

Oil Products – Creating value from high-quality assets

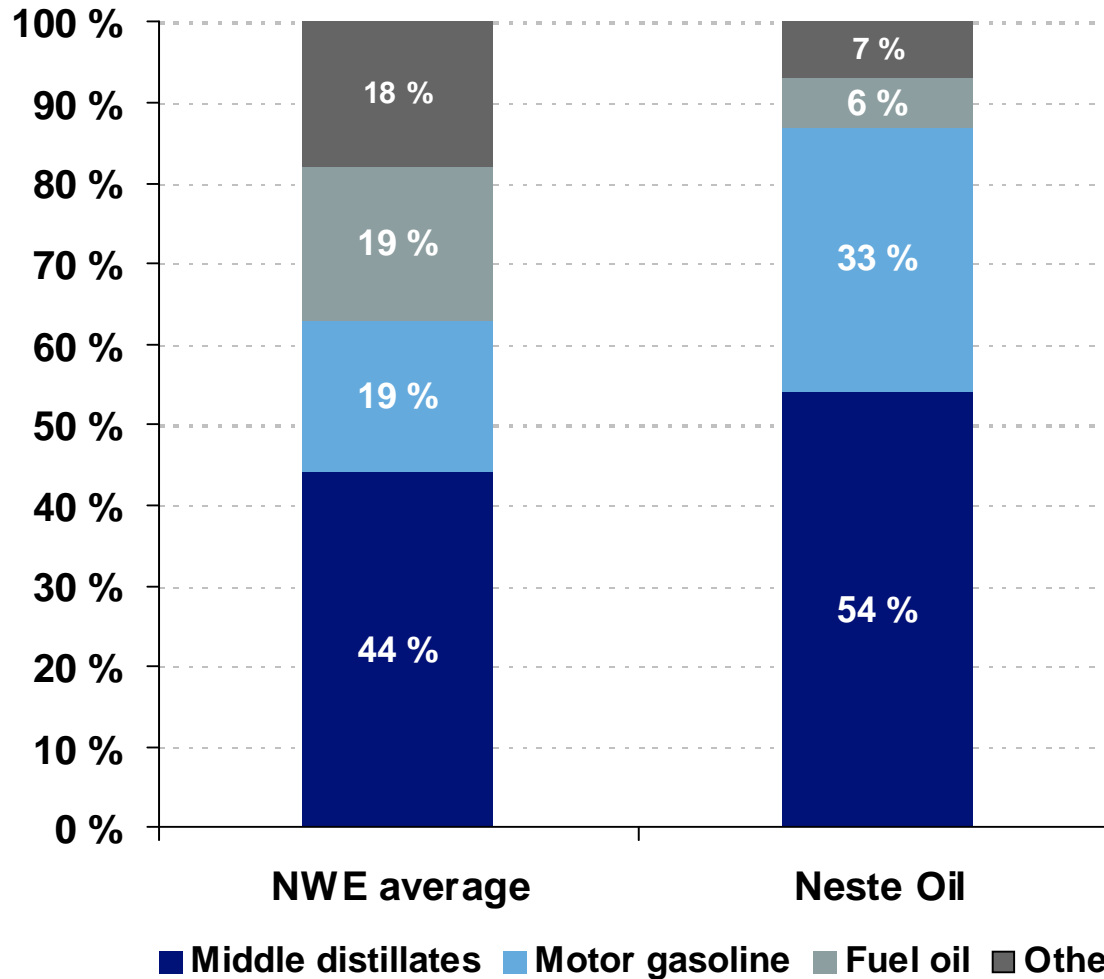
Matti Lehmus, EVP

**Capital Markets Day 2011
21 September 2011**

NESTE OIL

refining the future

A complex refiner focused on middle distillates

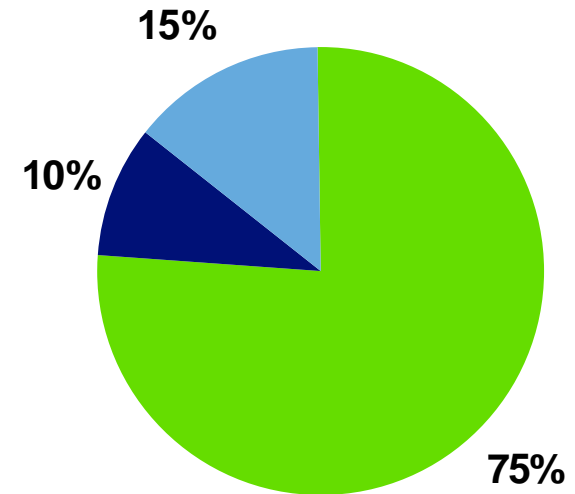


- High share of middle distillates
- High share of gasoline
- Low share of fuel oil

Source: NWE 2011 data from WoodMackenzie

Strategic focus on the Baltic Sea states continues

- Share of the Baltic Sea states' volumes has grown in 2009-2011
- Solution concept
 - Logistics flexibility
 - Biomandate services
 - Tailored products and blends
- Logistics advantage versus other regions



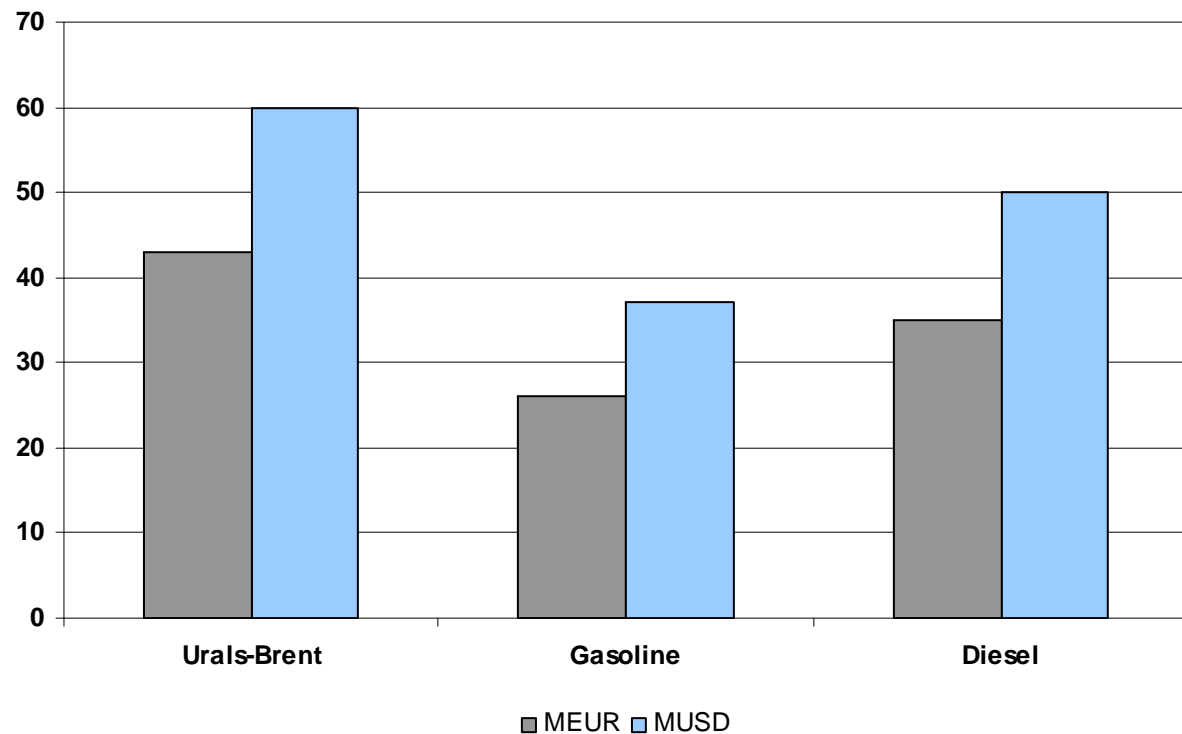
Oil Products' sales volumes in 1-7/11

- **Baltic Sea states**
- **Other Europe**
- **Other continents**

Key market drivers for Neste Oil

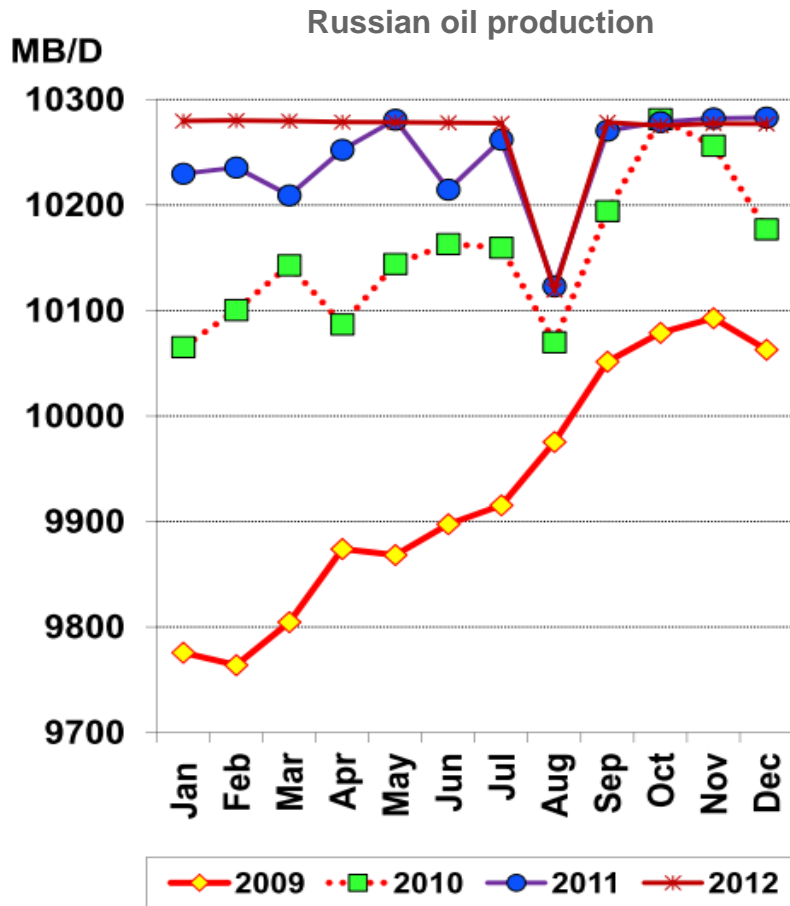
- REB price differential versus Brent
- Cracking margin, in particular diesel and gasoline margin
- Fuel oil versus diesel price differential

Estimated impact of \$1/bbl change in key market parameters on Oil Products' annual comparable EBIT



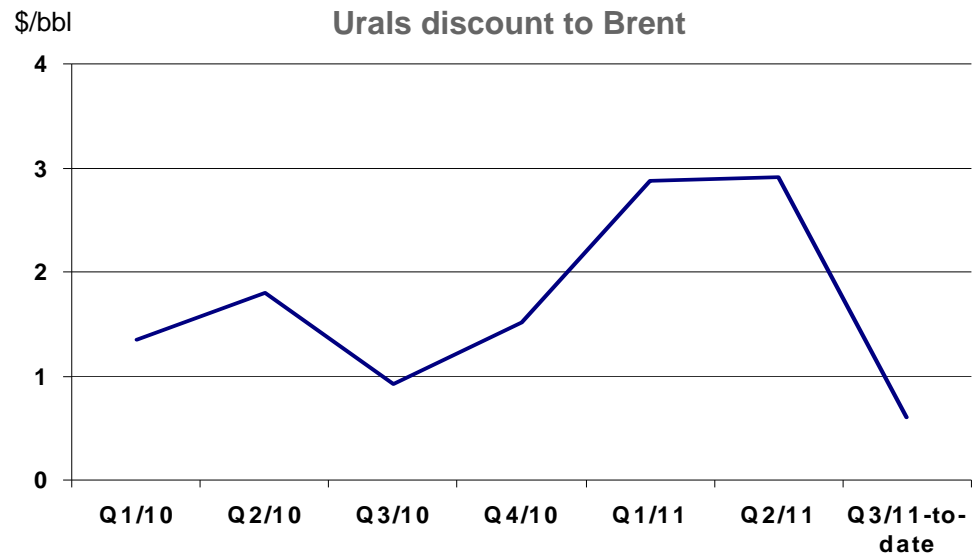
Calculations are based on USD/EUR exchange rate of 1.42

Urals-Brent price differential outlook

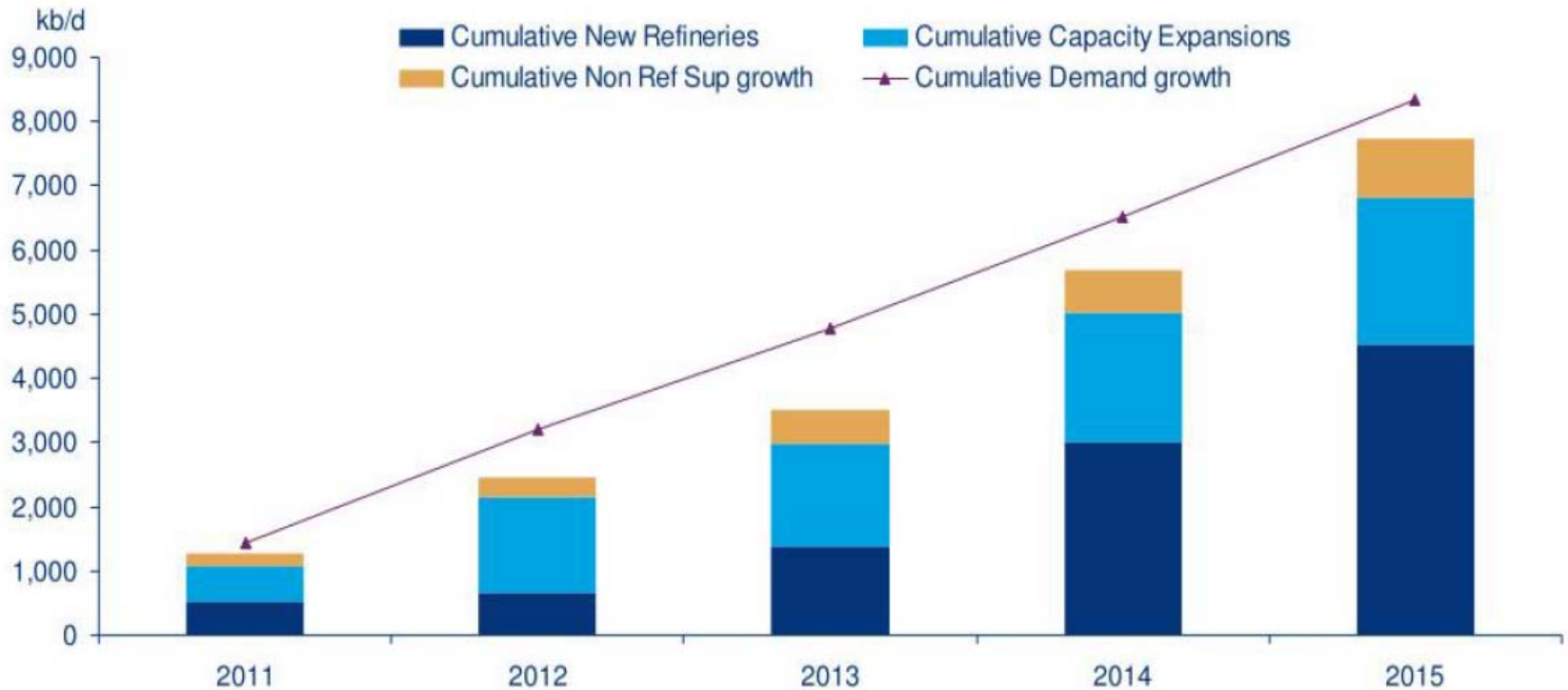


Source: PIRA

- Russian oil production is expected to increase slightly in 2012
- Proposed lower export tax could increase export volumes
- Brent-Urals price differential is expected to average USD 1.5 to 2.5/bbl



Global supply-demand outlook relatively balanced

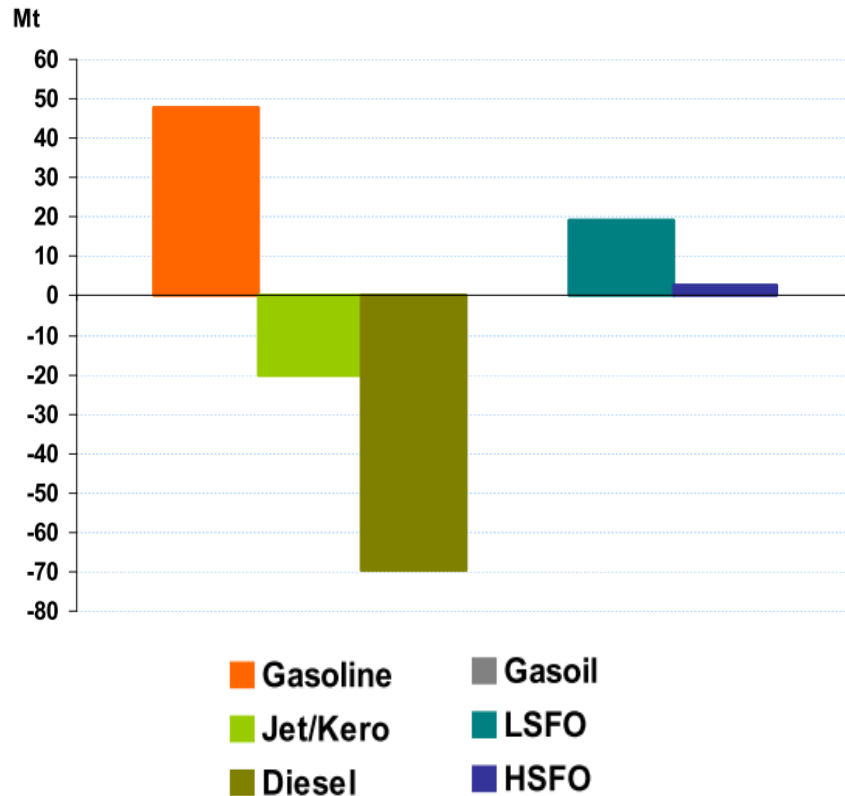


Source: Wood Mackenzie June 2011

- Asia and the Middle East are driving both demand and supply growth – balance sensitive to demand fluctuations

Regional balances - Europe to stay short of diesel

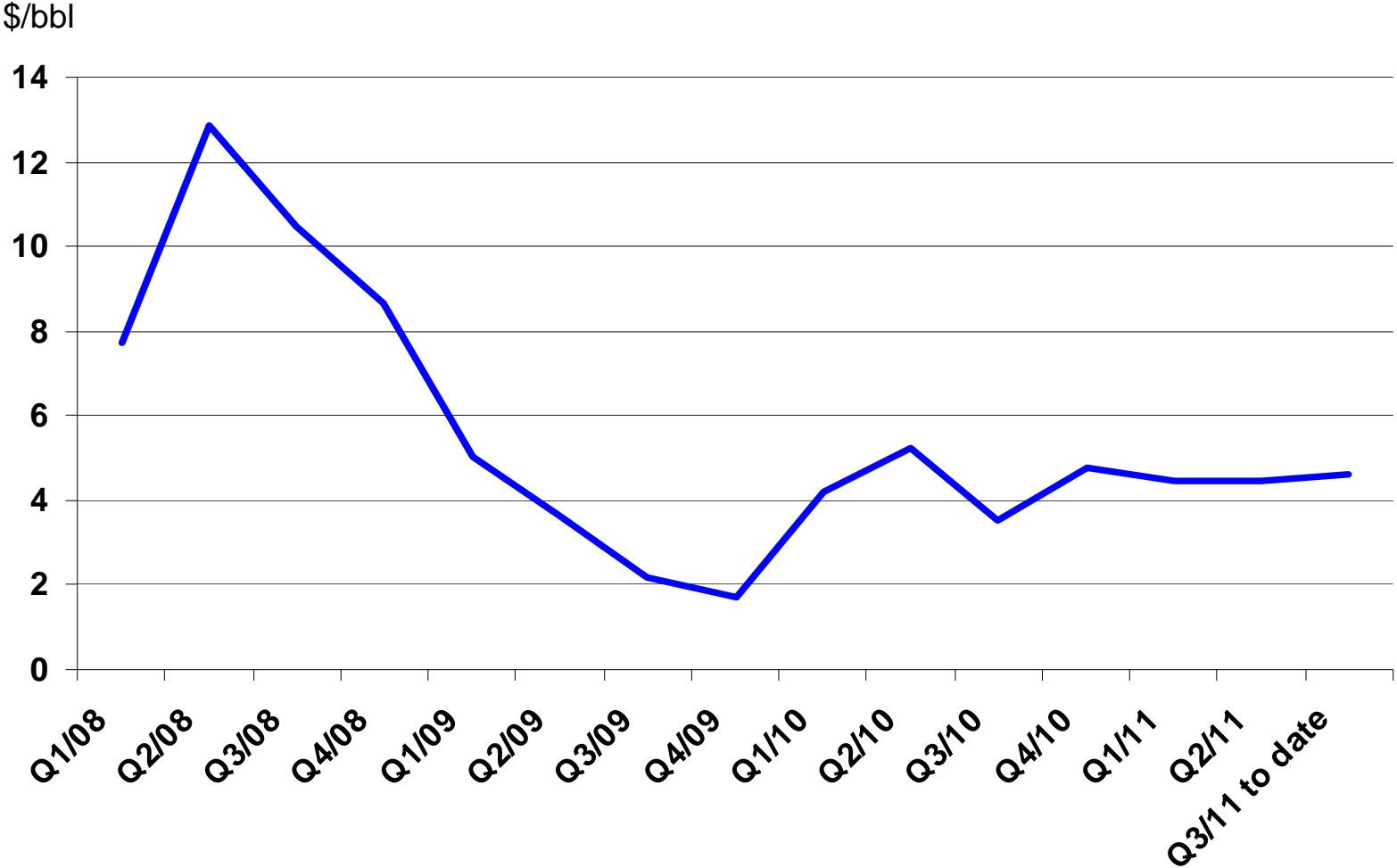
Estimated product balances in Greater Europe in 2015



Source: Wood Mackenzie 2011

- **European demand trends**
 - Middle distillate demand growing, gradual growth in need for imports
 - Gasoline demand shrinking, surplus is growing
- **Regional highlights in the Baltic Sea states**
 - Quality fragmentation due to bioregulation
 - Winter diesel balance tight

Neste Oil's reference refining margin development



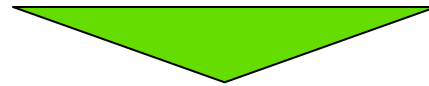
Market environment expected to be similar to 2010-11 in the foreseeable future

Oil Products strategy focus areas

**Productivity
improvement**

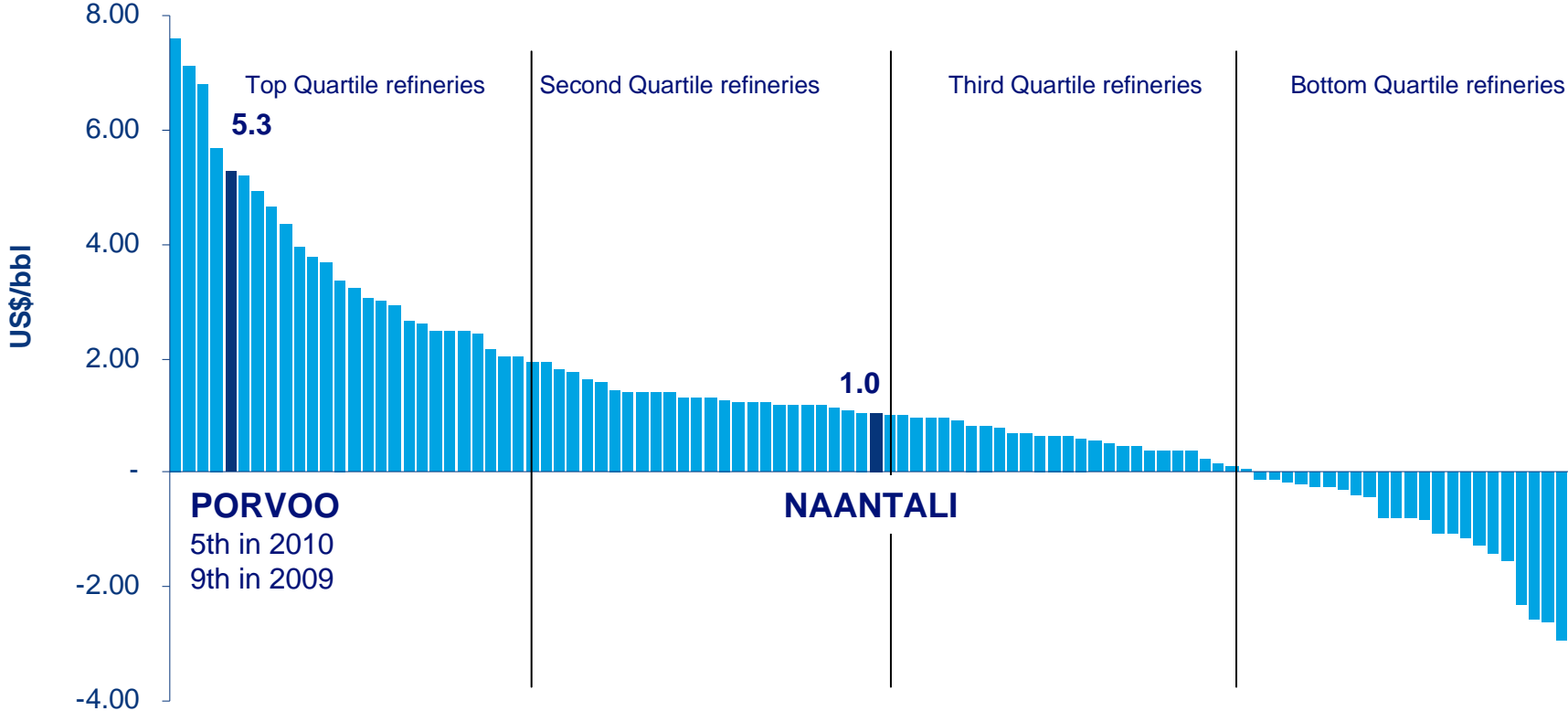
**Product value
maximization**

**Working capital
management**



Maximize cash flow generation

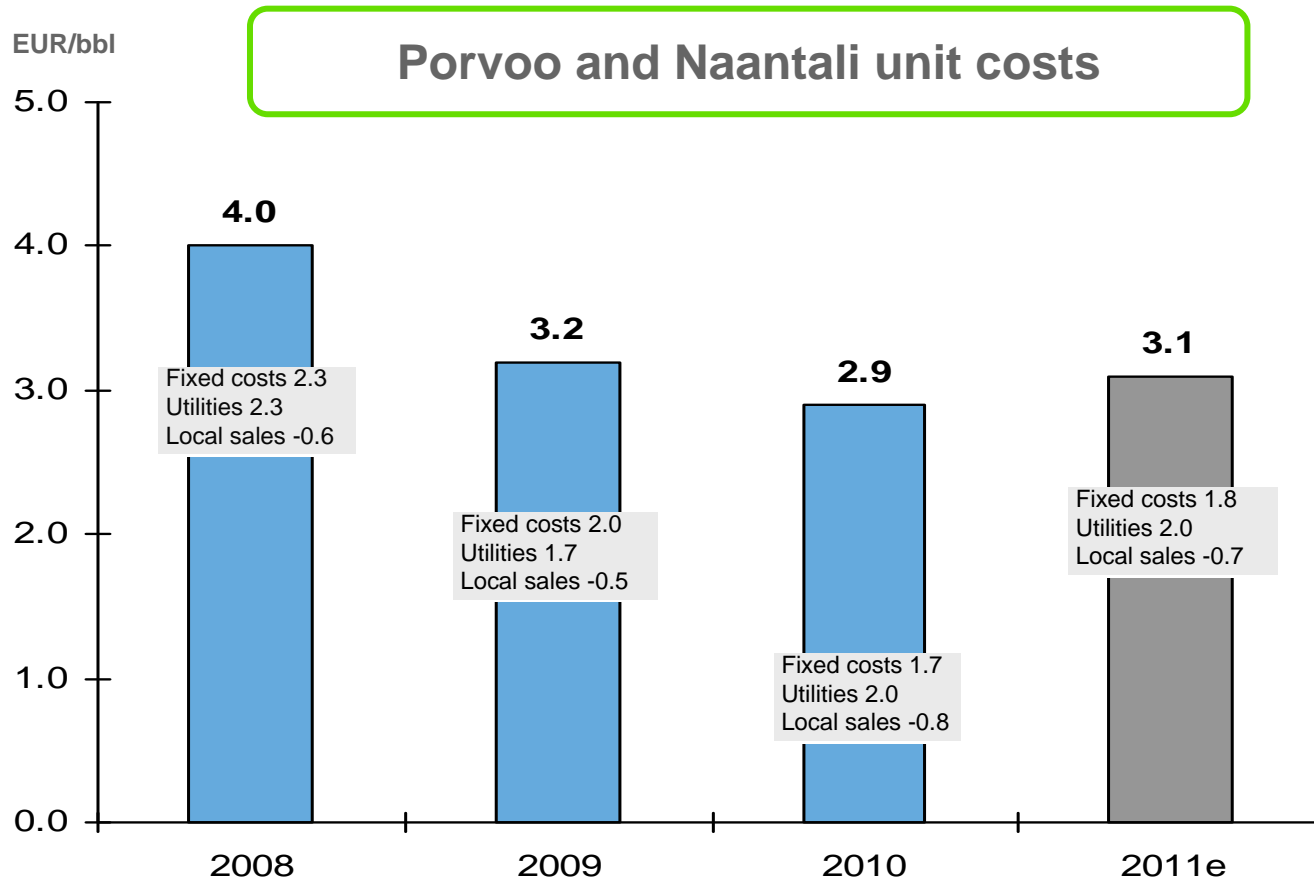
Productivity – Comparison of European refineries' net cash margins in 2010



Source Wood Mackenzie 2011

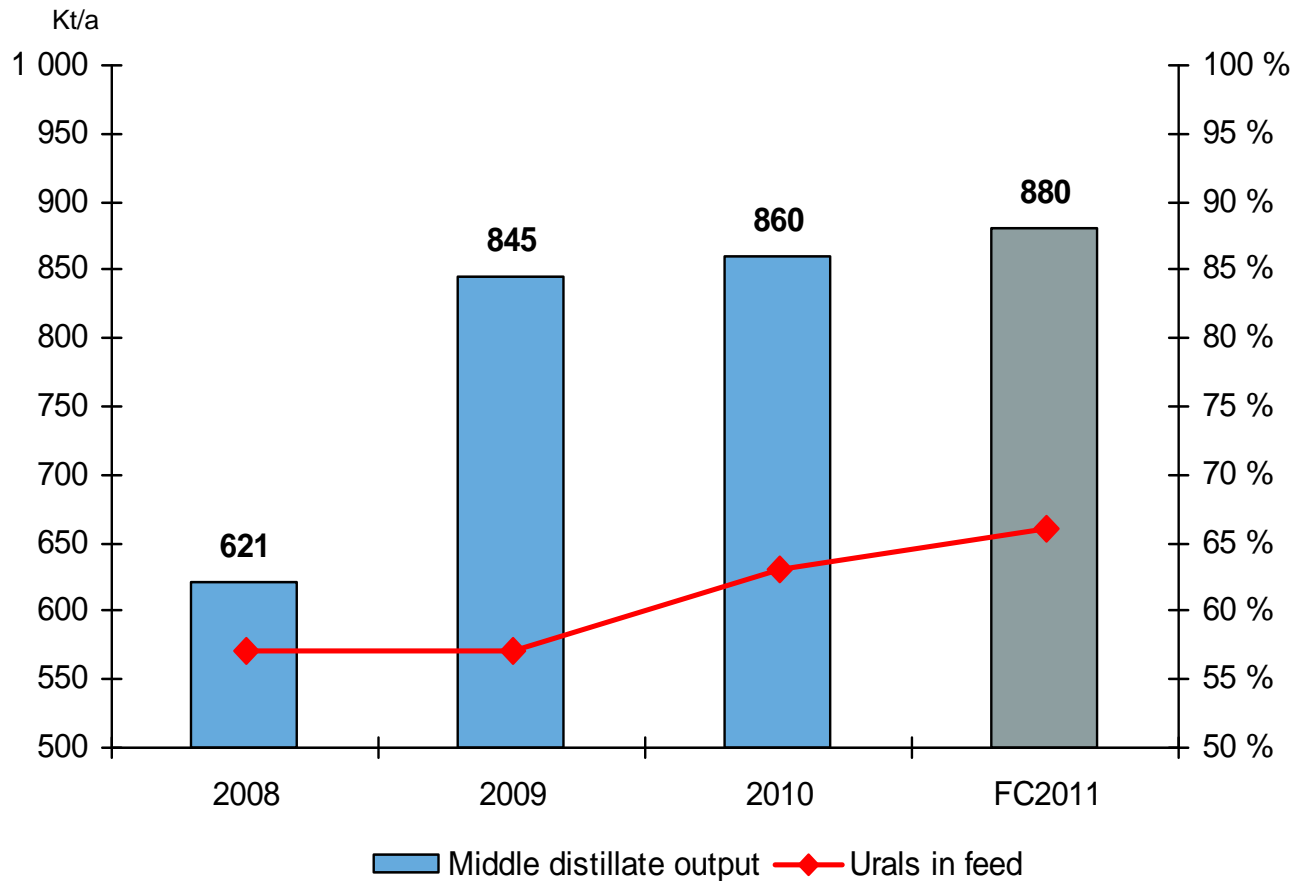
Note: 24% (36%) of European refineries operating below breakeven in 2010 (2009)

Productivity improvement – positive fixed cost development

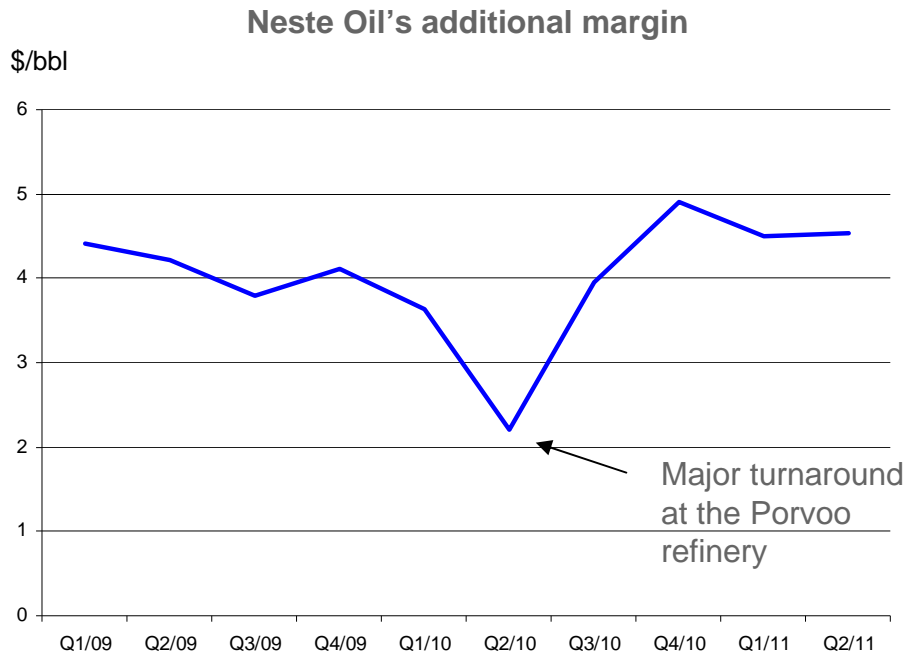


Note: Local sales include sales of utilities and services to other companies at the Porvoo industrial site

Productivity improvement – Production Line 4 performance



Product value maximization – Additional margin increase



- **Focus on highest value customers and market segments**
 - Focus on the Baltic Sea states
 - Export value maximization by leveraging quality flexibility
 - Base oils
- **Product and crude slate optimization**
- **Leveraging logistical flexibility**

Successful working capital management



Value from high-quality assets



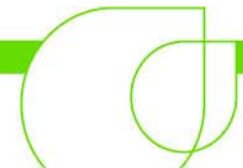
Future potential

Focus on highest value customers and markets

Energy efficiency

Reliability and productivity

Working capital management and optimization



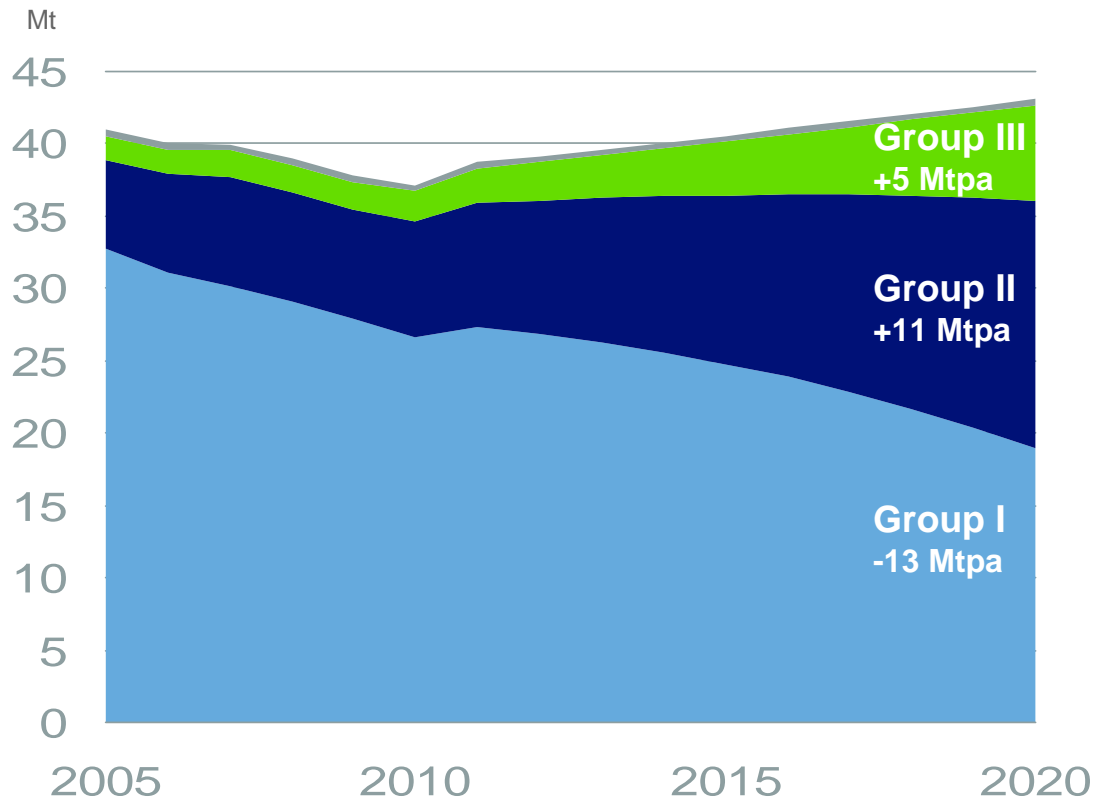


**Base Oils –
Globalizing in an attractive
growth market**

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Demand for high-performance base oils is growing at more than 10% annually



Growth drivers:

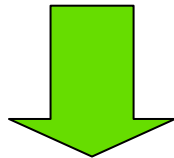
- Emission legislation
- Fuel economy
- Oil drain intervals

Source: In-house estimates

Group III NEXBASE® Base Oil

Improved traffic energy efficiency

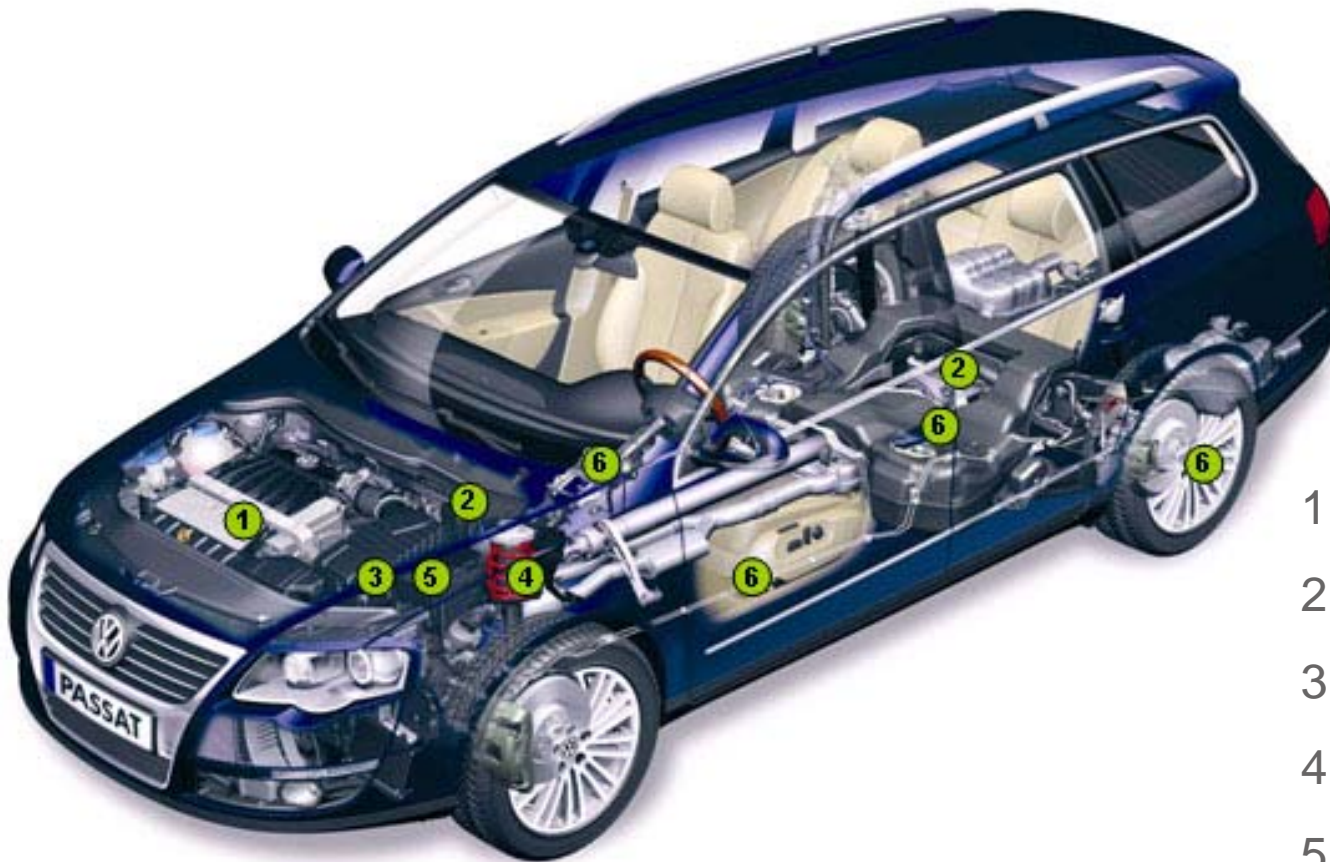
- Base oils designed for improved fuel economy
- High-stability base oils
- Emission reduction
- Extremely low sulfur and aromatic content



High-quality products that meet increasingly stringent environmental and performance requirements

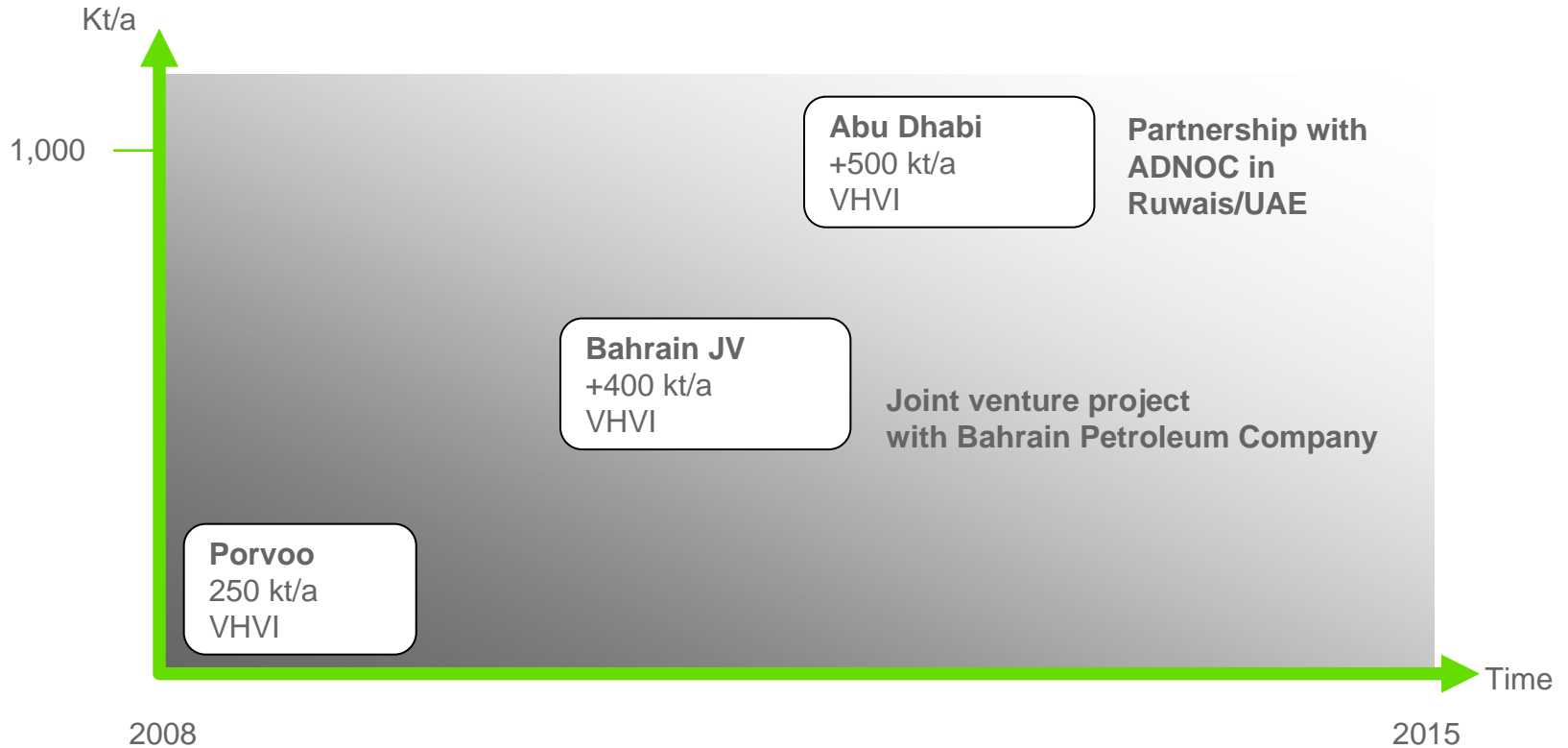


Application areas for premium-quality base oils



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

Neste Oil's base oil roadmap

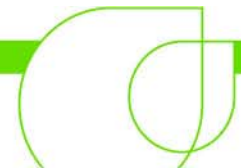


Neste Oil is committed to grow with its customers and strives to be the preferred partner and solutions provider

Our global presence



- Global sales office
- Production site
- Terminals currently in operation
- Terminal location under evaluation



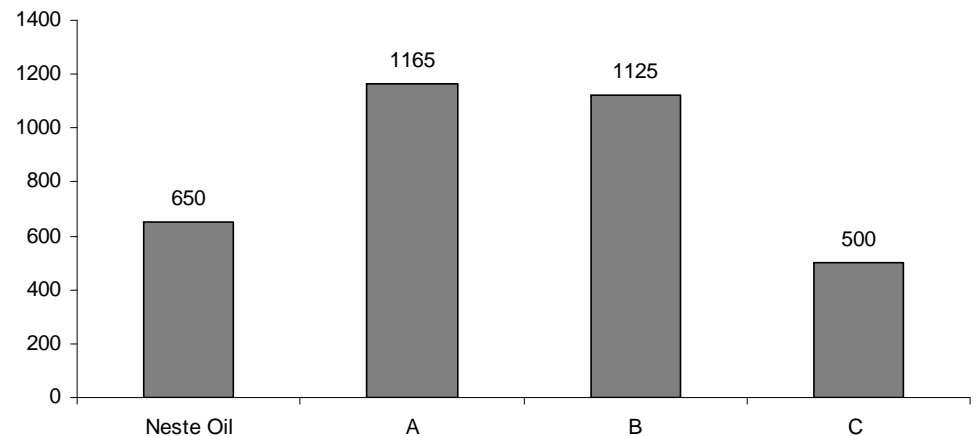
Group III base oil market



Neste Oil market position

- Top 3 player with global market share of approx. 20-25 %
- Non-integrated supplier
- Strong position in Europe

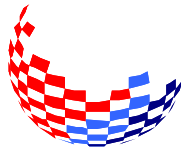
Group III competitor capacities 2012
kt/a



Partnership strategy to drive growth

Bahrain JV with BaPco and OGHC

- USD 430 million investment
- Neste Oil's share is 45%
- Neste Oil responsible for marketing
- Commissioning of the site is ongoing
- Maximum utilization rate expected to be reached rapidly due to the positive market situation



شركة البحرين لزيت الأساس للتشحيم
BAHRAIN LUBE BASE OIL COMPANY

Abu Dhabi partnership

- 600 kt/a unit under construction at Adnoc's Ruwais refinery
- Neste Oil as marketing partner



VHVI site in Bahrain (September 2011)

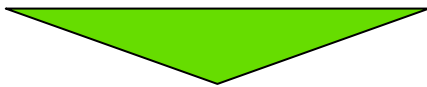
Key business drivers

Supply/demand balance

- Specification development
- Car sales driving factory fill demand

Added value through

- Formulation development
- Quality and quality consistency

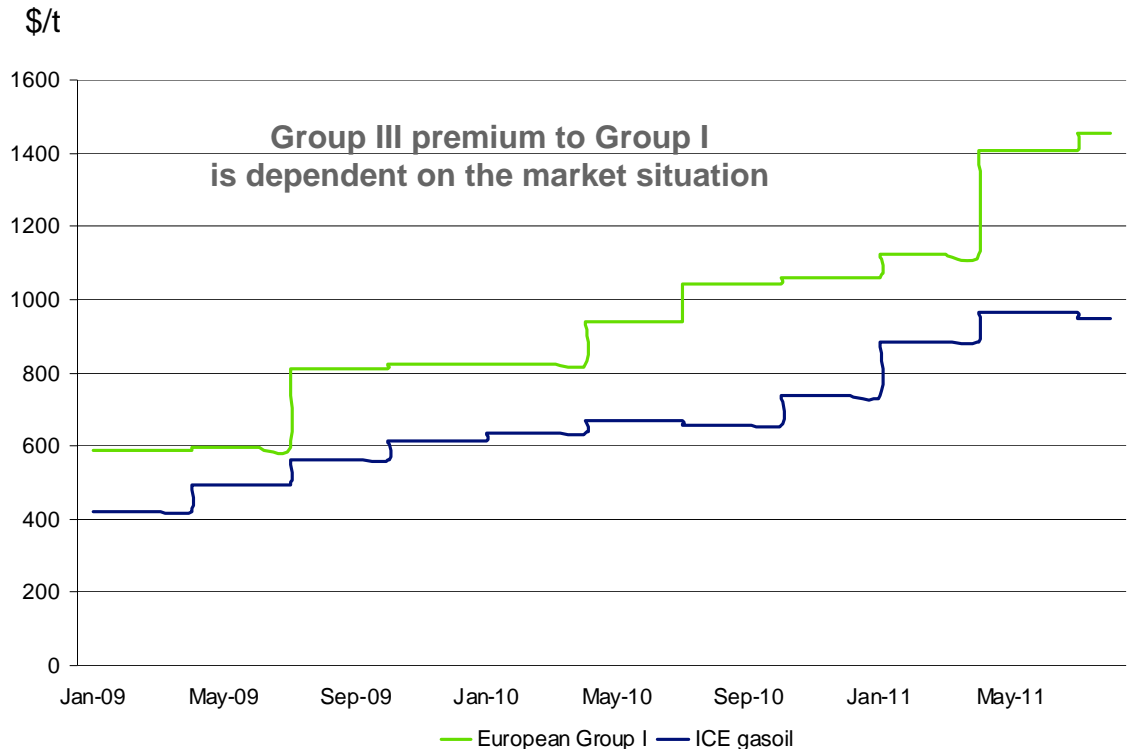


Margin

VHVI base oil price differential versus feedstock

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Group I premium to gasoil



Source: Argus 2011

Globalization and growth



Future opportunities – leverage market position

Capacity growth - Abu Dhabi partnership



Expanding customer base and global supply chain optimization



Capacity growth - Bahrain joint venture



Solution concept - high-quality products and formulations



Renewable Fuels - Driving growth and profitability

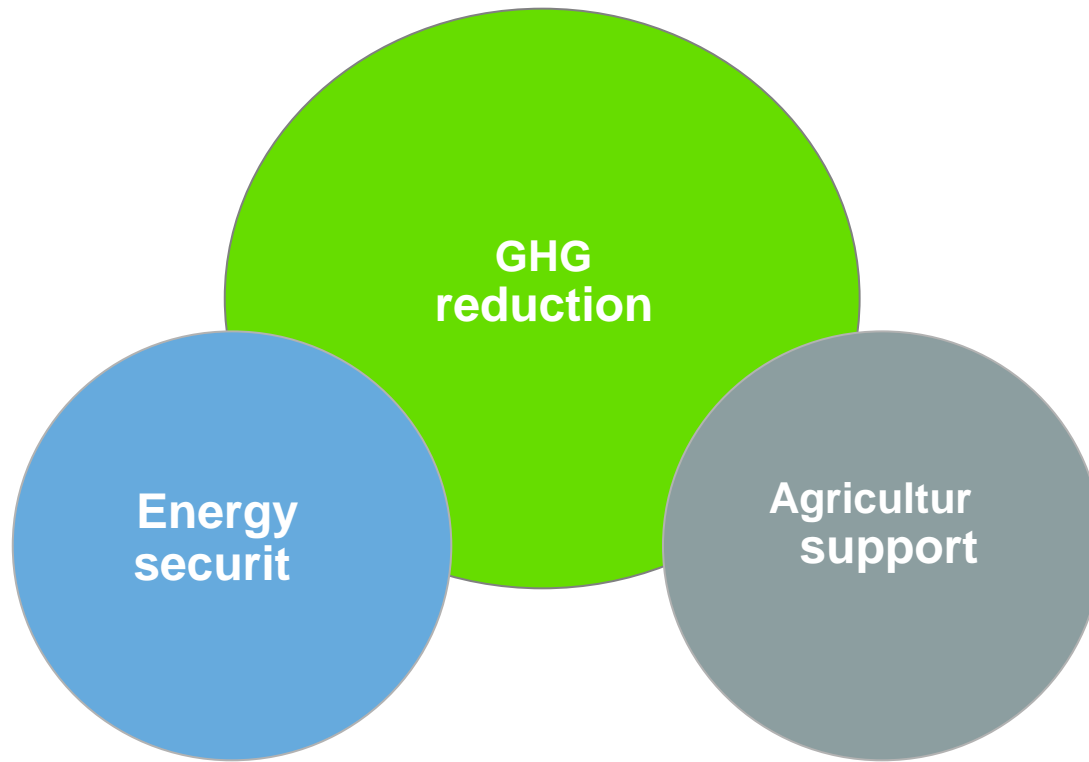
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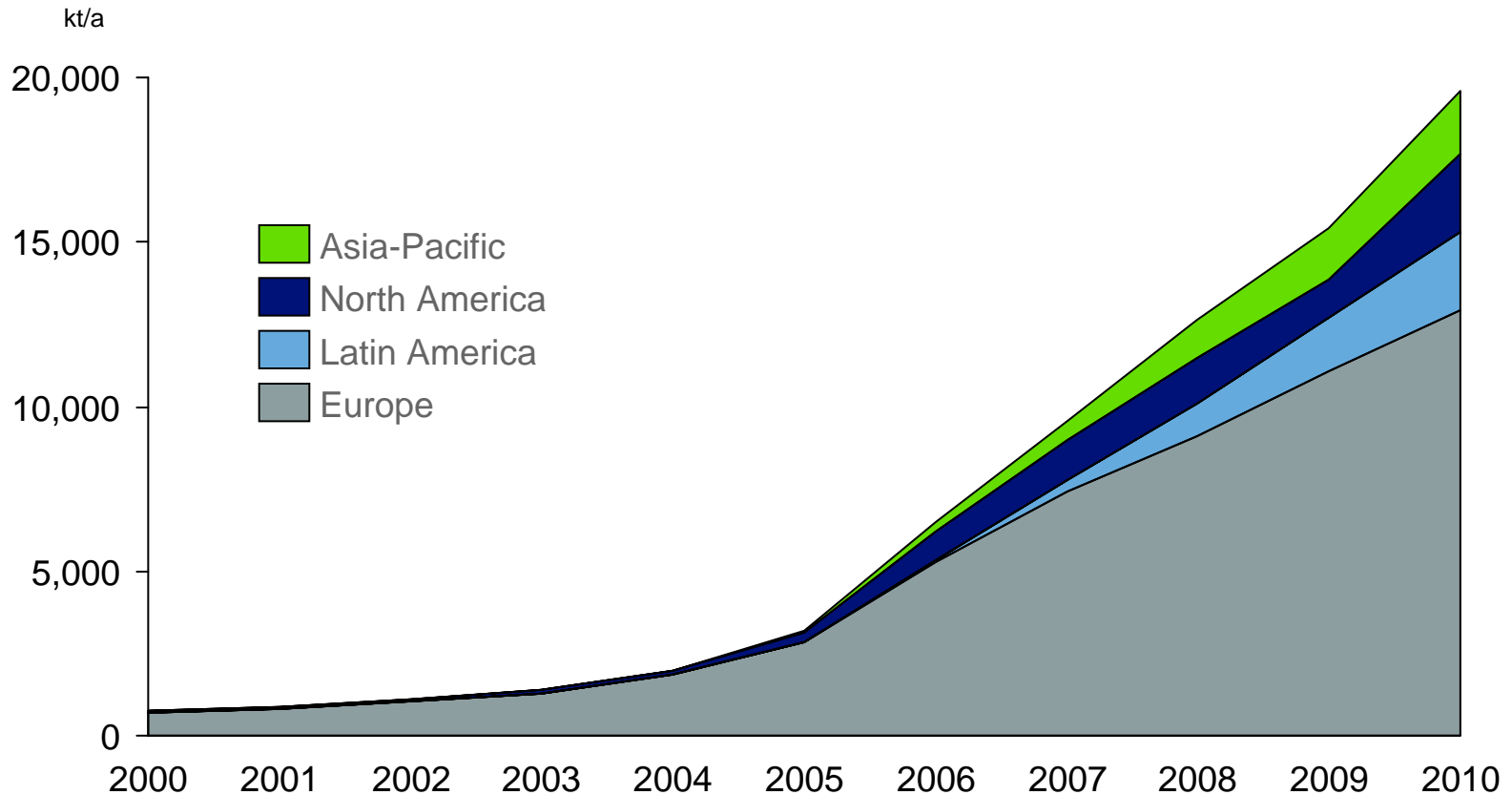
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Policy forces are driving the adoption of biofuels



These factors have a different emphasis in different markets

Biodiesel demand has grown rapidly since 2005, especially in Europe

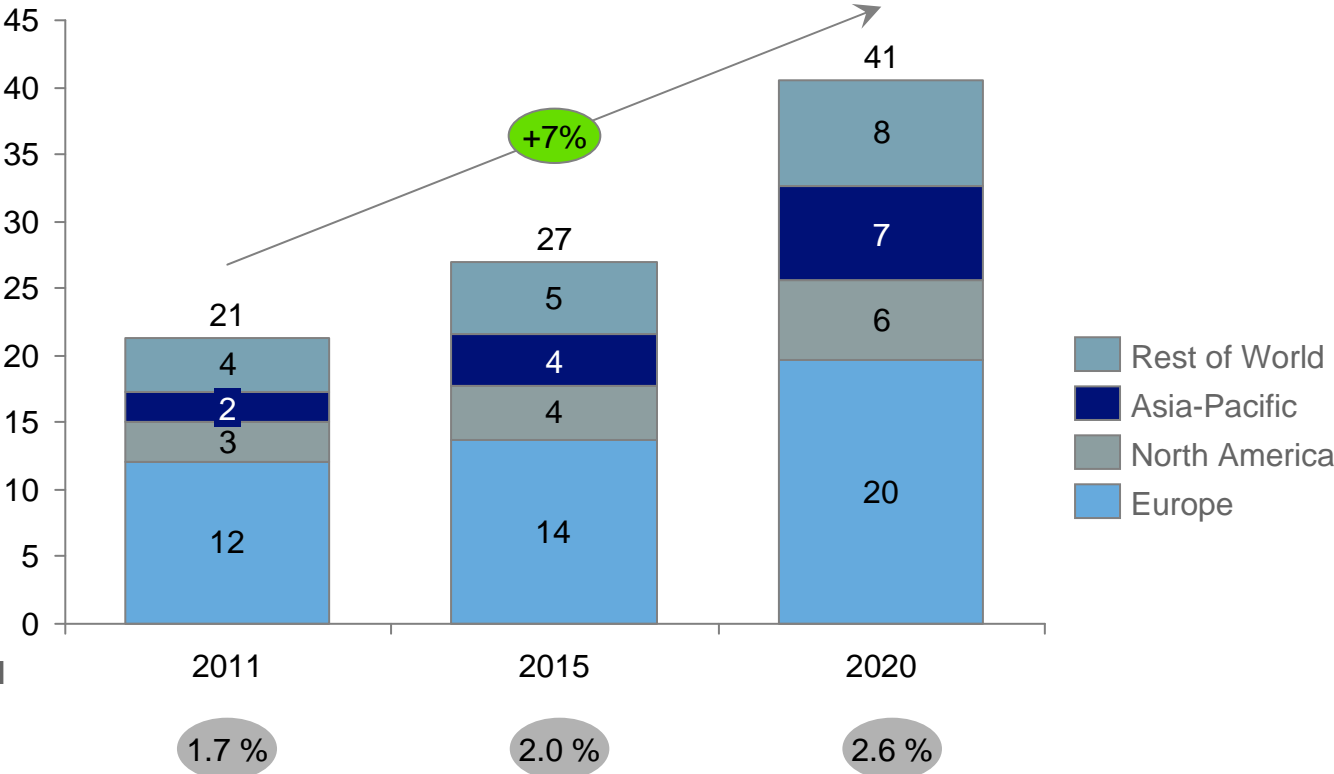


Source: Wood Mackenzie 2011

Global bio/renewable diesel demand is expected to nearly double by 2020

Bio/renewable diesel to grow at ~7% p.a.

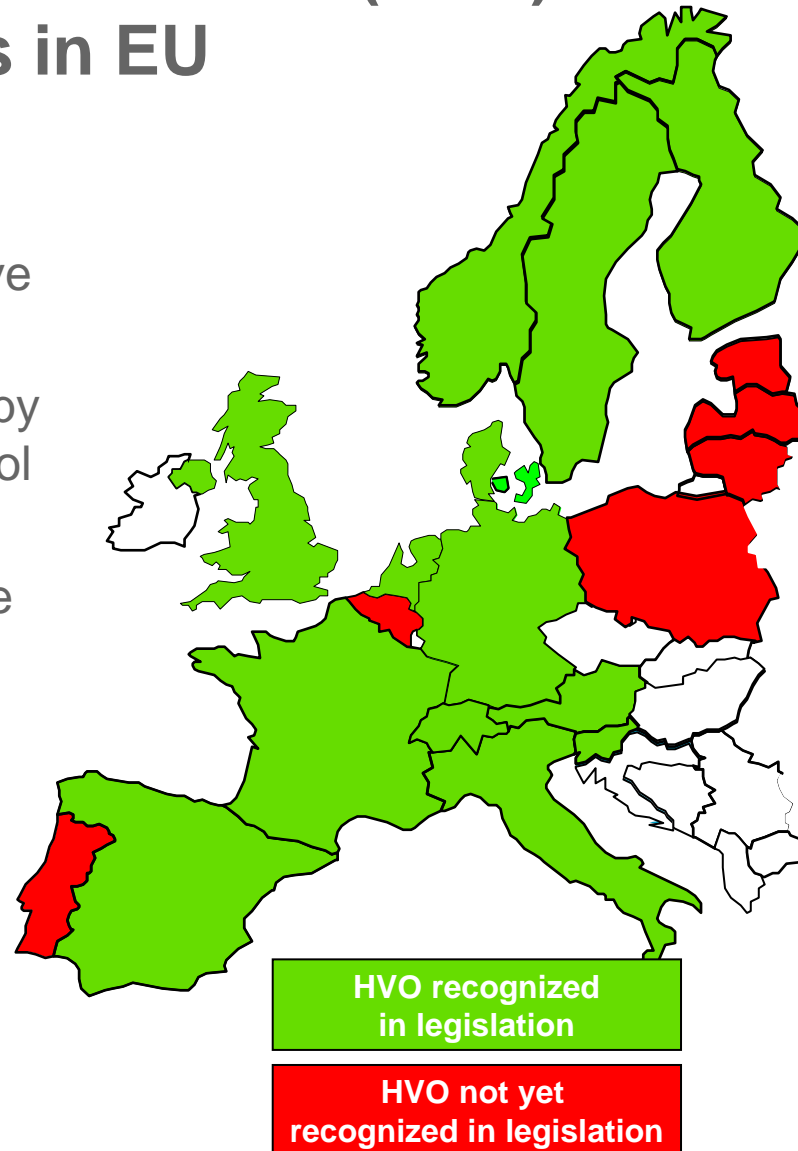
Bio/renewable diesel demand (Mt)



Hydrogenated Vegetable Oils (HVO)

– Legislative status in EU

- Renewable Energy Directive stipulates mandates
- Biofuels to represent 10% by energy of the traffic fuel pool by 2020
- Current level typically in the 4-6% range, depending on country



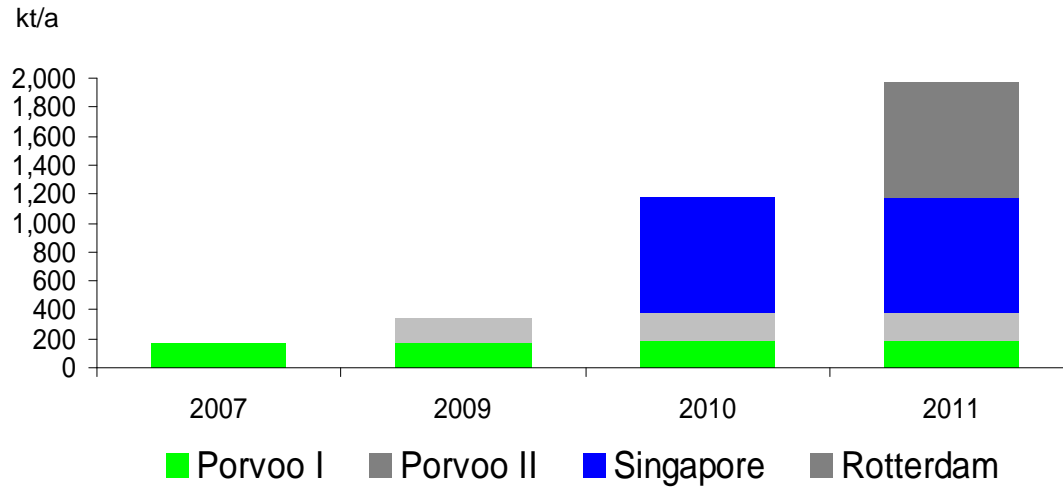
Hydrogenated Vegetable Oils (HVO)

– Legislative status in the US and Canada

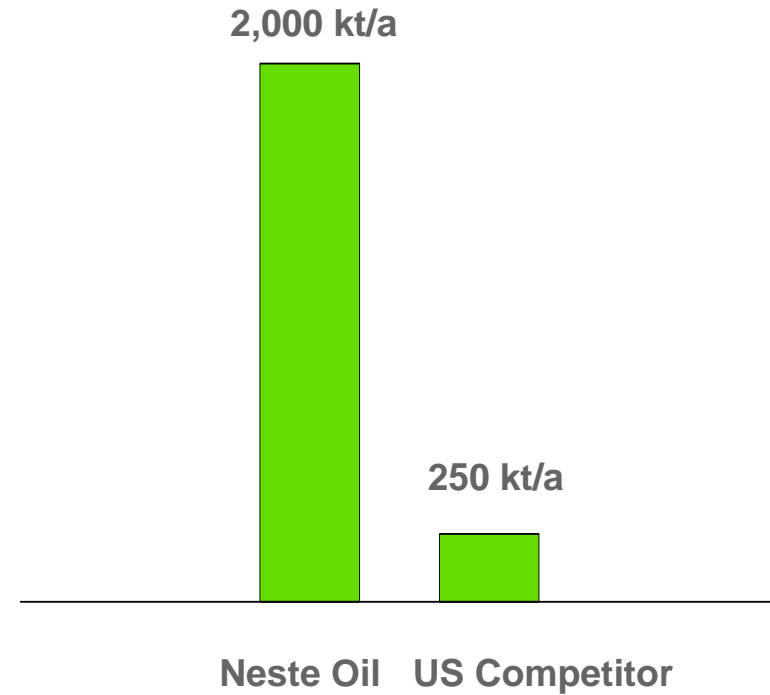
- **US**
 - Renewable Fuels Standard (RFS-2) stipulates minimum volumes of renewable fuels; approx. 20% of the traffic fuel pool by 2022
 - HVO approved as a biofuel but limited number of feedstocks are recognized for Advanced Biofuels
 - Definition of import procedures for Advanced Biofuels has been ongoing but has not been officially approved
- **Canada**
 - 2% biomandate in place at Federal level
 - HVO approved as a biofuel
 - Sustainability legislation under development

Current HVO producers and capacity

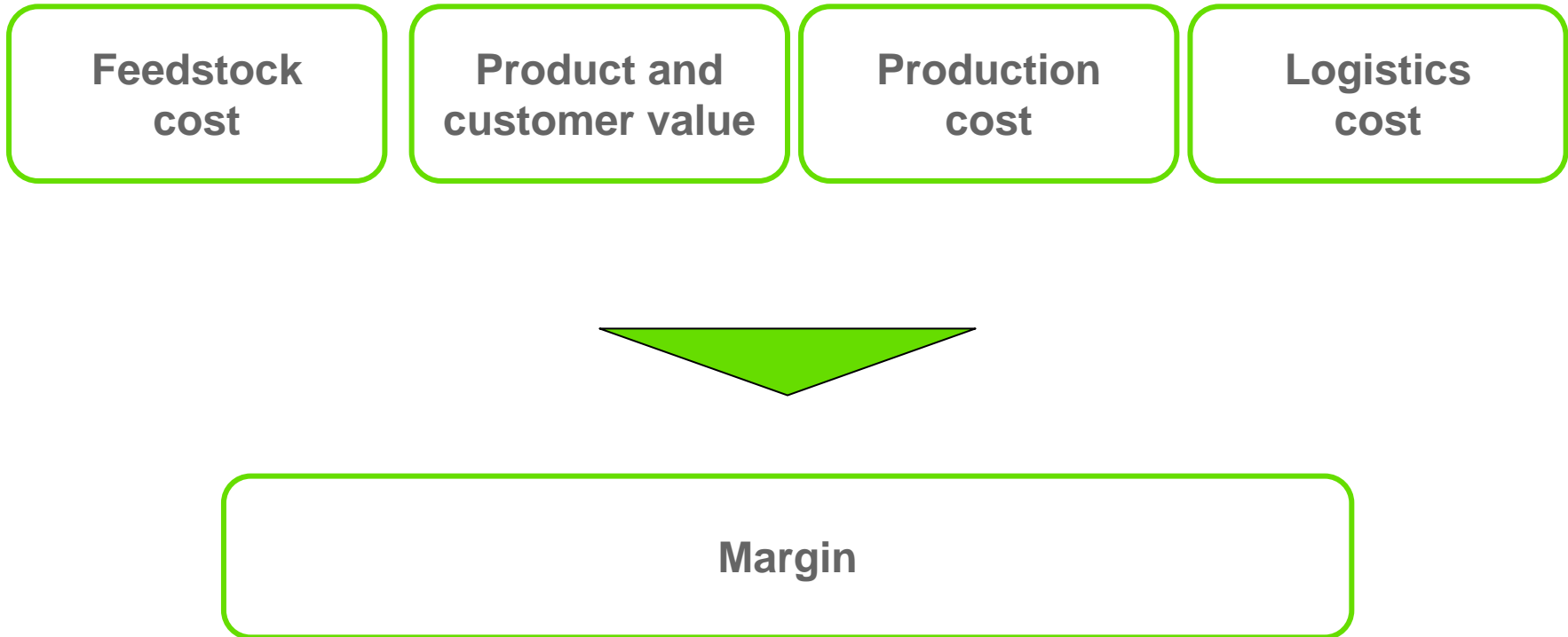
NExBTL capacity growth



Global HVO capacity

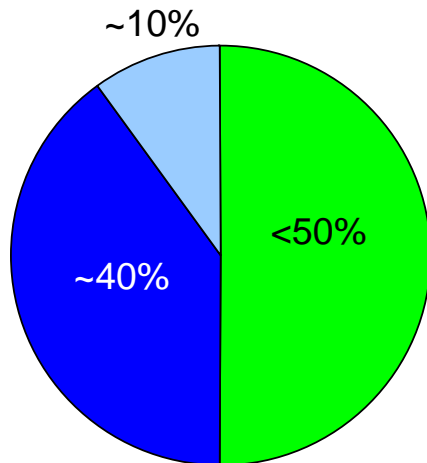


Selected NExBTL business drivers



Key business drivers - Feedstock

Feedstock pool in 2011



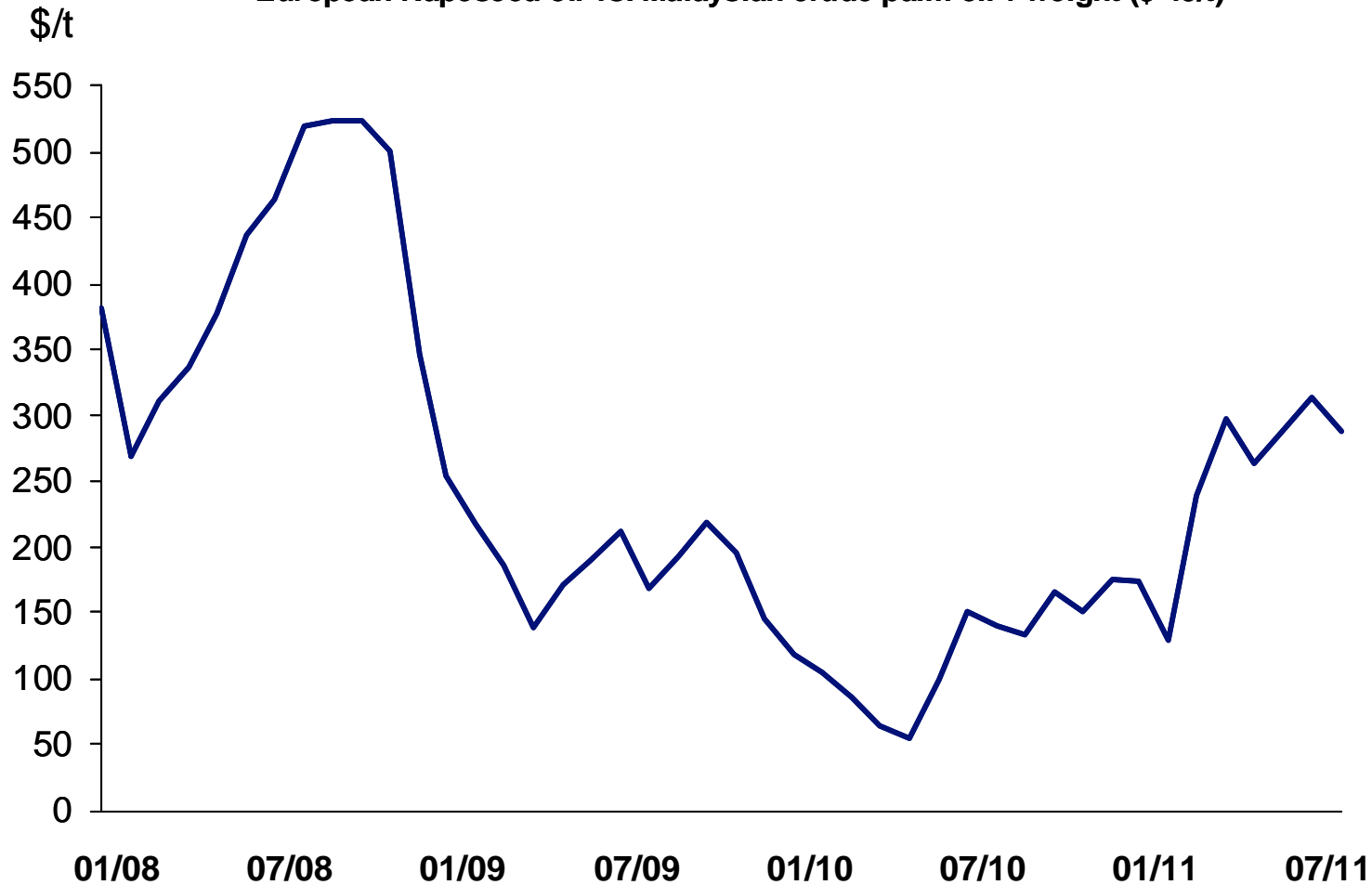
- Crude palm oil
- Waste and side streams (waste animal fat, PFAD, stearin)
- Other (e.g. rapeseed, jatropha, camelina)

Feedstock strategy

- **Ensure sustainability of all feedstock used currently**
 - Certification schemes
 - Audit trail
 - Projects to further improve sustainability
- **Expand feedstock range**
 - Focus on waste, sidestreams and residues
 - Animal fat share will rise to >20 % during 2011
 - New feedstocks through focused R&D

Feedstock flexibility is an important profitability driver

European Rapeseed oil vs. Malaysian crude palm oil + freight (\$ 45/t)



Key business drivers – Product and customer value

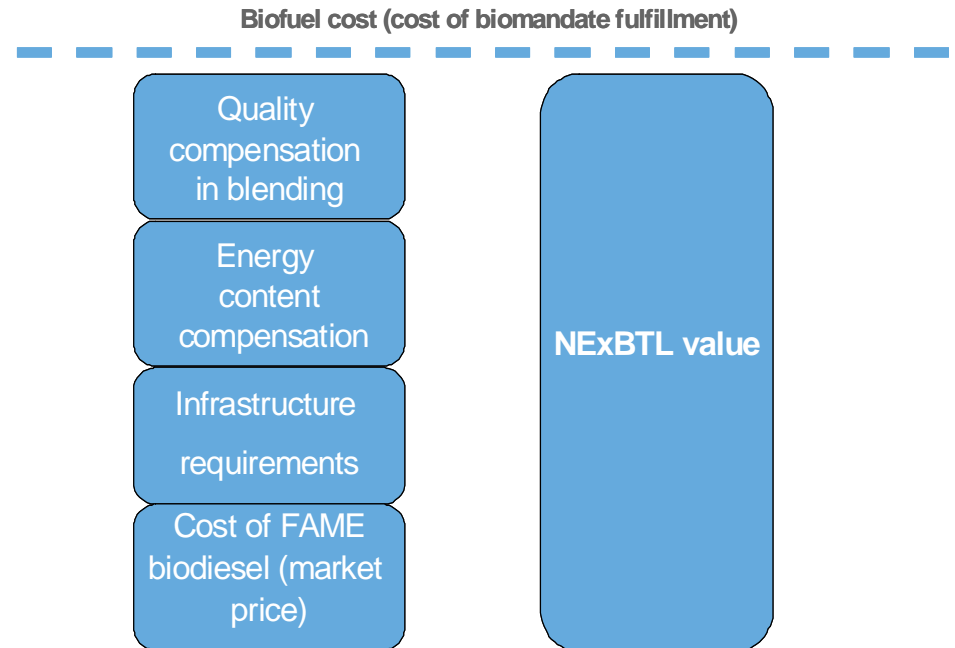
Margin is dependent on

- Feedstock price differentials
- Biodiesel margin (e.g. FAME vs RSO)
- Additional margin (quality premiums)

Different product pricing schemes, e.g.

- FAME + premium
- Gasoil + premium
- SME + premium

Customer value creation via NExBTL



Key business drivers – Production cost

Estimated cost per NExBTL ton produced
(estimates published in 2009 in brackets)

	USD/t
Fixed costs	50 (50)
Hydrogen and utilities	170 (125)
TOTAL	220 (175)



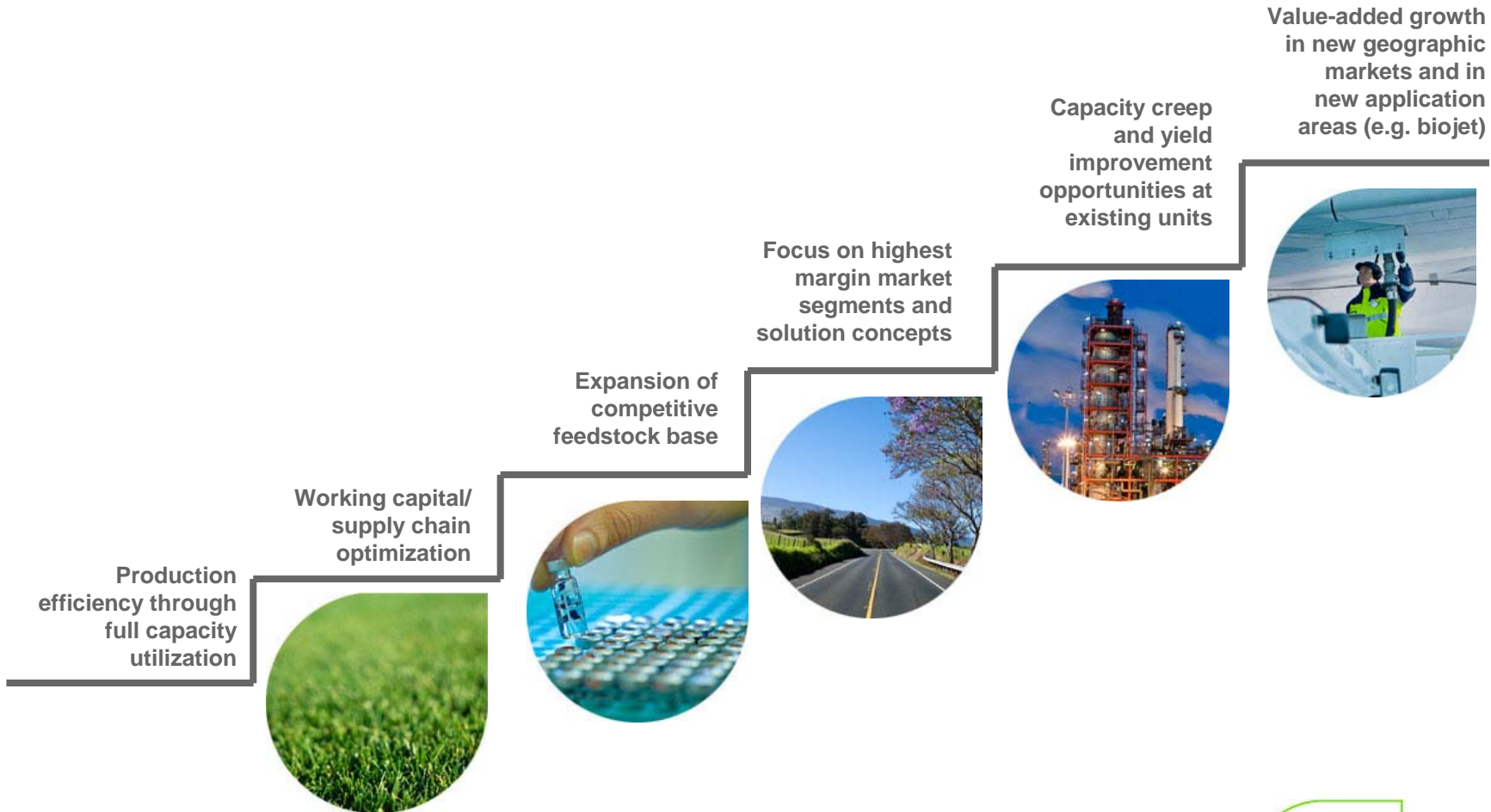
Production cost drivers

- Utilization rate
- Utility cost
- Yield

Production costs have been impacted by increased energy costs

Calculation is based on estimated average annual costs, assuming maximum utilization at all plants

Driving growth and profitability





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