

# Administration and management

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

Further information: [www.nesteoil.com/Investors](http://www.nesteoil.com/Investors)

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

## ■ Governance bodies

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

The Neste Oil Executive Team (NET) assists the President & Chief Executive Officer in the management and co-ordination of the implementation of the Company's strategic and operational goals. Each of the Company's operational divisions has its own management team.

Matters material to the Company as a whole are submitted to the President & Chief Executive Officer or the Board of Directors for decision. Neste Oil has one official auditor, appointed by shareholders at the Annual General Meeting.

## ■ Annual General Meeting

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

At the Annual General Meeting, shareholders take decisions on matters such as the adoption of the Financial State-

ments and on the distribution of profit for the year shown in the Balance Sheet, the dividend to be paid, discharging the members of the Supervisory Board, the Board of Directors, and the President & Chief Executive Officer from liability, as well as the election and remuneration of the members of the Supervisory Board, the Board of Directors, and the auditor.

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

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

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

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

## ■ Nomination Committee

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

The right to appoint the shareholder representatives to this Committee lies with the three shareholders holding the largest number of votes associated with all the Company's shares on the first day of November preceding the AGM. In the event that a shareholder does not wish to exercise his right to appoint a member, this right shall be transferred to the next largest shareholder. The Company's largest shareholders are determined on the basis of ownership information registered with the book-entry securities system, with the proviso that the holdings of a shareholder, held in a number of separate funds, for example, and who is required under Finnish securities legislation, as part of the flagging require-

ment, to notify the authorities of certain changes in the size of his holdings, shall be combined and treated as a single holding if the shareholder concerned informs the Company's Board of Directors of his wish that this should be done in writing by the end of October at the latest.

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

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

## ■ Supervisory Board

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

### Election of members

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

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

### Members

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

**Klaus Hellberg** (Chairman), born 1945

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

**Mikael Forss**, born 1954, Director, Social Insurance Institution of Finland

**Heidi Hautala**, born 1955, Member of the Finnish Parliament

**Satu Lähteenmäki**, born 1956, Professor, Turku School of Economics and Business Administration

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

**Markus Mustajärvi**, born 1963, Member of the Finnish Parliament

**Jutta Urpilainen**, born 1975, Member of the Finnish Parliament

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

### Supervisory Board remuneration

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

### Meetings

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

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

## ■ Board of Directors

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

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

The roles and responsibilities of the Board are defined in more detail in the Charter approved by the Board. The main content of the Charter can be consulted at the Company's web site.

■ **Board of Directors as of 31 December 2007**

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

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

**Nomination of members**

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

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

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

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

**Activities of the Board of Directors**

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

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

**Board Committees**

The Board has set up an Audit Committee and a Personnel and Remuneration Committee, both of which have four

members. A quorum exists when more than two of the members of a Committee, including the Chair, are present. All members are elected from amongst the members of the Board for a one-year term.

The tasks and responsibilities of each Committee are defined in their Charters, which are approved by the Board. The schedule and frequency of Committee meetings is determined by the Chair and members of the Committees. Committees meet at least twice a year.

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

**Audit Committee**

The Audit Committee oversees the Company's finances, financial reporting, risk management, and internal auditing. It is also responsible for assisting the Board's monitoring of the financial position and reporting of the Company and the Board's control function. It prepares the election of the auditor, maintains contacts with the auditor, and reviews all material reports from the auditor regarding the Company or its subsidiaries, as well as evaluates the Company's compliance with laws and regulations.

According to the Charter for the Audit Committee, the Committee shall consist of a minimum of three members who are independent of and not affiliated with the Company or any of its subsidiaries, and have sufficient knowledge of accounting practices and the preparation of financial statements, and other qualifications the Board deems necessary.

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

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

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

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

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

## Personnel and Remuneration Committee

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

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

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

President & CEO	40,000
Other NET members	109,000
<b>Total</b>	<b>149,000</b>

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

## ■ Remuneration paid to the President & CEO and NET members EUR

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

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

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

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

### ■ **President & CEO**

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

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

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

### ■ **Neste Oil Executive Team (NET)**

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

The NET meets regularly, on average once a month.

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

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

### ■ **Compensation and incentive programs**

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

#### **Short-Term Incentive Bonuses**

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

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

### **Management performance share arrangement**

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

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

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

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

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

### ■ **Neste Oil's Personnel Fund**

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

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

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

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

## ■ Pension Schemes

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

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

## ■ Auditor

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

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

### Fees charged by the statutory auditor

EUR thousand

	2007	2006
Audit fees	560	578
Other	75	152
<b>Total</b>	<b>635</b>	<b>730</b>

## ■ Internal Audit

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

Internal Audit reports to the Audit Committee of the Board and administratively to the President & CEO. Internal Audit is a staff function without any direct authority over the activities it reviews. The roles, responsibilities, and authorities of Internal Audit are covered in a set of official guidelines. These guidelines and an annual operating plan are approved by the Board of Directors' Audit Committee.

## ■ Insider guidelines

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

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

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

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

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

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