

The strategic role of [Production and Logistics](#) is to generate continuous improvements in the efficiency of Neste Oil's production and logistics operations and ensure high levels of reliability and flexibility.

Neste Oil's strategy



Strategy implementation during 2011

Neste Oil continued implementing its cleaner traffic strategy during 2011. As part of its annual strategy review, the company updated its vision and defined its goal as being “the preferred partner in cleaner traffic fuel solutions”. [The strategy dialogue](#) that took place across the company and saw over 1,000 employees generate around 7,000 strategy-related ideas had a major impact on this updated vision.

In line with its updated vision, Neste Oil will focus on partnerships and offering customers value-added solutions rather than simply individual products. [Five Value Creation](#) programs were launched to support this shift in focus and the company’s overall strategy.

Renewable Fuels investment program completed

Neste Oil has now completed its approx. EUR 1.5 billion investment program aimed at increasing renewable fuels capacity. The company’s fourth renewable diesel plant, in Rotterdam in the Netherlands, was commissioned in September 2011. The EUR 670 million Rotterdam refinery was completed on-budget and on-schedule and strengthened Neste Oil’s position as the leading producer of renewable diesel. Following the completion of the investment program, Renewable Fuels will now concentrate on developing its global customer base and supply chain, achieving high levels of utilization and improving the profitability of its business. Read more about [Renewable Fuels](#) business in 2011.

Additional capacity for the growing base oil market

Neste Oil is also seeking growth on the base oil market. During 2011, the company started up a new premium-quality base oil production plant in Bahrain, together with Bahrain Petroleum Company (Bapco) and nogaholding. Neste Oil owns 45% of the plant. Following the start-up, Neste Oil is now one of the world’s leading producers and suppliers of Group III base oil. In addition, a partnership is being developed with Abu Dhabi International Oil Company (ADNOC) to increase total base oil capacity to nearly 1.3 million t/a from 2014 onwards. Negotiations on the implementation of the cooperation are continuing. Read more about [Oil Products](#) business in 2011.

Divestment of non-core businesses

Neste Oil divested various non-core businesses during 2011 to focus on developing its growth activities. The gas business in Estonia was sold to Alexela, the polyalphaolefins (PAO) plant in Beringen, Belgium to Chevron Phillips Chemical, and Neste Oil’s 50% stake in an iso-octane plant in Edmonton, Canada to Canadian-based Keyera Corporation. The sale of the iso-octane plant was confirmed in January 2012. Read more about [Neste Oil’s refineries](#) and [other production plants](#).

Enhanced production and logistics

Work on enhancing Neste Oil’s production and logistics operations continued in 2011. Particular attention was given to capacity utilization levels at the company’s refineries and optimizing the supply chain. This resulted in better utilization rates at both the Porvoo and Naantali refineries compared to 2010. Work continued on extending uninterrupted operations and improving reliability on Diesel Line 4 at the Porvoo refinery, and resulted in increased output and lower production costs on the line. Total production costs at Neste Oil’s refineries increased slightly, however, compared to 2010, mainly due to higher energy costs. Capacity utilization at the new Singapore and Rotterdam renewable diesel refineries was ramped up on a phased basis, but the plants were still run at limited utilization as a result of a soft product market. Read more about [Production and Logistics](#).

A broader raw material base

Neste Oil succeeded in extending its renewable raw material base from five inputs to eight during 2011. Camelina oil, jatropha oil, and soybean oil were added to its feedstock pool during the summer. The company also increased its use of waste products and sidestreams significantly, which saw the amount of crude palm oil used fall to 54% of total renewable input. Read more about Neste Oil's [renewable raw material base](#).

Research and technology work concentrated on new raw materials and product applications

Research and Technology played an important role in testing the new raw materials introduced during 2011. Work also continued to progress successfully in areas such as microbial and algae oil research. Neste Oil decided to build a pilot plant to produce waste-based microbial oil at its Porvoo Technology centre at the end of 2011. In the algae oil area, a major partnership was launched with the Marine Research Centre of the Finnish Environment Institute (SYKE), and Neste Oil decided to take part in international algae research projects in the Netherlands and Australia. Read more about [Research, technology, and engineering](#).

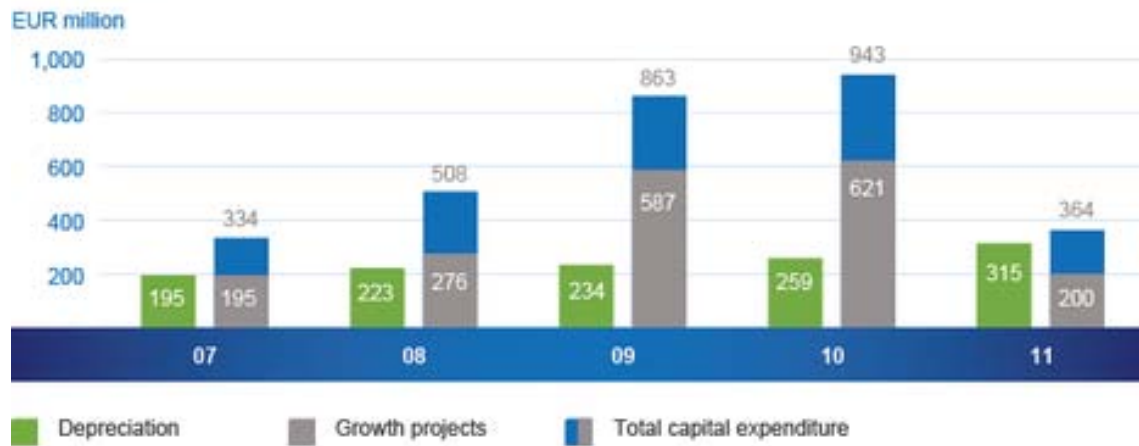
Drawing on its R&D expertise, Neste Oil succeeded in producing its first batch of NExBTL renewable aviation fuel in summer 2011. Neste Oil became a global pioneer in the renewable aviation fuel sector following the start of the world's first commercial flights using NExBTL renewable aviation fuel by Lufthansa in July. In addition, the company launched a trial to test Neste Oil's 100% renewable diesel in marine use in cooperation with the Port of Rotterdam.

Improving the sustainability of Neste Oil's supply chain and safety performance

Neste Oil completed the certification of all its renewable diesel plants under the ISCC (The International Sustainability & Carbon Certification) system. ISCC certification carried out by independent third-party auditors verifies that NExBTL renewable diesel produced from certified raw materials complies with the EU's sustainability requirements. Read more about [sustainability certifications](#).

Improving safety performance was one of Neste Oil's key goals in 2011, and positive progress was made in this area compared to 2010. The company's most important occupational safety indicator, Total Recordable Injury Frequency (TRIF), fell to 2.3 in 2011 from 4.7 in 2010. This is Neste Oil's best-ever result. Read more about [safety](#).

Investments



Neste Oil has now completed its approx. EUR 1.5 billion investment program aimed at increasing renewable fuels capacity.

Neste Oil succeeded in extending its renewable raw material base from five inputs to eight during 2011.



Case

Strategy dialogue

Neste Oil carried out an extensive strategy dialogue during 2011, following on from the scenario work carried out in 2010. Increasing the number of employees involved was prioritized and around 3,000 Neste Oil people were given the opportunity to make their own contribution via an online questionnaire. This collected ideas designed to accelerate implementation of the company's strategy and eliminate possible bottlenecks. The dialogue process proved a great success and generated over 7,000 ideas from a total of approx. 1,000 employees.

The major themes identified as part of the process were the development of alternative biofeedstocks, communications and dialogue, internationalization, leadership, customer-focused operations, and stakeholder cooperation. All these themes were addressed in the annual strategy review and in defining the company's updated vision. Feedback from the dialogue was also used in operations planning and development throughout 2011.

"The strategy dialogue showed that our people are strongly committed to our cleaner traffic strategy," says Neste Oil's Manager, Market Development, Henrik Erämetsä, who was responsible for managing the process. "We received a lot of concrete ideas, both for implementing our strategy and for developing our operations generally. This dialogue is now continuing through the five Value Creation programs that have been launched, and our hope is that these will provide personnel with a valuable channel for continuing to contribute to our strategy work."

Value Creation programs

Five Value Creation programs were established as part of the annual strategy review in 2011 and will be Neste Oil's most important focal areas in terms of strategic implementation over the next few years. They are: Profitable Growth, Productivity, Renewable Feedstock, Customer Focus, and Winning Culture. A member of the Neste Executive Board is responsible for each program, and progress will be monitored regularly at meetings of the Neste Executive Board and the Board of Directors.

Value Creation programs



Profitable Growth

The Profitable Growth program is designed to ensure that Neste Oil achieves its business targets in its selected growth areas of NExBTL renewable diesel, other renewable applications, base oil, and Oil Retail.

Productivity

The Productivity program is designed to deliver improved production efficiency at all of Neste Oil's refineries by focusing on areas such as production structure, energy efficiency, and flexibility. The aim is also to enhance the efficiency of the overall production chain.

Renewable Feedstock

The goal of the Renewable Feedstock program is to improve the availability and acceptability of the renewable raw materials currently used by Neste Oil and identify new, sustainably produced feedstocks for producing renewable fuels that are both technically suitable and generally acceptable.

Customer Focus

Working through the Customer Focus program, Neste Oil will aim to strengthen its customer-focused mindset and ensure that its expertise, processes, and tools match customers' needs.

Winning Culture

The goal of the Winning Culture program is to create a company where it is safe to work and where people can constantly develop their capabilities. In addition, the aim is to create a strong culture of success, responsibility, and target-based operations within Neste Oil.

Financial targets

Neste Oil's key financial targets are to achieve:

- A leverage ratio of 25–50%
- A return on average capital employed after tax (ROACE) of at least 15% annually over the long term.

In line with its dividend policy, Neste Oil aims to pay a dividend equivalent to at least a third of its underlying profits as calculated on the basis of the profit for the year based on the company's comparable operating profit.

Target	Result in 2011	Chart																		
Leverage ratio of 25–50%	Leverage ratio of 45.7%	<table border="1"> <caption>Leverage ratio</caption> <thead> <tr> <th>Year</th> <th>Leverage ratio (%)</th> </tr> </thead> <tbody> <tr> <td>07</td> <td>23.7%</td> </tr> <tr> <td>08</td> <td>31.5%</td> </tr> <tr> <td>09</td> <td>46.3%</td> </tr> <tr> <td>10</td> <td>42.8%</td> </tr> <tr> <td>11</td> <td>45.7%</td> </tr> </tbody> </table>	Year	Leverage ratio (%)	07	23.7%	08	31.5%	09	46.3%	10	42.8%	11	45.7%						
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Return on average capital employed after tax (ROACE) of at least 15% annually over the long term	ROACE was 2.6%	<table border="1"> <caption>Return on average capital employed after tax (ROACE)</caption> <thead> <tr> <th>Year</th> <th>ROACE (%)</th> </tr> </thead> <tbody> <tr> <td>07</td> <td>15.5%</td> </tr> <tr> <td>08</td> <td>13.1%</td> </tr> <tr> <td>09</td> <td>2.6%</td> </tr> <tr> <td>10</td> <td>4.8%</td> </tr> <tr> <td>11</td> <td>2.6%</td> </tr> </tbody> </table>	Year	ROACE (%)	07	15.5%	08	13.1%	09	2.6%	10	4.8%	11	2.6%						
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At least a third of underlying profit paid as a dividend*	At the Annual General Meeting in 2012, the Board of Directors will propose a dividend of EUR 0.35 per share for 2011.	<table border="1"> <caption>Earnings per share and dividend per share*</caption> <thead> <tr> <th>Year</th> <th>Earnings per share (EUR)</th> <th>Dividend per share (EUR)</th> </tr> </thead> <tbody> <tr> <td>07</td> <td>2.25</td> <td>1.00</td> </tr> <tr> <td>08</td> <td>0.38</td> <td>0.80</td> </tr> <tr> <td>09</td> <td>0.86</td> <td>0.25</td> </tr> <tr> <td>10</td> <td>0.88</td> <td>0.35</td> </tr> <tr> <td>11</td> <td>0.62</td> <td>0.35</td> </tr> </tbody> </table> <p>* Proposal by the Board of Directors to the Annual General Meeting.</p>	Year	Earnings per share (EUR)	Dividend per share (EUR)	07	2.25	1.00	08	0.38	0.80	09	0.86	0.25	10	0.88	0.35	11	0.62	0.35
Year	Earnings per share (EUR)	Dividend per share (EUR)																		
07	2.25	1.00																		
08	0.38	0.80																		
09	0.86	0.25																		
10	0.88	0.35																		
11	0.62	0.35																		

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

Strategic challenges

Neste Oil assesses the impact that changes in its business environment are likely to have on the implementation of its strategy as part of its annual strategy review. The key factors identified in the extensive scenario work carried out in 2010 were: economic growth, the price of oil, environmental legislation, fuel efficiency, the structure of the car pool, and the take-off of biofuels. The baseline scenario suggested that only a modest increase was likely in green thinking. Although concerns about developments in the global economy were particularly to the fore during 2011, Neste Oil believes that over the long term the world will move towards a greener future, although the pace of that shift has slowed somewhat.

Potential long- and short-term risks

- The oil market has been and is expected to continue to be 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.
- Uncertainty continues to be focused on the development of the world economy, which is likely to have a material impact on the demand for petroleum products generally and diesel fuel in particular.
- Sudden and unplanned outages at Neste Oil's production units or facilities continue to represent a short-term operational risk.
- Rapid and large changes in feedstock and product prices may lead to significant inventory gains or losses, or changes in working capital, and may have a material impact on the company's IFRS operating profit and net cash from operations.
- 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. Risks also include any problems or delays in capturing the anticipated benefits from the company's renewable diesel investments. Over the longer term, failure to protect Neste Oil's proprietary technology or the introduction and implementation of competing fuel technologies or hybrid and electric engines may have a negative impact on the company's results.
- 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 results.
- The key market drivers for Neste Oil's financial performance are refining margins, the price differential between Russian Export Blend (REB) and Brent crude, the USD/EUR exchange rate, and the price differentials between different vegetable oils.

More information on the risks and uncertainties recognized by Neste Oil can be found in the [Risk management section](#) of the Annual Report.

Industry overview

The positive expectations characteristic of the early part of 2011 gave way to uncertainty towards the end of the year. This uncertainty, together with high prices, resulted in turbulence on the oil market and swings in crude and feedstock prices. General economic uncertainty in the latter part of the year also impacted product demand and consumption.

The most important factor impacting Neste Oil Group's financial result is the differential or margin between the price paid for refined products and the price of the crude and other feedstocks used to produce them. The changes affecting these issues and their impact on Neste Oil's financial result are described in the Financial Statements section of the Annual Report under [Market risks](#).

What next?

- Economic uncertainty is set to continue, with growth concentrated in developing markets
- Energy prices, and oil prices in particular, are expected to remain at high levels
- The structure of demand in Europe will shift to lighter products
- The proportion of renewable fuels will grow as legislation develops; during 2012, demand is likely to grow steadily
- Emission limits will become stricter and greater attention will be given to energy efficiency.

Oil Products' operating environment

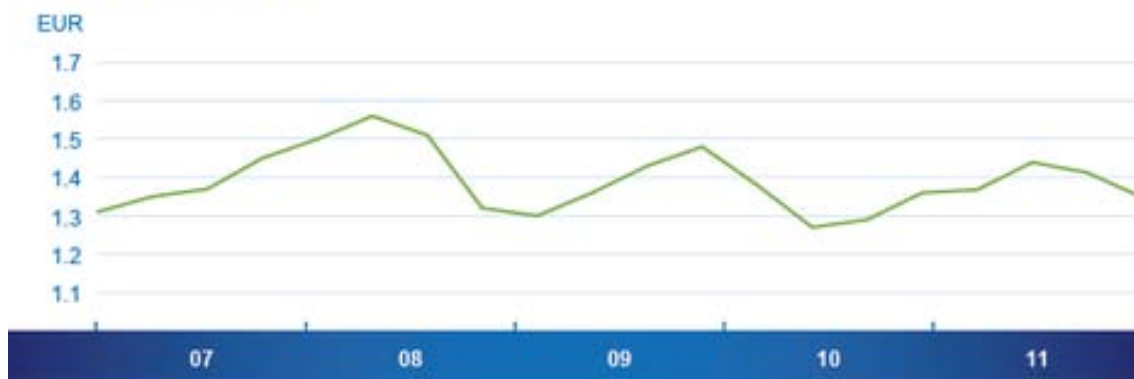
The most important external factors influencing the financial performance of Neste Oil's Oil Products reporting segment are the differential between product and crude prices, the differential between Brent crude from the North Sea and heavy Russian Export Blend (REB), and the USD/EUR exchange rate. Read more about Neste Oil's [Oil Products](#) reporting segment and [refining margin](#).

Global uncertainty resulted in market turbulence

Political and economic uncertainty both impacted the oil market during 2011. Positive economic expectations in the early part of the year resulted in a rise in commodity prices, and saw crude reach a high of USD 125/bbl. Although no extreme peaks in crude oil prices comparable to those seen in 2008 were experienced during 2011, prices remained at historically higher levels in terms of annual averages. Political unrest in Libya also fed through into higher crude prices. In June, the International Energy Agency (IEA) released crude from emergency oil reserves to offset the shortfall in supplies resulting from the crisis in Libya, but the 60 million barrels released only had a short-lived impact in reducing prices.

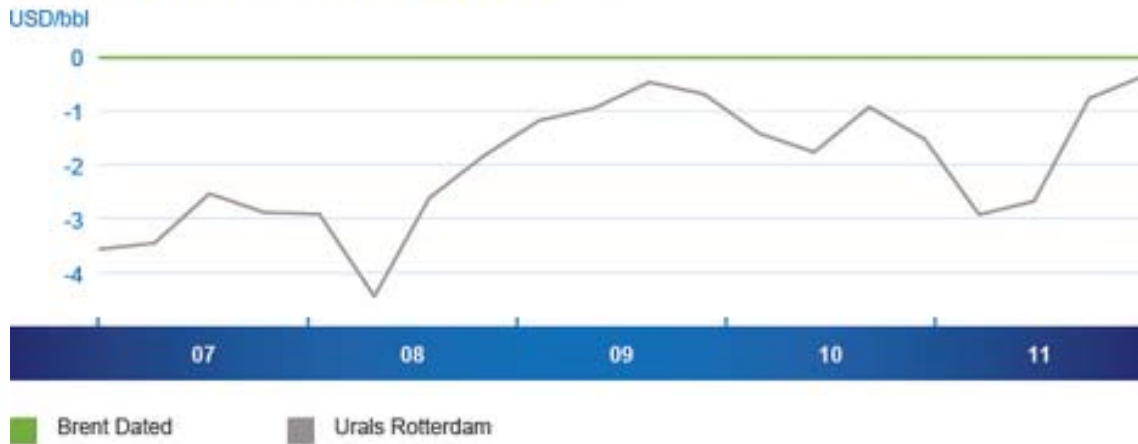
The price differential between North Sea Brent and heavy Russian Export Blend widened throughout the spring on the back of the rise in crude prices. The differential decreased and became negative in the fall following the emergence of equilibrium in crude and petroleum product demand. In addition, a slow-down in economic growth and economic uncertainty had a negative impact on refining margins.

USD/EUR exchange rate



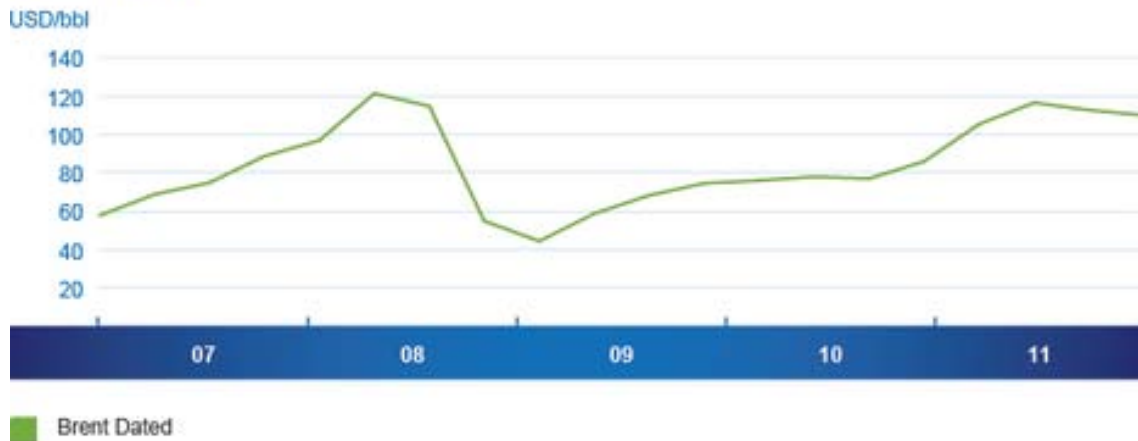
A strong dollar in comparison to the euro increases the company's revenue, as Neste Oil reports its figures in euros.

Price differential between Urals and Brent crude



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

Crude oil price



Natural catastrophes impacted inventory levels

Oil inventory levels fell throughout the year, both in Europe and worldwide. Demand for petroleum products fell back. There were temporary shortages of some crude oil grades during the year, which served to keep prices high, product margins low, and capacity utilization at European refineries in particular relatively low (<80%).

Growth in gasoline demand was concentrated in developing countries. In addition to economic challenges, the gasoline market was also impacted by refineries' normal round of maintenance outages in the spring and fall and seasonal swings in demand. The impact of the driving season on gasoline demand was weaker than expected.

The diesel market was stronger than in 2010, and industrial demand in particular was strong. The tsunami in Japan affected demand worldwide, cutting nuclear capacity and increasing consumption of both natural gas and diesel. Diesel consumption was also affected by reconstruction in the wake of the tsunami and

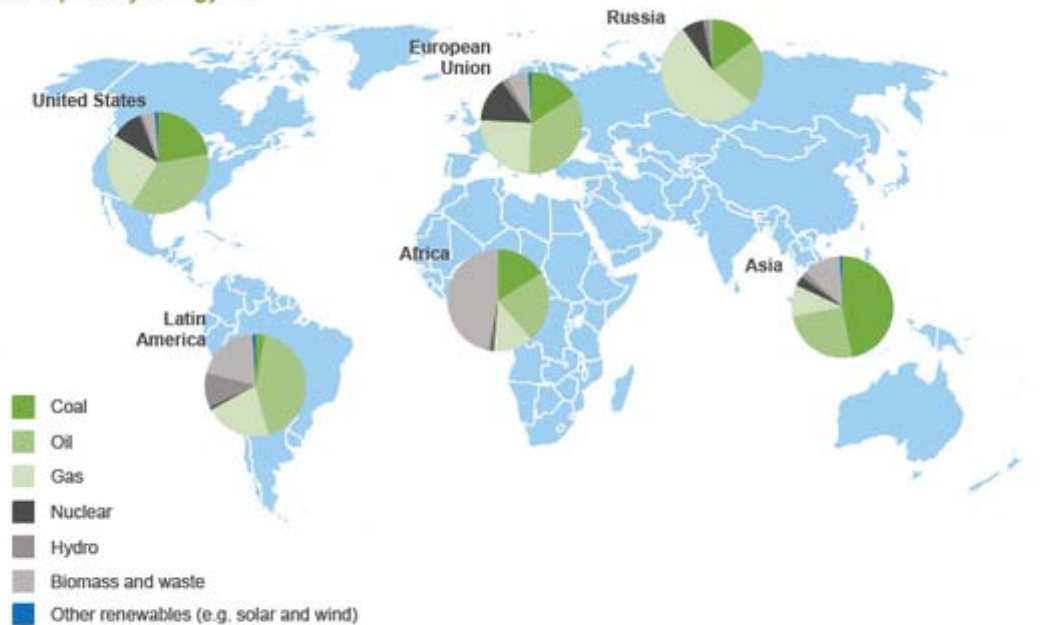
electricity shortages in China caused by the drought there, which saw diesel and heavy fuel oil used to generate electricity rather than hydropower.

Demand for Group III base oil remained strong and a tight supply situation kept prices high. Demand is expected to remain strong, as the shift from Group I and II base oil to higher-quality grades is likely to continue.

Russia investing in modernizing its refineries

A major reform of crude export taxes came into force in Russia at the end of 2011 aimed at securing investments in the country's oil fields and modernizing Russia's refineries. This is expected to increase exports of crude and reduce heavy product exports to Europe. A second crude oil pipeline to the export terminal at Ust-Lugan on the Baltic south of St. Petersburg was completed and Russia intends beginning crude exports from this new terminal in the near future.

World primary energy use



Source: IEA World Energy Outlook 2011, figures from 2009.

Renewable Fuels' operating environment

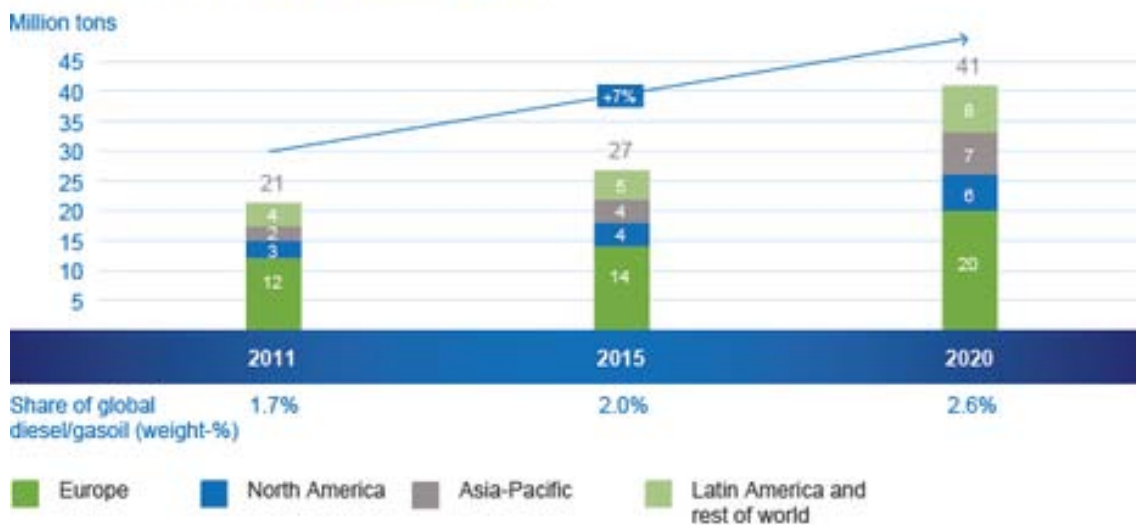
The most important external factors affecting the financial result of the Renewable Fuels reporting segment are the price differential between different types of vegetable oil, the margins offered by conventional biodiesel, the absolute prices of various raw materials, and the quality premium commanded by renewable diesel over conventional biodiesel.

While Neste Oil's NExBTL renewable diesel differs significantly from conventional biodiesel in terms of its product properties, demand for the fuel is linked to the overall development of the biodiesel market. Read more about the differences between NExBTL renewable diesel and conventional biodiesel in the Annual Report's section on [Renewable Fuels](#).

Steady growth in demand for biodiesel

World demand for biodiesel stood at around 21 million tons in 2011. Demand is expected to grow steadily in 2012, as a result of rising levels of mandated content and growing demand for fossil diesel. By 2020, the global market for biodiesel is projected to virtually double, to over 40 million t/a, of which Europe will probably account for around half. Biodiesel imports into Europe from Argentina and Southeast Asia in particular have grown significantly over the last three years.

Projected demand for bio/renewable diesel



Source: Woodmac, Kingsman, Neste Oil and BCG analysis & estimates

European overcapacity in conventional biodiesel continued to be an issue in 2011, but there were a number of major plant closures during the year and construction of new plants declined. Despite overcapacity, product prices fell at a slower rate than raw material prices during the second half of the year, which improved biodiesel margins for the year as a whole compared to 2010. The margins for winter-grade biodiesel in particular were good, which benefited Neste Oil, as the cold weather properties of its renewable diesel are better than those of conventional biodiesel.

Lower renewable raw material prices

Prices for the vegetable oil used in producing renewable diesel declined in 2011, as a result of the uncertain growth prospects facing the global economy. This drop was expected, as vegetable oil prices had risen to high levels during the latter half of 2010.

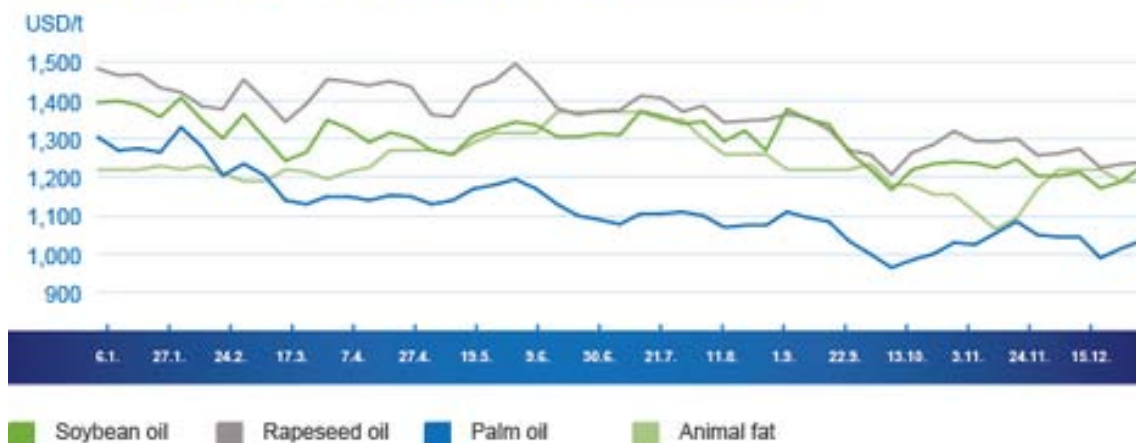
Downward price pressure was particularly evident in respect of palm oil because of the growth in production that has taken place in Southeast Asia. Supply outstripped demand and led to stocks of palm oil in Malaysia reaching record-high levels.

Rapeseed oil prices did not drop as significantly as those for palm oil, as the European oilseed rape harvest was smaller than expected. In fact, the harvest in Germany, which is the largest consumer of rapeseed oil, was the worst for many years. The price differential between rapeseed oil and palm oil during the second half widened significantly beyond the long-term average of USD 200/t. Neste Oil is able to benefit from the price differentials between different raw materials, as the company's production process based on its proprietary NExBTL technology is very flexible in terms of raw material inputs. This enables Neste Oil to make use of raw materials, such as palm oil, waste animal fat, and various sidestreams rather than the rapeseed oil typically used by European biodiesel producers. Read more about Neste Oil's [renewable raw material base](#).

The decline in vegetable oil prices is not expected to continue in 2012, unless economic growth slows down significantly. Harvest prospects will continue to have a major impact on vegetable oil prices in 2012. The price differential between rapeseed oil and palm oil is predicted to remain close to the long-term average, at least at the beginning of the year.

As a result of increased demand, the price of waste animal fat approached that of vegetable oil during 2011.

Weekly prices for vegetable oils and animal fat in Europe 2011



Source: Oil World

Sustainability driving legislative developments

Legislation designed to support the use of renewable energy sources and biofuels has been developed around the world for a number of years. A shift from financial incentives to mandated biofuel usage has been typical of recent years. As the volume of fuel used and produced has risen, sustainability criteria have assumed an increasing role in the legislative process.

A number of European Union member states moved ahead in drafting legislation to comply with the sustainability requirements of the EU's Renewable Energy Directive in 2011.

Implementation of sustainability legislation covering biofuels also continued in the US during 2011. All biofuels sold in the US will need to comply with new criteria and reporting requirements established by the country's environmental authorities. Biofuels have been officially classified into various categories based on how much greenhouse gas emissions can be reduced through their usage. The authorities have established greenhouse gas emission reduction figures for soybean oil, animal fat, and rapeseed oil so far. The authorities issued a proposal stating that palm oil would not meet Advanced Biofuel criteria in respect of reducing greenhouse gas emissions. The final decision on the matter will probably be taken during 2012.

A national biomandate came into force in Canada in summer 2011, and work on drafting sustainability legislation at provincial level is ongoing. Alberta was the first province to introduce the legislation.

Oil Retail's operating environment

The most important external factors affecting the financial result of Neste Oil's Oil Retail reporting segment are general economic developments and overall liquid fuel consumption.

Read more about Neste Oil's [Oil Retail](#) reporting segment.

Continuing tough competition around the Baltic

Competition in oil retailing around the Baltic remained tough throughout 2011. Turbulence in the global economy impacted the region's markets and retail prices were hit by high crude prices and political decisions, which saw consumption decline. Diesel fuel increased its share of the market, as heavy traffic usage did not fall back as much as other areas. Uncertainty in the fall also began to make itself felt in industry and the transport sector.

E10 gasoline received a critical reception in Finland

The mandated bio-content of traffic fuels in Finland rose from 4% to 6% of energy content at the beginning of 2011. As a result, 95E10 containing a maximum of 10% ethanol became the country's standard-octane gasoline.

Drivers initially reacted critically to the new fuel, both in terms of its suitability for their cars and its energy content, and debate on the issue received extensive coverage in the media. Consumer uncertainty was also reflected in sales figures, which saw demand for 98-octane E5 gasoline, intended as a fallback grade, exceed technical demand during the first quarter. The situation normalized by the end of the year, however, when 95E10 gasoline accounted for 51% of gasoline sold in Finland.

Changes in excise duty brought higher fuel prices in Finland

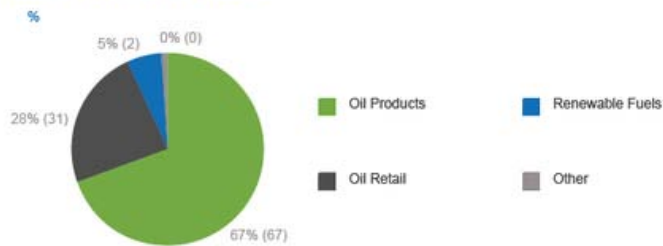
Changes to the excise duty levied on fuel in Finland introduced at the beginning of 2012 increased gasoline and diesel prices. The changes emphasize the CO₂ component of fuels. The CO₂ tax levied on motor gasoline increased by 2.34 cents a liter and that levied on diesel fuel by 2.65 cents a liter. The increase applied to diesel came on top of a 7.9 cents increase in tax decided earlier. Factoring in VAT, the changes brought an increase of just under 3 cents a liter on gasoline and 12 cents a liter on diesel fuel. A similar increase has been proposed for introduction later, probably in 2014.



Business

Neste Oil has two business areas and four reporting segments. The business areas are Oil Products & Renewables and Oil Retail. The reporting segments are Oil Products, Renewable Fuels, Oil Retail, and Others.

Revenue by reporting segments



Neste Oil's business areas are supported by reliable Production and Logistics and cutting-edge R&D and engineering.

Neste Oil has two business areas and four reporting segments.

Neste Oil succeeded in producing its first batch of NExBTL renewable aviation fuel for Lufthansa's use in 2011.

[Read more](#)



Neste Oil continued its research concentrated on extending the range of raw materials it uses and made a decision to build a pilot plant to produce waste-based microbial oil at its Porvoo refinery.

[Read more](#)

During 2011, Neste Oil strengthened its position as one of the world's leading producers and suppliers of Group III base oil when it started up a new joint-venture base oil plant in Bahrain.

[Read more](#)



Oil Products and Renewables

Oil Products and Renewables provides flexible and cost-effective cleaner traffic products and solutions for customers worldwide. In addition, it procures the feedstocks used by Neste Oil's refineries and is responsible for operational management processes. The business is looking to grow in premium-quality base oil and renewable fuels, and is concentrating on further developing the efficiency of its refining operations.

The business area is divided into two reporting segments: [Oil Products](#) and [Renewable Fuels](#).

Oil Products

Neste Oil produces and sells an extensive range of premium-quality traffic fuels and other high value-added petroleum products to a global customer base. The product range includes gasoline, diesel fuel, aviation and bunker fuel, heating oil, heavy fuel oil, base oil, gasoline components, specialty fuels, solvents, LPG, and bitumen. Oil Products prioritizes developing its product offering in two selected growth areas: diesel fuel and top-tier VHVI base oil. During 2011, Neste Oil focused on strengthening Oil Products' position in markets around the Baltic, developing its global base oil business, and enhancing its production structure to consolidate its margins.

Key figures

	2011	2010
Revenue, EUR million	12,644	9,789
Operating profit, EUR million	373	333
Comparable operating profit, EUR million	249	208
Net assets, EUR million	2,228	2,260
Comparable return on net assets (RONA), %	10.5	7.9
Capital expenditure, EUR million	131	269

Targets for 2012

- Maintain Neste Oil's leading position in markets around the Baltic
- Strengthen the company's margins by improving productivity by, for example, increasing plant capacity utilization levels and the proportion of middle distillates in product output
- Leverage growth in the base oil market by increasing sales of VHVI base oil, developing new customer solutions, and expanding into new areas
- Offer customers flexible and efficient solutions for meeting their biomandate requirements.

Oil Products prioritizes developing its product offering in two selected growth areas: diesel fuel and top-tier VHVI base oil.

Oil Products' markets

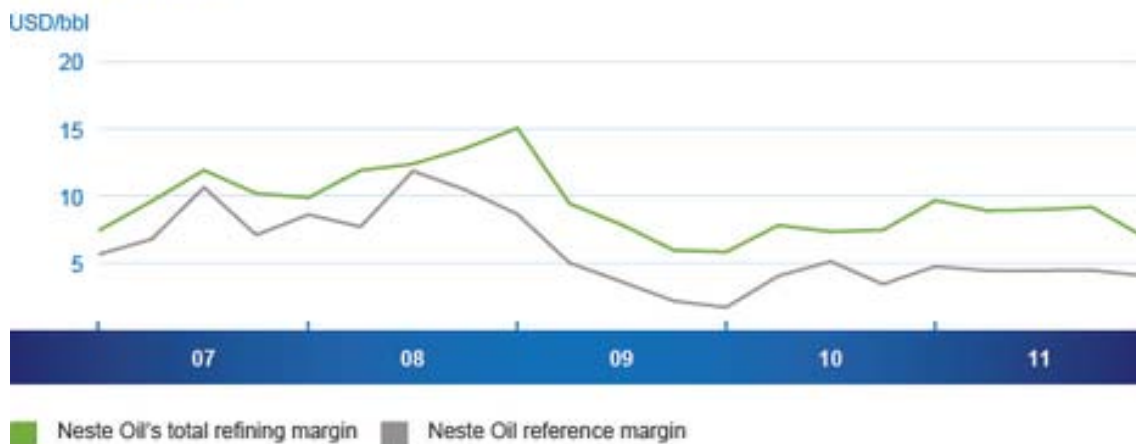
The overall market situation in 2011 was a challenging one for many European refiners as a result of a slow-down in demand. The year was also a challenging one for Neste Oil, although the company's high level of refining complexity and feedstock flexibility improved its competitiveness compared to many other refiners.

Read more about oil market developments in 2011 in the [Industry overview](#) section of the Annual Report.

Slow improvement in refining margins

Neste Oil's overall refining margin improved slightly compared to 2010 and stood at USD 8.48/bbl (8.14/bbl). A strong base oil market and positive developments in diesel margins both contributed to this. To consolidate its margins, Neste Oil worked to improve productivity and focus on high value-added products and its home markets around the Baltic.

Refining margin



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

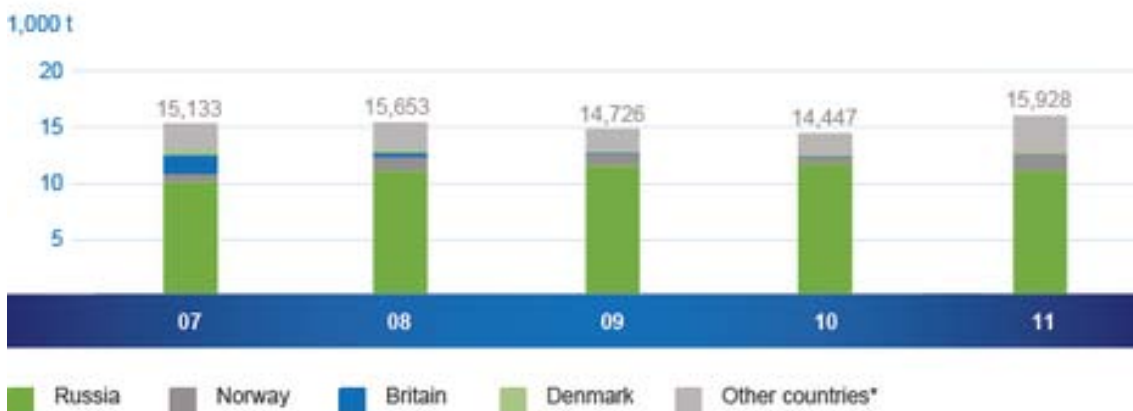
The overall market situation in 2011 was a challenging one for many European refiners.

Crude oil and feedstock sources

Neste Oil has systematically increased its use of Russian crude as a refinery feedstock in recent years. Russian crude is generally cheaper than Brent crude from the North Sea and can be shipped highly efficiently to Neste Oil's refineries at Porvoo and Naantali, primarily from the Primorsk terminal on the Gulf of Finland.

The price differential between Russian and Brent crude narrowed to such an extent after spring 2011, however, that the proportion of Russian crude purchased by Neste Oil during the year as a whole was lower than in 2010, at 85% (92%). A total of 69% (80%) of all refinery feedstocks were sourced from Russia. This reduction was largely the result of an increase in the procurement of renewable raw materials, mainly from suppliers in Southeast Asia.

Crude oil and feedstock sources by region



* The proportion of raw materials sourced from other countries rose in 2011, as a result of Neste Oil's increased procurement of renewable inputs.

85% of crude input was sourced from Russia in 2011.

Oil Products' customers and products

Neste Oil is the leading wholesale supplier of lower-emissions fuels and petroleum products around the Baltic. The company offers its customers in the region a wide range of customized products and fuel blends, together with various flexible solutions for helping them meet their biomandate needs and other requirements. Customers around the Baltic benefit from a fast and flexible service that can supply multiple products in a single shipment even at short notice.

Neste Oil is also active on the international oil market and sells its petroleum products on the wider European and North American markets. Neste Oil is one of the world's leading suppliers of Group III base oil.

Strong market position around the Baltic

Neste Oil succeeded in maintaining its position on the markets around the Baltic during 2011. Around 75% of total petroleum product sales were accounted for by customers in the region during 2011.

Neste Oil supplied a total of 7.9 million tons of petroleum products to customers in Finland in 2011, and had a 93% (92%) share of the Finnish wholesale petroleum product market. Sales outside Finland totaled 7.4 million tons (6.6 million tons), of which gasoline accounted for 2.5 million tons (2.4 million tons) and diesel 2.7 million tons (2.3 million tons), including 0.5 million tons of renewable diesel. Canada, Sweden, and the US were the company's most important overseas markets for gasoline and took 73% of gasoline exports. Sweden, Germany, and Denmark were the company's largest diesel markets and accounted for 71% of total diesel exports. The share of diesel increased and was 43% (41%), including sales of renewable diesel.

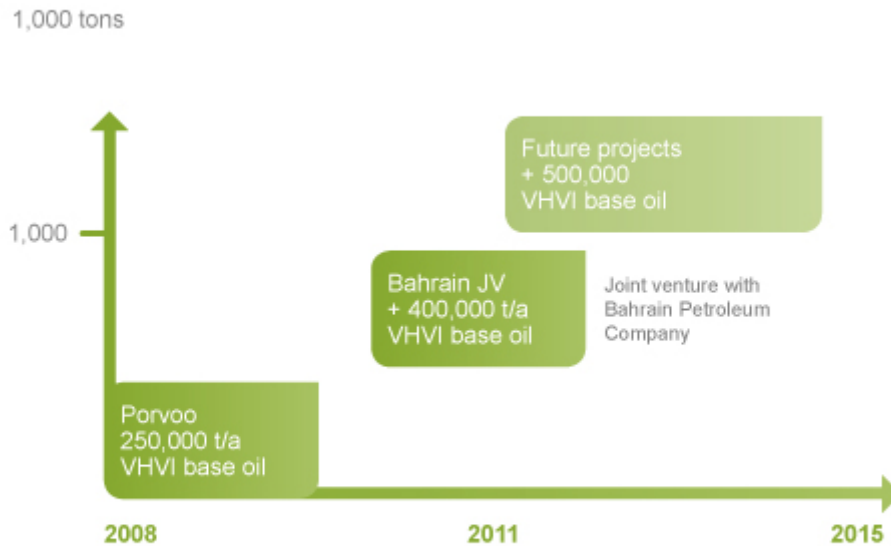
Base oil for the global market

Base oil is one of Neste Oil's growth areas. During 2011, the company strengthened its position as one of the world's leading producers and suppliers of Group III base oil when it started up a new joint-venture base oil plant in Bahrain. Owned by Neste Oil, Bahrain Petroleum Company (Bapco), and nogaholding, the 400,000 t/a plant produces top-tier Group III VHVI (Very High Viscosity Index) base oil used in manufacturing quality lubricants.

Neste Oil is responsible for the sale and marketing of base oil produced at the new plant, which is sold under the NEXBASE® brand. Following the start-up, Neste Oil's NEXBASE® capacity has risen from 250,000 t/a to 650,000 t/a. This additional capacity will enable Neste Oil to support its customers' growth and expand its own customer base worldwide.

In addition, a partnership is being developed with Abu Dhabi Oil Company (ADNOC) to increase total base oil capacity close to 1,3 million t/a in 2014. Negotiations on the implementation of the cooperation are ongoing.

Growth of Neste Oil's annual VHVI Base oil capacity



Neste Oil offers its customers in the Baltic region a wide range of customized products and fuel blends, together with various flexible solutions for helping them meet their biomandate needs and other requirements.

Increased base oil capacity brought by the Bahrain plant start-up in October 2011 enables Neste Oil to support its customers' growth and expand its own customer base worldwide.

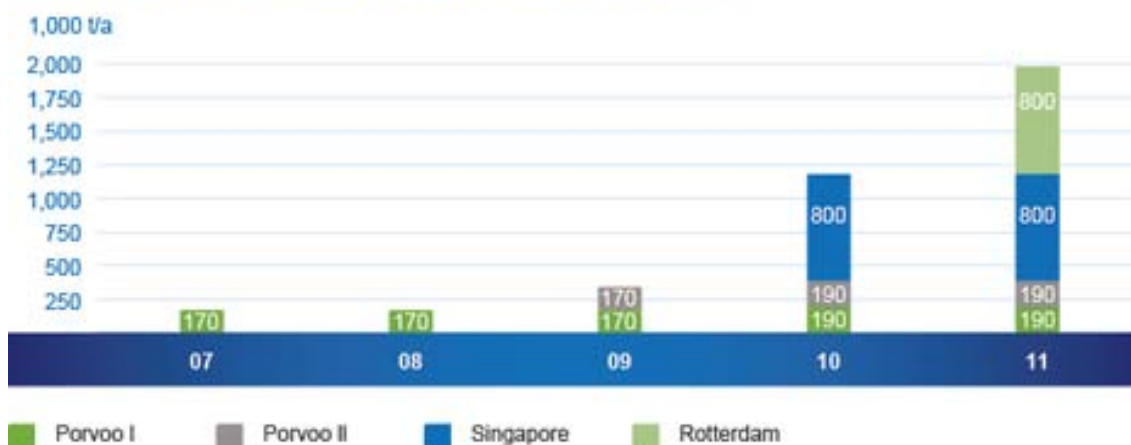
Renewable Fuels

Neste Oil is a global pioneer in the field of premium-quality renewable fuels. The company produces and sells NExBTL renewable diesel and NExBTL renewable aviation fuel produced using its proprietary technology. The company has invested a total of almost EUR 1.5 billion over the last few years in expanding its NExBTL capacity and commissioned its fourth NExBTL plant in 2011, in Rotterdam in the Netherlands. All these plants are capable of producing both renewable diesel and renewable aviation fuel. During 2011, Neste Oil concentrated on leveraging its Renewable Fuels business by developing its customer base and supply chain and by extending the portfolio of raw material it uses.

Key figures

	2011	2010
Revenue, EUR million	1,026	328
Operating profit, EUR million	-170	-39
Comparable operating profit, EUR million	-163	-65
Net assets, EUR million	1,963	1,703
Comparable return on net assets (RONA), %	-8.7	-5.1
Capital expenditure, EUR million	190	578

Growth in NExBTL renewable diesel production capacity



Targets for 2012

- Extend Neste Oil's global customer base and open up new markets
- Make the business profitable by increasing sales and improving plant capacity utilization levels
- Develop new product applications
- Extend the raw material base and ensure the sustainability and acceptability of the range of raw materials.

During 2011, Neste Oil concentrated on leveraging its Renewable Fuels business. Renewable diesel sales volumes developed positively and rose 133% compared to 2010.

Renewable Fuels' markets

Demand for renewable fuels is largely dependent on officially mandated requirements to use renewable energy, which are steadily spreading worldwide and are expected to see demand virtually double by 2020. Example targets set for biocomponent usage in traffic fuels, as a proportion of energy content, include:

- 10% by 2020 in European Union countries
- 20% by 2022 in the US.

Ongoing legislative initiatives

Comparable legislation is either in place or under development in other parts of the world as well. Despite delays and uncertainties in some regions, the implementation of legislation on the use of biofuels continued to move ahead in 2011. Neste Oil engaged in active dialogue with legislators in both Europe and the US in 2011.

Biofuels accounted for 4-6% of traffic fuel usage in the EU in 2011, depending on the country concerned. Neste Oil's NExBTL renewable diesel, produced using hydrogenation technology, has been approved for use in meeting biomandated content levels in virtually all European Union countries.

Work continued in the US on defining import regulations for products such as NExBTL renewable diesel in the Advanced Biofuels category, and imports of NExBTL cannot start until this is complete. Animal fat and soybean oil have been approved as raw materials for producing NExBTL renewable diesel for the US market, while palm oil, palm oil by-products, and European rapeseed oil have not so far.

A 2% mandated usage of biofuels was approved in Canada in 2011, and NExBTL renewable diesel meets the criteria for this requirement.

Read more about how the market for renewable fuels developed in 2011 in the [Industry overview](#).

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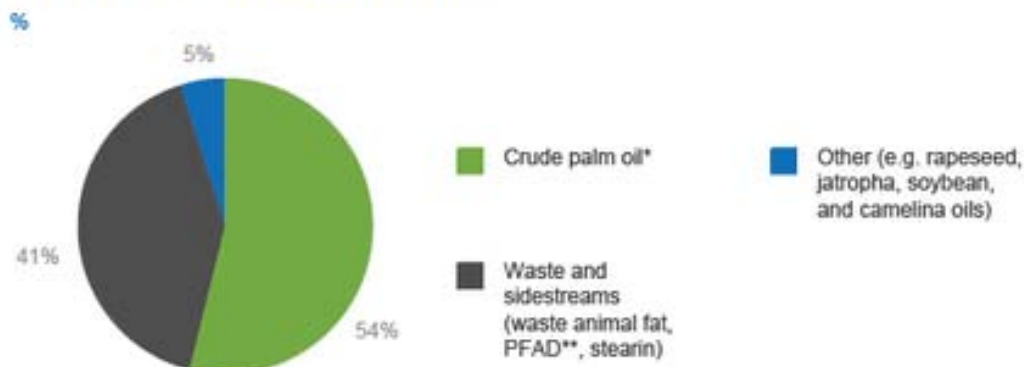
Renewable raw materials

Using the NExBTL technology developed by Neste Oil, virtually any vegetable oil or waste fat can be used to produce renewable fuel. This flexibility gives Neste Oil a valuable advantage, as it enables the special needs of different markets and customers to be met with ease. By optimizing its use of different raw material streams, Neste Oil can also leverage the varying price differentials between different inputs.

Extending the raw material base

Extending the range of renewable raw materials it uses is one of Neste Oil's most important goals. During 2011, the company succeeded in extending the number of renewable raw materials it currently uses from five to eight when it added soybean oil, camelina oil, and jatropha oil to its feedstock pool. Neste Oil also succeeded in increasing its use of waste and sidestreams significantly, which saw the proportion of crude palm oil in its total renewable raw material input fall to 54%. For more on the R&D work Neste Oil is doing on further extending its raw material base, see the section on [Research, technology, and engineering](#).

The use of renewable raw materials in 2011



* Includes 2% RBD palm oil (Refined Bleached Deodorized)

** PFAD = Palm Fatty Acid Distillate

In addition to extending its raw material base, Neste Oil always ensures that all the raw materials it uses are produced sustainably. For more on the sustainability of Neste Oil's raw materials, see the [Sustainability section](#) of the Annual Report.

A flexible mix of raw materials gives Neste Oil a valuable advantage, as it enables the special needs of different markets and customers to be met with ease.

Renewable Fuels' customers and products

The main markets for NExBTL renewable diesel are Europe and North America, and it is sold to corporate customers as a premium-quality biocomponent for blending purposes. Thanks to its high quality, customers can use it very flexibly and optimize their logistics chain and produce their own quality products. Neste Oil has sold NExBTL renewable diesel to consumers in Finland since 2008. Neste Green diesel sold at Neste Oil service stations contains a minimum of 10% NExBTL.

An expanded customer base

During 2011, Neste Oil succeeded in achieving its goal of extending its customer base for renewable fuels, and renewable diesel sales volumes developed positively. New sales contracts were signed in Northern, Central, and Southern Europe, and overall sales volumes rose 133% compared to 2010 and were 628,000 tons (270,000 tons). NExBTL renewable diesel was supplied to a total of six countries in Europe, compared to four countries in 2010. The improved availability of ISCC-certified raw material, required for the German market, was one of the factors that contributed to this positive development. Neste Oil signed its first sales contracts with customers in the US, but exports there were delayed for legislative reasons.

Value-added solutions

Neste Oil developed a number of new, value-added solutions for its existing customers during 2011, such as blends of fossil and renewable diesel for sale on European markets. Turnkey solutions such as these offer customers real benefits as they bring logistics savings and provide added flexibility.

New applications for NExBTL technology

In addition to opening up new markets and pioneering new solutions in 2011, Neste Oil also succeeded in developing new applications for its Renewable Fuels business based on NExBTL technology. A good example of this was the delivery of the first cargo of NExBTL renewable aviation fuel to Lufthansa in the summer. Neste Oil's aim is to expand its renewable aviation fuel business and the company is working closely with airlines and aircraft manufacturers as part of this.

In addition to aviation fuel, Neste Oil launched a trial to test 100% NExBTL renewable diesel in marine usage for the first time. Carried out in cooperation with the Port of Rotterdam and the Rotterdam Climate Initiative, this will see a harbor patrol boat run on NExBTL for a total of 1,000 hours.

New sales contracts were signed in Northern, Central, and Southern Europe, and overall sales rose 133% compared to 2010.

Differences between NExBTL renewable diesel and conventional biodiesel

NExBTL renewable diesel

- Can be blended at up to 100% content
- Complies with the strictest quality standards
- Reduces greenhouse gas and tailpipe emissions
- Offers excellent storability
- Does not require engine modifications or changes in logistics system

Traditional biodiesel

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

* Maximum allowed under the European diesel standard.

Oil Retail

Oil Retail has a network of 1,145 stations around the Baltic and serves as a key marketing channel for Neste Oil's premium-quality, low-emission products. Oil Retail's goal is to maximize the cash flow generated by product sales and leverage the growth potential offered by its markets.

During 2011, Oil Retail focused on strengthening its position in selected markets and expanding its station network with seven new stations in the St. Petersburg region of Northeast Russia. Work also continued on the revamp of the service station network and on developing pricing and internal processes to provide greater cost efficiency.

Key figures

	2011	2010
Revenue, EUR million	4,298	3,654
Operating profit, EUR million	58	61
Comparable operating profit, EUR million	57	60
Net assets, EUR million	326	315
Comparable return on net assets (RONA), %	18	19
Capital expenditure, EUR million	34	33
Total sales, 1,000 m ³	3,982	4,150

Targets for 2012:

- Strengthen Neste Oil's position as a leading oil retail brand by developing the company's product range and station network
- Improve Neste Oil's market position and leverage growth potential, particularly in Northwest Russia
- Develop a pricing structure capable of yielding the best possible return
- Reduce unit costs by developing IT systems and online ordering tools.

During 2011, Oil Retail focused on strengthening its position in selected markets and expanding its station network with seven new stations in the St. Petersburg region of Northeast Russia.

Oil Retail's markets

The market situation in the oil retail sector continued to remain challenging in 2011. Although investment in the sector in Finland slowed, overcapacity continues to be an issue. The markets in the Baltic countries have still not recovered from the drop in demand caused by the earlier downturn, which saw demand fall back to 2007 levels. The introduction of the euro in Estonia at the beginning of 2011 kept margins tight, and the price differentials between Neste Oil and its competitors failed to stabilize. The market situation also remained tense in Poland, with margins at extremely low levels. The market in Northwest Russia continued to grow.

Despite the challenging market situation, Neste Oil succeeded in retaining its position on all its main markets and was able to grow in Finland. In Estonia, Neste Oil sold its non-core gas business, AS Reola Gaas, to Estonian-based Alexela.

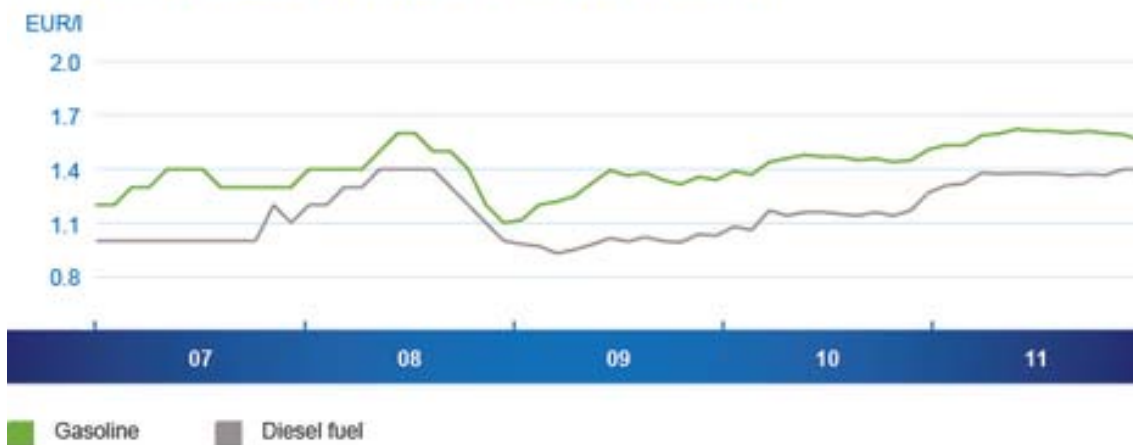
Increased demand for diesel

Retail demand for diesel fuel continued to grow during 2011. Demand for diesel rose by 3.0% in Finland compared to 2010, while gasoline demand fell back 3.4%. Gasoline demand in the Baltic countries decreased, while diesel demand rose compared to 2010. Demand for gasoline and diesel both rose in Northwest Russia.

Finland shifted to 95E10 gasoline containing a maximum of 10% ethanol at the beginning of 2011. Consumers reacted suspiciously to the new fuel, and demand for 98E5 gasoline containing a minimum of 5% ethanol rose above what cars actually needed.

Read more about developments on the retail fuel market during 2011 in the [Industry Overview](#) section of the Annual Report.

Average retail prices for gasoline and diesel fuel in Finland



Despite the challenging market situation, Neste Oil succeeded in retaining its position on all its main markets and was able to grow in Finland.

Oil Retail's customers and products

Oil Retail is a major marketer and supplier of petroleum products in Finland, with a product range that includes gasoline, diesel, heating oil, heavy fuel oil, and aviation fuel. Neste Oil also offers its customers a wide range of lubricants, chemicals, and LPG. Products are sold to consumers and directly to industrial and agricultural customers. Outside Finland, Neste Oil has a total of 326 stations in Northwest Russia, Estonia, Latvia, Lithuania, and Poland selling traffic fuels to retail customers.

Premium-quality products, a strong brand, an extensive station network, and competitive unit costs give Neste Oil a valuable competitive advantage in the retail marketplace. The portfolio of services developed by Neste Oil offers customers a number of value-added solutions in areas such as fuel consumption monitoring and product ordering.

Slightly higher traffic fuel sales volumes

Neste Oil's sales volumes of traffic fuels increased by 0.3% and total sales stood at 3.1 million m³. Growth was largely driven by increased demand for diesel. Diesel fuel sales rose by 3.4%, while gasoline sales fell back by 3.3% compared to 2010.

Neste Oil's share of retail gasoline sales in Finland grew significantly, to reach 27.1% (24.9%). The company's share of retail sales of diesel fuel in Finland was 39.1% (38.6%).

Products with a smaller environmental footprint

Oil Retail continued developing its range of lower-emission traffic fuels during 2011. Pump-based sales of small-engine gasoline, designed to keep the engines in garden tools, outboards, chainsaws, and similar products free of contaminants and reduce their environmental emissions, was launched on a trial basis. A decision whether to extend the trial, initially based at two service stations in southern Finland, will be taken on the basis of how demand develops.

Neste Oil launched a new sulfur-free fuel oil for heating and engine use containing 2% renewable diesel in Finland at the beginning of 2011. Odorless, smoke-free Neste Green Light lamp oil, produced from 100% renewable raw materials, was also introduced at Finnish service stations.

During the summer, Neste Oil launched a trial in Finland involving a total of 23 tanker trucks running on Neste Green 100 diesel. The one-year trial will monitor how well the fuel, a 100% renewable product, performs in extended highway usage with heavy loads and in a range of weather conditions. Trials of Neste Green 100 diesel with passenger cars also continued during 2011 and a number of Neste Oil personnel used the fuel in their company cars as part of the program. Neste Green diesel, containing a minimum of 10% renewable diesel, is sold at Neste Oil outlets in Southern and Eastern Finland.

Increased direct sales in the aviation and mining sectors

Demand in the direct fuel sales area increased in 2011, particularly in the aviation and mining sectors. Neste Oil achieved a new sales record at Helsinki Airport in the summer when over 1 million liters of jet fuel were sold a single day for the first time. Neste Oil also succeeded in signing new partnership agreements with various mining businesses, as well as new LPG and lubricant sales agreements with various other industrial customers.

Neste Oil introduced new products with a smaller environmental footprint in Finland during 2011. The company launched pump-based sales of small-engine gasoline and Neste Green Light lamp oil produced from 100% renewable raw materials.

Station network

Neste Oil has a total of 1,145 stations: 819 in Finland and 326 in Northwest Russia, Estonia, Latvia, Lithuania, and Poland. The company aims to be one of the top two service station chains in all its markets. Neste Oil strengthened its position in the St. Petersburg region during 2011 and expanded its station network with seven new outlets.

Neste Oil's station network around the Baltic

Neste Oil's stations:

- Finland 819
- St. Petersburg 61
- Estonia 49
- Latvia 53
- Lithuania 57
- Poland 106



Revamp project continued

Neste Oil continued the revamp of its station network in Finland and other countries during 2011. Revamps were completed at a total of 94 stations. The project was completed at all stations in Lithuania and the first revamped stations were opened in Estonia, Latvia, and Russia. In addition to modernizing the appearance of stations, the project is also improving the customer experience at stations, as well as safety.

In Russia, the project also covers a revamp of the station shop concept and station forecourts. The new concept focuses on offering premium-quality products to quality-conscious customers. Personnel at stations in Russia were given retail marketing and customer service training during 2011 as part of the project.

Successful marketing partnership

Neste Oil continued its high-profile marketing partnership with Kesko launched in 2010 during 2011. Joint marketing of Neste Oil's K-market stations succeeded in leveraging overall marketing efforts and improving the quality image associated with the station network. Cooperation in lubricants with K-maatalous, Kesko's business serving the farming sector, which was launched in 2010, also continued.

New pricing system introduced around the Baltic

Neste Oil began introducing a new pricing system at its stations in the Baltic countries and Russia in 2011. The pump pricing system is intended to maximize margins and provide data for more efficient sales analysis. The system has been in use in Finland since 2010.

The comprehensive revamp of IT systems started in Oil Retail in 2010 progressed according to plan. When completed in 2012, the new system will help improve customer relationship management and customer service, as well as improve cost efficiency.

Production & Logistics

Neste Oil's Production & Logistics function is responsible for ensuring that the company's premium-quality products are produced and supplied to customers as reliably and cost-effectively as possible.

Neste Oil's refineries and plants in five countries around the world produce a comprehensive range of major petroleum products, together with premium-quality NExBTL renewable diesel. Combined output in 2011 totaled 15.2 million tons (13.6 million tons), of which 0.7 million tons (0.3 million tons) comprised NExBTL diesel. Neste Oil's fleet of 22 vessels and 13 distribution terminals ensure a flexible flow of feedstocks and product shipments.

The completion and start-up of a number of new plants were among Production & Logistics' most important achievements during 2011. A new renewable diesel refinery was commissioned in Rotterdam in the Netherlands on-schedule in September and a base oil plant in Bahrain in October. An energy efficiency enhancement program was also launched, and good progress was made on ongoing work aimed at improving safety. Capacity utilization rates improved at both the Porvoo and Naantali refineries and output of Diesel Production Line 4 at the Porvoo refinery increased.

Read more about Neste Oil's [energy efficiency program](#) and [safety work](#) in the sustainability section of the Annual Report.

Targets for 2012:

- Improve the cost and energy efficiency of all Neste Oil's production facilities, terminals, and ships
- Improve safety on a continuous basis
- Secure increased operational reliability in terms of refinery availability
- Achieve better flexibility in production and services by developing raw material and product logistics.

A new renewable diesel refinery was commissioned in Rotterdam in the Netherlands on-schedule in September and a base oil plant in Bahrain in October.

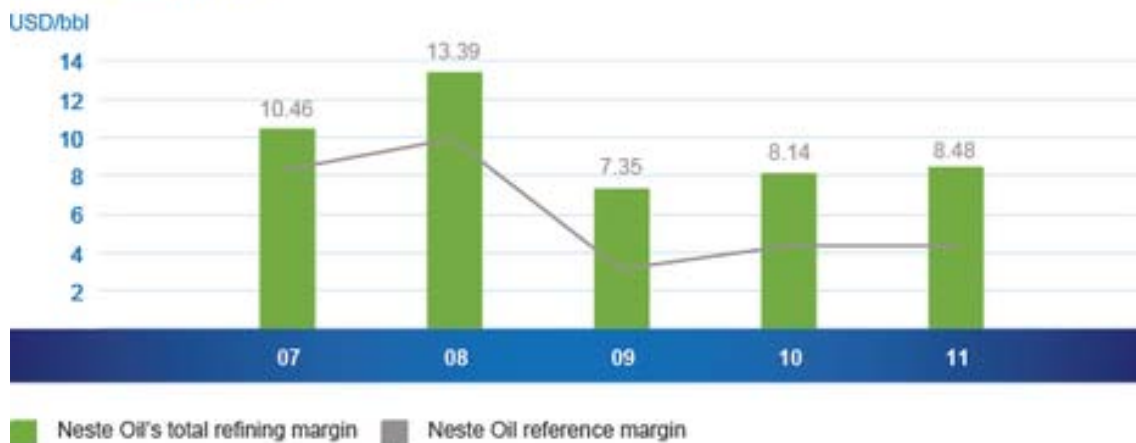
Refineries

Neste Oil's fossil fuel refineries are located at Porvoo and Naantali in Finland, and its two renewable diesel refineries in Singapore and Rotterdam in the Netherlands. Additional renewable diesel capacity is based at the Porvoo refinery.

The success of Neste Oil's refineries is based on a high level of refining expertise, a commitment to introducing advanced new technologies, and the ability to refine a range of different feedstocks.

The [environmental impact](#) and [safety performance](#) of Neste Oil's refineries is covered in more detail in the Sustainability section of the Annual Report.

Total refining margin



Porvoo refinery

Neste Oil's Porvoo refinery is one of Europe's most advanced and versatile refineries and is capable of producing a comprehensive range of major petroleum products, as well as NExBTL renewable diesel. The refinery has a crude refining capacity of 206,000 bbl/d and produces around 12 million t/a of products.

The refinery's average capacity utilization rate in 2011 was 85% (82%) and output totaled 12.0 million tons (10.6 million tons). Output was higher compared to 2010, when the largest maintenance turnaround in the site's history took place. Russian Export Blend accounted for 61% (62%) of input in 2011.

Work on improving the productivity of Diesel Line 4 continued in 2011. New liquid catalyst technology was introduced, a world first, and improved the performance of the production process and conversion rates. A maintenance shutdown was carried out in the fall to decoke the line and help ensure future uninterrupted production.

A number of test runs using various different raw materials and combinations of inputs were carried out at the site's renewable diesel plants during 2011; these included successfully running a batch of 100% waste animal fat. One of the plants also produced the first batch of NExBTL renewable aviation fuel supplied to Lufthansa in 2011.

The refinery achieved its longest-ever period without a single accident – 209 days, equivalent to around 1.8 million working hours – in 2011. Environmental investments continued at the site, with the launch of a project to recover gas released during loading at the refinery's harbor. This facility is due to be completed in 2013. Read more about the [VOC recovery system](#) in the Sustainability section of the Annual Report.

Naantali refinery

Neste Oil's Naantali refinery concentrates on specialty products, such as solvents and bitumen, and has a capacity of 58,000 bbl/d, producing approx. 3 million tons of products annually.

The refinery's average capacity utilization rate in 2011 was 85% (84%) and output totaled 2.3 million tons (2.4 million tons). Russian Export Blend accounted for 91% (95%) of the refinery's total feedstock input in 2011.

Preparations continued for the maintenance turnaround scheduled for spring 2012. Following an extensive energy efficiency review, an energy efficiency enhancement project was launched that will run until 2014. The refinery also achieved a record two-year period without any inflammable material incidents.

A trial run using vegetable oil was successfully carried out at the refinery's thermofor catalytic cracking (TCC) unit. This was Neste Oil's first-ever run using an alternative feedstock on a line designed for fossil inputs. Modernization work started on Pier 2 at the refinery's harbor to improve harbor safety and cost efficiency.

Renewable diesel refineries in Singapore and Rotterdam

Neste Oil started up Europe's largest renewable diesel refinery on-schedule in Rotterdam in the Netherlands in fall 2011. Based on the company's proprietary NExBTL technology, the plant has a production capacity of 800,000 t/a of premium-quality renewable diesel.

Neste Oil has had a similar-sized renewable diesel refinery operational in Singapore since 2010, and two smaller renewable diesel plants have been operational at the Porvoo refinery since 2007 and 2009. Following the start-up of the Rotterdam refinery, Neste Oil now has a total of 2 million t/a of renewable diesel capacity. All four facilities are also capable of producing NExBTL renewable aviation fuel, as well as NExBTL diesel.

Neste Oil's output of renewable diesel more than doubled in 2011 and totaled 0.7 million tons (0.3 million tons). Given the market situation, plants were not operated at their full capacity, however.

The Porvoo refinery achieved its longest-ever period without a single accident – 209 days, equivalent to around 1.8 million working hours – in 2011.

Neste Oil's output of renewable diesel more than doubled in 2011 and totaled 0.7 million tons (0.3 million tons).

Other production plants

In addition to its own refineries, Neste Oil has joint venture production plants in Bahrain and Nynäshamn in Sweden. Neste Oil has a 45% stake in a base oil plant in Bahrain and a 49.99% holding in a refinery at Nynäshamn producing naphthenic oil and bitumen.

The base oil plant in Bahrain was started up on-schedule in October 2011. Owned by Neste Oil, Bahrain Petroleum Company (Bapco), and nogaholding, the plant has a nameplate capacity of 400,000 t/a of premium-quality Group III VHVI (Very High Viscosity Index) base oil used in high-quality lubricants. Neste Oil is responsible for marketing and selling the plant's output.

Neste Oil sold its wholly owned PAO base oil plant in Beringen, Belgium in 2011, together with its 50% stake in an iso-octane facility in Edmonton, Canada. The sale of the iso-octane plant was confirmed in January 2012. The divestments were part of a program to focus on Neste Oil's core products and seek growth in renewable diesel and VHVI base oil.

Fleet and terminals

Neste Oil's tanker fleet and terminals guarantee the feedstock supplies the company needs and for providing customers with quality, safe, and cost-efficient product deliveries. Over 91% of the feedstocks used at Neste Oil's refineries were supplied by sea, 7% by rail, and the rest mainly by road in 2011. 70% of products to domestic customers were shipped by sea, 19% by road, and the rest by rail and pipeline. 91% of exports were shipped by sea and the rest in tanks.

The 22 ships in the Neste Oil fleet transported over 28 million tons of crude and petroleum products in 2011. Although the year was a challenging one on the freight market, the fleet's capacity utilization remained high, at 95% (94%). The harsher-than-normal ice conditions during the winter improved the profitability of marine shipments, although higher bunker costs resulted in additional costs for the company's shipping business. Work continued throughout the year on the operational efficiency enhancement program launched in 2010.

The volume of raw material and product cargoes carried by external charterers increased significantly during 2011 following the rise in renewable diesel production generated by the Singapore refinery, commissioned at the end of 2010, and the Rotterdam refinery, commissioned in fall 2011.

Neste Oil achieved a major milestone in the late summer when two of its tankers successfully traversed the Northeast Passage from Murmansk to the Far East. Only a couple of other tankers sailed this challenging route during 2011. Neste Oil's extensive shipping expertise and decades of experience in navigating in ice-bound waters, together with one of the world's largest fleets of ice-strengthened vessels, give the company a valuable advantage along a route such as this. Read more about [Neste Oil's tankers at the Northeast Passage](#) in the Sustainability section of the Annual Report.

In addition to terminals at the Porvoo and Naantali refineries, Neste Oil has 10 coastal terminals in Finland and one terminal each in Estonia, Latvia, and St. Petersburg in Russia. The excellent logistics of these terminals reduce the distances that customers' tanker trucks have to travel and benefits the environment in terms of lower emissions.

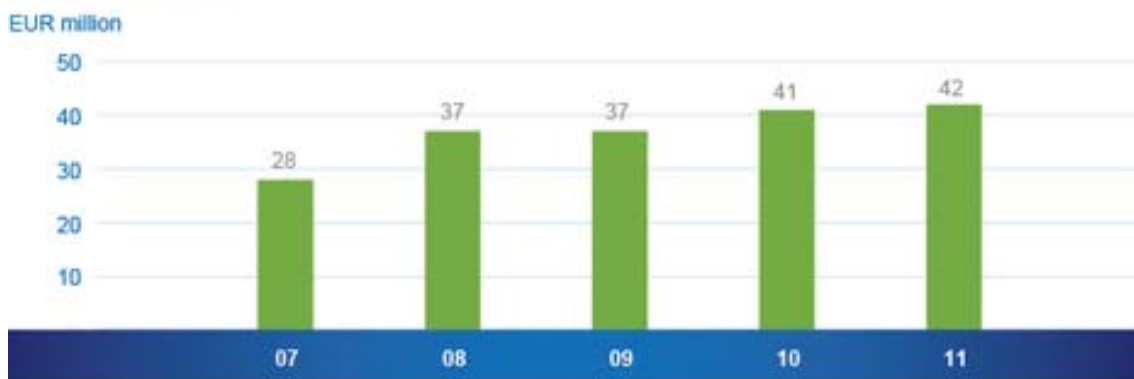
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Research, technology, and engineering

Expertise in research and technology represents one of Neste Oil's key success factors and plays a major role in the company's cleaner traffic strategy.

During 2011, research concentrated on extending the range of raw materials that Neste Oil uses, and around 80% of the company's R&D expenditure, which totaled EUR 42 million, was spent on research in this area. Neste Oil received an EUR 50 million loan from the Nordic Investment Bank for research into renewable raw materials, which will strengthen the company's cutting edge R&D work in the future.

R&D expenditure



Targets for 2012:

- Increase productivity by improving the performance of Diesel Line 4 at the Porvoo refinery and further developing NExBTL technology
- Extend the raw material base used in producing renewable fuels to provide greater flexibility
- Develop new technologies and protect IPR effectively
- Develop strategic partnerships.

Raw material research

R&D played an important role in enabling Neste Oil to add soybean oil, camelina oil, and jatropha oil to its raw material base in 2011. The suitability of these inputs for the company's production technology was carefully reviewed with the help of analyses and laboratory-scale tests before the go-ahead was given for full-scale production. A number of new calculation methods related to processing different raw material blends were developed.

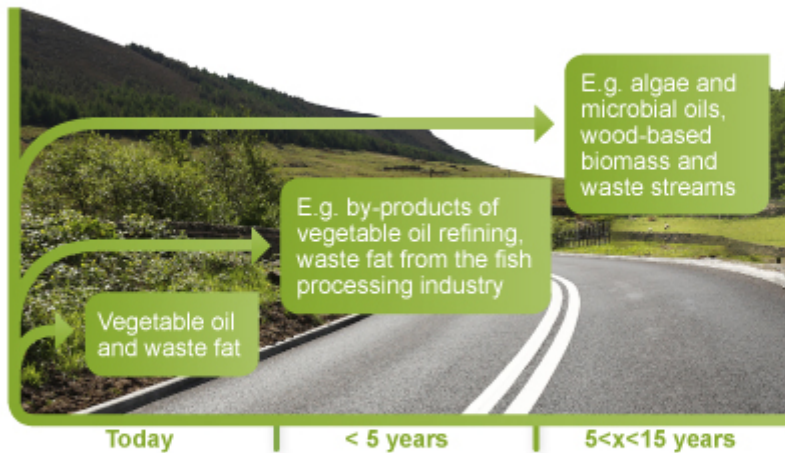
Research and development work on extending the raw material base continued in 2011. By-products of vegetable oil refining, waste fat from the fish processing industry, and used cooking oil were identified as the most interesting short-term potential alternatives. Longer term, Neste Oil's raw material research is focusing on using biowax produced from wood-based biomass and microbial and algae oil as feedstocks for producing renewable fuels. Laboratory-scale batches of NExBTL renewable diesel have already been produced from these materials. Development work on production technology for microbial and algae oil continued during 2011; studies also looked at how production volumes can be scaled up to industrial levels.

Microbial oil is one of the most exciting potential raw material alternatives over the long term, and Neste Oil is carrying out cutting-edge research on how this oil can be used in biofuel production. Neste Oil has been working on R&D in this area with Aalto University since 2007, and applied for various patents for technology that can produce microbial oil from waste using fungi in 2010. Research during 2011 shifted to the next stage when the company decided to build a pilot plant to produce waste-based microbial oil at its Porvoo Technology centre. The facility is due to be completed in the second half of 2012 and represents an investment of approx. EUR 8 million.

Neste Oil continued R&D with Stora Enso on the use of wood-based biomass during 2011. The companies have had a joint demonstration plant in Varkaus producing biowax from this type of biomass for use as a renewable diesel feedstock since 2009. An environmental impact assessment covering the building of a possible commercial plant in either Porvoo or Imatra was completed in 2011. The Ministry of Employment and the Economy forwarded Neste Oil's and Stora Enso's NER 300 application to the European Commission for consideration. The final decision on whether to go ahead with the investment will be taken when the possible public subsidy for the project has been confirmed.

Read more about Neste Oil's [renewable raw material base](#) and [sustainable bio-based raw material procurement](#).

Research on renewable raw materials



Research cooperation in Finland and overseas

Neste Oil works closely with leading research institutions and companies in a variety of fields as part of its R&D on renewable raw materials. A total of around 25 universities and research bodies in Finland and around the world are currently involved.

Neste Oil launched a number of new joint projects in the raw material research field during 2011. A project aimed at developing higher-yield oilseed rape varieties suitable for Finnish growing conditions was started in early 2011 together with Boreal Plant Breeding and Raisio. During the summer, Neste Oil decided to join international algae research projects in Australia and the Netherlands. The goal of these projects is to test various algae cultivation techniques in outdoor conditions. In the fall, a joint algae R&D project was launched with the Marine Research Centre at the Finnish Environment Institute (SYKE). This will test the lipid production capacity of different types of algae and analyze how lipid quality and quantity can be optimized by adjusting growing conditions.

In 2011 Neste Oil decided to build a pilot plant to produce waste-based microbial oil at its Porvoo Technology centre. The facility is due to be completed in the second half of 2012 and represents an investment of approx. EUR 8 million.

Development of products and technologies

Neste Oil's R&D has concentrated on developing products and technologies with a smaller environment footprint for decades. Research during 2011 focused on supporting the acceptability of NExBTL technology and further developing its already extensive raw material flexibility. R&D played a major role in the start-up of the company's new NExBTL refineries in Singapore and Rotterdam and during the early stage of production there. This focused on testing how well different raw materials performed in the refineries' processes and on supporting commissioning together with refinery personnel and experts from Neste Jacobs.

Neste Oil has used its proprietary NExBTL technology for producing renewable diesel since 2007 and succeeded in extending the technology to producing renewable aviation fuel on a commercial scale in 2011. R&D was central to the development of this landmark fuel.

Research during 2011 focused on supporting the acceptability of NExBTL technology and further developing its already extensive raw material flexibility.

Product expertise and patents

Product expertise contributes to work on standards and sales and customer support

Neste Oil's fuel experts provided extensive sales and customer support on issues related to NExBTL renewable diesel and E10 gasoline during 2011. Company experts also took part in work on new fuel standards through various industry organizations. One of the most important of these was ASTM International, which approved a new standard for aviation biofuels in 2011.

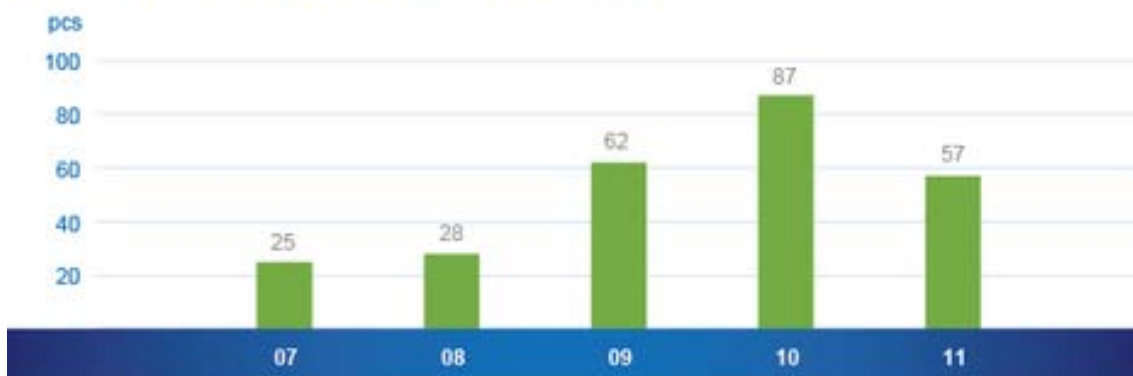
As a long-time developer of cleaner traffic fuels, Neste Oil believes that environmental properties are central to its products. During 2011, particular emphasis was given to developing new methods for calculating the greenhouse gas emissions of NExBTL renewable diesel. This focused on developing new computational tools, calculating refinery greenhouse gas emissions, auditing the results of these calculations, and arranging internal training on greenhouse gas emission issues.

Numerous patents protect Neste Oil's technology

Neste Oil actively defends its patents and recognizes their business value. Neste Oil focused particular attention on its intellectual property (IP) and the support this provides for the company's businesses during 2011. Key areas of IP critical to Neste Oil's business that need to be given patent protection were identified. The patents that protect the company's business-critical technology – particularly those related to the raw materials used in producing renewable fuels and the technologies used for pretreating these materials – were also identified.

The number of patents applied for again increased in 2011, while the number of invention disclosures decreased. Patent applications mainly covered the technologies mentioned above. Neste Oil also monitored the patent activities of its competitors and stepped up monitoring work on its own brands. As part of patent development work, a new IP management system was introduced and training arranged for personnel on patenting-related matters.

Invention disclosures and new patent applications



Neste Oil focused particular attention on its intellectual property (IP) and the support this provides for the company's businesses during 2011.

Engineering company Neste Jacobs

Technology and engineering company Neste Jacobs, which is 60%-owned by Neste Oil, continued to develop and grow its operations in selected areas during 2011. A presence was established in the Middle East with the opening of an office in Abu Dhabi. This will offer a range of services to oil, gas, and petrochemical companies across the Middle East and support local customers in work on new projects and enhancing the efficiency of existing plants. Neste Jacobs also succeeded in winning new customers in the Nordic region, the Baltic countries, Central Europe, and Russia.

Neste Jacobs extended its activities in the biotechnology field with the signing of a major agreement with GE Healthcare. This eight-year global agreement covers the marketing, sales, and execution of blood plasma fractionation plants, and will make the two companies a leading player in projects of this type. The agreement will also benefit the long-term development of Neste Jacobs's business and expertise in the biotechnology area.

Neste Jacobs plays an important role in helping drive Neste Oil's strategy in the technology area. Neste Jacobs's approx. 700 engineering professionals and its long experience in oil, gas, and petrochemicals make a key contribution to scaling up Neste Oil's Research and Technology initiatives, in investment projects, and in supporting plant operations.

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Sustainability at Neste Oil

Sustainability represents a central part of Neste Oil's cleaner fuel strategy. By developing and producing premium-quality fuels that have a lower level of impact on the environment, Neste Oil can help meet the growing energy needs of traffic and transport and make its own contribution to combating climate change. Neste Oil's approach to sustainability is based on a thorough understanding of the impact its products have over their entire lifecycle and a commitment to continuous improvement.

The world's 19th most sustainable company

Foreword by Simo Honkanen, Senior Vice President, Sustainability and HSSE at Neste Oil.

[Read more](#)



Reducing traffic-related emissions as a goal

The amount of NExBTL renewable diesel produced in 2011 enabled us to reduce the greenhouse gas emissions generated by traffic and transport by an amount equivalent to eliminating more than 310,000 diesel cars from the roads.

[Read more](#)

Significant improvement in safety at work

In 2011, Neste Oil succeeded in halving the number of its work-related accidents when compared to the previous year.

[Read more](#)



Sustainability at Neste Oil

Neste Oil's operations and products impact society, the environment, and people. The company's goal is to reduce or eliminate the negative impact of its operations, while generating added value and wellbeing for its stakeholders. Neste Oil's premium-quality, cleaner products play a key role here.

Sustainability work covers all aspects of operations

Neste Oil's sustainability-related work is often seen as limited to renewable fuels, and the procurement of renewable raw materials in particular. This work, however, covers all of the company's operations including the entire petroleum product and renewable fuel supply chain, Neste Oil's extensive safety work, and its efforts aimed at promoting the wellbeing and development of the company's personnel and that of communities affected by its operations. This Sustainability Report covers the central aspects of this broad-ranging work in 2011.

In 2011, Neste Oil completed the update of the majority of its sustainability-related guidelines and launched a wide-ranging safety culture development program. During the year, Neste Oil succeeded in improving its safety performance significantly; for example, the company was able to reduce the number of work-related injuries requiring medical attention by over 50 % from 2010. This significantly narrowed the gap between Neste Oil and the industry's leading safety performers.

Neste Oil continued its constructive cooperation with the companies supplying the raw materials for its renewable diesel and successfully completed the sustainability certification process of its NExBTL refineries. Improving the company's safety performance, as well as verifying and supporting the sustainable development of Neste Oil's ever-increasing number of raw material suppliers, remain key challenges.

[Read more about sustainability-related goals and achievements.](#)

[Read more about sustainability-related reviews.](#)

Neste Oil's goal is to achieve a leading position in the industry in terms of sustainable performance.

When evaluating its progress in the sustainability area, Neste Oil monitors Group-level indicators covering health, safety, and environmental and HR management.

Progress is also monitored with the help of ESG (Environmental, Social Governance) reviews carried out by independent third parties.

Well-placed to continue improving our sustainability

The environments in which companies in the energy sector operate, particularly those with international businesses, are complicated and typified by extended supply chains. The expectations and demands of legislators and stakeholders across society are also growing.

Responsible and sustainable businesses take the environment and people into account, focus on performance, and follow good governance practices. Sustainable companies are also committed to continually improving their operations.

Sustainability represents an integral and important part of Neste Oil's way of working and is based on efficient management of the company's supply chain. Day-to-day operations are guided by Group-level principles and operating guidelines based on these principles. A lot was achieved in developing and implementing these principles and guidelines in 2011.

The recognition that Neste Oil received in 2011 internationally is a good example of this. We were again featured in the Dow Jones Sustainability World Index and were ranked as the best performer in the Oil & Gas sector by the Forest Footprint Disclosure Report in 2011. Just after the end of the year, in January 2012, Neste Oil was again selected for inclusion in The Global 100 list of the world's most sustainable companies for the sixth time. We also succeeded in improving our ranking to 19th place, one better than in 2011.

Safety is particularly important in our industry. 2011 saw us achieve our best-ever safety performance, when we recorded a total recordable work-related injury frequency* of as low as 2.3 per million hours worked. This excellent performance was overshadowed, however, by an accident that resulted in the death of one of our contractor's employees at Porvoo.

Systematic, long-term development work on our safety systems has played a key role in helping us improve our safety performance. Neste Oil has a comprehensive incident management system, which is used for recording all operational incidents. The most serious of these are thoroughly investigated to identify the root cause behind them and prevent them occurring again.

Basic safety guidelines have been for the most part completed for all of Neste Oil's operations, and the emphasis during 2012 will be on implementing them in practice. Special attention will be paid to developing our process safety systems. Our goal is to be one of Europe's best companies in terms of occupational and process safety by 2015.

Neste Oil has also been at the forefront of the industry in developing systems for managing its renewable raw materials supply chain. All the renewable raw materials we use are traceable back to their origins. Before selecting a new potential supplier, we always carry out a thorough review of their sustainable principles and practices.

The work we are doing on sustainability is helping us implement our vision of becoming people's preferred partner in cleaner traffic fuel solutions. Safe and sustainable operations create a good workplace and enhance our value as a company. We are well-placed to continue making Neste Oil even more sustainable in the future.

Simo Honkanen, Senior Vice President, Sustainability and HSSE
Neste Oil

* TRIF = Total Recordable Injury 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.

Sustainability-related risks and opportunities

A number of sustainability-related risks are associated with Neste Oil's operations. The company's risk management aims to identify these threats and focus on preventive measures to counter them.

The most significant of these risks have remained essentially unchanged in recent years, and during 2011 were linked to raw material procurement, the environmental impact of refining and logistics, occupational and process safety, and product liability. Other risks identified included changes in legislation on sustainable fuels and the slow progress of implementing this type of legislation at EU level, member state level, and in the US. More information on the financial risks associated with business operations can be found in [the Risk Management section](#).

Unlike many other oil companies, Neste Oil does not have any oil exploration or drilling business, which reduces the company's exposure to environmental risks.

Sustainable products and specialist expertise create new opportunities

Neste Oil's renewable diesel capacity increased significantly in 2011. Its lower-emission products have the potential to play a key role in helping the world respond to growing energy needs sustainably. Premium-quality products and strong refining, product development, and technological expertise offer Neste Oil a clear competitive edge on the biofuel market.

Neste Oil is committed to promoting sustainability and responsible operations across the industry and to supporting development of the legislation designed to foster these in cooperation with its stakeholders.

As a small oil company in global terms, Neste Oil does not aim to promote sustainability by working alone. Instead, it prefers to take part in numerous projects in which it cooperates with Finnish and international partners to investigate how the undesired impact associated with traffic and transport can be reduced and greater sustainability in this area fostered. Greater sustainability has the potential to offer Neste Oil and its partners a number of new business opportunities.

[Read more about stakeholder's engagement.](#)

Sustainability of fossil fuels

No new sustainability issues emerged in respect of the fossil fuels produced by Neste Oil in 2011. The sustainability risks associated with these fuels are primarily linked to the procurement of the crude oil and other refinery feedstocks used in producing them, occupational and process safety, environmental impact of the company's refineries, as well as feedstock and product logistics. The main risks associated with Neste Oil's Oil Products business area are detailed in the [Risk Management section](#).

Neste Oil has a long history of developing and introducing lower-emission fossil fuels. The opportunities associated with fossil fuels lie very much in the development of these lower-emission products and offering them to both consumers and corporate customers.

Greenhouse gas emissions of fossil fuels

[EU's Fuel Quality Directive](#) sets a binding target for reducing the greenhouse gas emissions of traffic fuels by 6% by 2020. The means to achieve this target, which is calculated over the products' entire lifecycle, includes reducing emissions resulting from crude oil production, improving energy efficiency of fuel refining, and increasing the share of biofuels within the European market.

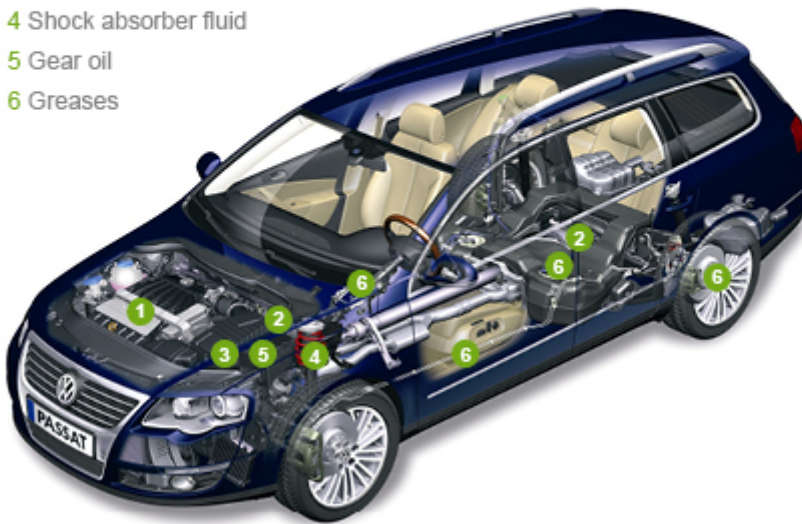
A common prerequisite for improving the energy efficiency of combustion engines is that the quality of fuel should remain as high as possible. This limits the use of some lower-quality biocomponents in modern engines. Such limitations do not apply to Neste Oil's premium-quality renewable diesel.

Base oil and cleaner light fuel oil suitable for heating

In addition to traffic fuels, Neste Oil also produces premium-quality base oils with a very low sulfur and aromatics content from fossil feedstocks for use in manufacturing lubricants. High-performing lubricants play a valuable part in helping reduce traffic- and transport-related emissions.

Application areas for premium-quality base oils

- 1 Engine oil
- 2 Driveline fluids
- 3 Power steering fluid
- 4 Shock absorber fluid
- 5 Gear oil
- 6 Greases



Neste Oil also produces low-emission, more environmentally friendly light fuel oil suitable for heating, which is sulfur-free and produced from fossil feedstocks containing an average of 4% NExBTL biocomponent.

Sustainability of renewable fuels

A number of sustainability issues continued to be associated with Neste Oil's renewable fuels growth business during 2011. The most central of these was the reputation-related risk associated with Neste Oil's use of palm oil and the slow progress that has been seen in the implementation of biofuel legislation.

Reputation-related risk associated with the use of palm oil

There were no significant sustainability-related deficiencies associated with Neste Oil's use of palm oil, such as legislative or statutory issues. There was, however, an element of reputation-related risk in 2011, as a result of the criticism [of palm oil usage presented by various non-governmental organizations \(NGOs\)](#).

Neste Oil aims to reduce the reputation-related risk associated with palm oil use and minimize its impact through proactive and open communication, as well as close cooperation and engagement with the company's stakeholders, especially in Europe and Southeast Asia. Neste Oil explored the opportunities for collaboration with oil palm smallholders in 2011. Neste Oil also strove to dispel the misconceptions associated with its palm oil usage and to correct misleading claims made in the public arena.

Among the issues that Neste Oil proactively and openly communicated about via press releases and the company's web site in 2011 were the company's raw material procurement targets and the new types of vegetable oil that the company has introduced into its renewable raw material pool.

[Read more about sustainable raw material procurement.](#)

Slow progress on sustainability legislation covering biofuels

Biofuel legislation progressed slowly at EU and member state level, as well as in the U.S., during 2011. Neste Oil continued its efforts to support legislative work in the area of renewable energy and fine-tune its voluntary sustainability verification scheme within the framework of the EU's Renewable Energy Directive.

[Read more about the development of sustainability legislation.](#)

[Read more about the work Neste Oil does to support legislative work.](#)

Sustainability legislation and recent development

Neste Oil always complies with the requirements of local legislation in the countries in which it operates and actively monitors changes made to this legislation, as well as other initiatives taken by the authorities. All company sites are required to have a system for reporting environmental data as stipulated under local legislation and environmental and other operating permits.

Neste Oil's sustainability experts paid particular attention during 2011 to the progress being made in renewable fuels legislation, as they are responsible for ensuring that the company's products comply with all aspects of this legislation at all times. These personnel are also responsible for developing operational compliance.

Uncertainties surrounding developments in the biofuel sustainability legislation area and its implementation continued to be an issue in 2011, and have impacted Neste Oil's renewable fuels business. The European Commission continued its work towards incorporating the impact of [indirect land use change \(ILUC\)](#) into the Renewable Energy Directive. Various EU member states also continued their implementation of the directive by developing their own national sustainability legislation.

In addition to the above-mentioned ones, there are also many other developing areas of legislation that affect Neste Oil's operations. Some of the significant ones can be found in the following table.

Key legislative developments related to health, safety and environment affecting Neste Oil's operations in 2011

Regulation	Stage	Impact	Company actions
EU Renewable Energy Directive (RED)	Directive in force, national implementation under way.	Creates a basis for national legislation and sets sustainability criteria and targets.	Participates actively in preparatory work in industrial associations; monitors implementation in member states.
EU Fuel Quality Directive (FQD)	Directive in force, national implementation under way.	Mandates fuel suppliers to reduce greenhouse gas emissions by 6%.	Prepared for implementation by conducting technical and economical analyses.
EU Industrial Emissions Directive (IED)	Directive in force, national implementation under way.	May result in stricter environmental permits for production plants.	Advocacy work related to technical implementation of legislation; optimizing environmental investments.
EU Energy Efficiency Directive (EED)	Draft directive issued for consideration.	May result in more detailed regulation of energy efficiency; ultimate impact will be seen when national implementation takes place.	Energy efficiency plans have been drawn up for Neste Oil's refineries, ships, and other operations.
EU Emission Trading Scheme (ETS)	Updated directive has been implemented in member states. The new emission trading period will begin in 2013.	The basis for calculation and the obligation to report on CO2 emissions at the Porvoo and Naantali refineries will change.	The emission allowances for the next trading period have been applied for; prepared for the new requirements and the updating of the monitoring plan.
EU REACH chemical regulatory framework	Regulation in force.	Regulates in detail the use of chemicals and the information flow within the chemical supply chain.	Registrations carried out in 2010, ongoing updating and maintenance under way in 2011.

Regulation	Stage	Impact	Company actions
EU Classification, Labelling and Packaging regulation (CLP)	Regulation in force and transition period under way.	Will require all chemical classifications and labeling to be updated.	Completed for substances, under way for compounds. Transition period will last until 2015.
EU Seveso Directive	Directive is in the process of being updated for the third time to reflect the requirements of the CLP regulation.	Limited number of stricter requirements; ultimate impact will be seen when national implementation takes place.	No actions in 2011; documentation will be updated when the new requirements are confirmed.
U.S. Renewable Fuel Standard (RFS2)	Legislation in force; approvals for new raw materials and production chains moving forward on a phased basis.	Accepted production chains allow access to the market and to the Renewable Identification Number (RIN) system.	Neste Oil has supplied the Environmental Protection Agency (EPA) with information about NExBTL technology, information on the use of current plants, as well as the greenhouse gas calculations for various raw material chains.

Progress on voluntary sustainability verification scheme

Neste Oil continued development of its voluntary sustainability verification scheme for use within the framework of the EU's Renewable Energy Directive during 2011.

The European Commission reviewed the Neste Oil scheme twice during 2011 and presented proposals for further developing it. Neste Oil updated the areas that the Commission drew attention to, tested the scheme with the help of certification company SGS, and resubmitted the scheme for approval in the late fall of 2011.

Neste Oil's goal is to receive the Commission's approval for the scheme by early 2012, after which it will be available for use by all companies and organizations in the renewable fuels area for verifying the sustainability of the production of HVO-type (Hydrotreated Vegetable Oil) renewable fuel produced from any type of raw material.

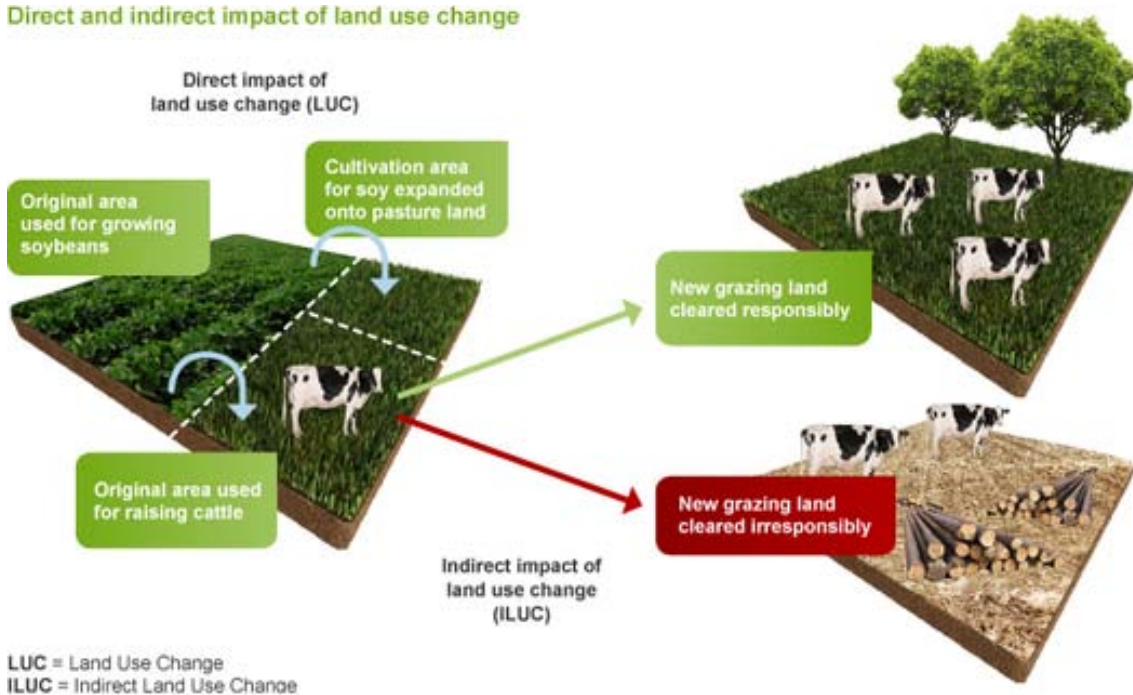
[Read more about Neste Oil's certificates.](#)

Impact of indirect land use change

A number of difficult questions surround the raw materials used in biofuel production. One of the most current of these is linked to the cultivation of these raw materials and the direct and indirect impact of changes in land use resulting from cultivation.

Direct impact is already covered extensively in existing biofuel legislation. The EU has addressed particularly attention recently to how biofuel producers should bear responsibility for the impact that changes in the use of the land employed for producing their raw materials can cause, indirectly or through other players. The term Indirect Land Use Change (ILUC) is used to describe the phenomenon that has been developed in this area.

Direct and indirect impact of land use change



As demand for raw materials increases, cultivation can be extended into areas that were originally used to grow other crops or raise cattle, for example. This agriculture, in turn, can then shift in an uncontrolled way to other land – resulting in deforestation, the loss of protected animal species, loss of biodiversity, a reduction in the size of CO₂ sinks and a growth in CO₂ emissions, erosion, algae bloom in waterways, and even human rights infringements. While the cultivation of the raw materials used in biofuel production does not generate this type of negative impact directly, it can do so indirectly.

Drafting work under way on ILUC legislation in the EU is currently concentrating on the greenhouse gas emissions resulting from changes in land use linked to the production of raw materials used in biofuels. The fact that similar legislative work is not under way related to other industries could create a false impression that the problems associated with irresponsible land use are linked solely to biofuel raw materials. In reality, land is also used by many other industries, as well as local populations, and the impact of indirect land use change applies to all areas of raw material production, regardless of the end-use of these materials.

Neste Oil has followed EU debate on the subject closely and believes that legislation covering all land users is the only effective way to reduce ILUC-related risks. The scientific fundamentals involved also need to be clarified before any regulations are introduced.

It will only be possible to avoid indirect negative impact if everyone involved acts responsibly and ensures that their operations in a given area do not result in direct negative impact.

Neste Oil will continue to monitor legislative developments and is working to ensure that it will be able to take account of any possible changes in sustainability criteria. Neste Oil ensures that the raw materials it procures today are produced sustainably and that production does not endanger forestland or biodiversity.

[Read more about Neste Oil's views on assessing the indirect impact of land use.](#)

Material aspects of sustainability

Neste Oil systematically defined the material aspects of its sustainability in the fall of 2010, combining its views and those of its stakeholders to create an overview of the key components of Neste Oil's sustainability. Neste Oil committed itself at the same time to the long-term development of its operations, as well as communications and reporting of these identified material issues.

During 2011, Neste Oil's sustainability-related work focused on these material aspects identified and approved by the Neste Executive Board and the Board of Directors in 2010. These material issues also form the foundation for the 2011 Sustainability Report.



Read more about the work that went into defining the matrix of material issues on [page 28 of the Annual Report for 2010](#).

Stakeholder engagement in materiality assessment

Neste Oil launched work aimed at creating a new stakeholder panel comprised of non-company members in 2011, which it hopes will assist the company in defining material issues into the future. Additionally, a Stakeholder Advisory Panel was established following the abolishment of Neste Oil's Supervisory Board in 2011 and this is expected to provide the company with greater access to the views of its external stakeholders and assist with evaluating various material issues.

No reasons for changing the existing matrix of material issues were identified during interaction with external stakeholders in 2011, in stakeholder surveys, or analyses of Neste Oil's operating environment.

[Read more about stakeholder engagement.](#)

Focus on listening to internal stakeholders

During 2010, the focus of defining Neste Oil's material issues was on surveying and understanding the hopes and expectations of the company's external stakeholders. During 2011, Neste Oil updated its understanding of the issues involved by reviewing the views and expectations of the company's internal stakeholders, particularly employees, in respect of Neste Oil's operations and competitiveness.

An employee survey was used here, together with a workshop held as part of the HSSE organization's annual meeting. Personnel were also encouraged to give their views on sustainability-related material issues as part of the internal [strategy dialogue](#) held as part of the annual strategy review.

In spring and summer 2011, Neste Oil organized sustainability seminars for its employees at its main operating sites. These sessions, hosted by Senior Vice President of Sustainability and HSSE, covered topical themes in an interactive manner to encourage the employees to ask questions and present their opinions.

Based on the results of these surveys and other engagement, it was concluded that the company's approach to sustainability continues to be one of the most important areas of Neste Oil's strategy, with many of the areas highlighted in the matrix of material issues considered central to maintaining Neste Oil's competitiveness. Internal work during 2011 did not generate any results indicating a need to change the 2010 matrix.

Neste Oil plans to review the material aspects of sustainability regularly in the future. The matrix will be updated where appropriate as part of the annual reporting process.

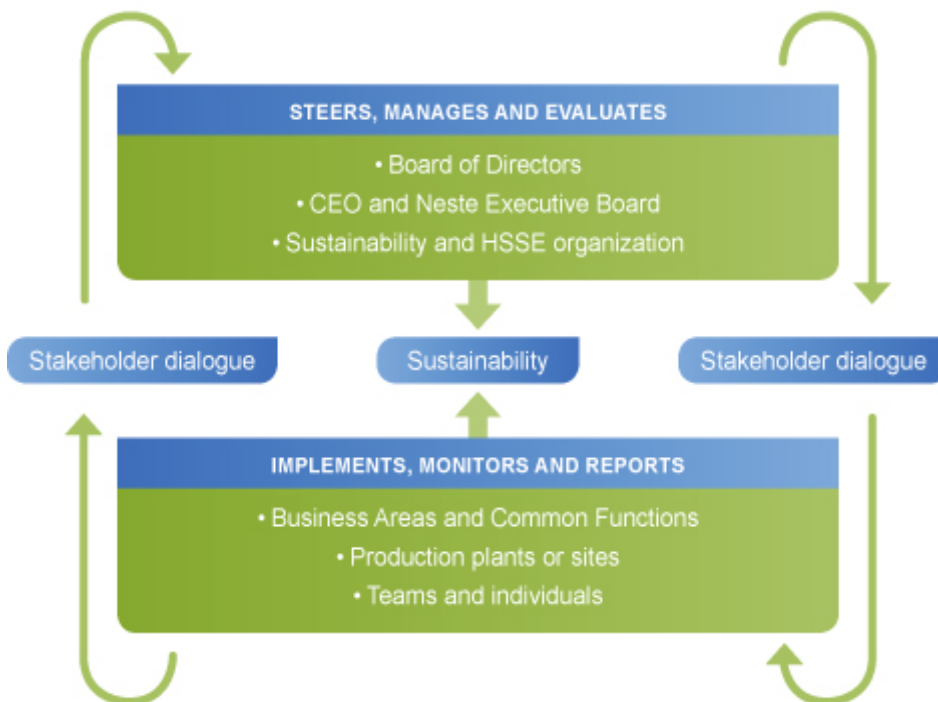
Managing sustainability

Sustainability is one of Neste Oil's four core values, and the company's [sustainability policy and the related principles and various guidelines in the area](#) represent an integral and important part of the company's management system.

Ultimate responsibility for approving the sustainability policy within Neste Oil lies with the Board of Directors, while President and CEO is responsible for establishing the company's strategic approach to sustainability, and Neste Executive Board evaluates how it performs in terms of sustainability.

Sustainability-related work is steered by the company's Senior Vice President, Sustainability and HSSE, who is a member of the Neste Executive Board.

Managing sustainability in Neste Oil



In addition to senior management, the Sustainability and HSSE organization is also closely involved in managing sustainability work and is responsible at Group level for occupational safety, sustainable development, corporate security, as well as the environment and product safety. It is also responsible for coordinating the implementation of actions in these areas, monitoring, and reporting in collaboration with business area and site organizations. The company's Chief Financial Officer is responsible for financial responsibility, while responsibility for the development of social responsibility is divided among several members of personnel. Personnel-related sustainability development, for example, is the responsibility of the HR organization and the Senior Vice President, HR. [Read more about managing social responsibility.](#)

Everybody has a role to play in promoting sustainability

Safety, environment, and other sustainability-related matters are reviewed regularly by the Board of Directors, the Neste Executive Board, the HSE Management Team, and business area and site management teams. Every member of Neste Oil's personnel engages in sustainability-related work through continuous safety work, for example.

[Feedback from stakeholders](#) is taken into account when developing sustainability. This feedback is collected through various surveys, as well as through ongoing, close [interaction with a range of different stakeholder groups](#).

Read more on Neste Oil's sustainability policy and the principles underlying its approach to sustainability on the company's web site.

Sustainability management tools

Neste Oil's [sustainability policy](#) acts as the foundation for all of the company's activities and underpins its Sustainability and HSE Management Principles, which act as key tools for steering sustainability-related work. These principles define the central responsibilities, practices, and overall guidelines to be followed in environmental and safety management. They also set minimum requirements for sustainability, health, safety, the environment, and product safety.

Based on these principles, production sites draw up their own detailed guidelines where appropriate and incorporate them in their management systems. Other Neste Oil locations, such as offices, follow the principles as they apply to their activities. HSE training is offered to every employee to help ensure that these principles are implemented in practice.

Neste Oil's [principles for sustainable raw material procurement and production of biofuels](#) have been collated into a single set of principles. Sustainability principles covering personnel are included in the company's [HR policy](#). Neste Oil's [Code of Conduct](#), approved by the Board of Directors, also guides work in the sustainability field.

New and updated guidelines for managing sustainability

No major changes in Neste Oil's key sustainability management tools took place during 2011 compared to 2010. The Group's management system was supplemented, however, with numerous sustainable development- and HSE-related principles and guidelines, such as more detailed guidelines on preventing accidents related to personnel working high off the ground.

Certified operating systems

In addition to the Group's management system, Neste Oil's operations are also guided by plant-, business area-, and function-specific certified systems that meet the requirements of the ISO 9001, ISO 14001, and OHSAS 18001 standards in respect of quality, the environment, and occupational health and occupational safety respectively.

Internal and external audits are used to assess the effectiveness of HSSE systems. Internal quality and HSSE audits ensure that the Group's operations comply with the requirements of the law, regulations, and guidelines. Neste Oil's certified operating systems are audited by an external impartial third party, Bureau Veritas Certification. A total of 105 internal audits were carried out in 2011 based on an internal auditing plan. Additionally, 22 external audits and 3 accreditation audits were carried out. Accreditation audits follow the requirements set by the SFS-EN ISO/IEC 17025 standard.

The Porvoo and Naantali refineries, as well as Neste Oil's terminals in Hamina, Kokkola, Kemi, Pietarsaari, and Tornio, all in Finland (excluding security of supply storages), were audited in 2011 for a multisite certification purposes. Certification will be granted in 2012 after completion of the corrective measures are approved. Certification covers the requirements of the quality, environment, and occupational health and occupational safety standards mentioned above. Internal and external ISO-certification related audits are planned for the Rotterdam and Singapore refineries during 2012.

A total of 1,861 (1,521) audit-, HSSE-, and quality-related incidents were reported in 2011 in Neste Oil's incident management system. Lessons learned from all reported incidents are used to further develop management systems and operating practices.

All significant incidents are investigated based on Group-level procedures. These common procedures aim at ensuring that the root cause behind each incident is identified and addressed to prevent similar incidents from happening in the future, and to foster learning among business areas and production plants.

All NExBTL plants now ISCC-certified

ISCC ([International Sustainability and Carbon Certification](#)) certification of all Neste Oil's NExBTL refineries and units was completed in 2011. The NExBTL units at Porvoo were recertified, while the new refineries in Singapore and Rotterdam received their first ISCC certificates. The Singapore site was certified early in the year and the Rotterdam site in the fall. Plant certification audits were carried out by an independent third party, SGS.

ISCC certification confirms that renewable fuel is produced in accordance with the EU's Renewable Energy Directive at Neste Oil's sites. Certificates verify that Neste Oil's methods and documentation used in raw material procurement, fuel production, and product sales match ISCC requirements and that NExBTL renewable diesel produced from certified raw materials is suitable for use as mandated bio-content.

[Read more on Neste Oil's certified plants, business areas, and operations.](#)

[Read more about certified raw materials.](#)

Sustainability-related reviews

A large number of international experts, companies, and not-for-profit organizations specializing in ESG (Environmental, Social, Governance) reviews exist today for evaluating companies' and organizations' sustainability-related work and how it is reported.

ESG reviews are carried out in many different ways. The most thorough are based on an extensive and in-depth analysis of a company's operations and reporting and typically involve the personnel of the company being audited.

Based on the growing number of bodies producing ESG reviews and the amount of work required by the reporting associated with these audits, Neste Oil decided in 2011 to concentrate on the following sustainability reviews:

- Dow Jones Sustainability Index
- Global 100
- Forest Footprint Disclosure
- Carbon Disclosure Project.

The reviews produced by these bodies provide Neste Oil with objective, specialist analyses of the company's sustainability performance and reporting and offer feedback on how operations can be developed. Neste Oil monitors developments in the ESG review field, and in the development of its sustainability performance, aims to focus on reviews by independent specialist bodies. The company aims to facilitate the work of these specialists through more detailed reporting on the web.

Sustainability review results in 2011

Dow Jones Sustainability Index World

Neste Oil was selected for inclusion in the Dow Jones Sustainability Index (DJSI World) for the fifth year in succession in September 2011, as one of 342 companies from 30 countries. The highly respected DJSI World features companies from a wide range of fields, all of which are expected to demonstrate a high level of commitment to sustainable development in the areas of financial, social, and environmental responsibility and be committed to continuous development. The companies included are selected by the Swiss-based SAM Group, based on reviews of sustainability performance.

[Read more from Neste Oil's web site.](#)

Global 100

Neste Oil was also selected for inclusion in The Global 100 List of the world's most sustainable companies, for the fifth successive year (2007–2011), in January 2011. Neste Oil was ranked 20th in the list in 2011, significantly improving from its 85th place in 2010. The list is based on expert analyses of 3,000 listed companies in a wide range of fields.

After the reporting period, in January 2012, Neste Oil was again selected for inclusion in the Global 100 list for the sixth successive year. The company placed 19th improving its ranking by one step from the previous year.

[Read more from Neste Oil's web site.](#)

Forest Footprint Disclosure

Neste Oil was again recognized by the international Forest Footprint Disclosure (FFD) project in January 2011 for thorough management and reporting of its forest footprint. FFD ranked the company the best performer in the Oil & Gas sector for the second year in succession. Neste Oil was particularly praised for the transparency and thoroughness of the way in which it manages and reports its forest footprint. The FFD project is an important forum for sharing information and expertise related to deforestation.

After the reporting period, in February 2012, Neste Oil was again recognized by the FFD project. Based on its forest footprint management, the company placed second in the Oil & Gas sector.

[Read more from Neste Oil's web site.](#)

Carbon Disclosure Project

Neste Oil monitors and measures greenhouse gas emissions across all its operations, and in 2011 reported on them for the fifth year in succession as part of the [Carbon Disclosure Project](#) (CDP). In a review published in fall 2011, Neste Oil scored 58 points based on company information from 2010 compared to 64 in the 2010 review. The score represents an average level of performance, given the industry in which the company operates. The review based on the 2011 figures will be published in fall 2012.

Read more on the company's CO₂ emissions and CDP review results from the [section on environmental responsibility](#).

Other reviews in 2011

In addition to these ESG reviews, which are the ones Neste Oil primarily monitors, the company was also selected for inclusion in the [Ethibel EXCELLENCE Investment Register](#) in 2011. The Ethibel Register reviews financial performance, social responsibility, and environmental issues. Neste Oil was not included in the Ethibel PIONEER Register in 2011.

Neste Oil was also included in the STOXX® Global ESG Leaders Index, which reviews companies' environmental and social responsibility and governance, in September 2011.

2011 also saw Neste Oil take part in the Natural Value Initiative project, which works to build investors' awareness of how oil companies operate in terms of biodiversity, ecosystem services, and water use management. The Natural Value Initiative comparison ranked Neste Oil's performance in these areas as average and reported that management in these areas matched the company's risk exposure.

Neste Oil's NExBTL refinery in Singapore received the Asia Pacific Green Excellence Award from Frost & Sullivan in August 2011 in recognition of its contribution to product innovation in the bioenergy field. Neste Oil was selected as the best company in the Chemicals category on the basis of its product profile, the sustainability of its business, and environmental responsibility.

Neste Oil was also voted 'the worst company of the year' in the online Public Eye Award vote organized annually by the Berne Declaration and Greenpeace, from a shortlist of five preselected by the organizers. Neste Oil believes that the vote did not reflect the true nature of the situation. The Award's professional jury selected a mining company for the award instead of Neste Oil.

Sustainability targets

Neste Oil's goal is to become a leader in terms of its key sustainability indicators. Group-level health, safety, and environmental management indicators and targets are set annually as part of the business planning process. These, as well as financial and HR management indicators, are monitored continuously and reported on monthly. Neste Oil also uses the results of [ESG \(Environmental, Social, and Governance\) reviews](#) carried out by outside bodies to monitor how it is performing in terms of sustainability.

Key sustainability-related targets and achievements

Targets for 2011	Actions and achievements	Targets for 2012
Continue developing sustainability management methods and indicators.	<p>We completed a manual of Group-level Sustainability and HSSEQ Management Principles.</p> <p>We updated the structure of the Safety and Environment organization to ensure the effective implementation of the principles embodied in the manual.</p> <p>We achieved ISCC certification of all Neste Oil's NExBTL refineries.</p>	<p>Continue implementing HSSE guidelines and systems and linking sustainability issues more closely to business area management based on the new organizational structure.</p> <p>We expect the European Commission to approve our sustainability verification scheme, which is in line with the EU's Renewable Energy Directive.</p> <p>Certify the operating systems at the Singapore and Rotterdam refineries to ISO standards.</p> <p>Maintain our position in all key sustainability reviews.</p>
Continue measures to improve energy efficiency aimed at saving 660 GWh of electricity by 2016, equivalent to 5% of consumption at Neste Oil's refineries and terminals in Finland in 2007.	<p>We achieved 53% of the energy-saving targets defined in the energy efficiency program for 2016 during 2009–2011.</p> <p>Based on Solomon Associates' Energy Intensity Index (EII), the Porvoo refinery was one of the industry's best</p>	Continue measures aimed at achieving our 660 GWh savings target at our refineries and terminals.

Targets for 2011	Actions and achievements	Targets for 2012
	<p>performers in terms of energy efficiency in 2011.</p>	
<p>See Neste Oil included in the top 25% of European refinery safety performance statistics by 2015, by reducing the number of work-related injuries requiring medical attention per million hours worked (Total Recordable Injury Frequency, TRIF).</p> <p>TRIF target <2.5</p>	<p>We halved our TRIF figure compared to 2010, to 2.3.</p> <p>In 2010, our TRIF performance (4.7) put us in the third quartile compared to our European peers. The comparative data on European refiners for 2011 will only be available in fall 2012.</p>	<p>Be among the top 25% refiners in terms of safety performance by 2015.</p> <p>TRIF target = 2.0</p>
<p>We will avoid all work-related injuries resulting in absence from work per million hours worked (Lost Workday Injury Frequency, LWIF).</p> <p>LWIF target = 0</p>	<p>We reduced the number of work-related injuries resulting in absences from work by over 40%.</p> <p>LWIF = 1.7</p>	<p>LWIF target = 0</p>
<p>Extend the use of safety observation tours to all the company's operations.</p>	<p>We carried out 25,739 safety observation tours.</p> <p>We established safety observation tour targets for all areas of the company's operations.</p>	<p>Carry out 25,000 safety observation tours annually.</p>
<p>Further reduce the number of >100 kg leaks in our operations compared to 2010.</p>	<p>We reduced the number of all leaks by over a third. There were 26 leaks of more than 1,000 kg of material and 35 leaks involving 100–1,000 kg of material.</p>	<p>Continue steadily reducing the number of leaks in our operations.</p>
<p>Deepen our engagement with all stakeholder groups.</p>	<p>We met key political decision-makers and influential figures in all our most important markets.</p> <p>Regular contacts were maintained with the authorities, industry organizations, and NGOs in countries where we source</p>	<p>Draw up Group-level targets and a Group-level plan for stakeholder engagement.</p> <p>Continue extending systematic, planned engagement with all our key stakeholder groups.</p>

Targets for 2011	Actions and achievements	Targets for 2012
	<p>our raw materials.</p> <p>We launched global IGO and NGO programs, and met numerous international intergovernmental organizations (incl. FAO, UNEP, OECD, IFC, the World Bank) within the framework of these programs.</p>	
<p>Increase the proportion of certified raw materials used in refining renewable fuels.</p>	<p>We increased the proportion of certified raw materials used in our refining processes to 49%.</p>	<p>Increase the proportion of certified raw materials by a minimum of 10%-points.</p>
<p>Raise ROACE (Return on Average Capital Employed, After Tax) to at least 15% over the long term.</p>	<p>ROACE = 2.6%</p>	<p>Continue working to achieve a long-term ROACE of at least 15%.</p>
<p>Retain a leverage ratio of 25–50%.</p>	<p>Leverage ratio = 45.7%</p>	<p>Maintain a leverage ratio of 25–50%.</p>
<p>Distribute a dividend equivalent to at least a third of underlying profits for the financial year.</p>	<p>The Board of Directors propose a dividend totaling EUR 90 million or EUR 0.35 per share (132% of Neste Oil's comparable net result) for 2011.</p>	<p>Distribute a dividend equivalent to at least a third of underlying profits for the financial year.</p>
<p>Targets related to human resources can be found in the Personnel section.</p> <p>For a glossary of the abbreviations and terms used in the table, see the Neste Oil's web site.</p>		

Financial responsibility

Ensuring that Neste Oil remains competitive, strives for profitable growth, and makes a valuable contribution to local, regional, and national economies in all the countries that it operates in are all part of what financial responsibility means for Neste Oil.

Neste Oil continued to implement measures at improving the company's competitiveness and ensuring the successful implementation of its strategically important investment projects during 2011. The most important of these was the launch of a series of [Value Creation programs](#) as part of the company's strategy update. These programs are intended to enhance the implementation of the company's strategy by focusing attention and resources on a limited number of core areas and thereby increase Neste Oil's shareholder value.

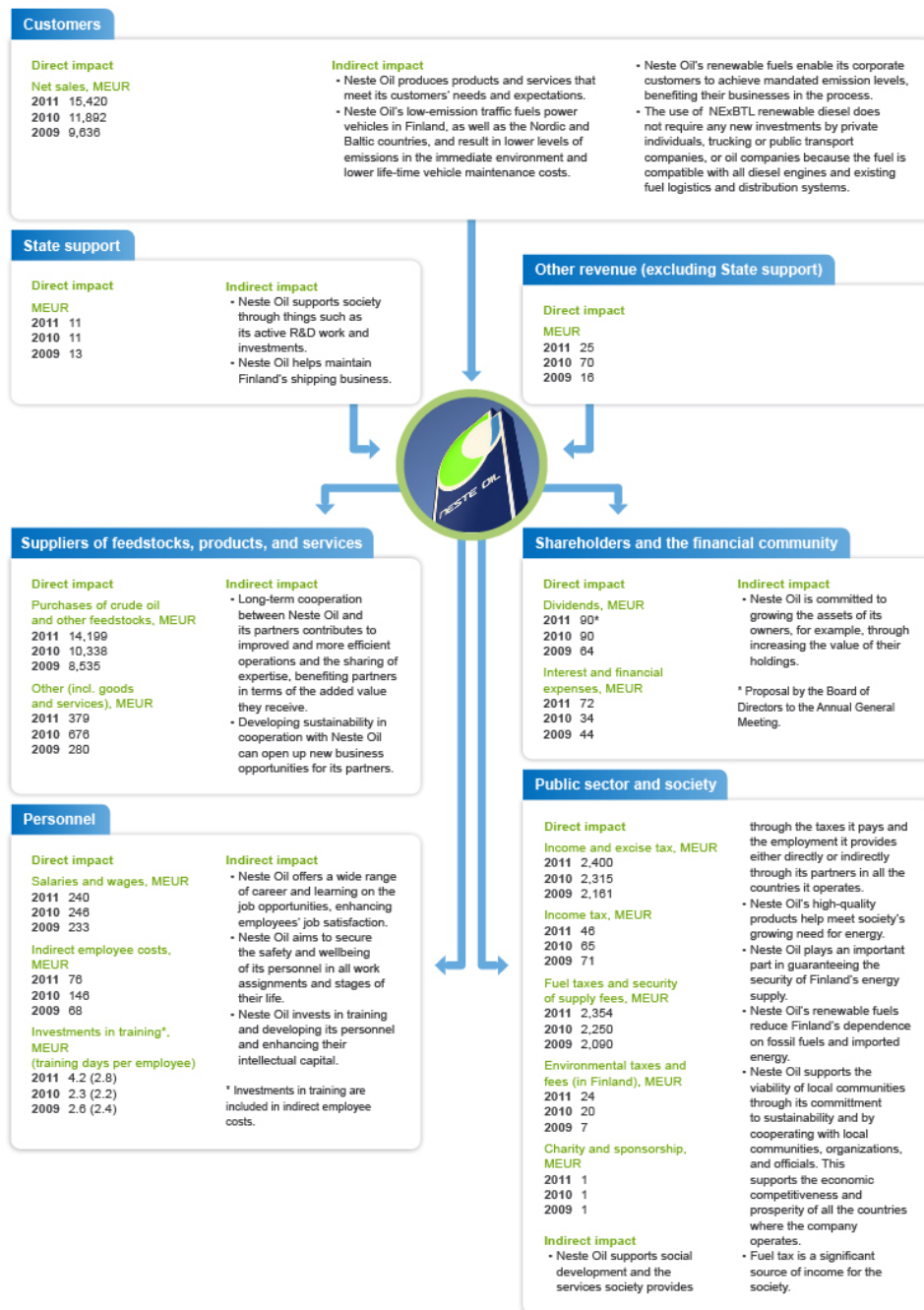
[Read more about Neste Oil's owners and financiers.](#)

Neste Oil completed EUR 1.5 billion investment program aimed at increasing its renewable diesel capacity in 2011 with the commissioning of a new refinery in Rotterdam in the fall. A new base oil plant was also commissioned in Bahrain, designed to increase base oil capacity and strengthen Neste Oil's position on the global base oil market. Neste Oil contributed EUR 130 million to the cost of this joint venture plant.

Neste Oil completed EUR 1.5 billion investment program aimed at increasing its renewable diesel capacity in 2011 with the commissioning of a new refinery in Rotterdam in the fall.

Creating financial added value for stakeholders

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 suppliers and other partners are all essential to achieving this. Wherever it operates, Neste Oil makes a valuable contribution to local, regional, and national economies. This diagram shows how Neste Oil generates financial added value to various stakeholders.



Capacity-related investments

Neste Oil's most important capacity-related investments in 2011 were focused on strategic growth projects in Rotterdam and Bahrain.

Following the start-up of production of NExBTL renewable diesel at the new Rotterdam refinery in September 2011 on-schedule and on-budget, Neste Oil has now completed the EUR 1.5 billion investment program aimed at significantly increasing the company's renewable diesel capacity. The Rotterdam investment was budgeted at EUR 670 million, and construction of the plant took a total of approx. 5.7 million work hours and involved employees from around 15 service providers and contractors.

Output from Rotterdam and the refinery commissioned in Singapore in November 2010 has largely been sold to meet customers' mandated bio content needs in Western Europe. Neste Oil's two NExBTL plants at the Porvoo refinery in Finland, in contrast, have primarily focused on producing NExBTL renewable diesel for the Finnish and other Nordic markets.

Neste Oil's third-largest investment project of recent years, the construction of a new base oil plant in Bahrain, was completed in fall 2011, and the plant was started up in October the same year. Neste Oil owns 45% of the joint venture and contributed EUR 130 million to the plant's construction.

All these projects represent important steps towards implementing Neste Oil's cleaner traffic strategy. Now that these major projects have been completed, the focus of investments will shift primarily to maintenance and efficiency-enhancement projects. Neste Oil will concentrate on increasing sales of product from its renewable diesel plants and the new base oil facility in Bahrain and on enhancing operational efficiency at the Porvoo and Naantali refineries.

Divestments in 2011

Neste Oil continued its divestment of non-core business in 2011, selling its liquid gas business in Estonia and PAO plant in Belgium; and announced its decision to sell its holding in an iso-octane plant in Canada. The sale was confirmed in January 2012.

Investments in efficiency, environment, and safety

Preparations for the next major planned maintenance turnaround at the Naantali refinery, scheduled for 2012, continued during 2011. The turnaround, which is budgeted at EUR 60 million, is expected to take around six weeks and employ approximately 1,000 employees from Neste Oil and the company's service providers and contractors.

Regular decoking turnarounds are carried out on diesel production line 4 at the Porvoo refinery to maximize diesel output, and a five-week planned turnaround was carried out there during the second half of 2011, together with a four-week turnaround in October. The Singapore NExBTL refinery also carried out its first maintenance turnaround since coming on stream during the last quarter of 2011. This was aimed at securing the ongoing availability of the refinery and eliminating various bottlenecks.

Environmental and safety investments

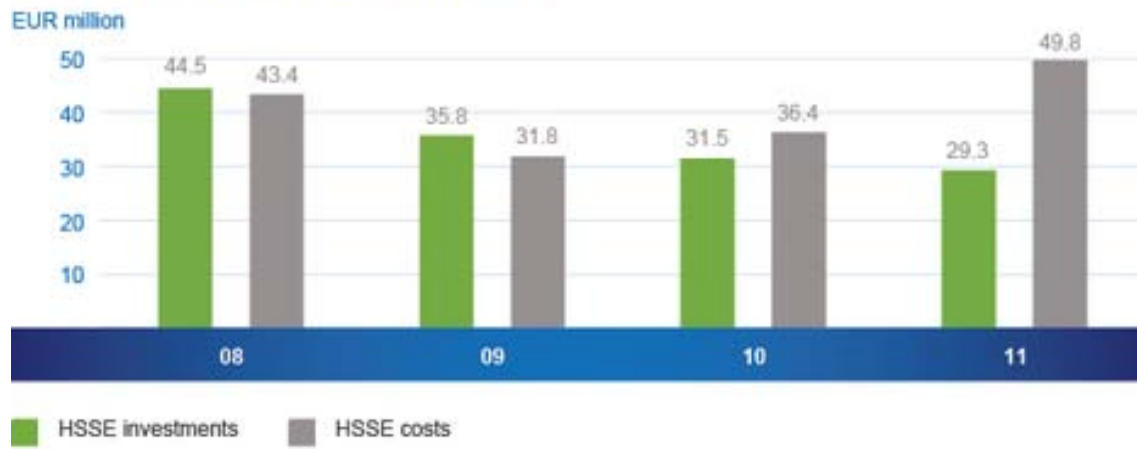
Neste Oil invested a total of EUR 25.9 million in improving process safety during 2011, of which EUR 15.3 million was spent at the Porvoo refinery and EUR 10.6 million at the Naantali refinery. Investments were concentrated on improving process, occupational, and fire safety, and included furnace modernization, changes to operators' rest areas, improvements in process and condition monitoring, and upgrades to key sections of site pipework.

Neste Oil will invest a total of approximately EUR 60 million in safety-related projects at the Porvoo and Naantali refineries in 2012. These will enhance process, fire, and employee safety at the sites by modernizing automation and safety automation systems among other improvements. Two process furnaces will also be modernized at Naantali, and a new fire water system and new, safer employee premises will be built at Porvoo. The latter was completed at Naantali in 2011.

Neste Oil invested EUR 5 million during 2011 in GreenStream's Climate Opportunity Fund, which finances projects aimed at reducing CO₂ emissions in developing countries. The investment is part of Neste Oil's global greenhouse gas balance management program and will give Neste Oil access to emission allowances under the EU emissions trading scheme for the trading period beginning in 2013.

Neste Oil also announced in 2011 that it plans to invest in a new system to recover gases released during loading at the harbor of the Porvoo refinery, capable of recovering the majority of the VOC emissions released during loading gasoline. The investment is valued at approximately EUR 23 million and will enable Neste Oil to further reduce the impact its operations have on the environment and ensure a cleaner working environment for personnel working at the harbor.

Neste Oil's HSSE costs and investments



*HSSE = Health, Safety, Security, and Environment

Neste Oil has announced that it will invest a total of approximately EUR 60 million in safety-related projects at the Porvoo and Naantali refineries in 2012.

Customers

Neste Oil's financial responsibility is primarily linked to its commitment to provide premium-quality, cleaner traffic fuels to its customers. The company's petroleum products enable consumer and corporate customers to reduce the impact they have on the immediate environment; while its NExBTL renewable diesel enables customers, particularly oil companies, to meet their nationally mandated bio-content requirements for traffic fuel. The bio-content of Neste Oil's heating oil also helps reduce heating-related greenhouse gas emissions.

Neste Oil's customers include other oil companies and businesses marketing oil and fuel in Finland, the Nordic region, the Baltic countries, and elsewhere in Europe and North America. Neste Oil also has base oil customers further afield, in South America and Asia. Products and services are sold to corporate and private retail customers in Finland, Estonia, Latvia, Lithuania, Poland, and the St. Petersburg region in Russia.

Neste Oil recorded net sales of EUR 15,420 million in 2011 (11,892 million) and net sales per employee of EUR 3.13 million (2.36 million).

Partners and suppliers

Neste Oil provides a stable source of revenue for numerous suppliers of raw materials, products, and services, as well as other contractors. The company prefers long-term contracts with its products, service, and feedstock suppliers, and offers its partners a range of services and expertise to help them develop their own operations. This enhances the financial added value offered by working with Neste Oil, and the stable flow of revenue offered enables Neste Oil's partners to provide permanent employment and buy products and services in their local communities.

Neste Oil procured goods, services, and feedstocks valued at a total of EUR 14,578 million in 2011 (11,014 million), equivalent to 95% of the company's net sales (93%). Payments related to the purchase of crude oil, vegetable oil, waste animal fat, and other feedstocks totaled EUR 14,199 (10,338 million) and accounted for the majority of procurement.

[Read more about the development of renewable raw material prices.](#)

The bulk of the crude oil used in refining conventional petroleum products the proportion of Russian crude purchased was lower than in 2010, at 85% (92%) and the remainder mainly from British, Norwegian, and Danish fields in the North Sea.

[Read more about the development of fossil raw material prices.](#)

With the growth in Neste Oil's procurement of renewable raw materials and the wider range of raw materials now used, the direct and indirect impact of the company's purchasing activities now affects a larger geographical area than previously. Neste Oil procured renewable raw materials from a total of 29 suppliers, and during 2011 purchased palm oil-based materials from Southeast Asia and other types of vegetable oil and waste animal fat from Africa, Australasia, Europe, and North and South America. Rapeseed oil and waste animal fat was also sourced from Finland during 2011.

Neste Oil's purchases of renewable raw materials increased from 2010 as a result of increased production volumes. These purchases are expected to increase further until the Singapore and Rotterdam refineries achieve regular operations following their start-up.

[Read more about the company's sustainable raw material procurement.](#)

Products, materials, and services purchased



Investments in personnel

Neste Oil is a major local employer and source of salaries, wages, and social insurance contributions at many of its major locations, such as Porvoo, Espoo, Naantali, Singapore, and Rotterdam. Neste Oil is committed to providing good working conditions and a competitive level of remuneration matching the requirements of people's jobs for all its employees everywhere it operates.

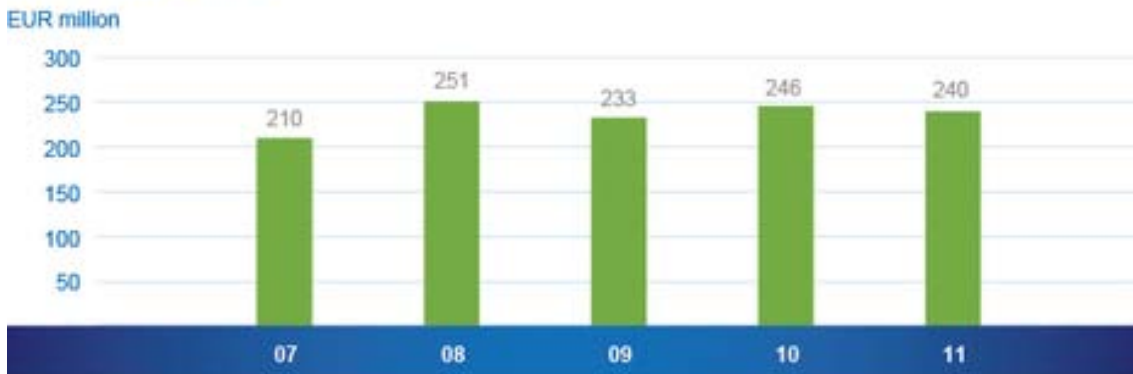
Neste Oil employed an average of 4,926 personnel (5,030) in 14 countries (14) in 2011. Total salaries, wages, and remuneration, excluding other personnel expenses, amounted to EUR 240 million (246 million), equivalent to 1.56% (2.07%) of net sales. This figure includes performance-related pay, bonuses, and vacation pay. In 2011, Group employees received performance bonuses totaling EUR 20.5 million (1.1 million). All personnel come within the scope of the company's salary-based incentive programs.

Other personnel expenses totaled EUR 76 million (146 million) and included pension and social insurance and unemployment and disability insurance payments. Salaries and wages, other remuneration, and social benefits totaled EUR 316 million (392 million).

Neste Oil also has a Personnel Fund, established in 2005, covering personnel in Finland. A total of EUR 0.7 million in profit-sharing bonuses were distributed in 2011. As the criteria for payment were not met based on the Group's result in 2009, no bonuses of this type were paid in 2010.

Neste Oil's expenditure on training and employee development rose to EUR 4.2 million compared to EUR 2.3 million in 2010 and was the equivalent of 2.8 training days per person (2.2). Comprehensive training is provided to all categories of personnel.

Salaries and wages



Owners and financiers

Neste Oil had 76,969 shareholders (76,554) as of the end of 2011. No significant changes took place in the company's ownership structure compared to 2010. Shareholders benefit from their investment in the company through the dividends they receive and possible increases in the value of Neste Oil shares.

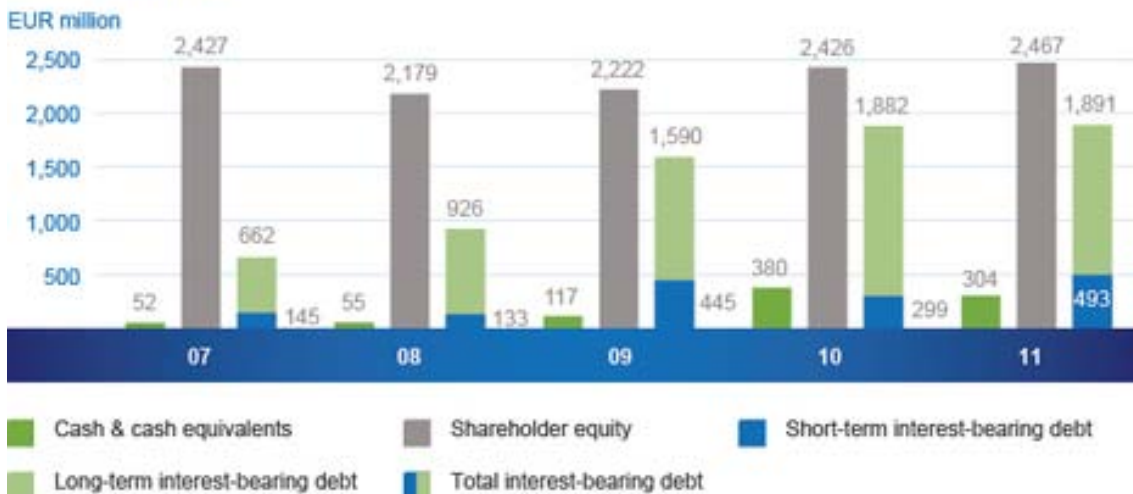
Neste Oil's shareholders as of the end of 2011 comprised:

- The Finnish State, 50.1% (50.1%)
- International institutions, 19.4% (18.6%)
- Finnish institutions, 16.8% (18.5%), and
- Finnish households, 13.7% (12.8%).

Neste Oil's dividend policy remains unchanged and is based on distributing a minimum of one third of the company's underlying profit in the form of an annual dividend. Neste Oil paid a dividend of EUR 0.35 per share (0.25) on its 2010 result in spring 2011, totaling EUR 90 million (64 million) or 54% of the comparable net result for 2010. The Board of Directors will propose that a dividend of EUR 0.35 per share, totaling EUR 90 million or 132% of the comparable profit for 2011, should be paid in 2012.

Because of the capital-intensive nature of its business, Neste Oil uses return on average capital employed, after tax (ROACE) as its main financial target. This is calculated based on the Group's comparable operating profit. Neste Oil's cumulative 12-month ROACE stood at 2.6% (4.6%) and leverage ratio at 45.7 % as of the end of 2011. Neste Oil targets a 25–50% leverage ratio and a long-term return on average capital employed, after tax (ROACE) of 15%.

Capital structure



Creating shareholder value

Neste Oil's share on the NASDAQ OMX Helsinki Exchange fell by 34.7% during 2011 compared to the closing share price at the end of 2010. The company's market capitalization as of the end of the year stood at EUR 2.0 billion (3.06 billion).

During recent years, the development of Neste Oil's market capitalization has been slightly weaker than the average of the most traded companies on the NASDAQ OMX Helsinki Exchange, although it has developed in line with that of other European refining companies. Reflecting this development, Neste Oil launched five [Value Creation Programs](#) as part of the update of the company's strategy in 2011, aimed at securing a significant increase in the value that Neste Oil offers its shareholders and other stakeholders.

Taxes and other payments benefiting society

Neste Oil's operations benefit large areas of the local, regional, and national economy. The taxes and other payments that the company collects and pays represent an important source of income to the public sector in Finland and other countries. The taxes and tax-like payments paid by the company contribute to supporting services at both national and local level in all of Neste Oil's operating countries.

Neste Oil's income and excise taxes amounted to EUR 2,400 million in 2011 (2,315 million). As a fuel wholesaler, Neste Oil remitted a total of EUR 2,354 million (2,250 million) in fuel taxes and security of supply fees.

Neste Oil paid a total of EUR 46 million (65 million) in tax on its 2011 result. Neste Oil's other operating countries also benefited from the income tax employees pay on their salaries and wages.

Environmental taxes and fees at Group level amounted to EUR 24 million (20 million), consisting mainly of oil pollution duties remitted in Finland. The amount of similar taxes and fees remitted in other operating countries were much less significant. Neste Oil received EUR 11 million (11 million) in financial support from the public sector in 2011, mainly in the form of funding for shipping operations and R&D, as in previous years.

Neste Oil's investment in climate protection

A comprehensive update of energy taxes affecting excise duty took place in Finland as of the beginning of 2011. Excise duty is now environmentally based and determined on energy content and the specific amount of CO₂ released during combustion. The change is designed to support the country's energy saving targets and improve energy efficiency, and to promote the benefits offered by biofuels in reducing society's environmental footprint.

The EU's Renewable Energy Directive requires member states to increase the proportion of renewable energy used in traffic to 10% of fuels' energy content by 2020. Finland, however, has decided to aim for 20% content over the same timeframe. A 6% energy content requirement was introduced in 2011. Biofuels must also comply with a set of sustainability criteria if they are to be considered as contributing to meeting mandated content requirements and be taxed as biofuels.

The sustainability criteria covering biofuels prevent the conversion of protected areas, old-growth forest, and land with a high carbon content into cultivation areas. The greenhouse gas emissions of biofuels must also be at least 35% lower than those of fossil fuels. This figure will rise in the future, to 50% in 2017.

In addition to complying with the statutory requirement covering the distribution of traffic fuels with a bio-component, Neste Oil has also agreed with the Ministry of Employment and the Economy, the Ministry of the Environment, and other oil companies on a voluntary initiative to add 4% bio-content to heating oil. Neste Oil has committed itself to continuing to add bio-content in the future as part of its contribution to helping Finland achieve its target of 38% renewable content in the country's energy supply by 2020.

[Read more about the company's investments in the environment.](#)

Income and excise taxes



Charitable donations and sponsorship

Neste Oil supports local communities and the wellbeing of its stakeholders through sponsorship and charity work in the countries in which it operates. The company sponsors carefully selected international, national, and local activities to strengthen its customer and community relations, communicate its values, and develop its image as a responsible corporate citizen. Key factors in selecting partners include compatibility with Neste Oil's values, the extent to which Neste Oil can make use of sponsored activities with its stakeholders, and the media visibility these activities could provide.

Neste Oil spent a similar sum on sponsorship and charity work in 2011 to that spent in recent years, approximately EUR 1 million. At Group level, Neste Oil spent a total of EUR 1 053 580 on selected activities, the Porvoo refinery spent EUR 37,450, and the Naantali refinery EUR 26,920. A total of EUR 38,000 was donated to international charity work.

Read more about the [major recipients of sponsorship funding](#) and the [principles followed in selecting recipients](#). The principles are listed in detail in the company's sponsorship policy which is included in Neste Oil's management system.

Environmental responsibility

Neste Oil has a long tradition of proactive environmental protection work, and has systematically monitored the environmental impact of its operations since the end of the 1960s. Negative impact has been reduced significantly over the past decades with steady improvements in environmental protection initiatives, resulting in the current good level of performance.

Neste Oil's direct environmental impact linked to its day-to-day operations today is not significant, and the incremental progress made in improving environmental protection performance annually is small. Improving current levels of environmental performance could result in a significant increase in costs. Neste Oil is nevertheless committed to continually improving its performance in the environmental area and minimizing the impact of its operations on the environment, while aiming to maintain an ongoing dialogue with the authorities and its stakeholders on what constitutes an acceptable and sufficient level of environmental protection.

Environmental responsibility is part of company strategy

Environmental responsibility plays a major role in Neste Oil's operations and is closely integrated into the company's business strategy focused on producing and supplying premium-quality, lower-emission traffic fuels. By producing cleaner fuels, Neste Oil can help reduce the levels of greenhouse gases and tailpipe emissions released by traffic and transport and benefit the environment far beyond its own area of activity.

[Read more about Neste Oil's climate protection work.](#)

The environmental impact of the world's oil companies is closely monitored, both internally and externally. In Neste Oil's case, the company's environmental impact is monitored by the authorities, NGOs, people living close to the company's sites, and customers, amongst others. Neste Oil reports on its environmental work and the impact of its operations on a regular basis both at Group level, through the Sustainability Report included in the Annual Report, as well as [separately to the authorities and neighboring communities in respect of its largest refineries.](#)

Managing environmental responsibility

No significant changes took place during 2011 in Neste Oil's environmental management. Management of environmental responsibility is covered by the company's overall management system, together with the other main aspects of its sustainability. Environmental responsibility work is guided by the company's sustainability policy and related HSSE and safety principles and instructions.

Neste Oil updated a number of its key HSSE guidelines during 2011, and around 90% of these are now complete. Updates covered areas such as the principles used in HSSEQ auditing and the HSSE management guidelines followed in respect of acquisitions, storage, and service provision. These updates did not significantly change how Neste Oil manages environmental responsibility-related matters, however, or the way that the company operates. Training on implementing the company's guidelines continued.

Achievements in 2011:

- **Energy efficiency was improved.** Energy efficiency plans for operations in Finland were completed. The drafting of similar plans for operations in other countries was started.
- The **number of leaks resulting from our operations was significantly reduced.** None of these resulted in significant environmental damage or lead to the company exceeding environmental permit levels significantly.
- A project was started to conduct environmental studies required for environmental permits.
- A three-year-long **study on observing whether or not cooling water intake affects fish catches** at the Porvoo refinery was completed.

Targets for 2012:

- Energy efficiency plans will be completed for all Neste Oil's operations, and the activities to improve energy efficiency will be continued.
- The number of leaks resulting from Neste Oil's operations will be further reduced.

Environmental impact and risks comprehensively identified

The key environmental risks related to Neste Oil's operations remain unchanged and are linked to environmental impacts of refining and transport. The company has comprehensive and efficient systems and procedures for monitoring these risks.

Unlike many other oil companies, Neste Oil does not have any oil exploration and drilling business, which significantly reduces environmental risks related to the company's operations.

Neste Oil monitors its direct environmental impact in areas such as:

- emissions into the air, waterways, and the ground
- the generation and treatment of waste and hazardous waste
- fuel and energy consumption, and
- CO₂ and other greenhouse gas emissions.

Neste Oil monitors that its performance in these areas remains within the boundary values set by the law, regulations, and the company's own limits. Each of these areas is covered in more detail in separate sections of this Sustainability Report.

In addition to constantly monitoring the environmental impact of its existing plants, Neste Oil carries out environmental impact assessments where appropriate prior to the construction of new plants. The most recent of these was carried out in September 2011 for a proposed commercial biorefinery to be run by NSE Biofuels Oy, a joint venture owned by Neste Oil and Stora Enso, which studied the potential impact of a plant located in either Porvoo or Imatra. The partners in the joint venture have trialed the production of biowax for use as a raw material for NExBTL renewable diesel. The assessment did not reveal any major differences between the two locations.

Continued monitoring of indirect environmental impact

Neste Oil continued work related to evaluating the indirect environmental impact of its operations during 2011. The company focused particularly on the indirect impact of the production of the renewable raw materials that it procures.

The European Commission also continued work aimed at developing the EU's renewable energy directive and taking account of the indirect impact of changes in land use related to the production and procurement of the raw materials used in producing biofuels. Neste Oil continues to monitor legislative developments and is prepared to meet possible changes that might be introduced in sustainability criteria.

[Read more about changes in sustainability-related legislation.](#)

Making better use of natural resources

In addition to measuring and monitoring environmental impact, using natural resources efficiently is also an integral part of environmental responsibility – as is ensuring biodiversity to guarantee the continuity of ecosystem services. In line with its [sustainability policy](#), Neste Oil is committed to using natural resources responsibly. The company's commitment to making better use of natural resources and maintain biodiversity is reflected in areas such as:

- continually improving [energy efficiency](#), using the Solomon Associates' Energy Intensity Index (EII) at the Porvoo and Naantali refineries
- [procuring raw materials responsibly](#) and working through industry organizations (RSPO, RTRS, RSB)
- [participating](#) as a CONCAWE member in the research and benchmarking carried out by this European association of oil refiners
- committing the company's Head Office to the [WWF's Green Office initiative](#)
- [optimizing the use of clean water](#) for process, firefighting, and cooling purposes
- using [closed-cycle cooling water systems](#) at production plants, and
- efficiently [treating all effluent](#) before release into local waterways.

[Read more about how Neste Oil helps protect biodiversity.](#)

Leveraging synergies is also part of sustainable operations

Although Neste Oil's refineries are major users of energy and natural resources, the Porvoo site, for example, also generates electricity, steam, and heat in a combined cycle power plant. Fired on natural gas and fuel oil, this supplies most of the energy used by the other companies in the surrounding Kilpilahti industrial area.

Neste Oil also works to make better use of natural resources at its other refineries. The location of the company's new refineries in Singapore and Rotterdam offers numerous opportunities for leveraging synergies with neighboring plants. These refineries procure the gases, electricity, water, and steam they need from nearby chemical and energy generation plants. They can also make use of sidestreams and process waste from nearby companies in their production processes.

Material and energy balance

Neste Oil's feedstock use, production, and emissions ¹⁾

	2011	2010	2009
Feedstocks			
Crude oil (t/a)	11,840,000	10,500,000 ²⁾	11,960,000
Other feedstocks (t/a)	3,700,000	3,920,000 ²⁾	3,100,000
Energy consumption			
Electricity (GWh/a)	1,441	1,334 ²⁾	1,320
Oil (t/a)	88,760	97,260 ²⁾	85,500
Natural gas (billion Nm ³ /a)	0.5	0.5	0.5
Water			
Water withdrawal (m ³ /a)	7,628,000 ³⁾	8,410,000 ³⁾	7,830,000 ³⁾
Wastewater (m ³)	8,340,000 ¹⁾	8,142,000 ²⁾	7,988,000
Waste			
Ordinary waste (t/a)	4,140	8,620 ²⁾	6,100
Recycled waste (t/a)	64,034	42,008 ²⁾⁴⁾	15,000
Hazardous waste (t/a)	22,200 ⁵⁾	15,700 ²⁾⁵⁾	3,600 ⁵⁾
Emissions to air			
Direct CO ₂ (carbon dioxide), (t/a)	3,722,000	3,809,000 ²⁾	3,981,000
Indirect CO ₂ (carbon dioxide), (t/a)	165,300 ⁶⁾	25,900 ²⁾⁶⁾	15,000 ⁶⁾
VOC (volatile organic compounds), (t/a)	4,300	5,600	4,000
NO _x (nitrogen oxides), (t/a)	10,100	11,900	14,800
SO ₂ (sulfur dioxide), (t/a)	9,300	10,200	12,100
Emissions to water			
Oil (t/a)	2.3 ¹⁾	2.1	1.1
COD (chemical oxygen demand), (t/a)	390 ¹⁾	390	390
Products			
LPG (liquefied petroleum gas), (t/a)	457,300	298,300	327,100
Gasoline (t/a)	4,265,500	3,988,500	4,361,200
Diesel fuel and heating oil (t/a)	8,389,800	7,448,800	7,459,500
Heavy fuel oil (t/a)	1,066,184	970,300 ²⁾	1,288,200
Bitumen (t/a)	490,100	492,900 ²⁾	385,600
Sulfur (t/a)	133,300	121,700	126,300
Solvents (t/a)	267,400	251,300	241,200
Other products	231,200	168,700	184,900
Services			
Marine shipments (t/a)	28,640,000	30,700,000	38,000,000
Marine shipments (km/a)	2,196,400	2,422,000	3,000,000
Fuel usage (t/a)	110,000	136,000	161,600
Road shipments (t/a)	3,767,000	3,700,000	3,300,000
Road shipments (km/a)	29,300,000	29,200,000 ²⁾	25,000,000
Fuel usage (t/a)	9,865	10,013 ²⁾	

- 1) Some emission figures are preliminary. Regarding wastewater and emissions to water, figures from 2010 have been used for Porvoo refinery because the final calculated figures were not available at the time of reporting.
- 2) Figure has been updated from 2010 report.
- 3) Does not include cooling water.
- 4) The storage of waste at Porvoo refinery's recycling area was reduced in 2010, which explains the higher figure.
- 5) Does not include contaminated soil.
- 6) Proportion of purchased electricity. CO₂ free electricity was used at the company's office buildings in Finland until the end of January 2011.

The material balance table in the 2009 report (p. 39) was based on data from the Porvoo and Naantali refineries. The figures for 2010 and 2011 in the table above cover all of Neste Oil Corporation's operations.

Energy efficiency

Neste Oil monitors the development of its energy efficiency and aims to continually improve its performance in this area. The company's goal is to reduce energy usage in production and logistics in particular. Solomon Associates' Energy Intensity Index (EII) is used as a yardstick at the company's conventional refineries. Neste Oil observes all national laws, regulations, and agreements related to energy efficiency in all aspects of its operations. The company draws up and regularly updates energy efficiency plans covering all areas of operations.

Energy efficiency-related targets

Neste Oil is committed to the national action program developed for energy-intensive industries in Finland, where it is one of the country's largest single energy users. The program is designed to help combat climate change in line with the national climate and energy strategy, and covers Neste Oil's most energy-intensive sites in Finland: the Porvoo and Naantali refineries, its terminals, and road transportation. As part of the program, Neste Oil has set an energy-saving target of 660 GWh for its operations in Finland by 2016. This is equivalent to 5% of the energy used at the Porvoo and Naantali refineries and the company's terminals in Finland in 2007.

Neste Oil's other energy-saving targets include:

- Cost-efficient reduction of greenhouse gas emissions to prevent climate change. Intensified use of energy sources free of GHG emissions.
- Identification of more cost-efficient energy solutions for GHG emission neutral situations.
- Implementation of energy efficiency planning, measures and monitoring in compliance with continuous improvement principles.
- Compliance with the laws and regulations related to energy efficiency.
- Help customers, with our solutions, to improve their energy efficiency, e.g. in the transportation sector.

In addition to the above, Neste Oil's Head Office has also set itself the target of reducing the amount of energy used by its ICT systems by 5 % as part of the [WWF's Green Office initiative](#).

Continuous improvements in energy efficiency

Neste Oil's energy efficiency has improved steadily over recent years. During 2009–2011, Neste Oil reached over half of its [energy savings targets set for 2016](#). The majority of these savings were achieved thanks to the improvements made during the major maintenance turnaround at the Porvoo refinery in 2010. The closer Neste Oil comes to achieving its target, the more challenging the remaining improvements needed will be, as the investments and operational changes required will be larger than earlier.

Neste Oil continued drawing up energy efficiency plans for all its operations during 2011, and new plans were completed covering operations outside Finland, Oil Retail in the Baltic region, and the new refineries in Singapore and Rotterdam. Ship-specific energy plans were also drawn up for the Neste Oil fleet. When the final plans for the Singapore and Rotterdam refineries are completed in 2013, energy efficiency plans will be in place for all of Neste Oil's major operations.

As part of ongoing efforts to improve energy efficiency, Neste Oil carried out extensive energy efficiency reviews covering the refinery sites at Naantali and Porvoo in 2011. Following on from these, a number of energy efficiency enhancement projects and initiatives were launched at Naantali towards the end of the year for implementation between 2012 and 2014. Follow-up measures will be launched at Porvoo in 2012. In addition to these major reviews, a number of smaller individual measures were undertaken in 2011, although the savings these generated were minimal compared to the improvements implemented as part of the major maintenance turnaround at Porvoo in 2010. Neste Oil's next major maintenance turnaround, although somewhat smaller than the one at Porvoo, will take place at the Naantali refinery in spring 2012.

Based on Solomon Associates' EII Index, the Porvoo refinery was one of the best anywhere in the world in 2010 in terms of its energy efficiency. The refinery has retained the same energy efficiency level also in 2011. Neste Oil's new refineries in Rotterdam and Singapore incorporate numerous advanced features and have been designed with energy efficiency in mind from the very start.

Neste Oil's aim is to continue work during 2012 aimed at achieving the various targets outlined above, as well as keeping all energy-saving plans up-to-date.

Climate protection and products that reduce emissions

Neste Oil strives to continuously improve its own overall performance in terms of its climate footprint. The company has committed itself to continuing to improve its [energy efficiency](#) and to reduce operations-related emissions of pollutants such as [greenhouse gases](#).

Cleaner traffic fuels play a central role

Neste Oil has a history of developing [lower-emission, cleaner fuels](#) stretching back decades. The use of Neste Oil's renewable fuels – produced in accordance with the company's cleaner traffic strategy and promoted as a valuable means of reducing the volume of pollutants emitted into the atmosphere – represent the company's most valuable tool in helping protect the world's climate and combat climate change. These fuels can also help meet the world's growing need for energy in the traffic and transport sectors.

The greenhouse gas emissions of Neste Oil's [NExBTL renewable diesel, as calculated over the product's entire lifecycle, are up to 40–80% lower](#) than those of fossil diesel. The company's renewable fuels and premium-quality base oil, used in producing advanced lubricants, also help reduce traffic-related tailpipe and particulate emissions.

The amount of NExBTL renewable diesel produced in 2011 enabled to reduce the greenhouse gas emissions generated by traffic and transport by an amount equivalent to eliminating more than 310,000 diesel cars from the roads.

Other steps forward

During 2011, Neste Oil took several small-scale steps forward regarding climate protection. It updated its internal guidelines on company cars in 2011, introducing CO₂ emission limits for all the cars that it leases, for example, and started construction of a system for recovering emissions released when loading ships at the harbor of its Porvoo refinery. Additionally, Oil Retail reached a good capability level to start recovering vapors released during fueling at Neste service stations within the schedule set by a statute effective from the beginning of 2012.

Neste Oil will also refine its climate strategy in 2012.

Neste Oil's greenhouse gas emissions

The carbon footprint has become a key indicator for measuring environmental responsibility in recent years. It is useful in helping assess the level of climate impact of an organization's operations and reduce its environmental loading. Neste Oil monitors greenhouse gas emissions, particularly CO₂ emissions, as part of its lifecycle analyses (LCA).

Neste Oil does not have any oil exploration and drilling business, and the company does not produce any of the raw materials that it uses in refining NExBTL renewable diesel either. As a result, the company's largest single sources of greenhouse emissions are its refineries at Porvoo and Naantali and its tanker fleet.

Neste Oil's greenhouse gas emissions are virtually all carbon dioxide (CO₂) emissions, and no significant changes took place in these during 2011 compared to 2010. Neste Oil's direct CO₂ emissions totaled 3.72 million tons in 2011 (3.81 million tons), approximately 2% less than in 2010. Nearly 80% of these were generated at the Porvoo refinery. The biggest savings achieved were related to the company's fleet, which reduced its CO₂ emissions by nearly 67,000 tons compared to 2010. Emissions increased due to the start-ups of the company's refineries in Singapore and Rotterdam.

Indirect CO₂ emissions related to bought-in electricity totaled 165,300 tons (25,900 tons) in 2011, over six times more than in 2010. This was partly caused by the start-ups of the new refineries and partly by the fact that electricity in Finland was acquired from the power exchange and no longer CO₂-free as it had previously been.

Greenhouse gas emissions across the company are measured regularly and in 2011 were reported on for the fifth year in succession as part of the Carbon Disclosure Project. In a review published in fall 2011, Neste Oil received a C ranking on a scale of A-D in the [Carbon Disclosure Project's](#) Carbon Performance Index used to measure climate-related performance. In the overall evaluation, Neste Oil received 58 points (64) out of a possible 100. This can be considered an average performance. The review was based on Neste Oil's information from 2010. A review based on the 2011 figures will be published in fall 2012.

Neste Oil's energy efficiency-related improvements are directly linked to reduction in the company's CO₂ emissions.

[Read more about Neste Oil's energy efficiency.](#)

[Read more about Neste Oil's refining-related airborne emissions.](#)

[Read more about Neste Oil's products that reduce greenhouse gas emissions.](#)

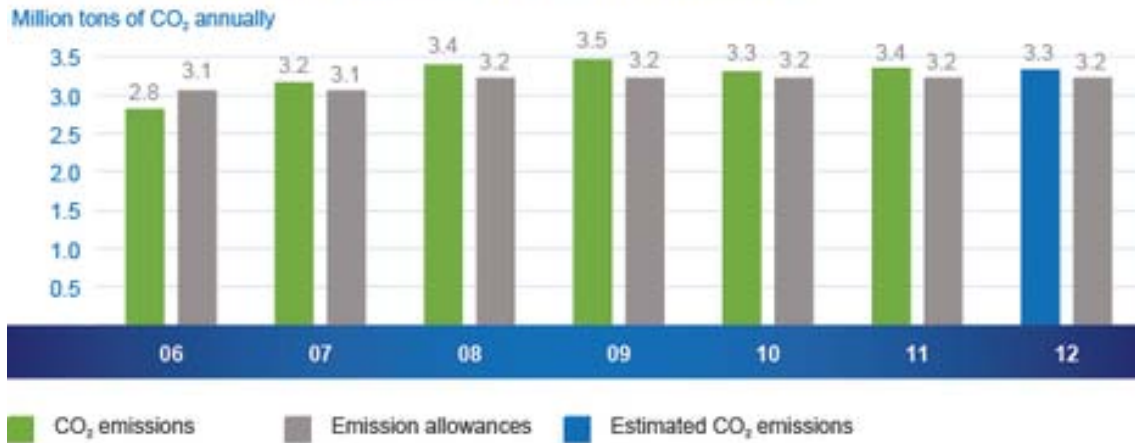
Emission allowances

Neste Oil has received emission allowances for 3.2 million tons of CO₂ emissions annually between 2008 and 2012. Acquiring new allowances will be necessary to cover future emissions.

Neste Oil will have to acquire new emissions allowances to meet the deficit regarding the next emissions trading period of 2013–2020. The European Commission has not yet confirmed the emissions allowances for the company's refineries for the upcoming period.

Only Neste Oil's refineries in Porvoo and Naantali come within the scope of the EU's emission trading scheme. The Rotterdam and Singapore refineries are not covered by the scheme.

Neste Oil's refineries' CO₂ emissions and emission allowances



Emissions from the Porvoo and Naantali refineries included.

Neste Oil invested EUR 5 million in GreenStream's Climate Opportunity Fund in 2011, giving the company access to additional emissions allowances under the EU emissions trading scheme for the trading period beginning in 2013. [Read more](#)

Product lifecycle analyses

Neste Oil has carried out lifecycle analyses of its products on a voluntary basis since the early 1990s. An increasing proportion of the figures from these calculations are now also supplied to the authorities. Neste Oil's expertise in carrying out lifecycle calculations and analyses has steadily grown over the years and is of a particularly high standard today; the reporting requirements associated with renewable fuels have made their own contribution to this development.

One of the main reasons for producing and using renewable fuels is that their greenhouse gas emissions, calculated over products' entire lifetime, are significantly lower than those of fossil fuels. The most effective tool available to Neste Oil to combat climate change is to produce renewable fuels and promote their wider usage as a means of reducing the levels of greenhouse gases released into the atmosphere. The greenhouse gas emissions of Neste Oil's NExBTL renewable diesel calculated over the product's entire lifecycle, for example, are up to 40–80% lower than those of fossil diesel.

Lifecycle calculations have shown that the majority of the greenhouse gas emissions of fossil fuels, close to 85%, are released into the atmosphere during usage. Around 10% is released during refining and the final approximately 5% during crude oil production, logistics, and product transportation.

No fossil-based greenhouse gas emissions are released during the use of renewable fuels. The majority of the greenhouse gases that are emitted, 65–85%, are released during the production of renewable raw materials, 10–30% during the refining of renewable fuel, and approximately 5–10% during raw material and end-product transportation.

[Read more on the greenhouse gas emissions of the supply chain.](#)

[Read more about Neste Oil's products that reduce airborne emissions.](#)

Protecting the soil and waterways

Neste Oil protects the soil, groundwater, and waterways from being polluted by its operations and from other negative impact resulting from its refining and logistics activities. This covers soil, groundwater, and waterways everywhere the company operates, and past damage is always systematically cleaned up.

Groundwater protection

Voluntary groundwater monitoring continued at the Porvoo and Naantali refineries during 2011, as well as at the company's partly-owned base oil plant in Bahrain. A groundwater monitoring program has been in place at Porvoo since 1995, in Naantali since 1996, and at the Bahrain plant since 2010. The Porvoo refinery's groundwater protection plan was updated in 2011 to ensure that sufficient groundwater monitoring capabilities will continue to be available into the future.

All of Neste Oil's refineries are ready to meet the requirements contained in the EU's Directive on Industrial Emissions ratified in 2011 related to possible pollution of the soil. Neste Oil's goal is to ensure that pollutants are never leached off the company's sites through groundwater.

Protecting waterways

Monitoring of waterways, particularly in sea areas, adjacent to Neste Oil's refineries in Finland continued during 2011. Significant deviations from the good levels achieved during the previous year were not recorded. In addition to normal monitoring, a three-year fisheries study in waters near the Porvoo refinery was completed in 2011. This showed that cooling water intakes used by the refinery do not have a significant impact on fish catches. The size of catches may be reduced by approximately 5%, but most of the fish trapped at intakes have been of no commercial value.

Neste Oil committed itself in 2010 to the Tanker Safety Project coordinated by the John Nurminen Foundation and launched to improve sea transport and environmental safety in the Gulf of Finland. The goal of the project is to significantly reduce the risk of a major accident involving an oil tanker in the Gulf of Finland. Project activities have included the development of a new ship-to-shore communications service. By communicating ships' planned routes, this will help anticipate possible risk situations and identify alternative routes where necessary. A prototype of the system for demonstration purposes was developed during 2011 and has been shown to various officials around the Baltic. Neste Oil marine personnel have been among those involved in developing the service, and the service will be tested later on Neste Oil ships.

[Read more about Neste Oil's water usage and how the company protects waterways.](#)

[Read more about Neste Oil's marine logistics.](#)

Soil protection

Oil Retail business area continued work on its environmental risk management program in 2011 and carried out various measures to protect the soil and clean up polluted soil at several Neste service stations across Finland. A total of approximately EUR 3.6 million was spent on environmental protection-related pre-inspections, monitoring programs, studies, analyses, technical improvements, and protective and soil cleanup measures carried out at stations and in nearby areas. This figure does not include dealer-owned stations, where dealers are responsible for soil protection and possible cleanup measures. Planning for similar work in 2012 started at the end of 2011 and is expected to be similar in extent, although costs are projected to be slightly lower.

[Read more about the environmental impact associated with the use of products produced by Neste Oil.](#)
[Read more about the environmental impact of Neste Oil's supply chain.](#)

Water

Salt water accounts for around 97.5% of the earth's water, and the majority of the remainder is made up of ice, permafrost, water bound to the earth's soil, or groundwater found so deep below the surface that it cannot be used. Less than 0.01% of the earth's fresh water can be used by the planet's ecosystems or mankind, and even this water is unevenly distributed in terms of when and where it is most needed.

UNESCO has predicted that by 2025 the total global water use will be approximately 5,000 km³ of water annually for agricultural, municipal, and industrial use. The world's entire renewable and accessible fresh water reserves are estimated to be only in the region of a little over 10,000 km³, or perhaps up to 50% according to some sources. As a result, the significance of water – and its availability and usage in particular – is likely to grow, and water will probably become one of the environmental themes to attract the most attention globally in the near future.

Water is a key element for Neste Oil's operation

Water and steam are used extensively at the company's refineries and numerous measures are taken to protect groundwater and waterways from pollution and other harmful impact. Neste Oil is focusing increasing attention on water-related issues in its operations and improving its understanding of these issues. Neste Oil does not have a separate water strategy, rather water issues are managed comprehensively as part of the company's sustainability and environmental protection work.

The majority of Neste Oil's water usage, around 96%, is linked to the company's refineries. Cooling water used at refineries is sourced from the sea. Seawater is used to cool the fresh water circulating in a closed circuit. Large quantities of water are needed: at the Porvoo refinery, over 100,000 m³ an hour. The temperature of this water is around 10 °C higher when it is returned to the sea.

Based on a study conducted at the Porvoo refinery in 2010, the discharge of warmer water does not weaken ice cover or melt it during the winter. The study concluded that water flows into the area near the site rather than out to sea, which indicates that thinner ice cover could be caused by thermal energy stored in deeper water layers being released, rather than the refinery's cooling water. Similar observations of melting ice have been made all along the coast of the Gulf of Finland, not just off the Porvoo refinery. Also the effects that [cooling water may have on fish catches has been studied](#).

Neste Oil constantly monitors water usage at its refineries in areas such as how water is sourced, how it is used in cooling, how wastewater is treated, and how efficiently water is used. The water-related impact of the company's operations is evaluated using [water balance calculations](#) or [water inventories](#) throughout the fuels' supply chain, all the way from raw material input to end-product use.

Water issues in feedstock procurement

As Neste Oil monitors water-related issues from the initial stages of production onwards, water issues are seen as fundamental and carefully considered when making decisions regarding new renewable raw materials and their suppliers. Neste Oil always reviews water usage and wastewater treatment prior to the selection of any new raw materials or their suppliers. Pressing the palm oil used as one of the raw materials for NExBTL renewable diesel, for example, generates quantities of wastewater. Neste Oil expects potential palm oil suppliers to treat this effluent using responsible procedures and processes. Neste Oil's experts also monitor research on the water consumption characteristics of different crops and cultivation areas producing renewable raw materials, as well as how much evapotranspiration occurs during cultivation.

Impact of water use is local

While the impact of greenhouse gas emissions on the world's climate is global, the impact of water usage on communities and the environment is often strongly linked to local conditions and specific periods of time. The availability of raw water and the impact of wastewater loads on the waterways into which they are discharged can be very dependent on both place and time.

In terms of its water resources, Neste Oil operates in a wide range of different conditions. The new base oil plant in Bahrain partly owned by Neste Oil, for example, is located in a hot and dry environment, where protecting local supplies of potable water is particularly important. The Bahrain plant does not use any fresh water suitable for drinking in the refining process, as this is in short supply, and relies instead on poorer-quality brackish groundwater and seawater for cooling purposes.

Water resources are in good supply at Neste Oil's refineries in Finland and the renewable diesel refinery in Rotterdam, and moderate at the Singapore refinery. Preventing leaks and protecting local waterways are given high priority as part of overall environmental protection efforts at all refining sites, as they are located close to the sea. A major proportion of both feedstock and end-product [transportation also takes place by sea](#).

Water issues are always taken into account when carrying out environmental impact assessments prior to the construction of new plants. The most recent of these assessments was completed in September 2011 and covered the [potential impact of a new biorefinery operated by NSE Biofuels Oy](#), a joint venture between Neste Oil and Stora Enso, in either Porvoo or Imatra.

Updating Neste Oil's water inventories under way

Neste Oil launched work on updating the water inventories at its Finnish refineries in 2011. Water inventory analyses covering the company's product chains consist of more detailed analyses of the impact of water usage than water balances and provide additional information on ways of minimizing areas of possible negative impact.

Water balances have been calculated also earlier for the two refineries in Finland, detailing water inputs and outputs and the volume of the major water flows at the sites. For the Naantali refinery, this type of water balance was last calculated for all of 2008, and for the Porvoo refinery between summer 2007 and summer 2008. Water balance calculations are currently being updated for the Porvoo refinery.

Neste Oil's new NExBTL refineries in Rotterdam and Singapore have been designed to function efficiently with regards to water usage and wastewater treatment.

No standard procedure for measuring comparable water footprints

As yet, there is no commonly agreed standard, method, or set of guidelines for measuring water footprints based on water inventories, and no body is responsible for overseeing the accuracy of how these figures are calculated or produced.

Neste Oil is actively monitoring international research on new methods for measuring water footprints. The company's aim is to produce water footprint profiles for its products in which the key impact of its operations are comprehensively covered.

Water-related terminology

Water inventory

Inventory analysis is used to determine which incoming and outgoing flows of inputs and outputs of a particular system, such as the Porvoo refinery for example, affect waterways and how large they are. The results of this analysis list data on the water flows that exceed the system's boundary limits, and can be used as the basis for assessing environmental impact.

Water inventories are one of the four iterative stages of a life cycle assessment (SFS-EN ISO 14044), which are:

1. defining goals and scope of operations covered
2. inventory analysis
3. impact assessment, and
4. interpretation

Water balance

Using a water in/water out model, it is possible to check the approximate accuracy of the assumptions made in a water inventory. The scope and assumptions used in determining a water balance also need to be defined.

Water footprint

A product's water footprint comprises the amount of water used both directly and indirectly to produce it. The water used at every stage of its lifecycle is included. Water footprints can also be calculated for processes or organizations. A water footprint can be expressed as m^3 Weq/t of product, where m^3 Weq stands for cubic meter of water equivalent, taking account of factors such as water scarcity and wastewater quality.

Efficient water use and wastewater treatment

Neste Oil's water usage ("water withdrawal" in the material and energy balance table) was 9.3% lower than in 2011 mainly due to lower water usage volumes at the Porvoo refinery. The wastewater volumes generated by the company's operations have remained largely unchanged.

The exact figures on water use and wastewater can be found in the [material and energy balance table](#).

Neste Oil optimizes usage of fresh water for process, firefighting, and cooling needs throughout its operations and uses closed-cycle cooling systems at all its refineries. Before being discharged into waterways, all wastewater passes through highly efficient treatment plants featuring mechanical, physical-chemical, and biological processes. Wastewater treatment at the refineries operated well during 2011, with the exception of two incidents occurring at the Naantali refinery in which the limits set by the authorities for effluent discharges were exceeded due to mechanical problems and exceptional weather in December. It was decided in 2011 that the buffer capacity related to wastewater treatment at Naantali will be increased. This increased capacity will be in place by 2014 at the latest.

Wastewater treatment at the Singapore refinery is handled by external wastewater treatment plants.

As the company's largest and most diverse site in terms of its operations, the Porvoo refinery is also Neste Oil's largest water user. Neste Oil has increased the efficiency of water usage and wastewater treatment at the site over the past years, partly as a result of the stricter environmental permit conditions regarding the refinery's wastewater that came into force at the beginning of 2012.

The oil content of emissions to water at the company's two largest refineries at Naantali and Porvoo was 0.14 grams (0.14 g) per ton of feedstock processed in 2011. This was below 5% of the target level of 3 g/t set by the Baltic Marine Environmental Protection Commission.



Case

Court orders Neste Oil to pay for cleaning up soil at a service station

Finland's Supreme Court found in August 2011 that Neste Oil was liable for the cost of cleaning up polluted soil discovered following the bankruptcy of a service station owner. The station in question operated under the Neste brand between 1981 and 1996. The site and fuel storage tanks were owned by the station dealer and Neste supplied the station with fuel and leased forecourt pumps to the dealer.

The Supreme Court concluded that Neste was the operator at the station, making Neste Oil liable for paying for the cleanup costs of the site to the new owner of the property. The Supreme Court stated in its ruling that Neste at the time was ultimately responsible for the environmental damage caused at the site, regardless of the fact that Neste had not owned the station or caused the damage through its own actions.

Neste Oil's case was that the pollution of the soil at the site was the result of the dealer's activities, as Neste at the time only supplied fuel to the station, which was operated by the dealer independently. The contract between Neste and the dealer specifically stated that due care was to be exercised by the dealer at all times.

Following the court ruling, Neste Oil has paid the soil cleanup costs to the property owner.

Protecting the biodiversity of forests and the natural world

Neste Oil has invested in environmental protection for decades. Neste Oil monitors emissions and their impact on the nearby environment as an integral part of its refining operations and strives to minimize the negative impact of its operations. The environmental benefits this has brought has helped preserve natural biodiversity in numerous locations.

Bioindicators have been monitored on a long-term basis since 1985. The latest report based on this monitoring, dating from 2010, shows that forestland in the vicinity of the Porvoo and Naantali refineries is slowly recovering from the impact of previous pollution. Monitoring is continuing.

Good level of biodiversity-related management

During 2011, Neste Oil took part in the Natural Value Initiative assessment, which works to build investors' awareness of how oil companies operate in terms of biodiversity, ecosystem services, and water use management. The project rated Neste Oil's management of biodiversity as good and the company's performance as average for the industry and in line with Neste Oil's risk exposure. Neste Oil aims to learn from the findings of the assessment and take biodiversity questions into greater account in its risk management in the future.

[Read more about Neste Oil's efforts to make more effective use of natural resources.](#)

Recognition for Neste Oil's work in managing and reporting its forest footprint

Neste Oil was again recognized by the international [Forest Footprint Disclosure \(FFD\) project](#) in January 2011 for its thorough management and reporting of its forest footprint in 2011. The FFD project is an important forum for sharing information and expertise related to deforestation.

[Read more about the environmental impact of Neste Oil's supply chain.](#)

Taking account of forestland and biodiversity in raw material procurement

Neste Oil strives to purchase only certified raw materials to ensure that environmental protection practices are used in producing its raw materials. Neste Oil always confirms that its raw materials are fully traceable in accordance with the requirements of the EU's Renewable Energy Directive and that producing them does not endanger sensitive areas.

Neste Oil has committed itself to an international alliance calling for a moratorium on the felling of rainforest and an immediate end to the destruction of rainforest, biodiversity, and irresponsible land use. Neste Oil knows the exact origin of all the renewable raw material it uses. Production of the raw materials procured by the company does not endanger forestland or natural biodiversity.

Natura areas close to the Porvoo and Naantali refineries

The Stormossen bog – a 75-hectare domed bog – to the west of the Porvoo refinery has been a protected site since 1993 and is part of the European Natura 2000 network of nature conservation sites. Together with sites of significant cultural historical importance, the Stormossen bog was one of the Natura and other nature conservation sites within a 20-kilometer radius of the Porvoo refinery that were listed in [the environmental impact assessment completed in 2011 on a possible biorefinery](#) to be built by NSE Biofuels.

The Vanto area of deciduous woodland close to the Naantali refinery, owned by Neste Oil, was declared a protected area under Finnish nature conservation legislation at the end of 2008.

Neste Oil always takes areas such as these into account in its operations and strives to protect them and the rest of the environment around its sites.

Case

Using forest harvesting waste to produce a premium-quality raw material for renewable fuel

Neste Oil and Stora Enso have been working together to test how premium-quality biofuel can be produced from a range of forest-based raw material, and forest industry by-products, including stumps, branches, bark, and sawdust. The aim of the partnership is to develop second-generation biofuel production technology.

The two companies jointly own a demonstration plant in Varkaus, where biowax has been produced from forest harvesting waste using gasification-based Biomass to Liquid (BTL) technology since summer 2009. The results generated by the plant have been promising, and the biowax that has been produced has been of a high quality and suitable for refining into NExBTL renewable fuel.

In November 2010, Neste Oil's and Stora Enso's joint venture, NSE Biofuels, launched an environmental impact assessment (EIA) in Porvoo and Imatra for a biorefinery to produce high-quality biowax from wood-based biomass. The aim of the EIA was to ascertain the suitability of the two locations for such a plant and look into the impact that using forest harvesting waste would have on the biodiversity of forestland.

EIA completed

The Southeast Finland Centre for Economic Development, Transport and the Environment issued its findings on the EIA covering NSE Biofuels' proposed commercial biorefinery in September 2011, marking the completion of the public EIA process.

The review of the plant's possible impact did not reveal any significant differences between the two locations. The proposed locations for both BTL plants, at Kaukopää in Imatra and Kilpilahti in Porvoo, were declared suitable in terms of potential environmental impact.

The biorefinery would use 1.75–2.4 million solid cubic meters of forest-based input a year, mainly harvesting waste from felling mature stands of timber. This would be processed into 145,000–200,000 t/a of biowax and condensate suitable for use in biofuel production. The biowax would be refined into traffic fuel at Neste Oil's refinery at Porvoo.

The project would not result in major changes in land use outside the area of the plant at either location, and it would be possible to use the surplus thermal energy generated at the plant effectively year-round in both alternatives.

The press release in Finnish on the statement issued by the Southeast Finland Centre for Economic Development, Transport and the Environment [can be found here](#).

Go-ahead for the project would require outside funding

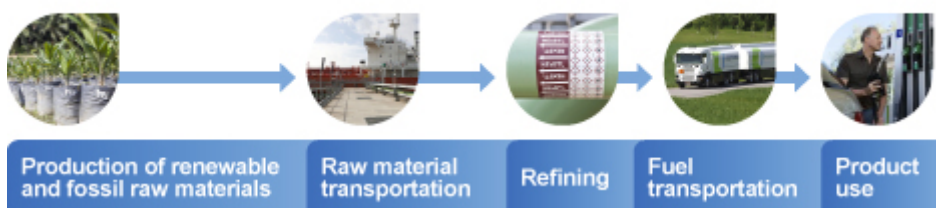
A final decision on the construction of a commercial biorefinery has yet to be taken. Finland's first large-scale commercial biorefinery would require an investment of at least EUR 500 million, and a significant public subsidy would be needed to make the project viable. The Ministry of Employment and the Economy in Finland announced that it had forwarded Neste Oil's and Stora Enso's NER 300 funding application to the European Commission in May 2011. The partners have announced that a possible decision on the basic engineering for the 200,000 t/a plant will be taken after the decision on possible public funding for the project has been taken.

Environmental impact of the supply chain

Oil refining results in environmental impact at every stage of the supply chain: feedstock procurement and transportation, fuel refining, product transportation, and use. The bulk of Neste Oil's environmental impact is linked to refining and the use of its products.

Neste Oil is committed to constantly striving to improve the sustainability of its refining operations by investing in environmental protection and initiatives to promote safety at its refineries and neighboring areas, for example. This commitment is most clearly reflected in the company's strategy and its focus on developing and producing cleaner, premium-quality products.

Sustainability of supply chain



Neste Oil has a long tradition of being a pioneering company in the oil industry. The use of renewable raw materials, particularly palm oil and the thinking behind its use, has generated extensive debate nationally and internationally. Neste Oil has played an active role in developing sustainable operating practices related to the procurement of renewable raw materials.

Sustainability of partners is a key selection criterion

The service providers, suppliers, and contractors that Neste Oil uses have a major impact on its environmental responsibility in practice. As a result, Neste Oil provides regular training for its partners, systematically highlights the importance of sustainability, and requires that sustainable working practices are complied with and continuously improved.

Operational sustainability is a key criterion for Neste Oil when selecting new partners. Neste Oil audits its significant service providers systematically and uses both internal and independent third-party audits to review that they meet the minimum requirements set for the sustainability of renewable raw materials.

In 2011, Neste Oil's lifecycle analysis specialists supplemented and clarified the [greenhouse gas emission calculations for the production of various raw materials](#) in cooperation with the cultivation companies.

[Read more on how Neste Oil selects its suppliers of renewable raw material.](#)

Environmental impact of raw material procurement

As Neste Oil is not involved in oil production, it has little potential to influence how crude oil is produced. Neste Oil sources the crude oil it uses from major international commodity trading centers, rather than directly from producers. In addition to product properties, the only other things normally known about a crude shipment are its country of origin or the region in which it was produced.

Neste Oil does not produce the raw materials it uses in refining NExBTL renewable diesel either. Neste Oil is committed, however, to procuring only raw materials that, based on the sustainability criteria in the EU's Renewable Energy Directive and other regulations, can be shown verifiably to have been produced sustainably and that can be traced back to the original plantation or production location.

When considering whether to begin use of a new bio-based raw material, Neste Oil gives most priority to whether it is produced responsibly and sustainably and the impact that it will have on reducing greenhouse gas emissions. Security of supply, availability, and price also influence which renewable raw materials Neste Oil procures.

Neste Oil assesses greenhouse gas emissions over the entire supply chain.. The total lifecycle greenhouse gas emissions of renewable diesel must be at least 35% lower than those of fossil diesel. All the renewable raw materials used by Neste Oil enable the lifecycle emissions of its NExBTL diesel to be 40–80% below those of fossil diesel.

During 2011, Neste Oil aimed at promoting methane capturing at the palm oil mills in Indonesia and Malaysia. A large number of the palm oil mills supplying to Neste Oil have either a methane capturing system in place or a system to prevent its formation. Reducing methane emissions at the palm oil mills helps to further improve the greenhouse gas balance of fuels produced from palm oil.

[Read more on Neste Oil's procurement of renewable raw materials.](#)

Environmental impact of refining

Neste Oil monitors the energy efficiency of its own refining operations and the emissions that these operations release into the air, ground, and waterways. This monitoring is based partly on the need to comply with the requirements of the company's environmental permits and other statutory requirements, and partly on its own voluntary commitments. Efforts are made to prevent pollution of the soil, groundwater, and waterways at all sites; and systematic cleanups of past pollution are always carried out where it has occurred.

The energy efficiency of Neste Oil's refining operations has steadily improved in recent years, and environmental emissions have largely fallen. Refining-related emission levels during 2011 continued this trend and were lower than in 2010, and essentially remained within statutory limits.

[Read more about energy efficiency.](#)

Leaks due to malfunctions or other unplanned incidents reduced by over a third

Neste Oil's goal was to further reduce all leaks resulting from malfunctions or other unplanned incidents. During 2011, unscheduled emissions were successfully reduced by over a third in 2011 compared to 2010. There were a total of 61 (92) leaks involving more than 100 kilograms of material, of which 30 resulted in some emission into the air, ground, and waterways. Eleven of these leaks to the air, ground, and waterways involved more than 1,000 kilograms of material, and only two resulted in exceeding the environmental permit levels. None resulted in significant environmental damage or lead to the company exceeding environmental permit levels significantly.

Six operational incidents resulting in minor emissions exceeding permitted levels were reported to the authorities. Even very small incidents are always reported, and the reasons for them investigated and corrective action, if needed, taken immediately. Major incidents are reported to people living close to sites, the authorities, contractors, and the media.

[Read more about process safety.](#)

[Read more about emissions into the air released during refining.](#)

Airborne emissions resulting from refining

Neste Oil's most significant airborne emissions resulting from normal refining operations during 2011 remained at the low levels typical of recent years. The following refining-related emissions are calculated and reported to the environmental authorities: carbon dioxide (CO₂), nitrogen oxides (NO_x), sulfur dioxide (SO₂), volatile organic compounds (VOC), particulate matter, nickel and nickel compounds, and vanadium. Emissions of sulfur dioxide (SO₂), nitrogen oxides (NO_x), and particulates are monitored and measured continuously.

Air quality at the Porvoo refinery was constantly monitored during 2011 by measuring airborne concentrations of the following compounds:

- Nitrogen oxides (NO_x)
- Sulfur dioxide (SO₂)
- Total Reduced Sulfur (TRS)
- Ozone

At the Naantali refinery, air quality monitoring concentrated on measuring concentrations of the following compounds:

- Nitrogen oxides (NO_x)
- Sulfur dioxide (SO₂)

[More detailed figures can be found in the material and energy balance table.](#)

Sulfur emissions

Following the overhaul of the sulfur recovery unit at the Porvoo refinery as part of the major maintenance turnaround there in 2010, sulfur recovery performance at the site has improved. In general, airborne SO₂ emissions from Neste Oil's refinery operations continued to decline in 2011.

Neste Oil uses only gaseous fuels in its refinery furnaces. This significantly reduces the formation of SO₂ emissions.

[Read a case article on SO₂ emissions at the Porvoo refinery in 2009.](#)

Other emissions

Emissions of NO_x and volatile organic compounds also remained at the good level recorded in past years. Compounds contributing to ozone depletion were eliminated from production and firefighting systems back in the 1990s.

[Read more about the construction of a new VOC recovery system to recover gases released when loading ships at the Porvoo refinery harbor.](#)

[Read more about refining-related greenhouse gas emissions.](#)

[Read more about the emissions resulting from malfunctions or other unplanned incidents.](#)

Refinery greenhouse gas emissions unchanged

The majority of Neste Oil's direct greenhouse gas emissions, around 90%, are released during refining. The Porvoo and Naantali refineries are the company's most significant sources of these types of emissions.

[Read more about Neste Oil's overall greenhouse gas emissions.](#)

No major changes in refinery greenhouse gas emissions took place in 2011 compared to 2010. Direct CO₂ emissions from refining operations totaled 3.4 million tons (3.3 million), 3% above 2010 levels.

CO₂ recovery continued at Porvoo

Nearly 150,000 tons (122,000 tons) of CO₂ generated during refining at the Porvoo refinery were recovered at the site's hydrogen plant in 2011. Under a decision issued by the Finnish Energy Market Authority, 2% of the CO₂ recovered in this way, equivalent to 2,979 tons in 2011, can be used in CO₂ emission calculations to reduce the Porvoo refinery's total CO₂ emissions, which totaled approximately 2.95 million tons in 2011. During the emissions allowance trading period beginning in 2013, this 2% reduction will be eliminated as a result of new regulations covering the monitoring and reporting of emissions trading.

Neste Oil has recovered CO₂ at the Porvoo refinery for a number of years. Following the start-up of the site's new hydrogen plant, the amount of recovered CO₂ rose between 2005 and 2007, after which it has remained essentially unchanged. The recovered CO₂ is sold to a gas company based in the area. There are no similar CO₂ recovery systems at Neste Oil's other refineries.

[Read more about Neste Oil's emissions allowances.](#)

[More detailed figures can be found in the material and energy balance table.](#)

Case

Sulfur dioxide emissions at Porvoo within permitted levels in 2009

Neste Oil reported in its Annual Report for 2009 that a number of malfunctions had occurred at the Porvoo refinery's sulfur recovery unit in the summer and fall of 2009. These malfunctions resulted in elevated SO₂ concentrations in the atmosphere around the site on three days at the end of July that year. A total of 219 tons of SO₂ emissions were released into the environment, causing odor issues and irritation reactions among some local people.

The issue was reported immediately to the appropriate environmental and safety authorities. The report of the technical investigation that took place, together with the results of the air quality measurements that were made, were also reported to the authorities subsequently. The incident was also discussed with local residents. The environmental authorities requested the police to investigate the case.

Police verdict: Neste Oil not guilty of environmental damage

The police investigation of the case ended in July 2011. Based on the investigation, Neste Oil was not guilty of having caused damage to the environment.

Neste Oil's environmental performance at Porvoo has improved since 2009. Various technical modifications and improvements to operational systems at the site were made immediately after the incident, in the fall of 2009. In addition, measures taken during the refinery's maintenance turnaround in 2010 have improved the site's operational reliability and further reduced incidents involving environmental emissions. The sulfur recovery plant at Porvoo was overhauled during the turnaround, for example, and the plant has performed more effectively since then.

Environmental impact of logistics

Neste Oil transported a total of nearly 32.4 million tons (34.4 million tons) of refinery feedstocks, refined products, and other chemicals by sea, road and rail in 2011. As a result of the smaller volumes transported in 2011, both fuel consumption and emission levels decreased from 2010. Emissions per ton of product carried by sea are lower than those of road-based logistics.

Modest growth in road transport

The amount of Neste Oil's products transported by road has grown slightly over the last few years, by 1.8% from 2010. This has not resulted in increased fuel consumption in this area of operations, however; fuel consumption decreased by 1.5% in 2011 compared to 2010.

The areas served by tanker trucks and the cargoes they carry are planned as efficiently as possible to keep fuel consumption down and reduce tailpipe emissions. Fuel vapor released when filling up storage tanks at service stations is recovered by tanker trucks.

Neste Oil's road-based deliveries of fuel and gas were handled by a total of 193 (194) tanker trucks owned by various private transport companies in 2011, of which 135 (130) were based in Finland and 58 (64) in the Baltic countries, Poland, Russia, and Sweden. 2.8 million tons (2.9 million tons) were carried by road in Finland and 1 million tons (0.8 million tons) in the Baltic countries, Poland, Russia, and Sweden.

The only significant logistics-related leak into the environment took place in May 2011 when a road tanker carrying a Neste Oil load leaked 11,400 kg of fuel into the ground after having swerved off the road. This did not result in any environmental damage, however, as the rescue services were able to fully recover all the leaked fuel.

Lower level of marine shipments

Neste Oil transports tens of millions of tons of crude oil and other refinery feedstocks, petroleum products, and chemicals by sea annually. The amounts shipped in this way decreased by 6.7% during 2011. This saw bunker fuel consumption decrease by over 19%.

During 2011, Neste Oil developed an energy efficiency program for sea transportation that includes ship-specific energy efficiency manuals for 2012. Ships' bunker fuel consumption and CO₂ emissions have been reduced in past years following the introduction of a basic tanker speed of 13.5 knots in 2007 and more detailed bunkering instructions.

The maximum sulfur content of 1.5% mandatory for bunker fuel used by ships in the Baltic, the North Sea, and the English Channel was reduced to 1.0% in summer 2010. New bunker fuel specifications produced by the International Maritime Organization (IMO) will reduce ships' permitted sulfur emission levels even further, to 0.1%, by 2015.

Since the stricter sulfur emission limit came into effect, Neste Oil has used low-sulfur bunker fuel when traveling in these areas. Documentation on the sulfur content of fuel is acquired from fuel supplier and presented, where appropriate, to the authorities when they carry out spot tests. Neste Oil is also planning to install desulfurization equipment prior to 2015 or just after during the planned docking.

[Read more about the safety of product logistics.](#)

Neste Oil began constructing a new system to recover gases released while loading ships at the Porvoo refinery harbor at the end of 2011. [Read more.](#)

Two Neste Oil tankers successfully sailed along the Northeast Passage between Murmansk and the Pacific Ocean in the late summer which resulted in significantly reduced bunker fuel consumption and shipborne emissions. [Read more.](#)

[See the exact transportation and fuel consumption figures on the material and energy balance table.](#)
[Read more about feedstock and product shipments.](#)

Case

Neste Oil tankers sail along the Arctic Northeast Passage

Two Neste Oil tankers successfully sailed along the Northeast Passage between Murmansk and the Pacific Ocean in August and September 2011. The approximately 6,250 nautical miles or 11,500 kilometers covered by the MT Stena Poseidon and MT Palva between Murmansk and South Korea took around 20 days at a speed of 13 knots. The alternative route through the Suez Canal is twice as long and takes twice as long to cover as a result. Using the much shorter Northeast Passage offers the potential to reduce ships' bunker fuel consumption and overall emissions by 40% each.

The very challenging ice conditions along the route, which follows Russia's northern Arctic coastline, limit its use. The route continues to be open to traffic for only a couple of months in the summer. Only a few vessels including Neste Oil's ships operated along the route in 2011. The Stena Poseidon and the Palva carried customers' cargoes to ports in South Korea and China respectively.

The Russian authorities require that all ships operating along the route are ice-classified and fitted with additional equipment, such as radios approved for use in Arctic areas and a spare propeller blade. Bunkers and provisions sufficient for 30 days at sea are also required because of the unpredictable nature of ice conditions along the route.

Neste Oil's extensive maritime expertise, decades of experience in navigating in ice-bound waters, and fleet of ice-strengthened ships – one of the largest in the world – give the company a clear edge in shipping along the Northeast Passage.

Thanks to its Arctic expertise and modern fleet, Neste Oil is excellently placed to handle commercial operations along the Northeast Passage. Neste Oil's MT Uikku was the first Western commercial vessel to transit the route back in 1997.

Case

New VOC recovery system being built at the harbor at Porvoo refinery

Neste Oil started construction on a new system to recover volatile organic compounds (VOC) released during loading at the harbor of the Porvoo refinery in 2011. The system will be capable of recovering the bulk of the VOC emissions released into the atmosphere when loading gasoline. The investment is budgeted at approximately EUR 23 million and it is one of Neste Oil's largest environmental investments in 2011–2012. The new facility will enable Neste Oil to meet the stricter environmental permit requirements.

The aim of the investment is to reduce hydrocarbon emissions at Porvoo significantly, by as much as approximately 70% compared to present levels, as gasoline loading at the harbor is the refinery's single large source of VOC emissions. These compounds form ozone in the lower atmosphere, where they react with nitrogen oxides in the presence of sunlight. Ozone is harmful to humans, animals, and plants. The new system will also provide a cleaner working environment for harbor personnel.

The system will reabsorb VOCs into gasoline during loading after which the gasoline will be returned to the refinery for re-use. A similar system is already in use when loading tanker trucks at the Porvoo refinery's distribution terminal.

Construction work on the VOC recovery system began in October 2011 and the facility is due to be commissioned in the latter half of 2013.

Environmental impact resulting from the end use of products

Producing cleaner traffic fuels and promoting their use as a means of reducing the amount of greenhouse gases released into the atmosphere represent Neste Oil's most efficient way of helping combat climate change. Measured in terms of installed production capacity, as well as product quality, Neste Oil is now the world's leading producer of renewable diesel.

Lower-emission products

Neste Oil refines a range of class-leading traffic fuels from crude oil. These premium-quality, sulfur-free fossil fuels allow drivers and manufacturers to make use of the latest engine technology – and benefits air quality and reduces the local impact of traffic and transport on the environment and health, particularly in urban areas. Modern engines are also more fuel-efficient than their predecessors.

The quality of Neste Oil's NExBTL diesel, produced from 100% renewable inputs, is better than that of both conventional biodiesel and the best fossil diesel. Its low temperature performance and storability, in particular, are both better than those of conventional biofuels.

Compared to fossil diesel, NExBTL renewable diesel has been shown to reduce tailpipe and greenhouse gas emissions significantly. It can reduce greenhouse emissions by 40–80% across the product's entire lifecycle when produced from any of the raw material inputs currently used. Numerous laboratory tests and field trials have shown that the fuel offers the following reductions in tailpipe emissions:

- Nitrogen oxides (NO_x), -10%
- Particulates (PM), -28%
- Soot or carbon monoxide (CO), -28%
- Hydrocarbons (HC), -50%.

[Read more about emissions throughout the entire production chain.](#)

Low-emission aviation fuel

In 2011, Neste Oil produced a batch of NExBTL renewable aviation fuel, capable of making a valuable contribution to reducing airline emissions, for Lufthansa. During its six-month trial of the fuel, Lufthansa was able to reduce its CO₂ emissions by as much as 1,471 tons and save over 1% in fuel consumption thanks to the higher energy content of the new fuel compared to fossil jet fuel. [Read more on the results of Lufthansa's trial use of biofuel.](#)

Other products reducing emissions

In addition to the cleaner fuels mentioned above, Neste Oil also uses fossil feedstocks to produce premium-quality base oil for use in manufacturing lubricants. The use of high-quality lubricants can reduce traffic and transport emissions and makes it possible to take advantage of the latest engine technology, which is both more fuel-efficient and offers better emissions performance. Neste Oil also launched [a new small-engine gasoline](#) in Finland during 2011.

[Read more about Neste Oil's research and product development.](#)

Case

Excellent results from NExBTL aviation fuel trial

Lufthansa began scheduled commercial flights using NExBTL renewable aviation fuel produced by Neste Oil on 15 July 2011. Neste Oil supplied Lufthansa with a total of 800 tons of the fuel for use in a six-month trial on four daily return flights between Hamburg and Frankfurt.

Completed at the end of 2011, the trial saw 1,187 flights flown between the cities using NExBTL renewable aviation fuel. Lufthansa estimates that it was able to reduce its CO₂ emissions by as much as 1,471 tons during the trial and save over 1% in fuel consumption, thanks to the higher energy content of NExBTL renewable aviation fuel compared to fossil jet fuel.

Lufthansa reported that the fuel met its expectations in every respect and is ideal for commercial aviation use, based on the results of the trial. No problems were encountered during flights, and the engines of the aircraft performed exactly as they would flying on conventional fossil-based Jet A-1.

Lufthansa flew its first intercontinental flight using renewable aviation fuel with Neste Oil's NExBTL aviation fuel at the beginning of 2012, a regular scheduled service from Frankfurt to Washington D.C. Lufthansa estimated that using biofuel on this flight reduced airborne CO₂ emissions by as much as 38 tons, equivalent to the CO₂ released during six flights between Frankfurt and Berlin.

An aromatics- and sulfur-free fuel, NExBTL renewable aviation fuel is fully compatible with all current aircraft engines and no investments or modifications to engines or other equipment are needed before it can be used. Neste Oil is one of the few companies that are currently capable of producing renewable aviation fuel in commercial quantities. Low-emission renewable aviation fuel is one of the areas where the company is looking to grow in the future.

Neste Oil and Lufthansa will continue to cooperate in the renewable aviation fuel area, initially focusing on research into various raw materials suitable for producing this type of fuel, and will also collaborate in other areas of biofuel research.

Waste management

The majority of Neste Oil's waste, over 90%, is generated at the company's refineries. The total amount of waste amounted to 90,374 tons (66,328 tons) and wastewater volumes to 8,340,000 m³ (8,142,000 m³) in 2011. The amount of waste generated by the company has increased due to one-off arrangements in waste management and the start-up of the new refinery in Singapore. The company's fleet is also now included in the scope of Neste Oil's waste reporting.

Ongoing goal to reduce waste volumes and increase recycling

Neste Oil's Group-level target is to steadily reduce the amount of waste that the company's operations generate and promote greater waste recycling. Neste Oil launched a program in 2011 to outsource waste management at its refineries to specialist professionals in the field as a means of improving overall waste management efficiency and achieving cost savings. The Porvoo refinery was the first site to see its waste management outsourced to a waste-management company, which has a full-time site manager in the Kilpilahti area. The latter assists Neste Oil personnel in day-to-day waste management matters, guides and monitors the company's waste management partners, develops operations, and is responsible for waste reporting, monitoring legislative changes in the field, and informing Neste Oil of anything that may affect its operations.

Neste Oil's largest refinery at Porvoo concentrated on improving waste sorting, labeling waste skips, and establishing centralized waste collection points during 2011 as a way of reducing the volume of the site's mixed waste stream. Concrete, asphalt, and similar waste is shipped off-site directly to specialized treatment facilities.

The outsourcing program will continue in 2012 at other sites. The aim is to introduce the approach developed at Porvoo to the Naantali refinery, terminals, and sites outside Finland.

The largest of these, Head Office in Espoo, has been involved in the [WWF's Green Office program](#) for some time; as part of its participation, Neste Oil has targeted reducing mixed and secure ICT waste there by 5% during 2012.

Detailed figures on Neste Oil's waste volumes can be found in the [material and energy balance table](#).

Read more on [water usage and wastewater treatment](#).

Head Office and the WWF's Green Office program

Neste Oil's Head Office in Espoo has been part of the WWF's Green Office program for the past three years. Auditing carried out in June 2011 confirmed that the office continues to meet the criteria set for membership of the program. Auditing is carried out by an external auditor every three years.

Neste Oil improved the efficiency of waste sorting procedures at Espoo during 2011 and re-evaluated the size of waste receptacles and their location. Efforts were made to reduce overall levels of office waste by improving and reducing paper usage; recycling was also prioritized. The company also promotes the use of environmentally and recyclable packaging materials.

Head Office's Green Office plan was updated and the following targets set for 2012:

- Reduce mixed and secure ICT waste by 5%
- Reduce the CO₂ emissions of company cars at Head Office by 5% and increase the use of cars with emissions below 120 g/km by 5%
- Reduce paper consumption by 5%
- Reduce the energy consumption of ICT systems by 5%.

The aim is also to further increase recycling during 2012 through a special recycling campaign.

The goal of the Green Office program is to help save natural resources and promote sustainable consumption. Offices in the program are encouraged to set an example by introducing eco-efficient solutions and pro-environment operating models.

More about the [WWF's Green Office program](#).

Sustainability of supply chain

Neste Oil's approach to sustainability is based on a comprehensive understanding of the impact that the company's products have across their entire life cycle. Sustainability issues are particularly emphasized in the company's production of renewable fuels. In this context, Neste Oil focuses not only on the sustainability of its own refining operations, but also that of its entire supply chain, all the way from how its raw materials are produced to the end-use of the products that it refines.

Neste Oil – like all companies producing renewable fuels for the European market – is required to be able to verify a number of issues in accordance with the requirements of the EU's Renewable Energy Directive, including:

- the origin of the raw materials it uses back to where they are cultivated or produced
- that its fuel supply chain meets the defined sustainable criteria, and
- that the fuel use offers a minimum of 35% reduction in greenhouse gas emissions across its entire life cycle when compared to fossil fuel.

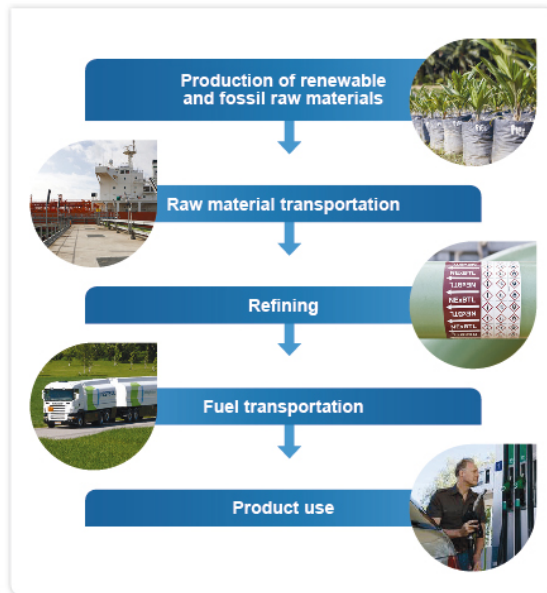
Neste Oil verifies its compliance with these requirements in respect of all the bio-based raw materials that it uses. It also supplies compliance-related documentation to corporate customers that buy its renewable fuels and to the authorities responsible for monitoring compliance with biofuel sustainability legislation in those countries where its fuels are sold or used.

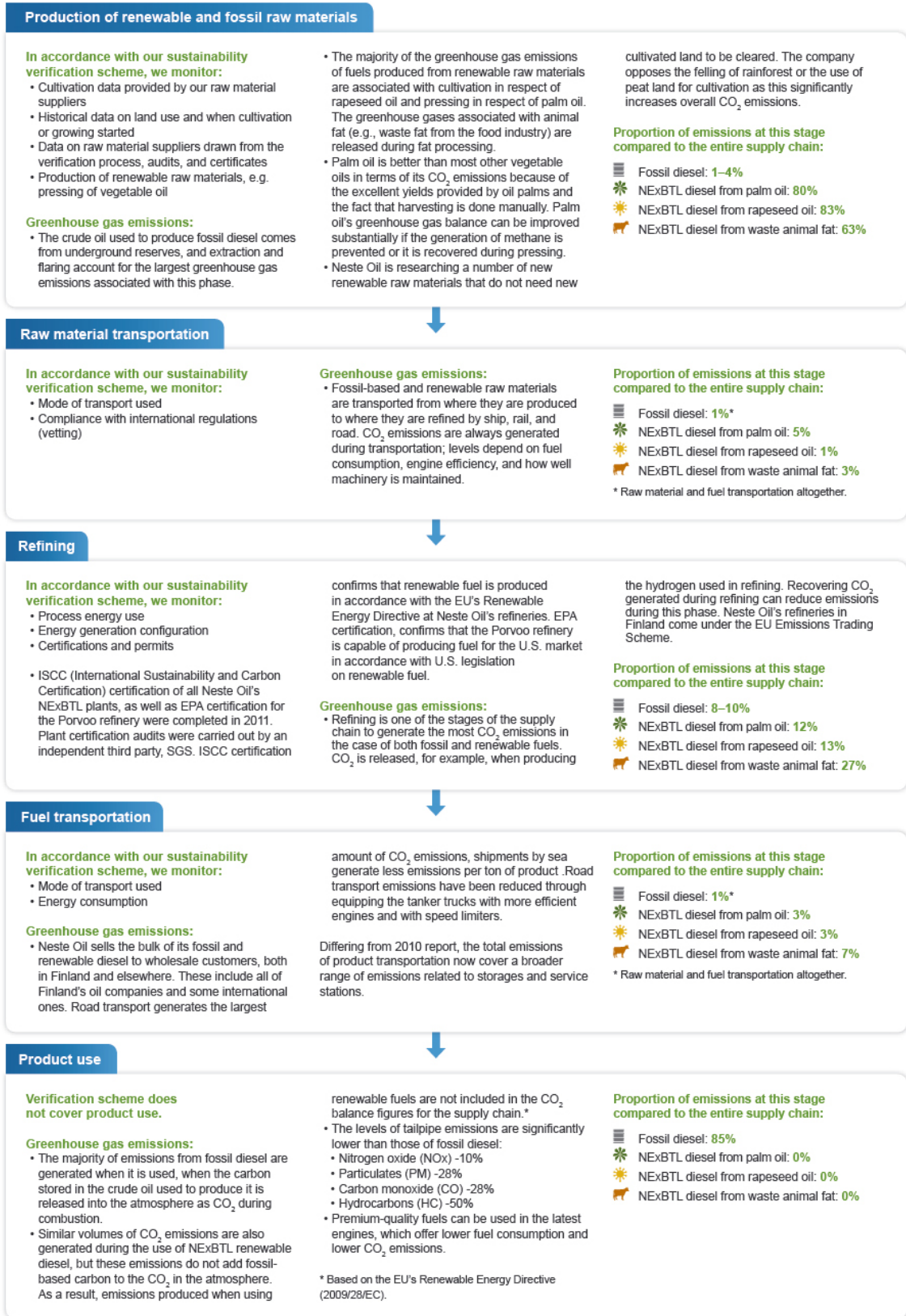
Neste Oil monitors the practical aspects of the sustainability of its renewable fuels on a continuous basis. The compliance of the company's production chain with sustainability criteria is verified regularly, using both internal audits carried out by Neste Oil personnel and external audits carried out by independent third-party experts. During 2011, 19 Neste Oil's renewable raw material suppliers were audited by independent third-party experts in connection to certification procedures.

Sustainability verification and greenhouse gas emissions

The following diagram shows the entire supply chain of the fuels produced by the Neste Oil, the greenhouse gas (GHG) emissions emitted during each stage of the process for different raw materials, and the sustainability verification methods used by the company for renewable fuels.

<p>Greenhouse gas emissions for the entire supply chain, i.e. the lifecycle of the product (g CO₂eq/MJ):</p> <ul style="list-style-type: none"> ☐ Fossil diesel: 83.8 ☼ NExBTL diesel from palm oil: 44.8 ☼ NExBTL diesel from rapeseed oil: 42.8 🐄 NExBTL diesel from waste animal fat: 20.5 	<p>Emissions reduction* achieved compared to fossil diesel:</p> <ul style="list-style-type: none"> ☼ NExBTL diesel from palm oil: 47% ☼ NExBTL diesel from rapeseed oil: 49% 🐄 NExBTL diesel from waste animal fat: 76% <p><small>* Average greenhouse gas emission reduction values calculated by the company for the entire life cycle of the fuel produced at the Porvoo refinery and transported to European markets. The emission reduction is affected</small></p>	<p>by raw material production methods, the selected modes of transport, fuel refining, transportation of fuel, and end use. When calculating the emission reduction, comparison is made with 83.8 g CO₂eq/MJ for fossil fuel. The method of calculation complies with the EU Renewable Energy Directive and has been certified by SGS. The emission share figures for each stage of the fossil fuel supply chain is based on estimates by CONCAWE.</p>
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Sustainable procurement of bio-based raw materials

The increase in NExBTL renewable diesel refining capacity to 2 million tons annually in 2011 resulted in Neste Oil doubling the amount of raw material it needed for refining purposes compared to 2010. Neste Oil used a total of 0.97 million tons (0.48) of renewable raw materials in 2011, which is approximately 5% of the amount of vegetable oils and fats that the energy sector used in 2011 which totaled some 20.5 million tons (Source: Oil World, January 2012). The volume of bio-based raw materials used in refining is projected to rise to a maximum of 2.4 million tons in 2012 when the refining capacity of the company's new refineries are fully utilized.

The use of renewable raw materials in 2011

Raw material	Planned share of procurement	Proportion used in refining 2011
Crude palm oil	<50%	54%*
Waste and sidestreams (incl. waste animal fat, palm fatty acid distillate, stearin)	Approx. 40%	41%
Other (incl. rapeseed oil, jatropha oil, soy oil, and camelina oil)	Approx. 10%	5%

* Includes also 2% of RBD palm oil (Refined Bleached Deodorized)

Neste Oil's targets for bio-based raw material procurement in 2012:

- To increase the volumes of raw materials classified as waste- and sidestream-based that it uses in refining by several hundreds of thousands of tons compared to what was used in 2011 (the total in 2011 was 315,000 tons more than in 2010).
- To increase the proportion of certified raw materials by a minimum of 10%-points compared to 2011.
- To further extend its raw material portfolio by introducing new raw materials.

Neste Oil's mid- and long-term targets for bio-based raw material procurement:

- To increase the share of sidestreams, residues, waste, and next-generation raw materials to account for more than 50% of its raw material base.
- To introduce new raw materials that make the largest contribution to reducing greenhouse gases to meet current and future criteria for reducing emissions.
- To promote research on new raw materials and prepare for industrial-scale fuel production from next-generation raw materials (such as microbial and algae oils, biowax produced from forest industry residue) that are unsuitable for human consumption.

Ethanol

The ethanol procured by Neste Oil for blending into 95 E10 and 98 E5 gasoline in the Finnish market is also produced from renewable raw materials. Ethanol is used mostly as a blending component. The ethanol used in this way, together with other biofuels, helps Neste Oil and Finland comply with their EU-mandated bio content requirements. 95 E10 gasoline, containing 10% ethanol, reduces fuel-related greenhouse gas emissions by 4-6% compared to conventional gasoline.

Ethanol is produced around the world from a variety of different raw materials, such as sugar cane, sugar beet, and corn. Where Neste Oil sources its ethanol from, and what it is produced from, depends on the market situation.

Neste Oil requires all its ethanol suppliers to operate in accordance with the sustainability criteria of the EU's Renewable Energy Directive and be able to show a verifiable reduction in greenhouse gas emissions and use only land permitted for cultivation purposes.

Broader raw material base

The NExBTL technology developed by Neste Oil is capable of using a very wide range of bio-based inputs without compromising the quality of the renewable fuel produced.

The raw materials used to refine Neste Oil's NExBTL renewable fuels (diesel and aviation fuel) in 2011 comprised the following types of vegetable oil and waste animal fat:

Raw material	Source in 2011	Planned share of procurement in 2011	Actually used in refining in 2011
Crude palm oil	Southeast Asia	46%	54%*
Stearin, palm oil by-product	Southeast Asia	7%	17%
Palm fatty acid distillate (PFAD)	Southeast Asia	28%	5%
Waste fat from the food industry	Europe, Australasia (incl. Australia and New Zealand)	17%	19%
Other (e.g. rapeseed oil, soy oil, camelina oil, and jatropha oil)	Africa, Europe, South and North America, Southeast Asia	2%	5%
Total		100%	100%

* Includes also 2% of RBD palm oil (Refined Bleached Deodorized)

In line with its strategy, Neste Oil extended its raw material base in 2011, adding camelina oil, jatropha oil, and soy oil to its procurement. Relatively small shipments of these materials were sourced for producing NExBTL renewable fuels.

Neste Oil will continue its strategy aimed at further extending its raw material base during 2012, and will carry out work to prepare for adding waste fish oil from fish processors to its procurement program. An extensive environmental review related to this material was carried out in 2011, together with a greenhouse gas calculation that showed that the greenhouse gas emissions released by NExBTL renewable diesel produced from this waste would be over 80% lower over the fuel's entire life cycle compared to fossil fuel emissions.

Significant progress was also made in 2011 on Neste Oil's [long-term alternative inputs in areas such as R&D on algae oil and microbial oil](#). An environmental impact assessment for a [joint venture biorefinery planned by Neste Oil and Stora Enso](#), based on using wood-based waste from the forest products industry, was also completed.

Read more on the [sustainability criteria used for raw material suppliers](#).

[Read more about the renewable raw materials used by Neste Oil](#).

[Read more about Neste Oil's raw material-related R&D](#).

Proportion of certified bio-based raw materials nearly quadrupled

49% of the raw materials used by Neste Oil in 2011 was certified, an increase of 28%-points from 2010. A significant proportion of this increase was the result of increased procurement of certified crude palm oil. 100% of the crude palm oil used in refining by Neste Oil in 2011 was fully traceable back to the plantations where it was produced; and 83% (25%) was either certified by the Roundtable on Sustainable Palm Oil (RSPO) or by the independent EU-approved ISCC certification system (International Sustainability and Carbon Certification). Neste Oil was the world's largest buyer of fully traceable, RSPO-certified palm oil in 2011.

Neste Oil aims at increasing the proportion of certified raw materials in its raw material base by a minimum of 10 %-points in 2012. Of the various inputs used by Neste Oil, only palm oil, stearin, palm fatty acid distillate (PFAD), rapeseed oil, and soy oil were covered by a certification system in 2011. The company's goal is to procure solely certified palm oil by the end of 2015.

No certification system exists for waste animal fat or camelina oil, and it only became possible to certify jatropha oil in 2011 after Neste Oil had already purchased its jatropha oil for the year.

In cases where a raw material-specific certification system does not exist, Neste Oil verifies the sustainability of raw material production and compliance with the EU's Renewable Energy Directive mainly by following a European Commission -approved [sustainability verification scheme](#) (e.g. ISCC) or by means defined by the local legislation in the country to which the fuel is to be delivered.

Raw material	Source	Certified material as a proportion of used in refining	Certification system	Traceable	GHG emission reduction **	GHG emission reduction default values from the EU Renewable Energy Directive (for HVO ***)
Crude palm oil	Southeast Asia	83%	ISCC RSPO*	Yes	47%	26% (65% with methane capture at oil mill)
Stearin, palm oil by-product	Southeast Asia	4%	ISCC RSPO*	Yes	44% (89% if fuel is sold in a country where stearin is classified as	No default value

Sustainability > Sustainability of supply chain > Sustainable bio-based raw material procurement > Proportion of certified bio-based raw materials nearly quadrupled

Raw material	Source	Certified material as a proportion of used in refining	Certification system	Traceable	GHG emission reduction **	GHG emission reduction default values from the EU Renewable Energy Directive (for HVO ***)
					waste or residue)	
Palm fatty acid distillate (PFAD)	Southeast Asia	3%	ISCC RSPO*	Yes	45% (89% if fuel is sold in a country where PFAD is classified as waste or residue)	No default value
Waste animal fat from the food industry	Europe, Australasia (incl. Australia and New Zealand)	–	No dedicated system	Yes	76%	No default value
Other (e.g. rapeseed oil, soy oil, camelina oil, and jatropha oil)	Africa, Europe, South and North America, Southeast Asia	–	Rapeseed oil: ISCC, REDcert* Soy oil: RTRS EU RED, 2BSvs Camelina oil: no dedicated system Jatropha oil: no dedicated system	Yes. The availability of certified and traceable soy oil is very limited.	Rapeseed oil: 49% Soy oil: 45% Camelina oil: 46% Jatropha oil: exact percentage being calculated	Rapeseed oil: 47% (cultivation must take place in EU-approved areas) No default value for others

* The European Commission has not yet approved the RSPO certification system for palm oil or the REDcert certification system for rapeseed oil as complying with the EU's Renewable Energy Directive's

sustainability verification requirements. They are widely approved internationally, however, as a means of verifying sustainability.

** These are average values calculated by Neste Oil for the reduction in greenhouse gas (GHG) emissions for fuel produced at Porvoo and supplied to the European market over their entire life cycle. Factors contributing to this reduction include the methods used to produce the raw materials used, the mode of transport used to ship raw material inputs, refining processes, fuel logistics, and end-use. The calculation method used complies with the EU's Renewable Energy Directive and has been verified by SGS. Read more about Neste Oil's [renewable fuel supply chain and emission reductions](#) over fuels' entire life cycle.

*** HVO = Hydrotreated Vegetable Oil like Neste Oil's NExBTL renewable diesel

Neste Oil uses only 100%-traceable palm oil in fuel refining, and was the world's largest buyer of fully traceable, RSPO-certified palm oil in 2011.

Neste Oil aims to further increase the proportion of certified raw materials it uses by a minimum of 10%-points in 2012, and the company's target is that 100% of its crude palm oil input will be certified by the end of 2015.

Proportion of crude palm oil reduced from 2010

Thanks to the continuous expansion of the company's renewable raw material base, Neste Oil reduced the proportion of crude palm oil that it used to refine renewable fuel by 28%-points since 2010. The proportion of crude palm oil represented 54% of all the renewable raw materials the company used in 2011. When measured in tons, however, the volume of crude palm oil used in refining increased by 29% as the total raw material volume the company used for refining increased from 2010.

World production of palm oil (including stearin by-product and palm fatty acid distillate) rose to 50 million tons in 2011 (46 million tons). Neste Oil's use accounted for a fraction of this, 1.4% (1%). In 2011, 77% (80%) of the world's palm oil was used by food manufacturers, 10% (8%) by the biofuel industry, 8% (7%) by the chemical industry, and the remainder in areas such as energy generation (Source: Oil World, January 2012).

The available volumes of certified sustainable palm oil are increasing rapidly at the moment. The volumes of other certified bio-based raw materials are expected to continue increasing slower also in 2012.

Palm oil sustainability certificates (like RSPO) are granted on a plant-by-plant basis, not to palm oil companies as a whole, which may operate a number of oil pressing plants.

To qualify for certification, a pressing plant must be able to show that its palm oil, which can be produced from inputs sourced from a number of different plantations, has been produced in accordance with the sustainability criteria specified in the relevant certification system.

Neste Oil explored the opportunities for collaboration with oil palm smallholders in 2011.

A large number of the palm oil mills supplying to Neste Oil have either a methane capturing system in place or a system to prevent its formation. Reducing methane emissions at the palm oil mills helps to further improve the greenhouse gas balance of fuels produced from palm oil.

Strict sustainability criteria for suppliers

Neste Oil evaluates the operations and working practices of potential raw material suppliers in detail. Decisions on which suppliers to use are made on the basis of a set of strict supplier selection criteria incorporated into Neste Oil's management system. Suppliers also need to comply with the sustainability principles Neste Oil has established for biofuels.

[Read more on Neste Oil's sustainability principles for biofuels.](#)

As part of these principles, Neste Oil requires, for example, that suppliers are committed to sustainable development, continuously improving their operational health, safety, and environment performance, and to respecting human rights, promoting occupational safety, and acting in accordance with good business ethics.

In line with its criteria, Neste Oil requires that all its renewable raw material suppliers must also be committed to international certification. Preference is given to certified raw materials as a means of ensuring that sustainable practices are used in producing the raw materials that Neste Oil buys.

Prior to taking a decision on a supplier, Neste Oil always carries out a due diligence study to clarify areas such as the current level of a supplier's HSSE performance and their plans to improve their performance. Neste Oil either carries out an audit itself or commissions an impartial, third-party audit of the supplier to determine whether they operate responsibly and sustainably and how they are implementing their development plans in practice. During 2011, impartial, third party specialists audited 19 of the company's raw material suppliers in connection to certification procedures. In respect of its own audits, Neste Oil uses the criteria that it has developed as part of its sustainability verification system. The system meets the requirements of the EU's Renewable Energy Directive and is expected to receive approval by the European Commission in the near future. Neste Oil also includes a sustainability clause in all the commercial contracts that it signs with its renewable raw material suppliers.

NGOs continue to be critical of palm oil use

A few non-governmental organizations continued to be critical of Neste Oil's use of palm oil during 2011. This criticism was mainly linked to the company's increased use of renewable raw materials, including palm oil, resulting from its higher output of renewable fuels.

Read more about [Neste Oil's raw material procurement](#), the [high proportion of certified inputs](#), and the [relatively small proportion of the world's palm oil used by Neste Oil](#).

While it was criticized in some quarters, Neste Oil also received recognition for the long-term work that it has done to improve international sustainability standards, particularly those related to palm oil production and procurement. Neste Oil is committed to continuing to enhance the sustainability of its operations and promote the further development and adoption of common sustainability standards in collaboration with its stakeholders. Neste Oil aims to extend this collaboration during 2012.

“Stop using vegetable oil in the biofuels industry”

Current biofuel production around the world relies on raw materials that are available in commercial quantities, primarily food-grade or non-food vegetable oil. New, non-food raw materials are not yet available in sufficient quantities, and developing these types of inputs takes time. Microbial and algae oil, for example, are only expected to be commercially available in 5-10 years' time.

The question, therefore, is: should biofuel production and usage be postponed for a number of years until sufficient quantities of these new raw materials are available? Neste Oil's view is: no.

Postponing the production and use of biofuels in this way would mean that today's targets for reducing traffic- and transport-related greenhouse gas emissions could not be met and that one of the key tools for combating climate change would be lost.

Neste Oil believes that the only sensible solution is to continue the use of sustainably produced vegetable oil as a raw material and to extend sustainability criteria – covering issues such as land use – to legislation covering all vegetable oil users. Neste Oil also remains committed to investing in the development of new raw materials to ensure that they can be used in producing biofuels as soon as possible.

Sustainable land use

NGOs have expressed their concerns that the volume of palm oil purchased by Neste Oil could lead to the cultivation of oil-producing crops being extended onto new land. Expanded cultivation could, the organizations argue, threaten the world's rainforests or the cultivation of food crops, either directly or indirectly.

Current legislation is very specific on land use issues related to the raw materials used in producing biofuels. Various certification programs also place very strict demands on this type of land use. To ensure that it can produce renewable fuel complying with EU requirements and those elsewhere, Neste Oil only sources raw materials produced on land that complies with or exceeds the requirements established by both legislation and certification programs.

Legislation and certification programs forbid, for example, the procurement of raw materials that have been produced on land that has been cleared since the beginning of 2008:

- From rainforest
- From conservation areas and game reserves
- From marshland that has been drained or burnt to make it suitable for cultivation.

If these conditions are not met, it would be difficult to ensure that the minimum requirement for biofuels to reduce greenhouse gas emissions by at least 35% over their entire lifecycle compared to fossil could be met.

Current legislation does not yet define how biofuel producers should take account of the impact of [indirect land use change \(ILUC\)](#). Neste Oil monitors legislative developments closely to ensure that it can respond to any changes in legislation and the possible introduction of requirements related to land use. It is also working to extend its understanding of the indirect impact of its raw material procurement program.

Neste Oil receives the Public Eye Award

Neste Oil was selected for the annual Public Eye Award in January 2011 in an online vote organized by Berne Declaration and Greenpeace as the 'most evil corporation of the year' from five candidates chosen by the organizers. The choice of Neste Oil was based on the company's use of palm oil in producing renewable diesel. The jury of professionals that took part in the Award selected a mining company as the recipient rather than Neste Oil.

Neste Oil believes that the outcome of the online vote did not reflect the true nature of the situation and issued its [response in a press release](#), and replied to emails and enquiries from stakeholders on the subject of the Award. Neste Oil's Senior Vice President, Sustainability and HSSE, Simo Honkanen, officially received the Public Eye Award on the company's behalf in April 2011 at Neste Oil's office in Geneva – stating that the Award had resulted in some positive debate in the media and among the company's employees and other Neste Oil stakeholders, and had offered Neste Oil the opportunity to correct misunderstandings and misconceptions about its operations.

Palm oil producer IOI investigated by the RSPO

The Roundtable on Sustainable Palm Oil (RSPO) launched an investigation through its complaints investigation panel in 2011 into complaints made against the Malaysian palm oil producer, IOI Group, by various local organizations and NGOs. The investigation related to IOI activities linked to a land dispute in the Malaysian part of Borneo and possible environmental problems in Ketapang in southwest Borneo, which is part of Indonesia.

IOI is one of Neste Oil's palm oil suppliers. Based on its traceability documentation, Neste Oil was able to confirm at the very start of the investigation that it had not sourced any palm oil from the areas concerned. Neste Oil was not a party to the investigation at any stage and was not involved in debate related to it. The sustainability certificates for all the palm oil procured from IOI were found to be valid and in compliance with the sustainability criteria of the EU's Renewable Energy Directive.

Some commentators concluded from the public debate that the RSPO had declared IOI's sustainability certificates null and void following the start of the investigation. What the RSPO did do, in fact, was to halt the company's ongoing certification processes; IOI's previously certified plantations and pressing plants were unaffected.

According to a [press release published by the RSPO in September](#), the parties involved committed themselves to working together to find solutions to the land dispute. The RSPO also stated that it had not found any evidence of the environmental problems mentioned in the complaint; and IOI promised to improve its operations to ensure full compliance with RSPO requirements.

Neste Oil sees the RSPO's role in solving disputes of this sort as important. The RSPO complaint investigation procedure is transparent and gives all sides in a dispute an equal chance to put their case. Neste Oil will continue to monitor the IOI case closely and plans to continue working with IOI.

From confrontation to a more constructive cooperation

Neste Oil increased its cooperation with NGOs during 2011 and launched a [Global NGO Program](#) aimed at winning these organizations' support for Neste Oil's sustainability work and increasing their understanding of the company's operations.

As part of this closer cooperation and to promote greater transparency, Neste Oil invited a representative from Greenpeace to events held for personnel, the media, investors, and analysts on the company's Interim Report in October 2011. This was the first time that a Greenpeace representative explained the organization's concerns and expectations on Neste Oil's use of palm oil directly to employees in Finland. Following the employee event, nearly 50 questions for Greenpeace were collected from personnel and given to the Greenpeace representative, who promised that they would be replied to.

Social responsibility

Neste Oil's approach to social sustainability is based on close and constructive cooperation with all the company's stakeholders. Social sustainability covers both the direct and indirect impact the company has on its stakeholders.

Neste Oil promotes the principles contained in the central articles of the United Nations' Declaration of Human Rights and the central conventions of the International Labour Organization (ILO). These international agreements form the foundation for the principles and practices followed in respect of human and labor rights. This respect for human and labor rights also extends to Neste Oil's raw material suppliers and is integrated into the criteria used when sourcing renewable raw materials.

Neste Oil strives to be a good corporate citizen in all the countries that it operates in and complies with all applicable national and international laws and regulations, international agreements, and generally accepted corporate governance practices. The company's Code of Conduct forbids involvement in bribery or corruption, and Neste Oil expects the same of its suppliers, customers, and business partners.

Neste Oil's respect for human and labor rights also extends to the company's raw material suppliers and is integrated into the criteria used when sourcing renewable raw materials.

Human rights and equality

Neste Oil offers its personnel a healthy and safe workplace in which to develop their skills and capabilities. The company selects partners that are committed to the same principles. All forms of harassment, discrimination, child labor, forced labor, and other forms of exploitation are strictly forbidden.

Neste Oil treats all its employees, customers, suppliers, and other partners fairly and equally, regardless of gender, nationality, age, religious beliefs, political convictions, and other similar factors. As a company, Neste Oil does not participate in political or religious activity and provides no financial support for such activities.

Neste Oil is committed to respecting human rights in all aspects of its operations. The company recognizes the economic and cultural needs of native populations, their traditional way of life, and their legal entitlement to their land. This particularly covers those geographical areas from which Neste Oil sources the inputs for its renewable fuel production. Neste Oil continued to carry out due diligence reviews in respect of all its suppliers of renewable raw materials, and as part of this, a thorough assessment was made of human rights issues, including questions such as the use of child and forced labor.

[Read more on equality and diversity.](#)

Neste Oil continued to support the not-for-profit Borneo Child Aid organization during 2011, for the fourth year in succession.

The company's donation in 2011 guaranteed comprehensive education for 265 children aged between 6 and 14 of employees working on oil palm plantations in Sabah, Malaysia.

Managing social responsibility

Neste Oil's values – excellence, responsibility, innovation, and cooperation – provide the foundation for its management of social sustainability. The latter also underpin the policies integrated into the Group's management system and the principles covering the management of equality, procurement, safety, sustainable development, and HSSE in particular, which are supplemented by the company's Code of Conduct. Communication and training are used to bring these principles closer to employees' everyday work. These principles also set a clear target level for developing Neste Oil's social sustainability and its role as part of ongoing operations.

Responsibility for managing social sustainability continues to be shared between a number of people and units, as in previous years. The Group's Senior Vice President, Human Resources is responsible for [developing the company's leadership](#) and [personnel-related matters](#); the HSSE organization is responsible for [product and safety-related matters](#); and the Senior Vice President, Communications, Marketing and Public Affairs for [these aspects of stakeholder engagement](#). Many others are also involved. More detailed targets cover every area of responsibility.

Neste Oil observes a number of principles and guidelines to prevent and deal with misconduct. Compliance with these is monitored by [Internal Audit](#).

Company Values
excellence, responsibility,
innovation, and cooperation

Stakeholder engagement

By actively engaging with its stakeholders, Neste Oil aims to promote its strategic goals and sustainable development generally, as well as contribute to the development of a business environment favorable for its long-term development. Particular emphasis during 2011 was given to involving personnel in updating the company's strategy, improving Neste Oil's customer focus, and engaging society to encourage the uptake of renewable fuels and promote greater sustainability in Europe and the US.

Neste Oil has numerous stakeholders, all of whom have their own expectations about the company. These can sometimes conflict with each other, which can be particularly challenging for Neste Oil. To resolve these and other challenges, Neste Oil engages in ongoing and active dialogue with all its key stakeholders with the aim of finding an equitable balance between different sets of expectations. Open and frank dialogue plays a central role in increasing stakeholders' understanding of the decisions and actions Neste Oil takes and the background behind them.

Neste Oil's stakeholder work, such as [managing social sustainability](#), is split between a number of functions and units. Although no detailed annual plan is currently used for this work, the plan is to introduce one in the future.

Neste Oil changed and strengthened its public affairs organization in 2011 to combine activities into a more effective entity within the Communications, Marketing and Public Affairs function. The organization was also strengthened by recruiting a new Director, Public Affairs, who joined the company at the beginning of 2012.

Neste Oil also introduced an internal Stakeholder Tool database to manage and share information between everyone at the company involved in stakeholder work.

[Read more about stakeholders expectations and Neste Oil's actions to meet these.](#)

What we did and achieved in 2011:

- We supported decision-making and implementation through discussions with local officials.
- We met the secretaries and chairmen of Finland's parliamentary parties, Finland's MEPs, and municipal leaders in key locations. Around 50 meetings were held in 2011.

Goals for 2012:

- Continue monitoring the EU's [Renewable Energy Directive](#) and associated legislation, as well as monitoring and supporting the implementation of the Fuel Quality Directive in member states.
- Meet and promote discussion with EU parliamentarians.
- Continue promoting Neste Oil's role as a source of specialist expertise during the drafting of new legislation.
- Support and provide expert advice on the drafting of [ILUC-related legislation](#). Neste Oil's goal here is to see the creation of a common body of legislation covering all activities involving land use.
- Aim for closer cooperation with NGOs and increase our dialogue with these organizations.

Neste Oil engages in ongoing and active dialogue with all its key stakeholders with the aim of finding an equitable balance between different sets of expectations.

Neste Oil's key stakeholders

The accompanying table details Neste Oil's most important stakeholders, the expectations these groups have, and the measures Neste Oil took during 2011 to meet these expectations.

Stakeholders' expectations

Stakeholder	Expectations	Actions in 2011
Customers	High-quality, reliable products and services, secure supplies, professionalism, responsible operations, and positive, trustworthy business relationships. Corporate customers in particular expect close contacts and efficient problem-solving.	Traffic services for motorists; customer events and seminars; trade fairs and other events; development of more efficient customer relationship management tools; acquiring and contracting new customers; strengthening ties with existing customers; arranging station dealer and regional meetings for station dealers; and arranging a visit for Direct Sales' industrial customers to the Porvoo refinery.
Personnel	Good management, fair and equitable treatment, career development opportunities, openness and collaboration between different parts of the organization, trustworthiness, responsibility, quality, customer care.	Updated HR policy; management and leadership development; performance and development discussions; professional development; job rotation; quarterly performance updates; employee magazine; innovation system; employee satisfaction survey follow-up; info sessions on varied subjects; information on Neste Oil's Code of Conduct; communicating the company's updated vision and strategy; strategy dialogue and strategy presentations; manager events; strategy get-togethers.
Shareholders and investors	Dividends, increase in shareholder value, reliable information on the company and its future prospects, transparency, willingness to take on sustainability and act as a pioneer.	Meetings with investors and analysts; AGM; Capital Markets Day; press conferences; stock exchange and press releases; IR section of the Web site; teleconferences; webcasts.
Society	Compliance with legislation and statutory reporting, expertise on fuels and how they are produced and how they should be used.	Collaboration with and reporting to the authorities at international, national, and local level; expert position papers and other

Stakeholder	Expectations	Actions in 2011
		involvement in public debate; public statements.
People living and working near Neste Oil plants	Honest, open, and topical information on plant operations and incidents; constant monitoring of plants' environmental impact. Acting as a good corporate citizen in the local community.	Open door days; local company newsletters at refinery sites (Porvoo and Naantali); local environmental reporting at refinery sites (Porvoo and Naantali); updates on incidents; donations and assistance to local voluntary-based work with young people; scholarship donations to schools.
Suppliers of goods and services	Reasonable prices, reliable source of revenue and business development opportunities, commitment, partnerships.	Systematic development of procurement processes and principles; support for developing operations (such as certification); meetings with journalists, visits, and other events; trade fairs; Web site; Extranet.
Organizations	Active participation and commitment to common goals.	Memberships; participation in work groups; board work; conferences and seminars.
Universities and research institutions	Careers, internship and thesis opportunities for students, opportunity to commercialize research results, research contracts.	Joint R&D projects; participation in research projects; internships and graduate thesis opportunities.
Students and job applicants	Financial security, challenging jobs, international opportunities, dialogue with international customers and colleagues, good references for future career development.	Jobs and summer jobs; internships; graduate thesis opportunities; visits to sites and colleges; trade fairs and other events; collaboration with ChemistryLab Gadolin and students at Aalto University; studies on Neste Oil's profile as an employer.
Media	Reliable, sufficient, and up-to-date information on the company's operations. A management and key persons that are easily approachable and open about the company's business.	Stock exchange and press releases; press conferences; events; visits to production sites and a palm oil plantation; interviews and Q&As.

Stakeholder Advisory Panel established

Following the abolishment of the Supervisory Board, a new Stakeholder Advisory Panel was established in April 2011 to promote dialogue between the company and its stakeholders in matters such as Neste Oil's operations, business development, and changes in its operating environment.

The following served as members of the Stakeholder Advisory Panel in 2011: Esko Ahonen, Timo Heinonen, Miapetra Kumpula-Natri, Markus Mustajärvi, Petteri Orpo, Kimmo Tiilikainen (Chairman), Oras Tynkkynen, and Anne-Mari Virolainen. All except Esko Ahonen are Finnish MPs. Three representatives selected by Neste Oil's personnel also sit on the Panel, which met twice during the year.

[Read more about the Stakeholder Advisory Panel at company's website.](#)

Measuring stakeholder engagement

The success of Neste Oil's stakeholder work is measured regularly and on a long-term basis through various studies and feedback questionnaires. Neste Oil's own Market Research Team is responsible for implementing these surveys, particularly in respect of Oil Retail's Finnish operations and the development of Neste Oil's brand profile. Other stakeholder studies and questionnaires are carried out as needed across the company. The results of these are used to guide future operations and act as yardsticks for evaluating the success of past work.

Neste Oil also uses annual surveys to study employee satisfaction and that of summer employees, as well as students' perceptions of the company, Neste Oil's image as an employer, developments in the workplace, and the hopes and opinions of private and corporate customers in respect of Neste Oil's products and services, as well as other aspects of the company's operations in Finland. The views of people living close to the company's plants in Finland are surveyed every other year.

The company's most extensive stakeholder survey is the Neste Oil brand study, which is carried out annually and covers representatives of public, investors, media, politicians, customers and personnel. The satisfaction of Neste Oil's international corporate customers is surveyed on a case-by-case basis. No international stakeholder surveys were carried out during 2011.

[Read more about stakeholders expectations.](#)

Communication and cooperation

Neste Oil's Web site (www.nesteoil.com) is the company's most important channel for communicating topical information to all its stakeholders. The Annual Sustainability Report also plays a central role in communicating information, particularly to investors, customers, and personnel.

Communication with personnel takes place on a very comprehensive basis, via managers and supervisors, the company's Intranet and employee magazine, and info sessions. A newsletter for managers was introduced at the end of 2011 to communicate information on things such as updated company guidelines and other material.

Close employer-employee cooperation is promoted through numerous official bodies and meetings. Greater transparency in communication and employer-employee cooperation was promoted in a number of ways during 2011, through things such as joint seminars on wellbeing at work. Cooperation with personnel in Rotterdam was kicked off in spring 2010 in accordance with local legislation by setting up an official framework to promote mutual dialogue.

Neste Oil's Corporate Management-Employee Group reviews topical matters that affect all of the company's employees. The Group's Senior Vice President, Human Resources acts as Chairman, and the Council meets regularly around six times a year. The Group drafts presentations for the Finnish Management-Employee Group, which discusses Group-related matters with senior management. This cooperative framework has been used to increase transparency and improve dialogue and collaboration and foster employees' potential to make their voice heard within the company.

Neste Oil personnel also take part in committee work coordinated by industry organizations, such as the Chemical Industry Federation of Finland's Labor Market and Training Committee. Personnel also manage Neste Oil's Personnel Fund and are represented on the boards of the Kilpilahti Sickness Fund and Enerkem.

Dialogue with customers, suppliers of goods and services, and society in general takes place primarily through face-to-face meetings and various events.

Improving Neste Oil's customer focus

Customer focus is one of the company's [Value Creation Programs](#). Joint, long-term targets for improving Neste Oil's customer focus will be drawn up in 2012, together with a list of the measures to be used to achieve these targets. The goal is not only to increase sales effectiveness and achieve better key customer relationship management, but also to improve the company's sales tools and the training given to sales personnel. Customer issues will also be taken into account when developing logistics and IT system solutions.

As part of Neste Oil's leadership development program, around 130 members of senior and middle management and specialist personnel met at least one of the company's consumer or corporate customer or partners, or at least one NGO, state agency, or other official organization in Finland and overseas during 2011. The main goal of these face-to-face meetings was to familiarize personnel with some of the company's important stakeholders that the people concerned would not normally meet as part of their job. The aim was to listen to these stakeholders and gain a better understanding of their needs and expectations. Summaries of meetings were discussed as part of the program and forwarded to senior management.

[Read more about training for senior management.](#)

Public affairs and advocacy

Renewable fuels continued to play a significant role in Neste Oil's public affairs and advocacy interaction with society during 2011. Neste Oil focused on developing cooperation with various stakeholders in this area and taking an active part in debate, both in Finland and internationally.

The goal of Neste Oil's social engagement during 2012 will continue to be to support legislators and other decision-makers in their work by making the company's specialist expertise and knowledge available on industry-related matters. Neste Oil will continue to monitor and support the EU's Renewable Energy Directive and related sustainability legislation, as well as the implementation of the EU's Fuel Quality Directive in member states. Neste Oil will also aim to meet and engage EU parliamentarians in dialogue; and wants to be involved in promoting common legislation on indirect land use change (ILUC) as it relates to all areas of industry and other activity.

Neste Oil's active dialogue with stakeholders provides the company with valuable information on the direction in which developments in society are moving and input for the company's ongoing efforts to develop its offering to provide the maximum added value to stakeholders and society generally, today and into the future.

Advocacy in Finland

Neste Oil continued to engage society actively in Finland during 2011 and regularly discussed energy-related challenges with ministries involved in drafting legislation in the field, parliamentary parties, local decision-makers, and key officials. These discussions covered a number of important areas for Neste Oil, including the following topics:

1. Neste Oil and the oil industry support speeding up the incorporation of renewable energy into fuels. Achieving a significant level of content (20%) in traffic, transport, and heating fuels by 2020 will require systematic legislation to make large-scale industrial production of these fuels possible.
2. Climate change is a global problem that calls for global solutions. Ensuring that the raw materials needed for renewable fuel production are available in sufficient quantities in Europe will require imports from elsewhere, as in the case of fossil oil. Renewable fuels can improve countries' security of supply.
3. Emission reduction targets should be defined through legislative means. Ensuring that legislation is neutral in respect of both technology and raw material inputs is the best way of ensuring that the best solutions can be developed.
4. Neste Oil is committed to continually improving the quality of its fuels. Fuel quality should not be compromised when increasing the use of biofuels. High quality standards will help develop cleaner engine technology.
5. Emissions-based fuel taxes (CO₂ and ambient emissions) represent a good solution.
6. The definition of 'double-booked waste' – such as forest harvesting waste, vegetable oil sidestreams, and waste fat produced by the food industry – should be clear and unambiguous.
7. The impact of indirect land use change (ILUC) affects all raw material production. Legislation in this area should not solely focus on the energy-related use of raw materials. Significant uncertainties affect current ILUC models, and scientific base needs to be strengthened before new regulation is introduced.
8. Combustion and hybrid engines will continue to be the key source of power in traffic and transport for many years. As a result, developing cleaner fuels for these engines is the most efficient way of reducing traffic- and transport-related emissions in the short term. Developing other solutions to a stage at which they will be capable of offering a true alternative will take a long time, and even then they are likely to be suitable primarily for cars.
9. Support for R&D projects and production plants in the renewable fuels area should be continued.
10. Oil spill containment capabilities need to be improved and funded through the national budget.

In addition to dialogue with legislators and decision-makers, Neste Oil also highlighted these issues in its various contributions to public debate on the industry in Finland.

Advocacy in Europe and the US

The EU's Renewable Energy Directive (RED) required all member states to have national regulations in place to implement the directive as of the beginning of 2011, which resulted in intense legislative work in many EU countries. Neste Oil took an active part in debate and discussion on the subject in its major market areas in Europe during 2011. Similar stakeholder initiatives linked to renewable energy legislation also took place in North America, where operations in line with the Renewable Fuel Standard (RFS2) were introduced in 2010.

Many EU countries will continue work on drafting and implementing sustainability legislation linked to the Renewable Energy Directive during 2012. Sustainability legislation is intended to provide an official framework for verifying that biofuels are produced sustainably. Neste Oil's goal is to promote the introduction of harmonized operating models across the EU.

Engaging the EU

Neste Oil takes an active part in dialogue and other forms of engagement related to the development of EU-level legislation. The aim of this is to encourage the development of a positive business environment and profile Neste Oil as a pioneer in its field and a company that can contribute true added value to the legislative process. Neste Oil generates added value for legislative work through its R&D and the expertise that it can offer covering the entire product chain. In line with its proactive approach and to ensure the transparency of its actions, Neste Oil is registered with European Commission's Transparency Register.

The most important subjects of discussion at EU level for Neste Oil in 2011 related to the Renewable Energy Directive and the development of sustainability verification systems.

Evaluation of ILUC impact yet to be fully clarified

Neste Oil has closely monitored EU-level debate on how issues related to [indirect land use change](#) (ILUC) should be integrated into legislation on renewable energy production. The company has taken part in a number of seminars and panel discussions on this area of legislation and presented its views and position on the subject.

Development of sustainability verification system is nearing completion

Neste Oil continued development work during 2011 on its [voluntary scheme](#) designed to verify the sustainability of its operations in accordance with the EU's Renewable Energy Directive during 2011. Neste Oil has consistently followed the procedures specified in the system in its operations – and has certified NExBTL renewable diesel production at its Porvoo, Singapore, and Rotterdam refineries in accordance with the criteria of the ISCC system approved by the European Commission, using the guidelines and procedures of its own verification system, which has yet to receive Commission approval. This is designed to show that the system meets the requirements of the Renewable Energy Directive and can be fully introduced immediately Commission approval is received.

Following Commission approval, any organization producing renewable fuel will be able to use the system developed by Neste Oil to show that its fuel production meets the strict sustainability requirements associated with the EU's Renewable Energy Directive in areas such as greenhouse gas emissions, traceability, and land use.

[Read more about sustainability legislation and recent development.](#)

Participation in organizations and joint projects

Neste Oil also takes part in the development of the energy sector by working through the industry's key organizations. This type of cooperation continued, both in Finland and internationally, during 2011. Neste Oil took an active role in the boards or committees of the following organizations amongst others:

- [ASFE](#) (Alliance for Synthetic Fuels in Europe)
- [CONCAWE](#), the oil companies' European association for environment, health and safety in oil refining
- [EBB](#), European Biofuels Board
- [EBTP](#) (European Biofuels Technology Platform)
- [Europia](#) (European Petroleum Industry Association)
- [Chemical Industry Federation of Finland](#)
- [Roundtable on Sustainable Biofuels \(RSB\)](#)
- [Roundtable on Sustainable Palm Oil \(RSPO\)](#)
- [Round Table on Responsible Soy \(RTRS\)](#)
- Finnish Interest Representatives Forum (member since 2011)
- [Finnish Petroleum Federation](#).

In addition to initiatives promoted by the above organizations, Neste Oil has also committed itself to various other joint projects aimed at promoting sustainable developing, including:

- [Responsible Care](#) (since 1992)
- [Responsible Care Global Charter](#) (since 2007)
- An international coalition for a moratorium on rainforest destruction
- [2°C Challenge Communiqué](#), aimed at promoting international work to combat climate change
- [Tanker Safety Project](#) an initiative aimed at improving marine safety in the Gulf of Finland (since 2010)
- [European Aviation Biofuels Flightpath](#), an initiative aimed at increasing annual aviation biofuel usage to 2 million t/a by 2020 (since 2011).

Global IGO and NGO programs

Neste Oil launched a global IGO (Intergovernmental Organization) program in 2011 aimed at promoting dialogue primarily with UN organizations active on the global arena. The goal of the new IGO program is to develop new areas of potential cooperation with these influential organizations and develop the sustainability of Neste Oil's operations with their support, particularly in the countries where Neste Oil sources its renewable raw materials. Neste Oil wants to find partners that can enhance its understanding of the local conditions in these countries and with which it can launch collaborative initiatives benefiting the local communities.

In addition to the IGO program, Neste Oil also launched a global NGO program in 2011. The main goal of this initiative is to promote cooperation and discussion with non-governmental organizations, share knowledge and expertise, and improve awareness of Neste Oil's operations and its work in the area of sustainability.

Sponsorship and charity work

Neste Oil supports the wellbeing of local communities and stakeholders in the countries where it operates through sponsorship and charity work. A total of EUR 1 million (1 million) was spent on charity work and sponsorship in 2011.

Neste Oil has a sponsorship program covering the entire Group managed by the Marketing Unit, and carefully selects international, national, and local initiatives. Neste Oil does not sponsor political parties or party-coordinated projects, religious movements or projects linked to such movements, or company clubs.

In 2011, the company launched a new sponsoring model which defined the sponsorship targets for each stakeholder group. The impacts at sponsoring is measured by conducting studies to evaluate the feasibility and effectiveness of sponsoring, to assess brand value and by analyzing visibility in the media.

Neste Oil sponsored the following activities and charities in 2011:

At Group level

- [Neste Oil Rally](#)
- Blues ice hockey team
- Kärpät ice hockey team
- [Millennium Technology Prize](#), the world's biggest technology prize
- Superperis, the top division of Finland's national sport, pesäpallo, a game similar to baseball
- [Borneo Child Aid](#) (Humana Child Aid Society Sabah), which provides educational opportunities to children living on plantations in Borneo
- ChemistryLab Gadolin, an action-based learning environment for schoolchildren studying chemistry
- [CMI–Crisis Management Initiative](#)
- Christmas donation 2011: Save the Children, Red Cross Disaster Relief Fund, John Nurminen Foundation's Tanker Safety project
- Lastenklินิกoiden kummit, an organization dedicated to helping the patients of children's clinics at Finland's university hospitals
- [Cleantech Finland, a network of top Finnish cleantech companies](#)
- Operaatio lentävä pyörätuoli, an initiative designed to provide activities for physically disabled and other disabled young people

At local level

- [Naantali Music Festival](#)
- [Avanti! Chamber Orchestra](#)
- Various support to the arts, sport, environmental activities and community projects.
- Scholarships for students in Turku, Raisio, and Naantali
- Christmas charity donations made by Neste Oil personnel.
- INKUBIO RY, Aalto University's Association of Bioinformation Technology Students
- Process Technology Club
- Eastern Uusimaa Educational Association, 50th anniversary
- Finnish Laboratory Technicians Association, 40th anniversary
- Christmas collection for war veterans in Southwest Finland
- Kotimäki School, direct action day
- Tampere University of Applied Science.

Neste Oil invested EUR 5 million in 2011 in GreenStream's Climate Opportunity Fund, which finances projects aimed at reducing CO2 emissions in developing countries.

Personnel

Neste Oil provided employment to an average of 4,926 (5,030) people in Finland and overseas in 2011. As in 2010, the company focused on the systematic development of leadership, management, and wellbeing at work during the year. The international growth of the Neste Oil workforce typical of recent years slowed somewhat. Personnel were employed in a total of 14 countries as of the end of the year.

No major changes took place in Neste Oil's HR management compared to 2010. The creation of a 'winning culture' – based on operational safety, engagement, performance, and being an attractive employer – within the company was defined as a long-term HR management goal as part of the annual update of Neste Oil's strategy.

In line with company practice, HR management guidelines are reviewed and updated regularly, and a number of areas were reviewed during 2011, including the company's HR policy, which provides the foundation for the more detailed principles and guidelines covering HR management. The key elements of the policy remained unchanged, although some content was brought up to date. The updated policy was published in December 2011.

What we did and achieved in 2011:

- Developing leadership and corporate culture, incl. [leadership development programs](#).
- Long-term work on equality and promoting equality in the workplace.
- Developing [wellbeing at work](#).

Goals for 2012

- Continue promoting coaching and [engaging leadership culture](#) and high performance management.
- Continue strengthening [Neste Oil's image as an attractive employer](#).
- Continue focusing on developing employees' [wellbeing at work](#).

79% of respondents to Neste Oil's annual employee satisfaction survey rated the management skills of their superior positively.

Personnel structure

Neste Oil employed an average of 4,926 people in 14 countries in 2011. As in previous years, the majority of employees, 70.8% (70.4%), worked in Finland, where 3,418 (3,431) were employed as of the end of the year. Neste Oil is the second-largest employer in Porvoo and Naantali, where its Finnish refineries are located, immediately after the local municipal authorities.

No significant changes took place in Neste Oil's personnel structure during 2011 compared to recent years. The majority of employees, 96.0% (96.4%), are employed under permanent contracts. Somewhat over half of employees are men, 67.7% (69.5%), as is typical of the industry. Nearly half of employees have either a technical or natural sciences qualification. The average age of employees has remained around 40, being 41,7 years in 2011 (41,5).

	2011	2010	2009
Number of employees, average	4,926	5,030	5,286
Number of employees at the end of the year	4,825	4,874	5,092
Proportion of employees by country at the end of the year (%)			
Finland	70.8	70.4	72.0
Russia	18.8	17.9	18.3
Singapore	2.5	2.4	2.0
The Netherlands	2.2	2.4	1.0
Others ¹⁾	5.6	6.9	6.7
Type of employment contract at the end of year (%)			
Permanent	96.0	96.4	95.1
Temporary	4.0	3.6	4.9
Full-time ²⁾	97.9	97.4	97.4
Part-time ²⁾	2.1	2.6	2.6
Gender ratio at the end of the year (%)³⁾			
Men	67.7	69.5	68.9
Women	32.3	30.5	31.1

¹⁾ Bahrain, Belgium, Canada, Estonia, Latvia, Lithuania, Poland, Sweden, Switzerland, and the US.

²⁾ The figure for full-time and part-time personnel in 2010 and 2009 only cover Finland.

³⁾ The gender ratio for 2009 does not include temporary employees.

[Read more about equality and diversity.](#)

1,4% of employees (1.3%) have a doctorate or licentiate. Half of these (35) work in different types of R&D and engineering positions in the Technology and Strategy function.

Personnel structure by country

The number of personnel employed in the company's newest operation countries has risen in recent years, primarily as a result of the growth projects in Singapore and Rotterdam, where a total of 230 (233) Neste Oil personnel, equivalent to 4.8% of all employees, were employed as of the end of 2011. The size of Neste Oil's sales unit in Geneva has also increased, and the unit employed 48 (40) people in 2011.

The pace of international expansion slowed during 2011, because both Singapore and Rotterdam refineries are now operating normally following their start-up, and each employs something over 100 employees, mainly recruited from local residents or people living in nearby areas. Following the start-up of the new base oil plant in Bahrain in the fall of 2011, operations there are now the responsibility of Neste Oil's local partner, Bapco. As a result, the number of Neste Oil personnel at the site remained below 10 technical experts during the year.

Russia remained the second-largest country in terms of Neste Oil personnel, thanks to the large number of people employed by the service station chain there. Service station personnel in Finland are not employed by Neste Oil.

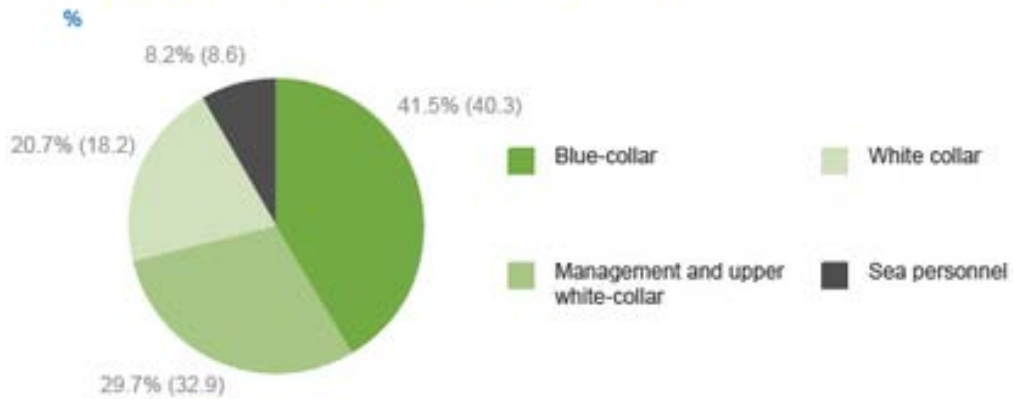
In August 2011 over 60 employees transferred to new employers following the divestment of Neste Oil's Estonian subsidiary, AS Reola Gaas, to the Alexela company in Estonia. The sale of the polyalphaolefins (PAO) plant and associated quality control laboratory and maintenance operations in Belgium to US-owned Chevron Phillips Chemical International NV in December 2011.

Number of overseas assignments decreased

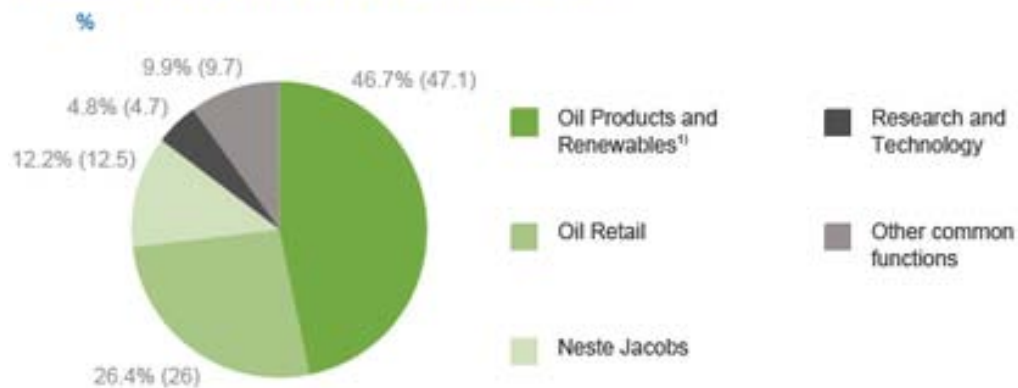
The number of people on overseas assignments during 2011 remained close to the number in 2010. Neste Oil had personnel on overseas assignments in 10 countries during 2011: the Netherlands, Singapore, Switzerland, Bahrain, Russia, Belgium, United Arab Emirates, Estonia, Canada, and the US. The majority of people still overseas will return to Finland during 2012, which is expected to reduce the overall number of overseas assignments. These will be replaced in part over the coming years by job rotation and working trips.

Personnel graphs

Personnel by personnel group as of 31 December 2011



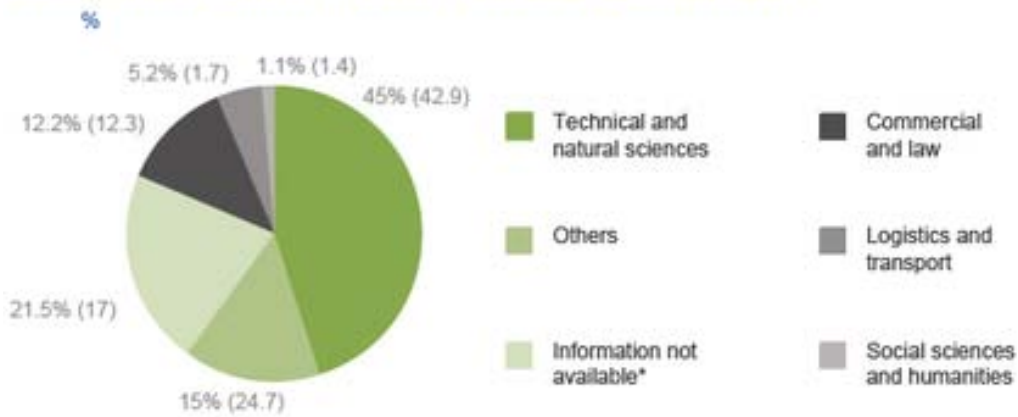
Personnel by segment as of 31 December 2011



¹⁾ Oil Products and Renewables includes Production & Logistics.

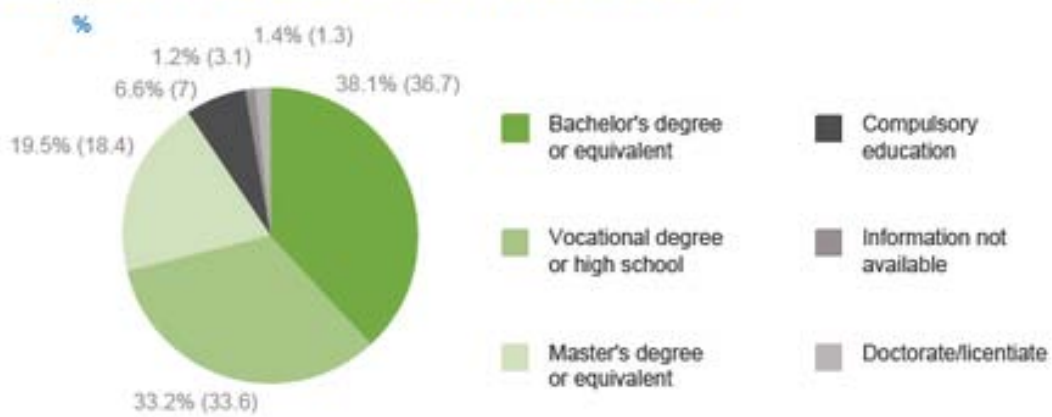
The reporting structure has been updated and the comparative data for 2010 has been restated to match the new structure.

Educational background of employees as of 31 December 2011



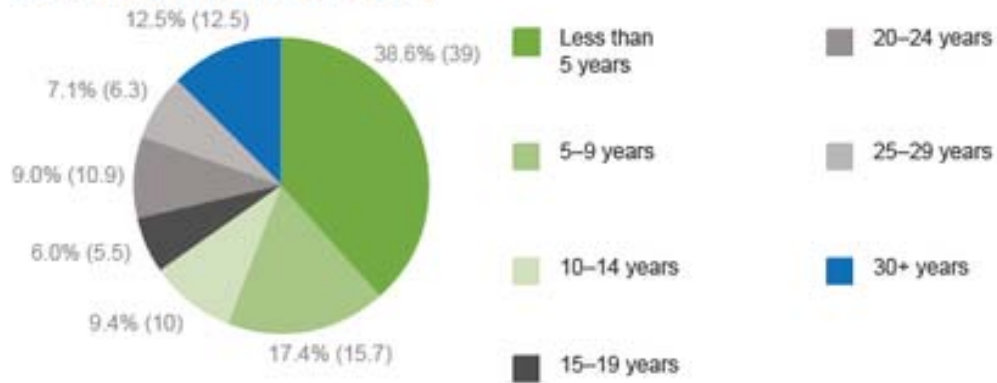
* Information not available e.g. on service station personnel in Russia.

Educational level of employees as of 31 December 2011



Length of employment of employees as of 31 December 2011

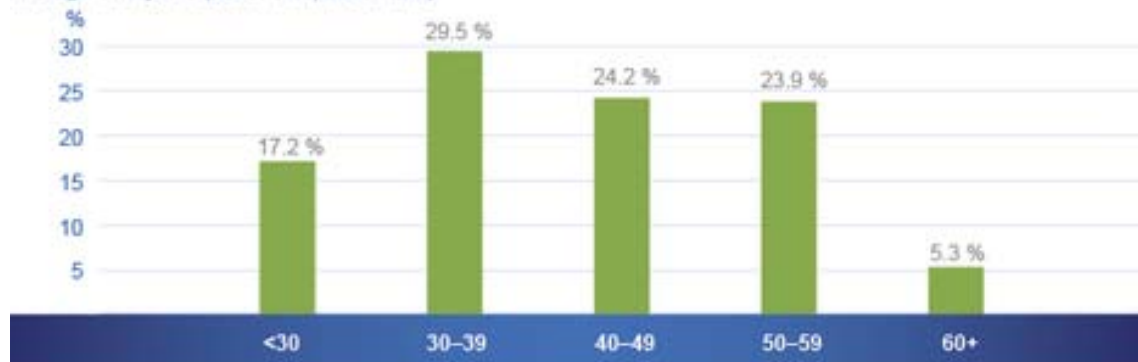
Average: 12.9 years (2010: 13.1; 2009: 13.9)



Average length of employment in 2009 does not include temporary employees.

Breakdown by age as of 31 December 2011

Average 41.7 years (2010: 41.5; 2009: 42.3)



Average age in 2009 does not include temporary employees.

Personnel turnover

Neste Oil's hiring rate in respect of permanent employees stood at 9.8% (7.1%) in 2011 and the leaving rate at 10.3%. The latter figure was lower compared to recent year, when the figure stood at 12.4% in 2010, 8.9% in 2009, and 6.5% in 2008. 10% (37%) of people leaving the company during 2011 did so to retire, while the majority, around 90% (63%), left for other reasons. Fewer people retired and left the company in 2011 than in 2010, as the rest of the voluntary pension schemes were finalized in Finland.

In Finland, personnel turnover in respect of permanent employees was lower: Neste Oil's hiring rate was only 3.4% and the leaving rate 5.8%. Overall personnel turnover was higher as a result of the high turnover of service station personnel in Russia. The hiring rate for permanent employees in Russia was 31.8% and the leaving rate 27.9% in 2011.

The leaving rate at the new refineries in Singapore and Rotterdam was monitored closely during 2011. Although competition for qualified personnel is particularly tough at both locations, the sites' combined leaving rate of permanent personnel during the year was under 10% and involved only 15 people, which can be considered typical locally.

No significant changes have taken place in the age structure of Neste Oil's personnel in recent years. According to a Personnel Fund projection in 2011, it is estimated that around 500 people could retire by the end of 2016, equivalent to around 100 a year between now and then. Neste Oil plans to prepare for this through strategic personnel planning, HR development, successor planning, and other measures.

Neste Oil aims to secure its continued access to the human resources it will need in the future by focusing on areas such as promoting wellbeing at work and developing its employer image. Neste Oil also offers internships to students and works actively with schools, colleges, and universities.

Read more about [personnel structure](#).

Job rotation promotes personal development and motivates people

Internal job rotation is an important means developing Neste Oil's personnel resources and committing people to the company. 7.7% of personnel (9.7%) switched to new positions internally during 2011, which is slightly below the figure for 2010. A target level of approximately 6–8% has also been set for 2012.

Recruitment

The principles followed by Neste Oil in its recruitment form part of the company's management system, and are followed in all the countries where Neste Oil operates in accordance with local legislation. Neste Oil recruits personnel based on their experience, expertise, skills, and values; and is committed to guaranteeing all applicants equal opportunities and fair and equal treatment during the recruitment process. Recruitment is also used to promote diversity across the company.

In line with its HR policy, Neste Oil treats all employees equally, regardless of gender, ethnic origin, age, religious belief, political affiliation, and other similar issues. Neste Oil also aims to recruit primarily local personnel wherever it operates. This is cost-effective and makes the most of the opportunities offered by local job markets.

Neste Oil has not encountered any particular challenges recruiting new personnel in Finland up until now. This situation has begun to change, however, in respect of shipping operations, as a result of the high qualifications expected in the oil industry and the large numbers of retirees. Passenger shipping is also increasingly competing for students. Neste Oil is working with colleges in the field to ensure that the company has continued access to suitable talent; on-board training positions often lead to permanent employment on the company's tankers. A total of around 400 people work on Neste Oil's vessels today. Neste Oil's low profile outside Finland represents a bigger challenge in terms of recruitment.

Developing employer image

Neste Oil continued its long-term efforts to develop its image as an employer during 2011, and took part in a number of recruitment events in Finland, such as the ARENA and Contact Forum fairs and various online recruitment events organized by Monster. Neste Oil Suisse took part in the 'Uni Forum' organized by the University of Geneva in Switzerland in the spring.

Neste Oil deepened its collaboration with students at Aalto University in Finland by signing an agreement with the Student Union there in fall 2011 designed to ensure that more students come into contact with Neste Oil at some point during their studies. Neste Oil's overall goal is to improve its visibility as an attractive employer and one that offers a range of exciting career opportunities.

Neste Oil works with students in a number of other areas as well, and organizes student visits to its sites, gives company presentations at schools, and supports various student events and activities. Proactive cooperation with students and other young people has been seen as important for many years, and the company has been involved in supporting ChemistryLab Gadolin for some years, for example.

Neste Oil also took part in the "Responsible Summer Jobs 2011" campaign in Finland, which involved 74 companies offering nearly 16,000 summer internships across the country. Neste Oil itself offered approximately 290 (250) summer internships in Finland in 2011.

2011 was the International Year of Chemistry, and the UN- and Unesco-sponsored initiative generated a number of activities around the world, including Finland. Neste Oil was the initiative's main partner in Finland and took part in events such as 'Chemistry in Kamppi' in the center of Helsinki and 'Chemistry Night' at the Heureka Science Center.

Neste Oil's employer image development strategy and action plan will both be updated during 2012.

Employer image in 2011

Neste Oil monitors the development of its internal employer image through the company's annual personnel survey, which covers all employees with the exception of service station personnel in Russia, or 84% of personnel. A similar survey was carried out separately at Neste Jacobs in 2011. A total of 3,275 people (3,259) responded to the two surveys.

Results of the employee survey, processed in spring 2011, showed that the Neste Oil's overall results and employer image had both improved compared to previous results. Nearly all the areas covered by the survey were evaluated more positively than the external benchmark level. Respondents proved more likely to recommend Neste Oil as an employer, and Neste Oil was also seen as a safer employer than in 2010. Criticism was directed towards what were described as the company's over-formal and bureaucratic ways of working and what was felt to be the lack of employee's possibilities to influence decisions related to their work. Overall, however, employees' perception of Neste Oil was more positive than in 2010 and employees appeared more committed than those in the benchmark level.

Summer interns' views of working at Neste Oil in Finland are reviewed annually with a survey. The 2011 survey gave the company a rating of 4.2/5 (4.1), and as many as 97% of respondents said that they would be interested in working for Neste Oil and Neste Jacobs in the future. A positive workplace atmosphere and helpful colleagues were listed among Neste Oil's strengths.

Despite the long-term work that Neste Oil has done to improve its image as an employer among students, surveys carried out by Universum in Finland in 2011 indicated that its image has declined. A survey of university students by Universum ranked Neste Oil in 15th place (9th) among technical and natural science students and 50th (34th) among business studies students. Attitudes among technical and natural science students in the professionals study were more positive in 2011, and they ranked Neste Oil 8th (9th); while young professional, ranked the company 7th (9th). Among business professionals, Neste Oil was ranked 60th (31st) by professionals and 57th (30th) by young professionals.

Neste Oil was ranked 17th on "Finland's Most Popular Employers 2011" list. Around 24,600 young people replied to the survey by T-media, which focused on technical college students, students at universities, universities of applied sciences, and highly educated professionals already in employment.

Neste Oil's internal employer image improved compared to 2010. Respondents proved more likely to recommend Neste Oil as an employer.

Developing Neste Oil's leadership and corporate culture

Particular emphasis was given to making employees more aware of Neste Oil's strategy and helping them understand it at all levels of the organization during 2011. A number of new participation-based approaches were introduced, and strategic thinking and a coaching-oriented mindset was promoted in the work community. Neste Oil also continued supporting management work and developing and implementing development programs for managers, supervisors, and senior executives.

Neste Oil's aim is to continue promoting the development of leadership skills and effective performance management during 2012 in line with the company's management development program, as part of the corporate-level Performance Value Creation Program. Neste Oil also continued promoting the development of coaching management skills. Neste Oil's aim is to continue promoting the development of leadership skills and effective performance management during 2012 in line with the company's management development program.

Developing senior managers

Systematic leadership training development continued in 2011, and a training program for senior managers, middle managers, and specialist personnel was launched in collaboration with the Swiss-based International Institute for Management Development (IMD). This program, specially tailored to Neste Oil's needs, was the company's single largest senior manager training initiative in 2011.

A total of 130 people from various Neste Oil locations and countries took part in the IMD leadership program in 2011. The program, which is focusing on developing people's capabilities and engaging people, as well as developing their strategic thinking, is due to be completed in the first quarter of 2012.

The results of the 2011 employee survey showed that leadership capabilities are seen as one of Neste Oil's clear strengths. Leadership was rated more positively than in 2010 and the company's leadership index clearly outperformed the external benchmark level.

Developing leadership and supporting managers in their work

Employee satisfaction with leadership and management and how it develops over time is measured annually at Neste Oil. Various statutory employer-employee negotiations and organizational changes saw employee satisfaction in these areas decline in 2010. As a result, it was decided in 2011 to focus on improving performance to restore satisfaction to the good level typical of previous years. The results of the 2011 personnel survey showed that management work was rated more positively than in 2010, and Neste Oil's leadership index clearly exceeded the external benchmark level.

Development programs for both new and more experienced managers continued during 2011 as part of efforts to support the overall performance of managers and supervisors. A total of 37 managers took part during 2011 in the training program designed for all managers that has been under way since 2007. The program was updated during 2011 to reflect the themes covered by the training program for senior managers, middle managers, and specialist personnel aimed at promoting a capabilities-driven, engaging leadership culture and strategic thinking. Piloting of the updated program will begin in 2012.

Neste Oil's management development program for new managers and supervisors continued at Finnish locations in 2011, and was supplemented with a module devoted to remuneration and bonuses. A total of 80 people took part in the program during the year. It will be piloted for the first time outside Finland during 2012 and will involve new managers from a number of different countries.

Training for project and matrix managers and specialist personnel also continued during 2011, aimed at improving participants' understanding of Neste Oil's approach to project management and the means available for people without formal managerial status to influence and lead developments. A total of 237 people took part in this training during 2011.

354 (313) managers and supervisors from Finland and elsewhere took part in leadership development programs as a whole during 2011. Feedback gave courses an average rating of 4.23 (4.25) on a scale of 1 to 5.

Engaging people

The need to engage Neste Oil personnel more closely in the company's strategy process and in planning its operations and development was highlighted in the results of the personnel survey carried out in early 2011. This need was also highlighted in employee responses during the strategy dialogue that formed part of the annual strategy process. Engaging people is seen as one way of encouraging people to commit more to the company and improve their personal performance.

Development of our own operation

All employees, except service station personnel in Russia, who are not part of the survey, took part in reviewing the results of the personnel survey during 2011 at different levels of the organization, such as management groups and own work groups, which planned various development measures by themselves for achieving their own and common targets.

[Read more about the employee survey.](#)

Performance and development discussions

Performance and development discussions form an integral part of Neste Oil's management approach based on setting clear goals and engaging people. Managers are responsible for drawing up personal development plans with their subordinates. These are drawn up and reviewed annually as part of performance and development discussions, which covered 84% (84%) of personnel in Finland and overseas in 2011, but not service station personnel in Russia. HR development is based on Neste Oil's short- and long-term business goals.

Performance management is an important area of ongoing development. The goal in 2012 will be to link wellbeing at work more closely to effective and engaging performance management.

Neste Oil's strategy and the update of the company's vision were announced to personnel in June 2011. Over 1,000 employees generated around 7,000 ideas on the company's future strategy in 2011 as a part of strategy dialogue process.

Engaging personnel in the strategy process

Employees were encouraged to take a more active part in Neste Oil's annual strategy review in 2011. Involving people in strategy-related work is one of the ways that Neste Oil is using to create a management culture that truly engages personnel.

[Neste Oil's strategy dialogue](#) – in which over 1,000 employees generated around 7,000 ideas on the company's future strategy – is a key example of Neste Oil's commitment to this type of management approach. A number of the themes that emerged during the strategy dialogue were used in the review of Neste Oil's strategy and the update of the company's vision. The dialogue also provided a number of concrete ideas on how the company's strategy can best be implemented and its operations developed. Feedback from the dialogue was used in operational planning and development throughout the year. Five new [Value Creation Programs](#) were launched on the basis of the themes identified during the strategy dialogue, and most employees will be involved in implementing these programs over the coming years.

Neste Oil's updated strategy was presented to personnel at a series of strategy info sessions hosted by senior executives held across the Neste Oil organization. A total of eight sessions were held at the company's largest sites in Finland and elsewhere, and were attended by around 15% of personnel.

A series of strategy workshops for managers, supervisors, and key specialist personnel were held in the second half of 2011 aimed at strengthening managers' grasp of strategy and their ability to communicate it at team level. Workshops provided participants with a model for involving teams in the strategy process and developing this way of working. A total of 13 workshops were arranged at Neste Oil's largest sites: Espoo, Porvoo, and Naantali in Finland, and Singapore, Geneva, and Rotterdam. Oil Retail organized strategy days for its personnel in Finland and the Baltic countries.

Engaging personnel in Neste Oil's innovation process

New Group-level guidelines for managing Neste Oil's innovation process were drawn up at the end of 2011 to promote the systematic processing of new ideas within the company. The innovation process now covers systems for ideas, initiatives, and inventions. The latter two systems have been in use for some time, while the new ideas systems was introduced in spring 2011.

Neste Oil's new ideas system is designed to provide personnel with a channel for presenting ideas and developing them jointly. In addition to brainstorming, the system includes various challenges. These include a safety challenge, launched in the fall of 2011, to encourage personnel to brainstorm safer ways of travelling and develop new ways of getting to and from work in particular. Some of the ideas generated by the campaign were implemented towards the end of 2011.

The introduction of the new system has helped highlight what Neste Oil is already doing in terms of innovation and has encouraged people across the company to innovate and develop new ideas as a team effort.

In addition to these systems, a new Innovation Team will also help create a more innovative mindset within Neste Oil. Established in 2011 with members drawn from different parts of the company, the team's mission will be to promote open and interactive brainstorming across the company. Training for 14 innovation facilitators was also launched at the end of 2011. The role of these facilitators – from different organizations, sites, and countries – will be to encourage people to come up with their own ideas and develop other people's ideas with the help of the ideas system. They will also encourage personnel to take part in innovation workshops in 2012 designed to challenge personnel to brainstorm and develop new solutions.

These various innovation-related initiatives will help create a solid foundation for the development of a more innovation-minded culture within Neste Oil and for jointly developing operations and services.

Employee development and training

The specialist skills and expertise of Neste Oil's personnel are the foundation of the company's success. HR training and development is based on the short- and long-term goals of Neste Oil's businesses.

Annual performance and development discussions play an important role in helping people achieve their goals and develop their careers. Performance discussions concentrate on setting targets and evaluating performance, while development discussions review issues related to employees' personal development.

The results of the 2011 employee survey indicate that employees appreciate the opportunities their work offers for personal development and that managers and supervisors are seen as supporting people in developing their careers.

Measures and indicators used in developing people's capabilities at Neste Oil include:

- Development discussions and plans
- Job rotation and learning on the job
- Skill reviews
- Job and responsibility descriptions
- Project work
- Internal training
- Supporting employees' participation in external training
- Online self-study material
- Choosing the right people
- Induction and on-the-job training
- Personnel survey.

Given the large amount of job rotation within Neste Oil, it was decided in 2011 to measure the progress being made in developing employees' professional expertise at the company's refineries in Finland. This focused on measuring how long people have worked for Neste Oil and the experience of people employed at the two sites – and showed that people's capabilities have developed well overall, although it has proved challenging to find sufficiently experienced for some positions.

Read more about [personnel turnover](#).

Increased investment in management and leadership development

An average of 2.8 (2.2) training days per employee were provided at Group level in 2011 and a total of EUR 4.2 million (2.3 million) spent on training. The significant increase in training-related expenditure resulted from the large investment in management and leadership development in 2011. Training are offered equally to all personnel groups.

Personnel received training at Neste Oil's new refineries in Singapore and Rotterdam in particular. All refinery personnel took part in safety and operational training, for example. Some of this training was required under statutory provisions. Training designed to support other areas of people's capabilities, covering things such as teamwork, was also organized for the new organizations.

Training provided in 2011:

- Professional training
- Safety and first aid courses
- Language courses
- IT courses
- Leadership development
- Project manager, matrix manager, and specialist training.

Neste Oil also offered employees a range of self-study material and online modules covering areas such as data security, competition law, and work permits.

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Complying with values, laws, and principles

Neste Oil's values help personnel work together towards common goals by defining how the company and its people should act. These values – responsibility, cooperation, innovation, and excellence – crystallize what Neste Oil considers important and the kind of behavior it expects of personnel.

Neste Oil strives to be a good corporate citizen in all the countries where it operates and to abide by all appropriate national and international laws and regulations, international agreements, and generally accepted forms of good governance.

Competition law is a good example of the importance of abiding by all aspects of legislation and statutory regulations. Neste Oil takes this area of legislation particularly seriously and has a competition law program in place in all its operating countries. The program was supplemented with a competition law commitment at the end of the year applicable to all employees who are required to be familiar with this type of legislation as part of their work. Training on competition law will be arranged in early 2012 as part of this process.

Neste Oil offers its personnel a healthy and safe workplace in which to develop their skills and capabilities. No risks related to child and forced labour in company's own operations during the reporting period. All employees have the right to organize amongst themselves and belong to associations. No threats to this right emerged during 2011 in any areas of Neste Oil's operations.

Implementation of Neste Oil's Code of Conduct continued

Neste Oil's Code of Conduct was presented to personnel in 2010 and is intended to help employees to act ethically in their day-to-day work. The Code outlines what constitutes appropriate behavior in terms of the law and Neste Oil's own values and principles, and forms an integral part of Neste Oil's management system.

The Code of Conduct covers subjects ranging from complying with the law and observing human rights, and preventing all forms of bribery and corruption, to ensuring operational transparency and open communications and recognizing Neste Oil's responsibilities in terms of sustainability. The Code of Conduct complements Neste Oil's policies on sustainability and HR, and its biofuel sustainability principles.

Implementation to the Code of Conduct and engaging personnel in this area continued during 2011 through joint discussions at unit and team level and a dedicated Web-based game. The Code has also been incorporated into the induction training given to new personnel. As of the end of 2011, the online Code of Conduct game had been played over 2,000 times. In the case of units where personnel cannot access the game, equivalent written material has been distributed.

The Code of Conduct prohibits employees from taking part in any form of bribery or corruption, and Neste Oil expects the same of its suppliers, customers, and partners. Neste Oil has a number of principles and guidelines designed to prevent various forms of misconduct and how this behavior should be handled if it occurs; compliance is monitored by Internal Audit. More details on Neste Oil's approach to misconduct can be found from the section of [Governance](#).

Equality and diversity

Neste Oil has worked systematically to promote equality in the workplace for many years, and these issues are taken into account in Group-wide recruitment and remuneration principles, and HR policy. The company treats all its employees equally and fairly, regardless of their gender, nationality, age, religious beliefs, political convictions, and other factors. Neste Oil is committed to respecting human rights and treating all its employees as individuals.

Gender is not a factor in remuneration, personal and career development, or recruitment. Neste Oil believes that a more balanced gender distribution within the company will give the company a competitive edge in the future, both in the marketplace and in the competition for the best possible talent. Treating employees equally and fairly helps promote job satisfaction, create a positive atmosphere, motivate people, and encourage them to commit themselves to their employer and their employer's goals.

[Read more about recruitment.](#)

Women accounted for 11.1% (11,1%) of the members of the Neste Executive Board in 2011, and for 27.6% (27%) of the members of the management teams of the company's business areas and common functions. Three of the members of the Board of Directors were women, equivalent to 37.5% (37.5%). 8.3% of women and 17.5% of men were working in supervisory positions. A woman was appointed head of the Naantali refinery in March 2011, the first woman to be made responsible for refinery operations in the company's history.

Neste Oil monitors gender distribution within the company based on the composition of its employees, management, management groups, and the membership of the Board of Directors. The age distribution and educational level of employees is also monitored. Employees' ethnic origin or nationality are not monitored. Neste Oil did not record any cases of discrimination in 2011.

[Read more about equal pay.](#)

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Promoting equality in Finland and elsewhere

Neste Oil's equality principles cover the underlying concepts and practical measures used to develop equality between men and women in the company in Finland and elsewhere. These principles are applied throughout Neste Oil. The company monitors all the indicators required under Finland's equality legislation and develops an equality plan annually together with employee representatives. Outside Finland, company practice is required to comply with local legislation and any possible changes that might be introduced in this legislation aimed at promoting greater equality between men and women.

An executive summary of Neste Oil's equality principles was drawn up in 2011 and the company's equality action plan in Finland updated. Updated principles are going to be approved in 2012. Operations outside Finland have been requested to investigate equality between men and women in 2012.

Male employees' use of time off to look after their families was monitored in Finland in 2011 and showed that men make very little use of the family time they are entitled to. Only five fathers made use of this opportunity (average between one and five in recent years), although most take advantage of paternal leave when their children are born. An average of 160 men used their family time entitlement in 2011. Neste Oil will continue to monitor this indicator in 2012 and will strive to increase people's awareness of this right and encourage discussion on the possibility of making use of it.

Read more about [personnel structure](#).

Read more about [equal pay](#).

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Equitable and motivational remuneration

Neste Oil's remuneration aims to motivate personnel to perform at their best and encourage people with the skills and talent the company needs to join and stay with the company.

Neste Oil applies and observes the requirements of local employment legislation and collective bargaining agreements wherever it operates, which determine things such as minimum wages and supplements such as overtime pay.

90.4% (89.3%) of personnel came within the scope of collective bargaining agreements in 2011. Not all countries were covered by these types of agreements. Neste Oil's senior executives do not come within the scope of collective bargaining agreements. They are covered by Neste Oil's senior management remuneration principles.

Neste Oil will concentrate on developing its performance management process and related remuneration during 2012.

Basis of remuneration at Neste Oil

Neste Oil's employee remuneration consists of a number of different elements:

- their basic salary
- short-term incentives
- a comprehensive range of fringe benefits
- long-term incentives
- bonuses for excellent performance
- and intangible benefits.

All of Neste Oil's personnel are covered by the company's incentive systems. Neste Oil's main short-term incentive is the annual bonus system. Employees at the Porvoo refinery had previously their own system but joined the Group's system in 2011. Neste Jacobs left the Group's system and adopted its own customized scheme. The Personnel Fund represents Neste Oil's main long-term incentive and covers the Group's employees in Finland. Similar funds do not exist in other countries.

Remuneration principles

Under the Group-wide remuneration principles published in 2010, employee remuneration is based on people's job responsibilities, their performance, and equality, regardless of gender or factors such as personnel category. These principles are applied wherever Neste Oil operates within the framework of local collective bargaining agreements and the national labor market and competitive environment.

Work started in 2011 on drawing up local remuneration guidelines for the various countries outside Finland in which Neste Oil operates and implementing these guidelines locally. This involved taking part in local assessments of job complexity and salary market studies. Drafting work and implementation will continue in 2012.

[Read more about remuneration and shareholdings.](#)

[Read more about Neste Oil's investments in its personnel.](#)

Competitive remuneration and fringe benefits

Neste Oil extended its use of salary market studies in 2011 to other countries outside Finland to secure its overall salary-related competitiveness. Salary market studies are now carried out in all of the company's most important operating countries, either annually or every few years.

These studies compare Neste Oil's salary levels with industry pay levels in each country in terms of job descriptions. Taking part in these studies has given Neste Oil a better understanding of industry pay levels in different countries, and this information has been used in helping determine pay rises. While legislation and other regulations set minimum salaries and wages, those paid by Neste Oil are higher. Salary market studies have also enabled Neste Oil to clarify the system it uses for classifying job complexity.

In addition to salary, Neste Oil also strives to offer its employees competitive fringe benefits in line with local market standards. Further comparisons of local fringe benefits were made in the various countries in which the company operates and resulted in insurance cover being increased in a couple of countries, for example.

Neste Oil selected a global personal insurance partner in 2011 to be responsible for coordinating competitive tendering in the field internationally. Personal insurance used to be handled on a country-specific basis previously. With the help of the new system and a new operating model that will come into force in 2012, the aim is to reduce insurance-related risks and ensure that changes in local legislation are taken into account. The new approach will also enable cost-effective insurance solutions to be introduced across different countries.

Salary equality in practice

Neste Oil aims to begin collecting pay equality statistics in countries where this is not required under local legislation during 2012. Pay equality surveys are carried out annually in Finland in accordance with the company's equality plan.

The ratio between the average basic salaries of women and men working full-time and belonging to upper white-collar, white-collar, and blue-collar employee categories in Finland varied between 91% and 121% (92–108%), depending on the responsibilities of the people concerned and the category of employee. An analysis of salaries carried out by the Mercer consultancy company in 2010 showed that equality between women and men, as measured in terms of salary, is clearly better at Neste Oil than in the private sector on average.

Neste Oil has successfully promoted salary equality among its personnel in Finland for a number of years by making separate equality payments. It has been decided to continue the practice in Finland of making 0.1% equality payments to white-collar employees to balance out differences in salary between women and men. A similar arrangement was not required for upper white-collar employees, as their salary levels based on job complexity were good based on local comparisons.

Towards the end of 2011, an extensive survey of employees' salary awareness in Finland was carried out by Aalto University on Neste Oil's behalf among white-collar and upper white-collar staff that come within the scope of Finnish chemical industry collective bargaining agreements. The survey also addressed equal pay questions. Despite the work that Neste Oil has done to promote equality, female respondents were more critical as to whether equal pay has been achieved than their male colleagues. The results of the survey and the need for any corrective measures will be analyzed in 2012 when the entire study is completed.

Pension cover

The Ilmarinen Mutual Pension Insurance Company is responsible for managing Neste Oil's statutory occupational pensions in Finland and the associated pension portfolio. The additional pension benefits provided to people who joined the company before 1994 are managed by OP Life Assurance Company Ltd. The most important benefit of this additional cover is the opportunity to retire earlier than the statutory minimum age of 63. The statutory occupational pensions of seamen are covered by the Seamen's Pension Fund, in accordance with the relevant legislation. No changes took place in employees' pension cover during 2011.

29.3% of the Group's personnel in Finland and overseas were entitled to a supplementary pension in 2011.

Pension cover in countries outside Finland

Statutory occupational pension cover is offered to employees in all the countries in which Neste Oil operates, together with possible additional pension benefits in accordance with local practice, mainly through pension insurance cover. There are large country-specific differences between additional pension benefits. Neste Oil's aim is that new additional pension provision arrangements should be contributory in nature and that the company should not guarantee a specific level of pension payable when a person retires; instead, Neste Oil should play an agreed proportion of people's salaries to a pension insurance company. Defined benefit-based arrangements are still in place in some countries and are statutory in Finland.

[Read more about how the number of retiring employees is developing.](#)

Wellbeing, health, and safety

Neste Oil believes that an individual's physical and mental health and other capabilities are fundamental to their wellbeing. Neste Oil's occupational health care service works with the company and employees to promote healthy work and a healthy workplace, safety, a positive sense of community at work, the health and other capabilities of employees throughout their career, and the prevention of work-related illness and accidents.

Wellbeing, health, and safety are promoted through:

- Integrated occupational health care, including check-ups, preventive health-related advice, and medical care
- Contributory sickness and insurance funds
- Early rehabilitation techniques and dedicated rehabilitation courses
- Guidance on alcohol and drug abuse and access to the appropriate care if required
- Early support model
- Outplacement and new job opportunities
- Personnel club activities
- Leisure time activities supported by Neste Oil
- Encouraging personnel to adopt healthy habits and various health promotion campaigns.

Wellbeing at work

Employees' wellbeing at work was the subject of extensive development work at Neste Oil during 2011, and cooperation with the Ilmarinen Mutual Pension Insurance Company in the area was extended.

A wellbeing at work plan was drawn up in cooperation with the company's Management-Employee Group and labor protection delegates in 2011, defining the measures to be used for promoting wellbeing at work across Neste Oil. A new module on wellbeing at work training was also added to the License to Lead management training program for new managers. The section on occupational health care in the Neste Oil Intranet was also revamped.

Wellbeing at work was incorporated into Neste Oil's employee survey by adding a wellbeing at work index to the questionnaire covering 11 factors that play a central role in determining people's wellbeing at work. The 2011 survey showed that employees' evaluation of their working capability was similar to the good level recorded in previous surveys.

An early support model was introduced in 2010 that emphasizes the importance of providing advance support as a means of reducing the amount of sick leave people take and supporting people's return to work after an extended period of sick leave. The early support model was made standard company practice in 2011.

Neste Oil's Lithuanian subsidiary, Neste Latvija, received a "Most Family-Friendly Company" certificate in September 2011 from the country's Minister of Welfare, Ilona Jursevskā. The award is given to companies that actively promote family-friendly policies in their operations. Neste Latvija supports continuation training for personnel by granting time off for study and study scholarships, for example.

Occupational health

Neste Oil's occupational health care offers a comprehensive range of services aimed at promoting employees' health and their ability to do their job effectively. Occupational health care personnel provide expert assistance in developing working conditions and wellbeing at work based on preventive initiatives. This approach is developed in line with changes in working life and through ongoing cooperation between employer and employee representatives.

Occupational health care services are provided at Neste Oil's main locations in Finland (Porvoo, Espoo, and Naantali) by the company's own occupational health care units, supplemented by a voluntary membership in the Enerkemi Insurance Fund and sickness fund in Kilpilahti. Occupational health care services at other locations are sourced from external service providers.

Neste Oil uses various rehabilitation models to promote and support employees' ability to do their job effectively. Monitoring of the impact of rehabilitation courses was started in 2011, with the introduction of a set of follow-up indicators. Monitoring will be split over a number of years and will form part of long-term monitoring work.

Medical care offered by Neste Oil's occupational health service focuses on preventing, caring for, and following up work-related illnesses. The number of cases of work-related illnesses and diseases remains low and no work-related illnesses were reported in 2011. Goal for 2012 is to create a follow-up system for occupational diseases.

Neste Oil makes use of an alternative work procedure for personnel injured by accidents at work, under which employees and the occupational health physicians treating them investigate people's opportunities for doing alternative work during their recovery.

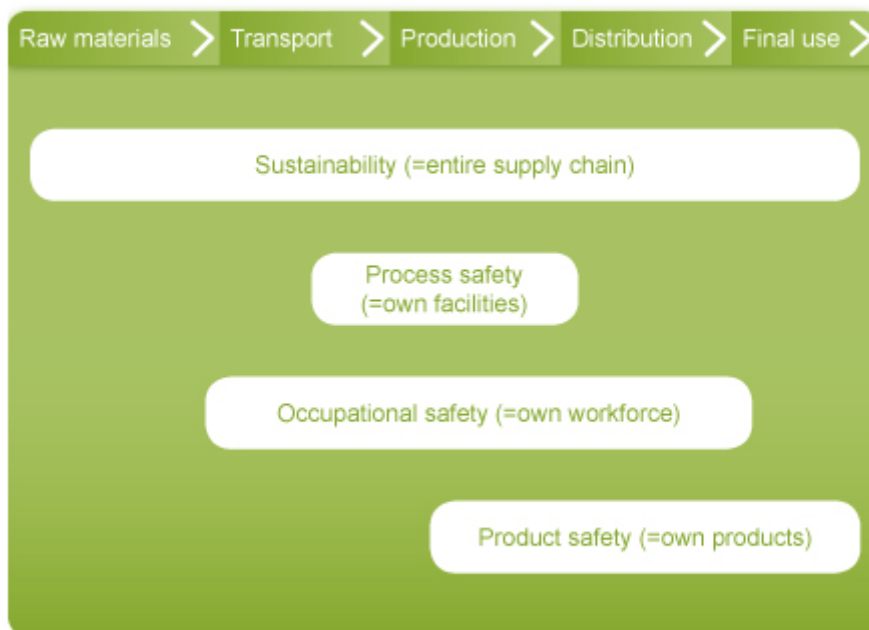
Neste Oil's goal is to reduce the amount of sick leave taken by personnel by developing the company's working conditions and making use of various part-time solutions. Neste Oil's sick leave percentage calculated as a proportion of theoretical regular working hours per month was 3.2% (3.6%) at Group level in 2011. The goal was to reduce sick leave to below 3.5% in 2011. The reduction seen during the year was partly the result of a change in the method used to inform the company of sick leave, which now allows employees to take between one and three days of sick leave with the permission of their manager or supervisor. Neste Oil's occupational health experts expect that the change will shorten the duration of sick leave taken by personnel.

[Read more about work safety.](#)

Safety

Neste Oil's business is exposed to a number of safety-related risks, the largest of which are associated with working practices, processing raw materials and products, logistics, and storage. Neste Oil is committed to the safety of its personnel, partners, customers, neighbors, and the environment. By focusing on preventive safety work, Neste Oil aims to prevent accidents from happening, damage being caused, and major problems developing.

How sustainability and safety relate?



Achievements in 2011:

- Record amount of [safety trainings](#) organized, in total 136.
- A total of EUR 25.9 million in improving [process safety](#).
- Safety instructions were improved.
- Safe project related to develop safety culture was started.
- New NExBTL refinery in Rotterdam was started up safely.
- A Total Recordable Injury Frequency per million hours worked (TRIF) of 2.3 was recorded in 2011, compared to a target of 2.5.

Goals for 2012:

- To continue process safety development work.
- To avoid all injuries or any damage caused to the environment during the Naantali refinery's shutdown, the turnaround, and when the refinery is started up again.
- To further reduce the number of work-related accidents (TRIF=2.0; LWIF=0).
- 25 000 safety observation tours done.

Safety management

Safe operations are essential for the success of Neste Oil's business and represent an important aspect of its approach to sustainability and responsibility. Preventive safety work is central to the company's efforts to create a safe workplace. Safety management is based on ensuring that all of the company's operations are safe for its personnel, its neighbors, its partners, its customers, and the environment. Neste Oil believes that all accidents and injuries can be prevented, and this is the company's long-term goal.

Neste Oil's aim is to be one of the best European oil companies in terms of safety. To help achieve this goal, the Porvoo and Naantali refineries take part in Finland's "[Zero Accidents Forum](#)", for example. A safety management system integrated into the company's overall management system is used to monitor and develop safety-related areas of operation. This system covers all the company's business areas and corporate functions and acts to ensure that the latter make use of harmonized procedures, monitors the implementation of targets, and promotes continuous development in the safety field.

The following performance indicators on safety are reported monthly:

- [TRIF](#) (Total Recordable Injury Frequency)
- [LWIF](#) (Lost Workday Injury Frequency)
- [Leaks](#)
- [Sick leave](#)
- [Safety observation tours](#)
- [Health, safety, security, and environmental-related inspections](#)
- [Safety discussions](#)

These indicators are used both to monitor the progress of preventive safety work and register any accidents or safety incidents that occur. Figures on these indicators are reported and shared internally on a monthly basis. In addition, topical safety issues are regularly covered in the company's internal communication channels, its personnel magazine, and in the monthly Neste Executive Board blog, launched in 2011. Annual targets are set and incorporated into the action plans covering every company location.

Local statutory safety requirements are taken into account in sites' own management systems and safety practices. CONCAWE principles are followed in calculating safety-related injury frequency figures.

Safety reporting

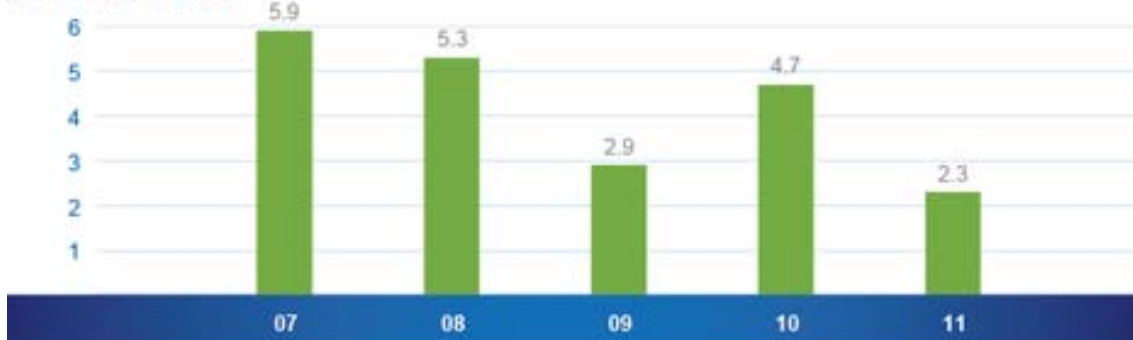
Neste Oil reports incidents using its non-conformance reporting system. The system covers all the company's operations and is the most important tool in Neste Oil's safety management system. Serious incidents are analyzed using an investigation method that has been introduced across the company, and the conclusions of these investigations and the corrective measures decided on are communicated to all units. The system is also used to monitor progress made on preventive measures, such as safety observation tours and safety discussions.

As part of corporate safety practice, a package of "Lessons Learned" material is produced quarterly, covering both successes and unscheduled incidents that take place across the company. Material is collated in collaboration with local HSSE managers on the basis of safety feedback received from line organizations. 'Lessons Learned' material has proved particularly useful in the safety discussions that managers and supervisors have with their team members.

Neste Oil keeps people living close to its production sites in Finland and companies based in these areas up-to-date on the operations of its refineries and any possible incidents on a regular basis. This is done through tools such as a toll-free info line, the Neste Oil Web site, and events and visits.

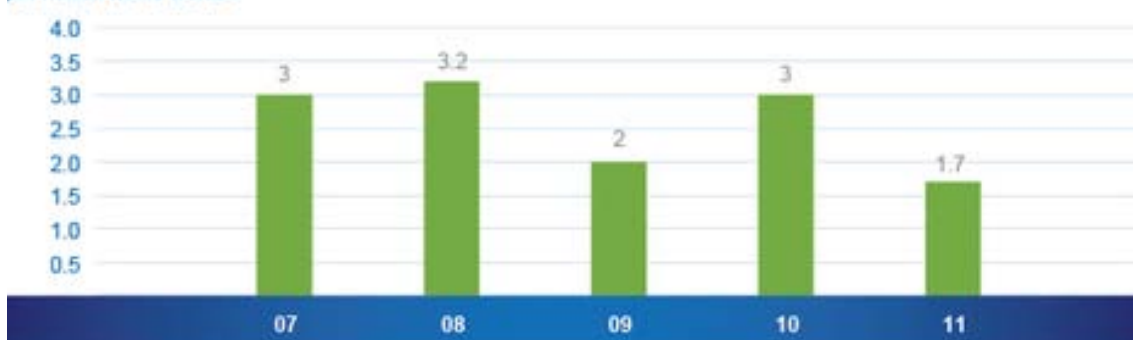
Total Recordable Injury Frequency (TRIF)

per million hours worked

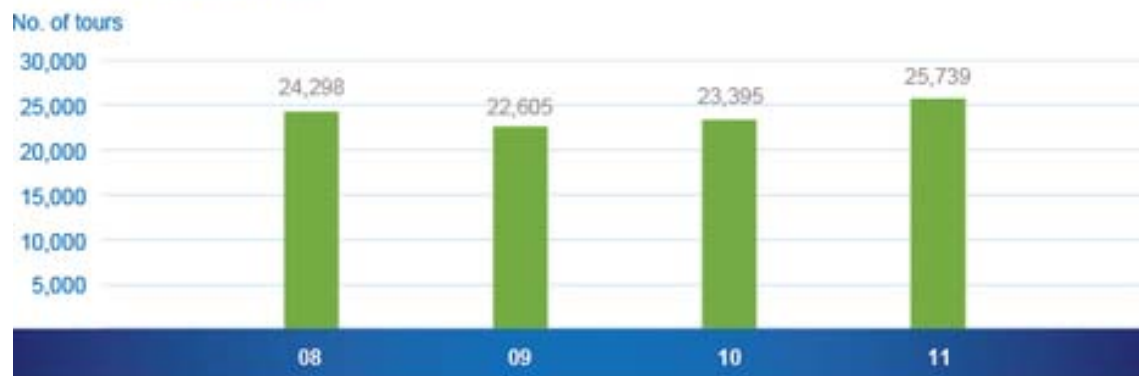


Lost Workday Injury Frequency (LWIF)

per million hours worked



Safety observation tours



Safety improvement initiatives

Strategy work carried out in 2011 resulted in the launch of five Group-level [Value Creation Programs](#). Safety was included as one of the key components of this initiative, and the projects that will be monitored as part of this will be aimed at improving safety management and process and occupational safety, consolidating people's understanding of safe working practices, and building a safer mind-set. The aim is to profile and develop a total of 12 key safety areas. A series of self-assessments will be carried out in 2012, in which sites will evaluate their safety-related strengths and weaknesses. Self-assessments will be evaluated by internal audits, and will become a permanent part of Neste Oil's safety development work in the future.

Neste Oil invested a total of EUR 25.9 million in improving process safety in 2011, of which EUR 15.3 million was spent at the Porvoo refinery and EUR 10.6 million at the Naantali refinery. Investments were concentrated on improving process, occupational, and fire safety, and included furnace modernization, changes to operators' rest areas, improvements in process and condition monitoring, and upgrades to key sections of site pipework. More than EUR 60 million is expected to be invested in safety during 2012.

More than EUR 60 million is expected to be invested in safety during 2012.

Process safety

The key goals of process safety management are to prevent personnel from being injured or exposed to danger, to protect the environment and the company's property and other assets, and to prevent or minimize collateral financial losses. Process safety thinking is based on identifying operational risks and dealing with them using various technical and operational tools, and minimizing any impact should a risk develop into a concrete problem.

Neste Oil's process safety management approach covers the entire refining chain and all process safety-related areas: engineering, technology, changes and modifications made to systems, operating and maintenance work, know-how and practices.

Process safety management at Neste Oil plants has been improved in recent years to reduce the number of unscheduled leaks and operational incidents. In 2010, Neste Oil started trialing a new process safety figure (PSE– Process Safety Events) introduced by CONCAWE, a European association of oil refiners. PSE figure records the process safety level and number of incidents, such as leaks, emissions, and fires that take place in a company's processes.

During 2011, a new level was added to the system, which now covers PSE1 and PSE2, to monitor process safety events in all operations more effectively and rank them in degree of seriousness. The latter is determined on the hazards associated with the materials involved and any possible consequences resulting from an incident. A total of 0.85 PSE1 and 4.2 PSE2 incidents per million hours worked were reported in 2011. The total of safety events were 24. In the near future, the company aims to reach CONCAWE's top 25%.

Neste Oil's process safety management approach covers the entire refining chain.

A safe workplace

Continuously improving safety performance is seen as an important aspect of management at Neste Oil. The company's sense of ethical responsibility and society's expectations make improving safety essential. The systematic development of safety culture that has taken place within Neste Oil in recent years has been heavily concentrated on promoting a safer mindset among the company's own employees and those of Neste Oil's service providers and contractors. Neste Oil is committed to ensuring the safety of all aspects of its operations and using responsible practices. Each and every Neste Oil employee is responsible for acting safely, as are the company's partners.

A Total Recordable Injury Frequency per million hours worked (TRIF) of 2.3 was recorded in 2011, compared to a target of 2.5. This was the lowest total recordable injury frequency in the company's history and an improvement on 2010, when a TRIF of 4.7 was recorded. The company's Lost Workday Injury Frequency (LWIF) was 1.7 during 2011, compared to a target of 0. Positive progress was made, as the LWIF for 2010 was 3.

Targets were met in the area of preventive indicators, such as safety observation tours, safety discussions, and HSE inspections. A total of 25,739 safety observation tours – focusing on the safety of working practice and providing constructive input where shortcomings are identified – were carried out at Neste Oil during 2011. 2,563 safety discussions were held during the year, as well as 521 HSSE inspections.

Safety and environmental reporting for 2011 covers all the refineries owned by Neste Oil in which the company has a greater than 50% holding in Finland and overseas. Safety data on the PAO plant in Beringen, Belgium is included up until the end of November, when the plant was transferred to the new owner's management. The new base oil plant in Bahrain is not included.

Reporting on safety matters also covers suppliers and the main contractors, as well as the road and marine transportation of the company's products and feedstocks.

All accidents are preventable

Neste Oil's underlying safety principle is that all accidents and injuries are preventable, which is why safety work concentrates on preventive measures and tools, such as safety training, observation and monitoring, and communication.

Despite the company's extensive safety work, one fatality took place during 2011, when the employee of a contractor fell from scaffolding while working at the Porvoo refinery. Safety measures and corporate guidelines were tightened across the Group.

Neste Oil successfully commissioned a new renewable diesel plant in Rotterdam in 2011. Projects also succeeded in achieving its safety targets. A total of 2.3 occupational accidents per million hours worked (TRIF) were recorded between 2009–2012 during the Rotterdam project. One occupational accident occurred in 2011, when the accident frequency was 5.3 per million hours worked.

As Neste Oil has expanded its operations internationally, the scope of the company's safety work has also grown, with good practices being passed on to other sites worldwide on an active basis. The Singapore and Rotterdam refineries, for example, have established separate guidelines covering work carried out high above the ground, together with a training plan aimed at ensuring that employees work safely in these types of locations. Similar guidelines were introduced at Neste Oil's refineries in Finland in 2011.

The HSSE requirements set for Neste Oil's service providers were also updated in 2011. A clear commitment to Neste Oil's safety requirements and compliance with them is a prerequisite, and this is specified in all contracts. Service providers' performance is regularly audited internally. Safety is also a key criterion when selecting service providers.

Neste Oil successfully commissioned a new renewable diesel plant in Rotterdam in 2011, as well as a base oil plant in Bahrain. Both of these projects also succeeded in achieving their safety targets.

Safety training

All Neste Oil employees are required to be appropriately trained and capable of carrying out their duties and responsibilities successfully and safely. Neste Oil offers all employees training in health, safety, and environmental matters, together with basic and more advanced training. This is given at all levels of the organization. Health, safety, and environmental training is also a requirement for senior management.

The HSEQ (Health, Safety, Environment, Quality) performance of personnel working at the company's refineries is reviewed annually by comparing performance with agreed targets as part of each employee's annual review. A safe work record is a requirement for continued employment. An annual HSEQ training plan ensures that operational, site, and employee targets are linked to Neste Oil's overall HSEQ targets.

There are five categories of health, safety, and environmental training:

- General basic training (Group program)
- Operations-based training
- Job-specific training
- Statutory basic training
- Special training

Neste Oil developed its general basic training offering at Group and site level during 2011. A new overview of safety training programs has also been created. In addition, process and fire safety training was given particular emphasis at all refineries. A plan covering work involving high levels of risk was also drawn up, and work started on drafting comprehensive programs in the area, which will continue until 2015.

A total of 35,000 hours were spent on safety training across Neste Oil in 2011, of which occupational safety training accounted for 18,000 hours, work-specific training 12,000 hours, and other types of safety training 5,800 hours.

Safety training courses in 2011

Occupational safety	Number of courses	Number of participants	Course length	Hours
Access permit training		3,933	1.5	5,899.5
Act Safe for managers and supervisors	9	93	24	2,232
Act Safe basic course	31	874	8	6,992
Work permit training		295	1	295
Occupational safety card / update	8	116	8	928
Occupational safety card / basic	4	59	6	354
Other	8	154	8	1,232
Occupational safety, total	60	5,524	56.5	17,932.5

Work-specific training

Process and fire safety	22	909	8	7,272
Safety equipment for working at heights	5	41	8	328
Forklift and hoist training	5	68	8	544
Hot work card training	9	244	8	1,952
Other	3	944	2.5	1,874
Work-specific training, total	44	2,206	32	11,970

First aid

EA1	2	50	8	400
Emergency first aid		508	8	4,064
First aid for electrical accidents		43	8	344
First aid, total	2	601	24	4,808

Other

Other, total	26	407	2.5	1,017.5
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All training, total	132	8,738	115	35,728
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Product logistics

Neste Oil transported 3.77 million tons (3.70 million) of fuel and gas by road in 2011 and 28.6 million tons (30.7 million) of feedstocks, chemicals, and refined petroleum products by sea.

A total of 6 (7) major traffic accidents involving Neste Oil tanker trucks resulting in either environmental impact or personal injury took place in Finland in 2011. These accidents were reviewed in accordance with the company's incident reporting process. There were no such accidents in other countries (0).

Road transport safety is covered by statutory and contractual requirements associated with the transport of hazardous materials that regulate things such as how long time drivers are allowed to drive for and how long their breaks should be. In addition to these requirements, Neste Oil also organizes preventive driving course for all the drivers of the contract transport companies it uses in Finland.

Neste Oil's fleet consists of approx. 24 vessels with an overall tonnage of around 770,000 tons, of which some are company-owned and some are time-chartered. All the tankers Neste Oil uses to ship its cargoes are ice-strengthened and double-hulled; and escort tugs are employed to ensure the safe passage of large tankers into harbor. Training and high standards of maintenance are used to minimize the risk of accidents at sea or in port. The average age of Neste Oil's tankers is approximately 5.5 years.

Neste Oil also transports large quantities, 2 million t/a, of products to its refineries by rail. These products comprise mostly of raw materials used in refining. Neste Oil is Finland's largest rail-based shipper of hazardous substances. In 2011, the company prepared for applying for a safety permit for the railways it manages. The company does not own any freight cars or locomotives, and its shipments by rail are operated by a partner.

Product safety

Product safety for Neste Oil means being responsible for the safety of all the products that the company sells. The goal of the company's product safety work is to ensure that products are handled safely throughout their lifecycle, beginning from product development and production and extending all the way to end-use and recycling. Neste Oil is also responsible for ensuring that customers have access to the information they need to handle products safely, and ensuring that its products comply with the requirements of both national and international legislation.

Safe products for Neste Oil's customers

Neste Oil has long been a pioneer in developing and launching cleaner, premium-quality products.

The majority of the products sold by Neste Oil are classified as hazardous, which places a number of special requirements on how they must be classified, labeled, and transported, and on how information on them must be communicated to customers. Neste Oil complies with International Chamber of Commerce (ICC) guidelines in the marketing of its products and with country-specific legislation covering the advertising and marketing of hazardous substances. The product safety principles followed by Neste Oil are defined in the company's management system and are monitored as part of the company's auditing process, both internally and through audits carried out by impartial third-party inspectors. Any issues associated with product safety are reported through the company's incident reporting system.

No significant incidents associated with product safety were identified during 2011.

Neste Oil experts take an active part in fuel standardization work as part of efforts to develop higher-quality, more energy-efficient, better-performing, and more environmentally benign products. Updating work on the EN590 diesel fuel standard and the EN228 motor gasoline standard continued during 2011. Progress was also made on standardizing renewable diesel, although some work still needs to be done in this area.

Updating the public on fuel changes

The bio-content of gasoline in Finland was increased at the beginning of 2011 in compliance with the national biofuel mandate. Neste Oil's fuel experts played a key role during the year in updating the public on the change; the information campaign on the subject, coordinated by the Finnish Petroleum Federation, continued throughout the early part of the year to eliminate people's concerns about the new fuel. Neste Oil also updated its Web site to provide drivers with up-to-date and comprehensive information on the subject.

Guide for new diesel drivers

Following the growth in the sale of diesel cars, there is a growing number of drivers on the road for whom diesel is a new fuel. With these motorists in mind, Neste Oil published a guide in Finnish entitled "Diesel drivers: Be prepared for the winter" in fall 2011. This explains the cold temperature performance of different diesel grades, when best to switch to winter-grade diesel, how car and engine performance can be improved in the cold, and what drivers should do if the diesel in their fuel tank freezes. The guide has been specially written for Finnish conditions, where sub-zero temperatures are common during the winter and call for fuel that performs well in the cold.

[The guide in Finnish.](#)

Product packaging and labeling

The REACH chemical regulatory framework that came into force in the EU in 2007, together with the new EU Classification, Labeling and Packaging (CLP) Regulation for chemicals introduced in 2009, have made it necessary to update the safety data sheets for Neste Oil's products. This work continued during 2011 in accordance with official transition rules.

Safety data sheets for Neste Oil's consumer products can be found online at Neste Oil's Finnish-language site.

Work on CLP changes continuing

Neste Oil continued updating the classification and labeling of its products in accordance with CLP requirements during 2011. The new system is designed to harmonize European practice with UN global recommendations.

The new labeling is being reflected both on products and in the guidelines covering how they should be handled. The transition to the new system will continue until 2015, and new and old labeling will be used in parallel during this period.

REACH

The EU's REACH framework places extensive requirements on the manufacturers, importers, and users of chemical substances in terms of registration, permitting, and use. The system is designed to improve the safe use of these substances across the EU.

Neste Oil registered all the chemical substances that it produces and imports in accordance with the official REACH timetable. REACH requirements have been taken into account in procurement and sales contracts, R&D, and risk management practices at Neste Oil's refineries. Compliance with REACH calls for constant vigilance and close cooperation between Neste Oil and the authorities, other companies, and all those in the company's supply chain. These responsibilities were handled on a centralized basis by the corporate HSSE function during 2011.

Safety of new raw materials

Neste Oil carried out extensive evaluations during 2011 on the suitability of various renewable raw materials that it is considering for use on an industrial scale in producing NExBTL renewable diesel.

A three-stage comprehensive model for evaluating new raw materials was introduced and covers:

1. the technical suitability of a raw material for producing NExBTL fuel
2. the suitability of a raw material for use at the company's various NExBTL refineries and units, and
3. the health, safety, and environmental aspects of a raw material (such as safety issues associated with a material's usage, transportation, and storage) and whether it is capable of meeting legislative sustainability criteria (greenhouse gas emissions, traceability, etc.).

Studies were carried out on palm fatty acid distillate (PFAD), camelina oil, soy oil, and waste fat generated by fish processing, amongst others during 2011. These concluded that the materials in question comply with both Neste Oil's own requirements and legislative requirements in terms of safety and sustainability, and listed the various factors that would need to be taken into account before using them in Neste Oil's process.

Case

New small-engine gasoline launched in Finland

Neste Oil launched a new small-engine gasoline in Finland in summer 2011 customized for the type of engines found in products such as chainsaws, lawnmowers, and outboards.

This is produced from sulfur-free paraffines with good antiknock properties and does not contain any olefins or aromatics, especially benzene. Thanks to its carefully selected composition, the new gasoline does not evaporate as easily as regular gasoline, which makes fuel handling more pleasant and safe. This low level of evaporation, combined with minimal emissions, benefits both users and the environment.

As the new fuel stores well and does not degenerate over time, fuel systems do not need to be emptied if users do not expect to use a chainsaw or other piece of equipment for an extended period.

[Read more about small-engine gasoline.](#)

Sustainability reporting

The goal of Neste Oil's Sustainability Report is to share information on the sustainability of the company's operations and provide the information required by Neste Oil's stakeholders in this area. A Sustainability Report is published annually as part of the Annual Report, and supplementary information is published on the Neste Oil web site. The Annual Report and the Sustainability Report for 2011 are the first to be published primarily online in html-format.

The switch to online publication is designed to make it easier for readers to locate the information they are interested in, and will also make it possible for users to assemble customized editions of the report for their specific needs.

Sustainability reporting is developed annually based on stakeholder feedback, which can be sent via email to CORPCOMViestinta@nesteoil.com.

In addition to the corporate Sustainability Report, Neste Oil's Porvoo and Naantali refineries publish regular newsletters for residents in the surrounding areas covering the local impact of the company's operations. These newsletters can also be read online in Finnish [at Neste Oil's web site](#).

Reporting principles

Neste Oil is committed to the principles of the AA1000APS (2008) standard, which cover inclusivity, materiality, and responsiveness. The 2011 Sustainability Report is the third to have been compiled in accordance with the G3 guidelines (version 3.0) of the Global Reporting Initiative (GRI); and has also been assured by an independent third party.

Sustainability reporting has been developed based on feedback from the 2010 Report, particularly in terms of the development areas identified during the assurance process.

The sustainability reporting in Finnish has been assured by an independent third party, PricewaterhouseCoopers Oy, and congruence between the Finnish and English versions has been checked. PricewaterhouseCoopers has checked Neste Oil's reporting and has confirmed it to meet the GRI requirements for the Application Level B+.

Neste Oil is preparing to adopt the Oil & Gas sector guidelines published by the GRI in December 2011 in its reporting, as well as the G4 guidelines that will be published in 2013.

Neste Oil's Annual Report for 2010 was published on 10 March 2011. The reporting period covered by the Sustainability Report is the same as that followed in the Annual Report: January 1 – December 31. Changes in previously reported key figures and accounting principles, are reported in connection with the corresponding key figures.

Scope of reporting

Safety and environmental reporting for 2011 covers all the refineries owned by Neste Oil in which the company has a greater than 50% holding in Finland and overseas. Reporting on safety matters also covers suppliers and the main contractors, as well as the road and marine transportation of the company's products and feedstocks.

The Rotterdam refinery commissioned in September 2011 came within the scope of reporting at the beginning of 2011 in respect of personnel-related matters (such as occupational safety and working hours), and at the beginning of June 2011 in respect of environmental and process safety indicators (such as incident reporting on leaks). The new base oil plant in Bahrain is not included in the reporting.

Following divestments, reporting has not covered AS Reola Gaas, which was majority-owned by Neste Oil, since August 2011 and has not covered the operations of the PAO plant in Belgium since the beginning of December 2011.

Reporting tools and practices

Financial reporting complies with international IFRS accounting requirements, while corporate governance reporting complies with relevant national legislation and the Finnish Corporate Governance Code covering listed companies. The presentation of environmental costs and liabilities is based on Finnish accounting legislation.

Financial indicator data is based on audited figures, while personnel data is sourced from Neste Oil's HR systems. Personnel figures are calculated in accordance with the Finnish Accounting Board's general guidelines for annual reports. Environmental data is gathered from various systems operated by the company's business units. [CONCAWE principles](#) are used in calculating safety-related injury frequency figures.

Adoption of new reporting tool continued

Neste Oil continued the adoption of a new reporting tool during 2011 and organized training on its use and reporting procedures for personnel involved in the reporting process. The tool fully supports GRI G3 reporting and is intended for reporting HSSE data on a monthly and annual basis.

The new tool is designed to collect data on most environmental, social, and financial responsibility indicators. Neste Oil also continues to use various other reporting tools for collecting the data needed for its sustainability reporting.

Independent Assurance Report

(Translation from the Finnish Original)

To the Management of Neste Oil Corporation

We have been engaged by the Management of Neste Oil Corporation to perform a limited assurance engagement on the information on economic, social and environmental responsibility for the reporting period of January 1, 2011 to December 31, 2011 disclosed in the "Sustainability" section of Neste Oil Corporation's online Annual Report 2011 (hereinafter "Sustainability information").

Management's responsibility

The Management of Neste Oil Corporation is responsible for preparing the Sustainability information according to the Reporting criteria as set out in Neste Oil Corporation's sustainability reporting instructions, the Sustainability Reporting Guidelines of the Global Reporting Initiative (version 3.0), as well as AA1000 Accountability Principles Standard 2008 issued by AccountAbility.

Practitioner's responsibility

Our responsibility is to express a conclusion on the Sustainability information based on our work performed. Our assurance report has been made in accordance with the terms of our engagement. We do not accept, or assume responsibility to anyone else, except to Neste Oil Corporation for our work, for this report, or for the conclusions that we have reached.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 'Assurance engagements other than audits or reviews of historical financial information'. This Standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain limited assurance whether any matters come to our attention that cause us to believe that the Sustainability information has not been prepared, in all material respects, in accordance with the Reporting criteria.

In addition, we have conducted our work in accordance with the AA1000 Assurance Standard 2008. For conducting a Type 2 assurance engagement as agreed with Neste Oil Corporation the AA1000 Assurance Standard 2008 requires planning and performing of the assurance engagement to obtain limited assurance on whether any matters come to our attention that cause us to believe that Neste Oil Corporation does not adhere, in all material respects, to the AA1000 Accountability Principles (inclusivity, materiality and responsiveness) and that the Sustainability information is not reliable, in all material respects, based on the Reporting criteria.

In a limited assurance engagement the evidence-gathering procedures are more limited than for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement. An assurance engagement involves performing procedures to obtain evidence about the amounts and other disclosures in the Sustainability information. The procedures selected depend on the practitioner's judgement, including an assessment of the risks of material misstatement of the Sustainability information. Our work consisted of, amongst others, the following procedures:

- Interviewing senior management of Neste Oil Corporation.
- Interviewing relevant employees from various organizational levels of Neste Oil Corporation with regards to stakeholder expectations towards Neste Oil Corporation, the meeting of those expectations as well as stakeholder engagement.

- Assessing stakeholder inclusivity and responsiveness based on Neste Oil Corporation's documentation and internal communication.
- Assessing Neste Oil Corporation's defined material sustainability aspects as well as assessing Sustainability information based on these aspects.
- Performing a media analysis and an internet search for references to Neste Oil Corporation during the reporting period.
- Interviewing persons responsible for the collection and reporting of sustainability information at group level as well as at site level in Finland.
- Assessing the systems and practices used for the collection and consolidation of quantitative information.
- Testing the accuracy of the information from original documents and systems on a sample basis.
- Testing the consolidation of information and performing recalculations on a sample basis.

Conclusion

Based on our limited assurance engagement nothing has come to our attention that causes us to believe that Neste Oil Corporation does not adhere, in all material respects, to the AA1000 Accountability Principles.

Furthermore nothing has come to our attention that causes us to believe that Neste Oil Corporation's Sustainability information has not been prepared, in all material respects, in accordance with the Reporting criteria, or that the Sustainability information is not reliable, in all material respects, based on the reporting criteria.

Our assurance report should be read in conjunction with the inherent limitations of accuracy and completeness for corporate social responsibility information. This independent assurance report should not be used on its own as a basis for interpreting Neste Oil Corporation's performance in relation to its sustainability policy.

Observations and recommendations

Based on our limited assurance engagement we provide the following observations and recommendations in relation to adherence to the AA1000 AccountAbility Principles. These observations and recommendations do not affect the conclusions presented earlier.

- **Regarding Inclusivity:** Neste Oil Corporation has a strong commitment to stakeholder engagement. The company has an extensive stakeholder engagement process in place to ensure a continuous identification of relevant stakeholders as well their concerns and expectations. We recommend that Neste Oil Corporation further develops the systematic management of stakeholder engagement, and increases the internal communication in this area.
- **Regarding Materiality:** Neste Oil Corporation has processes in place to determine the materiality of sustainability issues. We recommend that Neste Oil Corporation proactively takes into account emerging sustainability trends in the materiality definition.
- **Regarding Responsiveness:** Neste Oil Corporation is committed to being responsive to its stakeholders, which is evident from the ongoing and wide-ranging communication on sustainability issues in media, forums and other communication channels. We recommend that Neste Oil maintains active responsiveness to its stakeholders.

Practitioner's independence and qualifications

PricewaterhouseCoopers' own Global Independence Policy is applicable to PricewaterhouseCoopers Oy, its partners and professional staff, including all members of the assurance engagement team.

Our multi-disciplinary team of sustainability and assurance specialists possesses the requisite skills and experience within financial and non-financial assurance, sustainability strategy and management, social and environmental issues as well as knowledge of the energy industry to undertake this assurance engagement.

Helsinki, 23 February 2012

PricewaterhouseCoopers Oy

Sirpa Juutinen
Partner
Sustainability & Climate Change

Maj-Lis Steiner
Director, KHT
Sustainability & Climate Change



GRI content index

PricewaterhouseCoopers Oy has checked our reporting and has confirmed it to be Application Level B+.

	GRI Content	Included	Links	Remarks
	1. Strategy and Analysis			
1.1	CEO's statement	Yes	CEO's Review	
1.2	Key impacts, risks and opportunities	Yes	Sustainability-related risks and opportunities Strategy Industry overview Sustainability targets	
	2. Organizational Profile			
2.1	Name of the organization	Yes	Neste Oil in brief	
2.2	Primary brands, products and services	Yes	Business areas in brief Oil Products' customers and products Renewable Fuels' customers and products	
2.3	Operational structure	Yes	Business Note 33 - Group companies on 31 December 2011	
2.4	Location of organization's headquarters	Yes	Company's general information	
2.5	Number of countries and location of operations	Yes	Business areas in brief Note 4 - Segment information	
2.6	Nature of ownership and legal form	Yes	Note 1 - General information Owners and financiers	
2.7	Markets served	Yes	Business areas in brief Customers	
2.8	Scale of the reporting organization	Yes	Oil Products' customers and products Key Figures	
2.9	Significant changes regarding size, structure or ownership	Yes	Scope of reporting	
2.10	Awards received in the reporting period	Yes	Sustainability review reports NGO critiques	

3.Reporting Principles				
3.1-3.4	Report profile	Yes	Reporting principles Sustainability reporting	
3.5-3.11	Reporting scope and boundary	Yes	Material aspects of sustainability Stakeholder engagement in materiality assessment Scope of reporting Reporting tools and practices Reporting principles	
3.12	GRI content index	Yes		
3.13	Assurance	Yes	Independent Assurance Report Reporting principles	
4. Governance, Commitments and Engagement				
Governance				
4.1	Governance structure of the organisation	Yes	Corporate Governance Statement 2011	
4.2	Position of the Chairman of the Board	Yes	Board of Directors	
4.3	Independence of the Board members	Yes	Board of Directors	
4.4	Mechanism for shareholder and employee consultation	Yes	Corporate Governance Statement 2011	
4.5	Impact of organisation's performance on executive compensation (inc. social and environmental performance)	Yes	Remuneration and shareholdings Remuneration principles for senior management	
4.6	Processes for avoiding conflicts of interest	Yes	Board of Directors	
4.7	Processes for determining Board members' expertise in strategic management and sustainability	Yes	Nomination Board Board of Directors' CV	
4.8	Implementation of mission and values statements, code of conduct and other principles	Yes	Sustainability management tools Complying with values, laws, and principles www.nesteoil.com	

4.9	Procedures of the Board for overseeing management of sustainability performance, including risk management	Yes	Sustainability management The objective, framework, and process of risk management	
4.10	Processes for evaluating the Board's performance	Yes	Board of Directors	
Commitments to External Initiatives				
4.11	Addressing precautionary approach	Yes	Risk management	
4.12	Voluntary charters and other initiatives	Yes	Participation in organizations and joint projects Global IGO and NGO programs www.nesteoil.com	
4.13	Memberships in associations	Yes	Participation in organizations and joint projects	
Stakeholder Engagement				
4.14	List of stakeholder groups	Yes	Neste Oil's key stakeholders	
4.15	Identification and selection of stakeholders	Yes	Stakeholder engagement	
4.16	Approaches to stakeholder engagement	Yes	Neste Oil's key stakeholders Stakeholder engagement	
4.17	Key topics raised through stakeholder engagement	Yes	NGO's critique Neste Oil's key stakeholders Employer image in 2011	
Economic Performance Indicators				
	Management approach to economic responsibility	Yes	Financial targets Sustainability goals and achievements Financial responsibility	
EC1*	Direct economic value generated and distributed	Yes	Direct and indirect financial impacts	
EC2*	Financial implications, risks and opportunities due to climate change	Partly	Climate protection	
EC3*	Coverage of defined benefit plan obligations	Yes	Pension cover Retirement benefit obligations	
EC4*	Significant subsidies received from government	Yes	Taxes and other payments Retirement benefit obligations	

			Consolidated income statement	
EC5	Entry level wage compared to local minimum wage	Partly	Competitive remuneration and fringe benefits	
EC7*	Local hiring procedures and proportion of local senior management	Partly	Recruitment	
EC9	Significant indirect economic impacts	Yes	Direct and indirect financial impacts	
Environmental Performance Indicators				
	Management approach to environmental responsibility	Yes	Environmental responsibility Managing environmental responsibility Sustainability management Sustainability targets	
EN1*	Materials used by weight or volume	Yes	Material and energy balance	
Energy				
EN3*	Direct energy consumption	Yes	Material and energy balance	
EN4*	Indirect energy consumption	Partly	Material and energy balance	
EN5	Energy saved due to conservation and efficiency improvements	Partly	Energy efficiency Continuous improvements in energy efficiency	
EN6	Initiatives to provide energy-efficient or renewable energy based products and services	Yes	Renewable fuels Renewable fuels' markets Climate protection Product lifecycle analyses	
Water				
EN8*	Total water withdrawal by source	Partly	Water Water inventories update Material and energy balance	
EN9	Water sources significantly affected by withdrawal of water	Partly	Water Impact of water use is local	
EN10	Percentage and total volume of water recycled and reused	Partly	Efficient water use and wastewater treatment	
Biodiversity				
EN11*	Location and size of land holdings in areas of high biodiversity	Yes	Natura areas	
EN12*	Description of significant impact of activities, products, and services on biodiversity	Partly	Impact of indirect land use change	
EN13	Habitats protected or restored	Yes	Natura areas	

EN14	Managing impacts on biodiversity	Yes	Protecting the biodiversity of forests	
EN16*- EN17*	Total direct and indirect greenhouse gas emissions	Yes	Gas emissions Material and energy balance Refinery gas emissions Logistics	
EN18	Initiatives to reduce greenhouse gas emissions	Partly	Head Office and the WWF's Green Office program	
EN19*	Emissions of ozone-depleting substances	Yes	Airborne emissions from refining	
EN20*	NOx, SOx, and other significant air emissions	Yes	Emissions	
EN21*	Total water discharge	Yes	Efficient water use and wastewater treatment Material and energy balance	
EN22*	Total amount of waste by type and disposal method	Yes	Waste management Material and energy balance	
EN23*	Significant spills	Yes	Sustainability targets Logistics	
EN25	Water bodies and habitats affected by discharges of water	Partly	Efficient water use and wastewater treatment Water	
EN26*	Mitigating environmental impacts of products and services	Yes	Environmental impact resulting from the end use of products Product lifecycle analyses	
EN28*	Non-compliance with environmental regulations	Yes	Court orders Neste Oil to pay for cleaning up soil at a service station	
EN29	Environmental impacts of transportation	Yes	Environmental impact of Logistics	
EN30	Environmental protection expenditures and investments	Partly	Investments in efficiency, environment, and safety	
Social Performance Indicators				
	Management approach to labor practices and decent work	Yes	Managing social responsibility Safety management Sustainability management Sustainability targets	
	Employment			
LA1*	Total workforce by employment type, employment contract and region	Yes	Personnel structure	
LA2*	Total number and rate of employee turnover	Partly	Personnel turnover	

LA4*	Coverage of collective bargaining agreements	Yes	Equitable and motivational remuneration	
LA5*	Minimum notice period regarding operational changes	Yes		Neste Oil follows local legislation.
Occupational Health and Safety				
LA7*	Rates of injury, occupational diseases, lost days, fatalities and absenteeism	Partly	A safe workplace All accidents are preventable	
LA8*	Education and prevention programmes regarding serious diseases	Yes	Wellbeing health and safety	
LA10*	Training hours per employee	Partly	HR development and training	
LA11	Programmes for skills management and lifelong learning	Yes	HR development and training Developing Neste Oil's leadership Developing leadership and supporting managers in their work	
LA12	Employees receiving regular performance and career development reviews	Yes	Engaging people	
LA13*	Composition of governance bodies and breakdown of employees	Yes	Equality and diversity Personnel structure Key figures related to personnel structure	
LA14*	Ratio of basic salary of men to women	Partly	Promoting equal pay Competitive remuneration and fringe benefits	
Human Rights				
Management approach to human rights				
		Yes	Sustainability management Managing social responsibility	
HR2*	Suppliers and contractors that have undergone human rights screening	Partly	Strict sustainability criteria for suppliers	
HR3	Human rights related training for employees	Partly	Complying with values laws and principles	
HR4*	Incidents of discrimination and actions taken	Yes	Equality and diversity	
HR5*	Supporting right to freedom of association and collective bargaining in risk areas	Yes	Compliance	
HR6*	Measures taken to eliminate child and forced labour in risk areas	Yes	Complying with values	

HR7*	Operations identified as having significant risk for forced or compulsory labor and measures taken to contribute to the elimination of forced or compulsory labor	Yes	Complying with values	
Society				
	Management approach to society	Yes	Sustainability management Social responsibility Strict sustainability criteria for suppliers Complying with values	
Corruption				
SO3*	Anti-corruption training	Partly	Complying with values laws and principles	
Public Policy				
SO5*	Public policy positions and participation in public policy development and lobbying	Yes	Public affairs and advocacy	
SO6	Contributions to political parties and related institutions	Yes	Human rights and equality	
SO7	Legal actions for anti-competitive behaviour, anti-trust, and monopoly	Yes		No legal actions during the reporting period.
Compliance				
SO8*	Corruption, Anti-competitive behavior, Compliance	Yes		No fines or sanctions during the reporting period.
Product Responsibility				
	Management approach to product responsibility	Yes	Product safety	
Customer Health and Safety				
PR1*	Assessment of health and safety impacts of products	Partly	Safety of new raw materials	
PR2	Non-compliance with regulations concerning health and safety impacts of products	Yes	Safe products for customers	
PR3*	Product information required by procedures	Partly	Updating the public on fuel changes Product packaging and labeling	
PR5*	Practices related to customer satisfaction and results of customer satisfaction surveys	Partly	Measuring stakeholder engagement	
PR6*	Adherence to marketing communications laws, standards and voluntary codes	Yes	Product safety	

Following GRI core indicators not reported: EC6, EC8, EN2, EN27, HR1, SO1, SO2, PR9

* GRI Core indicator



Governance

Neste Oil observes good corporate governance practices in accordance with the laws and regulations applicable to Finnish listed companies, the Company's own Articles of Association, and the Finnish 2010 Corporate Governance Code. Neste Oil also complies with the rules of NASDAQ OMX Helsinki Ltd, where it is listed, and the rules and regulations of the Finnish Financial Supervisory Authority.

Neste Oil's Board of Directors 2011



Neste Oil recognizes that risk is an integral and unavoidable component of its business and employs continuous operational activities to tackle these risks.

Read more about the risks related to Neste Oil's business.

Neste Executive Board 2011



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

Corporate Governance Statement 2011

This Corporate Governance Statement has been prepared pursuant to Recommendation 54 of the Corporate Governance Code 2010 and Chapter 2, Section 6 of the Securities Markets Act. The Corporate Governance Statement is issued separately from the Review by the Board of Directors and can be consulted online at [http://www.nesteoil.com/Investors/Corporate Governance](http://www.nesteoil.com/Investors/Corporate%20Governance).

Regulatory framework

Neste Oil observes good corporate governance practices in accordance with the laws and regulations applicable to Finnish listed companies, the Company's own Articles of Association, and the Finnish 2010 Corporate Governance Code. The Corporate Governance Code can be found at www.cgfinland.fi. Neste Oil also complies with the rules of NASDAQ OMX Helsinki Ltd, where it is listed, and the rules and regulations of the Finnish Financial Supervisory Authority.

Neste Oil's Audit Committee has reviewed the Corporate Governance Statement, and the Company's Auditor, Ernst & Young Oy, has monitored that it has been issued and that the description of the main features of the internal control and risk management related to the financial reporting process included in the statement matches the Financial Statements.

Neste Oil issues consolidated financial statements and interim reports in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, the Securities Markets Act, as well as the appropriate Financial Supervisory Authority standards, and NASDAQ OMX Helsinki Ltd.'s rules. The Review by the Board of Directors and the Parent Company's Financial Statements are prepared in accordance with the Finnish Accounting Act and the opinions and guidelines of the Finnish Accounting Board.

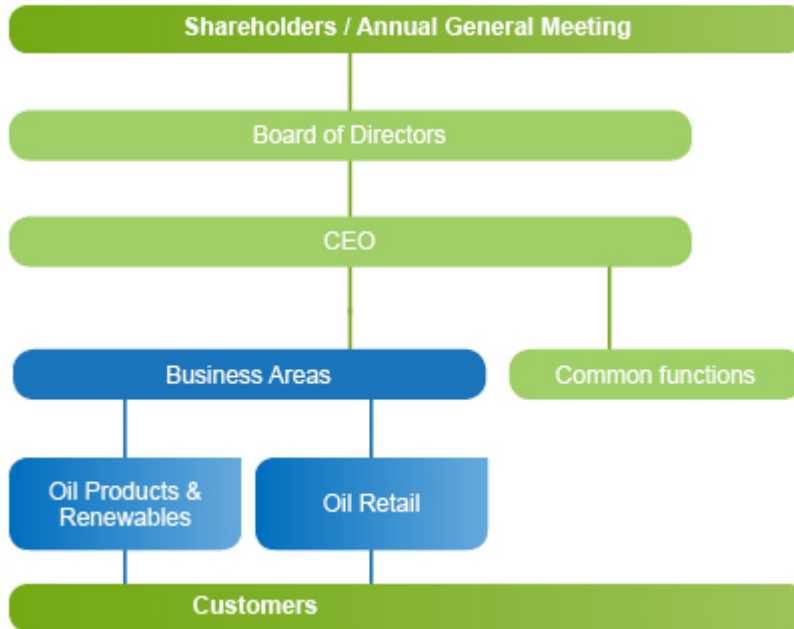
Governance bodies

The control and management of Neste Oil is split between the Annual General Meeting of Shareholders (AGM), the Board of Directors, and the President & Chief Executive Officer. Ultimate decision-making authority lies with shareholders at the AGM. The latter appoints the members of the Board of Directors and the Company Auditor. The Board of Directors is responsible for Neste Oil's strategy and overseeing and monitoring the Company's business. The President & CEO, assisted by the Neste Executive Board (NEB), is responsible for managing the Company's business and implementing its strategic and operational targets.

Up until 5 May 2011, the Company's governance bodies included a Supervisory Board appointed by the AGM. This was responsible for overseeing the Company's administration by the Board of Directors and the President & CEO. The AGM decided to abolish the Supervisory Board on 14 April 2011 when all the members of the Supervisory Board were re-elected to serve until 5 May 2011, when the amendment to the Articles of Association abolishing the body was registered with the authorities.

Neste Oil's headquarters are located in Espoo, Finland.

Neste Oil's Governance Bodies



The control and management of Neste Oil is split between the Annual General Meeting of Shareholders (AGM), the Board of Directors, and the President & Chief Executive Officer.

Annual General Meeting

Under the Finnish Companies Act, shareholders exercise their decision-making power 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 including:

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

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

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 three weeks prior to a meeting, but at least nine days before the record date set for the meeting under the terms of the Companies Act. 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 invitation, agenda, and other meeting material shall also be made available online at www.nesteoil.com/Investors/AGM at least three weeks prior to the meeting.

Neste Oil is not aware of any shareholders' agreement regarding the Company's shares.

2011

The 2011 AGM was held in Helsinki on 14 April and adopted the Parent Company's Financial Statements and the Consolidated Financial Statements for 2010 and discharged the Supervisory Board, the Board of Directors, and the CEO from liability for 2010. The AGM also approved the Board of Directors' proposal regarding the distribution of the Company's profit for 2010, sanctioning payment of a dividend of EUR 0.35 per share. This was paid to all shareholders included in the register of shareholders maintained by Euroclear Finland on the record date set for payment of the dividend, which was 19 April 2011. The payment was made on 28 April 2011. The AGM also decided the composition of the Board of Directors and the remuneration to be paid to the members of the Board of Directors, and appointed the Company Auditor. In accordance with a proposal by the State of Finland and the Finnish Shareholders Association, the Supervisory Board was abolished.

Nomination Board

A position paper issued by the Finnish Cabinet Committee on Economic Policy in February 2004 stressed that general meetings of shareholders of publicly listed State-owned companies and companies partly owned by the State should appoint a committee to prepare a proposal covering the composition of the board of directors for the following general meeting of shareholders to vote on. The paper indicated that these AGM nomination committees should generally select representatives from a company's largest shareholders and propose an expert member as chairman.

The position paper is based on the belief that a company's board of directors should enjoy the trust of its owners and that it should act in the interests of shareholders, and that the preparations for its election should lie in the hands of its owners. This, the paper indicates, will strengthen the potential of owners to make their voice heard as effectively and as openly as possible.

The paper suggests that a nomination committee appointed by a board of directors itself, in line with the Governance Code covering listed companies in Finland, is best suited to companies with a diverse ownership base. In the case of companies owned in full or in part by the State, with large owners that are both well-known to the public and active, the approach recommended under the Governance Code is not to be recommended because of the nature of the ownership involved and the responsibility associated with this type of major holding.

As a listed State-owned company, Neste Oil observes the recommendation contained in the above position paper in respect of its Nomination Committee. Since 2011, Neste Oil has named the Nomination Committee, in accordance with the new Corporate Governance Code 2010, as the AGM Nomination Board to distinguish it from the Nomination Committee comprising members of the Board of Directors.

Annual General Meetings are responsible for establishing a Nomination Board, selecting its members, and deciding its duties. Representatives of the Company's three largest shareholders are normally elected as members, together with the Chairman of the Board of Directors as an expert member. The right to appoint the shareholder representatives on this Nomination Board normally lies with the three shareholders holding the largest number of votes associated with all the Company's shares on 1 November preceding the AGM. In the event that a shareholder does not wish to exercise his right to appoint a representative, this right shall pass to the next-largest shareholder. The Company's largest shareholders shall be determined on the basis of the information on holdings registered in the book-entry system, with the proviso that the holdings of a shareholder required under securities legislation to flag certain changes in his holdings, and with shares spread across a number of funds, for example, shall be combined if the shareholder informs the Company of his wishes to this effect in writing.

The Chairman of the Nomination Board generally convenes the Nomination Board, while the Board elects its Chairman from among its members. The Nomination Board is required to present its proposal to the Board of Directors by 1 February prior to the AGM at the latest.

Activities

The Nomination Board drafts proposals for the following AGM on the following:

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

Composition of the Nomination Committee prior to the 2011 AGM

The AGM Nomination Committee responsible for preparing the 2011 AGM comprised Pekka Timonen, Director General, Prime Minister's Office, Timo Ritakallio, Deputy CEO, Ilmarinen Mutual Pension Insurance Company, and Mika Kivimäki, Managing Director, OP-Pohjola Group. Timo Peltola, Chairman of Neste Oil's Board of Directors acted as the Committee's expert member. The Committee convened twice and presented its proposal covering the members of the Board of Directors and the remuneration to be paid to them on 1 February 2011.

Composition of the Nomination Board prior to the 2012 AGM

Following a proposal by the Prime Minister's Office, representing the Finnish State, the AGM decided on 14 April 2011 to establish an AGM Nomination Board to prepare proposals covering the members of the Board of Directors and their remuneration for consideration by the next AGM.

The AGM Nomination Board responsible for preparing the 2012 AGM comprised Pekka Timonen, Director General, Prime Minister's Office, Timo Ritakallio, Deputy CEO, Ilmarinen Mutual Pension Insurance Company, and Mikko Koivusalo, Director, Investments, Varma Mutual Pension Insurance Company. Timo Peltola, Chairman of Neste Oil's Board of Directors, acted as the Nomination Board's expert member.

The Nomination Board convened twice and presented its proposal covering the members of the Board of Directors and the remuneration to be paid to them on 1 February 2012.

CVs of Nomination Board members:

Pekka Timonen

Ph.D. (Laws). Chairman of the Nomination Board.

Born 1960. Director General of the Ownership Steering Department at the Prime Minister's Office. Member of the Board of Finnair Oyj.

Timo Ritakallio

M.Sc. (Laws). Member of the Nomination Board.

Born 1962. Deputy CEO, Ilmarinen Mutual Pension Insurance Company. Member of the Boards of Outotec Oyj and Technopolis Oyj. Member of the Nomination Boards of Suominen Oyj, Uponor Oyj and Tikkurila Oyj, Kemira Oyj, VVO-Yhtymä Oyj, Oriola-KD Oyj, Ekokem Oy, Sponda Plc, Rautaruukki Oyj, and Orion Oyj.

Mikko Koivusalo

M.Sc. (Econ.). Member of the Nomination Board.

Born 1961. Director, Investments, Varma Mutual Pension Insurance Company. Member of the Boards of Tornator Oy and Realia Group Oy:n.

Supervisory Board (abolished on 5 May 2011)

In accordance with a proposal by the State of Finland and the Finnish Shareholders Association, the Supervisory Board was abolished by the AGM held on 14 April 2011 and all members of the Supervisory Board were re-elected for a short term of office ending 5 May 2011 when the appropriate amendments to the Company's Articles of Association were registered. The Supervisory Board met once in 2011 before it was abolished on 5 May 2011.

The members of the Supervisory Board until 5 May 2011 were: Heidi Hautala (Chairman), Kimmo Tiilikainen (Vice Chairman), Esko Ahonen, Timo Heinonen, Markus Mustajärvi, Anne-Mari Virolainen, and Miapetra Kumpula-Natri. The biographical details of the Supervisory Board members and details on their independent status and attendance at meetings can be found in the following table.

Supervisory Board, 1 January – 5 May 2011

	Position	Born	Education	Main Occupation, 5 May 2011	Independent of the company	Independent of major shareholders	Attendance at meetings
Heidi Hautala	Chairman	1955	M.Sc.	Member of the European Parliament	●	●	0%
Kimmo Tiilikainen	Vice Chairman	1966	M.Sc.	Member of the Finnish Parliament	●	●	100%
Esko Ahonen	Member	1955	Construction Engineer	Construction Engineer	●	●	0%
Timo Heinonen	Member	1975	M.Sc.	Member of the Finnish Parliament	●	●	100%
Markus Mustajärvi	Member	1963	M.Sc., Forest engineer	Member of the Finnish Parliament	●	●	100%
Miapetra Kumpula-Natri	Member	1972	B.Sc.	Member of the Finnish Parliament	●	●	100%
Anne-Mari Virolainen	Member	1965	M.Sc.	Member of the Finnish Parliament	●	●	100%

The remuneration paid to members is presented in a table in the [Remuneration and shareholdings](#) section of the Annual Report.

Board of Directors

In accordance with Neste Oil's Articles of Association, the Board of Directors has between five and eight members, which are elected at the AGM for a period of office that extends to the following AGM. Anyone over 68 years of age cannot be elected to the Board.

Activities

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 its period of office 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 after the end of each financial year.

Duties

The Board's responsibilities and duties are defined in detail in the Board's Charter and cover the following main areas:

- being responsible for the administration and appropriate organization of the operations of the Neste Oil Group in compliance with relevant legislation and regulations, the Company's Articles of Association, and instructions provided by the Annual General Meeting
- being responsible for the strategic development of Neste Oil and for supervising and steering its business
- deciding on Neste Oil's key operating principles
- confirming the annual business plan
- approving the annual financial statements and interim reports
- deciding on major investments and divestments
- confirming Neste Oil's values and most important policies and overseeing their implementation
- appointing the President & CEO and his or her immediate subordinates and deciding on their remuneration
- confirming the Neste Executive Board's and Neste Oil's organizational and operational structure at senior management level, and
- determining the Company's dividend policy to be followed when making a proposal regarding dividends to the AGM.

A member of the Board of Directors may not take part in matters regarding (i) agreements between such member and any entity within the Neste Oil Group, (ii) agreements between any entity within the Neste Oil Group and third parties where such member has a material interest in the matter which may conflict with the interest of Neste Oil or any other entity within the Neste Oil Group, and (iii) agreements between any entity within the Neste Oil Group and a legal entity which such member may represent, either individually or together with any other person; provided, however, that this point (iii) does not apply where the party contracting with Neste Oil is a company within the Neste Oil Group. The term 'agreement' as used here includes litigation or other legal proceedings arising from or relating to such agreements.

2011

The Board met 11 times in 2011 and the attendance percentage on average was 97.7. In its strategy-related work, the Board of Directors concentrated on updating the Company's vision and followed up the implementation of the strategy through Neste Oil's Value Creation programs. The Board also monitored the completion of Renewable Fuels' strategic growth projects and followed up the implementation of the Company's efficiency enhancement program, which has resulted in improved cash flow performance through better management of costs, investments, and working capital.

The 2011 AGM confirmed the membership of the Board of Directors at eight members, and the following were re-elected to serve until the end of the next AGM: Timo Peltola, Michiel Boersma, Maija-Liisa Friman, Nina Linander, Hannu Ryöppönen and Markku Tapio. Jorma Eloranta and Laura Raitio were elected as new members. Eloranta was also elected as Vice Chairman. Timo Peltola continued as Chairman. Mikael von Frenckell and Ainomaija Haarla left Neste Oil's Board of Directors at the AGM on 14 April 2011.

Details on the independent status of members, their role in committee work, and their attendance at meetings can be found in the following table.

Board of Directors, 31 December 2011

				Inde- pendent of Personnel			Attendance at meetings	
Position	Born	Education	Main Occupation	Inde- pendent of the com- pany	major share- holders	Remu- neration Committee	Audit mittee	Com- pany Board mittees
Timo Peltola	Chairman	1946	M.Sc. (Econ.) Executive Director	Non-Executive Director	•	•	•	100% 100%
Jorma Eloranta*	Vice Chairman	1951	M.Sc. (Tech.) Executive Director	Non-Executive Director	•	•	•	100% 100%
Michiel Boersma	Member	1947	Ph.D (Chem. Tech.) Executive Director	Non-Executive Director	•	•	•	100% 100%
Majja-Liisa Friman	Member	1952	M.Sc. (Chem. Eng.) Executive Director	Non-Executive Director	•	•	•	100% 100%
Nina Linander	Member	1959	M.Sc. (Econ.), MBA Partner	Non-Executive Director	•	•	•	100% 100%
Laura Raitio*	Member	1962	Executive (Lic. Tech.), Vice President	Non-Executive Director	•	•	•	100% 100%
Hannu Ryöppönen	Member	1952	B.A. (Business Adm.) Executive Director	Non-Executive Director	•	•	•	100% 100%
Markku Tapio	Member	1948	Senior M.Sc. (Econ.) Financial Counselor	Non-Executive Director	•	•	•	100% 100%

* Board member since 14 April 2011, when Mikael von Frenckell and Ainomaija Haarla left Neste Oil's Board of Directors.

Board of Directors, 1 January – 14 April 2011*

Mikael von Frenckell	Vice Chairman	1947	M.Sc. (Soc.) Partner	Non-Executive Director	•	•	•	0% 0%
Ainomaija Haarla	Member	1953	Ph.D (Tech.), MBA President and CEO	Non-Executive Director	•	•	•	100% 100%

* Mikael von Frenckell and Ainomaija Haarla left Neste Oil's Board of Directors at the AGM held on 14 April 2011.

The shareholdings of members and the remuneration paid to them are detailed in a table in the [Remuneration and shareholdings](#) section of the Annual Report.

Board of Directors

Timo Peltola

M.Sc. (Econ.), Hon. Ph.D (Econ.). Chairman of the Board. Member of the Board since 2005. Independent member.

Born in 1946. Former Chief Executive Officer of Huhtamäki Corporation, Vice Chairman of the Board of TeliaSonera Ab, Member of the Boards of SAS Ab and AW-Energy Oy, and an advisor to CVC Capital Partners Svenska Ab, Sveafastigheter Ab, CapMan Public Market Fund and Citigroup's Nordic Advisory Board. Chairman of Neste Oil's Personnel and Remuneration Committee.



Jorma Eloranta

M.Sc. (Tech). Vice Chairman of the Board. Member of the Board since 2011. Independent member.

Born in 1951. Former President and CEO of Metso 2004–2/2011. President and CEO of Kvaerner Masa-Yards Inc. 2001–2003. President and CEO of Patria Industries Group 1997–2000. Deputy Chief Executive of Finvest Inc. and Jaakko Pöyry Group 1996. President of Finvest Inc. 1985–1995. Chairman of the Supervisory Boards of Ilmarinen Mutual Pension Insurance Company and Gasum Corporation. Chairman of the Boards of Suominen Corporation, Finnish Foundation for Technology Promotion, Technology Industries of Finland Centennial Foundation, and ZenRobotics Oy. Chairman of the Board and President of Pienelo Oy. Member of the Boards of Uponor Corporation, Finnish Fair Foundation, and Ovako AB. Member of Neste Oil's Audit Committee.



Michiel Boersma

Ph.D (Chem. Techn.). Member of the Board since 2007. Independent member.

Born in 1947. Former CEO of Essent NV. Chairman of the Supervisory Boards of ProRail, KEMA, TMG and VieCuri Medical Centre. Member of the Supervisory Board of POST NL. Chairman of the Board of Prometheus Energy. Member of the Boards of various Dutch foundations. Senior Advisor of First State Investments. 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. Member of Neste Oil's Personnel and Remuneration Committee.



Maija-Liisa Friman

M.Sc. in Chemical Engineering. Member of the Board since 2010. Independent member.

Born in 1952. President and CEO of Aspocomp Group Oyj 2004–2007. Managing Director of Vattenfall Oy in 2000–2004 and Managing Director of Gyproc Oy 1993–2000. Chairman of the Board of Ekokem and Vice Chairman of the Board of Metso. Member of the Boards of TeliaSonera and LKAB. Chairman of TeliaSonera's Audit Committee. Vice Chairman of the Board of Finnish Medical Science Foundation and Member of the Board of Helsinki Deaconess Institute Foundation. Member of the Board and partner of Boardman Oy. Member of Neste Oil's Personnel and Remuneration Committee.



Nina Linander

M.Sc. (Econ.), MBA. Member of the Board since 2005. Independent member.

Born in 1959. Partner and Member of the Board of Stanton Chase International AB and related companies. Member of the Boards of Specialfastigheter AB, Awapatent AB and AWA Konsult AB. Chairman of Specialfastigheter's Finance Committee. Former Group Treasurer of AB Electrolux and former Director, Product Area Electricity at Vattenfall AB. Chairman of Neste Oil's Audit Committee.



Laura Raitio

M.Sc. (Chem. Eng.), Lic. Tech. (Forest Products Technology). Member of the Board since 2011. Independent member.

Born in 1962. Executive Vice President, Building and Energy and Member of the Executive Management Team, Ahlstrom Corporation. Ahlstrom's Senior Vice President, Marketing (sales network, human resources, communications and marketing) 2006–2008. Ahlstrom's Vice President and General Manager for Wallpaper & Poster, Pre-impregnated Decor, Abrasive Base in Osnabrück, Germany 2002–2005. Managing Director of Ahlstrom Kauttua Oy 2001–2002. Several managerial positions within Ahlstrom's specialty paper business since 1990. Member of Neste Oil's Audit Committee.



Hannu Ryöppönen

B.A. (Business Adm.). Member of the Board since 2009. Independent member.

Born in 1952. Chairman of the Board of Altor Private Equity Funds. Vice Chairman of the Board of Rautaruukki Oyj. Member of the Boards of AmerSports Oyj, Korsnäs AB, Novo Nordisk A/S and Tiimari Oyj. Member of Neste Oil's Audit Committee.



Markku Tapio

M.Sc. (Econ.). Member of the Board since 2008. Independent of company, but non-independent of the major shareholder.

Born in 1948. Senior Financial Counselor at the Prime Minister's Office, Ownership Steering Department. Member of the Board of Directors and Remuneration Committee of VR-Group Ltd. Member of Neste Oil's Personnel and Remuneration Committee.



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 are determined by the Chair and committee members. Committees meet at least twice a year. Each committee reports regularly on 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.

Audit Committee

Under its Charter, the Audit Committee shall consist of a minimum of three Board members that 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 that the Board deems necessary. The Audit Committee is permitted to use external consultants and experts when deemed necessary.

Duties

The responsibilities and duties of the Audit Committee are defined in detail in the Charter approved by the Board and cover the following main areas:

- monitoring the Company's financial statement reporting process, and, as appropriate, interim reports
- supervising the financial reporting process
- monitoring the efficiency of the Company's internal control, internal audit, and risk management systems
- reviewing the Company's Corporate Governance Statement, which includes a description of the main features of the internal control and the risk management systems pertaining to the financial reporting process
- monitoring the statutory audit of the Financial Statements and Consolidated Financial Statements
- evaluating the independence of the Company's Statutory Auditor, particularly the provision of related services to the company to be audited
- preparing the proposal or recommendation or resolution on the election of the Statutory Auditor
- reviewing all the material reports produced by the Statutory Auditor addressed to the Company or its subsidiaries
- evaluating the Company's compliance with laws and regulations
- approving internal audit policy and reviewing the annual plan for Internal Audit and internal audit reports, and
- monitoring the Company's financial position.

2011

The Audit Committee until 14 April 2011 comprised Nina Linander (Chairman), Maija-Liisa Friman, Hannu Ryöppönen, and Markku Tapio. Starting from 14 April 2011, the Audit Committee comprised Nina Linander (Chairman), Jorma Eloranta, Laura Raitio, and Hannu Ryöppönen.

The Audit Committee convened 7 times and the attendance rate was 100%. In addition to its normal duties in 2011, the Committee concentrated on monitoring risk management and financial reporting, together with development work in these areas, as well as monitoring and following up the management of the market risks associated with the expansion of the Renewable Fuels business.

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 responsibilities and duties of the Personnel and Remuneration Committee are defined in detail in its Charter approved by the Board and cover the following main areas:

- preparing the appointments of key executive personnel and making proposals to the Board on compensation and incentive systems for key personnel
- preparing and proposing to the Board the appointments of the President & CEO and the members of the Neste Executive Board, and the terms and conditions of their employment, and
- monitoring and evaluating the performance of the President & CEO and the members of the Neste Executive Board.

2011

The Personnel and Remuneration Committee until 14 April 2011 comprised Timo Peltola (Chairman), Michiel Boersma, Mikael von Frenckell, and Ainomaija Haarla. Starting from 14 April 2011, the Personnel and Remuneration Committee comprised Timo Peltola (Chairman), Michiel Boersma, Maija-Liisa Friman, and Markku Tapio.

The Committee convened 5 times, and the attendance rate was 95%. Key activities during 2011 included developing the compensation and incentive systems for key personnel, monitoring the implementation of the Company's reorganization and change management, and preparing the successor plan for key executive personnel.

President & CEO

Neste Oil's President & CEO, Matti Lievonen (b. 1958, eMBA), manages the Company's business operations in accordance with the Finnish Companies Act and instructions issued by the Board of Directors. The President & CEO shall oversee the executive management of the company in accordance with instructions and orders given by the Board of Directors and is responsible for ensuring that the Company's accounts are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

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.

Information on the [remuneration and shareholdings of the President & CEO](#) can be found in the Remuneration and shareholdings section of the Annual Report.

Neste Executive Board

The Neste Executive Board (NEB) assists the President & CEO in managing the Company and in the deployment of the Company's strategic and operational goals. Members are appointed by the Board of Directors. The NEB meets regularly, on average once a month. Information on the remuneration and shareholdings of the members of the NEB can be found in the [Remuneration and shareholdings](#) section of the Annual Report.

2011

The Neste Executive Board comprised 9 members and met 12 times in 2011. The NEB concentrated on improving the efficiency of Neste Oil's implementation of its strategy through a series of Value Creation programs, completing the Company's strategic growth investments, and improving cash flow management through better control of fixed costs, investments, and working capital.

Members of the Neste Executive Board

Matti Lievonen

President & CEO, Chairman of the Neste Executive Board
Born 1958. B.Sc. (Eng.), eMBA. President & CEO since 1 December 2008.

Joined the company in 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, 1986 and 2008, and was with ABB earlier. Member of UPM-Kymmene's Executive Board 2002–2008. Chairman of the Advisory Board, Excellence Finland. Vice Chairman of the Board of the Chemical Industry Federation of Finland. Member of the Boards of Rautaruukki and European Petroleum Industry Association. Member of the Supervisory Board of Ilmarinen Mutual Pension Insurance Company and member of the Advisory Board, National Emergency Supply Agency.



Matti Lehmus

Executive Vice President, Oil Products and Renewables
Born 1974. M.Sc. (Eng.) and eMBA. Member of the Neste Executive Board since 2009.

Joined the company in 1997. Responsible for the Oil Products and Renewables business area. Previously served as Executive Vice President of the Oil Products business area (2009–2010), Vice President of the Base Oils business in the Specialty Products Division (2007–2009), Vice President of Oil Refining Business Development (2007) and Gasoline Exports and Trading Manager (2004–2007) in the Oil Refining Division. Chairman of the Board of the Finnish Petroleum Federation.



Sakari Toivola

Executive Vice President, Oil Retail
Born 1953. M.Sc. (Eng.). Member of the Neste Executive Board since 2007.

Joined the company in 2007. Responsible for oil retailing in Finland and the Baltic Rim, direct sales, and LPG. Served previously as Managing Director (2002–2007) and Retail Sales Director (2001–2002) of oy Esso ab (Finland). Member of the Boards of Directors of Luottokunta Oy and the Finnish Petroleum Federation.



Simo Honkanen

Senior Vice President, Sustainability and HSSE

Born 1958. M.Sc. (Econ.). Member of the Neste Executive Board since 2009.

Joined the company in 2006. Responsible for the Sustainability and HSSE corporate function. Served previously as Vice President, Marketing and Stakeholder Relations in the Renewable Fuels division (2008–2009), 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 Finland and Sweden (1985–2005).



Hannele Jakosuo-Jansson

Senior Vice President, Human Resources

Born 1966. M.Sc. (Eng.). Member of the Neste Executive Board since 2006.

Joined the company in 1990. Responsible for the Group's Human Resources function. Served as Laboratory and Research Manager at the Technology Center (1998–2004) and Vice President, Human Resources at Oil Refining (2004–2005). Member of Tekes board.



Osmo Kammonen

Senior Vice President, Communications, Marketing and Public Affairs

Born 1959. M.Sc. (Laws). Member of the Neste Executive Board since 2004.

Joined the company in 2004. Responsible for the Group's communications, marketing and public affairs activities. 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.



Lars Peter Lindfors

Senior Vice President, Technology and Strategy

Born 1964. Ph.D. (Tech.), MBA. Member of the Neste Executive Board since 2009.

Joined the company in 2007. Responsible for Research and Technology, Neste Jacobs, strategic development, business excellence, and investment management. Served previously as Vice President for the company's Research and Technology unit (2007–2009), as Executive Vice President, Renewal and Development at Perstorp Group (2004–2007), Executive Vice President, R&T&D at Perstorp Group (2001–2004), and prior to that at Neste (1989–2001) as R&D Manager and various other positions.



Ilkka Poranen

Senior Vice President, Production and Logistics

Born 1960. M.Sc. (Eng.). Member of the Neste Executive Board since 2009.

Joined the company in 1985. Responsible for Production and Logistics. Previously served as Vice President, Corporate Safety (2007–2009), Vice President, Base Oils (1997–2007), and as Plant Manager at the Porvoo Refinery (1986–1997).



Ilkka Salonen

Chief Financial Officer

Born 1965. M.Sc. (Econ.), CEFA. Member of the Neste Executive Board since 2009.

Joined the company in 2009. Responsible for the Group's financial management, investor relations, risk management, corporate IT, and 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. Born 1963. M.Sc. (Laws).

Joined the company in 2003. Secretary to the Neste Executive Board and Board of Directors since 2004. 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

Neste Executive Management Board

The Neste Executive Management Board (NEMB) is responsible for leading and setting operational business targets and monitoring progress on achieving them.

2011

The Neste Executive Management Board comprised the President & CEO, business area Executive Vice Presidents, the CFO, and the Senior Vice President, Production and Logistics; and met 9 times in 2011.

Company 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 election.

The Auditor is responsible for auditing the Company's accounts, its financial statements, the Review of the Board of Directors, and Neste Oil's administration.

The Auditor's Report covers the Review by the Board of Directors, the Consolidated Financial Statements, and the Parent Company's Financial Statements, and can be found in the [Financial Statements section](#) of the Annual Report.

2011

Ernst & Young Oy was elected as Neste Oil's Auditor on 14 April 2011, with Anna-Maija Simola, Certified Public Accountant, as main responsible auditor. Ernst & Young have acted as the Company's Auditor since 2007, when the function was last put out to tender.

Fees charged by the statutory auditor, EUR 1,000

	2011	2010
Audit fees	1,044	995
Others	685	338
Total	1,729	1,333

Internal Audit

The Internal Audit Unit supports Neste Oil's Board of Directors, the Board's Audit Committee, and management in overseeing the Company's activities and securing its operations by carrying out internal audits and providing consultative assistance. The goal of Internal Audit is to generate added value by making recommendations designed to improve the Company's operations. Internal Audit is an independent function and its activities are based on international professional internal audit standards and rules of ethics.

The central task of Internal Audit is to audit the operations of Neste Oil's units and functions on a regular basis and evaluate their internal controls, risk management, and administrative practices. The areas to be audited are determined by the projected financial and operational risks concerned. Internal Audit can also carry out special assignments on behalf of management or the Board of Directors' Audit Committee.

Internal Audit reports to the Board of Directors' Audit Committee and administratively to the President & CEO. The Audit Committee is responsible for approving the Internal Audit Charter and Internal Audit's annual operating plan. As a staff function, Internal Audit does not have any direct authority over the activities it reviews.

Misconduct

Preventing misconduct in the Company's operations is one of Neste Oil's primary goals. Continuous efforts are made to identify and evaluate the risks associated with possible misconduct.

Neste Oil observes a number of principles and guidelines to prevent and deal with 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 using fraudulent or illegal means, and
- costs generated in a fraudulent or illegal way.

Regulations also include principles covering how supply, purchase, and service contracts should be negotiated. The Neste Oil Code of Conduct defines the general approach that every Company employee is expected to follow.

Should employees notice or suspect misconduct, they can inform their manager or supervisor, the head of Internal Audit, the head of the Group's Corporate Security Unit, HR personnel, or anonymously via an online tool. Internal Audit is responsible for evaluating cases that are reported and investigating them thoroughly if appropriate. Legal Affairs is responsible for any legal action taken in response. Misconduct and suspected misconduct is reported to the Board of Directors' Audit Committee.

2011

During 2011, Internal Audit focused on the Company's overseas operations, data security issues, and the Renewable Fuels business area. Together with risk management personnel, Internal Audit developed a more systematic approach for evaluating the risk of misconduct in the Company's units and operations. Internal Audits' IT capabilities were also enhanced.

Ethics Online, Neste Oil's online tool for reporting misconduct and other activity incompatible with the Company's Code of Conduct, which was introduced in 2009, was further developed; and employee communication related to the Code was extended. No cases of misconduct took place in 2011 that would have had a material impact on the Company's financial performance.

Read more about internal communications related to the Code of Conduct in the [Sustainability section](#) of the Annual Report.

Insider guidelines

Neste Oil complies with the Insider Guidelines of NASDAQ OMX Helsinki Ltd. that came into force as of 9 October 2009. The Company has also approved its own Guidelines for Insiders, which are stricter in some areas. The Company's closed window, 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 supervizes compliance with insider guidelines by checking disclosed information with those concerned annually. The Company's General Counsel is responsible for the coordination and supervision of insider matters. The head of each common function or business area is responsible for supervising insider matters within his or her organization.

The members of the Board of Directors and the President & CEO, the Company's main responsible auditor, and the members of the Neste Executive Board and its secretary have all been classified as insiders subject to a declaration requirement. The holdings of Company securities by 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 (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 report or financial statements bulletin for that period. The minimum period concerned is always 28 days prior to the date of publication of the interim report or the financial statements bulletin ('closed window'). The publication dates of interim reports and financial statements bulletins are shown in the financial calendar at <http://nesteoil.com/investors>.

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

Performance Management Process

The Neste Oil Performance Management Process plays an essential role in helping the Group attain its strategic goals and reinforcing its performance-driven mindset.

Excellent operational performance is based on setting challenging targets, executing action plans, reviewing progress, giving feedback, and measuring results and performance.

From a financial reporting point of view, Neste Oil's Performance Management Process consists of the monthly Management Reporting Process and the quarterly Performance Review Process. At Group level, results and information in management reporting and performance reviews are compared to strategic goals and business plans and to analyses and planned corrective actions throughout the year.

Business areas and common functions follow a similar approach, but emphasize a more detailed analysis and definition of corrective actions, as well as continuous improvement and prioritization of actions and development projects.

Performance management



Main features of internal control and risk management systems pertaining to the financial reporting process

Objectives

The objective of internal control in Neste Oil is to ensure efficient implementation of the Company's strategy and effective operations, assure compliance with both internal instructions and laws and regulations, achieve appropriate financial reporting, and prevent fraud and other misconduct.

The main responsibility for internal control lies with the line organizations of business areas and common functions. Identifying the main risks of processes and defining adequate control points are essential to ensuring an appropriate level of control. In addition to daily monitoring, line organizations evaluate their level of internal control by reviewing, assessing, and auditing their processes, and develop their systems by taking corrective actions as needed.

Line management also has primary responsibility for organizing sufficient control to ensure compliance with the Company's overall management principles, policies, principles, and instructions.

Neste Oil's internal control framework is based on the COSO (The Committee of Sponsoring Organizations of the Treadway Commission) framework.

Roles and responsibilities

Under the Finnish Companies Act, the Board of Directors is responsible for ensuring that there is adequate control over the Company's accounts and finances. Responsibility for arranging this control is delegated to the President & CEO, who is required to ensure that the Company's accounts are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

The heads of business areas and common functions are responsible for establishing and maintaining adequate and effective controls in their operations. Responsibility for the practical implementation of this is delegated to each organizational level. Managers at each of these levels are responsible for implementing corporate principles and instructions in their organization, and for assessing the effectiveness of controls as often as needed.

To ensure sufficient control and support the line organization, Neste Oil's controllers and their teams have an independent role in controlling their business line. In certain areas, such as credit and counterparty risks, Risk Management has risk control responsibility. In respect of financial reporting, Finance has a key role in control activities. Other corporate functions also play a role in assisting, assuring, and monitoring the operation of internal control procedures, such as HSSE audits.

Internal Audit has overall responsibility for evaluating that internal control processes and procedures operate adequately and effectively.

The Audit Committee oversees the Company's finances, financial reporting, risk management, and internal auditing.

Control environment

Neste Oil's values and management systems are the foundation of the control environment and provide the background for shaping people's awareness and understanding of control issues. With respect to financial reporting:

- the President & CEO and corporate management are responsible for underlining the importance of ethical principles and correct financial reporting
- the Audit Committee, appointed by the Board of Directors, is responsible for overseeing the financial reporting process and related controls
- clearly defined financial reporting roles, responsibilities, and authorities provide a clear framework for everyone, and
- the structure of the organization and the resources allocated within it (segregation of duties, adequate financial reporting competencies recruited and retained) are designed to provide effective control over financial reporting).

Risk assessment

The Group's risk management governance is based on the 'three lines of defense' model, which distinguishes between:

1. Business areas and common functions owning and managing risk.
2. Risk management specialists responsible for controlling, consulting, and developing systems.
3. The Audit Committee, which provides independent assurance of the overall efficacy of the Company's risk management.

There are three risk assessment elements at Neste Oil. An Enterprise Risk Management (ERM) process provides a systematic approach for identifying threats and opportunities related to strategic targets and business plans. Risk manuals consist of risk principles, guidelines, and instructions. Risk awareness across the organization is based on proactive thinking and behavior among individual employees.

As a prerequisite for risk assessment, the organization's objectives need to be established. With respect to financial reporting, the general objective is to have reliable reporting and ensure that transactions are recorded and reported completely and correctly.

Based on risk assessment, the requirement for internal control has been included in the Principle and Instruction for Control over Financial Reporting.

Control activities

Control activities are instructions, guidelines, and procedures established and executed to help ensure that the actions identified by management as necessary to address the relevant risks are carried out effectively. Policies and other principles to be followed are documented in Neste Oil's management systems. The most important areas from the standpoint of financial reporting are included in the Controller's Manual.

Neste Oil's entity-level and process-level control activities with respect to reliable financial reporting are described in the Principle and Instruction for Control over Financial Reporting. These establish the

minimum controls to be used and include controls related to transactions in specific processes, as well as controls carried out as part of the monthly reporting process. Typical control activities include authorizations, automatic or manual reconciliations, third-party confirmations, control reports, access controls to IT systems, and analytical reviews.

Internal communications

Information and communication systems enable Neste Oil's personnel to capture and exchange the information needed to conduct, manage, and control operations. With respect to financial reporting, this means that personnel have access to adequate information and communication regarding accounting and reporting principles.

The main means of communicating the matters relevant for appropriate financial reporting are the Controller's Manuals used at common function and business area levels, which include instructions covering accounting principles, planning, estimating, and reporting, as well as periodic controllers' meetings.

Monitoring

Monitoring is a key component of the internal control system and enables management and the Board of Directors and the Audit Committee to determine whether the other components of the system are functioning as they should and to ensure that internal control deficiencies are identified and communicated in a timely manner to those responsible for taking corrective action and to management and the Board as appropriate.

Effective monitoring is based on an initial evaluation of controls and whether they are effective in mitigating the risks identified. The ongoing operation of controls is regularly monitored as part of regular management activities, as the efficacy of controls can diminish over time due to changes in the operating environment that affect the risks that controls are designed to mitigate, or due to changes in the controls themselves caused by changes in processes, IT, or personnel.

2011

In 2011, Neste Oil concentrated on developing internal control processes, especially in inventory management, and on monitoring the effectiveness of the controls of financial reporting related to the Company's most important processes.

Risk management

Neste Oil's business, personnel, assets, and operating environment are exposed to a wide range of operational risks due to the extent, diversity, and nature of the company's business activities and areas. Neste Oil recognizes that risk is an integral and unavoidable component of its business and employs continuous operational activities to tackle these risks. Neste Oil promotes a risk-aware culture in all areas of the company's decision-making.

Neste Oil focused on managing risks related to volatile commodity and foreign exchange markets during 2011. The risk management principles employed in margin hedging were reviewed. Neste Oil's advanced, high conversion refineries give the company reasonable natural protection in its Oil Products' business, which is essentially a low-margin activity by definition. The normal margin hedging ratio used by the Company is therefore relatively low. A higher hedging ratio can be used if required by the Group's financial position. In the Renewable Fuels business, a significant proportion of sales volumes are hedged due to the lack of natural margin protection in renewable products.

Uncertainties related to the development of the global economy resulted in volatility in the oil market during 2011. This volatility is expected to continue, as solutions for the challenges facing economies around the world have yet to be found. In order to secure the Group's financial position, Neste Oil has hedged approximately 30% of its Oil Products volumes for 2012.

Neste Oil's foreign exchange risks have been hedged according to the company's corporate risk management principles.

The recognized risk related to the slow progress of biofuel legislation in Europe and the US materialized and resulted in lower-than-expected sales volumes at Renewable Fuels for the major part of 2011.

Read more about financial risk management in the [Financial Statements section](#) of the Annual Report.

In order to secure the Group's financial position, Neste Oil has hedged approximately 30% of its Oil Products volumes for 2012.

The objective, framework, and process of risk management

The Corporate Risk Management Policy and Principles approved by the Board of Directors define the risk management principles for managing the risks associated with the Group's strategic and operational targets and those of its business areas and common functions. The Board is also responsible for approving Neste Oil's Treasury Risk Policy and Credit and Counterparty Risk Management Principles. Business areas and corporate common functions have additional principles, instructions, and procedures related to risk management, approved by the President & CEO or a member of the Neste Executive Board.

Neste Oil's business, personnel, assets, and operating environment are exposed to a wide range of operational risks due to the extent, diversity, and nature of the company's business activities. Continuous operational activities are involved in tackling risks in functions such as Finance, Sustainability and HSSE, and ICT, as well as those related to corporate reputation, legal affairs, technology, investments, and HR.

Neste Oil recognizes that risk is an integral and unavoidable component of its business and is characterized by both threats and opportunities. Neste Oil promotes a risk-aware culture in all decision-making.

Neste Oil's Risk Management Policy emphasizes:

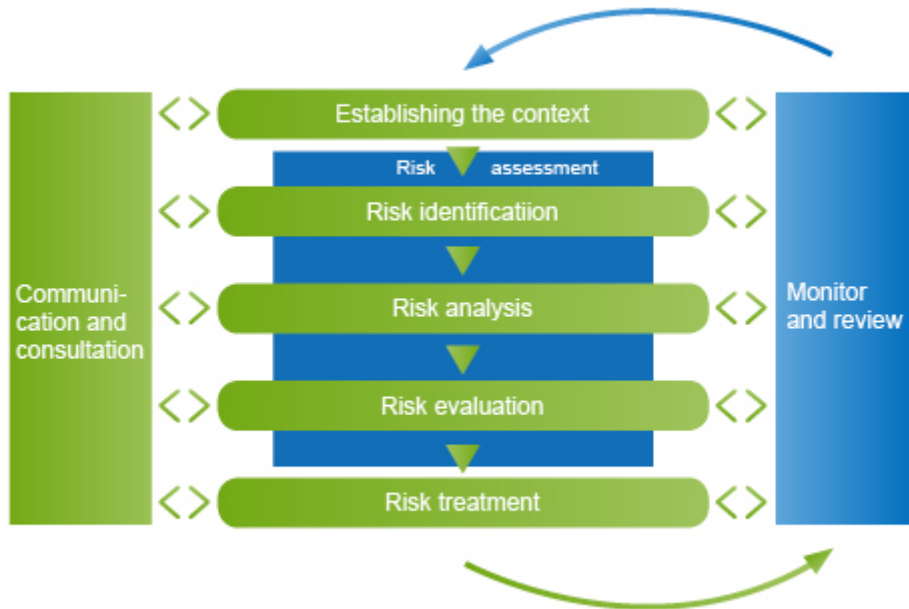
- the awareness and proactive management of risks
- the value of risk management in enhancing opportunities and reducing threats, and thereby gaining competitive advantage
- the importance of sufficient risk treatment and risk control, particularly in respect of HSSE and sustainability
- the benefits of managing risks as an integrated part of planning, decision-making, and operational processes with a defined structure of roles and responsibilities.

Neste Oil's risk management framework is based on three risk assessment elements:

1. An Enterprise Risk Management (ERM) process that provides a systematic approach to identifying threats and opportunities related to strategic targets and performance plans.
2. Risk manuals for specific risk disciplines. Risk manuals and defined processes cover areas such as credit and counterparty risk principles, price risk management principles and instructions, treasury principles and instructions, and proprietary trading manuals and instructions.
3. Risk awareness across the organization, based on proactive thinking and behavior among individual employees.

Risk management is handled through these three elements by following the basic risk management process (see Risk management process graphic).

Risk management process



Risk management governance

The Board of Directors is responsible for setting the Group's risk appetite and approving the Corporate Risk Management Policy and Principles.

Risk management governance is based on the 'three lines of defense' model (see the Risk management governance graphic), which distinguishes between:

1. Business areas and common functions owning and managing risk
2. Risk management specialists responsible for controlling, consulting, and developing systems, and
3. The Audit Committee, which provides independent assurance of the overall efficacy of the Company's risk management.

Risk management line responsibility

As part of the first line of defense, the President & CEO, supported by the Neste Executive Board, has overall responsibility for the management of risks. A Risk Management Committee steered by the Chief Financial Officer provides a comprehensive understanding of the overall risks faced by the organization to the Neste Executive Board, particularly in respect of risks that threaten the Company's strategy and performance plans, as well as investments and new business models. Management and staff in Neste Oil's business areas and common functions are responsible for assessing and managing risks related to planning, decision-making, and operational processes in their particular areas.

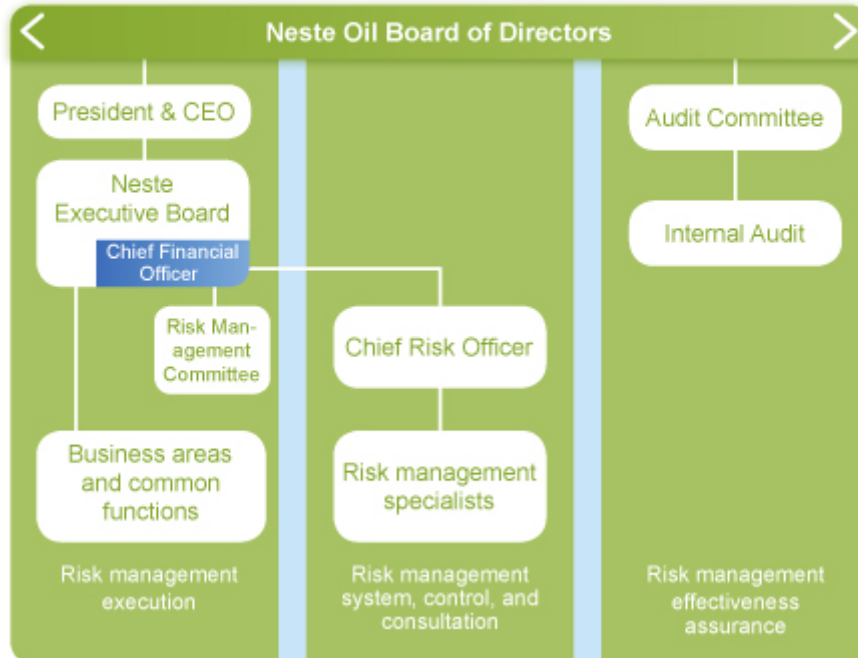
Risk management control and consultation

The second line of defense comprises the Chief Risk Officer, supported by the risk management specialists in the Corporate Risk Management function and other common functions and business areas. These personnel are responsible for overseeing specific risk disciplines, consulting and facilitating risk management processes, and developing risk management systems.

Risk management effectiveness assurance

The third line of defense, led by the Audit Committee, is designed to provide independent assurance on the efficacy of governance and risk management systems. Internal Audit plays a key role in the third line of defense and provides assurance to the Audit Committee.

Risk management governance



Risk reporting

Corporate risk reporting to the Board of Directors, the Audit Committee, the President & CEO, and the Neste Executive Board takes place according to the following main principles:

- risks threatening strategic and performance plan targets are reported as part of the corporate planning process
- risk treatments are reported through the Risk Management Committee as part of the corporate review process
- reporting on the overall financial risk situation is provided as part of monthly reporting.

Risk relating to Neste Oil's business

The nature of the oil refining industry, regardless of the feedstocks used, exposes Neste Oil to market, counterparty, contractual, and operational risks, as well as other risks in areas such as sustainability, health, safety and the environment, IT and security, and general political and regulatory issues.

In particular, risks related to legislation, technology, and intellectual property rights, as well as feedstock supply, are likely to be of greater significance in renewable fuels than in traditional oil refining. Any of the above risks, either alone or jointly, may have a materially adverse effect on Neste Oil's business, financial status, operational result, and future prospects.

Changes in the refining margins of petroleum products and renewable fuels may also have a materially adverse effect on Neste Oil. The company's financial result is primarily affected by the price differential or margin between refined product prices and the price of the crude oil, vegetable oil, and other feedstocks used in refining.

The cost of the feedstocks Neste Oil acquires and the price at which it can ultimately sell its products depend on a variety of factors largely beyond the company's control. Historically, refining margins have been volatile and are likely to continue to remain so in the future. Future volatility in refining margins may have a material adverse effect on Neste Oil's business, financial status, operational result, and future prospects.

Major risks and uncertainties related to Neste Oil's business:	Mitigation actions include but are not limited to:
Feedstock price	
<ul style="list-style-type: none"> ● The volatility of feedstock prices exposes Neste Oil's inventory value and EBIT to price risks under IFRS accounting. The comparable EBIT that Neste Oil reports is not exposed to this risk, as it is based on current cost valuation. 	<ul style="list-style-type: none"> ● From a risk management perspective, Neste Oil's inventory consists of two components; base inventory and 'transaction position'. The latter is hedged using oil and vegetable oil derivatives. ● See: Financial Statements, Note 3, Commodity price risks.
Feedstock price differences	
<ul style="list-style-type: none"> ● Changes caused by supply and demand related to the price differentials of specific crude grades (such as the price differential between Russian Export Blend and Brent crude). ● Crude oil may also be exposed to adverse short-term physical market strength. 	<ul style="list-style-type: none"> ● Crude oil exposure is sometimes reduced by 'locking' the following crude oil differentials: that between Brent Dated and Brent Future/Forward contract and that between Urals and Brent Dated. ● Fixed price premiums on supply contracts.
Margin	
<ul style="list-style-type: none"> ● Uncertainty related to the development of the world economy, which impacts demand for petroleum products generally and diesel fuel in particular. ● Development of global oil refining capacity and, in particular, capacity in the products refined by Neste Oil. ● Changes in the costs related to alternative ways of fulfilling regulated bio-mandates. ● Fluctuations between crude oil and product prices, as well as price differentials between vegetable oil and renewable fuel prices. 	<ul style="list-style-type: none"> ● Neste Oil hedges the components of its refining margins with derivative transaction instruments. Hedging transactions concentrate on the components of Neste Oil's total refining margin. See: Financial Statements, Note 3, Refining margin risk. ● Neste Oil monitors the development of worldwide refining capacity and aims to develop the structure of its own refining capacity. ● Neste Oil's research and technology activities develop the Company's products and technology and aim to extend the range of raw materials that Neste Oil can use in its processes.

Major risks and uncertainties related to Neste Oil's business:	Mitigation actions include but are not limited to:
Product price premiums	
<ul style="list-style-type: none"> ● Availability of price arbitrage for refined products between different geographical markets. ● Changes in the mandatory product specifications used by the EU and governmental authorities for refined products, such as the EU Fuel Quality Directive. ● Pricing and other actions taken by competitors that impact the market. 	<ul style="list-style-type: none"> ● Commodity derivative contracts are used to manage price arbitrage. ● Neste Oil aims to make an active contribution to the development of product specifications and legislation in its key market areas. ● Neste Oil has a strong retail network around the Baltic, which provides a captive market for its refining operations.
Sales volumes	
<ul style="list-style-type: none"> ● Pace of the execution of renewable fuel legislation, such as the EU Renewable Energy Directive (RED), national regulations, and the United States Renewable Fuel Standard (RFS-2). ● Operational availability of Neste Oil's refineries. 	<ul style="list-style-type: none"> ● Neste Oil aims to make an active contribution to the development of product specifications and legislation in its key market areas. ● High levels of operational availability are promoted through preventive maintenance and safety work at all the Company's refineries.

Major risks and uncertainties related to Neste Oil's business:	Mitigation actions include but are not limited to:
Exchange rate	
<ul style="list-style-type: none"> Trading in commodities and refined products mainly takes place in US dollars, which exposes Neste Oil to USD/Euro exchange rate volatility. 	<ul style="list-style-type: none"> Neste Oil limits the uncertainties resulting from changes in foreign exchange rates by hedging its currency risks in contracted and forecasted cash flows and balance sheet exposures. See: Financial Statements, Note 3, Foreign exchange risk.
Costs	
<ul style="list-style-type: none"> Changes in the cost and availability of logistics services for feedstocks and refined products. Changes in environmental and other regulations that could require Neste Oil to make substantial investments without necessarily increasing the capacity or operational efficiency of its refineries. Changes in the cost of capital. 	<ul style="list-style-type: none"> Neste Oil aims to link its environmental investments to productivity investments and cooperate constructively with all its stakeholders. Neste Oil is exposed to interest rate risk primarily through its interest-bearing net debt. See: Financial Statements, Note 3, Interest rate risk.
Hazard risk	
<ul style="list-style-type: none"> Hazard risk is defined as the risk of financial losses arising from events leading to the damage of physical or intellectual assets, business interruption, personnel injuries, or environmental, product, or other liabilities. Risks in the area of marine transportation may, if realized, have a major cost effect. 	<ul style="list-style-type: none"> High levels of operational excellence are promoted through instructions and principles covering areas such as process-, product- and behavior-based safety, security, marine risk management, crisis management, change management, and business continuity management. In addition to preventive risk management measures, major hazard risks are covered by insurance policies.

Major risks and uncertainties related to Neste Oil's business:	Mitigation actions include but are not limited to:
Credit and counterparty risk	
<ul style="list-style-type: none"> • Credit and counterparty risk arises from sales, hedging, and trading transactions, as well as cash investments. Risk is linked to the potential failure of counterparties to meet their contractual payment obligations, and depends on the creditworthiness of counterparties and the size of the exposure concerned. 	<ul style="list-style-type: none"> • Credit risk limits are set at Group level, designated by different levels of authorization and delegated to Neste Oil's business areas. • Counterparties are screened and evaluated in respect of their creditworthiness to decide whether open credit lines are acceptable or collateral or other credit enhancements such as letters of credit, bank guarantees, or Parent Company guarantees have to be posted. • See: Financial Statements, Note 3, Credit and counterparty risk.

More information on the market, foreign exchange, interest rate risks, and how they are mitigated can be found in the [Financial Statements](#) section of the Annual Report.

More information on [environmental](#) and [safety risks](#) can be found in the Sustainability section of the Annual Report.

Remuneration and shareholdings

Neste Oil follows remuneration principles for senior management approved by the Board, recommendations made by the Ownership Steering Department of the Prime Minister's Office, and the 2010 Corporate Governance Code covering Finnish listed companies. The remuneration principles and incentive programs covering senior management have been developed to secure Neste Oil's competitiveness in the oil industry. The Company may also pay annual short-term incentives to senior managers and other personnel.

Remuneration

Neste Oil's Board of Directors is responsible for making decisions on compensation and incentive arrangements for Group management and key personnel based on proposals made by its Personnel and Remuneration Committee. The Company follows remuneration principles for senior management approved by the Board, recommendations made by the Ownership Steering Department of the Prime Minister's Office, and the 2010 Corporate Governance Code covering Finnish listed companies. The Remuneration Statement required by the latter Code can be consulted at <http://nesteoil.com/>.

Short-term incentives

The Company may pay annual short-term incentives to senior managers and other personnel in addition to their salary and fringe benefits. The criteria for any short-term incentives are based on individuals' success in reaching their personal targets 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.

2011

Neste Oil paid a total of EUR 20.5 million in performance-based, short-term incentives to personnel in spring 2011; this figure included pension and social insurance contributions. The Group-level performance indicators used in 2011 were Neste Oil's adjusted comparable operating profit, leverage ratio, and fixed costs.

Incentive plan for key personnel

The Board of Directors decided on 16 December 2009 to establish a new share-based incentive plan for the Group's key personnel – to align the objectives of Neste Oil's owners and key personnel through such things as increasing the value of the Company and committing key personnel to the Company by offering them a competitive reward plan based on owning Company shares. The Board is responsible for annually selecting the members of Neste Oil's senior management entitled to participate in this plan (LTI scheme). Currently, 77 members of Neste Oil's management come within the scope of the plan, which complies with the recommendations of the Ownership Steering Department of the Prime Minister's Office.

The plan includes three three-year earning periods beginning in 2010, 2011, and 2012. The Board of Directors will decide the earnings criteria and targets to be met, as well as the maximum level of the reward payable, for each earning period in the December preceding each earning period. The earnings criteria for the 2010–2012, 2011–2013, and 2012–2014 periods are sales volumes at Renewable Fuels and the total shareholder return on Neste Oil's stock in relation to the Dow Jones Nordic Return Index.

Any possible payments will be made partly in Company shares and partly in cash in 2013, 2014, 2015, and 2016. The maximum sum payable may not exceed the annual gross salary of the year in question during any earning year. The proportion to be paid in cash will cover taxes and any tax-related costs.

The plan prohibits the transfer of shares for a period of three years from the end of the earning period, i.e. the length of the plan is six years for each share allocation. Following this, key personnel must retain 50% of any shares received on the basis of the plan until the total value of the shares held corresponds to their annual gross salary. This obligation shall be valid for the duration of a person's employment or service with the Group.

At the time of the allocation the maximum rewards as amount of shares (including the proportion to be paid in cash) were:

- approx. 809,000 Neste Oil Corporation shares (earning period 2010–2012),
- approx. 842,000 Neste Oil Corporation shares (earning period 2011–2013), and
- approx. 1,093,000 Neste Oil Corporation shares (earning period 2012–2014).

Remuneration principles for senior management

The Board of Directors is responsible for making decisions on remuneration and incentives for Group management and key personnel based on proposals by its Personnel and Remuneration Committee. The Committee, assisted by Company experts, drafts proposals to be put before the Board covering salary increases for senior management, the various elements involved in determining remuneration levels, performance targets, and any possible changes in the Company's remuneration principles that are considered necessary. The Committee makes use of data on comparative salaries in other companies and outside specialists where appropriate. The remuneration paid to senior management is discussed by the Board once a year and at other times where appropriate. The Committee reviews the Company's remuneration principles twice a year, unless there are appropriate grounds for more urgent consideration.

The intention of the remuneration principles followed in respect of senior management is to:

- align the remuneration provided to managers with Neste Oil's strategic objectives, operational business targets, and core values
- encourage and motivate senior management to achieve better performance
- reward individuals based on achieved targets and excellent performance
- attract and retain top talent
- underline the shared interests of owners and key personnel, and
- increase the value of the Company and shareholder value.

The principles guiding remuneration are as follows:

- Remuneration shall be fair and competitive, but not market-leading, and shall be based on individual and collective performance and the Company's financial performance
- Neste Oil treats senior managers and key personnel equally and impartially, regardless of their gender, national origin, age, religion, political opinion, or other similar factors
- Remuneration shall be appropriate and based on the needs and requirements of Neste Oil
- Remuneration shall support the essential foundations of Neste Oil's business and its strategic agenda, with an emphasis on performance and sustainable long-term performance potential
- The Company's largest shareholder, the Finnish State, provides guidelines related to remuneration at Neste Oil, and these are reviewed and taken into account by the Board of Directors
- The remuneration principles covering senior management should align the interests of shareholders, the Company, and senior managers
- These principles cover senior managers and specific key personnel working for Neste Oil.

The two key components of senior managers' remuneration are:

1. A base salary benchmarked internationally against peer companies operating in the same labor markets and, in Finland, primarily against listed companies and secondarily industrial companies. This ensures that managers have a competitive base salary on the local market.
2. A short-term incentive program that rewards managers on the basis of the annual performance of their unit, organization, and the Company as a whole. This is tied to the financial and strategic performance goals approved by the Board of Directors and approved individual performance goals that are set annually as part of the performance management process by managers and their superiors.

In addition, overall remuneration includes the following components:

- a long-term, share-based incentive program that is discretionary in nature and restricted to a limited number of participant by the Board of Directors
- other benefits benchmarked against local peers
- recognition awards made under separate Neste Oil guidelines
- intangibles linked to Neste Oil's concept of wellbeing at work, including challenging responsibilities, career opportunities, personal development, management development, an inspiring workplace, and a positive balance between work and leisure time.

The remuneration principles and incentive programs covering senior management have been developed to secure Neste Oil's competitiveness in the oil industry as a company that is a pioneer in the industry and has set itself the goal of becoming the world's leading producer of renewable fuels.

The remuneration system detailed above is intended to ensure that Neste Oil can recruit and retain capable managers and key personnel and motivate them to work for Neste Oil's success and help the Company achieve its strategic goals. Neste Oil's remuneration policy for senior management is intended to promote the Company's long-term financial success and support managers in their work in line with the Company's interests and those of shareholders.

Remuneration and shareholdings of the Board of Directors

The Annual General Meeting (AGM) is responsible for remuneration matters related to the Board of Directors.

The AGM in 2011 decided to pay the following remuneration to the Board:

- Chairman, EUR 66,000 a year
- Vice Chairman, EUR 49,200 a year
- Members, EUR 35,400 a year.

In addition, members participating in Board meetings and meetings convened by the Board's committees receive a payment of EUR 600 per meeting, together with their traveling costs, in accordance with the Company's travel policy. A payment of double this, EUR 1,200 per meeting, is made to Board members living outside Finland.

Board members are not covered by the Company's remuneration systems and do not receive any performance- or share-related payments.

The shareholdings of the members and the remuneration paid to them are detailed in the following table. Information on shareholdings cover Neste Oil shares directly, through organizations in which those concerned have a controlling interest, and in their capacity as trustees.

Shareholdings and remuneration of the Board of Directors as of 31 December 2011

	Shareholdings as of 31 December			Annual remuneration, EUR	Attendance payments, EUR	Annual remuneration, EUR
	2011	2010	Change	2011	2011	2010
Timo Peltola	15,000	6,250	+8,750	66,000	9,600	66,000
Jorma Eloranta*	10,500	200	+10,300	36,900 ¹⁾	8,400	-
Michiel Boersma	5,000	5,000	-	35,400	19,200	35,400
Maija-Liisa Friman	6,000	3,000	+3,000	35,400	10,200	26,550 ³⁾
Nina Linander	1,100	1,100	-	35,400	21,600	35,400
Laura Raitio*	1,500	-	+1,500	26,550 ²⁾	8,400	-
Hannu Ryöppönen	3,500	-	+3,500	35,400	21,600	35,400
Markku Tapio	-	-	-	35,400	10,200	35,400

* Board member since 14 April 2011, when Mikael von Frenckell and Ainomaija Haarla left Neste Oil's Board of Directors.

¹⁾ Annual remuneration paid to the Vice Chairman of the Board was 49,200, of which Jorma Eloranta received remuneration for the period between 14 April and 31 December 2011.

²⁾ Annual remuneration paid to the Member of the Board was 35,400, of which Laura Raitio received remuneration for the period between 14 April and 31 December 2011.

³⁾ Annual remuneration paid to the Member of the Board was 35,400, of which Maija-Liisa Friman received remuneration for the period between 15 April and 31 December 2010.

Members of the Board 1 January – 14 April 2011*, shareholdings and remuneration

	Share- holdings as of 14 April 2011	Share- holdings as of 31 Decem- ber 2010	Change	Annual remune- ration, EUR 2011	Atten- dance pay- ments, EUR 2011	Annual remune- ration, EUR 2010
Mikael von Frenckell	100,000	100,000	-	12,300	-	49,200
Ainomaija Haarla	2,200	2,200	-	8,850	1,800	35,400

* Mikael von Frenckell and Ainomaija Haarla left Neste Oil's Board of Directors at the AGM held on 14 April 2011.

Regularly updated data can be consulted at <http://nesteoil.com/investors>

Remuneration and shareholdings of the Supervisory Board

In accordance with a proposal by the State of Finland and the Finnish Shareholders Association, the Supervisory Board was abolished by the AGM held on 14 April 2011 and all members of the Supervisory Board were re-elected for a short term of office ending 5 May 2011 when the appropriate amendments to the company's Articles of Association were registered. No remuneration was paid to the Chairman, Vice Chairman, or other members of the Supervisory Board for this short period between the Annual General Meeting and the registration of the relevant amendments to the Company's Articles of Association.

Remuneration paid to the Supervisory Board between 1 January and 14 April was as follows:

- Chairman, EUR 1,000 a month
- Vice Chairman, EUR 600 a month
- Members, EUR 500 a month.

In addition, members participating in Supervisory Board meetings received a payment of EUR 200 per meeting, together with their traveling costs, in accordance with the Company's travel policy.

Supervisory Board members Anne-Mari Virolainen owned 125 Neste Oil shares and Kimmo Tiilikainen 200 Neste Oil shares as of 5 May 2011.

Supervisory Board members were not covered by the Company's remuneration systems and did not receive any performance- or share-related payments.

Supervisory Board remuneration, 1 January – 14 April 2011

2011	Membership in the Supervisory Board	Remuneration, EUR	Attendance payments, EUR
Heidi Hautala	1.1.2011–5.5.2011	3,000	-
Kimmo Tiilikainen	1.1.2011–5.5.2011	1,800	200
Esko Ahonen	1.1.2011–5.5.2011	1,500	-
Timo Heinonen	1.1.2011–5.5.2011	1,500	200
Markus Mustajärvi	1.1.2011–5.5.2011	1,500	200
Miapetra Kumpula-Natri	1.1.2011–5.5.2011	1,500	200
Anne-Mari Virolainen	1.1.2011–5.5.2011	1,500	200

Remuneration and shareholdings of the President & CEO and the Neste Executive Board

The Board of Directors is responsible for deciding the terms of employment and remuneration of the Company's President & CEO, together with the remuneration principles observed in respect of senior management. The Personnel and Remuneration Committee is responsible for making proposals in this area and for monitoring and evaluating the performance of the President & CEO and top managers.

President & CEO

The salary and fringe benefits paid to the President & CEO in 2011 totaled EUR 53,750 a month. In addition to these payments, the President & CEO can receive an annual performance-related bonus, which may not exceed 40% of his or her annual salary and fringe benefits. The criteria for this bonus (short-term incentive) are based on the President & CEO's success in achieving his or her personal targets and on the Company's financial performance and success in achieving its corporate targets. The President & CEO also comes within the scope of a long-term incentive plan approved in 2009. The maximum sum payable as part of this program may not exceed participants' annual gross salary paid during any earning year covered by the program.

The Company may terminate the President & CEO's employment by giving a six-month period of notice, and the President & CEO may resign with the same period of notice. Should the Company decide to give notice of termination, the President & CEO shall be entitled to his or her salary during the six-month period of notice, together with a severance payment equivalent to 18 months' salary.

The retirement age of the President & CEO is 60 years, and his or her pension is based on a defined benefit plan. The pension paid is 60% of his or her retirement salary, equivalent to a monthly salary calculated on the basis of statutory pension insurance contributions made over the previous 10 years. The pension is insured by an insurance company, and insurance contributions paid during 2011 totaled EUR 368,582.

Other agreements and pension arrangements for senior management

Neste Executive Board members are paid basic salary and they are entitled to fringe benefits. In addition, they can receive annual performance-based remuneration equivalent to a maximum 40% of their annual salary including fringe benefits. They have concluded director agreements that specify a typical termination period of six months and possible six-months of severance pay.

The members of the Neste Executive Board come within the scope of the Finnish national pension and supplementary pension system. Pensionable age is either 60 or 62. Under the terms of the oldest defined benefit plans, pensions can be a maximum of 60% of a person's pensionable salary. Pensions are calculated on the basis of the average annual monthly salary paid in accordance with the Finnish national pension system during the 10 years preceding retirement. Newer supplementary pension arrangements specify a retirement age of 62 for everyone and they take the form of defined contribution plans. Pension insurance payments in 2011 totaled EUR 311,685. Future director agreements will specify a retirement age of 63. Both defined benefit and contribution plans are insured by a pension company.

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

	2011			2010
	Salaries and benefits	Performance bonuses for 2010	Total	Total
President and CEO	669,706.60	189,946.00	859,652.60	651,446.73
Other NEB members	1,578,828.08	451,079.30	2,029,907.38	1,734,765.65

Shareholdings of the Neste Executive Board as of 31 December 2011

Name	Born	Position	NEB member since	Shareholdings as of 31 December		
				2011	2010	Change
Matti Lievonen	1958	President & CEO	2008	17,000	15,000	+2,000
Matti Lehmus	1974	EVP, Oil Products and Renewables	2009	6,010	6,010	-
Sakari Toivola	1953	EVP, Oil Retail	2007	1,000	500	+ 500
Simo Honkanen	1958	SVP, Sustainability & HSSE	2009	3,222	2,222	+1,000
Hannele Jakosuo-Jansson	1966	SVP, Human Resources	2006	3,779	3,779	-
Osmo Kammonen	1959	SVP, Communications, Marketing & Public Affairs	2004	9,022	9,022	-
Lars Peter Lindfors	1964	SVP, Technology & Strategy	2009	3,450	1,450	+2,000
Ilkka Poranen	1960	SVP, Production & Logistics	2009	5,942	5,942	-
Ilkka Salonen	1965	Chief Financial Officer	2009	7,500	-	+7,500

Information on shareholdings cover Neste Oil shares directly, through organizations in which those concerned have a controlling interest, and in their capacity as trustees.

Neste Oil did not pay any share incentives to the President & CEO and Members of the Neste Executive Board in 2011.

Personnel Fund

Neste Oil's Personnel Fund was established in spring 2005 and covers the Group's personnel in Finland. Those participating in the Group's share-based incentive program 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.

2011

In 2011, the profit-sharing earnings paid into Neste Oil's Personnel Fund for 2010 totaled EUR 674,541.



Investor information

Neste Oil shares are traded on NASDAQ OMX Helsinki under the trading code NES1V.HE. The company had 76,969 shareholders as of the end of 2011. The Finnish State owned 50.1% of shares, international institutions 19.4%, Finnish institutions 16.8%, and Finnish households 13.7%.

Neste Oil Corporation's Annual General Meeting will be held on Wednesday, 28 March 2012 at 11 am EET in the Helsinki Fair Centre.

[Read more](#)

Neste Oil's share price in 2011 reached EUR 14.70 at its highest and EUR 6.19 at its lowest.

[Read more about Neste Oil's share performance](#)

All of Neste Oil's stock exchange and press releases for 2011 can be found at <http://nesteoil.com/>.

Shares and shareholders

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. Neste Oil had 76,969 shareholders as of the end of 2011.

Share capital

The Company's share capital registered with the Trade Register on 31 December 2011 totaled EUR 40,000,000, divided into one class of 256,403,686 shares. 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 NES1V.HE. The ISIN code is FI0009013296 and trading takes places in euros (EUR).

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.

IR activities in 2011

Top management and IR personnel met investors in Finland and elsewhere in Europe as well as in Asia during 2011. Regular contacts were also maintained with analysts and brokers. A Capital Markets Day was held on 21 September, 2011 in Rotterdam.

Indexes

Neste Oil is included in the following indexes:

- OMX Helsinki 25
- OMXHPI
- Dow Jones Sustainability Index
- Dow Jones STOXX Nordic Return Index.

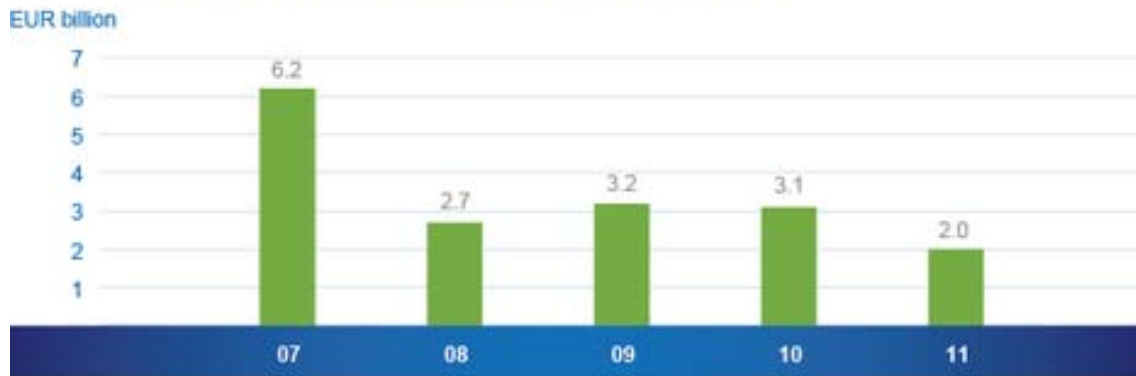
[Read more about sustainability indexes in the Sustainability section of the Annual Report.](#)

Share performance and trading

Neste Oil's stock closed 2011 at 34.7% below the price at the end of 2010. The share price started the year at EUR 12.00, reached EUR 14.70 at its highest and EUR 6.19 at its lowest. The weighted average price was EUR 10.22. The closing price at the end of the year was EUR 7.81, giving the company a market capitalization on December 31 of EUR 2.0 billion.

The share price showed strong daily fluctuation during the year and trading was brisk. Average daily trading on the NASDAQ OMX Helsinki amounted to some 1.1 million shares, or 0.4% of the company's shares, equivalent to EUR 11.5 million. The average monthly trading volume was 23.8 million shares, or EUR 242.9 million. During the year as a whole, 285.2 million shares were traded, accounting for 111% of stock. In addition to the Helsinki Stock Exchange, Neste Oil shares were also traded through several Multilateral Trading Facilities (MTFs).

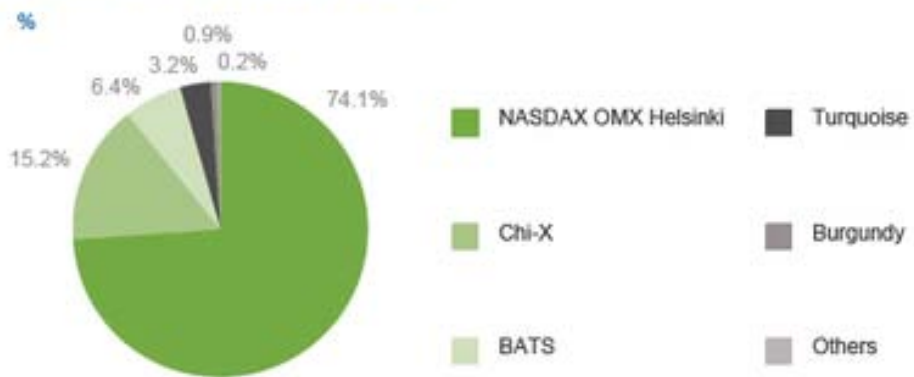
Market capitalization on NASDAQ OMX Helsinki 2007–2011



Share performance and trading on NASDAQ OMX Helsinki



Trading volumes of Neste Oil's shares



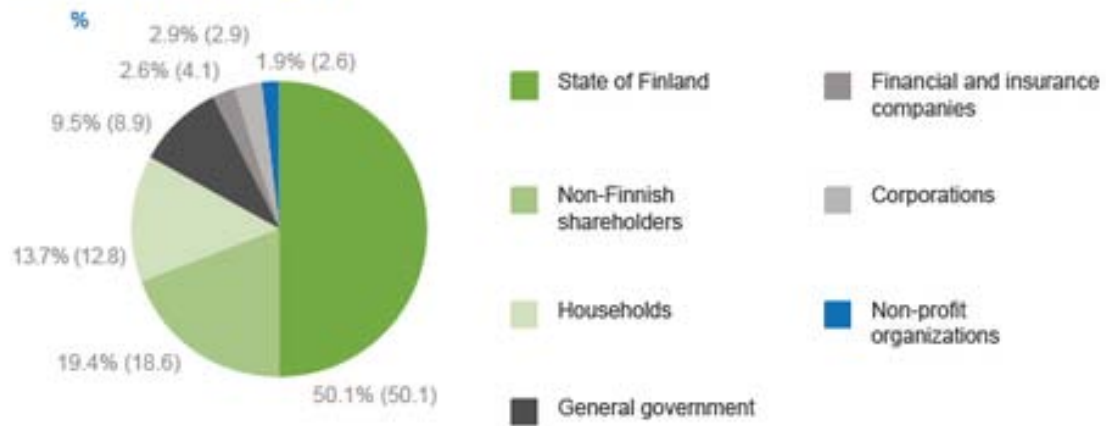
Source: Bloomberg

Shareholders and dividend

Shareholders

Neste Oil had 76,554 shareholders as of the beginning of 2011 and 76,969 as of the end of the year.

Shareholders by category



Largest shareholders by size of holding as of 31 December 2011

	Shares	Holding, %	Change
1. Prime Minister's Office	128,458,247	50.10	0
2. Ilmarinen Mutual Pension Insurance Company	9,484,590	3.70	2,608,000
3. Varma Mutual Pension Insurance Company	5,778,970	2.25	1,358,818
4. The Social Insurance Institution of Finland, KELA	2,648,424	1.03	0
5. The State Pension Fund	2,190,000	0.85	-1,250,000
6. The City of Kurikka	1,550,875	0.60	0
7. Mutual Insurance Company Pension-Fennia	1,003,000	0.39	-82,000
8. Mandatum Life Insurance Company Limited	807,449	0.31	546,324
9. Nordea Bank Finland Plc	578,717	0.23	443,919
10. OP Life Assurance Company Ltd	546,898	0.21	-125,635
11. Alexander Management Oy	485,000	0.19	0
12. Svenska Handelsbanken AB (publ), Branch Operation in Finland	479,156	0.19	64,322
13. Kaleva Mutual Insurance Company	460,000	0.18	-60,000
14. Veikko Laine Oy	450,000	0.18	0
15. Sigrid Jusélius Foundation	423,000	0.16	0
16. OP Pension Fund	357,847	0.14	357,847
17. The Local Government Pensions Institution	351,226	0.14	0
18. OP-Delta Fund	325,000	0.13	-1,375,000
19. Sijoitusrahasto Taaleritehdas Arvo Markka Osake	320,000	0.12	110,000
20. The Finnish Cultural Foundation	301,183	0.12	1,183
Total of 20 largest shareholders	156,999,582	61.23	
Nominee registrations	48,978,480	19.10	
Other shareholders	50,425,624	19.67	
Total shares	256,403,686	100.00	

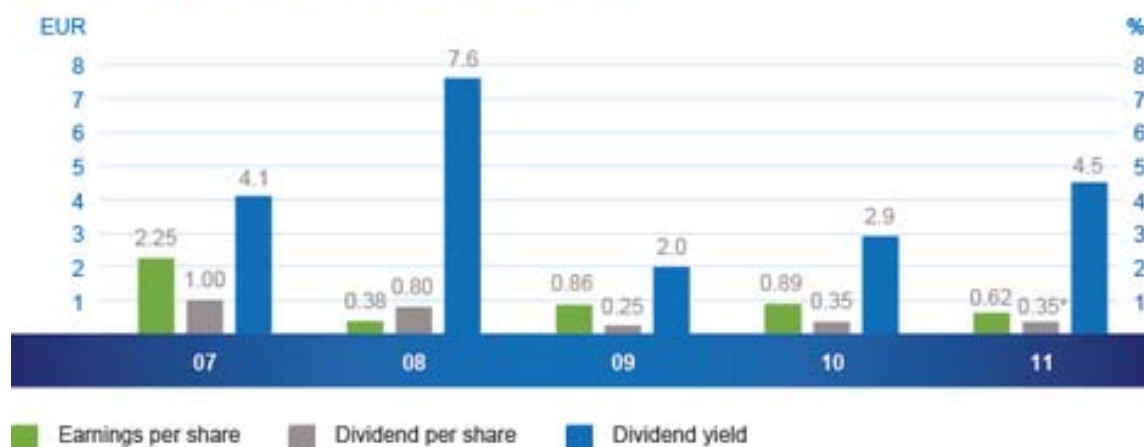
Breakdown of share ownership as of 31 December 2011

No. of shares owned	No. of		No. of shares	%
	shareholders	%		
1–100	26,021	33.8	1,508,547	0.6
101–500	34,052	44.2	8,678,958	3.4
501–1,000	8,975	11.7	6,964,263	2.7
1,001–5 000	6,884	8.9	14,293,284	5.6
5 001–10,000	594	0.8	4,297,439	1.7
10,001–50,000	348	0.5	7,007,609	2.7
50,001–100,000	39	0.1	2,952,682	1.2
100,001–500,000	42	0.1	9,644,944	3.8
over 500,000	14	0.0	201,055,960	78.4
Total	76,969	100.0	256,403,686	100.0
of which nominee registrations	14		48,978,480	19.1

Dividend

Neste Oil's dividend policy is to distribute at least one third of its underlying profit for the year in the form of dividends calculated on the basis of the profit for the year based on comparable operating profit. At the Annual General Meeting in 2012, the Board of Directors will propose a dividend of EUR 0.35 per share for 2011, representing 132% of underlying net profits. The dividend for 2010 was EUR 0.35 per share, representing 54% of underlying net profits.

Earnings per share, dividend, and dividend yield



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

Shareholder's total return on their investments

Index value



Information for shareholders

Annual General Meeting

Neste Oil Corporation's Annual General Meeting will be held on Wednesday, 28 March 2012 at 11.00 am EET in the Helsinki Fair Centre (South Entrance), Messuaukio 1, FI-00520 Helsinki.

Registration

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 23 March 2012 at the latest by:

- visiting www.nesteoil.com and following the instructions given there, or
- phoning +358 (0)20 770 6862 (Monday-Friday, 9.00 am-4.00 pm EET), or
- faxing +358 (0)10 458 5440, 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 pm on 23 March 2012 at the latest.

AGM and dividend payment in 2012

16 March AGM record date

28 March AGM

2 April Dividend payment record date

11 April Dividend payable

Dividend

The Board of Directors will propose to the AGM that a dividend of EUR 0.35 per share shall be paid for the financial year ending 31 December 2011.

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 Disclosure Policy in its entirety, see <http://www.nesteoil.com/>

Annual Report for 2011

The Annual Report 2011 is published in Finnish and English primarily online, where it is also available in pdf format. A printed copy of the Financial Statements will be posted to all those who request a printed version.

Stock exchange releases

Stock exchange releases are available in Finnish and English immediately after publication on the company's web site. Anyone wanting to be placed on the email distribution list for releases can find a form for the purpose at <http://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 decreased by two during 2011. As of the end of the year, 19 banks published research on the company.

Banks following Neste Oil

- ABG Sundal Collier
- Barclays Capital Research
- Carnegie
- Cheuvreux
- Citi
- Credit Suisse
- Danske Bank
- Deutsche Bank
- Enskilda Securities
- Evli Securities
- Goldman Sachs
- Handelsbanken
- Jefferies International
- Bank of America Merrill Lynch
- Nordea Markets
- Pohjola
- Swedbank
- UBS
- Öhman

Contact information for the analysts following Neste Oil at the organizations listed here can be found at the [company's website](#).

Investor services on the internet

The Investors section of Neste Oil's [website](#) contains the information presented here, together with other IR-related information, including a real-time stock monitor, delayed by 15 minutes, a list of the company's insiders and their holdings, an extensive material archive, current oil market information, such as prices and refining margins, and a share yield calculator.

Interim reports in 2012

- January–March Interim Report, 26 April 2012
- January–June Interim Report, 2 August 2012
- January–September Interim Report, 25 October 2012

Interim Reports are published in Finnish and English and can be downloaded in pdf format at www.nesteoil.com.

www.nesteoil.com/Investors

Contact information

Investor Relations:

Ilkka Salonen, CFO,
tel. +358 (0)10 458 11
ilkka.salonen@nesteoil.com

Juha-Pekka Kekäläinen
Vice President, Investor Relations
tel. +358 (0)10 458 11
juha-pekka.kekalainen@nesteoil.com

Debt Investor and Banking Relations:

Mika Rydman, Vice President,
Group Treasurer
tel. +358 (0)10 458 11
mika.rydman@nesteoil.com

Neste Oil's general e-mail address for investors is:

oilinvestors@nesteoil.com

Review by the Board of Directors 2011

Neste Oil's comparable operating profit was EUR 156 million compared to EUR 240 million in 2010, which reflected the good performance of the company's conventional business, while the Renewable Fuels was in ramp-up mode suffering from delays in legislation and sales volume development. Important milestones were reached in the implementation of the company's strategy as the new renewable diesel refinery in Rotterdam and the new base oils joint venture plant in Bahrain came on stream in the fall.

The Board of Directors will propose a dividend of EUR 0.35 per share for 2011, totaling 90 million.

Figures in parentheses refer to the full-year financial statements for 2010, unless otherwise noted.

The Group's results for 2011

Neste Oil's revenue in 2011 totaled EUR 15,420 million (11,892 million). This increase resulted mainly from higher oil prices and higher sales volumes compared to 2010. The Group's comparable operating profit for the year decreased to EUR 156 million from EUR 240 million reported in 2010. The latter figure included a one-time insurance compensation payment of EUR 48 million. Oil Products recorded a higher comparable operating profit year-on-year, whereas Renewable Fuels posted a significant operating loss. Oil Retail's result was almost at the same level as in 2010. The Group's fixed costs came in at EUR 613 million (643 million).

Oil Products' full-year comparable operating profit was EUR 249 million (208 million), Renewable Fuels' EUR -163 million (-65 million), and Oil Retail's EUR 57 million (60 million). The comparable operating profit of the Others segment totaled EUR 9 million (45 million) and included a contribution of EUR 19 million (25 million) by Nynas.

The Group's full-year IFRS operating profit was EUR 273 million (323 million), which was impacted by inventory gains totaling EUR 97 million (121 million). Pre-tax profit was EUR 206 million (296 million), profit for the period EUR 160 million (231 million), and earnings per share EUR 0.62 (0.89).

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 figures are based on comparable results. As of the end of 2011, the rolling twelve-month ROACE was 2.6% (2010 financial year: 4.6%)

Group key figures, MEUR

	2011	2010
Comparable operating profit	156	240
- inventory gains/losses	97	121
- changes in the fair value of open oil derivatives	9	24
- capital gains/losses	11	-62
IFRS operating profit	273	323
Revenue		
Oil Products	12,644	9,789
Renewable Fuels	1,026	328
Oil Retail	4,298	3,654
Others	191	169
Eliminations	-2,739	-2,048
Total	15,420	11,892

Comparable operating profit		
Oil Products	249	208
Renewable Fuels	-163	-65
Oil Retail	57	60
Others	9	45
Eliminations	4	-8
Total	156	240
IFRS operating profit		
Oil Products	373	333
Renewable Fuels	-170	-39
Oil Retail	58	61
Others	8	-24
Eliminations	4	-8
Total	273	323

Cash flow, investments, and financing

Neste Oil Group's net cash from operating activities in 2011 was EUR 197 million (1,105 million). As net cash from operating activities were positively impacted by working capital management in 2010, there was less room for improvement in 2011.

Investments totaled EUR 364 million (943 million) in 2011, of which cash investments represented EUR 326 million. Oil Products' capital spending was EUR 131 million (269 million). Investments at Renewable Fuels totaled EUR 190 million (578 million) and those at Oil Retail EUR 34 million (33 million). Investments in the Others segment totaled EUR 9 million (63 million).

Interest-bearing net debt was EUR 2,080 million as of the end of December, compared to EUR 1,801 at the end of 2010. Net financial expenses between January and December were EUR 67 million (27 million). The average interest rate of borrowings at the end of December was 3.5% and the average maturity 3.7 years.

The equity-to-assets ratio was 34.0% (Dec 31 2010: 36.5%), the leverage ratio 45.7% (Dec 31 2010: 42.6%), and the gearing ratio 84.3% (Dec 31 2010: 74.3%).

The Group's cash and cash equivalents and committed, unutilized credit facilities amounted to EUR 1,629 million as of the end of December (Dec 31 2010: 1,745 million). There are no financial covenants in current 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

On February 28, Neste Oil announced that Neste Oil and Abu Dhabi National Oil Company (ADNOC) had entered into a partnership in the VHVI (Very High Viscosity Index) base oil area, which was expected to bring 600,000 metric tons per annum of NEXBASE® base oil onto the market at the end of 2013.

On July 15, Neste Oil announced that it had started pioneering cooperation with Lufthansa in the area of aviation biofuels. Lufthansa began regularly scheduled return flights between Hamburg and Frankfurt using Neste Oil's NEXBTL renewable aviation fuel four times a day. One of the engines of the aircraft used a blend of 50% NEXBTL renewable aviation fuel and 50% fossil fuel; while the other ran on regular fossil-based jet fuel.

On August 1, Neste Oil announced that it had sold its majority-owned (93.85%) Estonian subsidiary, AS Reola Gaas, to the Estonian-based Alexela Group. AS Reola Gaas sells bottled, bulk, and automotive gas to industrial and other customers.

On September 16, Neste Oil announced that it had signed an agreement to sell its polyalphaolefin (PAO) production plant in Belgium to Chevron Phillips Chemical. Under the agreement, Chevron Phillips Chemical agreed to acquire Neste Oil's (PAO) production facility, quality control laboratory, and the related maintenance services in Beringen, Belgium. The sale was approved by the competition authorities and closed in December.

On September 20, Neste Oil announced that it had successfully started up Europe's largest renewable diesel refinery in Rotterdam in the Netherlands. The Rotterdam plant has a capacity of 800,000 t/a, and it increased Neste Oil's total renewable diesel capacity to 2 million t/a. The plant employs approximately 150 people.

On September 21, Neste Oil arranged a Capital Markets Day in Rotterdam and confirmed its financial targets and updated its short-term outlook.

On October 12, Neste Oil announced that Neste Oil, The Bahrain Petroleum Company (Bapco), and nogaholding had successfully started commercial production at a new base oil plant in Bahrain. The joint venture plant produces premium quality VHVI (Very High Viscosity Index) Group III base oils for use in blending top-tier lubricants and has a production capacity of 400,000 metric t/a. Neste Oil has a 45% stake in the joint venture and the company's share of the investment cost was EUR 130 million.

On December 8, Neste Oil announced that it would sell its 50% holding in an iso-octane plant in Edmonton, Canada to Canada's Keyera Corp. The sale would consist of all of Neste Oil's assets and the associated product and feedstock inventories at closing. The iso-octane plant sale was closed after the reporting period in January 2012.

On December, 15 Neste Oil announced that it would build a pilot plant to produce waste-based microbial oil at its Porvoo refinery, the first pilot plant in Europe designed to produce microbial oil for use in manufacturing renewable fuel from waste-based raw materials. The facility is due to be completed in the second half of 2012 and represents an investment of approx. EUR 8 million.

Strategy implementation

Neste Oil continued to implement its clean fuel strategy during 2011. As part of the annual strategy update, the company's vision was revised, with the focus placed on making Neste Oil the preferred partner for cleaner traffic fuel solutions. Neste Oil's major investment program, designed to increase the company's capacity in both renewable diesel and high-quality base oil, was completed in 2011.

Strategic projects

The new 800,000 t/a renewable diesel refinery in Rotterdam was completed in the summer and started up in September 2011. The final investment cost was in line with the original EUR 670 million budget.

A joint venture base oil plant in Bahrain was successfully started up in October and rapidly achieved its targeted production volumes. The plant produces premium-quality VHVI (Very High Viscosity Index) Group III base oil for use in blending top-tier lubricants. Demand for premium-quality base oil is increasing globally, as better-performing base oil is essential to meet the needs of new emission legislation and catalytic converter technologies.

Value Creation Programs

Neste Oil launched five internal Value Creation Programs in 2011 to boost the implementation of its strategy: Profitable Growth, Productivity, Renewable Feedstock, Customer Focus, and Winning Culture.

Market overview

The recovery of the world economy, geopolitical tensions in oil-producing countries, and fears surrounding the escalating Euro-zone crisis later in the year were the oil market's main drivers during 2011. Crude oil prices moved up throughout the spring, hand in hand with the positive mood in the global economy and growing investor interest in commodities. Brent Dated broke the psychological USD 100 /bbl mark in early February and reached around USD 125/bbl between mid-April and early May during the crisis in Libya, which shut down most of the country's crude oil production. The escalating Euro-zone crisis and fears of a potential global slowdown subsequently pushed crude prices back to USD 105-115/bbl. Compared to base metals and equities, however, the drop in crude prices was less dramatic, and every time Brent Dated approached USD 100/bbl it moved up again, ending the year above USD 100/bbl.

The price differential between heavier and lighter crude fluctuated and was slightly wider on average compared to 2010. The differential widened significantly during the spring, on the back of higher crude prices and softer fuel oil performance. Towards the fall and the end of the year, it narrowed again and approached zero. This was mainly the result of softer fuel oil margins and a tight crude supply-demand balance in Europe, particularly in Russia. Overall, the differential matched long-time averages for the third consecutive year.

Neste Oil's reference margin was in line with 2010 levels, and the differences between individual quarterly averages were quite small. Strong middle distillate margins supported the margin during the spring and the fall, while gasoline margins contributed during the summer, when middle distillate margins moved lower. Compared to 2010, wider fuel oil–middle distillate margins, together with weak gasoline margins during the first and fourth quarters, reduced the margins of simple refineries and gave a competitive advantage to refiners with complex refineries, such as Neste Oil.

Margins for middle distillates strengthened steadily during the year, on the back of increasing global demand. During the normally weaker summer season, additional support was provided by the low utilization of Chinese hydropower and reconstruction after the Japanese tsunami. Later in the fall, scarce supplies in Europe and low exports from Russia pushed diesel margins to their highest levels since early 2009.

European gasoline margins overall were weaker compared to 2010. Margins were seasonally weak during the winter and early spring, but the summer driving season gave some support, as did narrower fuel oil and middle distillate margins, which lead to reduced refinery output. Towards the late fall, gasoline margins dropped to close to zero while middle distillate margins were running at annual highs.

Rising crude prices saw fuel oil margins weaken during the early part of the year, dropping to their lowest levels since late 2008. Over the summer and towards the fall, power shortages in Japan after the tsunami and the drought in China increased fuel oil demand. Lower crude prices and shutdowns at less complex refineries narrowed fuel oil margins.

Biodiesel margins were weak in early 2011 and vegetable oil prices were seen as too high by biodiesel producers. Vegetable oil prices moved downwards and fell further in the late summer when European debt worries emerged. Palm oil production and supply had increased and palm oil prices fell more than rapeseed oil prices, which were supported by a poor rapeseed crop in Western Europe. Lows were seen in October 2011, since when vegetable oil prices have been recovering. Better biodiesel margins together with a widening rapeseed oil - palm oil price differential saw renewable diesel margins return to very good levels in the third and fourth quarters.

Key drivers

	2011	2010
Reference refining margin, USD/bbl	4.37	4.35
Neste Oil refining margin, USD/bbl	8.48	8.14
Urals-Brent price differential, USD/bbl	-1.71	-1.40
NWE Gasoline margin, USD/bbl	7.41	9.70
NWE Diesel margin, USD/bbl	18.12	13.97
NWE Heavy fuel oil margin, USD/bbl	-15.96	-10.32
Brent Dated crude oil, USD/bbl	111.27	79.47
USD/EUR, market rate	1.40	1.32
USD/EUR, hedged	1.35	1.36
Crude freights, WS points (TD7)	104	115

Production and sales

Production

Neste Oil's production totaled 15.2 million tons (13.6 million) in 2011, of which 0.7 million tons (0.3 million) took the form of NExBTL renewable diesel. Increased output was mainly due to the major maintenance turnaround at the Porvoo refinery in spring 2010, but also reflected increasing volumes from the Singapore renewable diesel refinery.

Neste Oil's production, by plant

(1,000 t)	2011	2010
Porvoo refinery	11,962	10,594
Naantali refinery	2,264	2,410
NExBTL refineries	675	337
Bahrain VHVI plant (Neste Oil's share)	45	0
Beringen polyalfaolefin plant	43	45
Edmonton iso-octane plant (Neste Oil's share)	191	214

The Porvoo refinery operated at an average capacity utilization rate of 85% (82%) in 2011. Output was impacted by maintenance work carried out on Diesel Line 4 in the spring and in October, and some operational outages. The utilization rate at Naantali was 85% (84%), affected by outages in the spring and lower feed levels in the fall due to the weak market situation.

The proportion of Russian Export Blend (REB) in Neste Oil's total refinery input at Porvoo and Naantali was 66% (68%) in 2011. Production costs at the Porvoo and Naantali refineries totaled USD 4.3/bbl (4.0) for the year as a whole.

The company's renewable diesel refineries were run at limited utilization, mainly due to lower-than-planned sales volumes.

Sales

The second consecutive cold and snowy winter kept middle distillates demand strong and increased Neste Oil's diesel fuel sales in early 2011. Growth was robust, particularly in domestic sales. Diesel continued to account for close to 40% of total sales, while the proportion of gasoline continued to drop. Refinery turnarounds in Canada in the spring and a number of shutdowns in the second half of the year shifted the focus of Neste Oil's gasoline exports to North America.

Total sales volume increased by over 5%, with demand for both fossil and renewable diesel continuing to grow steadily.

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

(1,000 t)	2011	%	2010	%
Motor gasoline	4,143	27	4,111	28
Gasoline components	209	2	229	2
Diesel fuel	6,007	39	5,655	39
Jet fuel	763	5	640	4
Base oils	332	2	307	2
Heating oil	199	1	691	5
Heavy fuel oil	1,007	7	908	6
LPG	361	2	273	2
NExBTL renewable diesel	628	4	270	2
Other products	1,636	11	1,401	10
Total	15,284	100	14,485	100

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

(1,000 t)	2011	%	2010	%
Finland	7,893	52	7,881	54
Other Nordic countries	2,618	17	2,685	19
Other Europe	2,988	20	2,659	18
USA & Canada	1,591	10	1,081	8
Other countries	194	1	179	1
Total	15,284	100	14,485	100

Segment reviews

Neste Oil's businesses are grouped into four reporting segments: Oil Products, Renewable Fuels, Oil Retail, and Others.

Oil Products

	2011	2010
Revenue, MEUR	12,644	9,789
Comparable EBITDA, MEUR	441	395
Comparable operating profit, MEUR	249	208
IFRS operating profit, MEUR	373	333
Total refining margin, USD/bbl	8.48	8.14
Net assets, MEUR	2,228	2,260
Comparable return on net assets, %	10.5	7.9

Oil Products' full-year comparable operating profit for 2011 amounted to EUR 249 million, compared to EUR 208 million in 2010. This improvement was largely due to higher total refining margin and better profitability in the base oil business. Neste Oil's total refining margin totaled USD 8.48/bbl in 2011, which compares to USD 8.14/bbl in 2010. Fixed costs in refining operations were USD 0.3/bbl higher compared to 2010. Oil Product's comparable return on net assets was 10.5% (7.9%) in 2011.

Renewable Fuels

	2011	2010
Revenue, MEUR	1,026	328
Comparable EBITDA, MEUR	-85	-38
Comparable operating profit, MEUR	-163	-65
IFRS operating profit, MEUR	-170	-39
Net assets, MEUR	1,963	1,703
Comparable return on net assets, %	-8.7	-5.1

Renewable Fuels' comparable operating profit was EUR -163 million in 2011, compared to EUR -65 million in 2010. After a slow start sales volumes steadily increased over the year. They were still insufficient, however, to compensate for higher production costs and the start-up costs of the Rotterdam renewable diesel refinery. Renewable diesel margins continued to be good and the availability of certified feedstock improved during the year. Progress on biofuel legislation in areas affecting Neste Oil was slow, and exports to the US market were delayed. Renewable Fuels' comparable return on net assets was -8.7% (-5.1%) in 2011.

Oil Retail

	2011	2010
Revenue, MEUR	4,298	3,654
Comparable EBITDA, MEUR	89	94
Comparable operating profit, MEUR	57	60
IFRS operating profit, MEUR	58	61
Net assets, MEUR	326	315
Comparable return on net assets, %	17.6	19.3
Total sales volume*, 1,000 m ³	3,982	4,150
- gasoline station sales, 1,000 m ³	1,279	1,328
- diesel station sales, 1,000 m ³	1,479	1,423
- heating oil, 1,000 m ³	654	749
- heavy fuel oil, 1,000 m ³	263	347

*includes both station and terminals sales

Oil Retail posted a full-year comparable operating profit of EUR 57 million compared to EUR 60 million in 2010. Although margins were higher, total sales volumes were lower and fixed costs higher. Increased diesel volumes compensated for lower gasoline sales. Oil Retail's comparable return on net assets was 17.6% (19.3%) in 2011.

Shares, share trading, and ownership

Neste Oil's shares are traded on NASDAQ OMX Helsinki Ltd. The share price closed the year at EUR 7.81, down by 34.7% compared to the end of 2010. At its highest during 2011, the share price reached EUR 14.70, while at its lowest the price stood at EUR 6.19. Market capitalization was EUR 2.0 billion as of December 31 2011. An average of 1.13 million shares were traded daily, representing 0.4% of the company's shares.

Neste Oil's share capital registered with the Company Register as of December 31 2011 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 issue convertible bonds, share options, or new shares.

As at the end of the year, the Finnish State owned 50.1% (50.1%) of outstanding shares, foreign institutions 19.4% (18.6%), Finnish institutions 16.8% (18.5%), and Finnish households 13.7% (12.8%).

Largest shareholders as at December 31 2011

Shareholder	Shares	%
Prime Minister's Office	128,458,247	50.10
Ilmarinen Mutual Pension Insurance Company	9,484,590	3.70
Varma Mutual Pension Insurance Company	5,778,970	2.25
The Social Insurance Institution of Finland, KELA	2,648,424	1.03
The State Pension Fund	2,190,000	0.85
The City of Kurikka	1,550,875	0.60
Mutual Insurance Company Pension-Fennia	1,003,000	0.39
Mandatum Life Insurance Company Limited	807,449	0.31
Nordea Bank Finland Plc	578,717	0.23
OP Life Assurance Company Ltd	546,898	0.21
Alexander Management Oy	485,000	0.19
Svenska Handelsbanken AB (publ), Branch Operation in Finland	479,156	0.19
Kaleva Mutual Insurance Company	460,000	0.18
Veikko Laine Oy	450,000	0.18
Sigrid Jusélius Foundation	423,000	0.16
OP Pension Fund	357,847	0.14
The Local Government Pensions Institution	351,226	0.14
OP-Delta Fund	325,000	0.13
Sijoitusrahasto Taalaritehdas Arvo Markka Osake	320,000	0.12
The Finnish Cultural Foundation	301,183	0.12
20 largest owners total	156,999,582	61.23
Nominee registrations	48,978,480	19.10
Others	50,425,624	19.67
Number of shares, total	256,403,686	100.00

Breakdown of share ownership as at December 31 2011

By the number of shares owned

No. of shares	No. of shareholders	% of shareholders	No. of shares	% of shares
1–100	26,021	33.8	1,508,547	0.6
101–500	34,052	44.2	8,678,958	3.4
501–1 000	8,975	11.7	6,964,263	2.7
1 001–5 000	6,884	8.9	14,293,284	5.6
5 001–10 000	594	0.8	4,297,439	1.7
10 001–50 000	348	0.5	7,007,609	2.7
50 001–100 000	39	0.1	2,952,682	1.2
100 001–500 000	42	0.1	9,644,944	3.8
Over 500 000	14	0.0	201,055,960	78.4
Total	76,969	100.0	256,403,686	100.00
of which nominee registrations	14		48,978,480	19.10

By shareholder category

	% of shares
State of Finland	50.1
Corporations	2.9
Financial and insurance companies	2.5
Non-profit organizations	1.9
General government	9.5
Households	13.7
Non-Finnish shareholders	19.4
Total	100.0

Corporate Governance

The control and management of Neste Oil Corporation is divided between shareholders, the Board of Directors, and the President & Chief Executive Officer. The General Meeting of Shareholders 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 Shareholders based on a proposal by the Board of Directors.

Neste Oil's Annual General Meeting (AGM) was held on April 14 2011 in Helsinki. The AGM adopted the company's financial statements and consolidated financial statements for 2010 and discharged the Supervisory Board, the Board of Directors, and President & CEO from liability for 2010. The AGM also approved the Board of Directors' proposal regarding the distribution of the company's profit for 2010, sanctioning payment of a dividend of EUR 0.35 per share. The dividend was paid on April 28 2011.

In accordance with the proposal made by the AGM Nomination Committee, the AGM confirmed the membership of the Board of Directors at eight members, and the following were re-elected to serve until the next AGM: Mr Timo Peltola, Mr Michiel Boersma, Ms Maija-Liisa Friman, Ms Nina Linander, Mr Hannu Ryöppönen and Mr Markku Tapio. Mr Jorma Eloranta and Ms Laura Raitio were elected as new members. Mr Eloranta was also elected as Vice Chairman. Mr Timo Peltola will continue as Chairman. The AGM decided to keep the remuneration paid to the Board members unchanged. Convening after the Annual General Meeting, the Board of Directors elected the members of its two Committees. Timo Peltola was elected Chairman and Michiel Boersma, Maija-Liisa Friman, and Markku Tapio as members of the Personnel and Remuneration Committee. Nina Linander was elected Chairman and Jorma Eloranta, Laura Raitio and Hannu Ryöppönen as members of the Audit Committee.

In accordance with a proposal by the State of Finland and the Finnish Shareholders Association, the Supervisory Board was abolished. The AGM decided that the Company's Articles of Association will be amended to reflect this, removing Section 4 and Items 3, 8, and 10 of Subsection 2 of Section 12 in their entirety and removing or amending those parts of Items 6 and 7 and Section 6 relating or referring to the Supervisory Board, and renumbering the Articles of Association accordingly.

All members of the Supervisory Board were re-elected for a term of office ending when the appropriate amendments to the company's Articles of Association had been registered. No remuneration was paid to the Chairman, Vice Chairman, or other members of the Supervisory Board for the period between the Annual General Meeting and the registration of the relevant amendments to the company's Articles of Association.

In accordance with a proposal by the Board of Directors, Ernst & Young Oy, Authorized Public Accountants, were appointed as the company's Auditor, with Authorized Public Accountant Anna-Majja Simola as Senior Auditor, until the next AGM. Payment for their services shall be made in accordance with their invoice.

Following a proposal by the Prime Minister's Office, representing the Finnish State, the AGM decided to establish an AGM Nomination Board to prepare proposals covering the members of the Board of Directors and their remuneration for consideration by the next AGM. The Nomination Board comprises representatives of the Company's three largest shareholders and shall also include, as an expert member, the Chairman of the Board. In 2011, the Nomination Committee comprised Director General Pekka Timonen from the Ownership Steering Department at the Prime Minister's Office; Timo Ritakallio, Deputy CEO, Ilmarinen Mutual Pension Insurance Company; and Mikko Koivusalo, Director, Varma Mutual Pension Insurance Company. The Chairman of Neste Oil's Board of Directors, Timo Peltola, served as the Committee's expert member.

Neste Oil's Corporate Governance Statement is issued as a separate document.

Personnel

Neste Oil employed an average of 4,926 (5,030) employees in 2011, of which 1,427 (1,448) were based outside Finland. As at the end of 2011, the company had 4,825 employees (4,874), of which 1,407 (1,443) were located outside Finland. Wages and salaries paid by the company totaled EUR 240 million (246 million) in 2011.

Health, safety, and the environment

The main indicator for safety performance used by Neste Oil – 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 – was 2.3 (4.7) in 2011. The target for 2011 was below 2.5. Neste Oil's lost workday injury frequency (LWIF) stood at 1.7 (3.0), compared to a target of 0. Unfortunately, there was one fatal incident at the Porvoo refinery in 2011. Process safety indicators have been implemented across Neste Oil and a total of 8,800 own and contractors' people were trained in safety and process safety issues in 2011.

Environmental emissions related to Neste Oil's operations remained low throughout the year. No serious environmental accidents resulting in liability occurred at Neste Oil's refineries or other production facilities in 2011. Permitted emission limit values were met, with the exception of a few minor operational incidents. The wastewater treatment plants at the company's refineries operated very well.

Neste Oil has received emission rights for 3.2 million tons of CO₂ emissions per year between 2008 and 2012, and will need to acquire further rights from the market to cover the deficit between its allocated rights and verified emissions. The verification of emissions for 2011 is scheduled, and Neste Oil will be able to report and surrender allowances equal to its total emissions in 2011.

The European Renewable Energy Directive (RED) was still only partly implemented in EU member states as at the end of 2011. Neste Oil's internal procedures have been updated to meet the directive's requirements, and the company has filed a voluntary scheme for verifying the sustainability of its biofuels with the EU. All of Neste Oil's NExBTL plants have received International Sustainability and Carbon Certification (ISCC) system certificates, ensuring that their output is eligible for use on the European biofuel market.

Neste Oil retained its position in, or was selected for inclusion in, a number of sustainability indexes during 2011. The company was, for example, included in the Dow Jones Sustainability World Index for the fifth year in succession. Neste Oil was also selected for inclusion in the Global 100 list of the world's most sustainable companies for the fifth year in succession, and was ranked 20th. Neste Oil was also rated the top performer in the oil & gas sector by the Forest Footprint Disclosure Project, which reviews industries using forest risk commodities. The company was also included in the STOXX® Global ESG Leaders Index and featured in the Ethibel EXCELLENCE Investment Register in 2011.

In January 2012, after the reporting period, Neste Oil was selected for inclusion in the Global 100 list for the sixth year in succession. Neste Oil's ranking was 19th, one place higher than in 2010. Companies selected for inclusion in the Global 100 list are considered the most capable in their sectors in managing environmental, social, and governance issues, and in their ability to make use of new business opportunities in these areas.

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 totaled EUR 42 million (41 million) in 2011.

Extending the company's raw material base is one of the main goals of Neste Oil's R&D work. Around 80% of annual R&D expenditure goes to research on renewable raw materials. Research work is focused on both completely new types of raw materials, such as microbes and algae, and existing materials, such as waste fat from fish processing industry.

Neste Oil expanded its renewable raw material base with jatropha, camelina, and soybean oils in 2011. Inputs coming from waste and side streams formed approximately 41% of the company's total raw material procurement in 2011. Neste Oil's goal is to increase this proportion further. Crude palm oil accounted for 52% of all the raw materials used in renewable diesel production in 2011.

Neste Oil's R&D played a major role in the start-up of the new NExBTL refineries in Singapore and Rotterdam and during the early stage of production there. R&D work also made it possible to extend NExBTL renewable diesel technology to producing renewable aviation fuel on a commercial scale in 2011.

Events after the reporting period

On January 20, Neste Oil announced that the competition authorities in the US and Canada had approved the sale of Neste Oil's 50% holding in an iso-octane production plant in Edmonton, Canada to Canadian-based Keyera Corporation, and that the sale had been confirmed.

Potential short-term and long-term risks

The oil market has been and is expected to continue to be 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.

Uncertainty continues to be focused on the development of the world economy, which is likely to have a material impact on the demand for petroleum products generally and diesel fuel in particular.

Sudden and unplanned outages at Neste Oil's production units or facilities continue to represent a short-term operational risk.

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

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. Risks also include any problems or delays in capturing the anticipated benefits from the company's renewable diesel investments. Over the longer term, failure to protect Neste Oil's proprietary technology or the introduction and implementation of competing fuel technologies or hybrid and electric engines may have a negative impact on the company's results.

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 results.

The key market drivers for Neste Oil's financial performance are refining margins, the price differential between Russian Export Blend (REB) and Brent crude, the USD/EUR exchange rate, and the price differentials between different vegetable oils.

For more detailed information on Neste Oil's risks and risk management, please refer to the company's Annual Report and Financial Statements.

Risk management

Neste Oil recognizes that risk is an integral and unavoidable component of its business and is characterized by both threat and opportunity. Neste Oil uses risk management in order to enhance opportunities and reduce threats, thus gaining competitive advantage. Risk management is a central part of Neste Oil's management system, and its importance has only grown as the company has moved ahead with its major projects and as turbulence has continued in the global economy. Neste Oil aims to manage 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 principles to be used for managing the risks associated with the strategic and operational targets of the Group as a whole and its business areas and common functions. Business areas and common functions have additional 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 risks on a rolling basis, assessing and prioritizing them on a consistent basis, and managing them proactively.

For more detailed information on Neste Oil's risks and risk management, please refer to the company's Corporate Governance Statement, which has been published as a separate document, and to [the note 3](#) of Financial Statements for 2011.

Outlook

The market outlook is overshadowed by uncertainties over economic development and the expectation that Europe in particular is entering what could be a short-term recession. The International Energy Agency has reduced its global oil demand growth estimates and is currently forecasting oil demand to increase by 1.2 million bbl/d in 2012. Most of this growth will take place in emerging markets. More new refining capacity is expected to come on stream during the year, leading to a somewhat looser supply and demand balance on the refining market. On the other hand, capacity closures that have been announced in Europe and the US could have a positive impact on the balance. Going forward, tensions surrounding Iran may lead to higher crude prices and a narrowing price differential between Urals and Brent.

Neste Oil expects to see good productivity and higher production volumes at its Porvoo refinery. Diesel production line 4 at the Porvoo refinery will be off-line for five weeks in the second quarter due to planned coke removal. A six-week maintenance turnaround is scheduled to take place at the Naantali refinery in the second quarter of 2012. Refining margins have recovered from the low levels seen in December due to some capacity closures. The market appears to expect that margins for complex refiners, such as Neste Oil, will remain roughly at 2011 levels; they will be sensitive to developments in economic activity, however. Diesel is projected to be the strongest part of the barrel going forward, while gasoline margins are expected to stay at 2011 levels and be subject to seasonal variations. Demand for base oil has remained healthy, but base oil margins are currently depressed. Approximately 30% of Neste Oil's volume in 2012 is hedged at a USD 4.7 /bbl reference margin level, assuming a Urals-Brent differential of USD -1.0 /bbl. As a result of all these factors, Oil Products' full-year comparable operating profit is expected to improve compared to 2011, assuming that Neste Oil's reference refining margin remains at last year's level.

The ramp-up of the renewable fuels business will continue in 2012. The practical implementation of biofuel legislation in Europe and the US will play an important role in how sales develop. Sales volumes of renewable diesel in the first quarter of 2012 are expected to be similar to those seen during the last quarter of 2011. Neste Oil will aim to achieve a clear increase in sales volumes by the end of second quarter of 2012. Although renewable diesel margins are likely to remain narrow in the first quarter, Neste Oil expects the first-quarter result of Renewable Fuels to develop positively compared to that recorded in the last quarter of 2011.

Diesel demand growth on the Finnish retail market is closely linked to industrial transportation activity and may slow down in 2012, and could also be affected by the excise tax increase implemented at the beginning of the year. Gasoline demand is expected to continue declining. Outside Finland, the Polish market is expected to remain challenging and other markets to perform as in 2011. Oil Retail's full-year comparable operating profit is expected to be at least equal to that seen in 2011.

The Group's fixed costs are estimated to be approx. EUR 640 million in 2012, compared to EUR 613 million in 2011, due to expansion of the business.

The Group's investments are expected to be approx. EUR 350 million (364 million).

Despite the current uncertainties in the market conditions, we expect Neste Oil's full-year comparable operating profit to improve significantly compared to 2011, assuming that Neste Oil's reference refining margin remains at last year's level and that quarterly sales volumes of renewable diesel are similar or above those seen during the last quarter of 2011.

Dividend distribution proposal

The parent company's distributable equity as of December 31 2011 amounted to EUR 1,036 million, and there have been no material changes in the company's financial position since the end of the financial year. The Board of Directors will propose to the Annual General Meeting that Neste Oil Corporation pays a cash dividend of EUR 0.35 per share for 2011, totaling EUR 90 million based on the number of registered shares as of February 2 2012.

Key financial indicators

		2011	2010	2009
Income statement				
Revenue	EUR million	15,420	11,892	9,636
Operating profit	EUR million	273	323	335
- of revenue	%	1.8	2.7	3.5
Comparable operating profit	EUR million	156	240	116
Profit before income taxes	EUR million	206	296	296
- of revenue	%	1.3	2.5	3.1
Profitability				
Return on equity (ROE)	%	6.6	9.9	10.2
Return on capital employed, pre-tax (ROCE)	%	5.9	7.7	9.0
Return on average capital employed, after tax (ROACE)	%	2.6	4.6	2.5
Financing and financial position				
Interest-bearing net debt	EUR million	2,080	1,801	1,918
Leverage ratio	%	45.7	42.6	46.3
Gearing	%	84.3	74.3	86.3
Equity-to-assets ratio	%	34.0	36.5	39.1
Other indicators				
Capital employed	EUR million	4,850	4,607	4,257
Capital expenditure and investments in shares	EUR million	364	943	863
- of revenue	%	2.4	7.9	9.0
Research and development expenditure	EUR million	42	41	37
- of revenue	%	0.3	0.3	0.4
Average number of personnel		4,926	5,030	5,286

Share-related indicators				
Earnings per share (EPS)	EUR	0.62	0.89	0.86
Equity per share	EUR	9.58	9.43	8.64
Cash flow per share	EUR	0.77	4.32	0.69
Price/earnings ratio (P/E)		12.61	13.38	14.42
Dividend per share	EUR	0.35 ¹⁾	0.35	0.25
Dividend payout ratio	%	56.5 ¹⁾	39.2	29.0
Dividend yield	%	4.5 ¹⁾	2.9	2.0
Share prices				
At the end of the period	EUR	7.81	11.95	12.42
Average share price	EUR	10.22	11.86	10.85
Lowest share price	EUR	6.19	10.45	8.80
Highest share price	EUR	14.70	13.77	13.44
Market capitalization at the end of the period	EUR million	2,003	3,064	3,185
Trading volumes				
Number of shares traded	1,000	285,178	242,190	269,159
In relation to weighted average number of shares	%	111	95	105
Average number of shares		255,918,686	255,913,809	255,903,960
Number of shares at the end of the period		255,918,686	255,918,686	255,913,686

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

Calculations 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. Inventory gains/losses include the change in fair value of all trading inventories.
Return on equity, (ROE) %	=	$100 \times \frac{\text{Profit before taxes} - \text{taxes}}{\text{Total equity average}}$
Return on capital employed, pre-tax (ROCE) %	=	$100 \times \frac{\text{Profit before taxes} + \text{interest and other financial expenses}}{\text{Capital employed average}}$
Return on average capital employed, after-tax (ROACE) %	=	$100 \times \frac{\text{Profit for the period (adjusted for inventory gains/losses, gains/losses from sale of shares and non-financial assets and unrealized gains/losses on oil and freight derivative contracts, net of tax) + non-controlling interests + interest expenses and other financial expenses related to interest-bearing liabilities (net of tax)}}{\text{Capital employed average}}$
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 x	$\frac{\text{Interest-bearing net debt}}{\text{Interest-bearing net debt} + \text{total equity}}$
Gearing, %	= 100 x	$\frac{\text{Interest-bearing net debt}}{\text{Total equity}}$
Equity-to-assets ratio, %	= 100 x	$\frac{\text{Total equity}}{\text{Total assets} - \text{advances received}}$
Return on net assets, %	= 100 x	$\frac{\text{Segment operating profit}}{\text{Average segment net assets}}$
Comparable return on net assets, %	= 100 x	$\frac{\text{Segment comparable operating profit}}{\text{Average segment net assets}}$
Segment net assets	=	Property, plant and equipment, intangible assets, investment in associates and joint ventures including shareholder loans, 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 business areas of the Group, as well as research and technology expenses incurred in business areas, 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 number of shares traded during the period in relation to the weighted average number of shares during the period

Consolidated income statement and Consolidated statement of comprehensive income

Consolidated income statement

MEUR	Note	Jan 1–Dec 31 2011	Jan 1–Dec 31 2010
Revenue	4, 7	15,420	11,892
Other income	8	36	81
Share of profit (loss) of associates and joint ventures	19	26	15
Materials and services	9	-13,962	-10,493
Employee benefit costs	10	-316	-392
Depreciation, amortization and impairments	11	-315	-259
Other expenses	12	-616	-521
Operating profit		273	323
Financial income and expenses	13		
Financial income		4	4
Financial expenses		-72	-34
Exchange rate and fair value gains and losses		1	3
Total financial income and expenses		-67	-27
Profit before income taxes		206	296
Income tax expense	14	-46	-65
Profit for the period		160	231
Attributable to:			
Owners of the parent		158	229
Non-controlling interests		2	2
		160	231
Earnings per share from profit attributable to owners of the parent basic and diluted (in euro per share)	15	0.62	0.89

Consolidated statement of comprehensive income

MEUR	Jan 1–Dec 31 2011	Jan 1–Dec 31 2010
Profit for the period	160	231
Other comprehensive income for the period, net of tax:		
Translation differences and other changes	-1	43
Cash flow hedges		
recorded in equity	-10	-18
transferred to income statement	-19	19
Net investment hedges	-1	-3
Hedging reserves in associates and joint ventures	1	1
Other comprehensive income for the period, net of tax	-30	42
Total comprehensive income for the period	130	273
Attributable to:		
Owners of the parent	128	271
Non-controlling interests	2	2
	130	273

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

Consolidated balance sheet

MEUR	Note	Dec 31 2011	Dec 31 2010
ASSETS			
Non-current assets			
Intangible assets	18	55	43
Property, plant and equipment	17	3,968	3,979
Investments in associates and joint ventures	19	239	214
Non-current receivables	20, 21	16	8
Pension assets	30	0	0
Deferred tax assets	28	50	31
Derivative financial instruments	20, 25	19	18
Available-for-sale financial assets	20, 21	4	4
Total non-current assets		4,351	4,297
Current assets			
Inventories	22	1,457	1,079
Trade and other receivables	20, 23	1,045	866
Derivative financial instruments	20, 25	59	42
Cash and cash equivalents	24	304	380
Total current assets		2,865	2,367
Assets classified as held for sale	5	56	-
Total assets		7,272	6,664
EQUITY			
Capital and reserves attributable to owners of the parent			
Share capital		40	40
Other equity		2,413	2,374
Total		2,453	2,414
Non-controlling interests		14	12
Total equity		2,467	2,426

LIABILITIES			
Non-current liabilities			
Interest-bearing liabilities	20, 27	1,891	1,882
Deferred tax liabilities	28	331	347
Provisions	29	22	20
Pension liabilities	30	46	47
Derivative financial instruments	20, 25	12	23
Other non-current liabilities	20, 27	9	1
Total non-current liabilities		2,311	2,320
Current liabilities			
Interest-bearing liabilities	20, 27	493	299
Current tax liabilities	20, 27	26	38
Derivative financial instruments	20, 25	88	34
Trade and other payables	20, 27	1,872	1,547
Total current liabilities		2,479	1,918
Liabilities related to assets held for sale	5	15	-
Total liabilities		4,805	4,238
Total equity and liabilities		7,272	6,664

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

Consolidated cash flow statement

MEUR	Note	Jan 1–Dec 31 2011	Jan 1–Dec 31 2010
Cash flows from operating activities			
Profit for the period		160	231
Adjustments for			
Income tax	14	46	65
Share of profit (loss) of associates and joint ventures	19	-26	-15
Depreciation and amortization	11	315	259
Other non-cash income and expenses		0	131
Financial expenses - net	13	67	27
Profit/loss from disposal of fixed assets and shares	8	-12	-7
		550	691
Change in working capital			
Decrease (+)/increase (-) in trade and other receivables		-166	-148
Decrease (+)/increase (-) in inventories		-404	76
Decrease (-)/increase (+) in trade and other payables		348	558
Change in working capital		-222	486
		328	1,177
Interest and other finance cost paid		-68	-29
Interest income received		5	4
Dividends received		0	0
Realized foreign exchange gains and losses		19	-14
Income taxes paid		-87	-33
		-131	-72
Net cash generated from operating activities		197	1,105
Cash flows from investing activities			
Purchases of property, plant and equipment	17	-341	-924
Purchases of intangible assets	18	-23	-8
Purchases of subsidiaries, net of cash acquired	6	-	-8
Purchases of associates and joint ventures	19	-	0
Purchases of other shares		0	-3
Proceeds from sale of subsidiaries, net of cash disposed	6	2	6
Proceeds from sale of property, plant and equipment		22	4
Proceeds from sale of other shares		0	0

Changes in non-current receivables	-25	19
Net cash used in investing activities	-365	-914
Cash flow before financing activities	-168	191
Cash flows from financing activities		
Payment of (-) / proceeds from (+) current interest-bearing liabilities	47	-142
Proceeds from non-current interest-bearing liabilities	457	1,171
Repayments of non-current interest-bearing liabilities	-324	-893
Dividends paid to the owners of the parent	-90	-64
Dividends paid to non-controlling interests	-	-2
Other financing activities	0	0
Net cash used in financing activities	90	70
Net decrease (-)/increase (+) in cash and cash equivalents	-78	261
Cash and cash equivalents at the beginning of the period	380	117
Exchange gains (+)/losses (-) on cash and cash equivalents	2	2
Cash and cash equivalents at the end of the period	304	380

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

Consolidated statement of changes in equity

MEUR	Attributable to owners of the parent						Non-controlling interests	Total equity
	Share Note	Reserve capital	Fair value		Retained earnings	Translation differences		
			fund	and other reserves				
Total equity at January 1 2010		40	11	9	-45	2,195	12	2,222
Dividend paid						-64	-2	-66
Share-based compensation						-3		-3
Transfer from retained earnings			1	-5		4		0
Total comprehensive income for the year			1	2	39	229	2	273
Total equity at December 31 2010	26	40	13	6	-6	2,361	12	2,426
Total equity at January 1 2011		40	13	6	-6	2,361	12	2,426
Dividend paid						-90		-90
Share-based compensation						1		1
Transfer from retained earnings			2			-2		0
Total comprehensive income for the year				-29	-1	158	2	130
Total equity at December 31 2011	26	40	15	-23	-7	2,428	14	2,467

The notes are an integral part of 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, cleaner 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 the consolidated financial statements for issue on February 2 2012.

2 Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC Interpretations as adopted by the European Union. The notes to the consolidated financial statements also include compliance with the Finnish accounting and corporate legislation. 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 applies the following amendment:

- IAS 24 Related Party Transactions (effective January 1 2011)

The amendments to IAS 24 clarifies and simplifies the definitions of a related party. The revised IAS 24 removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. From January 1, 2010 onwards the Group has early adapted the IAS 24.

The following interpretations or amendments to existing standards are mandatory for accounting periods beginning on or after January 1 2011 but do not have a material impact on the consolidated financial statements:

- Annual improvements 2010
- Amendments to IAS 32 Financial Instruments: Classification of rights issues (effective February 1 2010)
- Amendments to IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective January 1 2011)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective July 1 2010)

Certain new interpretations, amendments to existing standards or new standards have been published and are mandatory for the Group's accounting periods beginning on or after January 1 2012. The Group intends to adopt these standards when they become effective:

- Annual improvements 2011

- Amendments to IFRS 7 Financial Instruments: Disclosure - Enhance Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. The amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment affects disclosure only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1 2011.

- Amendments to IAS 12 Income Taxes - Deferred Taxes: Recovery of Underlying Assets

The amendment provides a practical approach for measuring deferred tax assets and liabilities when investment property is fair valued under IAS 40. The Group does not have investment properties and therefore the amendment is not expected to have an impact on the Group's consolidated financial statements. The amendment becomes effective for annual periods beginning on or after January 1 2012. The amendment is still subject to endorsement by the EU.

- **IAS 1 Financial Statement Presentation - Presentation of Items of Other Comprehensive Income**
The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after January 1 2013. The amendment is still subject to endorsement by the EU.

- **IFRS 9 Financial Instruments - Classification and Measurement**
The standard is issued reflect the first phase of the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1 2013. The completion of this replacement project is expected over the first half of 2012. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture. The amendment is still subject to endorsement by the EU.

- **IFRS 10 Consolidated Financial Statement**
The standard replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. The new standard establishes a single control model that applies to all entities including special purpose entities. The changes will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent. The standard becomes effective for annual periods beginning on or after January 1 2013. The amendment is still subject to endorsement by the EU.

- **IFRS 11 Joint Arrangements**
The standard replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities - Non-monetary Contributions by Venturers. The new standard changes accounting treatment of jointly controlled entities. Jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method only. The Group's joint ventures are accounted for by using the equity method of accounting and therefore this has no impact on the Group's financial position. The standard becomes effective for annual periods beginning on or after January 1 2013. The amendment is still subject to endorsement by the EU.

- **IFRS 12 Disclosure of Interests in Other Entities**
The standard includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 28 and IAS 31. These disclosures related to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The standard becomes effective for annual periods beginning on or after January 1 2013. The amendment is still subject to endorsement by the EU.

- **IFRS 13 Fair Value Measurement**
The standard establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The standard becomes effective for annual periods beginning on or after January 1 2013. The amendment is still subject to endorsement by the EU.

- Amendment to IAS 19 Employee Benefits

There are numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan asset to simple clarifications. The amendments are expected to have an impact to the Group's financial position. The amendment becomes effective for annual periods beginning on or after January 1 2013. The amendment is still subject to endorsement by the EU.

Use of estimates

The preparation of the 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. 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, joint ventures, and jointly controlled assets

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.

In respect of interest of jointly controlled assets the Group recognises its share of the jointly controlled assets and liabilities as well as its part of any income or expenses incurred. Because the assets, liabilities, income and expenses are recognised in the financial statements of the Group, no adjustments of other consolidation procedures are required.

Segment reporting

Until December 20 2010 the reportable segments of the Group were presented in line with the Company's internal organisational and reporting structure adopted as of April 1 2009. At the time business areas also represented the reporting segments. On December 20 2010 the Group reorganised its operations so that the Oil Products and Renewable Fuels business areas were merged to create one business area Oil Products and Renewables. Financial reporting has remained unchanged, and Oil Products and Renewable Fuels are continuing to form separate 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 under fixed price engineering and construction contracts are recorded on a percentage-of-completion basis by recognizing the revenue according to the work hours incurred. Provisions for losses are made when identified and the amounts can be reliably estimated. Sales of technology licences are recognized when the risks and rewards are transferred to the buyer.

Revenue will be recognized as gross method when an entity is acting as a principal and it has exposure to the significant risks and rewards associated with the sale of goods. The amounts collected on behalf of the principal are not revenue; instead, revenue is the amount of commission.

Revenue includes sales 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.

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.

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 liabilities 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, marine fleet, 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, including special spare parts	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'.

The Group could reduce its counterparty risks by selling trade receivables to the third party e.g. a bank. The sale of the receivables essentially transfers ownership of the receivables to the bank, indicating it to obtains all of the rights associated with the receivables. The Group receives the advance from the bank at the time of sale. Fees and other expenses are deducted from the advance.

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.

An arrangement that does not take the legal form of a lease but conveys a right to use an asset if the arrangement conveys to the purchaser (lessee) the right to control the use of the underlying asset. Determining whether an arrangement is, or contains, a lease are based on IFRIC interpretation 4.

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. Standard spare parts are carried as inventory and recognized in profit or loss as consumed.

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 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.

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. 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/other comprehensive income. 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 revenue. When the forecast transaction that is being hedged results in the recognition of a 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/other comprehensive income. 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 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. Inventory gains/losses include the change in fair value of all trading inventories.

Segment net assets

Segment net assets include property, plant and equipment, intangible assets, investment in associates and joint ventures including shareholder loans, 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

Neste Oil recognizes that risk is an integral and unavoidable component of its business and is characterized by both threat and opportunity. Risks are generally managed at source, within the Group's business areas and common functions. 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 with the related Corporate Risk Management Principles, approved by the Board of Directors, defines risk management governance, responsibilities and processes for communicating and reporting risks and risk management.

The documents define detailed principles covering strategic risks, market risks, including counterparty risks, operational and functional risks, including risks involving human safety, and legal liabilities. The Corporate Risk Management Policy and Principles complement Neste Oil's other management principles and instructions. The Treasury Principles and the Credit and Counterparty Risk Management Principles are also approved by the Board of Directors. The Board of Directors' Audit Committee regularly reviews and monitors financial risk management policy, principles, 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

The Corporate Risk Management and risk management professionals in business areas and common functions are responsible for controlling special risk disciplines, consulting and facilitating risk management processes and developing risk management systems.

Neste Oil's Group Treasury is responsible for managing foreign exchange, credit and counterparty, interest rate, liquidity, and refinancing risks as well as insurance management. The price risk management i.e. hedging of the Group's refining margin and refinery inventory price risk is also organized in Group Treasury. In addition, Group Treasury coordinates the management of the price risk associated with utilities and the obligation to return emission allowances, and provides price hedging services to internal and external counterparties.

The Corporate Risk Management and Group Treasury units are organized within Neste Oil's Finance function, headed by the Chief Financial Officer and both units work in close cooperation with the Group's business areas.

Oil Products and Renewables business area and other functions to a smaller degree, enter into derivative contracts to limit the price risk associated with certain physical oil and freight contracts. Oil Products and Renewables business area also enters into derivative transactions for trading purposes within authorized risk limits.

Risk Management Committee monitors the risk management process and compliance. Neste Oil's risk management reporting is coordinated by the Chief Financial Officer. Major Group-level risks are reported to the Board of Directors, the Audit Committee, the Risk Management Committee, the President & Chief Executive Officer, and other corporate management as part of the strategy and planning process. A report on the market and financing risks of reporting segments and the Group is included in the monthly management report.

Market risks

1. Commodity price risks

The main commodity price risks Neste Oil faces on its businesses are related to market prices for crude oil, renewable feedstocks and other feedstocks, as well as refined petroleum and renewable products. These prices 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 fossil fuel or renewable products relative to the supply and cost of raw materials. These factors, combined with Neste Oil's own consumption of crude oil, renewable feedstocks, other feedstocks and output of refined products, drive operational performance and cash flows in Oil Products and Renewables, which is Neste Oil's largest business area in terms of revenue, profits and net assets.

Neste Oil divides the commodity price risks affecting Neste Oil's revenue, profits and net assets into two main categories; inventory price risk and refining margin risk.

Inventory price 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 and is referred to as the 'base' inventory, which includes the minimum level of stocks that Neste Oil is required to maintain under Finnish laws and regulations.

In fossil fuel refining business the base inventory comprises the minimum level of stocks along with which can reasonably be assured that the refineries can be kept in operation. The fossil fuel base inventory is approximately one tenth of the total annual fossil fuel refining capacity.

In renewable refining business the price risk related base inventory is higher than the physical inventory and is approximately one third of the annual renewable refining capacity used. This is mainly resulting from feedstock market practises and logistics involved. The base inventory creates a risk in Neste Oil's income statement and balance sheet inasmuch as Neste Oil applies the FIFO method for measuring the cost of goods sold, raw materials and inventories. 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 the base inventory at Neste Oil is called 'transaction position'. According to the Neste Oil risk management principle any open exposures of the transaction position are hedged without delay.

Refining margin risk

As the total refining margin is an important determinant of Oil Products and Renewables business area's earnings, its fluctuations constitute a significant risk.

In the fossil fuel refining business the refining margin at risk is a function of the sales price of the refined fossil products and the fossil feedstocks used to produce them. Neste Oil's exposure to low fossil refining margins is partly offset by its high conversion refineries.

In Renewable business the refining margin is mainly a function of the NExBTL sale price received and feedstocks used. The underlying indices used in the NExBTL pricing are primarily oil products or conventional biodiesel related, while the price of feedstocks used derive from different vegetable oils and fats. As a result, Neste Oil is exposed to greater margin volatility in the Renewable business compared to that in the fossil fuel refining.

With the aim of securing its margin per barrel, Neste Oil has defined margin hedging principles for its main refining businesses. In the fossil fuel refining business the hedging ratios used, measured as percentage of annual production volume, are typically moderate. In the renewable business higher hedging ratios measured as a percentage of the committed sales volumes for the rolling 12 months, are typically targeted.

In hedging the refining margin, derivative financial instruments are used. Hedging transactions are targeted at the components of Neste Oil's total refining margin, based on its forecasted or committed sales and refinery production, which are exposed to international market price fluctuations. Because of the differences between the qualities of the underlying feedstock 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.

Note 25 summarizes the exposure to open positions of oil derivative contracts as of December 31 2011 (2010).

2. Foreign exchange risk

As the pricing currency used in the oil industry is the U.S. dollar and Neste Oil operates and 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 business areas hedge their transaction exposure related to highly probable future cash flows. Net foreign currency cash flows are forecasted over a 12-month period on a rolling basis, and hedged on average 80% for the first six months and 40% for the following six months for the fossil fuel businesses and on average 60% for the first six months and 25% of the next three months for the renewable business. Deviations from this risk-neutral benchmark position are subject to separate approvals set by the Treasury Principles. The most important hedged currency is the U.S. dollar. The company started to hedge its Malaysian ringgit (MYR) based raw material purchases during the latter part of 2011. The Group's net exposure is managed through the use of forward contracts and options. All transactions are made for hedging purposes and the majority is also hedge accounted for according to IFRS. Business areas 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 the 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 Treasury Principles. 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, 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 2011, the daily balance sheet exposure fluctuated between approximately EUR 113 million and 689 million. Similarly to commodity price risk management, the foreign exchange transaction hedging targets inventories in excess the base inventory. 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 2011 and 2010.

MEUR	2011	2010
EUR	2,183	1,997
SGD	97	82
USD	93	101
Other	11	1
	2,384	2,181

Note 25 summarizes the nominal and fair values of outstanding foreign exchange derivative contracts as of December 31 2011 (2010).

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 by Group Treasury. The total non-euro-denominated equity of the Group's subsidiaries and associated companies was EUR 463 million as of December 31 2011 (2010: EUR 509 million), and the exposures and hedging ratios are summarized in the following table.

Group translation exposure MEUR	2011			2010		
	Net investment	Hedge	Hedge %	Net investment	Hedge	Hedge %
USD	60	-	0 %	57	-	0 %
SEK	196	-	0 %	171	33	19 %
CAD	73	73	100 %	72	-	0 %
PLN	15	-	0 %	17	-	0 %
RUB	68	-	0 %	58	-	0 %
EEK	-	-	0 %	61	-	0 %
LTL	31	-	0 %	29	-	0 %
BHD	-	-	0 %	25	-	0 %
Other	20	-	0 %	19	-	0 %
	463	73	16 %	509	33	7 %

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 limit the volatility of interest expenses in the income statement. The risk-neutral benchmark duration for the net debt portfolio is 12 months, and duration can vary between 6 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 25 summarizes the nominal and fair values of outstanding interest rate derivative contracts as of December 31 2011 (2010).

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

MEUR

Period in which re-pricing occurs	within 1 year	1 year - 5 years	> 5 years	Total
Financial instruments with floating interest rate				
Financial liabilities				
Loans from financial institutions	1,424	-	-	1,424
Finance lease liabilities	37	34	-	71
Bonds	50	-	-	50
Effect of interest rate swaps	120	-170	50	0
Financial instruments with fixed interest rate				
Bonds	120	616	-	736
Finance lease liabilities	-	-	103	103
	1,751	480	153	2,384

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 2012 (2011), based on assumptions regarding the Group's reference market and operating conditions, but excluding the impact of hedge transactions.

Approximate impact on operating profit (IFRS), excluding hedges ¹⁾

		2012	2011
+/- 10% in the EUR/USD exchange rate	EUR million	-120/+150	-90/+110
+/- USD 1.00/barrel in total refining margin	USD million	+/-110	+/-110
+/- USD 10/barrel in crude oil price	USD million	+/-100	+/-100
+/- USD 100/t in palm oil price	USD million	+/-50	+/-15
+/- USD 50/t in Renewable Fuels refining margin	USD million	+/-100	+/-75

¹⁾ Inventory gains/losses excluded from comparable operating profit

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 2011 (2010). 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, trade and other liabilities, and cash and cash equivalents, as well as derivative financial instruments
- the position excludes USD-denominated future cash flows

The following assumptions were made when calculating the sensitivity to changes in the USD/MYR exchange rate:

- the variation in USD/MYR-rate is assumed to be +/- 10%
- the position includes MYR-denominated derivative financial instruments
- the position excludes MYR-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

		2011		2010	
		Income statement	Equity	Income statement	Equity
+/- 10% change in oil price ¹⁾	EUR million	-/+14	-/+4	-/+10	-/+4
+/- 10% change in EUR/USD exchange rate	EUR million	+70/-80	+45/-55	+61/-75	+52/-51
1% parallel shift in interest rates	EUR million	+/-11	+/-0	+/-10	+/-0
+/- 10% change in USD/MYR exchange rate	EUR million	0	+11/-11	-	-

¹⁾ includes crude oil, refined oil products and vegetable oil derivatives

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 certain refining margin per barrel, the Group hedges its refining margin using commodity derivative contracts. Certain commodity derivative contracts have been designated as hedges of forecasted transactions, e.g. cash flow hedges.

The Group uses interest rate derivatives and its variations e.g. callable swaps 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 derivative contracts hedging USD-sales, feedstock purchases priced in MYR or capital expenditure denominated in foreign currencies for the next twelve months, and interest rate swaps directly linked to underlying variable interest funding transactions maturing in 2012 and 2018.

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/other comprehensive income. However, changes in the time value of foreign currency options are booked in the income statement. Any gain or loss relating to the ineffective portion is recognized immediately in the income statement. In 2011 and 2010 the ineffective portion has been immaterial. Retrospective 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. 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. The gain or loss to the effective portion of the foreign exchange derivative contracts hedging of the MYR based purchases are booked into equity/other comprehensive income until transferred to the Inventory as part of raw-material purchase costs according to IAS 2. When the forecast transaction that is being hedged results in the recognition of 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/ other comprehensive income. Movements in hedging reserve are presented in the statement of comprehensive income.

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

MEUR	2011	2010
gain or loss on the hedging instrument	17	2
gain or loss on the hedged item	-16	-3

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/other comprehensive income are included in the income statement when the foreign operation is disposed of.

Liquidity and refinancing risks

Liquidity risk is defined as financial distress or extraordinarily high financing costs arising due to a shortage of liquid funds in a situation where business conditions unexpectedly deteriorate and require financing. The objective of liquidity risk management is to maintain sufficient liquidity and to ensure that it is available fast enough to avoid uncertainty related to financial distress at all times.

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 December 31 2011 was 3.7 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 December 31 2011, the Company had cash and cash equivalents and committed, unutilized credit facilities totaling EUR 1,629 million at its disposal.

Cash and cash equivalents and committed unutilized credit facilities

MEUR	2011	2010
Floating rate		
– cash and cash equivalents	304	380
– overdraft facilities, expiring within one year	150	150
– revolving credit facilities, expiring beyond one year	1,175	1,215
	1,629	1,745

The contractual maturity of interest-bearing liabilities as of December 31 2011 is presented in the following table.

MEUR	2012 ¹⁾	2013	2014	2015	2016	2017–	Total
Bonds and debentures	158	34	34	334	319	52	931
- less finance charges	38	34	34	34	19	2	161
Repayment of bonds and debentures	120	-	-	300	300	50	770
Loans from financial institutions	342	218	384	54	439	73	1,510
- less finance charges	10	11	19	3	33	3	79
Repayment of loans from financial institutions	332	207	365	51	406	70	1,431
Finance lease liabilities	56	47	15	15	16	230	379
- less finance charges	14	14	13	13	13	138	205
Repayment of finance lease liabilities	42	33	2	2	3	92	174
Interest rate swaps							
- less finance charges	2	1	-3	-3	-2	2	-3

¹⁾ Repayments in 2012 are included in current liabilities in the balance sheet

Finance charges are primarily interest expenses. The contractual maturities of derivative financial instruments are included in Note 25.

The contractual maturity of interest-bearing liabilities as of 31 December 2010 is presented in the following table.

MEUR	2011 ¹⁾	2012	2013	2014	2015	2016–	Total
Bonds and debentures	36	157	32	33	333	318	909
- less finance charges	36	37	32	33	33	18	189
Repayment of bonds and debentures	-	120	-	-	300	300	720
Loans from financial institutions	299	13	217	377	45	430	1,381
- less finance charges	6	5	9	19	1	30	70
Repayment of loans from financial institutions	293	8	208	358	44	400	1,311
Finance lease liabilities	18	19	50	42	12	217	358
- less finance charges	13	13	12	12	11	140	201
Repayment of finance lease liabilities	5	6	38	30	1	77	157
Interest rate swaps							
- less finance charges	0	0	-1	-6	-6	-5	-18

¹⁾ Repayments in 2011 are included in current liabilities in the balance sheet

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 counterparty to meet its contractual payment obligations, and the risk depends on the creditworthiness of the counterparty as well as the size 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.

The amount of risk is quantified as the expected loss to Neste Oil in the event of a default by counterparty. Credit risk limits are set at the Group level, designated by different levels of authorization and delegated to Neste Oil's business areas, which 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 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. In addition, Neste Oil may reduce its counterparty risk by e.g selling trade receivables.

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 unrated 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.) Master Agreement with the main counterparties concerning 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.

Neste Oil reduces credit risk by executing treasury transactions only with approved counterparties. 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, the biggest receivable balances were from the customers in the Scandinavian wholesale markets. In addition the Group also has a large number of different customers and counterparties on the 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. These risks are reduced by taking geographical risks into consideration in decisions on creditworthiness.

The Group follows the credit and counterparty guidelines in review and follow-up process of the credit limits daily. The impact of the financial market conditions to the Group's counterparties with regard to the associated credit risk are also assessed in the process, by taking into account all available information about counterparties, their financial situation and business activities. Balances due from a single sales transaction to a counterparty with open credit line may amount to approximately EUR 7.5-8 million due to the nature of the oil business, where cargoes including large volumes of refined oil products, for example 10,000 tons, are sold as one transaction. For this example, oil product price is based on a crude oil price of USD 110/barrel representing the price level prevailing at the turn of the financial period 2011/2012.

Vis-à-vis counterparties to the contracts comprising the derivative financial instruments exposure as at December 31 2011, approximately 89% 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 as at December 31 2011 with banks, of which all have investment grade rating at a minimum. Derivative transactions are also done through exchange, which reduces credit risk.

The following table shows an analysis of trade receivables by age. 30% of the trade receivables portfolio exposure is from counterparties or their parent companies having credit rating BBB- (S&P) minimum. 70%

consists of trade receivables from the counterparties not having credit rating, most of it comprising from a large number of corporate and private customers. With respect to undue trade receivables, there were no indications as of December 31 2011 that the counterparties would not meet their obligations.

Analysis of trade receivables by age

MEUR	2011	2010
Undue trade receivables	845	709
Trade receivables 1–30 days overdue	42	38
Trade receivables 31–60 days overdue	0	1
Trade receivables more than 60 days overdue	0	0
	887	748

Capital risk management

The Group's objective when managing capital is to secure a capital structure that ensures 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 2011 and 2010 was as follows:

MEUR	2011	2010
Total interest-bearing liabilities	2,384	2,181
Cash and cash equivalents	304	380
Interest-bearing net debt	2,080	1,801
Total equity	2,467	2,426
Interest-bearing net debt and total equity	4,547	4,227
Leverage ratio	45.7%	42.6%

4 Segment information

Operating segments

The Group's operations are now built around two business areas and seven common functions. Business areas act as profit centers and are responsible for their customers, products, and business development. Business areas are: Oil Products and Renewables, and Oil Retail. The common functions are: Production & Logistics, Finance, Human Resources, HSE, Technology & Strategy, Communications, and Legal Affairs. Production & Logistics is responsible for operating the production facilities of Oil Products and Renewables. The result and net assets of Production & Logistics are accounted within reporting segments Oil Products and Renewable Fuels.

The Group's operations are divided into four operating segments: Oil Products, Renewable Fuels, Oil Retail and Others. The performance of the reporting segments are reviewed regularly by the chief operating decision maker, Neste Oil President & CEO, to assess performance and to decide on allocation of resources.

Operating segments are engaged in following key business activities:

- Oil Products segment markets and sells gasoline, diesel fuel, light and heavy fuel oil, aviation fuel, base oils, gasoline components and liquefied petroleum gas to domestic and international wholesale markets. The Shipping business is included in the Oil Products segment.
- Renewable Fuels segment markets and sells NExBTL renewable diesel based on Neste Oil's proprietary technology to domestic and international wholesale markets.
- 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.
- Others segment consists of Group administration, shared service functions, Research and Technology, Neste Jacobs and Nynas AB. NSE Biofuels Oy is also included in the Others segment as of Q2/2010. The comparative figures have been adjusted accordingly.

The operating segments presented above exclude 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 applicable to the segment reporting are the same as those used for establishing the Group consolidated financial statements 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:

- Oil Products: maintenance, freights, rents, and other property costs and insurance premiums, change in the fair value of open oil derivative positions
- Renewable Fuels: freights, repairs and maintenance, storage charges, rents, other property costs, change in the fair value of open oil derivative positions
- Oil Retail: rents and other property costs 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 including shareholder loans, 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 2011 and 2010 did not result in any major concentration in any given geographical area or reporting segment.

MEUR

2011	Oil Renewable		Oil		Eliminations	Group
	Products	Fuels	Retail	Others		
External revenue	10,284	811	4,291	34	-	15,420
Internal revenue	2,360	215	7	157	-2,739	0
Total revenue	12,644	1,026	4,298	191	-2,739	15,420
Other income	28	0	4	18	-14	36
Share of profit of associates and joint ventures	10	-	-	16	-	26
Materials and services	-11,517	-960	-4,037	-12	2,564	-13,962
Employee benefit costs	-158	-23	-32	-105	2	-316
Depreciation, amortization and impairments	-192	-78	-32	-13	-	-315
Other expenses	-442	-135	-143	-87	191	-616
Operating profit	373	-170	58	8	4	273
Financial income and expense						-67
Profit before taxes						206
Income taxes						-46
Profit for the period						160
Comparable operating profit	249	-163	57	9	4	156
Changes in the fair value of open oil and freight derivative positions	5	4	0	-	-	9
Inventory gains/losses	108	-11	-	-	-	97
Sales gains/losses	11	-	1	-1	-	11
Operating profit	373	-170	58	8	4	273
Capital expenditure and investment in shares	131	190	34	9	-	364
Segment operating assets	3,864	2,167	648	182	-306	6,555
Investment in associates and joint ventures	25	-	1	213	-	239
Deferred tax assets						50
Unallocated assets						428
Total assets	3,889	2,167	649	395	-306	7,272
Segment operating liabilities	1,660	204	323	79	-301	1,965
Deferred tax liabilities						331
Unallocated liabilities						2,509
Total liabilities	1,660	204	323	79	-301	4,805
Segment net assets	2,228	1,963	326	315	-3	4,829
Return on net assets, %	15.7	-9.0	17.9	2.7		
Comparable return on net assets, %	10.5	-8.7	17.6	3.0		

MEUR

2010	Oil Products	Renewable Fuels	Oil Retail	Others	Eliminations	Group
External revenue	8,009	202	3,650	31	-	11,892
Internal revenue	1,780	126	4	138	-2,048	0
Total revenue	9,789	328	3,654	169	-2,048	11,892
Other income	25	-	4	64	-12	81
Share of profit of associates and joint ventures	-	-	-	15	-	15
Materials and services	-8,751	-258	-3,394	-7	1,917	-10,493
Employee benefit costs	-163	-20	-34	-175	0	-392
Depreciation, amortization and impairments	-187	-27	-34	-11	-	-259
Other expenses	-380	-62	-135	-79	135	-521
Operating profit	333	-39	61	-24	-8	323
Financial income and expense						-27
Profit before taxes						296
Income taxes						-65
Profit for the period						231
Comparable operating profit	208	-65	60	45	-8	240
Changes in the fair value of open oil and freight derivative positions	18	6	0	-	-	24
Inventory gains/losses	101	20	-	-	-	121
Sales gains/losses	6	-	1	-69	-	-62
Operating profit	333	-39	61	-24	-8	323
Capital expenditure and investments in shares	269	578	33	63	-	943
Segment operating assets	3,606	1,814	595	171	-242	5,944
Investment in associates and joint ventures	15	-	1	198	-	214
Deferred tax assets						31
Unallocated assets						475
Total assets	3,621	1,814	596	369	-242	6,664
Segment operating liabilities	1,361	111	282	93	-233	1,614
Deferred tax liabilities						347
Unallocated liabilities						2,277
Total liabilities	1,361	111	282	93	-233	4,238
Segment net assets	2,260	1,703	315	276	-10	4,544
Return on net assets, %	12.6	-3.0	19.6	-8.8		
Comparable return on net assets, %	7.9	-5.1	19.3	16.5		

Geographical information

The Group operates production facilities in Finland, Singapore, Netherlands and Bahrain and a retail selling network in Finland, North-West Russia, Estonia, Latvia, Lithuania and Poland. The following table provides information of the Group's revenue by geographical area, irrespective of the origin of the goods or services, and non-current assets and capital expenditure by geographical area.

Revenue is 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 including shareholder loans. '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.

MEUR

		Other Nordic countries	Baltic rim	Other European countries	North and South America	Other countries	Eliminations	Group
2011	Finland							
Revenue by destination	7,374	2,348	1,425	2,409	1,639	225	0	15,420
Non-current assets	2,415	213	166	722	28	746	0	4,290
Capital expenditure	139	0	22	153	2	48	0	364

		Other Nordic countries	Baltic rim	Other European countries	North and South America	Other countries	Eliminations	Group
2010	Finland							
Revenue by destination	5,699	1,917	1,501	1,707	950	118	0	11,892
Non-current assets	2,507	195	168	592	33	741	0	4,236
Capital expenditure	302	0	23	292	4	322	0	943

5 Assets held for sale

The assets and liabilities held for sale relate to district Neste Oil's 50% holding in an iso-octane plant in Edmonton, Canada. In December 2011 Neste Oil signed an agreement to divest the whole asset. Furthermore, Neste Oil will sell the associated product and feedstock inventories at closing. The transaction was closed on January 19, 2012. The operations are part of the Oil Products segment.

Assets classified as held for sale

MEUR	2011	2010
Property, plant and equipment	27	-
Other assets	29	-
Total	56	-

Liabilities related to assets held for sale

MEUR	2011	2010
Interest-bearing liabilities	-	-
Other liabilities	15	-
Total	15	-

6 Acquisitions and disposals of subsidiaries

Acquired subsidiaries

In 2011, the Group did not have acquisitions to be accounted for as business combinations.

In May 2010, UAB Neste Lietuva, subsidiary of Neste Oil Group, acquired 100% of the shares and voting rights of UAB Alexela Oil which operates 22 unmanned fuel stations in Lithuania. Neste Oil strengthens its position on the retail market in Lithuania, as the acquisition complements the company's existing network of 37 stations in the country.

The profit of UAB Alexela Oil included in the Neste Oil consolidated income statement January 1–December 31 2010 is immaterial. Also, the management estimates that UAB Alexela Oil's effect on Neste Oil's consolidated revenue or profit for the period would have been immaterial as at December 31 2010, had the acquisition taken place on January 1 2010.

The company was merged into UAB Neste Lietuva on November 1 2010.

Assets and liabilities of UAB Alexela Oil, 2010

MEUR	Acquired fair value	Acquired book value
Intangible and tangible assets	7	5
Current assets	3	3
Cash and cash equivalents	0	0
Total assets	10	8
Trade and other payables	2	1
Total liabilities	2	1
Acquired net assets	8	7
Purchase consideration		8
Goodwill		0
Purchase consideration settled in cash		8
Cash and cash equivalents in UAB Alexela Oil		0
Cash outflow on acquisition		8

Disposed subsidiaries

During the financial period 2011, the Group sold its 93.85% interest in its Estonian subsidiary, AS Reola Gaas. The transaction was completed on August 1 2011 and no material capital gain was recognized in the consolidated financial statements. The selling price was not material.

In June 2010 the Group sold its 100% interest in its subsidiary Neste Oil Portugal S.A. A capital gain amounting to EUR 5 million resulting from the transaction has been included in the consolidated financial statements.

Assets and liabilities of Neste Oil Portugal S.A.

MEUR	Neste Oil Portugal S.A. 30 June 2010
Property, plant and equipment	0
Shares in subsidiaries and associates	0
Inventories	0
Trade and other receivables	1
Cash and cash equivalents	0
Total assets	1
Trade and other payables	0
Total liabilities	0
Sold net assets	1
Gain on disposal	5
Total consideration	6
Cash consideration received	6
Cash and cash equivalents disposed of	0
Cash inflow arising from disposal	6

7 Analysis of revenue by category

MEUR	2011	2010
Sale of goods	15,202	11,703
Revenue from services	172	166
Royalty income	0	1
Other	46	22
	15,420	11,892

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 1,210 million (2010: EUR 1,146 million) are included in product sales. The corresponding amount is included in 'Materials and services', Note 9.

Oil trading included in Sale of goods comprises 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 chartering services and Neste Jacobs included in Others segment.

Revenue from product exchanges included in 'Sale of goods' amounted to EUR 178 million (2010: EUR 107 million).

8 Other income

MEUR	2011	2010
Gain on sale of subsidiaries	0	5
Capital gains on disposal of other non-current assets	12	2
Rental income	7	9
Government grants	11	11
Other	6	54
	36	81

Government grants relate mainly to the shipping operations, which is entitled to apply for certain grants based on Finnish legislation. EUR 4 million (2010: EUR 4 million) of the amount is included in 'Trade and other receivables' in the consolidated balance sheet. This amount relating to operations in the financial period ended December 31 is applied for and received during the following financial period. The Group believes that it has fulfilled all the conditions related to the grants recognized in the income statement.

An insurance compensation of EUR 48 million is included in the line 'Other' in 2010.

9 Materials and services

MEUR	2011	2010
Change in product inventories	-253	142
Materials and supplies		
Purchases	14,327	10,408
Change in inventories	-127	-66
External services	15	9
	13,962	10,493

Purchases include excise taxes included in the retail selling price of petroleum products amounting to EUR 1,210 million (2010: EUR 1,146 million). The corresponding amount is included in 'Revenue', Note 7.

10 Employee benefit costs

MEUR	2011	2010
Wages, salaries	240	246
Social security costs	21	20
Pension costs-defined contribution plans	39	57
Pension costs-defined benefit plans	7	62
Other costs	9	7
	316	392

In 2010 EUR 68 million of the pension costs was accounted for by the transfer of the pension liabilities of the Neste Oil Pension Fund to insurance companies. Detailed information concerning pension costs is included in Note 30, 'Retirement benefit obligations'. Key management compensation is included in Note 32, 'Related party transactions'.

Number of personnel (average)

	2011	2010
Oil Products	2,060	2,125
Renewable Fuels	258	228
Oil Retail	1,263	1,318
Others	1,345	1,359
	4,926	5,030

11 Depreciation, amortization, and impairment charges

MEUR	2011	2010
Depreciation of property, plant, and equipment		
Buildings and structures	66	56
Machinery and equipment	223	182
Other tangible assets	16	12
	305	250
Amortization of intangible assets	10	9
Depreciation, amortization, and impairment charges total	315	259

12 Other expenses

MEUR	2011	2010
Operating leases and other property costs	100	117
Freights relating to sales	152	95
Repairs and maintenance	116	80
Services	72	66
Other	176	163
	616	521

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

Services include planning and consulting services, IT services and other services.

Other expenses include selling expenses, insurance premiums, and unrealized changes in the fair value of open oil and freight derivative positions when negative. In 2010 other expenses include write-offs of fixed assets in progress amounting to EUR 13 million.

Fees charged by the statutory auditor

EUR thousands	2011	2010
Audit fees	1,044	995
Auditor's mandatory opinions	13	30
Tax advisory	44	52
Other advisory services	628	256
	1,729	1,333

13 Financial income and expenses

MEUR	2011	2010
Financial income		
Dividend income on available-for-sale investments	0	0
Interest income from loans and receivables	4	4
Other financial income	0	0
	4	4
Financial expenses		
Interest expenses for financial liabilities at amortized cost	-68	-31
Interest rate derivatives, hedge accounted	0	-1
Interest rate derivatives, non-hedge accounted	2	1
Other financial expenses	-6	-3
	-72	-34
Exchange rate and fair value gains and losses		
Loans and receivables	-8	-6
Other	3	8
Foreign exchange derivatives, non-hedge accounted	6	1
	1	3
Financial cost - net	-67	-27

Net gains/losses on financial instruments included in operating profit

MEUR	2011	2010
Foreign exchange rate and oil derivative financial instruments designated as cash flow hedges	23	-27
Non-hedge accounted foreign exchange rate, oil and freight derivative instruments	-58	-60
	-35	-87

Net gains/losses include realized and unrealized gains and losses on derivative financial instruments. Financial instruments held for trading purposes include 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 -32 million (2010: EUR -64 million), and transactions entered into for trading purposes amounting to EUR 0 million (2010: EUR 3 million).

Aggregate exchange differences charged/credited to the income statement

MEUR	2011	2010
Revenue	11	8
Materials and services	-3	-8
	8	0

14 Income tax expense

The major components of tax expenses are presented in the following table.

MEUR	2011	2010
Current tax expense	70	66
Adjustments recognized for current tax of prior periods	3	-1
Change in deferred taxes	-27	0
	46	65

The difference between income taxes at the statutory tax rate in Finland and income taxes recognized in the consolidated income statement is reconciled in the following table.

MEUR	2011	2010
Profit before tax	206	296
Hypothetical income tax calculated at Finnish tax rate 26%	-54	-77
Effect of different tax rates of foreign subsidiaries	7	7
Tax exempt income	13	12
Non-deductible expense	-32	-2
Taxes for previous periods	-4	1
Net results of associated companies	7	4
Tax losses with no tax benefit	-	-9
Effect of change of Finnish income tax rate	19	-
Other	-2	-1
Tax charge in the consolidated income statement	-46	-65

The Group's effective income tax rate was 22.31% (2010: 22.07%). The effective tax rate is continually being slightly lower than the Finnish corporate tax rate of 26%. The change of the Finnish corporate income tax rate from 26% into 24.5% as of the beginning of 2012 had an effect on income taxes mainly because of the Finnish depreciation difference. Furthermore, tax-exempt items, tax rate differences in other countries as well as the share of profits of associates and joint ventures decreased the effective tax rate.

15 Earnings per share

Basic and diluted earnings per share are calculated by dividing the profit attributable to owners of the parent 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, 485,000 shares (2010: 485,000), as described in note 26.

	2011	2010
Profit attributable to owners of the parent, MEUR	158	229
Weighted average number of ordinary shares in issue (thousands)	255,919	255,914
Earnings per share basic and diluted (euro per share)	0.62	0.89

16 Dividend per share

The dividends paid in 2011 were EUR 0.35 per share, totaling EUR 90 million and 2010 EUR 0.25 per share, totaling EUR 64 million. A dividend of EUR 0.35 per share will be proposed at the Annual General Meeting on March 28 2012, corresponding to total dividends of EUR 90 million for 2011. This dividend is not reflected in the financial statements.

17 Property, plant and equipment

MEUR

	Land	Buildings and constructions	Machinery and equipment	Other tangible assets	Assets under construction	Total
2011						
Gross carrying amount at January 1 2011	89	1,830	3,447	159	757	6,282
Exchange differences	-2	-3	-4	0	-1	-10
Additions	4	33	52	3	249	341
Disposals	-2	-18	-56	-3	-4	-83
Reclassifications	6	356	485	1	-848	0
Reclassified as non current asset held for sale	-1	-167	-12	-	-3	-183
Gross carrying amount at December 31 2011	94	2,031	3,912	160	150	6,347
Accumulated depreciation and impairment losses at January 1 2011	-	757	1,475	71	-	2,303
Exchange differences	-	-1	-2	0	-	-3
Disposals	-	-16	-51	-3	-	-70
Reclassifications	-	0	0	-	-	0
Depreciation for the period	-	66	223	16	-	305
On non current assets reclassified as held for sale	-	-146	-10	-	-	-156
Accumulated depreciation and impairment losses at December 31 2011	-	660	1,635	84	-	2,379
Carrying amount at January 1 2011	89	1,073	1,972	88	757	3,979
Carrying amount at December 31 2011	94	1,371	2,277	76	150	3,968

MEUR

2010	Land constructions	Buildings and Machinery and equipment	Other tangible assets	Assets under construction	Total	
Gross carrying amount at January 1 2010	71	1,491	2,836	123	848	5,369
Exchange differences	1	29	4	1	3	38
Additions	9	100	330	21	464	924
Increases through business combinations	1	3	2	-	-	6
Disposals	0	-6	-90	0	-17	-113
Reclassifications	7	213	365	14	-541	58
Gross carrying amount at December 31 2010	89	1,830	3,447	159	757	6,282
Accumulated depreciation and impairment losses at January 1 2010	-	689	1,385	60	-	2,134
Exchange differences	-	22	2	0	-	24
Disposals	-	-5	-90	0	-	-95
Reclassifications	-	-5	-4	-1	-	-10
Depreciation for the period	-	56	182	12	-	250
Accumulated depreciation and impairment losses at December 31 2010	-	757	1,475	71	-	2,303
Carrying amount at January 1 2010	71	802	1,451	63	848	3,235
Carrying amount at December 31 2010	89	1,073	1,972	88	757	3,979

Finance leases

Machinery and equipment include assets where the Group is a lessee under a finance lease as specified in the following table.

MEUR	2011	2010
Gross carrying amount	249	227
Accumulated depreciation	62	50
Carrying amount	187	177

Capitalized borrowing costs

Borrowing costs amounting to EUR 16 million (2010: EUR 22 million) were capitalized during the financial period related to the Renewable Fuels investment projects in Singapore and Rotterdam as well as Oil Products investment project in Bahrain. They are included in 'Property, Plant and Equipment'. The Group's average interest rate of borrowings for each month was applied as the capitalization rate, which resulted in average capitalization rate of 3.38% (2010: 2.53%).

18 Intangible assets

MEUR

2011	Goodwill	Other intangible assets	Total
Gross carrying amount at January 1 2011	11	130	141
Exchange differences	-	0	0
Additions	-	23	23
Disposals	-	0	0
Reclassifications	-	0	0
Reclassified as non current asset held for sale	-	-10	-10
Gross carrying amount at December 31 2011	11	143	154
Accumulated amortization and impairment losses at January 1 2011	-	98	98
Exchange differences	-	0	0
Disposals	-	0	0
Reclassifications	-	0	0
Amortization for the period	-	10	10
On non current assets reclassified as held for sale	-	-9	-9
Accumulated amortization and impairment losses at December 31 2011	-	99	99
Carrying amount at January 1 2011	11	32	43
Carrying amount at December 31 2011	11	44	55

MEUR

2010	Goodwill	Other intangible assets	Total
Gross carrying amount at January 1 2010	11	129	140
Exchange differences	-	2	2
Additions	-	8	8
Increases through business combinations	-	1	1
Disposals	-	-4	-4
Reclassifications	-	-6	-6
Gross carrying amount at December 31 2010	11	130	141
Accumulated amortization and impairment losses at January 1 2010	-	92	92
Exchange differences	-	2	2
Disposals	-	-4	-4
Reclassifications	-	-1	-1
Amortization for the period	-	9	9

Accumulated amortization and impairment losses at December 31 2010	-	98	98
Carrying amount at January 1 2010	11	37	48
Carrying amount at December 31 2010	11	32	43

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 December 31 2011 estimated obligation to purchase emission allowances were reflected in the balance sheet of Neste Oil in provisions amounting to EUR 9 million. The actual amount of CO2 emissions in 2011 were 3.4 million tons (2010: 3.4 million tons). The Group has purchased emission allowances for 0.4 thousand tons during the financial period ended December 31 2011 (2010: 50 thousand tons). The Group has exchanged an immaterial amount of emission allowances to Certified Emission Reduction (CER) during the financial period that ended December 31 2011.

Impairment test of goodwill

Goodwill is allocated to the Group's cash-generating units (CGU's). From 11 identified CGU's goodwill is allocated to the following: Traffic Fuels within Oil Products segment and Neste Jacobs sub-group within Others segment.

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

MEUR	2011	2010
Oil Products	2	2
Other	9	9
	11	11

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 risk of potential personnel turnover as well as tight market outlook are taken into account in the growth assumption. The discount rate used is 7.0%, representing the WACC specified for the business area 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.

19 Investments in associates and joint ventures

Investments in associates

MEUR	2011	2010
Carrying amount		
At January 1	2	2
At December 31	2	2

A complete list of the Group's associated companies, countries of incorporation, and interests held is disclosed in Note 33.

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

MEUR	2010
Assets	10
Liabilities	8
Revenue	17
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 (2010).

Investments in joint ventures

MEUR	2011	2010
Carrying amount		
At January 1	212	214
Share of profits of joint ventures	26	15
Investments in joint ventures during the financial period	-	0
Translation differences	-1	22
Hedging reserves in joint ventures	0	1
Other reclassifications	-	-40
At December 31	237	212

The Accounting treatment of Bahrain Lube Base Oil Company B.S.C (Closed) has been changed in 2010 from joint venture to jointly controlled assets. Accordingly the assets have been reclassified from investments in joint ventures to property, plant and equipment.

The Group's interest in its principle joint ventures at December 31, all of which are unlisted, are listed in the following table.

		2011	2010
	Country of incorporation	% interest held	% interest held
Glacia Limited	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

Glacia Limited 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 5 years remain.

Lacus Ltd. and Terra 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 one Panamax-size product tankers delivered 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 5 years remain.

NSE Biofuels Oy Ltd is a joint venture company owned on a 50/50 basis by Neste Oil and Stora Enso. The Company that was established in 2007, has built a demonstration plant that converts wood-based biomass to hydrocarbons in Varkaus, Finland. The technology converting forestry residues to biowax through gasification, purification and Fischer-Tropsch has been successfully demonstrated in 2011. Presently, the facility is drying biomass feedstock and producing synthetic gas to lime kiln.

Nynas AB (formerly AB Nynäs Petroleum) is a Swedish company that specializes in marketing and producing bitumen in Europe and naphthenics globally. The sales volumes, including side products, amounted to 3.2 million tons in total in 2011. Neste Oil Owns 49.99% of the shares of the company. 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.

Joint ventures have been consolidated using the equity method.

Summarized financial information in respect of the Group's joint ventures is set out in the following table.

MEUR

	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenue	Profit/loss
2011						
Glacia Limited	41	15	32	4	8	2
Lacus Ltd.	30	7	22	2	5	1
NSE Biofuels Oy Ltd	3	1	-	1	3	0
Terra Ltd.	30	7	22	2	5	1

	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenue	Profit/loss
2010						
Glacia Limited	43	11	34	3	8	2
Lacus Ltd.	31	5	22	2	5	1
NSE Biofuels Oy Ltd	3	1	-	1	2	-26
Nynas AB	368	626	350	261	2,155	44
Terra Ltd.	31	6	22	2	6	2

The financial statements of Nynas AB are not published within the Group's reporting timetable. The share of profits of joint ventures for 2011 is consolidated based on the company's preliminary results for the financial period.

Bahrain Lube Base Oil Company B.S.C. (Closed) is a joint venture between nogaholding, The Bahrain Petroleum Company (Bapco) and Neste Oil, of which Neste Oil owns 45%. The joint venture plant produces premium quality VHVI (very high viscosity index) Group III base oils for use in blending top-tier lubricants and has a production capacity of 400,000 metric tons. Plant started production during 2011. The company was founded during the financial period 2009. Decision making in the joint venture company is subject to mutual approval by the partners (shareholders). In 2010 the Group changed the accounting treatment from joint venture to jointly controlled assets.

20 Carrying amounts of financial assets and liabilities by measurement categories

MEUR

2011 Balance sheet item	Financial assets/ liabilities at fair value through income statement				Financial Carrying liabilities amounts by			Fair value	Note
	Hedge accounting	Non-hedge accounting	Loans and receivables	Available- for-sale financial assets	measured at amortized cost	sheet item	balance		
Non-current financial assets									
Non-current receivables	-	-	16	-	-	16	16	21	
Derivative financial instruments	19	-	-	-	-	19	19	25	
Available-for-sale financial assets	-	-	-	4	-	4	4	21	
Current financial assets									
Trade and other receivables	-	-	1,045	-	-	1,045	1,045	23	
Derivative financial instruments	18	41	-	-	-	59	59	25	
Carrying amount by category	37	41	1,061	4	-	1,143	1,143		
Non-current financial liabilities									
Interest-bearing liabilities	-	-	-	-	1,891	1,891	1,907	27	
Derivative financial instruments	3	9	-	-	-	12	12	25	
Other non-current liabilities	-	-	-	-	9	9	9	27	
Current financial liabilities									
Interest-bearing liabilities	-	-	-	-	493	493	493	27	
Current tax liabilities	-	-	-	-	26	26	26	27	
Derivative financial instruments	52	36	-	-	-	88	88	25	

Trade and other payables	-	-	-	-	1,872	1,872	1,872	27
Carrying amount by category	55	45	-	-	4,291	4,391	4,407	

MEUR

2010 Balance sheet item	Financial assets/liabilities at fair value through income statement				Available- for -sale financial assets	Carrying liabilities amortized cost	Financial Carrying amounts measured at balance sheet item	Fair value	Note
	Hedge accounting	Non-hedge accounting	Loans and receivables						
Non-current financial assets									
Non-current receivables	-	-	8	-	-	-	8	8	21
Derivative financial instruments	7	11	-	-	-	-	18	18	25
Available-for-sale financial assets	-	-	-	4	-	-	4	4	21
Current financial assets									
Trade and other receivables	-	-	866	-	-	-	866	866	23
Derivative financial instruments	22	20	-	-	-	-	42	42	25
Carrying amount by category	29	31	874	4	-	-	938	938	
Non-current financial liabilities									
Interest-bearing liabilities	-	-	-	-	1,882	-	1,882	1,913	27
Derivative financial instruments	5	18	-	-	-	-	23	23	25
Other non-current liabilities	-	-	-	-	1	-	1	1	27
Current financial liabilities									
Interest-bearing liabilities	-	-	-	-	299	-	299	299	27

Current tax liabilities	-	-	-	-	38	38	38	27
Derivative financial instruments	16	18	-	-	-	34	34	25
Trade and other payables	-	-	-	-	1,547	1,547	1,547	27
Carrying amount by category	21	36	-	-	3,767	3,824	3,855	

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.

2011 Fair value hierarchy, MEUR

Financial assets	Level 1	Level 2	Level 3	Total
Non-current derivative financial instruments	-	19	-	19
Current derivative financial instruments	6	53	-	59

Financial liabilities

Non-current derivative financial instruments	-	12	-	12
Current derivative financial instruments	10	78	-	88

During the financial period 2011 there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

2010 Fair value hierarchy, MEUR

Financial assets	Level 1	Level 2	Level 3	Total
Non-current derivative financial instruments	-	18	-	18
Current derivative financial instruments	1	41	-	42

Financial liabilities

Non-current derivative financial instruments	-	23	-	23
Current derivative financial instruments	3	31	-	34

During the financial period 2010 there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

21 Non-current receivables and available-for-sale financial assets

Non-current receivables	Fair value		Carrying amount	
	2011	2010	2011	2010
MEUR				
Non-current interest-bearing receivables	1	1	1	1
Other non-current receivables	15	7	15	7
	16	8	16	8

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

MEUR	2011	2010
At January 1	4	1
Additions	0	3
Disposals	0	0
At December 31	4	4
Investments in unlisted equity instruments	4	4
	4	4

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.

22 Inventories

MEUR	2011	2010
Materials and supplies	494	358
Finished products and goods	961	717
Other inventories	2	4
	1,457	1,079

Inventories held for trading purposes are measured at fair value, less selling expenses. They amounted to EUR 0 million as at December 31 2011 (2010: EUR 1 million). Write downs of inventories amounted to EUR 7 million as at December 31 2011 (2010: EUR 0 million).

23 Current trade and other receivables

MEUR	Fair value		Carrying amount	
	2011	2010	2011	2010
Trade receivables	887	748	887	748
Other receivables	118	82	118	82
Advances paid	6	4	6	4
Accrued income and prepaid expenses	34	32	34	32
	1,045	866	1,045	866

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 3 million (2010: EUR 2 million).

Analysis of trade receivables by age is presented in Note 3, Financial risk management, section 'credit and counterparty risk'.

The trade receivables were not sold to the third party e.g. bank during the year 2011.

24 Cash and cash equivalents

Cash and cash equivalents include the following:

MEUR	2011	2010
Cash at bank and in hand	293	379
Short term bank deposits	11	1
	304	380

The maximum exposure to credit risk at the reporting date is the carrying amount of the cash and cash equivalents.

25 Derivative financial instruments

Nominal values of interest rate and currency derivative contracts and share forward contracts

MEUR	2011			2010		
	Remaining maturities			Remaining maturities		
	< 1 year	1-7 years	Total	< 1 year	1-6 years	Total
Derivative financial instruments designated as hedges of net investment in foreign operations						
Forward foreign exchange contracts	73	-	73	33	-	33
	73	-	73	33	-	33
Derivative financial instruments designated as cash flow hedges						
Interest rate swaps ¹⁾	32	50	82	-	33	33
Forward foreign exchange contracts	729	-	729	741	-	741
Currency options						
- Purchased	206	-	206	43	-	43
- Written	193	-	193	36	-	36
	1,160	50	1,210	820	33	853
Derivative financial instruments designated as fair value hedges						
Interest rate swaps ¹⁾	-	460	460	-	460	460
	-	460	460	-	460	460
Non-hedge accounting derivative financial instruments						
Interest rate swaps ¹⁾	-	230	230	-	230	230
Forward foreign exchange contracts	611	-	611	700	-	700
	611	230	841	700	230	930

¹⁾ Interest rate swaps mature in 1-7 years.

Volumes of commodity derivative contracts

	2011			2010		
	Volume million bbl Remaining maturities			Volume million bbl Remaining maturities		
	< 1 year	1-3 years	Total	< 1 year	1-3 years	Total
Commodity derivative contracts designated as cash flow hedges ²⁾						
Futures and forwards						
- Sales contracts	19	-	19	11	-	11
	19	-	19	11	-	11
Non-hedge accounting commodity derivative contracts ³⁾						
Futures and forwards						
- Sales contracts	27	-	27	7	1	8
- Purchase contracts	34	-	34	12	-	12
Options						
- Purchased	1	-	1	-	1	1
- Written	1	-	1	-	1	1
	63	-	63	19	3	22

²⁾ Commodity derivative contracts with hedge accounting status are oil derivatives.

³⁾ Commodity derivative contracts with non-hedge accounting status include oil, freight and palm oil derivative contracts. They consist of trading derivative contracts and cash flow hedges without hedge accounting status.

Fair values of derivative financial instruments

MEUR	Fair value 2011				Fair value 2010			
	Positive		Negative		Positive		Negative	
	< 1 year	1-7 years	< 1 year	1-7 years	< 1 year	1-6 years	< 1 year	1-6 years
Interest rate and currency derivative contracts and share forward contracts								
Derivative financial instruments designated as hedges of net investment in foreign operations								
Forward foreign exchange contracts	-	-	2	-	-	-	1	-
	-	-	2	-	-	-	1	-
Derivative financial instruments designated as cash flow hedges								
Interest rate swaps ¹⁾	-	-	1	3	-	-	-	3
Forward foreign exchange contracts	0	-	32	-	17	-	8	-
Currency options								
- Purchased	0	-	5	-	0	-	0	-
- Written	0	-	3	-	1	-	-	-
	0	-	41	3	18	-	8	3
Derivative financial instruments designated as fair value hedges								
Interest rate swaps ¹⁾	0	19	-	0	-	7	-	2
	0	19	-	0	-	7	-	2

Non-hedge accounting derivative financial instruments								
Interest rate swaps ¹⁾	-	-	-	9	-	-	-	11
Forward foreign exchange contracts	3	-	10	-	6	-	4	-
	3	-	10	9	6	-	4	11

¹⁾ Interest rate swaps mature in 1-7 years.

MEUR

	Fair value 2011				Fair value 2010			
	Positive		Negative		Positive		Negative	
	< 1 year	1-3 years	< 1 year	1-3 years	< 1 year	1-3 years	< 1 year	1-3 years
Commodity derivative contracts								
Commodity derivative contracts designated as cash flow hedges ²⁾								
Futures and forwards								
- Sales contracts	10	-	3	-	4	-	7	-
	10	-	3	-	4	-	7	-
Non-hedge accounting oil derivative contracts ³⁾								
Futures and forwards								
- Sales contracts	20	-	27	-	8	10	13	6
- Purchase contracts	25	-	4	-	6	-	1	-
Options								
- Purchased	-	-	-	-	-	0	-	1
- Written	1	-	1	-	-	1	-	0
	46	-	32	-	14	11	14	7

²⁾ Commodity derivative contracts with hedge accounting status are oil derivatives.

³⁾ Commodity derivative contracts with non-hedge accounting status include oil, freight and palm oil derivative contracts. They consist of trading derivative contracts and cash flow hedges without hedge accounting status.

MEUR

	2011				2010			
	Assets		Liabilities		Assets		Liabilities	
Balance sheet reconciliation	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Derivative financial instruments	59	19	88	12	42	18	34	23

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 and their variations are the present values of the estimated future cash flows. Changes in the fair value of interest rate swaps and their variations are reported either in equity or in the income statement depending on whether they qualify for hedge accounting. Foreign exchange forward contracts are calculated using the valuation model and 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 at December 30 2011. 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 at December 30 2011. 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.

26 Equity

Share capital

Neste Oil's share capital registered with the Trade Register as of December 31 2011 totaled EUR 40,000,000, divided into 256,403,686 shares of equal value. The nominal value of one share is not determined.

	Number of shares, 1,000	Share capital MEUR
Registered at January 1 2010	256,404	40
Registered at December 31 2010	256,404	40
Registered at January 1 2011	256,404	40
Registered at December 31 2011	256,404	40

Treasury shares

Neste Oil has entered into an agreement with a third party service provider concerning the administration of the share-based management share performance arrangement for key management personnel. As part of the agreement, the service provider 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 possible future payment of the rewards, which will take place partly in Neste Oil shares and partly in cash during 2013 and 2014. 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. In 2010 Neste Oil decided to assign 5,000 shares held by the third party service provider. At the date of the transfer, the value of the shares was 60 thousand euros. In 2011 no shares were assigned. As at December 31 2011 there were 485,000 shares (2010: 485,000 shares) accounted for as treasury shares.

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.

27 Non-current and current liabilities

MEUR	Fair value		Carrying amount	
	2011	2010	2011	2010
Non-current liabilities	2011	2010	2011	2010
Bonds	680	749	665	721
Loans from financial institutions	1,095	1,013	1,094	1,010
Finance lease liabilities	132	151	132	151
Other non-current liabilities	8	0	8	0
Accruals and deferred income	1	1	1	1
Non-current liabilities total	1,916	1,914	1,900	1,883
of which interest-bearing			1,891	1,882

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.

MEUR	Fair value		Carrying amount	
	2011	2010	2011	2010
Current liabilities	2011	2010	2011	2010
Bonds	120	-	120	-
Loans from financial institutions	301	268	301	268
Finance lease liabilities	42	6	42	6
Advances received	15	13	15	13
Trade payables	1,278	1,040	1,278	1,040
Other current liabilities	513	429	513	429
Current tax liabilities	26	38	26	38
Accruals and deferred expenses	96	90	96	90
Current liabilities total	2,391	1,884	2,391	1,884
of which interest-bearing			493	299

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, MEUR

	2011			2010		
	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	45	1	44	7	0	7
Between one and five years	43	-4	47	74	2	72
More than 5 years	86	3	83	76	-3	79
Total amounts payable	174	0	174	157	-1	158

Finance lease liabilities arise from bareboat agreements on the crude oil tankers *Tempera* and *Mastera* delivered in 2002 and 2003, the escort tugs *Ukko* and *Ahti* delivered in 2002 and a leasing agreement made in 2008 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. 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 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 1 million (2010: EUR 1 million).

In addition, finance lease liabilities arise from two finance lease agreements for the Singapore production plant and one finance lease agreement for the Rotterdam production plant. The agreements of Singapore plant are made with two local companies that provide utilities and jetty and storage services that are used by the production facility. The major assets under these agreements are a jetty used for loading and discharging of vessels, a pipeline for off-gas produced as a side product in the production process, and product tanks used for storing of the end product. The leasing contracts are 30 and 15 years long. The agreement of Rotterdam plant is made with a local company that provides utilities that are used by the production facility. The major assets under this agreement consist of pipelines.

28 Deferred income taxes

The movement in deferred tax assets and liabilities during 2011:

MEUR	at Jan 1 2011	Charged to Income Statement	Charged in Equity	Exchange rate differences and other changes	at Dec 31 2011
Deferred tax assets					
Tax loss carried forward	7	8	-	-	15
Provisions	4	0	-	-	4
Pensions	12	-1	-	-	11
Cash flow hedges	0	1	10	2	13
Other temporary differences	8	-1	-	-	7
Total deferred tax assets	31	7	10	2	50
Deferred tax liabilities					
Depreciation difference and untaxed reserves	291	-9	-	-	282
Excess of book basis over tax basis of property, plant and equipment	28	-9	-	-	19
Cash flow hedges	-2	-	-	2	0
Finance leases	6	-1	-	-	5
Capitalized interest	16	2	-	-	18
Capitalized fixed costs of inventories	5	-5	-	-	0
Other temporary differences	3	2	2	-	7
Total deferred tax liabilities	347	-20	2	2	331

The movement in deferred tax assets and liabilities during 2010:

MEUR	at Jan 1 2010	Charged to Income Statement	Charged in Equity	Exchange rate differences and other changes	at Dec 31 2010
Deferred tax assets					
Tax loss carried forward	0	7	-	-	7
Provisions	4	0	-	-	4
Pensions	-	12	-	-	12
Other temporary differences	7	1	-	-	8
Total deferred tax assets	11	20	-	-	31

Deferred tax liabilities					
Depreciation difference and untaxed reserves	270	21	-	-	291
Excess of book basis over tax basis of property, plant, and equipment	9	19	-	-	28
Pensions	29	-29	-	-	0
Cash flow hedges	-3	2	-1	-	-2
Finance leases	7	-1	-	-	6
Capitalized interest	12	4	-	-	16
Capitalized fixed costs of inventories	10	-5	-	-	5
Other temporary differences	-6	9	0	-	3
Total deferred tax liabilities	328	20	-1	-	347

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 1 million (2010: EUR 4 million) have been netted in the balance sheet.

Deferred tax assets, MEUR	2011	2010
Deferred tax asset to be recovered after more than 12 months	29	25
Deferred tax asset to be recovered within 12 months	21	6
	50	31

Deferred tax liabilities, MEUR	2011	2010
Deferred tax liability to be recovered after more than 12 months	331	341
Deferred tax liability to be recovered within 12 months	0	6
	331	347

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 change of the Finnish corporate income tax rate from 26% into 24.5% as of the beginning of 2012 had EUR 19 million effect on deferred tax liabilities. There was no material effect on deferred tax assets.

29 Provisions

MEUR

	Environmental provisions	Provision to return emission allowances	Restructuring provisions	Other provisions	Total
At January 1 2011	6	7	2	5	20
Charged to income statement					
Additional provisions	3	2	0	2	7
Amounts used during the period	-1	0	-2	-2	-5
At December 31 2011	8	9	0	5	22
				2011	2010
Current provisions				12	6
Non-current provisions				10	14
				22	20

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.

30 Retirement benefit obligations

The Group has several pension arrangements in different countries. Pension cover is based on the legislation and agreement in force in each country. Finnish statutory pensions that are managed in a pension insurance company are accounted for as a defined contribution plan in the group financial statements. The Finnish voluntary pension plan is accounted for as a defined benefit plan. The voluntary pension plan grants additional pension benefits in excess of statutory benefits. The plan provides old age pensions, disability pensions, survivors' pensions, and funeral grants. The voluntary pension plan has been closed since January 1 1994.

In 2010 group's own pension fund ceased to provide for pension benefits. At the same time the Finnish statutory pensions and the associated pension portfolio as well as the voluntary pension benefits and the associated pension portfolio in Finland were transferred to insurance companies. In 2010 the group wind up also its defined benefit plan in the UK and the transfer of the associated pension portfolio to an insurance company by means of purchase of annuities.

The above mentioned changes in the Group's defined benefit plans have been accounted for as settlements of defined benefit plans in the consolidated financial statements. The effect of the settlement has been presented in the notes below. No curtailment of benefits provided by existing plans took place in connection with the transfer to insurance companies.

The Group has defined benefit plans also in Belgium and in Switzerland. As at December 31 2011 the defined benefit plans comprised of the Finnish voluntary pension plans as well as pension plans in Belgium and Switzerland.

Defined benefit pension plans

Amounts recognized in the income statement

MEUR	2011	2010
Current service cost	5	8
Interest cost	15	20
Expected return on plan assets	-13	-20
Net actuarial gains and losses recognized during the period	0	3
Settlements	0	51
Total included in personnel expenses (Note 10)	7	62

Amounts recognized in the balance sheet

MEUR	2011	2010
Present value of funded obligations	334	336
Fair value of plan assets	-277	-289
	57	47
Unrecognized actuarial gains and losses	-11	0
Net liability (+) / asset (-)	46	47

Movement in the net pension asset/liability recognized in the balance sheet

MEUR	2011	2010
At the beginning of the period	47	-101
Total expense charged in the income statement	7	62
Refund from the foundation to the employer	0	85
Contributions paid	-8	1
At the end of the period	46	47

Amounts recognized in the balance sheet

MEUR	2011	2010
Defined benefit pension obligations	46	47
Defined benefit pension assets	0	0
Net asset (-) / liability (+)	46	47

Changes in the present value of the defined benefit obligation

MEUR	2011	2010
Opening defined benefit obligation	336	710
Service cost	5	8
Interest cost	15	20
Actuarial gains / losses	-4	-
Benefits paid	-15	-20
Settlements	-3	-383
Translation differences	-	1
Closing defined benefit obligation	334	336

Changes in the fair value of plan assets

MEUR	2011	2010
Opening fair value of plan assets	289	720
Expected return on plan assets	13	20
Actuarial gains/losses	-16	-7
Contributions by employer	8	-1
Refund from the foundation to the employer	-	-85
Benefits paid	-15	-20
Settlements	-2	-339
Translation differences	-	1
Closing fair value of plan assets	277	289

The assets are the responsibility of the insurance company and a part of the insurance company's investment assets. The distribution in categories is not possible to provide.

The actual return on plan assets was EUR -3 million (2010: EUR 15 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 December 31

MEUR	2011	2010	2009	2008	2007
Present value of funded obligation	334	336	710	627	704
Fair value of plan assets	277	289	720	601	781
Deficit(+)/surplus(-)	57	47	-10	26	-77
Experience adjustments on plan assets	0	-5	74	-225	-10
Experience adjustments on plan liabilities	-4	1	-15	0	12

Contributions amounting to EUR 7 million are expected to be paid to the plan during 2012.

The principal actuarial assumptions used

Finland

	2011	2010
Discount rate	4.5%	4.5-5.0%
Expected return on plan assets	4.5%	4.5-6.04%
Future salary increases	3.5%	3.5%
Future pension increases	0.0-2.1%	0.0-2.7%

Other countries

	2011	2010
Discount rate	2.5-4.5%	2.5-5.0%
Expected return on plan assets	2.5-4.5%	2.5-4.5%
Future salary increases	1.5-2.0%	1.5-2.0%
Future pension increases	3.5%	3.5%

The expected rate of return on plan assets is based on market expectations for returns over the entire life of the related obligation.

31 Share-based payments

Share-based incentive plan as of January 1 2010

In December 2009 the Board of Directors decided to establish a new share-based incentive plan for the Group's key personnel. The aim of the plan is to align the objectives of the owners and key personnel of Neste Oil: e.g. increasing the value of the Company and committing key personnel to the Company by offering them a competitive reward plan based on holding Company shares. The plan includes three three-year earning periods, first one of which started in 2010 and second started in 2011 and the last one will start in 2012. The Board of Directors decides the earnings criteria and targets to be met as well as the maximum level of the payable reward for each earnings period. The earning criteria for the plan 2010-2012 and the plan 2011-2013 are the same, the sales volume at Renewable Fuels and total shareholder return on Neste Oil share in relation to the Dow Jones Nordic Return Index. The potential reward will be paid partly in Company shares and partly in cash in 2013, 2014, 2015 and 2016.

The maximum level of payable reward may not, during any earnings year, exceed the annual gross salary of the year in question. The portion to be paid in cash will cover taxes and tax-related costs arising from the reward. The plan prohibits the transfer of shares within three years from the end of the earning period, i.e. the length of the plan is six years for each share allocation. Even after this, key personnel must hold 50% of the shares received on the basis of the plan as long as the value of the shares held in total corresponds to their annual gross salary. This obligation to own shares is valid as long as the employment or service in the Group continues.

The maximum amount of reward for key personnel for the plan 2011–2013 equals the value of 842,000 Neste Oil shares, of which 802,000 shares were allocated as at December 31 2011. The maximum reward for the members of the Neste Executive Board equaled the value of 335,000 shares, of which the maximum reward for the President & CEO equaled the value of 80,000 shares.

The maximum amount of reward for key personnel for the plan 2010–2012 equals the value of 809,000 Neste Oil shares, of which 696,000 shares were allocated as at December 31 2011. The maximum reward for the members of the Neste Executive Board equaled the value of 335,000 shares, of which the maximum reward for the President & CEO equaled the value of 75,000 shares.

The following tables summarize the terms and the assumptions used in accounting for the performance share plan.

	Plan 2011–2013	Plan 2010–2012
Grant dates and prices		
Grant dates	Jan 3 2011	Jan 4 2010
Grant prices, euros	10.81	11.50
Share price as at grant date, euros	12.21	12.70

	Plan 2011–2013	Plan 2010–2012
Term of the plan		
Beginning of earnings period	Jan 1 2011	Jan 1 2010
End of earnings period	Dec 31 2013	Dec 31 2012
End of restriction period	Dec 31 2016	Dec 31 2015

Assumptions used in calculating the value of the reward

	Plan 2011–2013	Plan 2010–2012
Amount of granted shares at the beginning of the period, maximum reward	-	809,000
Amount of shares granted during the period, maximum reward	842,000	-
Adjustments to the amount of shares	-40,000	-113,000
Amount of granted shares at the end of the period, maximum reward	802,000	696,000
Number of participants at the end of the financial period	60	40
Share price at the end of the financial period, euros	7.81	7.81
Estimated rate of realization of the earnings criteria, %	55%	55%
Estimated termination rate before the end of the restriction period, %	10%	10%

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 2010-2012 and 2011-2013.

Management Performance Share Arrangement in place during the financial periods 2007–2009

Neste Oil had a Management Performance Share Arrangement for senior management and other key personnel in place during the financial periods 2007-2009. The Board of Directors established the scheme in 2006, which was launched at the beginning of the financial period ending December 31 2007. Based on the earnings criteria, no reward was earned during the earnings period 2007-2009. In December 2009 the Board of Directors decided to establish a new share-based incentive plan for the Group key personnel. This plan has been described earlier in this note. At the same time, the Board of Directors decided that the previous Management Performance Share Arrangement will not be continued with a new earnings period.

The President and CEO was paid a reward equaling the amount of 10,000 shares in December 2010 based on shares granted in 2009. The President & CEO received 5,000 shares and the rest of the reward was paid in cash to cover the relevant taxes and similar payments.

Management Performance Share Arrangement in place during previous accounting periods

The previous Management Performance Share Arrangement was in force during the financial period ended December 31 2006 and previous financial periods.

Delivery of shares to the participants based on this arrangement took place in February 2010, 2009 and 2008. A reward equaling the gross amount of 276,747 shares, or EUR 3 million, was paid in 2010. The net amount shares delivered to the participants totaled 157,536 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 10.50 euros. The members of Neste Executive Board received a reward equaling the gross amount of 55,234 shares. The share delivery that took place in February 2010 was the last one based on this Management Performance Share Arrangement.

Accounting treatment

The Share-based incentive plans described above are accounted for as a share based transaction with cash alternative. The portion of the earned reward (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 reward 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 reward is 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.

MEUR	2011	2010
Expense recognized in the income statement	0	4
Change in fair value of the liability recognized in the balance sheet	1	-4
Total expense charged to the income statement	1	0
Change in fair value of the hedging instrument	0	1
Net effect of share based payments in the income statement	1	1

The liability recognized in the balance sheet related to share based payments amounted to EUR 1 million (2010: EUR 1 million). The expense to be recognized during the financial periods 2012–2016 is estimated as at December 31 2011 to amount to 5 million. 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. The hedging arrangement is accounted for as treasury shares and has been described in detail in Note 26.

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

32 Related party transaction

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 33) and with the members of the Board of Directors, the President and CEO and other members of the Neste Executive Board (key management persons), close members of the families of the mentioned key management persons and entities controlled or jointly controlled by the mentioned key management persons or close members of those persons' families.

The 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, MEUR

2011	Sales of goods and services	Purchases of goods and services	Receivables	Financial income and expense	Liabilities
Associates	1	15	3	0	16
Joint ventures	115	57	4	0	0
Key management persons and entities controlled by them	-	-	-	-	-
Pension fund	-	-	-	-	-
	116	72	7	0	16

2010	Sales of goods and services	Purchases of goods and services	Receivables	Financial income and expense	Liabilities
Associates	1	7	2	0	2
Joint ventures	91	52	3	0	0
Key management persons and entities controlled by them	0	2	-	-	-
Pension fund	1	2	-	-	-
	93	63	5	0	2

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. In 2010 the transactions with Key management persons and entities controlled by them consists of purchases relating to maintenance work.

In 2010 all the pension liabilities were transferred from Pension fund to insurance companies. Consequently the overfunding was returned to the companies, part of the amount consisted of shares in

Keilaranta 21. In 2010 purchases from pension fund have been rents for the buildings occupied by the Group.

Key management compensation

EUR thousand	2011	2010
Salaries and other short-term employee benefits	2,899	2,813
Share-based payments	-	700
	2,899	3,513

Key management consists of the members of the Board of Directors, President and CEO and other members of the Neste Executive Board. There were no outstanding loan receivables from key management on Dec 31 2011 or Dec 31 2010.

The amounts of share participations granted to the President and CEO and other members of the Neste Executive Board based on Management Performance Share Arrangements have been disclosed in Note 31, Share based payments.

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

EUR thousand	2011	2010
Matti Lievonen, President and CEO	860	772
Board of Directors		
Timo Peltola, chairman	76	74
Jorma Eloranta, vice chairman	46	-
Mikael von Frenckell	8	58
Michiel Boersma	55	52
Majja-Liisa Friman	46	35
Ainomaija Haarla	11	43
Nina Linander	57	55
Laura Raitio	35	-
Hannu Ryöppönen	57	55
Markku Tapio	46	45
Maarit Toivanen-Koivisto	-	10
Board of Directors, all members total	437	427
Supervisory Board, all members total	12	58

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.

The Supervisory Board was abolished in May, 2011.

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 retirement salary.

33 Group companies on 31 December 2011

Subsidiaries	Group holding %	Country of incorporation
Kide Automaatit Oy	100%	Finland
Kiinteistö Oy Espoon Keilaranta 21	100.00%	Finland
LLC Neste Saint-Petersburg	100.00%	Russia
LLC NSPb ¹⁾	100.00%	Russia
Neste Canada Inc.	100.00%	Canada
Neste Eesti AS	100.00%	Estonia
Neste Jacobs Aktiebolag	100.00%	Sweden
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 Bahrain W.L.L.	100.00%	Bahrain
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 Limited	100.00%	Guernsey
Neste Oil Limited	100.00%	Great Britain
Neste Oil Netherlands B.V.	100.00%	The Netherlands
Neste Oil N.V.	100.00%	Belgium
Neste Oil Services, Inc.	100.00%	USA
Neste Oil Singapore Pte. Ltd.	100.00%	Singapore
Neste Oil (Suisse) S.A.	100.00%	Switzerland
Neste Oil US, Inc.	100.00%	USA
Neste Petroleum, Inc.	100.00%	USA
Neste Polska Sp. z o.o.	100.00%	Poland
Neste Renewable Fuels Oy	100.00%	Finland
Neste Shipping Oy	100.00%	Finland
Neste Trading (U.S.A.), Inc.	100.00%	USA
Neste USA, L.L.C.	100.00%	USA
SIA Neste Latvija	100.00%	Latvia
UAB Neste Lietuva	100.00%	Lithuania
US Active Oy	100.00%	Finland

Associated companies	Group holding %	Country of incorporation
A/B Svartså Vattenverk - Mustijoen Vesilaitos O/Y	40.00%	Finland
Alberta Envirofuels Inc.	50.00%	Canada
Bahrain Lube Base Oil Company B.S.C (closed) ²⁾	45.00%	Bahrain
Nemarc Shipping Oy	50.00%	Finland
Neste Arabia Co. Ltd	48.00%	Saudi-Arabia
Oy Innogas Ab	50.00%	Finland
Porvoon Alueverkko Oy	33.33%	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 Limited	50.00%	Bermuda
Lacus Ltd.	50.00%	Bermuda
NSE Biofuels Oy Ltd	50.00%	Finland
Nynas AB	49.99%	Sweden
Terra Ltd.	50.00%	Bermuda

¹⁾ Acquired during the financial period

²⁾ Bahrain Lube Base Oil Company B.S.C (closed), previously classified as a joint venture, is reported as jointly controlled assets from year 2010 and is therefore classified as an associated company.

34 Contingencies and commitments

Contingent liabilities

MEUR	2011 Value of collateral	2010 Value of collateral
On own behalf for commitments		
Real estate mortgages	26	26
Pledged assets	2	2
Other contingent liabilities	31	43
Total	59	71
On behalf of associates and joint ventures		
Guarantees	2	3
Total	2	3
On behalf of others		
Guarantees	1	14
Other contingent liabilities	2	-
Total	3	14
	64	88

Operating lease liabilities

MEUR	2011	2010
Due within one year	74	76
Due between one and five years	142	164
Due later than five years	80	108
	296	348

Operating leases

Lease rental expenses amounting to EUR 76 million (2010: EUR 95 million) relating to the lease (under operating leases) of property, plant, and equipment are included in the income statement in other expenses.

Commitments

MEUR	2011	2010
Commitments for purchase of property, plant and equipment	24	76
	24	76

The Group's operating lease commitments primarily relate to time charter vessels, land and office space.

The Group's take-or-pay contracts relate to hydrogen supply agreements. Agreements include volume based hydrogen purchase obligation. The total fixed fees payable under the agreements during 2011–2026 as at December 31 2011 are presented in the table below.

Fixed fees payable under take-or-pay contracts

MEUR	2011
Payable 2011	17
Payable after 2011	222
Total payable	239

Other contingent liabilities

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

35 Disputes and potential litigations

Some Group companies are involved in legal proceedings or disputes incidental to their business. In the management's opinion, the outcome of these cases is difficult to predict but not likely to have material effect on the Group's financial position.

36 Events after the balance sheet date

In January 2012, the competition authorities in the US and Canada approved the sale of Neste Oil's 50% holding in an iso-octane production plant in Edmonton, Canada to Canadian-based Keyera Corporation. Neste Oil sold its whole asset and associated product and feedstock inventories at closing to the buyer. The divestment will have EUR 90 million positive impact on Neste Oil's cash flow in 2012 and gain over EUR 20 million will be booked in Q1. The proceeds will be used on general corporate purposes.

Parent company income statement

MEUR	Note	Jan 1–Dec 31 2011	Jan 1–Dec 31 2010
Revenue	2	11,235	8,697
Change in product inventories		174	-188
Other operating income	3	14	68
Materials and services	4	-10,555	-7,719
Personnel expenses	5	-165	-99
Depreciation, amortization and write-downs	6	-140	-138
Other operating expenses	7	-276	-322
Operating profit		287	299
Financial income and expenses	8	-70	-29
Profit before extraordinary items		217	270
Extraordinary items	9	-31	-8
Profit before appropriations and taxes		186	262
Appropriations	10	-16	-55
Income tax expense	11	-49	-50
Profit for the year		121	157

Parent company balance sheet

MEUR	Note	Dec 31 2011	Dec 31 2010
ASSETS			
Fixed assets and other long-term investments 12, 13			
Intangible assets		25	14
Tangible assets		1,631	1,679
Other long-term investments		2,619	2,387
		4,275	4,080
Current assets			
Inventories	14	852	697
Long-term receivables	15	130	178
Short-term receivables	16	920	720
Cash and cash equivalents		231	282
		2,133	1,877
Total assets		6,408	5,957
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity 17			
Share capital		40	40
Retained earnings		915	848
Profit for the year		121	157
		1,076	1,045
Accumulated appropriations 18		910	893
Provisions for liabilities and charges 19		9	9
Liabilities 20			
Long-term liabilities		2,287	2,191
Short-term liabilities		2,126	1,819
		4,413	4,010
Total equity and liabilities		6,408	5,957

Parent company cash flow statement

MEUR	Jan 1–Dec 31 2011	Jan 1–Dec 31 2010
Cash flows from operating activities		
Profit before extraordinary items	217	271
Depreciation, amortization and write-downs	140	138
Other non-cash income and expenses	4	0
Financial income and expenses	70	29
Divesting activities, net	0	-1
Operating cash flow before change in working capital	431	437
Change in working capital		
Decrease (+)/increase (-) in interest-free receivables	-165	-73
Decrease (+)/increase (-) in inventories	-155	140
Decrease (-)/increase (+) in interest-free liabilities	179	584
Change in working capital	-141	651
Cash generated from operations	290	1,088
Interest and other financial expenses paid, net	-68	-49
Dividends received	3	21
Income taxes paid	-82	-18
Realized foreign exchange gains and losses	8	-10
Group contributions, net	-8	-103
Net cash from operating activities	143	929
Cash flows from investing activities		
Capital expenditure	-94	-83
Proceeds from sale of fixed assets	1	3
Investments in shares in subsidiaries	-830	-755
Investments in shares in other shares	0	-3
Proceeds from shares in subsidiaries	600	-
Change in other investments, increase (-)/decrease (+)	25	-26
Net cash used in investing activities	-298	-864
Cash flow before financing activities	-155	65

Cash flows from financing activities		
Proceeds from long-term liabilities	514	1,204
Payments of long-term liabilities	-308	-888
Change in short-term liabilities	-12	-113
Dividends paid	-90	-64
Cash flow from financing activities	104	139
Net increase (+)/decrease (-) in cash and cash equivalents	-51	204
Cash and cash equivalents at the beginning of the period	282	78
Cash and cash equivalents at the end of the period	231	282
Net increase (+)/decrease (-) in cash and cash equivalents	-51	204

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.

Change in accounting policies applied

In the financial year, a share of production overhead costs (based on normal operating capacity) has been recognized in inventory value. The impact of the change has been adjusted in the balance sheet, affecting inventory and retained earnings for the comparison period. The income statement for the comparison period has not been adjusted. The effect on net income for the comparison period is disclosed in Note 17.

Revenue

Revenue 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, including special spare parts	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. The cost of finished goods and work in progress comprises raw materials, direct labor and other direct costs. A share of production overhead costs (based on normal operating capacity) has been recognized in inventory value in the financial period. Standard spare parts are carried as inventory and recognized in profit or loss as consumed.

Research and development

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

Pension expenses

The statutory TyEL plan, as well as voluntary pension plans, were funded through pension fund, Neste Oil Eläkesäätiö, until 31 March 2010. The liabilities on pensions granted by the Company itself were entered as a provision in the balance sheet. On 1 April the statutory pensions and the associated pension portfolio as well as the voluntary pension benefits and the associated pension portfolio were transferred to insurance companies. Also the pensions granted by the Company were moved to insurance company. The pension expenses are booked to income statement during the year they occur.

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, restructuring provisions, 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 Revenue

Revenue by segment

MEUR	2011	2010
Oil Products	11,181	8,656
Renewable Fuels	6	7
Oil Retail	0	0
Other	117	96
Eliminations	-69	-62
	11,235	8,697

Revenue by market area

MEUR	2011	2010
Finland	6,367	4,779
Other Nordic countries	1,922	1,600
Baltic countries, Russia and Poland	560	510
Other European countries	1,436	1,188
North and South America	874	536
Other countries	76	84
	11,235	8,697

3 Other operating income

MEUR	2011	2010
Rental income	9	13
Gain on sale of intangible and tangible assets	0	1
Insurance compensations	1	50
Government grants	3	3
Other	1	1
	14	68

4 Materials and services

MEUR	2011	2010
Materials and supplies		
Purchases during the period	10,522	7,764
Change in inventories	30	-48
	10,552	7,716
External services	3	3
	10,555	7,719

5 Personnel expenses

MEUR	2011	2010
Wages, salaries and remunerations	127	138
Indirect employee costs		
Pension costs*)	30	-48
Other indirect employee costs	8	9
	165	99

*) All the pension plans were moved from pension fund to insurance companies on April 1 2010, pension fund returned the overfunding to the company. The amount is included in the pension costs as an income.

Salaries and remuneration

Key management compensations are presented in Note 32 in the Neste Oil Group consolidated financial statements.

Average number of employees

	2011	2010
Oil Products	1,505	1,553
Other	718	704
	2,223	2,257

6 Depreciation, amortization and write-downs

MEUR	2011	2010
Depreciation according to plan	140	137
Write-offs	0	1
	140	138

7 Other operating expenses

MEUR	2011	2010
Operating leases and other property costs	19	21
Freights relating to sales	73	67
Repairs and maintenance	67	125
Other	117	109
	276	322
Other operating expenses include losses on sales of tangible assets and write-offs of fixed assets in progress	3	11

Fees charged by the statutory auditor

EUR thousands	2011	2010
Audit fees	313	306
Auditor's mandatory opinions	8	2
Tax advisory	21	47
Other advisory services	585	39
	927	394

8 Financial income and expenses

MEUR	2011	2010
Dividend income		
From Group companies	3	21
From others	0	0
Dividend income total	3	21
Interest income from long-term loans and receivables		
From Group companies	1	0
From others	0	0
Interest income from long-term loans and receivables total	1	0
Other interest and financial income		
From Group companies	6	2
From others	0	0
Other interest and financial income total	6	2
Interest expenses and other financial expenses		
To Group companies	-7	-2
To others	-73	-53
Interest expenses and other financial expenses total	-80	-55
Exchange rate differences	0	3
Financial income and expenses total	-70	-29
Total interest income and expenses		
MEUR	2011	2010
Interest income	7	2
Interest expenses	-73	-53
Net interest expenses	-66	-51

9 Extraordinary items

MEUR	2011	2010
Group contributions		
Group contributions received	50	33
Group contributions given	-81	-41
	-31	-8

10 Appropriations

Change in depreciation difference

MEUR	2011	2010
Difference between depreciation according to plan and depreciation in taxation	-16	-55

11 Income tax expense

MEUR	2011	2010
Income taxes on regular business operations	57	51
Income taxes on extraordinary items	-8	-2
Change in deferred tax assets	0	1
	49	50

12 Fixed assets and long-term investments

Change in acquisition cost 2011, MEUR

Intangible assets	Other intangible assets		Total
	Goodwill		
Acquisition cost as of January 1 2011	1	74	75
Increases	-	16	16
Decreases	-	0	0
Transfers between items	-	0	0
Acquisition cost as of December 31 2011	1	90	91
Accumulated depreciation, amortization and write-downs as of January 1 2011	1	60	61
Accumulated depreciation, amortization and write-downs of decreases and transfers	-	0	0
Depreciation, amortization and write downs for the period	-	5	5
Accumulated depreciation, amortization and write-downs as of December 31 2011	1	65	66
Balance sheet value as of December 31 2011	-	25	25
Balance sheet value as of December 31 2010	-	14	14

Tangible assets	Land areas	Buildings and structures	Machinery and equipment	Other tangible assets	Advances paid and construction in progress		Total
Acquisition cost as of January 1 2011	25	1,032	2,052	78	66		3,254
Increases	-	22	31	1	37		90
Decreases	-	0	3	0	4		7
Transfers between items	-	0	0	-	-		0
Acquisition cost as of December 31 2011	25	1,054	2,081	79	99		3,338
Accumulated depreciation, amortization and write-downs as of January 1 2011	0	449	1,126	29	-		1,604
Accumulated depreciation, amortization and write-downs of decreases and transfers	-	0	2	0	-		3
Depreciation, amortization and write-downs for the period	-	31	103	2	-		135

Accumulated depreciation, amortization and write-downs as of December 31 2011	0	479	1,227	30	-	1,737
Revaluations	6	24	-	-	-	30
Balance sheet value as of December 31 2011	31	599	854	48	99	1,631
Balance sheet value as of December 31 2010	31	607	926	50	66	1,680
Balance sheet value of machinery and equipments used in production						819

Other long-term investments	Shares in group companies	Receivables from group companies	Shares in associated companies	Receivables	Other	Other receivables	Total
				from associated companies	shares and holdings		
Acquisition cost as of January 1 2011	2,349	16	1	0	3	18	2,387
Increases	830	1	-	-	0	5	836
Decreases	600	3	-	0	-	0	603
Acquisition cost as of December 31 2011	2,579	13	1	0	3	23	2,619
Accumulated depreciation, amortization and write-downs as of January 1 2011	-	-	-	0	0	0	0
Accumulated depreciation, amortization and write-downs as of December 31 2011	-	-	-	0	0	0	0
Balance sheet value as of December 31 2011	2,579	13	1	0	3	23	2,619
Balance sheet value as of December 31 2010	2,349	16	1	0	3	18	2,387

Interest-bearing and interest-free receivables

MEUR	2011	2010
Interest-bearing receivables	14	16
Interest-free receivables	23	18
	37	34

13 Revaluations

MEUR	Revaluations as of			Revaluations
	Jan 1 2011	Increases	Decreases	as of Dec 31 2011
Land areas	6	-	-	6
Buildings	24	-	0	24
	30	-	0	30

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

MEUR	2011	2010
Raw materials and supplies	242	261
Products/finished goods	610	436
Advance payments on inventories	0	-
	852	697
Replacement value of inventories	854	700
Book value of inventories	852	697
Difference	2	3

The capitalization of production overhead costs increases the amount of products/finished goods by EUR 18 million for the comparison period.

15 Long-term receivables

MEUR	2011	2010
Receivables from Group companies		
Other long-term receivables	127	175
Deferred tax assets	3	3
	130	178

16 Short-term receivables

MEUR	2011	2010
Trade receivables	450	377
Receivables from Group companies		
Trade receivables	325	230
Other receivables	50	38
Accrued income and prepaid expenses	2	2
Total	377	270
Receivables from associated companies		
Trade receivables	0	1
Other receivables	1	0
Total	1	1
Other receivables	74	56
Accrued income and prepaid expenses	18	16
	920	720

Short-term accrued income and prepaid expenses

MEUR	2011	2010
Accrued interest	4	5
Accrued taxes	6	0
Other	10	12
	20	17

17 Changes in shareholders' equity

MEUR	2011	2010
Share capital at January 1	40	40
Share capital at December 31	40	40
Retained earnings at January 1	1,005	894
Dividends paid	-90	-64
Reversal of revaluation	0	-
Change in accounting policy	-	18
Profit for the year	121	157
Retained earnings at December 31	1,036	1,005
Distributable equity	1,036	1,005

The change in accounting policy is related to the capitalization of production overhead costs. The effect on net income for the comparison period would have been EUR -25 million.

18 Accumulated appropriations

MEUR	2011	2010
Depreciation difference	910	893

19 Provisions for liabilities and charges

MEUR	Restructuring provisions	Provision for environment	Total
Provisions as at January 1 2011	1	8	9
Increase	0	1	1
Decrease	-1	0	-1
Provisions as at December 31 2011	0	9	9

20 Liabilities

Long-term liabilities

MEUR	2011	2010
Bonds	646	715
Loans from financial institutions	1,093	1,010
Liabilities to Group companies		
Other long-term liabilities	540	465
Other long-term liabilities	6	-
Accruals and deferred income	2	1
	2,287	2,191

Interest-bearing liabilities due after five years

MEUR	2011	2010
Bonds	49	298
Loans from financial institutions	70	393
Liabilities to Group companies	495	465
	614	1,156

Short-term liabilities

MEUR	2011	2010
Bonds	120	-
Loans from financial institutions	292	258
Advances received	2	1
Trade payables	931	820
Liabilities to Group companies		
Advances received	0	0
Trade payables	62	48
Other short-term liabilities	180	189
Accruals and deferred income	0	8
Total	242	245
Liabilities to associated companies		
Trade payables	2	2
Other short-term liabilities	0	0
Total	2	2
Other short-term liabilities	466	402
Accruals and deferred income	71	90
	2,126	1,818

Short-term accruals and deferred income

MEUR	2011	2010
Salaries and indirect employee costs	38	40
Accrued interests	21	19
Other short-term accruals and deferred income	12	40
	71	99

Interest-bearing and interest-free liabilities

MEUR	2011	2010
Long-term liabilities		
Interest-bearing liabilities	2,279	2,190
Interest-free liabilities	8	1
	2,287	2,191
Short-term liabilities		
Interest-bearing liabilities	540	430
Interest-free liabilities	1,586	1,389
	2,126	1,819

21 Contingent liabilities

Contingent liabilities

MEUR	2011	2010
Operating lease liabilities		
Due within a year	3	3
Due after a year	2	2
	5	5
Contingent liabilities given on own behalf		
Real estate mortgages	24	23
Pledged assets	1	2
Other contingent liabilities	2	3
	27	28
Contingent liabilities given on behalf of Group companies		
Real estate mortgages	2	2
Guarantees	206	202
	208	204
Contingent liabilities given on behalf of associated companies		
Guarantees	2	3
	2	3
Contingent liabilities given on behalf of others		
Guarantees	1	14
	1	14
Contingent liabilities total	243	254

22 Derivative financial instruments

Interest and currency derivative contracts and share forward contracts

MEUR	2011			2010		
	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	772	5	-4	723	-9	-9
Forward foreign exchange contracts	1,756	-33	-27	1,791	2	2
Currency options						
Purchased	206	-5	-5	43	0	0
Written	193	-3	-3	36	1	1
Share forward contracts	0	0	0	0	0	0

Oil and freight derivative contracts

	2011			2010		
	Volume million bbl	Fair value	Not recognized as an income	Volume million bbl	Fair value	Not recognized as an income
Sales contracts	44	-5	-5	14	2	2
Purchase contracts	35	17	17	11	-5	-5

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 Company is obliged to adjust VAT deductions made from real estate investments if the taxable utilization of real estate will decrease during a 10-year control period.

24 Shares and holdings

	Country of incorporation	No of shares	Holding -%	Book value Dec 31 2011 EUR thousands
Subsidiary shares				
Kiinteistö Oy Espoon Keilaranta 21	Finland	16,000	100.00	39,725
LLC Neste Saint-Petersburg	Russia	10	100.00	58,427
Neste Eesti AS	Estonia	10,000	100.00	5,927
Neste Jacobs Oy	Finland	2,100	60.00	438
Neste Markkinointi Oy	Finland	210,560	100.00	51,467
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	8,022
Neste Oil Finance B.V.	The Netherlands	26,090	100.00	69,177
Neste Oil Holding (U.S.A.), Inc.	USA	1,000	100.00	18,428
Neste Oil Insurance Limited	Guernsey	7,000,000	100.00	3,000
Neste Oil Limited	Great Britain	500,100	100.00	1,793
Neste Oil N.V	Belgium	4,405,414	99.99	414,753
Neste Oil (Suisse) S.A.	Switzerland	200	100.00	62
Neste Oil US, Inc.	USA	1,000	100.00	1,100
Neste Renewable Fuels Oy	Finland	200	100.00	1,826,901
Neste Shipping Oy	Finland	101	100.00	55,452
				2,578,644
Associated companies				
A/B Svartså Vattenverk - Mustijoen Vesilaitos O/Y	Finland	14	40.00	124
Neste Arabia Co. Ltd.	Saudi-Arabia	480	48.00	156
Porvoon Alueverkko Oy	Finland	40	33.33	7
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
East Office of Finnish Industries Oy	Finland	1		10
Ekokem Oy Ab	Finland	75,000	2.13	125
Fine Carbon Fund Ky	Finland	1		1
Kiinteistö Oy Hiekkaharju II	Finland	51		296
Kiinteistö Oy Himoksen Aurinkopaikka	Finland	51		457
Kiinteistö Oy Katinkullan Hiekkaniemi	Finland	102		903
Kiinteistö Oy Katinkultaniemi	Finland	51		398
Kiinteistö Oy Kuusamon Tähti 1	Finland	51		457
Kiinteistö Oy Laavutieva	Finland	51		311
Kiinteistö Oy Lapinniemi IV-X & Osakeyhtiö Lapinniemi XV	Finland	10		125
Nordic Carbon Fund Ky	Finland	1		1
Posintra Oy	Finland	190		34
				3,218
Telephone shares				
Kymen Puhelin Oy	Finland	1		0
Pietarsaaren Seudun Puhelin Oy	Finland	3		1
Osuuskunta PPO	Finland	1		-
Savonlinnan Puhelinosuuskunta SPY	Finland	1		1
				2
				65
Connection fees				
				65
Total				2,582,723

Proposal by the Board of Directors

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 at December 31 2011 stood at EUR 1,036 million.

The Board of Directors proposes Neste Oil Corporation to pay a dividend of EUR 0.35 per share for 2011, totaling EUR 90 million, and that any remaining distributable funds be allocated to retained earnings.

Espoo, 2 February 2012

Timo Peltola Jorma Eloranta Michiel Boersma Maija-Liisa Friman

Nina Linander Laura Raitio Hannu Ryöppönen Markku Tapio

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. - 31.12.2011. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, 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.

Responsibility of the Board of Directors and the President and CEO

The Board of Directors and the President and CEO are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view 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 Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the President and CEO 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 express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about 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 of the parent company and the President and CEO are guilty of an act or negligence which may result in liability in damages towards the company or violated the Limited Liability Companies Act or the articles of association of the company.

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, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. 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.

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 and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position 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.

Other opinions

We support that the financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown in the balance sheet is in compliance with the Limited Liability Companies Act. We support that the members of the Supervisory Board as well as of the Board of Directors of the parent company and the President and CEO should be discharged from the liability for the financial period audited by us.

Espoo, February 2, 2012

Ernst & Young Oy

Authorized Public Accountant Firm

ANNA-MAIJA SIMOLA

Anna-Maija Simola

Authorized Public Accountant

Quarterly segment information

Revenue		2011				2010			
		10-12	7-9	4-6	1-3	10-12	7-9	4-6	1-3
MEUR									
Oil Products	3,377	3,327	3,070	2,870	2,962	2,491	2,064	2,272	
Renewable Fuels	399	290	144	193	112	120	60	36	
Oil Retail	1,112	1,107	1,058	1,021	1,004	917	884	849	
Others	56	44	47	44	37	38	45	49	
Eliminations	-775	-663	-645	-656	-589	-501	-477	-481	
Total	4,169	4,105	3,674	3,472	3,526	3,065	2,576	2,725	

Operating profit		2011				2010			
		10-12	7-9	4-6	1-3	10-12	7-9	4-6	1-3
MEUR									
Oil Products	3	56	136	178	170	116	-18	65	
Renewable Fuels	-32	-81	-53	-4	-7	2	-19	-15	
Oil Retail	9	24	13	12	17	24	14	6	
Others	1	15	7	-15	-27	2	-42	43	
Eliminations	-3	1	6	0	-7	-1	2	-2	
Total	-22	15	109	171	146	143	-63	97	

Comparable operating profit		2011				2010			
		10-12	7-9	4-6	1-3	10-12	7-9	4-6	1-3
MEUR									
Oil Products	21	84	60	84	108	45	-3	58	
Renewable Fuels	-15	-57	-55	-36	-13	-12	-23	-17	
Oil Retail	9	23	13	12	18	23	13	6	
Others	2	15	8	-16	-16	2	16	43	
Eliminations	-3	1	6	0	-7	-1	2	-2	
Total	14	66	32	44	90	57	5	88	

A new direction for transport and urban planning

Juha Kostiainen was the Joint Chairman of the Transport Revolution program announced in 2011 and aimed at rethinking Finland's transport and urban planning. He is Director, Communications and Public Affairs at Sitra – The Finnish Innovation Fund and Adjunct Professor at the University of Tampere's Research Unit for Urban and Regional Development Studies.



Mobility and logistics are integral to the competitiveness of both countries and urban regions. Given the rising expectations of society and the business community, and the need to reduce emissions because of global change, the challenge now is to achieve better results with less. This is seeing the focus of traffic and municipal planning in Finland and elsewhere moving away from simply building infrastructure to how best to maintain it and optimize its use. In a sustainable, people-focused service society, infrastructure, mobility, and logistics are seen as central sources of the services and wellbeing we all depend on.

A new Transport Revolution development program to revamp Finland's approach to transport and urban planning was recently launched by Sitra – The Finnish Innovation Fund, the Ministry of Transport and Communications, the Ministry of the Environment, the Ministry of Employment and the Economy, and a group of private and public partners. The results of the first stage of the program were outlined in a road map published in spring 2011.

The main proposals contained in the road map are linked to five key areas.

- 1) Political decision-making needs to be redirected away from major arterial projects to guaranteed service levels (lack of congestion, emissions, safety, etc.).
- 2) The public sector should define the level of service expected in sufficient detail that service providers can accurately plan what they need to achieve and maintain it over the long term.
- 3) The transport and municipal planning framework should be defined at the start of each new government by surveying land use, housing, traffic, service structure, and business needs. Strategies based around these five basic factors and developed for core centers of populations will help simplify today's complicated zoning and traffic planning world.
- 4) Users need to be involved in the planning process.
- 5) A traffic and transport databank should be developed on a phased basis, together with mobility profiles and mobility accounts.

A number of trial initiatives are now under way to put these ideas into practice, and are linked to the drafting work being done on a new traffic policy review. Adopting this type of approach will take years, if not decades, but we have got off to a promising start.

Our point of view



We all need to keep things rolling

Osmo Kammonen, Senior Vice President, Communications, Marketing and Public Affairs, writes about the importance of transportation and mobility in general.

[Read more >](#)

We all need to keep things rolling



Mobility and transport are an essential part of everyday life today, and enable us to stay in contact with each other and keep the economy and essential services running. Without traffic and transport, society and prosperity would quickly grind to a halt. The continuing growth in traffic and transport worldwide has awoken us, however, to the need to think about the impact that the demand for mobility is having on society.

The impact that traffic-related emissions and noise have on the immediate environment has attracted a lot of interest for many years, but it is only during the last decade that the impact they have on climate generally has been addressed. The issue of traffic-related greenhouse gas emissions only started to be incorporated into legislation a couple of years ago.

A lot has been achieved in a short time, however. Automotive manufacturers have achieved virtual miracles in developing new engines and exhaust systems, while at the same time improving standards of comfort and safety and engine performance. Under EU targets, the CO₂ emissions of cars sold in the Community will have to fall to an average of a maximum of 130 g/km by 2015; and it now appears that this goal will be reached even earlier. The average emissions of new cars registered in Finland in 2011 were 145 g/km.

In addition to developing better engines, environmental performance can also be improved significantly by developing better fuels. The best biofuels are capable of reducing CO₂ emissions by as much as 80% compared to fossil fuels. The best biofuels are also better in terms of their other properties than fossil fuels. Quality fuels make it easier to develop cleaner and more efficient engine technology.

Neste Oil has been developing cleaner fuels for over 20 years, and has succeeded in launching new, better-performing fuels every couple of years. Premium quality NExBTL renewable diesel is the latest example of a cleaner fuel offering truly industry-leading performance.

Neste Oil can be expected to continue developing cleaner traffic solutions into the future, driven by our conviction that mobility should continue to be a priority, but not at the expense of compromising the lives of future generations. Quality fuels with a smaller environmental footprint have an important part to play in guaranteeing everyone's quality of life.

Osmo Kammonen, Senior Vice President, Communications, Marketing and Public Affairs

Forest risk commodities and the opportunities for sustainable agriculture

Katie McCoy is Project Manager at Forest Footprint Disclosure. A panel of procurement and forest protection professionals assembled by the Forest Footprint Disclosure project annually assesses how companies around the world manage their forest footprint, deal with the associated risks, and report on forest footprint issues.



Deforestation and land conversion account for around 20% of global carbon emissions – more than the entire transport sector. Tackling that problem will help to mitigate climate change as well as improve social and economic conditions for 1.4 billion of the world's poor, who rely on forests for their livelihoods.

Global demand for agricultural commodities is the primary driver of deforestation, as land is cleared to produce biofuels, soya, palm oil and beef. Alongside timber and pulp, these commodities are the building blocks of millions of products traded globally. These in turn are wealth generators, and feature in the supply chains of countless companies across sectors.

Many businesses unknowingly source products that contribute to deforestation in their supply chains, and their resulting 'forest footprint' (total amount of deforestation caused directly or indirectly by an organisation or product) can create unexpected valuation risks and add to their climate change impacts.

In the rush to convert land to agricultural use, we are depleting our natural capital at an unsustainable rate. Currently, there are few incentives to stop as we are creating short-term wealth and short-term solutions to hunger. So what is the solution?

The key is a more sustainable agricultural system, one which uses natural resources at the rate and in the manner in which they can be replaced naturally. Better water conservation, sustainable forestry management, use of better genetic materials to generate higher yields, less monoculture and more efficient use of artificial fertilizers – in short, 'smart' agriculture, driven by technological innovations and leading to increased yields, improved resilience and lower environmental impacts. That kind of agriculture isn't just better for the planet, it is simply better business.

Our point of view



Pekka Tuovinen, Neste Oil's Director, Sustainability and Supplier Compliance, writes about causes of deforestation and the role of businesses in reducing the risk of deforestation.

[Read more >](#)

The root cause of deforestation is poverty



A recent, satellite-based survey released by the UN Food and Agriculture Organization (FAO) together with many global institutions in 2011 shows that areas of forest land decreased with increasing speed between 1990 and 2005.

The world's total forest area in 2005 was 3.7 billion hectares, or 30% of global land area. During 1990–2005, the net loss totaled 72.9 million hectares, nearly equaling the combined land areas of Finland and Sweden. Deforestation is partially offset by afforestation and natural expansion but the change is quick: the planet lost nearly 10 hectares of forest per minute over these 15 years.

Deforestation largely occurred in the tropics, most probably attributable to the conversion of tropical forests into agricultural land, FAO experts conclude. Illegal logging, urbanization, mining, and infrastructure construction are all significant causes of deforestation. The root cause for several factors is, however, poverty. Continuous efforts to alleviate poverty must remain high on the international agenda as a result.

Neste Oil continues to supply sustainably cultivated raw materials from Southeast Asia. Smallholders (family managed 2-4 hectare holdings) account for 40% of palm oil production, and are expected to be the majority palm oil producers in 5 years. Supporting smallholder production provides a practical means to spread welfare. Neste Oil is actively contributing to projects aimed at promoting sustainable cultivation practices and certifications.

What can businesses do to reduce the risk of deforestation?

Combating climate change calls for both reducing of greenhouse gas emissions and securing and even increasing existing carbon sinks. In this respect, deforestation is a major challenge for all companies using forest risk commodities. The Forest Footprint Disclosure Project plays an important role in sharing knowledge on deforestation pressures. The project sets a level playing field for different businesses, enabling balanced benchmarking between sectors; something that is often ignored in industry-specific scorecards.

Biofuels are a major contributor to emission reduction – provided the supply chain is sustainable. In fact, the biofuel industry is currently the forerunner in the commodity sector, as European Union biofuel legislation sets strict sustainability criteria for the whole product chain. Due to strict legislation, the effects of land use change are virtually eliminated from the biofuels sector. The challenge is to expand similar sustainability requirements to cover other sectors and uses of forest risk commodities.

In the global arena, high expectations are put on the Convention for Biological Diversity and the initiative for Reducing Emissions from Deforestation and Forest Degradation in Developing countries (REDD+) under the UN Framework Convention on Climate Change. For many stakeholders, progress in implementing these initiatives has been too slow, however.

Pekka Tuovinen, Neste Oil's Director, Sustainability and Supplier Compliance

A harmonized approach to fuel supply around the world

Anders Røj is responsible for coordinating fuel-related questions at the Volvo Group, one of the world's leading suppliers of transport-related products and services, and has been involved in fuel standardization work for over 20 years.



One of the biggest challengers facing automotive manufacturing today is to find solutions that can really slow the pace of climate change, and we at Volvo are actively monitoring fuel-related developments as part of this. Biocomponents have been the subject of particular attention recently. It is important that fuels do not undermine vehicle performance or increase the environmental footprint of using them. New biofuel blends also need to be brought to market in a harmonized way so as to avoid creating unnecessary confusion or, in a worst-case scenario, providing consumers at service stations in the EU, for example, with the wrong fuel choices.

As an automotive manufacturer, we at Volvo need to know what types of fuel are available in which countries. We actively participate in standardization work on traffic fuels in Europe through CEN and in the US through ASTM. As part of our involvement, we highlight the quality issues that the industry sees as important. We also bring our experience, based on feedback from the field on how our cars perform when they are filled up with fuels in different markets, to the table. Back in 1998, the automotive industry published the Worldwide Fuel Charter (WWFC), linking emission levels and fuel quality requirements in the EU, the US, and Japan. The WWDC was designed to have a concrete impact on emissions and prevent damage being caused to vehicles' engines and other systems, and continues to be updated regularly.

The UN ECE Group in Geneva – in the shape of WP29, the World Forum for Harmonization of Vehicle Regulations – is working to regulate fuels worldwide. The low level of interest by the oil industry in this work, however, has meant that its results have been modest so far. Nevertheless, the goal is to achieve global fuel regulation capable of both improving vehicle reliability and reducing the impact vehicles have on the environment more effectively than is possible today. The majority of the standardization work being done in Europe at the moment is concentrating on questions related to biocomponents: ethanol in the case of gasoline and E85 fuel and FAME in the case of diesel. The main issues involved with conventional diesel fuel – such as sulfur, cetane number, and density – are relatively well-managed in Europe. The same cannot always be said elsewhere, even in North America. Volvo is committed to supporting efforts aimed at producing high-quality fuels with a low level of environmental impact.

Fuels suitable for use in diesel engines can be produced from virtually any organic material with the right ignition properties today. All engines do not perform equally efficiently with all fuels, however. Some fuels require modifications to be made to engines or other vehicle systems. The quality of the FAME available on many markets also does not match required levels, for example. Particular problems are caused by FAME's poor stability and cold weather performance compared to hydrocarbon-based diesel. It would be desirable, therefore, to see an increase in the amount of hydrocarbon-based renewable diesel on the traffic fuel market. I believe that developing the regulations covering fuel quality and vehicle emissions hand in hand is essential.

Our point of view



Biofuels can help us move with a smaller environmental footprint

Heli Salmenpohja, Neste Oil's Manager, Market Development, writes about biofuels' important role in enabling cleaner traffic.

[Read more >](#)

Biofuels can help us move with a smaller environmental footprint



The amount of energy required by traffic and transport is steadily increasing as a result of the world's growing population and increasing urbanization. At the same time, we need to reduce emissions and our dependence on crude oil.

Biofuels represent a key tool for increasing the proportion of renewable energy used in traffic and transport. A number of biofuels – produced using different technologies and offering different product properties – are available today, including biodiesel, ethanol-based gasoline, and biogas. A lot of attention is also being given to electric cars as one way of eliminating our dependence on fossil fuels.

Neste Oil decided at the beginning of the new millennium to focus its R&D on diesel fuel produced from renewable raw materials. Unlike many of the European biofuel producers, Neste Oil rejected the idea of developing conventional FAME-type biodiesel, as its studies showed that the quality of this type of fuel was unlikely to meet the demands of automotive manufacturers, for example. The outcome of Neste Oil's approach was NExBTL technology, capable of producing truly premium-quality renewable diesel. Today, Neste Oil is the world's leading producer of renewable diesel, and its NExBTL diesel is used to power nearly half a million vehicles.

The extensive field and laboratory trials that have been carried out on NExBTL renewable diesel in Finland, Germany, and Canada have shown that it performs excellently in a variety of blends and at 100% content. It has also proved a good solution for reducing traffic-related CO₂ emissions and the tailpipe pollutants that impact urban air quality without the need to replace existing vehicles. From the driver's perspective, using NExBTL renewable diesel is no different from using conventional fossil diesel.

While many other cleaner traffic solutions, such as electric cars, will only be available on a large scale many years from now, Neste Oil's NExBTL renewable diesel can be used to reduce emissions today. Going forward, Neste Oil believes that a number of alternatives will be needed to meet the growing need for energy in the traffic and transport sector as sustainably as possible. To be maximally effective, the tax incentives and other initiatives offered by society to encourage people to switch to more energy-efficient, cleaner vehicles should be technology-neutral and designed to enable the marketplace to decide which are the most effective alternatives.

Heli Salmenpohja, Neste Oil's Manager, Market Development

Looking for alternatives to fossil fuels in aviation

Joachim Buse is Lufthansa's Vice President, Aviation Biofuel. Lufthansa has been at the forefront of pioneering the use of biofuels in aviation and was the world's first airline to trial biofuels on regular scheduled flights in 2011.



The aviation industry has undertaken a great deal in terms of climate protection and has set itself ambitious targets. In line with IATA's industry-wide goal, airlines must reduce their net CO₂ emissions by 50% by 2050 compared to 2005. If we want to protect our climate and thus our future in a sustainable manner, we need innovative ideas and technologies and an environmentally friendly alternative to fossil fuels – particularly in view of the growing demand for mobility worldwide.

Biosynthetic kerosene is just as reliable as conventional jet fuel but the environmental effects are more positive. Thanks to the higher energy density of biofuel, it is possible to reduce fuel consumption. Furthermore, biosynthetic kerosene is free of sulfur and aromatic compounds.

The principle behind biofuel is simple and is based on the carbon cycle. Plants withdraw CO₂ from the atmosphere through photosynthesis. When aircraft engines burn biofuel, this CO₂ is released back into the atmosphere. Biofuel emits about 50% less CO₂ than conventional fossil fuels.

The use of biosynthetic kerosene is one element of the four-pillar climate protection strategy pursued by Lufthansa with a view to reducing overall CO₂ emissions in the air transport sector. By combining a range of different measures – for example, ongoing fleet modernisation, technology improvements to aircraft and engines, operational measures such as engine washing or the use of lighter materials and an improved infrastructure – Lufthansa aims to achieve the ambitious environmental goals set out in its strategy.

Our point of view



The current and future market for aviation biofuels

Matti Lehmus, Neste Oil's Executive Vice President, Oil Products and Renewables, writes about the future of the biofuels in aviation.

[Read more >](#)

The current and future market for aviation biofuels



Airlines are becoming increasingly interested in the potential of renewable fuels, as the industry needs to reduce its greenhouse gas emissions and dependence on fossil fuels. As a result, an increasing number of test flights using biofuels has been conducted after high-quality biojet has recently become available on the market.

Biojet is technically similar to renewable diesel, but the technical requirements regarding low-temperature performance and stability, for example, are even stricter. Neste Oil is the largest high-quality renewable fuel producer in the world and its production technology allows production to be shifted between diesel fuel and renewable jet within certain technical limits.

However, unlike road traffic, there are as yet very few incentives to use biofuels in aviation. As a result, its use has been limited to test flights, as costs are higher than for fossil fuel. However, there is strong interest to introduce low-carbon fuels into aviation throughout the world. For example in Europe, developments are moving ahead, as the European Union, together with industry representatives and various NGOs, has launched the FlightPath 2020 program aimed at overcoming the commercial roadblocks to biojet. Aviation biofuels could ultimately be used to fulfill the national biomandates that are currently being fulfilled mostly with road traffic fuels.

Neste Oil has committed itself to the Flightpath program, which is very much in line with the company's goals. Neste Oil supports the development of new innovations in the field and is helping create the economic and legislative mechanisms needed to encourage the uptake of these new fuels. The company's pioneering cooperation with Lufthansa saw Lufthansa fly four daily commercial flights using NExBTL renewable aviation fuel for six months in 2011. Read more about [Neste Oil's cooperation with Lufthansa](#) in the Sustainability section of the Annual Report.

Matti Lehmus, Neste Oil's Executive Vice President, Oil Products and Renewables