NESTE OIL

# FINANCIAL STATEMENTS 2005
15.2.2006

refining the future

Neste Oil Corporation

Stock Exchange Release
15 February 2006 at 9:00 am EET

**SUCCESSFUL FIRST YEAR FOR NESTE OIL**

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

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

**2005 in brief**:

- Comparable operating profit of EUR 525 million (carve-out 2004: 584 million)
- Operating profit of EUR 791 million (carve-out 2004: 713 million)
- Earnings per share of EUR 2.60 (carve-out 2004: 2.37)
- Cash flow from operations of EUR 596 million (carve-out 2004: 537 million)
- Sale of SeverTEK in line with strategic focus on oil refining
- Diesel Project on schedule, construction of biodiesel plant started
- The Board of Directors proposes a dividend of EUR 0.80 per share

**President & CEO Risto Rinne**:
"Last year was a successful one for Neste Oil. This provided us with the muscle to finance our investment program and to reduce our net debt. In addition, we achieved several important milestones, including the listing of the company in April, a five-week scheduled shutdown at Porvoo, and progressed with our key investment projects designed to increase diesel and biodiesel production. Looking into 2006, successful commissioning of the Diesel Project will be our largest challenge. It will also be very important to make swift progress on the biodiesel projects and see through an efficient maintenance shutdown at the Naantali refinery. I have every reason to believe that the market will continue to be favorable for us in 2006, as we continue with our strategy of focusing on high-quality fuels for cleaner traffic."

**Further information**:

Risto Rinne, President & CEO, tel. +358 10 458 4990
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**News conference and conference call**

A press conference in Finnish on the 2005 results will be held today, 15 February 2006, at 11:30 am EET in the Mirror Room at Hotel Kämp, Pohjoisesplanadi 29, Helsinki. www.nesteoil.com will feature English versions of the presentation materials.
A conference call in English for investors and analysts will be held today, 15 February 2006, at 3:00 pm EET. The call-in numbers are as follows: UK: +44 (0)207 162 0025, US: +1 334 323 6201. Use the password: Neste Oil. An instant replay of the call will be available until 20 February 2006 at +44 (0) 207 031 4064 for the UK and +1 954 334 0342 for the US, using access code 691706.

## NESTE OIL FINANCIAL STATEMENTS, 1 JANUARY - 31 DECEMBER 2005
Audited

Figures in parentheses refer to the full-year 2004 carve-out financial statements, unless otherwise stated.

**Group financial results**

Comparative figures for the income statements for Q4/04 and 2004 as a whole are derived from Neste Oil's Combined Carve-out Financial Statements for the year ended 31 December 2004, which were published in stock exchange releases on 14 March 2005 and 29 April 2005 and in the Offering Memorandum related to the sale of Neste Oil's shares on 1-15 April 2005. The Neste Oil Group was incorporated through a demerger on 1 May 2004, and as a result no fully comparable income statement exists for the full 12 months of 2004.

KEY FIGURES

| EUR million (unless otherwise noted) | | Carve-out | | Carve-out |
|---|---|---|---|---|
| | 10-12/2005 | 10-12/2004 | 2005 | 2004 |
| Sales | 2,752 | 2,108 | 9,974 | 7,909 |
| Operating profit before depreciation | 352 | 224 | 944 | 852 |
| Depreciation, amortization and impairment charges | 44 | 38 | 153 | 139 |
| Operating profit | 308 | 186 | 791 | 713 |
| Comparable operating profit * | 110 | 185 | 525 | 584 |
| Profit before income tax | 322 | 205 | 823 | 767 |
| Earnings per share, EUR | 1.11 | 0.64 | 2.60 | 2.37 |
| Capital expenditure and investment in shares | 184 | 121 | 668 | 316 |
| Net cash from operating activities | 272 | 147 | 596 | 537 |

| | 31 Dec 2005 | 31 Dec 2004 |
|---|---|---|
| Total equity | 1,612 | 998 |
| Interest-bearing net debt | 796 | 969 |
| Capital employed | 2,487 | 2,151 |
| Return on average capital employed after tax ROACE, % | 19.0 | n/a |
| Pre-tax return on capital employed ROCE, % | 37.0 | 40.3 *** |
| Return on equity ROE, % ** | 51.3 | 19.7 *** |
| Equity per share, EUR | 6.26 | 3.87 |
| Equity-to-assets ratio, % | 42.4 | 32.2 |
| Leverage ratio, % | 33.0 | 49.3 |
| Gearing, % | 49.4 | 97.0 |

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

** The figure for 2004 was negatively impacted by the group contribution of EUR 411 million paid to the former parent company.
*** The ROCE % and ROE % reported for the financial period May-December 2004 have been calculated by annualizing the figures based on the May-December 2004 result.

**The Group's full-year results**

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

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

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

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

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

Earnings per share were EUR 2.60 (2.37).

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

**The Group's fourth-quarter results**

The Group's sales for the fourth quarter totaled EUR 2,752 million (10-12/04: 2,108 million).

The Group's fourth-quarter operating profit totaled EUR 308 million (10-12/04: 186 million), and includes a EUR 141 million gain from the sale of Neste Oil's holding in SeverTEK.

Neste Oil's comparable fourth-quarter operating profit was EUR 110 million (10-12/04: 185 million).

Neste Oil's total refining margin in the fourth quarter was USD 8.27 /bbl (10-12/04: 10.98), well above the international benchmark refining margin (IEA Brent cracking) of USD 5.24 /bbl (10-12/04: 3.73).

In addition to the proceeds from the sale of the holding in SeverTEK, the fourth-quarter operating profit includes a positive impact of EUR 63 million that is attributable to changes in the fair value of open oil derivative positions (10-12/04: +7 million), and an inventory loss of EUR 14 million (10-12/04: 16 million).

**Comparable operating profit (MEUR)**

| | 10-12/05 | 10-12/04 | 2005 | 2004 |
|---|---|---|---|---|
| COMPARABLE OPERATING PROFIT | 110 | 185 | 525 | 584 |
| - changes in the fair value of open oil derivative positions | 63 | 7 | -11 | 28 |
| - inventory gains | -14 | -16 | 127 | 74 |
| - gains from sales of fixed assets | 149 | 10 | 150 | 27 |
| OPERATING PROFIT | 308 | 186 | 791 | 713 |

**Market overview**

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

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

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

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

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

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

The price for Brent Dated crude oil averaged USD 54.5 /bbl (38.3) in 2005, and USD 56.9 /bbl in the fourth quarter (10-12/04: 43.9).

In January 2006, the international benchmark refining margin (IEA Brent cracking) averaged around USD 2.35 /bbl (USD 1.22 /bbl in January 2005, and USD 2.31 /bbl in Q1/05). The differential between Urals Rotterdam and Brent Dated crude was around USD -3.76 /bbl (USD -4.92 /bbl in January 2005 and USD -5.17 /bbl in Q1/05). The daily price of Brent Dated crude varied between USD 60.77 and 65.30 /bbl.

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

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

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

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

## Segment reviews

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

### Oil Refining

The Oil Refining business focuses on refining crude oil and other feedstocks into high-quality traffic fuels and other high value-added petroleum products. Neste Oil's refineries are located in Porvoo and Naantali, Finland.

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

Oil Refining recorded a fourth-quarter operating profit of EUR 132 million (10-12/04: 152 million), and a comparable operating profit of EUR 82 million (10-12/04: 165 million).

Neste Oil's total refining margin reached USD 8.82 /bbl in 2005, exceeding 2004's total refining margin of USD 7.90 /bbl. This higher figure resulted from the strong diesel market during most of the

year, and a wider price differential between heavy and light crude oil during the first three quarters than in 2004. The IEA Brent Cracking reference margin averaged USD 4.98 /bbl in 2005 (3.78).

The total refining margin during the fourth quarter, USD 8.27 /bbl, was lower than in the fourth quarter of 2004 (10-12/04: 10.98). Production volumes during the start-up of the Porvoo refinery after the completion of its maintenance shutdown were lower than in the comparable period in 2004, and product yields and the price differential between heavy and light crude were less favorable than in the exceptionally good final quarter of 2004.

2005 was a year of high capital expenditure in Oil Refining, totaling EUR 589 million for the whole year (203 million) and EUR 153 million in the fourth quarter (10-12/04: 90 million). The main investment projects were the Diesel Project and the construction of a biodiesel plant, both at the Porvoo refinery.

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

Key figures

| | 10-12/05 | Carve-out 10-12/04 | 2005 | Carve-out 2004 |
|---|---|---|---|---|
| Sales, MEUR | 2,282 | 1,727 | 8,150 | 6,306 |
| Operating profit, MEUR | 132 | 152 | 546 | 562 |
| Comparable operating profit, MEUR | 82 | 165 | 422 | 463 |
| Capital expenditure, MEUR | 153 | 90 | 589 | 203 |
| Total refining margin USD/bbl | 8.27 | 10.98 | 8.82 | 7.90 |

*Crude oil and other feedstock supply*

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

Imports of crude oil and condensates totaled 2.9 million tons in the fourth quarter (10-12/04: 3.1 million), of which 2.0 million tons came from Russia and the countries of the former Soviet Union. About half of the imported crude oil and condensate volumes during the quarter was heavier, sourer crude. Other feedstock supply totaled 0.4 million tons during the quarter.

*Production*

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

The company refined 3.4 million tons (10-12/04: 3.4 million) of crude oil and feedstocks in the fourth quarter, of which 2.8 million tons (10-12/04: 2.8 million) were refined at Porvoo and 0.6 million tons (10-12/04: 0.6 million) at Naantali.

Crude distillation capacity utilization at the Porvoo refinery returned to normal in the fourth quarter after the maintenance shutdown. At Naantali, capacity utilization rate moved down compared to the third quarter, as a result of a planned change from bitumen to heavy fuel oil production.

October-December sales volumes in Finland totaled 1.9 million tons (2.1 million), and export volumes 1.2 million tons (1.4 million). The start-up at Porvoo following the shutdown reduced sales in October. Neste Oil's wholesale market share of key petroleum products in Finland averaged 77% in 2005 (79%).

*Components*

The Components business consists of lubricant base oils and traffic fuel components, such as iso-octane and biofuels. Production facilities, wholly or partly owned by Neste Oil, are located in Finland, Belgium, Portugal, Canada, and Saudi Arabia.

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

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

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

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

| | 10-12/05 | 10-12/04 | 2005 | 2004 |
|---|---|---|---|---|
| Motor gasoline and components | 1,269 | 1,216 | 4,673 | 4,896 |
| Diesel fuel | 1,262 | 1,334 | 4,183 | 4,265 |
| Jet fuel | 181 | 211 | 608 | 705 |
| Biofuels | 28 | 18 | 111 | 39 |
| Base oils | 82 | 69 | 274 | 279 |
| Heating oil | 190 | 143 | 791 | 1,197 |
| Heavy fuel oil | 146 | 371 | 946 | 1,280 |
| Other products | 227 | 352 | 1,460 | 1,564 |
| TOTAL | 3,385 | 3,714 | 13,046 | 14,225 |

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

| | 10-12/05 | 10-12/04 | 2005 | 2004 |
|---|---|---|---|---|
| Finland | 1,898 | 2,102 | 7,455 | 8,302 |
| Other Nordic countries | 510 | 582 | 2,135 | 2,175 |
| Other Europe | 646 | 635 | 2,000 | 1,948 |

| | | | | |
|---|---|---|---|---|
| Russia & the Baltic countries | 3 | 18 | 29 | 100 |
| USA & Canada | 311 | 360 | 1,246 | 1,508 |
| Other countries | 17 | 17 | 181 | 192 |
| TOTAL | 3,385 | 3,714 | 13,046 | 14,225 |

**Oil Retail**

Neste Oil is the market leader in the retail sale of petroleum products in Finland, and has a growing retail presence in the Baltic Rim area, which includes Estonia, Latvia, Lithuania, Poland, and the St. Petersburg area in Russia.

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

The segment recorded an operating profit of EUR 11 million in the fourth quarter (10-12/04: 13 million) and a comparable operating profit of EUR 7 million (10-12/04: 8 million).

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

Key figures

| | 10-12/05 | Carve-out<br>10-12/04 | 2005 | Carve-out<br>2004 |
|---|---|---|---|---|
| Sales, MEUR | 782 | 611 | 2,931 | 2,374 |
| Operating profit, MEUR | 11 | 13 | 48 | 60 |
| Comparable operating profit, MEUR | 7 | 8 | 49 | 49 |
| Capital expenditure, MEUR | 14 | 15 | 47 | 36 |
| Product sales volume, 1,000 m3 | 1,078 | 1,085 | 4,115 | 4,005 |

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

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

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

Demand for traffic fuels continued to grow in the Baltic Rim region in 2005. Neste Oil opened new stations and total sales volumes in its retail network rose by approximately 18%. As of the end of the year, Neste Oil had 34 stations in the St. Petersburg area in Russia, 113 stations in Estonia, Latvia, and Lithuania, and 73 outlets in Poland.

A six-week labor dispute in the Finnish paper and pulp industry in May and June was reflected in lower direct sales of diesel fuel for the year as a whole. The unusually warm weather in the second

half of 2005, coupled with rising petroleum product prices, made consumers cautious and reduced sales of heating oil.

Oil Retail total sales volumes (1,000 m3)

| | 10-12/05 | 10-12/04 | 2005 | 2004 |
|---|---|---|---|---|
| Gasoline | 337 | 324 | 1,353 | 1,311 |
| Diesel fuel (incl. D stations) | 359 | 360 | 1,364 | 1,329 |
| Heating oil | 240 | 269 | 887 | 945 |
| Heavy fuel oil | 142 | 132 | 511 | 420 |
| TOTAL | 1,078 | 1,085 | 4,115 | 4,005 |

Retail Network sales volumes (1,000 m3)

| Finland | 10-12/05 | 10-12/04 | 2005 | 2004 |
|---|---|---|---|---|
| Gasoline | 160 | 163 | 673 | 682 |
| Diesel fuel | 59 | 59 | 243 | 237 |
| Heating oil | 8 | 8 | 31 | 29 |
| TOTAL | 227 | 230 | 946 | 948 |

| Baltic Rim area | 10-12/05 | 10-12/04 | 2005 | 2004 |
|---|---|---|---|---|
| Gasoline | 168 | 146 | 626 | 545 |
| Diesel fuel | 64 | 51 | 227 | 173 |
| TOTAL | 232 | 197 | 852 | 718 |
| | | | | |
| RETAIL NETWORK TOTAL | 459 | 427 | 1,799 | 1,667 |

Direct sales volumes (1,000 m3)

| Finland | 10-12/05 | 10-12/04 | 2005 | 2004 |
|---|---|---|---|---|
| Gasoline | 2 | 4 | 13 | 16 |
| Diesel fuel (incl. D stations) | 187 | 195 | 728 | 750 |
| Heating oil | 222 | 259 | 842 | 911 |
| Heavy fuel oil | 142 | 132 | 511 | 420 |
| TOTAL | 554 | 590 | 2,095 | 2,097 |

| Baltic Rim area | 10-12/05 | 10-12/04 | 2005 | 2004 |
|---|---|---|---|---|
| Gasoline | 7 | 11 | 42 | 68 |
| Diesel fuel | 49 | 55 | 167 | 169 |
| Heating oil | 10 | 2 | 13 | 5 |
| TOTAL | 66 | 68 | 222 | 243 |

| DIRECT SALES TOTAL | 619 | 658 | 2,316 | 2,341 |
|---|---|---|---|---|

LPG (Liquefied Petroleum Gas) sales totaled 235,000 tons (300,000) for the year as a whole, and 62,000 in the fourth quarter (10-12/04: 77,000).

**Shipping**

Neste Oil's Shipping segment operates mainly in northwestern Europe, transporting crude oil in the Baltic, and the North Sea, and products and chemicals to northwestern Europe, including domestic coastal cargoes in Finland. Products, mainly gasoline, are also exported to the USA and Canada.

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

Shipping reported an operating profit of EUR 31 million in the fourth quarter (10-12/04: 27) and a comparable operating profit of EUR 28 million (10-12/04: 18 million).

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

Key figures

| | | Carve-out | | Carve-out |
|---|---|---|---|---|
| | 10-12/05 | 10-12/04 | 2005 | 2004 |
| Sales, MEUR | 93 | 91 | 352 | 339 |
| Operating profit, MEUR | 31 | 27 | 87 | 113 |
| Comparable operating profit, MEUR | 28 | 18 | 85 | 94 |
| Capital expenditure, MEUR | 16 | 16 | 24 | 77 |
| Deliveries total, millions of tons | 9.0 | 10.3 | 40.2 | 40.7 |
| Fleet utilization rate, % | 93 | 94 | 92 | 93 |

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

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

Total shipments during the fourth quarter, at 9.0 million tons, were some 13% lower than in the same period in 2004 (10-12/04: 10.3 million), primarily as a result of lower crude oil shipments, totaling 4.8 million tons (10-12/04: 6.1 million). Fourth-quarter product shipments, at 4.3 million tons, were comparable with those in 2004 (10-12/04: 4.2 million).

North Sea crude freights during 2005 averaged 164 Worldscale points (188). During the fourth quarter, the crude freight level averaged 231 WS points (10-12/04: 273), partly the result of reduced ice premiums due to a milder winter.

Shipping's product freight prices are mostly based on annual contracts. These reflected increased costs and were slightly higher compared to 2004. The market freight levels for Trans-Atlantic product shipments were exceptionally high in August and September, due to increased demand after the hurricanes in the US Gulf.

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

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

### Other

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

### Capital expenditure

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

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

### Financing

Neste Oil's interest-bearing net debt was reduced towards the end of 2005, thanks to proceeds from the sale of the Group's holding in SeverTEK and a strong cash flow from operations. Net debt amounted to EUR 796 million as of 31 December 2005 (31 Dec 2004: 969 million). Net financial expenses during the year were EUR 8.2 million. The average interest rate at the end of 2005 was 3.5%, and the average maturity of borrowings was 4.4 years.

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

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

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

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

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

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

## Shares, share trading, and ownership

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

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

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

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

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

## Personnel

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

## Group Management

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

## Health, safety, and the environment

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

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

Neste Oil has not participated in carbon dioxide (CO2) emissions trading as yet. All the arrangements required for verifying and reporting emissions, or participating in emissions trading, are in place.

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

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

## Strategy implementation and investment projects

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

*Diesel Project*

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

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

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

*Biodiesel*

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

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

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

*Lubricant base oils*

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

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

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

**Structural development**

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

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

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

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

**Change in accounting principles**

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

**Outlook**

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

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

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

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

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

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

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

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

Regularly updated market information is available at www.nesteoil.com as of 15 February 2006 onwards.

**Dividend distribution proposal**

The Board of Directors will propose to the Annual General Meeting that Neste Oil Corporation should pay a dividend of EUR 0.80 per share for 2005, equivalent to the sum of EUR 205.1 million.

The Annual General Meeting will be held on 22 March 2006 at 11:00 am at the Cable Factory, Tallberginkatu 1C, in Helsinki.

**Reporting date for first-quarter 2006 results**

Neste Oil will publish its first-quarter results for 2006 on 27 April 2006 at approximately 9:00 am EET.

Espoo, 14 February 2006

Neste Oil Corporation
Board of Directors

The preceding information contains, or may be deemed to contain, “forward-looking statements”. These statements relate to future events or our future financial performance, including, but not limited to, strategic plans, potential growth, planned operational changes, expected capital expenditures, future cash sources and requirements, liquidity and cost savings that involve known and unknown risks, uncertainties, and other factors that may cause Neste Oil Corporation’s or its businesses’ actual results, levels of activity, performance or achievements to be materially different from those expressed or implied by any forward-looking statements. In some cases, such forward-looking statements can be identified by terminology such as “may,” “will,” “could,” “would,” “should,” “expect,” “plan,” “anticipate,” “intend,” “believe,” “estimate,” “predict,” “potential,” or “continue,” or the negative of those terms or other comparable terminology. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Future results may vary from the results expressed in, or implied by, the forward-looking statements, possibly to a material degree. All forward-looking statements made in this report based on information presently available to management and Neste Oil Corporation assumes no obligation to update any forward-looking statements. Nothing in this report constitutes investment advice and this report shall not constitute an offer to sell or the solicitation of an offer to buy any securities or otherwise to engage in any investment activity.

**Accounting principles**
These financial statements have been prepared according to IFRS applying the attached Neste Oil IFRS accounting principles.

**CONSOLIDATED INCOME STATEMENT 1)**

| MEUR | 10-12/2005 | 10-12/2004 | 1-12/2005 | 5-12/2004 |
|---|---|---|---|---|
| **Sales** | **2,752** | 2,114 | **9,974** | 5,454 |
| Other income | **156** | 17 | **170** | 47 |
| Materials and services | **-2,441** | -1,707 | **-8,443** | -4,462 |
| Employee benefit costs | **-52** | -58 | **-223** | -141 |
| Depreciation, amortisation and impairment charges | **-44** | -37 | **-153** | -95 |
| Other expenses | **-63** | -142 | **-534** | -317 |
| **Operating profit** | **308** | 187 | **791** | 486 |
| Share of profit (loss) of associates and joint ventures | **4** | 7 | **40** | 32 |
| **Financial income and expenses** | | | | |
| Finance income | **12** | 7 | **26** | 14 |
| Finance expenses | **-3** | -11 | **-29** | -25 |
| Other losses/gains - net | **1** | 10 | **-5** | 13 |
| | **10** | 6 | **-8** | 2 |
| Group contributions paid 2) | **0** | -411 | **0** | -411 |
| **Profit before income taxes** | **322** | -211 | **823** | 109 |
| Income tax expense | **-36** | 73 | **-153** | 12 |
| **Profit for the period** | **286** | -138 | **670** | 121 |
| **Attributable to:** | | | | |
| Equity holders of the Company | **284** | -139 | **667** | 119 |
| Minority interest | **2** | 1 | **3** | 2 |
| | **286** | -138 | **670** | 121 |
| **Earnings per share from profit for the period attributable to the equity holders of the company during the year basic and diluted** (in euro per share) 3) | **1.11** | 0.60 | **2.60** | 1.60 |
| Average number of shares 3) | **256,403,686** | 256,403,686 | **256,403,686** | 256,403,686 |

**COMBINED CARVE-OUT INCOME STATEMENT 4)**

| MEUR | 10-12/2004 | 1-12/2004 |
|---|---|---|
| **Sales** | 2,108 | 7,909 |
| Other income | 20 | 72 |
| Materials and services | -1,696 | -6,428 |
| Employee benefit costs | -59 | -211 |
| Depreciation, amortisation and impairment charges | -38 | -139 |
| Other expenses | -149 | -490 |
| **Operating profit** | 186 | 713 |
| Share of profit (loss) of associates and joint ventures | 7 | 36 |
| **Financial income and expenses** | | |
| Finance income | 4 | 15 |
| Finance expenses | -2 | -5 |
| Other losses/gains - net | 10 | 8 |
| | 12 | 18 |
| **Profit before income taxes** | 205 | 767 |
| Income tax expense | -42 | -157 |
| **Profit for the period** | 163 | 610 |
| **Attributable to:** | | |
| Equity holders of the Company | 162 | 608 |
| Minority interest | 1 | 2 |
| | 163 | 610 |
| **Earnings per share from profit for the period attributable to the equity holders of the company during the year** (in euro per share) 3) | 0.64 | 2.37 |
| Average number of shares 3) | 256,403,686 | 256,403,686 |

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

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

*3) The average number of shares in the calculation is 256 403 686. Extraordinary general meeting of Neste Oil Oyj decided to change the number of shares from 100 000 000 to 256 403 686 on February 28, 2005. The change had no effect on the share capital. The change was registered in the trade register on March 8, 2005.*

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

*4) Carve-out income statement is presented for 10-12/2004 and full year 2004 for comparison purposes. Neste Oil Group was incorporated through a demerger on May 1, 2004, and thus no fully comparable income statement exists for the full 12 months period in 2004.*

**CONSOLIDATED BALANCE SHEET**

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

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY**

| MEUR | Share capital | Reserve fund | Hedging reserve | Translation differences | Retained earnings | Minority | Total |
|---|---|---|---|---|---|---|---|
| **Total equity at 1.5.2004** | 40 | 9 | 2 | 0 | 795 | 3 | 849 |
| Translation differences | | | | -4 | | | -4 |
| Dividends paid | | | | | | | 0 |
| Cash flow hedges | | | 32 | | | | 32 |
| Change in minority | | | | | | | 0 |
| Net profit for the year | | | | | 119 | 2 | 121 |
| **Total equity at 31.12.2004** | 40 | 9 | 34 | -4 | 914 | 5 | 998 |

| | Share capital | Reserve fund | Hedging reserve | Translation differences | Retained earnings | Minority | Total |
|---|---|---|---|---|---|---|---|
| **Total equity at 31.12.2004** | 40 | 9 | 34 | -4 | 914 | 5 | 998 |
| Translation differences | | | | 12 | | | 12 |
| Dividends paid | | | | | | | 0 |
| Cash flow hedges | | | -67 | | | | -67 |
| Change in minority | | | | | | -1 | -1 |
| Net profit for the year | | | | | 667 | 3 | 670 |
| **Total equity at 31.12.2005** | 40 | 9 | -33 | 8 | 1,581 | 7 | 1,612 |

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT 5)**

| MEUR | 1-12/2005 | 5-12/2004 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Profit before taxes | **823** | 520 |
| Adjustments, total | **-40** | 28 |
| Change in working capital | **-46** | 7 |
| **Cash generated from operations** | **737** | 555 |
| Finance cost, net | **-2** | 8 |
| Income taxes paid | **-139** | -1 |
| **Net cash from operating activities** | **596** | 562 |
| Capital expenditures | **-664** | -227 |
| Acquisition of shares | **-4** | -2 |
| Proceeds from sales of fixed assets | **14** | 13 |
| Proceeds from sales of shares | **193** | 7 |
| Change in other investments | **43** | 24 |
| **Cash flow before financing activities** | **178** | 377 |
| Net change in loans | **-286** | -303 |
| **Net increase (+)/decrease (-) in cash and marketable securities** | **-108** | 74 |

**COMBINED CARVE-OUT CASH FLOW STATEMENT 6)**

| MEUR | 1-12/2004 |
|---|---|
| **Cash flow from operating activities** | |
| Profit before taxes | 767 |
| Adjustments, total | 38 |
| Change in working capital | -118 |
| **Cash generated from operations** | 687 |
| Finance cost, net | 16 |
| Income taxes paid | -166 |
| **Net cash from operating activities** | 537 |
| Capital expenditures | -313 |
| Acquisition of shares | -3 |
| Proceeds from sales of fixed assets | 29 |
| Proceeds from sales of shares | 8 |
| Change in other investments | 2 |
| **Cash flow before financing activities** | 260 |
| Net change in loans | -12 |
| **Cash flow surplus** | 248 |

**KEY RATIOS**

| | 31 Dec 2005 | 31 Dec 2004 |
|---|---|---|
| Capital employed, MEUR | **2,487** | 2,151 |
| Interest-bearing net debt, MEUR | **796** | 969 |
| Capital expenditure and investments in shares, MEUR | **668** | 229 |
| Return on average capital employed, after tax, % | **19.0** | - |
| Return on capital employed, pre-tax, % 7) | **37.0** | 40.3 |
| Return on equity, % 7) | **51.3** | 19.7 |
| Equity per share, EUR | **6.26** | 3.87 |
| Cash flow per share | **2.33** | 2.19 |
| Price/earnings ratio | **9.5** | - |
| Equity-to-assets ratio, % | **42.4** | 32.2 |
| Gearing, % | **49.4** | 97.0 |
| Leverage ratio % | **33.0** | 49.3 |
| Average number of employees | **4,528** | 4,296 |

*5) Neste Oil Group was incorporated through a demerger on May 1, 2004, and thus no fully comparable cash flow statement exists for the full 12 months period in 2004.*

*6) Carve-out cash flow statement is presented for full year 2004 for comparison purposes. Neste Oil Group was incorporated through a demerger on May 1, 2004, and thus no fully comparable cash flow statement exists for full 12 months period in 2004. In the carve-out cash flow statement, the Cash generated from operations and the Capital expenditure in the Cash flows from investing activities reflect and are representative of the historical cash flows of Neste Oil. The residual in the Cash flow statement (i.e.Cash flow surplus) has not been left in the Neste Oil Group, because it has not formed a separate independent legal group in the the past.*

*7) Return on capital employed , % and Return on equity, % for the period ending December 31, 2004 are based on 8 months actual results annualized.*

**SEGMENT INFORMATION 8)**

**SALES**

| MEUR | 10-12/2005 | 10-12/2004 | 1-12/2005 | 1-12/2004 |
|---|---|---|---|---|
| Oil Refining | **2,282** | 1,727 | **8,150** | 6,306 |
| Oil Retail | **782** | 611 | **2,931** | 2,374 |
| Shipping | **93** | 91 | **352** | 339 |
| Other | **2** | 0 | **10** | 0 |
| Eliminations | **-407** | -321 | **-1,469** | -1,110 |
| Total | **2,752** | 2,108 | **9,974** | 7,909 |

**OPERATING PROFIT**

| MEUR | 10-12/2005 | 10-12/2004 | 1-12/2005 | 1-12/2004 |
|---|---|---|---|---|
| Oil Refining | **132** | 152 | **546** | 562 |
| Oil Retail | **11** | 13 | **48** | 60 |
| Shipping | **31** | 27 | **87** | 113 |
| Other | **135** | -6 | **110** | -21 |
| Eliminations | **-1** | 0 | **0** | -1 |
| Total | **308** | 186 | **791** | 713 |

**COMPARABLE OPERATING PROFIT**

| MEUR | 10-12/2005 | 10-12/2004 | 1-12/2005 | 1-12/2004 |
|---|---|---|---|---|
| Oil Refining | **82** | 165 | **422** | 463 |
| Oil Retail | **7** | 8 | **49** | 49 |
| Shipping | **28** | 18 | **85** | 94 |
| Other | **-6** | -6 | **-31** | -21 |
| Eliminations | **-1** | 0 | **0** | -1 |
| Total | **110** | 185 | **525** | 584 |

**DEPRECIATION, AMORTISATION AND WRITE-DOWNS**

| MEUR | 10-12/2005 | 10-12/2004 | 1-12/2005 | 1-12/2004 |
|---|---|---|---|---|
| Oil Refining | **30** | 25 | **101** | 94 |
| Oil Retail | **8** | 8 | **28** | 27 |
| Shipping | **5** | 5 | **22** | 18 |
| Other | **1** | 0 | **2** | 0 |
| Total | **44** | 38 | **153** | 139 |

**SHARE OF PROFITS IN ASSOCIATED COMPANIES AND JOINT VENTURES**

| MEUR | 10-12/2005 | 10-12/2004 | 1-12/2005 | 1-12/2004 |
|---|---|---|---|---|
| Oil Refining | **3** | 7 | **24** | 27 |
| Oil Retail | **0** | -2 | **-3** | -5 |
| Shipping | **0** | 0 | **0** | 0 |
| Other | **1** | 2 | **19** | 14 |
| Total | **4** | 7 | **40** | 36 |

**NET ASSETS**

| MEUR | 31 Dec 2005 | 31 Dec 2004 |
|---|---|---|
| Oil Refining | **1,889** | 1,415 |
| Oil Retail | **375** | 302 |
| Shipping | **326** | 336 |
| Other | **6** | 13 |
| Eliminations | **-4** | -3 |
| Total | **2,592** | 2,063 |

**RETURN ON NET ASSETS, %**

| | 31 Dec 2005 | 31 Dec 2004 |
|---|---|---|
| Oil Refining | **34.7** | 46.7 |
| Oil Retail | **13.2** | 18.1 |
| Shipping | **26.7** | 37.1 |

*8) Comparative segment information for 2004 are carve-out figures.*

| **QUARTERLY SALES** | | | | | Carve-out | | | |
|---|---|---|---|---|---|---|---|---|
| **MEUR** | **10-12/2005** | **7-9/2005** | **4-6/2005** | **1-3/2005** | 10-12/2004 | 7-9/2004 | 4-6/2004 | 1-3/2004 |
| Oil Refining | **2,282** | **2,111** | **2,135** | **1,622** | 1,727 | 1,641 | 1,635 | 1,303 |
| Oil Retail | **782** | **834** | **695** | **620** | 611 | 666 | 566 | 531 |
| Shipping | **93** | **69** | **87** | **103** | 91 | 69 | 78 | 101 |
| Other | **2** | **4** | **3** | **1** | 0 | 0 | 0 | 0 |
| Eliminations | **-407** | **-433** | **-343** | **-286** | -321 | -285 | -279 | -225 |
| Total | **2,752** | **2,585** | **2,577** | **2,060** | 2,108 | 2,091 | 2,000 | 1,710 |

| **QUARTERLY OPERATING PROFIT** | | | | | Carve-out | | | |
|---|---|---|---|---|---|---|---|---|
| **MEUR** | **10-12/2005** | **7-9/2005** | **4-6/2005** | **1-3/2005** | 10-12/2004 | 7-9/2004 | 4-6/2004 | 1-3/2004 |
| Oil Refining | **132** | **96** | **194** | **124** | 152 | 129 | 180 | 101 |
| Oil Retail | **11** | **18** | **21** | **-2** | 13 | 16 | 24 | 7 |
| Shipping | **31** | **3** | **19** | **34** | 27 | 22 | 19 | 45 |
| Other | **135** | **-6** | **-13** | **-6** | -6 | -6 | -3 | -6 |
| Eliminations | **-1** | **4** | **-2** | **-1** | 0 | 0 | 0 | -1 |
| Total | **308** | **115** | **219** | **149** | 186 | 161 | 220 | 146 |

| **QUARTERLY COMPARABLE OPERATING PROFIT** | | | | | Carve-out | | | |
|---|---|---|---|---|---|---|---|---|
| **MEUR** | **10-12/2005** | **7-9/2005** | **4-6/2005** | **1-3/2005** | 10-12/2004 | 7-9/2004 | 4-6/2004 | 1-3/2004 |
| Oil Refining | **82** | **80** | **168** | **92** | 165 | 86 | 125 | 87 |
| Oil Retail | **7** | **19** | **12** | **11** | 8 | 17 | 17 | 7 |
| Shipping | **28** | **2** | **20** | **35** | 18 | 14 | 18 | 44 |
| Other | **-6** | **-6** | **-13** | **-6** | -6 | -6 | -3 | -6 |
| Eliminations | **-1** | **4** | **-2** | **-1** | 0 | 0 | 0 | -1 |
| Total | **110** | **99** | **185** | **131** | 185 | 111 | 157 | 131 |

| **QUARTERLY DEPRECIATION, AMORTISATION AND WRITE-DOWNS** | | | | | Carve-out | | | |
|---|---|---|---|---|---|---|---|---|
| **MEUR** | **10-12/2005** | **7-9/2005** | **4-6/2005** | **1-3/2005** | 10-12/2004 | 7-9/2004 | 4-6/2004 | 1-3/2004 |
| Oil Refining | **30** | **23** | **25** | **23** | 25 | 23 | 24 | 22 |
| Oil Retail | **8** | **7** | **7** | **6** | 8 | 6 | 8 | 6 |
| Shipping | **5** | **6** | **5** | **6** | 5 | 5 | 4 | 4 |
| Other | **1** | **0** | **1** | **0** | 0 | 0 | 0 | 0 |
| Total | **44** | **36** | **38** | **35** | 38 | 34 | 36 | 32 |

| **QUARTERLY SHARE OF PROFITS IN ASSOCIATED COMPANIES AND JOINT VENTURES** | | | | | Carve-out | | | |
|---|---|---|---|---|---|---|---|---|
| **MEUR** | **10-12/2005** | **7-9/2005** | **4-6/2005** | **1-3/2005** | 10-12/2004 | 7-9/2004 | 4-6/2004 | 1-3/2004 |
| Oil Refining | **3** | **13** | **9** | **-1** | 7 | 14 | 6 | 0 |
| Oil Retail | **0** | **-1** | **-1** | **-1** | -2 | -1 | -2 | 0 |
| Shipping | **0** | **0** | **0** | **0** | 0 | 0 | 0 | 0 |
| Other | **1** | **10** | **8** | **0** | 2 | 5 | 4 | 3 |
| Total | **4** | **22** | **16** | **-2** | 7 | 18 | 8 | 3 |

**Change in accounting principle for emission allowances**

Neste Oil implemented IFRIC 3, Emission rights, in accounting for emissions allowances as of January 1, 2005. In June 2005 the IASB decided to withdraw IFRIC 3 with immediate effect. As a result, Neste Oil has changed the accounting principle for emission allowances retrospectively as of January 1, 2005. The current accounting principle is based on currently valid IFRS standards. 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. 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.

The effect of the change in accounting principle on previously reported operating profit and profit for the period January-March 2005 are as follows:

| **MEUR** | 1-3/2005 reported earlier | effect of change in accounting principle | **1-3/2005 current reporting** |
|---|---|---|---|
| Operating profit | 146 | 3 | **149** |
| Profit for the period | 103 | 2 | **105** |

**CONTINGENT LIABILITIES**

| MEUR | **31 Dec 2005** | 31 Dec 2004 |
|---|---|---|
| **Contingent liabilities** | | |
| On own behalf | | |
| For debt | | |
| Pledges | **5** | 6 |
| Real estate mortgages | **28** | 28 |
| For other commitments | | |
| Real estate mortgages | **1** | 0 |
| Other contingent liabilities | **16** | 2 |
| Total | **50** | 36 |
| On behalf of associated companies and joint ventures | | |
| Pledges and real estate mortgages | **0** | 9 |
| Guarantees | **10** | 8 |
| Other contingent liabilities | **3** | 0 |
| Total | **13** | 17 |
| On behalf of others | | |
| Guarantees | **1** | 0 |
| Other contingent liabilities | **0** | 3 |
| Total | **1** | 3 |
| Total | **64** | 56 |

| MEUR | **31 Dec 2005** | 31 Dec 2004 |
|---|---|---|
| **Operating lease liabilities** | | |
| Due within a year | **73** | 76 |
| Due later than one year and not later than 5 years | **58** | 46 |
| Due later than five years | **60** | 54 |
| Total | **191** | 176 |

| MEUR | **31 Dec 2005** | 31 Dec 2004 |
|---|---|---|
| **Commitments** | | |
| Commitments for purchase of property, plant and equipment | **95** | 225 |
| Commitments for purchase of intangible assets | **2** | 3 |
| | **97** | 228 |

**Derivatives**

| **MEUR** | **31 Dec 2005** | | | | | 31 Dec 2004 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Notional amount** | | | **Fair value** | | **Notional amount** | | | **Fair value** | |
| | Maturity | | | | | Maturity | | | | |
| **Interest rate and currency derivatives** | Under 1 year | Above 1 year | Total | Positive | Negative | Under 1 year | Above 1 year | Total | Positive | Negative |
| Interest rate swaps | | 308 | 308 | 1 | 4 | | 59 | 59 | | 6 |
| Forward foreign exchange contracts | 942 | | 942 | 2 | 29 | 567 | | 567 | 10 | |
| Currency options | | | 0 | | | | | 0 | | |
| - Purchased | 835 | | 835 | | 17 | 438 | | 438 | 17 | |
| - Written | 835 | | 835 | 4 | 7 | 438 | | 438 | 6 | |
| Total | | | 0 | 7 | 57 | | | | 33 | 6 |
| | | | | | | | | | | |
| Interest rate derivatives | | | | | | | | | | |
| Fair Value Hedging | | 60 | 60 | | 1 | | | | | |
| Cash flow Hedging | | 48 | 48 | | 3 | | | | | |
| Non-hedging | | 200 | 200 | 1 | | | 59 | 59 | | 6 |
| | | | | | | | | | | |
| Foreign exchange rate derivatives | | | | | | | | | | |
| Cash flow Hedging | 2,341 | | 2,341 | 4 | 51 | 1,135 | | 1,135 | 33 | |
| Non-hedging | 270 | | 270 | 2 | 2 | 308 | | 308 | | |
| Total | | | | 6 | 53 | | | | 33 | 6 |

| **MEUR** | **31 Dec 2005** | | | | | 31 Dec 2004 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Volume 1000 bbl** | | | **Fair value** | | **Volume 1000 bbl** | | | **Fair value** | |
| | Maturity | | | | | Maturity | | | | |
| **Oil derivatives** | Under 1 year | Above 1 year | Total | Positive | Negative | Under 1 year | Above 1 year | Total | Positive | Negative |
| Futures and forwards | | | | | | | | | | |
| - Sales contracts | 47,333 | 7,163 | 54,496 | 46 | 26 | 43,195 | 2,354 | 45,549 | 27 | 11 |
| - Purchase contracts | 72,398 | 27,490 | 99,888 | 21 | 27 | 55,399 | 14,185 | 69,584 | 17 | 8 |
| Options | | | | | | | | 0 | | |
| - Purchased | 5,654 | 1,250 | 6,904 | 1 | 3 | 4,797 | | 4,797 | 4 | 2 |
| - Written | 5,289 | 300 | 5,589 | 3 | 1 | 6,784 | | 6,784 | 3 | 5 |
| Total | | | | 71 | 57 | | | | 51 | 26 |
| | | | | | | | | | | |
| Non-hedging oil derivatives | | | | 71 | 57 | | | | 51 | 26 |

The fair values of derivative contracts subject to public trading are based on market prices as of the balance sheet date. The fair values of other derivatives are based on the present value of cash flows resulting from the contracts, and, in respect of options, on evaluation models. The amounts also include unsettled closed positions. Derivative contracts are mainly used to manage the group's currency, interest rate and price risk.

**Other contingent liabilities**

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

## CALCULATION OF KEY FIGURES

### Calculation of key financial indicators

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

### Calculation of key share ratios

| Key figure | | Definition |
|---|---|---|
| Earnings per share (EPS) | = | Profit before taxes - taxes on regular business operations - minority interest / Adjusted average number of shares during the period |
| Equity per share | = | Shareholder's equity attributable to Company's equity holders / Adjusted average number of shares at the end of the period |
| Cash flow per share | = | Net cash generated from operating activities / Adjusted average number of shares during the period |
| Price / earnings ratio (P/E) | = | Share price at the end of the period / Earnings per share |

# NESTE OIL IFRS ACCOUNTING POLICIES

## 1. GENERAL INFORMATION

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

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

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

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

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

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

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

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

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

**Use of estimates**

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

**Consolidation**

*Subsidiaries*

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

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

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

*Associates*

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

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

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

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

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

**Segment reporting**

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

**Non-current assets and disposal groups held for sale**

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

**Foreign currency translation**

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

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

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

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

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

### Revenue recognition

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

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

### Government grants

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

### Borrowing costs

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

### Income taxes

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

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

### Research and development

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

### Property, plant and equipment

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

Subsequent costs are included in the asset’s carrying amount or recognised 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 capitalised when they occur and then depreciated during the shutdown cycle, i.e. the time between shutdowns. All other repairs and maintenance are charged to the income statement during the financial period in which they incur.

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

| | |
|---|---|
| Buildings and structures including terminals | 20–40 years |
| Production machinery and equipment | 15–20 years |

| | |
|---|---|
| Marine fleet | 15-20 years |
| Retail station network machinery and equipment | 5-15 years |
| Other equipment and vehicles | 3-15 years |
| Other tangible assets | 20–40 years |

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

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

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

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

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

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

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

**Impairment of non-financial assets**

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

**Financial assets**

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

*Financial assets at fair value through income statement*
The assets in this category are financial assets held for trading. Derivative financial instruments are categorised into this category, if they are either held for trading or do not meet the criteria for hedge accounting as defined under IAS 39. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

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

date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

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

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

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

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

**Leases**

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

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

**Inventories**

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

**Cash and cash equivalents**

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

**Provisions**

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

## Financial liabilities

Financial liabilities are recognised initially at net proceeds less transaction costs incurred. In subsequent periods, they are stated at amortised cost; any difference between the net proceeds and the redemption value is recognised 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 categorised as held for trading and included in financial liabilities at fair value through income statement unless they are designated as hedges. Liabilities are included in non-current liabilities, except for maturities less than 12 months after the balance sheet date.

## Employee benefits

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

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

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

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

## Derivative financial instruments and hedging activities

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

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

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

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

## Definitions

*Operating profit*

**Appendix**

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