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



NESTE OIL

Annual Report 2011
Review by the Board of Directors

Table of contents

Review by the Board of Directors	1
The Group's results for 2011	2
Cash flow, investments, and financing	4
Main events during the reporting period	5
Strategy implementation	6
Market overview	7
Production and sales	9
Segment reviews	11
Shares, share trading, and ownership	13
Corporate Governance	15
Personnel	17
Health, safety, and the environment	18
Research and development	19
Events after the reporting period	20
Potential short-term and long-term risks	21
Risk management	22
Outlook	23
Dividend distribution proposal	25

Review by the Board of Directors 2011

Neste Oil's comparable operating profit was EUR 156 million compared to EUR 240 million in 2010, which reflected the good performance of the company's conventional business, while the Renewable Fuels was in ramp-up mode suffering from delays in legislation and sales volume development. Important milestones were reached in the implementation of the company's strategy as the new renewable diesel refinery in Rotterdam and the new base oils joint venture plant in Bahrain came on stream in the fall.

The Board of Directors will propose a dividend of EUR 0.35 per share for 2011, totaling 90 million.

Figures in parentheses refer to the full-year financial statements for 2010, unless otherwise noted.

The Group's results for 2011

Neste Oil's revenue in 2011 totaled EUR 15,420 million (11,892 million). This increase resulted mainly from higher oil prices and higher sales volumes compared to 2010. The Group's comparable operating profit for the year decreased to EUR 156 million from EUR 240 million reported in 2010. The latter figure included a one-time insurance compensation payment of EUR 48 million. Oil Products recorded a higher comparable operating profit year-on-year, whereas Renewable Fuels posted a significant operating loss. Oil Retail's result was almost at the same level as in 2010. The Group's fixed costs came in at EUR 613 million (643 million).

Oil Products' full-year comparable operating profit was EUR 249 million (208 million), Renewable Fuels' EUR -163 million (-65 million), and Oil Retail's EUR 57 million (60 million). The comparable operating profit of the Others segment totaled EUR 9 million (45 million) and included a contribution of EUR 19 million (25 million) by Nynas.

The Group's full-year IFRS operating profit was EUR 273 million (323 million), which was impacted by inventory gains totaling EUR 97 million (121 million). Pre-tax profit was EUR 206 million (296 million), profit for the period EUR 160 million (231 million), and earnings per share EUR 0.62 (0.89).

Given the capital-intensive nature of its business, Neste Oil uses return on average capital employed after tax (ROACE) as its primary financial target. ROACE figures are based on comparable results. As of the end of 2011, the rolling twelve-month ROACE was 2.6% (2010 financial year: 4.6%)

Group key figures, MEUR

	2011	2010
Comparable operating profit	156	240
- inventory gains/losses	97	121
- changes in the fair value of open oil derivatives	9	24
- capital gains/losses	11	-62
IFRS operating profit	273	323
Revenue		
Oil Products	12,644	9,789
Renewable Fuels	1,026	328
Oil Retail	4,298	3,654
Others	191	169
Eliminations	-2,739	-2,048
Total	15,420	11,892

Comparable operating profit		
Oil Products	249	208
Renewable Fuels	-163	-65
Oil Retail	57	60
Others	9	45
Eliminations	4	-8
Total	156	240
IFRS operating profit		
Oil Products	373	333
Renewable Fuels	-170	-39
Oil Retail	58	61
Others	8	-24
Eliminations	4	-8
Total	273	323

Cash flow, investments, and financing

Neste Oil Group's net cash from operating activities in 2011 was EUR 197 million (1,105 million). As net cash from operating activities were positively impacted by working capital management in 2010, there was less room for improvement in 2011.

Investments totaled EUR 364 million (943 million) in 2011, of which cash investments represented EUR 326 million. Oil Products' capital spending was EUR 131 million (269 million). Investments at Renewable Fuels totaled EUR 190 million (578 million) and those at Oil Retail EUR 34 million (33 million). Investments in the Others segment totaled EUR 9 million (63 million).

Interest-bearing net debt was EUR 2,080 million as of the end of December, compared to EUR 1,801 at the end of 2010. Net financial expenses between January and December were EUR 67 million (27 million). The average interest rate of borrowings at the end of December was 3.5% and the average maturity 3.7 years.

The equity-to-assets ratio was 34.0% (Dec 31 2010: 36.5%), the leverage ratio 45.7% (Dec 31 2010: 42.6%), and the gearing ratio 84.3% (Dec 31 2010: 74.3%).

The Group's cash and cash equivalents and committed, unutilized credit facilities amounted to EUR 1,629 million as of the end of December (Dec 31 2010: 1,745 million). There are no financial covenants in current loan agreements.

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

Main events during the reporting period

On February 28, Neste Oil announced that Neste Oil and Abu Dhabi National Oil Company (ADNOC) had entered into a partnership in the VHVI (Very High Viscosity Index) base oil area, which was expected to bring 600,000 metric tons per annum of NEXBASE® base oil onto the market at the end of 2013.

On July 15, Neste Oil announced that it had started pioneering cooperation with Lufthansa in the area of aviation biofuels. Lufthansa began regularly scheduled return flights between Hamburg and Frankfurt using Neste Oil's NExBTL renewable aviation fuel four times a day. One of the engines of the aircraft used a blend of 50% NExBTL renewable aviation fuel and 50% fossil fuel; while the other ran on regular fossil-based jet fuel.

On August 1, Neste Oil announced that it had sold its majority-owned (93.85%) Estonian subsidiary, AS Reola Gaas, to the Estonian-based Alexela Group. AS Reola Gaas sells bottled, bulk, and automotive gas to industrial and other customers.

On September 16, Neste Oil announced that it had signed an agreement to sell its polyalphaolefin (PAO) production plant in Belgium to Chevron Phillips Chemical. Under the agreement, Chevron Phillips Chemical agreed to acquire Neste Oil's (PAO) production facility, quality control laboratory, and the related maintenance services in Beringen, Belgium. The sale was approved by the competition authorities and closed in December.

On September 20, Neste Oil announced that it had successfully started up Europe's largest renewable diesel refinery in Rotterdam in the Netherlands. The Rotterdam plant has a capacity of 800,000 t/a, and it increased Neste Oil's total renewable diesel capacity to 2 million t/a. The plant employs approximately 150 people.

On September 21, Neste Oil arranged a Capital Markets Day in Rotterdam and confirmed its financial targets and updated its short-term outlook.

On October 12, Neste Oil announced that Neste Oil, The Bahrain Petroleum Company (Bapco), and nogaholding had successfully started commercial production at a new base oil plant in Bahrain. The joint venture plant produces premium quality VHVI (Very High Viscosity Index) Group III base oils for use in blending top-tier lubricants and has a production capacity of 400,000 metric t/a. Neste Oil has a 45% stake in the joint venture and the company's share of the investment cost was EUR 130 million.

On December 8, Neste Oil announced that it would sell its 50% holding in an iso-octane plant in Edmonton, Canada to Canada's Keyera Corp. The sale would consist of all of Neste Oil's assets and the associated product and feedstock inventories at closing. The iso-octane plant sale was closed after the reporting period in January 2012.

On December, 15 Neste Oil announced that it would build a pilot plant to produce waste-based microbial oil at its Porvoo refinery, the first pilot plant in Europe designed to produce microbial oil for use in manufacturing renewable fuel from waste-based raw materials. The facility is due to be completed in the second half of 2012 and represents an investment of approx. EUR 8 million.

Strategy implementation

Neste Oil continued to implement its clean fuel strategy during 2011. As part of the annual strategy update, the company's vision was revised, with the focus placed on making Neste Oil the preferred partner for cleaner traffic fuel solutions. Neste Oil's major investment program, designed to increase the company's capacity in both renewable diesel and high-quality base oil, was completed in 2011.

Strategic projects

The new 800,000 t/a renewable diesel refinery in Rotterdam was completed in the summer and started up in September 2011. The final investment cost was in line with the original EUR 670 million budget.

A joint venture base oil plant in Bahrain was successfully started up in October and rapidly achieved its targeted production volumes. The plant produces premium-quality VHVI (Very High Viscosity Index) Group III base oil for use in blending top-tier lubricants. Demand for premium-quality base oil is increasing globally, as better-performing base oil is essential to meet the needs of new emission legislation and catalytic converter technologies.

Value Creation Programs

Neste Oil launched five internal Value Creation Programs in 2011 to boost the implementation of its strategy: Profitable Growth, Productivity, Renewable Feedstock, Customer Focus, and Winning Culture.

Market overview

The recovery of the world economy, geopolitical tensions in oil-producing countries, and fears surrounding the escalating Euro-zone crisis later in the year were the oil market's main drivers during 2011. Crude oil prices moved up throughout the spring, hand in hand with the positive mood in the global economy and growing investor interest in commodities. Brent Dated broke the psychological USD 100 /bbl mark in early February and reached around USD 125/bbl between mid-April and early May during the crisis in Libya, which shut down most of the country's crude oil production. The escalating Euro-zone crisis and fears of a potential global slowdown subsequently pushed crude prices back to USD 105-115/bbl. Compared to base metals and equities, however, the drop in crude prices was less dramatic, and every time Brent Dated approached USD 100/bbl it moved up again, ending the year above USD 100/bbl.

The price differential between heavier and lighter crude fluctuated and was slightly wider on average compared to 2010. The differential widened significantly during the spring, on the back of higher crude prices and softer fuel oil performance. Towards the fall and the end of the year, it narrowed again and approached zero. This was mainly the result of softer fuel oil margins and a tight crude supply-demand balance in Europe, particularly in Russia. Overall, the differential matched long-time averages for the third consecutive year.

Neste Oil's reference margin was in line with 2010 levels, and the differences between individual quarterly averages were quite small. Strong middle distillate margins supported the margin during the spring and the fall, while gasoline margins contributed during the summer, when middle distillate margins moved lower. Compared to 2010, wider fuel oil–middle distillate margins, together with weak gasoline margins during the first and fourth quarters, reduced the margins of simple refineries and gave a competitive advantage to refiners with complex refineries, such as Neste Oil.

Margins for middle distillates strengthened steadily during the year, on the back of increasing global demand. During the normally weaker summer season, additional support was provided by the low utilization of Chinese hydropower and reconstruction after the Japanese tsunami. Later in the fall, scarce supplies in Europe and low exports from Russia pushed diesel margins to their highest levels since early 2009.

European gasoline margins overall were weaker compared to 2010. Margins were seasonally weak during the winter and early spring, but the summer driving season gave some support, as did narrower fuel oil and middle distillate margins, which lead to reduced refinery output. Towards the late fall, gasoline margins dropped to close to zero while middle distillate margins were running at annual highs.

Rising crude prices saw fuel oil margins weaken during the early part of the year, dropping to their lowest levels since late 2008. Over the summer and towards the fall, power shortages in Japan after the tsunami and the drought in China increased fuel oil demand. Lower crude prices and shutdowns at less complex refineries narrowed fuel oil margins.

Biodiesel margins were weak in early 2011 and vegetable oil prices were seen as too high by biodiesel producers. Vegetable oil prices moved downwards and fell further in the late summer when European debt worries emerged. Palm oil production and supply had increased and palm oil prices fell more than rapeseed oil prices, which were supported by a poor rapeseed crop in Western Europe. Lows were seen in October 2011, since when vegetable oil prices have been recovering. Better biodiesel margins together with a widening rapeseed oil - palm oil price differential saw renewable diesel margins return to very good levels in the third and fourth quarters.

Key drivers

	2011	2010
Reference refining margin, USD/bbl	4.37	4.35
Neste Oil refining margin, USD/bbl	8.48	8.14
Urals-Brent price differential, USD/bbl	-1.71	-1.40
NWE Gasoline margin, USD/bbl	7.41	9.70
NWE Diesel margin, USD/bbl	18.12	13.97
NWE Heavy fuel oil margin, USD/bbl	-15.96	-10.32
Brent Dated crude oil, USD/bbl	111.27	79.47
USD/EUR, market rate	1.40	1.32
USD/EUR, hedged	1.35	1.36
Crude freights, WS points (TD7)	104	115

Production and sales

Production

Neste Oil's production totaled 15.2 million tons (13.6 million) in 2011, of which 0.7 million tons (0.3 million) took the form of NExBTL renewable diesel. Increased output was mainly due to the major maintenance turnaround at the Porvoo refinery in spring 2010, but also reflected increasing volumes from the Singapore renewable diesel refinery.

Neste Oil's production, by plant

(1,000 t)	2011	2010
Porvoo refinery	11,962	10,594
Naantali refinery	2,264	2,410
NExBTL refineries	675	337
Bahrain VHVI plant (Neste Oil's share)	45	0
Beringen polyalphaolefin plant	43	45
Edmonton iso-octane plant (Neste Oil's share)	191	214

The Porvoo refinery operated at an average capacity utilization rate of 85% (82%) in 2011. Output was impacted by maintenance work carried out on Diesel Line 4 in the spring and in October, and some operational outages. The utilization rate at Naantali was 85% (84%), affected by outages in the spring and lower feed levels in the fall due to the weak market situation.

The proportion of Russian Export Blend (REB) in Neste Oil's total refinery input at Porvoo and Naantali was 66% (68%) in 2011. Production costs at the Porvoo and Naantali refineries totaled USD 4.3/bbl (4.0) for the year as a whole.

The company's renewable diesel refineries were run at limited utilization, mainly due to lower-than-planned sales volumes.

Sales

The second consecutive cold and snowy winter kept middle distillates demand strong and increased Neste Oil's diesel fuel sales in early 2011. Growth was robust, particularly in domestic sales. Diesel continued to account for close to 40% of total sales, while the proportion of gasoline continued to drop. Refinery turnarounds in Canada in the spring and a number of shutdowns in the second half of the year shifted the focus of Neste Oil's gasoline exports to North America.

Total sales volume increased by over 5%, with demand for both fossil and renewable diesel continuing to grow steadily.

Neste Oil's sales from in-house production, by product category

(1,000 t)	2011	%	2010	%
Motor gasoline	4,143	27	4,111	28
Gasoline components	209	2	229	2
Diesel fuel	6,007	39	5,655	39
Jet fuel	763	5	640	4
Base oils	332	2	307	2
Heating oil	199	1	691	5
Heavy fuel oil	1,007	7	908	6
LPG	361	2	273	2
NExBTL renewable diesel	628	4	270	2
Other products	1,636	11	1,401	10
Total	15,284	100	14,485	100

Neste Oil's sales from in-house production, by market area

(1,000 t)	2011	%	2010	%
Finland	7,893	52	7,881	54
Other Nordic countries	2,618	17	2,685	19
Other Europe	2,988	20	2,659	18
USA & Canada	1,591	10	1,081	8
Other countries	194	1	179	1
Total	15,284	100	14,485	100

Segment reviews

Neste Oil's businesses are grouped into four reporting segments: Oil Products, Renewable Fuels, Oil Retail, and Others.

Oil Products

	2011	2010
Revenue, MEUR	12,644	9,789
Comparable EBITDA, MEUR	441	395
Comparable operating profit, MEUR	249	208
IFRS operating profit, MEUR	373	333
Total refining margin, USD/bbl	8.48	8.14
Net assets, MEUR	2,228	2,260
Comparable return on net assets, %	10.5	7.9

Oil Products' full-year comparable operating profit for 2011 amounted to EUR 249 million, compared to EUR 208 million in 2010. This improvement was largely due to higher total refining margin and better profitability in the base oil business. Neste Oil's total refining margin totaled USD 8.48/bbl in 2011, which compares to USD 8.14/bbl in 2010. Fixed costs in refining operations were USD 0.3/bbl higher compared to 2010. Oil Product's comparable return on net assets was 10.5% (7.9%) in 2011.

Renewable Fuels

	2011	2010
Revenue, MEUR	1,026	328
Comparable EBITDA, MEUR	-85	-38
Comparable operating profit, MEUR	-163	-65
IFRS operating profit, MEUR	-170	-39
Net assets, MEUR	1,963	1,703
Comparable return on net assets, %	-8.7	-5.1

Renewable Fuels' comparable operating profit was EUR -163 million in 2011, compared to EUR -65 million in 2010. After a slow start sales volumes steadily increased over the year. They were still insufficient, however, to compensate for higher production costs and the start-up costs of the Rotterdam renewable diesel refinery. Renewable diesel margins continued to be good and the availability of certified feedstock improved during the year. Progress on biofuel legislation in areas affecting Neste Oil was slow, and exports to the US market were delayed. Renewable Fuels' comparable return on net assets was -8.7% (-5.1%) in 2011.

Oil Retail

	2011	2010
Revenue, MEUR	4,298	3,654
Comparable EBITDA, MEUR	89	94
Comparable operating profit, MEUR	57	60
IFRS operating profit, MEUR	58	61
Net assets, MEUR	326	315
Comparable return on net assets, %	17.6	19.3
Total sales volume*, 1,000 m ³	3,982	4,150
- gasoline station sales, 1,000 m ³	1,279	1,328
- diesel station sales, 1,000 m ³	1,479	1,423
- heating oil, 1,000 m ³	654	749
- heavy fuel oil, 1,000 m ³	263	347

*includes both station and terminals sales

Oil Retail posted a full-year comparable operating profit of EUR 57 million compared to EUR 60 million in 2010. Although margins were higher, total sales volumes were lower and fixed costs higher. Increased diesel volumes compensated for lower gasoline sales. Oil Retail's comparable return on net assets was 17.6% (19.3%) in 2011.

Shares, share trading, and ownership

Neste Oil's shares are traded on NASDAQ OMX Helsinki Ltd. The share price closed the year at EUR 7.81, down by 34.7% compared to the end of 2010. At its highest during 2011, the share price reached EUR 14.70, while at its lowest the price stood at EUR 6.19. Market capitalization was EUR 2.0 billion as of December 31 2011. An average of 1.13 million shares were traded daily, representing 0.4% of the company's shares.

Neste Oil's share capital registered with the Company Register as of December 31 2011 totaled EUR 40 million, and the total number of shares outstanding is 256,403,686. The company does not hold any of its own shares, and the Board of Directors has no authorization to buy back company shares or issue convertible bonds, share options, or new shares.

As at the end of the year, the Finnish State owned 50.1% (50.1%) of outstanding shares, foreign institutions 19.4% (18.6%), Finnish institutions 16.8% (18.5%), and Finnish households 13.7% (12.8%).

Largest shareholders as at December 31 2011

Shareholder	Shares	%
Prime Minister's Office	128,458,247	50.10
Ilmarinen Mutual Pension Insurance Company	9,484,590	3.70
Varma Mutual Pension Insurance Company	5,778,970	2.25
The Social Insurance Institution of Finland, KELA	2,648,424	1.03
The State Pension Fund	2,190,000	0.85
The City of Kurikka	1,550,875	0.60
Mutual Insurance Company Pension-Fennia	1,003,000	0.39
Mandatum Life Insurance Company Limited	807,449	0.31
Nordea Bank Finland Plc	578,717	0.23
OP Life Assurance Company Ltd	546,898	0.21
Alexander Management Oy	485,000	0.19
Svenska Handelsbanken AB (publ), Branch Operation in Finland	479,156	0.19
Kaleva Mutual Insurance Company	460,000	0.18
Veikko Laine Oy	450,000	0.18
Sigrid Jusélius Foundation	423,000	0.16
OP Pension Fund	357,847	0.14
The Local Government Pensions Institution	351,226	0.14
OP-Delta Fund	325,000	0.13
Sijoitusrahasto Taalaritehdas Arvo Markka Osake	320,000	0.12
The Finnish Cultural Foundation	301,183	0.12
20 largest owners total	156,999,582	61.23
Nominee registrations	48,978,480	19.10
Others	50,425,624	19.67
Number of shares, total	256,403,686	100.00

Breakdown of share ownership as at December 31 2011

By the number of shares owned

No. of shares	No. of shareholders	% of shareholders	No. of shares	% of shares
1–100	26,021	33.8	1,508,547	0.6
101–500	34,052	44.2	8,678,958	3.4
501–1 000	8,975	11.7	6,964,263	2.7
1 001–5 000	6,884	8.9	14,293,284	5.6
5 001–10 000	594	0.8	4,297,439	1.7
10 001–50 000	348	0.5	7,007,609	2.7
50 001–100 000	39	0.1	2,952,682	1.2
100 001–500 000	42	0.1	9,644,944	3.8
Over 500 000	14	0.0	201,055,960	78.4
Total	76,969	100.0	256,403,686	100.00
of which nominee registrations	14		48,978,480	19.10

By shareholder category

	% of shares
State of Finland	50.1
Corporations	2.9
Financial and insurance companies	2.5
Non-profit organizations	1.9
General government	9.5
Households	13.7
Non-Finnish shareholders	19.4
Total	100.0

Corporate Governance

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

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

Neste Oil's Annual General Meeting (AGM) was held on April 14 2011 in Helsinki. The AGM adopted the company's financial statements and consolidated financial statements for 2010 and discharged the Supervisory Board, the Board of Directors, and President & CEO from liability for 2010. The AGM also approved the Board of Directors' proposal regarding the distribution of the company's profit for 2010, sanctioning payment of a dividend of EUR 0.35 per share. The dividend was paid on April 28 2011.

In accordance with the proposal made by the AGM Nomination Committee, the AGM confirmed the membership of the Board of Directors at eight members, and the following were re-elected to serve until the next AGM: Mr Timo Peltola, Mr Michiel Boersma, Ms Maija-Liisa Friman, Ms Nina Linander, Mr Hannu Ryöppönen and Mr Markku Tapio. Mr Jorma Eloranta and Ms Laura Raitio were elected as new members. Mr Eloranta was also elected as Vice Chairman. Mr Timo Peltola will continue as Chairman. The AGM decided to keep the remuneration paid to the Board members unchanged. Convening after the Annual General Meeting, the Board of Directors elected the members of its two Committees. Timo Peltola was elected Chairman and Michiel Boersma, Maija-Liisa Friman, and Markku Tapio as members of the Personnel and Remuneration Committee. Nina Linander was elected Chairman and Jorma Eloranta, Laura Raitio and Hannu Ryöppönen as members of the Audit Committee.

In accordance with a proposal by the State of Finland and the Finnish Shareholders Association, the Supervisory Board was abolished. The AGM decided that the Company's Articles of Association will be amended to reflect this, removing Section 4 and Items 3, 8, and 10 of Subsection 2 of Section 12 in their entirety and removing or amending those parts of Items 6 and 7 and Section 6 relating or referring to the Supervisory Board, and renumbering the Articles of Association accordingly.

All members of the Supervisory Board were re-elected for a term of office ending when the appropriate amendments to the company's Articles of Association had been registered. No remuneration was paid to the Chairman, Vice Chairman, or other members of the Supervisory Board for the period between the Annual General Meeting and the registration of the relevant amendments to the company's Articles of Association.

In accordance with a proposal by the Board of Directors, Ernst & Young Oy, Authorized Public Accountants, were appointed as the company's Auditor, with Authorized Public Accountant Anna-Maija Simola as Senior Auditor, until the next AGM. Payment for their services shall be made in accordance with their invoice.

Following a proposal by the Prime Minister's Office, representing the Finnish State, the AGM decided to establish an AGM Nomination Board to prepare proposals covering the members of the Board of Directors and their remuneration for consideration by the next AGM. The Nomination Board comprises representatives of the Company's three largest shareholders and shall also include, as an expert member, the Chairman of the Board. In 2011, the Nomination Committee comprised Director General Pekka Timonen from the Ownership Steering Department at the Prime Minister's Office; Timo Ritakallio, Deputy CEO, Ilmarinen Mutual Pension Insurance Company; and Mikko Koivusalo, Director, Varma Mutual Pension Insurance Company. The Chairman of Neste Oil's Board of Directors, Timo Peltola, served as the Committee's expert member.

Neste Oil's Corporate Governance Statement is issued as a separate document.

Personnel

Neste Oil employed an average of 4,926 (5,030) employees in 2011, of which 1,427 (1,448) were based outside Finland. As at the end of 2011, the company had 4,825 employees (4,874), of which 1,407 (1,443) were located outside Finland. Wages and salaries paid by the company totaled EUR 240 million (246 million) in 2011.

Health, safety, and the environment

The main indicator for safety performance used by Neste Oil – total recordable injury frequency (TRIF, number of cases per million hours worked) for all work done for the company, combining the company's own personnel and contractors – was 2.3 (4.7) in 2011. The target for 2011 was below 2.5. Neste Oil's lost workday injury frequency (LWIF) stood at 1.7 (3.0), compared to a target of 0. Unfortunately, there was one fatal incident at the Porvoo refinery in 2011. Process safety indicators have been implemented across Neste Oil and a total of 8,800 own and contractors' people were trained in safety and process safety issues in 2011.

Environmental emissions related to Neste Oil's operations remained low throughout the year. No serious environmental accidents resulting in liability occurred at Neste Oil's refineries or other production facilities in 2011. Permitted emission limit values were met, with the exception of a few minor operational incidents. The wastewater treatment plants at the company's refineries operated very well.

Neste Oil has received emission rights for 3.2 million tons of CO₂ emissions per year between 2008 and 2012, and will need to acquire further rights from the market to cover the deficit between its allocated rights and verified emissions. The verification of emissions for 2011 is scheduled, and Neste Oil will be able to report and surrender allowances equal to its total emissions in 2011.

The European Renewable Energy Directive (RED) was still only partly implemented in EU member states as at the end of 2011. Neste Oil's internal procedures have been updated to meet the directive's requirements, and the company has filed a voluntary scheme for verifying the sustainability of its biofuels with the EU. All of Neste Oil's NExBTL plants have received International Sustainability and Carbon Certification (ISCC) system certificates, ensuring that their output is eligible for use on the European biofuel market.

Neste Oil retained its position in, or was selected for inclusion in, a number of sustainability indexes during 2011. The company was, for example, included in the Dow Jones Sustainability World Index for the fifth year in succession. Neste Oil was also selected for inclusion in the Global 100 list of the world's most sustainable companies for the fifth year in succession, and was ranked 20th. Neste Oil was also rated the top performer in the oil & gas sector by the Forest Footprint Disclosure Project, which reviews industries using forest risk commodities. The company was also included in the STOXX® Global ESG Leaders Index and featured in the Ethibel EXCELLENCE Investment Register in 2011.

In January 2012, after the reporting period, Neste Oil was selected for inclusion in the Global 100 list for the sixth year in succession. Neste Oil's ranking was 19th, one place higher than in 2010. Companies selected for inclusion in the Global 100 list are considered the most capable in their sectors in managing environmental, social, and governance issues, and in their ability to make use of new business opportunities in these areas.

Research and development

Research and development focusing on both crude oil-based and renewable fuels is crucial in implementing Neste Oil's strategy. Neste Oil's R&D expenditure totaled EUR 42 million (41 million) in 2011.

Extending the company's raw material base is one of the main goals of Neste Oil's R&D work. Around 80% of annual R&D expenditure goes to research on renewable raw materials. Research work is focused on both completely new types of raw materials, such as microbes and algae, and existing materials, such as waste fat from fish processing industry.

Neste Oil expanded its renewable raw material base with jatropha, camelina, and soybean oils in 2011. Inputs coming from waste and side streams formed approximately 41% of the company's total raw material procurement in 2011. Neste Oil's goal is to increase this proportion further. Crude palm oil accounted for 52% of all the raw materials used in renewable diesel production in 2011.

Neste Oil's R&D played a major role in the start-up of the new NExBTL refineries in Singapore and Rotterdam and during the early stage of production there. R&D work also made it possible to extend NExBTL renewable diesel technology to producing renewable aviation fuel on a commercial scale in 2011.

Events after the reporting period

On January 20, Neste Oil announced that the competition authorities in the US and Canada had approved the sale of Neste Oil's 50% holding in an iso-octane production plant in Edmonton, Canada to Canadian-based Keyera Corporation, and that the sale had been confirmed.

Potential short-term and long-term risks

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

Uncertainty continues to be focused on the development of the world economy, which is likely to have a material impact on the demand for petroleum products generally and diesel fuel in particular.

Sudden and unplanned outages at Neste Oil's production units or facilities continue to represent a short-term operational risk.

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

The implementation of biofuel legislation in the EU and other key market areas may influence the speed at which the demand for these fuels develops. Risks also include any problems or delays in capturing the anticipated benefits from the company's renewable diesel investments. Over the longer term, failure to protect Neste Oil's proprietary technology or the introduction and implementation of competing fuel technologies or hybrid and electric engines may have a negative impact on the company's results.

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

The key market drivers for Neste Oil's financial performance are refining margins, the price differential between Russian Export Blend (REB) and Brent crude, the USD/EUR exchange rate, and the price differentials between different vegetable oils.

For more detailed information on Neste Oil's risks and risk management, please refer to the company's Annual Report and Financial Statements.

Risk management

Neste Oil recognizes that risk is an integral and unavoidable component of its business and is characterized by both threat and opportunity. Neste Oil uses risk management in order to enhance opportunities and reduce threats, thus gaining competitive advantage. Risk management is a central part of Neste Oil's management system, and its importance has only grown as the company has moved ahead with its major projects and as turbulence has continued in the global economy. Neste Oil aims to manage the impact of risks on its operations through a range of risk management strategies. The Corporate Risk Management Policy and Principles approved by the Board of Directors define the principles to be used for managing the risks associated with the strategic and operational targets of the Group as a whole and its business areas and common functions. Business areas and common functions have additional principles, instructions, and procedures related to risk management, approved by the President & CEO.

Risk management in the area of strategic and operational management aims at recognizing risks on a rolling basis, assessing and prioritizing them on a consistent basis, and managing them proactively.

For more detailed information on Neste Oil's risks and risk management, please refer to the company's Corporate Governance Statement, which has been published as a separate document, and to the note 3 of Financial Statements for 2011.

Outlook

The market outlook is overshadowed by uncertainties over economic development and the expectation that Europe in particular is entering what could be a short-term recession. The International Energy Agency has reduced its global oil demand growth estimates and is currently forecasting oil demand to increase by 1.2 million bbl/d in 2012. Most of this growth will take place in emerging markets. More new refining capacity is expected to come on stream during the year, leading to a somewhat looser supply and demand balance on the refining market. On the other hand, capacity closures that have been announced in Europe and the US could have a positive impact on the balance. Going forward, tensions surrounding Iran may lead to higher crude prices and a narrowing price differential between Urals and Brent.

Neste Oil expects to see good productivity and higher production volumes at its Porvoo refinery. Diesel production line 4 at the Porvoo refinery will be off-line for five weeks in the second quarter due to planned coke removal. A six-week maintenance turnaround is scheduled to take place at the Naantali refinery in the second quarter of 2012. Refining margins have recovered from the low levels seen in December due to some capacity closures. The market appears to expect that margins for complex refiners, such as Neste Oil, will remain roughly at 2011 levels; they will be sensitive to developments in economic activity, however. Diesel is projected to be the strongest part of the barrel going forward, while gasoline margins are expected to stay at 2011 levels and be subject to seasonal variations. Demand for base oil has remained healthy, but base oil margins are currently depressed. Approximately 30% of Neste Oil's volume in 2012 is hedged at a USD 4.7 /bbl reference margin level, assuming a Urals-Brent differential of USD -1.0 /bbl. As a result of all these factors, Oil Products' full-year comparable operating profit is expected to improve compared to 2011, assuming that Neste Oil's reference refining margin remains at last year's level.

The ramp-up of the renewable fuels business will continue in 2012. The practical implementation of biofuel legislation in Europe and the US will play an important role in how sales develop. Sales volumes of renewable diesel in the first quarter of 2012 are expected to be similar to those seen during the last quarter of 2011. Neste Oil will aim to achieve a clear increase in sales volumes by the end of second quarter of 2012. Although renewable diesel margins are likely to remain narrow in the first quarter, Neste Oil expects the first-quarter result of Renewable Fuels to develop positively compared to that recorded in the last quarter of 2011.

Diesel demand growth on the Finnish retail market is closely linked to industrial transportation activity and may slow down in 2012, and could also be affected by the excise tax increase implemented at the beginning of the year. Gasoline demand is expected to continue declining. Outside Finland, the Polish market is expected to remain challenging and other markets to perform as in 2011. Oil Retail's full-year comparable operating profit is expected to be at least equal to that seen in 2011.

The Group's fixed costs are estimated to be approx. EUR 640 million in 2012, compared to EUR 613 million in 2011, due to expansion of the business.

The Group's investments are expected to be approx. EUR 350 million (364 million).

Despite the current uncertainties in the market conditions, we expect Neste Oil's full-year comparable operating profit to improve significantly compared to 2011, assuming that Neste Oil's reference refining margin remains at last year's level and that quarterly sales volumes of renewable diesel are similar or above those seen during the last quarter of 2011.

Dividend distribution proposal

The parent company's distributable equity as of December 31 2011 amounted to EUR 1,036 million, and there have been no material changes in the company's financial position since the end of the financial year. The Board of Directors will propose to the Annual General Meeting that Neste Oil Corporation pays a cash dividend of EUR 0.35 per share for 2011, totaling EUR 90 million based on the number of registered shares as of February 2 2012.